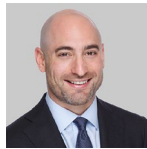




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Global Infrastructure Value Strategy

Key Takeaways

- ▶ Listed infrastructure trailed global equities in the fourth quarter as potentially reflationary policy from the Trump administration, such as tariffs, as well as slight upticks in inflation, put some upward pressure on interest rates.
- ▶ North American gas and energy infrastructure were the top contributors to portfolio performance, while more rate-sensitive renewables and communication towers declined.
- ▶ We are tilted somewhat defensively, toward utilities, though not purely for reasons of defense, as many have very strong growth profiles, particularly in the U.S., driven by AI data center power demand, industry decarbonization and resiliency spending.

Market Overview

Infrastructure traded down in the fourth quarter along with most broad global equity indexes. Economic news was mixed, as a boost in animal spirits following the U.S. presidential election and a third interest rate cut for the year came amid strong economic data that began to support the case for a slower easing cycle from the Federal Reserve than had been expected. This, along with potentially reflationary policy from the Trump administration, such as tariffs, as well as slight upticks in inflation, put some upward pressure on interest rates, causing some market weakness. U.S. equities, in particular growth segments, made gains, while global indexes were generally weaker, as were income-oriented and rate-sensitive sectors across the board.

Infrastructure sectors were led by gas utilities and energy infrastructure pipelines, which have performed well amid the growth of power demand from AI data centers, the trend of converting coal-fired plants to gas for electricity generation, strong LNG exports and manufacturing reshoring, which increases demand for LNG production. Trump's U.S. election win in November also supported optimism for the sector, given his positive stance toward fossil fuels and reducing red tape.

Trump's victory put into question the fundamentals of renewables businesses, causing weakness in that sector. In addition, the prospect of interest rates remaining elevated further pressured renewables as well as rate-sensitive communication towers.

On a sector-specific basis, gas utilities were the top contributors for the quarter, driven by the abovementioned catalysts, with the lead

performer TC Energy, a North American company managing over 93,300 km of natural gas pipelines and 4.3 GW of power assets.

Elsewhere in the U.S. and Canada region, U.S. electric utility Entergy also outperformed. Entergy is a pure regulated electric utility, providing services to approximately three million people in the Gulf Region. Entergy reported strong third-quarter results and raised guidance, as it is seeing higher energy demand driven by a number of factors, including AI/data center power needs, and is looking to add incremental gas-fired generation capacity to service the higher demand outlook.

U.S. electric utility NextEra Energy and U.S. communications company American Tower were the largest detractors. NextEra is an integrated utility business with a regulated utility operating in Florida and is the largest wind business in the U.S. NextEra's regulated business, including Florida Power & Light, serves nine million people in the State of Florida. Trump's victory putting into question the fundamentals of renewables businesses impacted NextEra negatively.

American Tower is a leading independent owner, operator and developer of wireless and broadcast communications infrastructure. Shares declined following the U.S. election, as the market perceived it as a relative loser in the wake of Trump's victory. Trump's policies are also viewed as potentially inflationary, leading to a spike in bond yields, which is particularly impactful for towers given their sensitivity to interest rates.

We have eliminated our exposure to the communications sector, which consisted of American Tower and Crown Castle, as we were disappointed with the pace of growth in carrier capex in the current 5G cycle following a recent research trip to meet with tower companies and telecommunication carrier customers in the U.S., and as we see better relative value opportunities elsewhere in our universe.

In addition, during the quarter, we initiated positions in U.S. energy infrastructure company ONEOK and Australian gas utility APA Group, while exiting Brazilian rail operator Rumo Logistica and Portuguese renewables utility Energias de Portugal.

Outlook

We expect robust global growth in 2025, particularly in the U.S., with moderating inflation through the first part of the year. Uncertainty surrounding Trump policies will affect both the economic and market outlook for the year, however. We have the ability within our portfolios to tilt toward more defensive positioning through our exposures to regulated and contracted utilities, or to take on some more economic sensitivity through exposure to GDP growth and the business cycle, through energy infrastructure, airports, rail and toll roads, for example. Today we are tilted somewhat defensively, toward utilities, though not purely for reasons of defense. We find utilities undervalued at present, as peak bond yields have resulted in

multiples coming down in that space, although the utilities themselves have very strong growth profiles, particularly in the U.S., driven by AI data center power demand, industry decarbonization and resiliency spending. At the same time, European utilities with transmission businesses are getting additional capital expenditure approved by their regulators and are seeing returns tick up as well. We believe there is some upside there, as well as in U.K. water, where a final decision on investments in the next five years from the regulator should be supportive.

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 four of nine sectors in which it was invested in the fourth quarter, with the gas and energy infrastructure sectors the main positive contributors and electric utilities and rail the main detractors.

Relative to the S&P Global Infrastructure Index and on a U.S. dollar basis, the Strategy underperformed in the fourth quarter, driven primarily by sector allocation effects, in particular overweights to rail, water, communications and electric utilities and underweights to gas and energy infrastructure. Stock selection in the renewables and energy infrastructure also detracted, while stock selection in the electric utilities and water sectors and a toll roads underweight proved beneficial.

On an individual stock basis, the top contributors to absolute returns in the quarter were Entergy, TC Energy, Fraport, Cheniere Energy and Williams Companies. The main detractors were NextEra Energy, American Tower, E.On, Energias De Portugal and Constellation Energy.

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All returns are in local currency unless otherwise indicated.

Performance source: Internal. Benchmark source: Standard & Poor's.