



Global Infrastructure Value Strategy



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Key Takeaways

- ▶ Listed infrastructure made positive gains in the second quarter, trailing equities in a risk-on market that saw a de-escalation of tensions in the Middle East and reinvigorated interest in semiconductor and AI infrastructure companies.
- ▶ GDP-sensitive user-pays assets generally led as geopolitical tensions eased following the onset of the U.S.-Iran conflict in March.
- ▶ There is little change to our outlook: we remain defensively positioned, with a tilt toward regulated and contracted utilities that generally allow inflation and cost increases to be passed through to end users over time and that are benefiting from rising energy demand as AI grows and broader electrification continues.

Market Overview

Listed infrastructure made positive gains in the second quarter, trailing equities in a risk-on market that saw a de-escalation of tensions in the Middle East and reinvigorated interest in semiconductor and AI infrastructure companies.

Defensive sectors such as utilities underperformed in this environment, although all the sectors in the listed infrastructure universe we cover made positive gains. GDP-sensitive user-pays assets generally led as geopolitical tensions eased following the onset of the U.S.-Iran conflict in March. North American rails led the group as the freight cycle showed signs of recovery. Airports and toll roads also performed well as easing tensions laid the groundwork for an increase in global travel. Overall, utilities were positive across the U.S., Canada and Europe, but some weakness crept in as investors began to question the elevated spending by hyperscalers on AI infrastructure, which includes electricity to power data centers.

Laggards in our universe included communications towers, which were relatively weak due to stagnant leasing growth and worries over higher-for-longer interest rates, and renewables, which saw some profit-taking and felt similar headwinds from AI spending concerns.

For the Strategy, on a regional basis, Western Europe was the top contributor for the quarter, with French airport operator Aeroports de Paris the lead performer. Aeroports de Paris owns and operates three airports in Paris — Charles de Gaulle, Orly and Le Bourget — as well as minority stakes in several global airport groups, including TAV in Turkey and Schiphol in Holland. European airport companies such as Aeroports de Paris have underperformed in recent months due to the

war in Iran and closure of the Strait of Hormuz, with investors focusing on the potential impacts from disruptions in Middle Eastern routes and the cost and availability of jet fuel in the summer travel season. During the quarter, the stock recovered from depressed levels on investor optimism surrounding a potential end of the war between the U.S. and Iran.

Turning to North America, Canadian National Railway also performed well. Canadian National is the largest listed railroad in Canada. Its network is extensive, spanning over 20,000 miles across Canada, the U.S. and Mexico. Canadian National was a strong performer in the quarter as volumes have outpaced guidance by 300+ bps while year-over-year headcount continues to decline, which has helped to drive margin improvements.

U.S. electric utility Constellation Energy and Brookfield Renewable were the largest detractors for the quarter. Constellation Energy is the world's largest private-sector power producer and the largest nuclear energy company in the U.S. Following its acquisition of Calpine in January 2026, Constellation expanded into a diversified clean and reliable power platform with approximately 55 GW of generation capacity across nuclear, natural gas, geothermal, hydro, wind and solar assets. The acquisition strengthened Constellation's presence in key markets including Texas and California, while adding the largest geothermal generation operation in the U.S. Today, the combined company serves approximately 2.5 million customer accounts and provides around 10% of U.S. clean energy. Constellation's share price came under pressure as regulatory uncertainty in the PJM Interconnection that coordinates electricity transmission across 13 states delayed the expected timing of nuclear power purchase agreements, tempering investor expectations for near-term deal activity.

Brookfield is a Canadian pure-play renewables operator and developer focused on international hydro, solar, wind and storage technology. As more private and public institutions announce ambitious carbon reduction initiatives, Brookfield's globally diversified, multi-technology renewables business makes it an attractive partner. Brookfield's development pipeline stands at 85 GW, providing confidence that the company can meet its targeted double-digit cash flow growth through to 2030. Brookfield also has a stake in Westinghouse and benefits from a potential buildout cycle in nuclear power. The company's share price declined following reports that the company is considering collapsing its C-Corp and LP structures into a single listed entity. While such a move could enhance liquidity and increase index inclusion over the longer term, it would likely eliminate the valuation premium currently enjoyed by the C-Corp shares.

Portfolio Positioning

During the quarter, we initiated a position in Canada-domiciled energy infrastructure company South Bow. South Bow was spun out of TC Energy in 2024 and has over 3,000 miles of pipeline. Its crown jewel asset, the Keystone Pipeline, connects the heavy crude produced in the Western Canadian Sedimentary Basin to the U.S. Gulf Coast, where

key refinery markets are located. The company owns 7.6 million barrels of liquids storage. We believe South Bow represents a compelling opportunity at an attractive valuation, as the market is underappreciating the earnings inflection driven by Keystone recontracting upside and strategic project execution. South Bow also provides a top-quartile dividend yield underpinned by ~90% contracted EBITDA; this gives us confidence in the durability of the dividend even in a bear case scenario.

We also exited our positions in U.S. electric utility Public Services Enterprise Group and U.K. electric utility SSE. We exited Public Services Enterprise following political noise from the New Jersey Governor concerning affordability across the state's utilities, which we think will prevent the stock from reaching premium valuations levels. SSE, meanwhile, has performed strongly, and we redeployed capital to more attractive opportunities.

Outlook

There is little change to our outlook: we remain defensively positioned, with a tilt toward regulated and contracted utilities versus GDP-sensitive user-pays assets. We continue to expect strength amid the greater appreciation of real assets shown by the market in 2026, given their inflation protection in the current macroeconomic and fiscal backdrop. Many infrastructure assets operate under regulatory frameworks or long-term contractual structures that allow inflation and cost increases to be passed through to end users over time. We believe we are still in the early stages of an accelerated infrastructure investment cycle, driven by expanding mobility needs, rising energy demand, a shifting energy mix and the modernization of networks to enhance resilience against physical asset risk and environmental risk. We believe these investments underpin durable growth in earnings and dividends for listed infrastructure investors.

Portfolio Highlights

We believe an absolute return, inflation-linked benchmark is the most appropriate primary measure against which to evaluate the long-term performance of our infrastructure strategies. The approach ensures the focus of portfolio construction remains on delivering consistent absolute real returns over the long term.

On an absolute basis, the Strategy saw positive contributions from five of eight sectors in which it was invested in the quarter (out of 10), with rail, airports and gas utilities being the top contributors. Electric and water utilities detracted the most.

Relative to the FTSE Global Core Infrastructure 50/50 and on a U.S. dollar basis, the Strategy underperformed in the quarter, driven primarily by a lack of ports, an underweight to rail, an overweight to renewables and stock selection in electric utilities. Conversely, stock selection in gas utilities and energy infrastructure proved beneficial.

On an individual stock basis, the top contributors to absolute returns in the quarter were Canadian National Railway, Aeroports de Paris, TC

Energy, Ferrovial and Union Pacific. The main detractors were Constellation Energy, Brookfield Renewable, SSE, Axia Energia and an underweight to NextEra Energy.

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