



Infrastructure: Beyond the Bond Proxy and Building the Future

Information provided as of May 2023 unless otherwise stated

ClearBridge
Investments



FRANKLIN
TEMPLETON

Listed Infrastructure

Essential for Society, Essential for Your Portfolio

1. Essential Assets and Unique Pricing Mechanisms

- Definition is crucial

2. Private and listed infrastructure allocations are complementary

- Specialist knowledge is key to enhancing infrastructure returns
- Liquidity is a valuable tool to navigate uncertain environments

3. The Tailwinds for Infrastructure Investing are a Multi-Decade Opportunity

- Decarbonisation and Net Zero Goals are driving an infrastructure investment cycle
- A more resilient return profile has led to attractive compound returns
- Listed Infrastructure is a Secular Growth Story

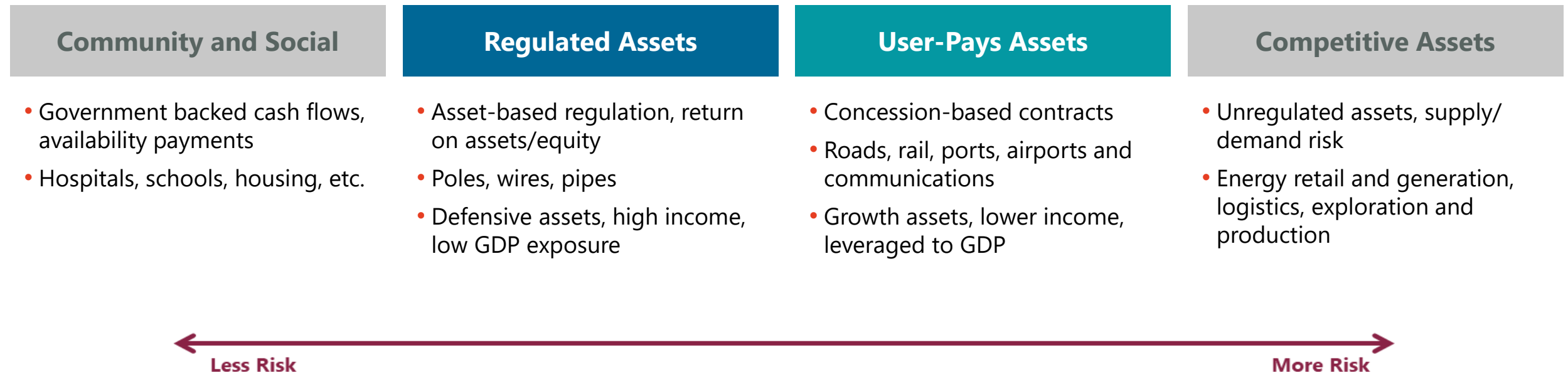


Essential Assets and Unique Pricing Mechanisms

What is an Infrastructure Asset?

Services and Facilities Necessary for an Economy to Function

How ClearBridge Views Infrastructure



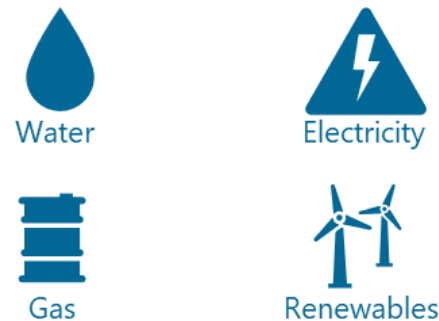
Infrastructure's Resilience in Different Macro Environments...

...Defining Infrastructure

Regulated and Contracted Utilities

- ▶ Regulator determines the revenues that a company should earn on their assets.
- ▶ Demand for these assets are steady.
- ▶ Such mechanism leads to a relatively stable cash flow profile over time.
- ▶ Price increases are often linked to inflation and long-term valuations are relatively immune to changes in bond yields.

Examples:

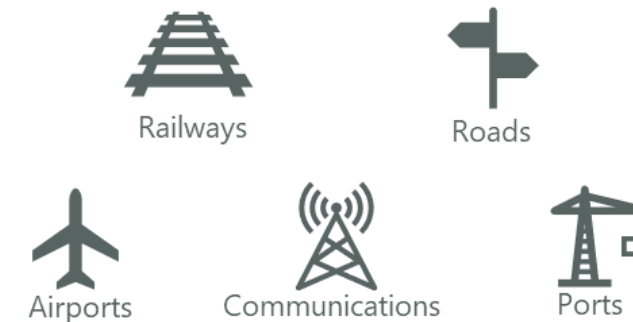


**Regulated and Contracted Utilities =
defensive higher income**

User-Pays Assets

- ▶ Pricing is generally set by contracts, however, volume and revenue is determined by how many people use their assets.
- ▶ These physical assets move people, goods and services throughout the economy.
- ▶ Therefore, as an economy grows, develops and prospers, demand for these assets also typically grows.

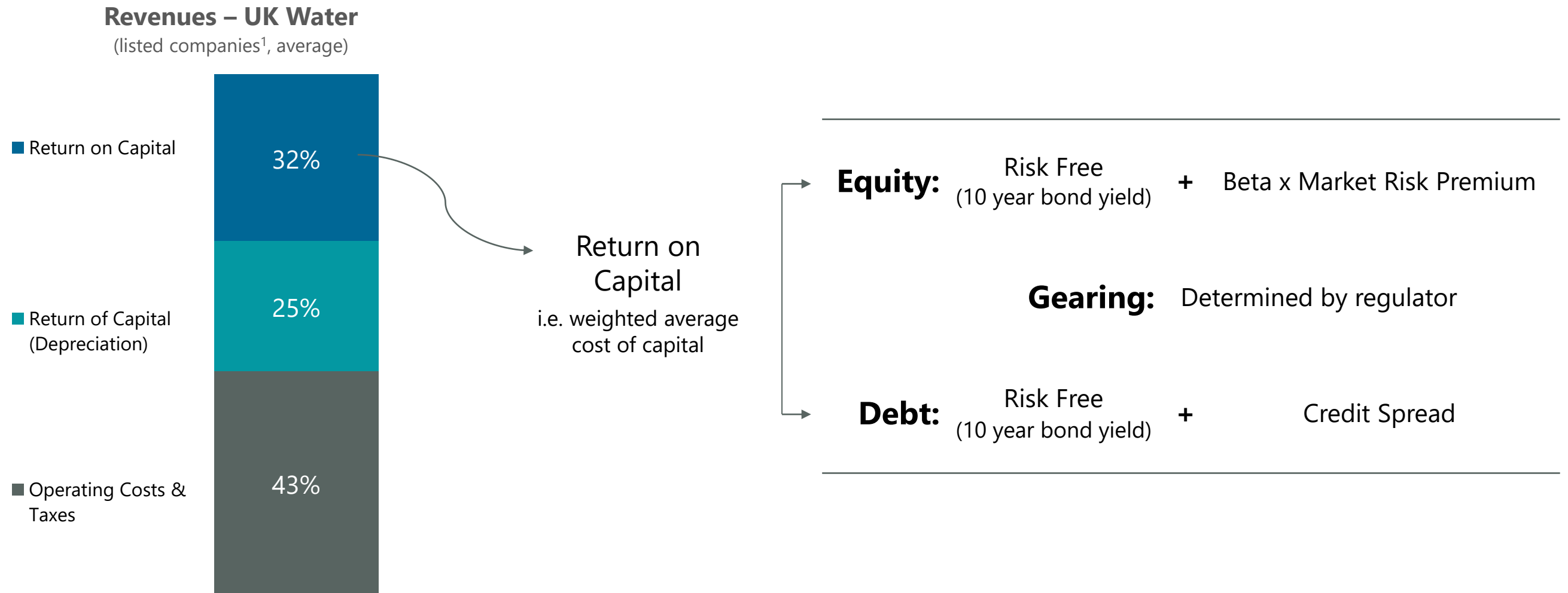
Examples:



**User-Pays Assets =
growth, lower income**

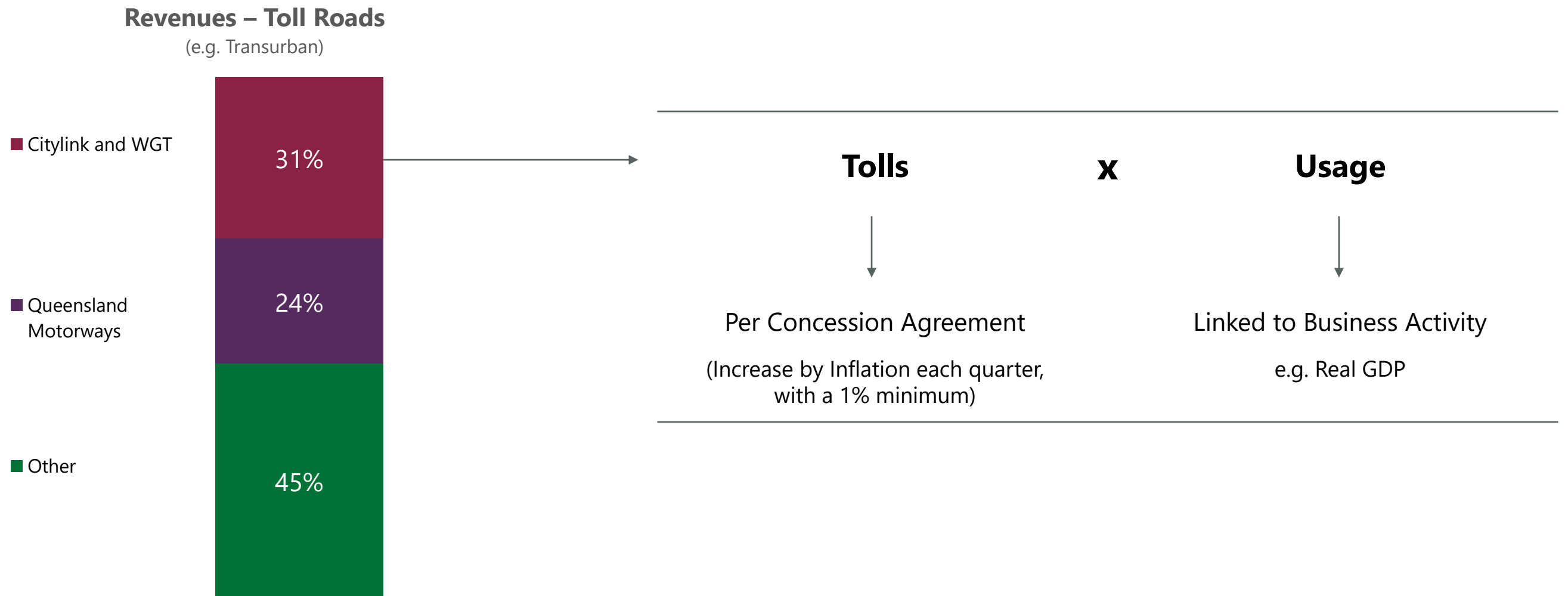
Infrastructure's Resilience in Different Macro Environments...

...Build up of Regulated Revenues (Simplified) – UK Water Sector



Infrastructure's Resilience in Different Macro Environments...

...Concession Contract Linkages (Simplified) – Transurban



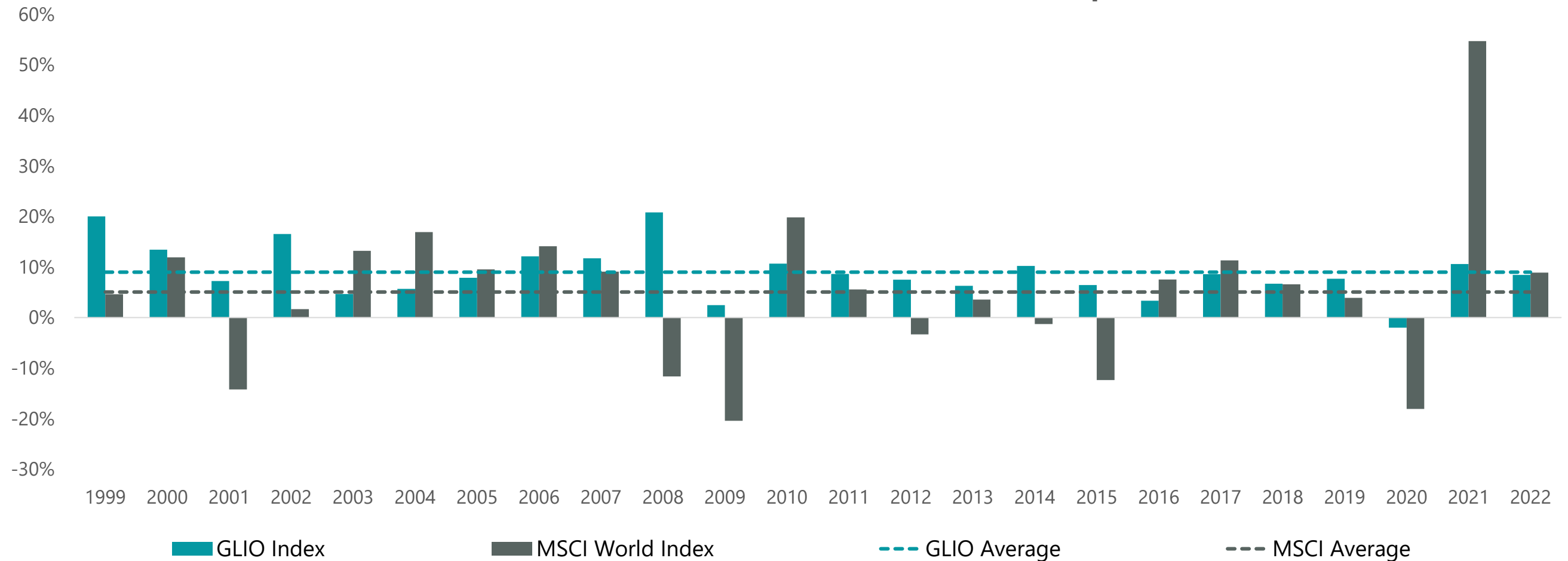
Infrastructure is Unique as an Inflation Hedge

	Infrastructure	REITS	Equities
Pricing Mechanism	Regulation Concession	Supply & Demand	Supply & Demand
Market Structure	Monopoly/Oligopoly	Competitive	Competitive
Demand/Volume Volatility	Low	Moderate	High

Infrastructure's Resilience in Different Macro Environments...

...Provides Stability of Earnings

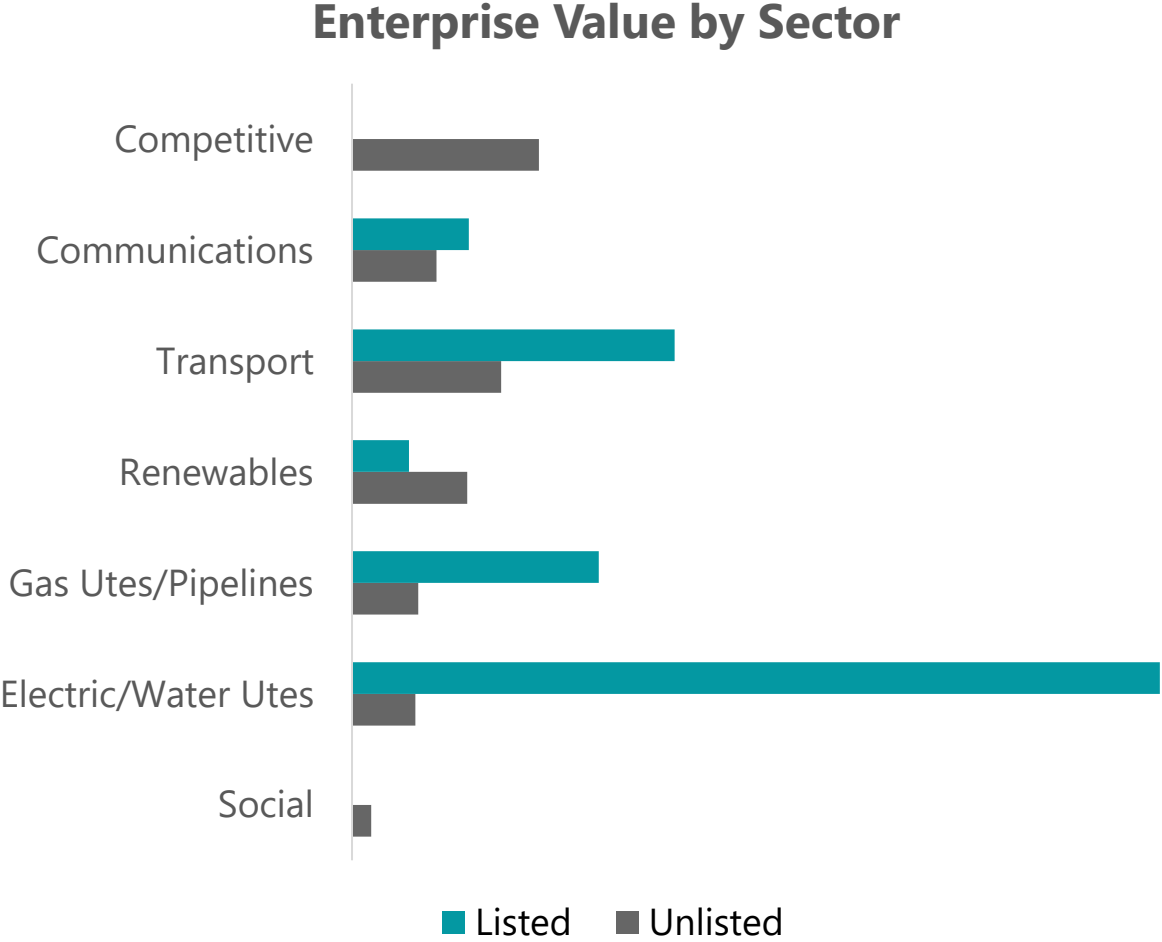
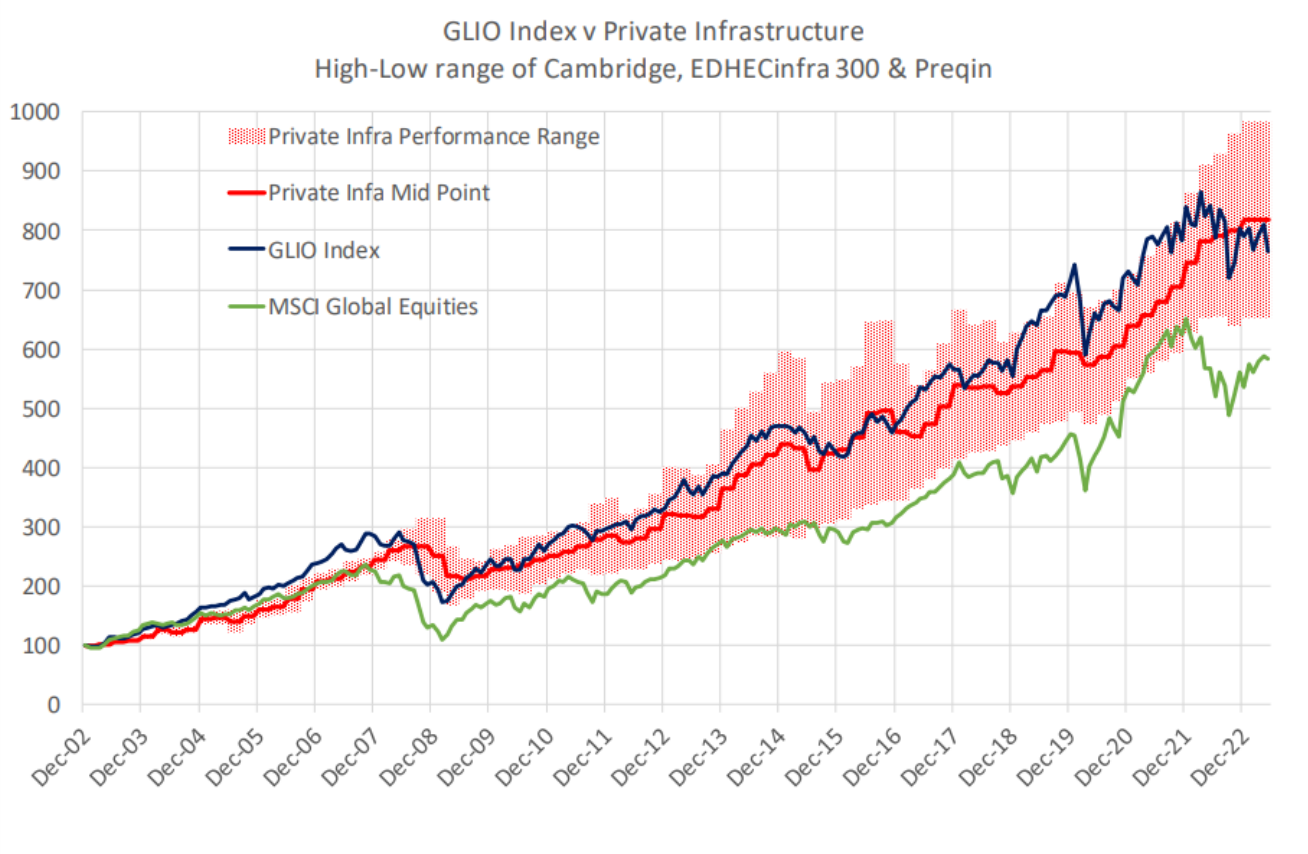
Year Over Year EBITDA Growth for Infrastructure and Global Equities 1999-2022





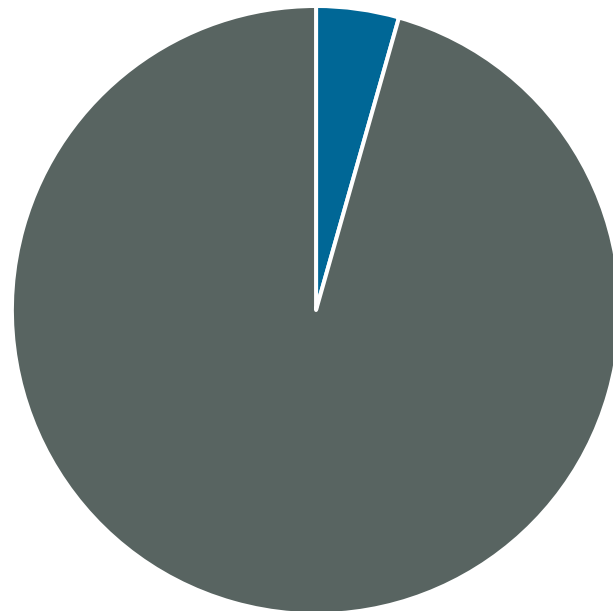
Listed and Private Market Infrastructure Allocations are Complementary

Listed and Unlisted are Complementary Allocation



Specialist Knowledge Provides an Active Advantage

Listed Infrastructure Market Cap Ownership



■ Specialist Managed ■ Generalist Managed

Case	Infrastructure Performance
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Market Expectations

Declining growth and inflation
Positive for utilities (rate base growth, good ROEs).
Rotation away from economically sensitive infrastructure



Recession & Low Inflation

Low/negative growth, low inflation
Bond yields lower.
Utilities shine with strong earnings growth.
Infrastructure will disappoint



Running Hot

High growth, high inflation
Bond yields much higher and will weigh on utilities.
Fed response will be critical.
Infrastructure will rocket



Stagflation

Low growth, high inflation
UK/EU utilities do well, infrastructure mixed.
Negative real yields support real assets

Impact of Cyclical and Structural Macro Environments...

...Three Cyclical and Three Structural Scenarios

Cyclical

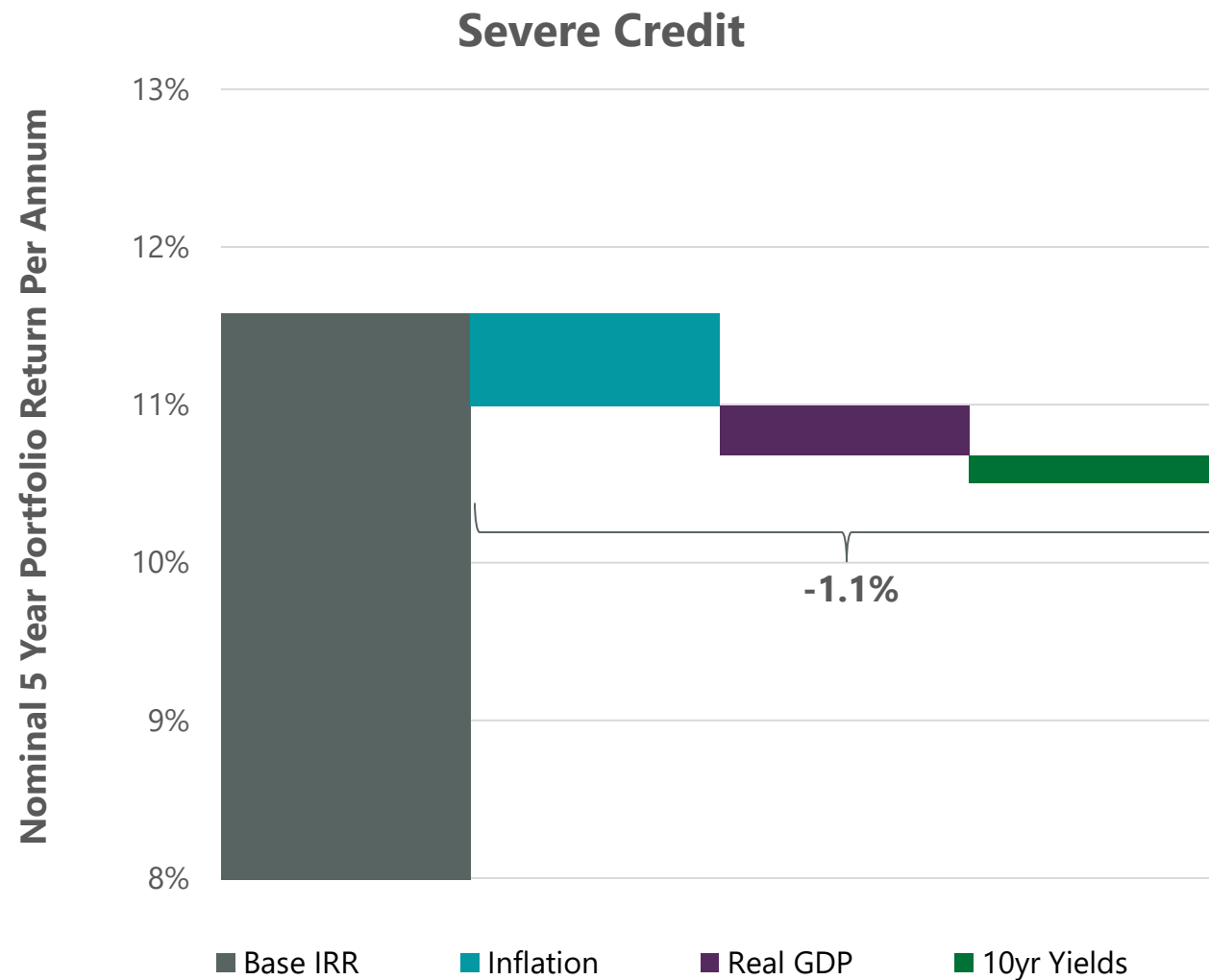
Severe Credit Event	Conditions similar to the Global Financial Crisis
Quantitative Tightening	The Federal Reserve and other central banks continue to raise interest rates and run off their balance sheets
Stagflation	Inflation starts to rise again, interest rates increase, tighter financial conditions lead to recessionary conditions

Structural

Financial Repression	Central banks and governments allow inflation to run hotter while keeping bond yields artificially low
Deglobalisation	The fracturing of global trade results in lower growth, similar (though more volatile) inflation and higher bond yields
Climate Inflation	Spending to support energy transition results in the global economy running hot: GDP, inflation and bond yields all rise

Impact of Cyclical and Structural Macro Environments...

...Severe Credit Event

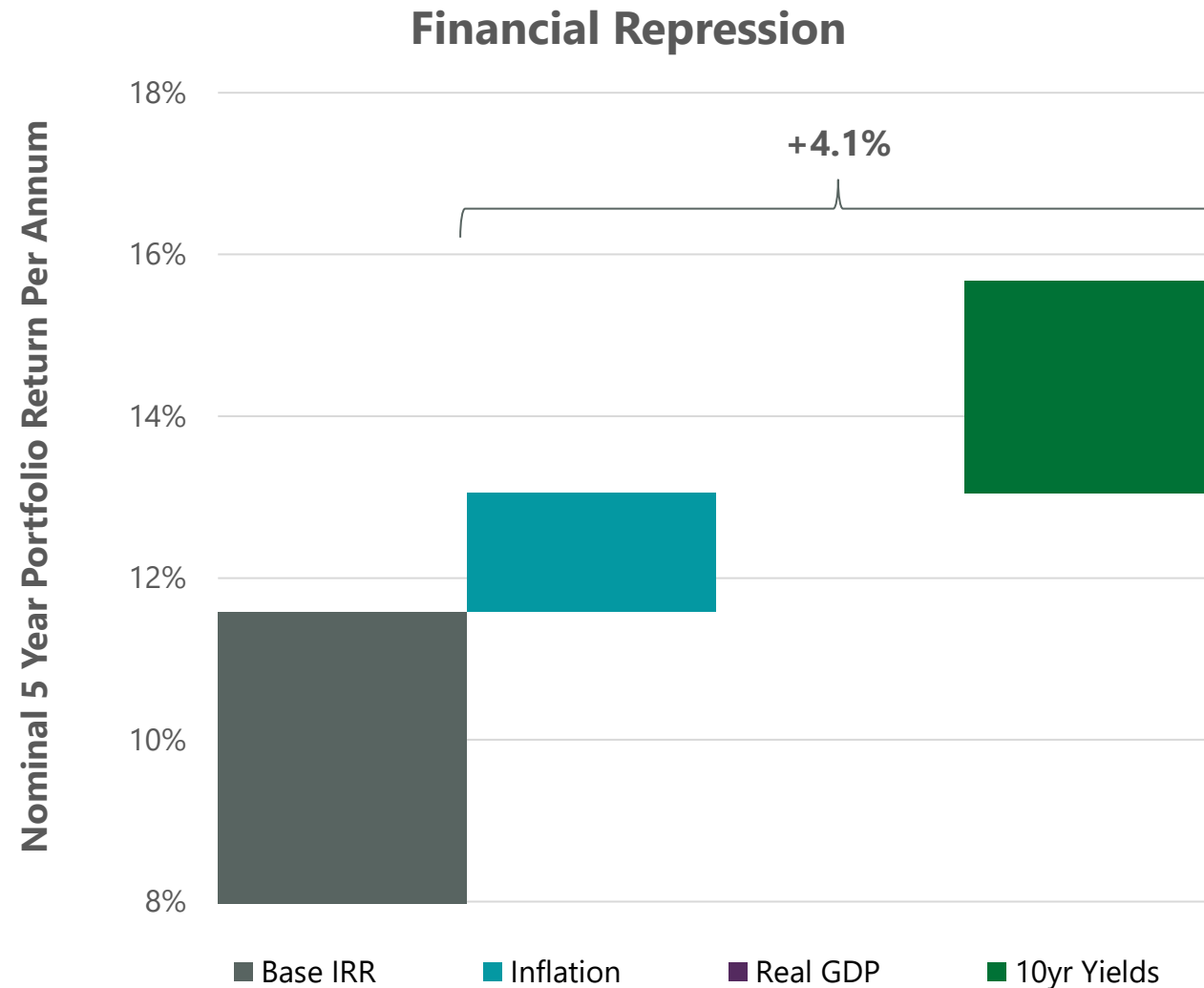


Adjusts macro economic forecasts in ClearBridge's financial models to assess the impact on fundamental valuation and forward-looking portfolio returns

- Assumes forecast adjustments for 2023-2024
 - Inflation -200bps
 - Real GDP -300bps
 - Bond yields -100bps
- Lower inflation results in lower revenues and, in the case of some utilities, lower asset base valuations
- Lower real GDP results in reduced usage of transport infrastructure in particular and therefore lower revenues
- Lower bond yields result in lower returns for those utilities resetting rates of return during the 2023-2024 period
- User-pays assets are 2 x more sensitive than regulated and contracted utilities

Impact of Cyclical and Structural Macro Environments...

...Financial Repression



Adjusts macro economic forecasts in ClearBridge's financial models to assess the impact on fundamental valuation and forward-looking portfolio returns

- Assumes permanent forecast adjustments
 - Inflation +100bps
 - Real GDP no change
 - Bond yields -100bps
- Higher inflation results in higher revenues, and in the case of some utilities, higher asset base valuations
- Lower bond yields result in lower returns for those utilities resetting rates of return, however, also reducing the cost of capital required by investors, which increases valuations
- User-pays assets are 25% more sensitive than regulated and contracted utilities



The Tailwinds for Infrastructure Investing are a Multi-Decade Opportunity

Why Listed Infrastructure?

Listed infrastructure has the potential for:



Significant Growth

Secular growth story
Sovereign fiscal constraints
Competition for capital
underpins allowed returns
Infrastructure driver and
outcome of economic activity



Stable Cash Flows/ Dividends

Cash flows underpinned by
regulation or long-term
contracts



Inflation Hedge

Revenues are often linked
to inflation



Diversification

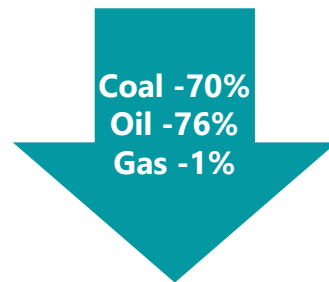
Low correlation to most
major asset classes
Attractive upside and
downside beta

Decarbonisation

What Needs to be Achieved in the 2020s to Reach Net Zero by 2050

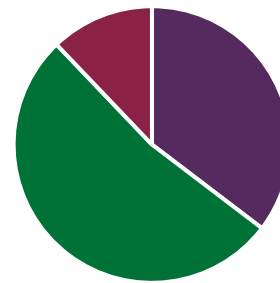
Energy Demand & Intensity

GDP,+37% Energy,-9% Intensity,-35%
Change¹ in use in Electric Generation



Power Sector Spending

US\$0.8tn to US\$2.5tn p.a.



■ Poles and Wires ■ Renewables ■ Other

Wind & Solar ↑ 5.5x



Solar PV capacity up from
~600GW to ~5000GW



Renewables 27% to 61%
of use (TWh%)

Buildings



- All new buildings in all regions "zero carbon ready"
- 20% of all existing buildings retro-fitted to "zero carbon ready" standard (approx. 30m buildings per year)
- 80-90% of lighting/appliances sold are equivalent to the most efficient today

Transport



60% of all cars sold annually are EVs

Change behaviours:

- Reduce flights less than 1 hour
- Reduce car trips less than 3km
- Reduce traffic speeds 7km/h

Policy Tailwinds Buoy Structural Growth Across Economic Cycles

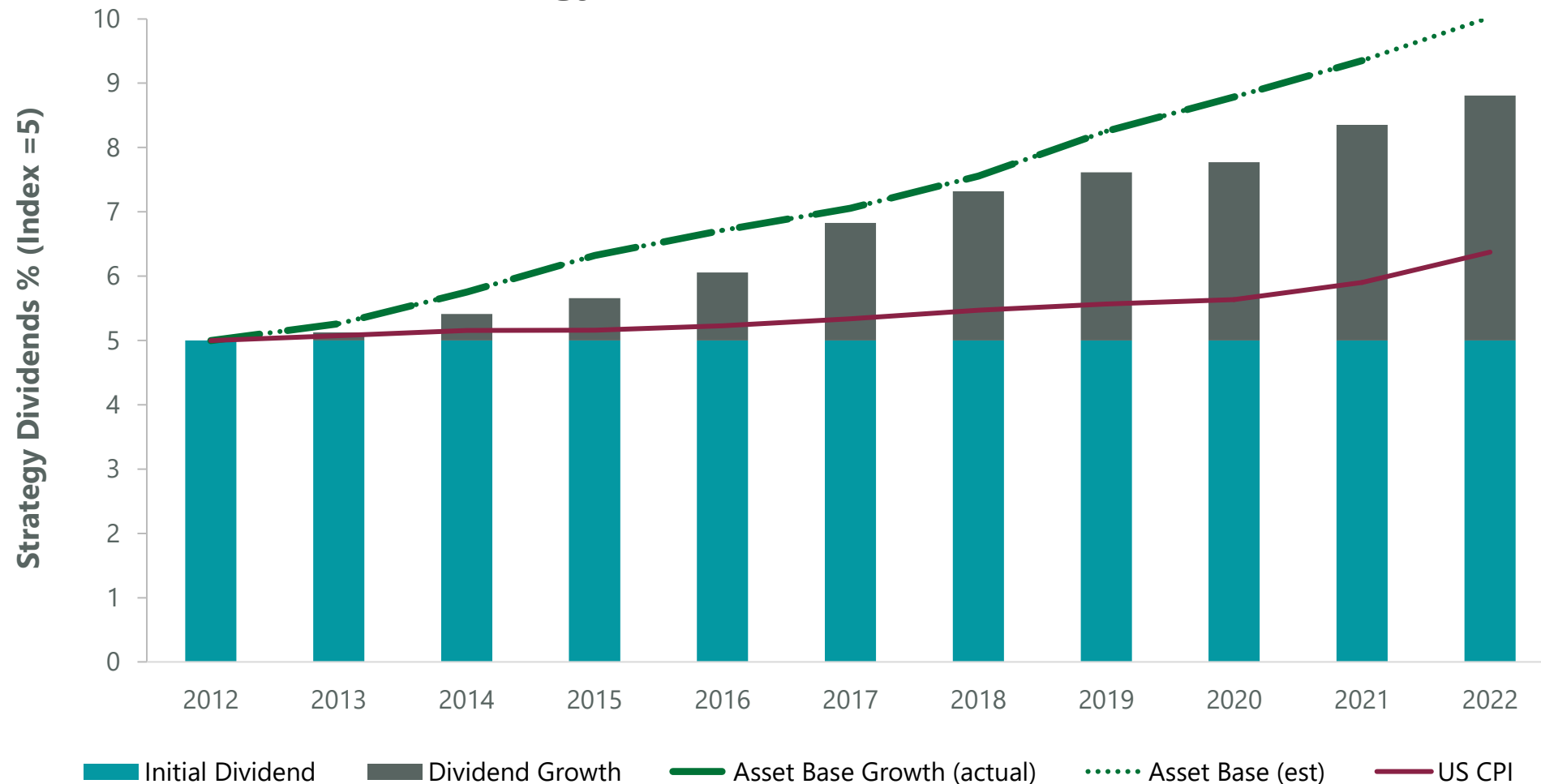
Highlights by Region

Region	Policies
U.S.	<ul style="list-style-type: none">• <u>Inflation Reduction Act (IRA)</u><ul style="list-style-type: none">– Total funding > US\$400bn until 2030– Subsidies for Developers with extension of PTC and ITC– Subsidies for Consumers through EV and residential solar tax credits– Expanded scope for tax credits including green hydrogen and nuclear power
EU	<ul style="list-style-type: none">• <u>Proposals of EU Green Deal Industrial Plan (including Net Zero Industry Act and Critical Raw Materials Act)</u><ul style="list-style-type: none">– €225b of loans + €20b grants + possible state aids to member states<ul style="list-style-type: none">• RePowerEU (incl. Fit for 55), Recovery & Resilience Fund (RRF), Innovation Fund, InvestEU)– Key beneficiaries: OEMs of wind turbines and solar polysilicon, hydrogen electrolyzers– Supply chain: localisation, reducing over-reliance on foreign countries and in turn risk of disruption– Permitting: Simplification and acceleration of projects
U.K.	<ul style="list-style-type: none">• <u>Powering up Britain, Ten Point Plan for a Green Industrial Revolution</u><ul style="list-style-type: none">– Targeting offshore wind to 50 GW of offshore wind, 10 GW hydrogen and 20-30 MT p.a. of CCUS by 2030– Funding CCUS ~£20b, Green hydrogen £240m – target to capture 20-30 MT p.a. by 2030– Nuclear – Great British Nuclear launched to target electricity sources at 25% by nuclear by 2050 (15% now)

Growing Asset Base Drives A Growth In Dividend Yields

Above Inflation DPS Growth Over Time

Income Strategy, Portfolio Dividend Growth

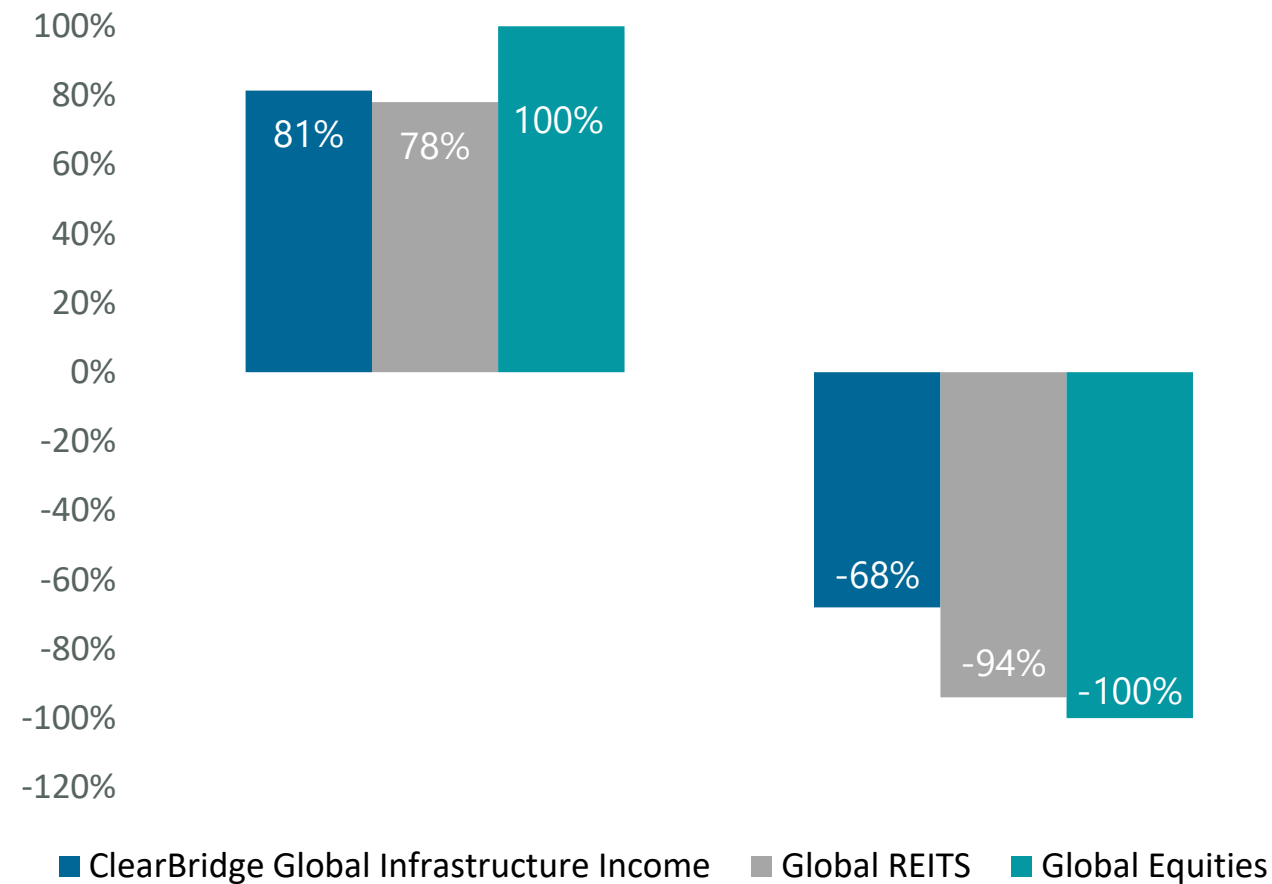


- 2012-2022 compound annualised dividend growth ~5.9%p.a.
- Net PP&E growth of the Income Universe of ~7.2%p.a.
- Compares to inflation at 2.5% p.a. over the same period.

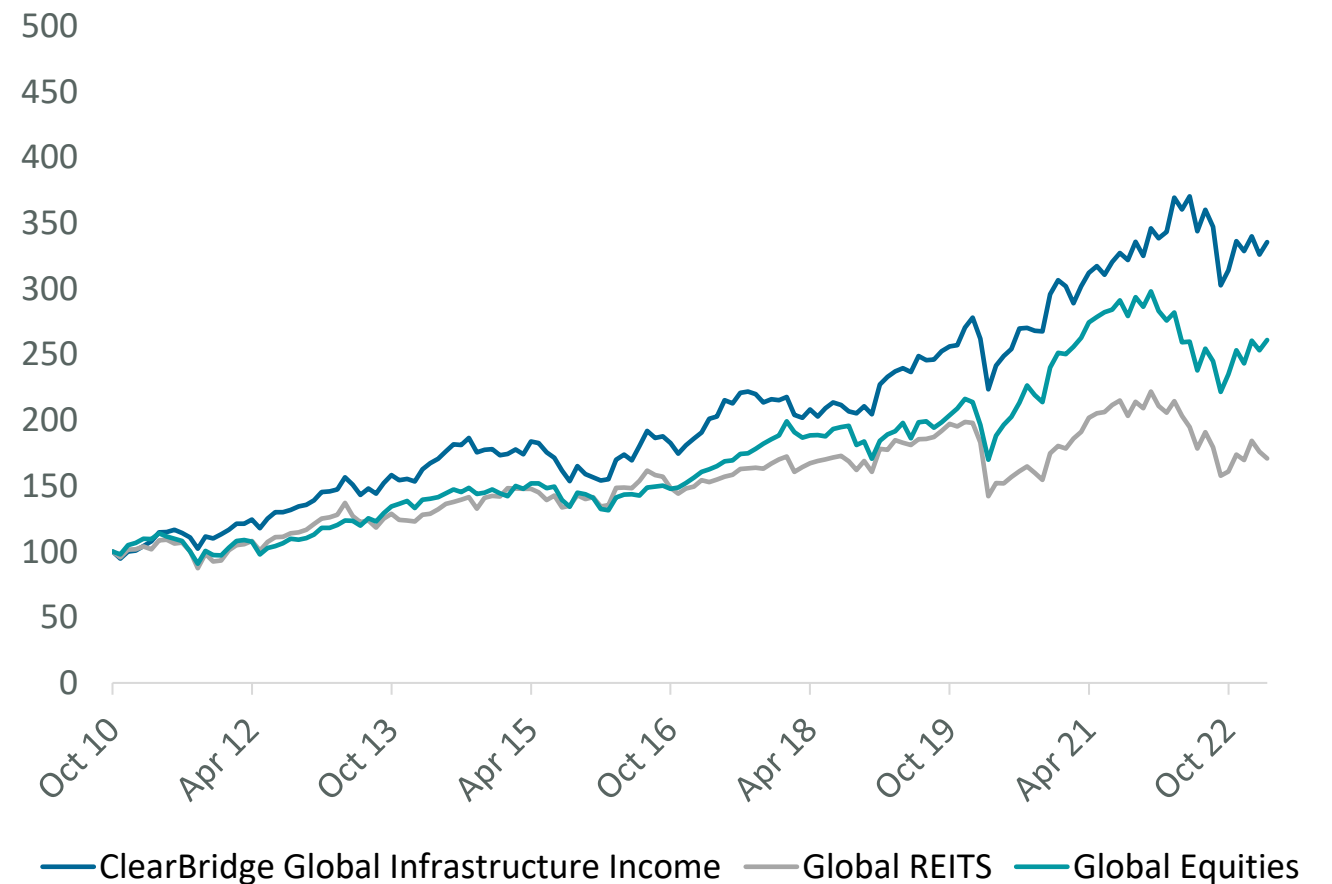
Infrastructure's Resilience in Different Macro Environments...

...Upside/Downside Skew and Compounded Returns

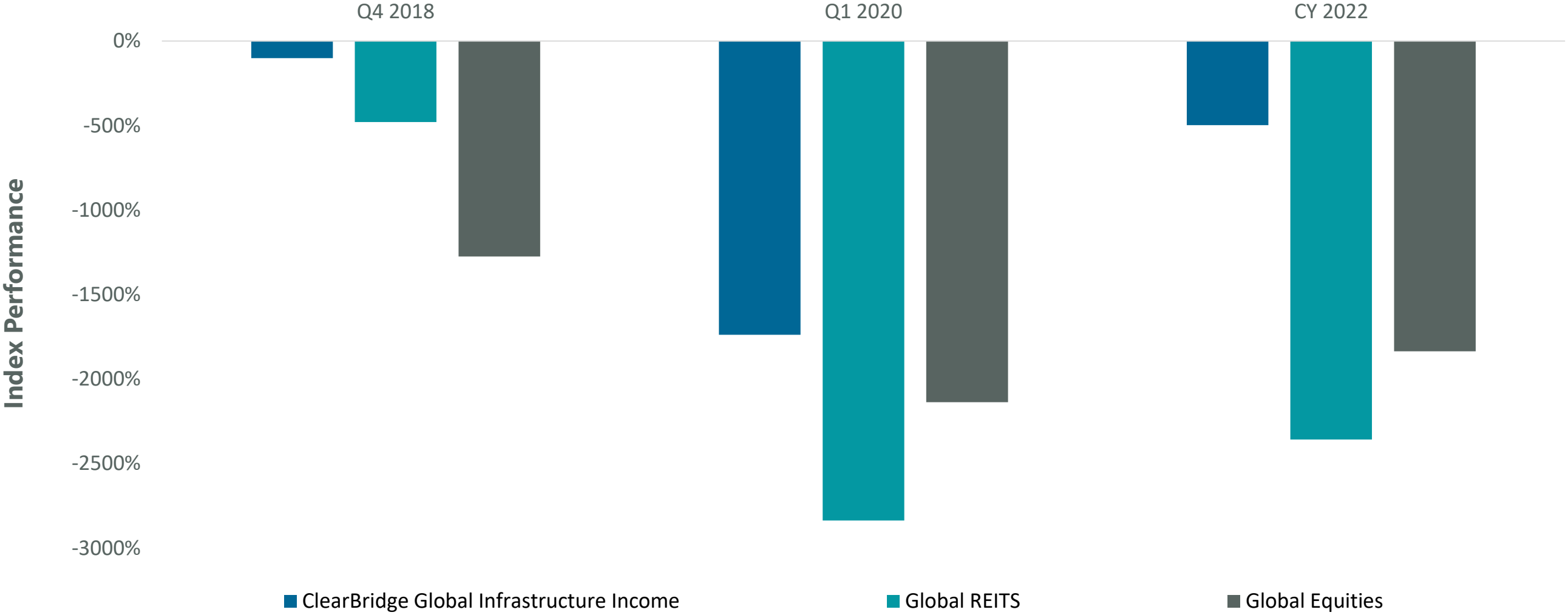
Upside/Downside Capture vs Global Equities
Since Inception



Compound Growth in \$100
Since Inception



Greater Stability in Volatile Markets



Infrastructure Opportunities in a Post-Pandemic World



Decarbonisation

- Clean Energy: contracted renewables
- Decarbonisation: deployment of renewables, retirement of hydrocarbon emitting generation, strengthening of networks and a move towards cleaner fuel sources such as hydrogen - Global utility exposure
- Beginning and facilitating a transition – selected energy infrastructure



Fracturing of Global Economy

- Move from Just in Time to Just in Case supply
- Necessitates realignment of supply chains, new or expanded trade routes requiring supporting infrastructure
- Localised (or regional) factories require additional energy



Unique Inflation Hedge

- Pricing mechanism
- Market Structure
- Demand / Volume Volatility



5G Evolution

- Significant carrier capex required to improve and “densify” cellular networks
- Listed tower companies' primary beneficiary



Listed & Unlisted Valuation Divide

- US\$300bn of unlisted “dry powder” paying a premium for listed assets, showing the attractiveness of listed infrastructure

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Performance: Portfolio return source: Internal. Performance shown is net of fees. Periods longer than one year are annualised.

Market Cap: Source: FactSet.

Sector Allocations: Source: FactSet. Sector allocations are subject to change. Sector breakdowns as defined by CIL.

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