Global Infrastructure

A high-conviction portfolio seeking capital appreciation and current yield

Strategy Overview

Firm AUM:	$188.0B
Strategy AUM:	$0.4B
Inception Date:	July 31, 2008
Number of Holdings:	Typically 40-60
Benchmark:	S&P Global Infrastructure Index
Available Vehicles:	▪ Institutional Separate Account ▪ US Mutual Fund

Team Members

Portfolio Managers

Average Experience: 24 years

Bobby Edemeka

Shaun Hong, CFA

Brannon P. Cook

Dedicated Analysts: 4

Average Experience: 20 years

Highlights

- Global, diversified, and flexible portfolio construction to provide higher upside capture potential, while mitigating downside capture
- A pioneer in utility investing, managing one of the largest utility mutual funds in the US since the 1990s
- Extensive experience in analyzing the operational, financial, and regulatory factors within the infrastructure universe, provides a competitive advantage
- In-depth specialization and experience across utilities, transportation infrastructure, midstream, and telecommunications infrastructure contributes to our deep knowledge base
- Identifies high-quality companies that exhibit above-average free cash-flow growth, with fundamentals and assets that are underappreciated by the market
- Employs a thorough understanding of the asset base, business model, financial strength, and management quality of companies to project future cash-flow growth potential
- Seeks to take advantage of “time-horizon arbitrage” - capture longer-term opportunities from short-term market inefficiencies and dislocations

Performance

Performance	2Q20	1 Year	3 Years	5 Years	10 Years	Since Inception
Global Infrastructure Composite (Gross)	13.2%	-1.8%	5.5%	5.1%	11.2%	7.2%
Global Infrastructure Composite (Net)	13.1	-2.4	4.9	4.5	10.5	6.6
S&P Global Infrastructure Index (Net*)	13.6	-15.4	-1.8	1.7	6.0	2.4

Past performance does not guarantee future results. **Index returns are reported net of reclaimable and non-reclaimable withholding taxes. Inception of Global Infrastructure Composite: 7/31/08. Periods greater than one year are annualized. See disclosures for important information.*

Jennison Associates LLC
www.jennison.com
support@jennison.com

466 Lexington Avenue, New York, New York 10017 tel: 212-421-1000
One International Place, Suite 4300, Boston, MA 02110 tel: 617-345-6850

Region and Country Allocation

North America	53.3%	Western Europe	35.0%	Asia & Pacific Rim	10.6%
United States	45.1%	Spain	12.7	Australia	9.8
Canada	8.3%	France	7.9	Hong Kong	0.8
		Italy	5.5		
South America	**1.1%**	Germany	5.2		
Brazil	1.1	Denmark	2.6		
		United Kingdom	1.1		

Source: FactSet. Country & Regional classifications are defined by Jennison using FactSet country classifications. Cash excluded. See disclosures for important information.

Industry Allocation

Utilities	42.0%
Transportation Infrastructure	33.3
Telecommunications Infrastructure	15.1
Midstream Infrastructure	9.6

Source: FactSet. Industry classifications are defined by Jennison (Transportation: Industrials; Midstream: Energy; Telecommunications: Communication Services, REITs; Utilities: Utilities). Cash excluded. See disclosures for important information.

Largest Holdings

NextEra Energy	5.2%
RWE	5.2
Cellnex Telecom	4.7
Vinci	4.2
Enel	3.8
Union Pacific	3.5
Iberdrola	3.3
Eiffage	3.2
Dominion Energy	3.1
Ferrovial	2.9
	39.1%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (2Q20)

Top Five	Average Weight	Total Return	Contribution to Return	Bottom Five	Average Weight	Total Return	Contribution to Return
RWE	4.6%	36%	1.50%	China Tower	0.7%	-21%	-0.22%
Cellnex Telecom	4.3	34	1.37	Aena	0.6	-7	-0.22
Enel	3.3	24	0.67	SSE plc	0.8	-5	-0.14
American Tower	2.6	20	0.63	Equitrans Midstream	0.1	-14	-0.07
Atlas Arteria	2.2	35	0.61	Neoenergia	0.0	-7	-0.04

***Past performance does not guarantee future results**. Source: FactSet. The holdings identified do not represent all of the securities purchased, sold or recommended by Jennison during the time period shown. A complete list of holdings and how each contributed to the portfolio's return is available upon request. See disclosures for important information.*

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Overview

Equities markets staged a remarkable recovery after a precipitous decline to market low's reached on March 23rd triggered by the initial spread of COVID-19. Aiding the rebound was fiscal and monetary stimulus from governments around the world, along with the relaxation of COVID-19-related restrictions. The market's bounce back also illustrated its resilience amid simmering geopolitical tensions between the US/China, and China/Hong Kong.

The S&P Global Infrastructure Index (the Index) posted double-digit gains, with all segments advancing, except for the minor declines in gas utilities and independent power & renewable electricity producers. Battered down segments in the first quarter that were most impacted from imposed travel restrictions, or declines among transportation volumes from "shelter in place" directives, all sharply rebounded driven by hope as investors shifted their focus towards companies that would benefit most from re-opening of economies. Segments that sharply rebounded included highways & railtracks, airport services, and midstream infrastructure, all of which were among the largest contributors to returns, while gas utilities and independent power & renewable electricity producers slightly detracted from the Index. Notable Index contributors were Australian toll-road operator Transurban Group, Spain-based airport operator Aena SME SA, and Italian toll-road operator Atlantia S.p.A. Notable detractors included Consolidated Edison, China Gas Holdings, and Shenzhen International Holdings.

The Jennison Global Infrastructure Composite (hereinafter, the "Composite") advanced, outperforming the S&P Global Infrastructure Index (the Index) over the quarter.

On an absolute basis, the representative account's (hereinafter, the "Portfolio") holdings within multi-utilities and midstream infrastructure were among the primary performance drivers over the quarter. The Portfolio's holdings within specialized REITs were also additive to returns, while electric utilities and environmental & facilities services also contributed meaningfully. Airport services was the only segment that detracted from absolute performance.

Relative to the Index, successful stock picking within multi-utilities was the primary driver of relative gains during the period. Overweight exposure to integrated telecommunication services and environmental & facilities services stocks also contributed to overall performance. Successful stock decisions within midstream infrastructure helped, but gains were partially offset by allocation decisions within the segment. The dominant detractor of relative performance was both security selection and underweight exposure within airport services stocks. While the Portfolio's underexposure to toll-roads detracted, positive stock selection within the segment helped to minimize relative losses.

Key Contributors

- Germany-based integrated utility **RWE AG** has benefitted from the energy transition theme of growing renewable electricity generation. The Company is in the process of being overhauled into the third-largest renewables developer in Europe, which Jennison believes this could provide the firm with the potential ability to grow its EBITDA by 5% on a compounded annual growth rate.
- **Cellnex Telecom SA**, is a Spain-based wireless telecom firm. We favor the Company for its organic growth momentum and exposure to positive themes such as data growth, the roll-out of LTE, and the macro-recovery in Southern Europe. Additionally, we expect its recent acquisition of approximately 10,700 towers across France, Italy and Switzerland, to potentially add to Cellnex's ability to generate accretive, long-term free cash-flow.
- **Enel S.p.A. (Enel),** along with its subsidiaries and affiliates is an Italy-based, multinational integrated electricity and gas operator with a focus on Europe and Latin America. Enel's sector-leading EPS growth is primarily driven by its investments in renewables and networks, along with operating expense savings. We feel the Company can expand its ROIC and believe its valuation discount relative to integrated firms is unwarranted, given Enel's above-average growth and sound balance sheet.

Key Detractors

- Spain-based **Aena SA** owns and operates approximately 46 airports in Spain, with the three main airports within its network being: Madrid Barajas, Barcelona El Prat and Palma de Mallorca. The Company is responsible for the management of airports, jetways, security, handling, cargo and fuel services, as well as duty-free and specialty stores, restaurant services, and car rentals located within its airports. Aena is one of the world's largest airport operators as measured by passengers carried. While international wide-body and business travel could be challenged for some time due to travel restrictions and consumer demand, we believe European consumers will elect to travel domestically within Europe before traveling internationally. Moreover, with Spain being a desirable leisure destination, Aena should benefit from a first-wave recovery in passenger traffic, and as such, we initiated a position during the period.

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Key Detractors (continued)

- **SSE plc** is a diversified UK utility operating electricity transmission and distribution networks, along with gas distribution networks. The Company also operates a large wholesale business with over 11GW of generation capacity across thermal and renewable sources. The government regulator for gas and electricity markets in the UK released a draft on the price control allowances, incorporating inflation, for the UK's transmission and gas distribution assets, covering April 2021 through March 2026. Given the regulator proposed a lower allowed return on capital, which could lower the overall returns realized for those assets affected. As a result, we opted to liquidate our position over the period, in favor of more attractive investment opportunities.
- **Neonergia SA** has benefited from strong rate-base growth among its distribution operations, as well as its new renewable generation and transmission projects. The Company is one of the fastest-growing utilities in Brazil, with distribution, generation, and transmission operations in Northeast Brazil and Sao Paulo State. The Company's generation assets also include 3.8GW of installed wind capacity with approximately 1.2GW under construction. Given COVID's negative impact on the Brazilian economy, along with oil market weakness (the country relies on oil sales), we had been trimming the position size over the first quarter, in order to manage the overall country risks within the Fund. With continued uncertainty as to the full impact from COVID on the Brazilian economy, we sold our remaining position over the second quarter, in favor of higher conviction opportunities.

Outlook

With the first quarter's severe market rout being defined by investors' fear on the near-term effects of COVID-19, the second quarter's sharp market rally was driven by hope as investors shifted their focus towards companies that would benefit most from a gradual re-opening of economies around the world. Within our global infrastructure investment universe, the transportation and midstream energy sectors were the primary beneficiaries of the second quarter's hope-fueled rally after being punished most severely during the fear-driven market rout in the first quarter.

Demand trends within transportation infrastructure have been volatile across modes due to COVID-related impacts in 2020 across toll roads, airports, and rails. Our focus continues to remain on names who have solid balance sheets and free cash-flow generation capability to weather a variety of COVID-related economic recovery scenarios. After paring back transport sector exposure in 1Q, we increased exposure in 2Q after gaining confidence that rail volumes and toll-road/air traffic trends had bottomed, and were seeing sequential improvements reflecting incremental re-opening's of global economies. We continue to prefer toll-roads over airports as we see a path to more normalized demand in 2021 and greater clarity on pricing and regulation. We have incrementally added airport exposure in 2Q, to names exposed to short haul leisure demand, which will recover first, in our view. However, more broadly, we still expect airports will face a multi-year path to get back to 2019 traffic levels while the sector also faces a more uncertain regulatory outlook – a key pillar of our more cautious industry view prior to COVID. Rail fundamentals bottomed in early May and have been inflecting positively faster than anticipated, driven by solid consumer demand (intermodal and autos) have, in our view, well-positioned them to generate solid free cash-flow growth over the next 18 months as industrial volumes normalize against a backdrop of solid incremental margin performance enabled by prior PSR (precision scheduled railroading) implementations. We continue to own a number of waste companies where we see solid pricing power and free cash-flow growth potential, along with a defensive business profile.

Utility sector fundamentals remain healthy, and we believe the sector should generate mid-high single digit earnings growth with commensurate dividend growth, owing to highly visible capital expenditure trajectories plus improving regulatory compacts. In particular, utilities are well positioned in the secular trend of the 'energy transition' to cleaner sources benefitting from rising demand for renewable energy supply and the subsequent grid infrastructure investment needed to modernize aging networks and absorb the intermittent nature of renewable generation. The majority of our utility exposure stems from our US utility holdings, which is primarily due to the regulated investment opportunities with higher rates of return than foreign peers that, in turn, are generating on average, better earnings and cash-flow growth. Overall, we continue to favor utilities with solid and sustainable dividend yields and above-average projected earnings and/or dividend growth operating in constructive regulatory environments that support timely and attractive returns on capital deployed. Looking beyond US utilities, renewable energy continues to be a dominant theme in the utility sector – both domestically and abroad -- and most of our non-US utility exposure is leveraged to the trend towards greater investment in renewable electric generation, specifically within Europe. We believe any project setbacks due to supply chain and/or construction disruptions stemming from COVID-19 will be manageable, and should not have a significant impact on long-term shareholder return. We see continued momentum behind the secular trends of rising global demand for renewable energy supply and subsequent grid infrastructure investment that's needed to modernize aging networks and absorb the intermittent nature of renewable generation.

Moving to our midstream infrastructure exposure, we have consolidated our holdings into companies that we believe are well-positioned to thrive during the crisis and beyond due to: their exposure to prolific natural gas basins tied to more visible long-term demand; are more North American focused; and lack some of the geopolitical oil risks. Companies with strong balance sheets, integrated asset systems with multiple touch-points across the entire energy value chain, as well as those stocks that have transparency and strong ESG metrics with a focus on reducing carbon footprint, will continue to fare better going forward, in our view. Lastly, regarding communications infrastructure, we continue to favor wireless towers and datacenter operators. We do not expect any material impact from COVID-19 on the tower companies as they have long-term contracts with wireless operators, which we view to be low counterparty risk. In the datacenter space, the demand for data has increased during this time as "shelter in place" policies have been imposed. Fundamentally, both industries capitalize on exponential data demand growth around the world.

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Disclosures

All data is as of June 30, 2020 unless otherwise noted. Due to rounding, individual values may not sum to total shown.

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The S&P Global Infrastructure Index consists of approximately 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy. In March 2013, the composite's primary benchmark was changed from the Standard & Poor's (S&P) Global Infrastructure Index (Gross) to the Standard & Poor's (S&P) Global Infrastructure Index (Net). Jennison believes the Standard & Poor's (S&P) Global Infrastructure Index (Net) offers a better point of comparison because composite returns are net of non-reclaimable withholding taxes. The Standard & Poor's (S&P) Global Infrastructure Index (Gross) is now the composite's secondary benchmark. The net benchmark return is reported net of reclaimable and non-reclaimable withholding taxes. The gross benchmark return is reported gross of all withholding taxes. Withholding tax rates used for the benchmark differ from, and may be higher than, the withholding tax rates used when calculating the composite return.

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***Average Weight** is the dollar value (price times the shares held) of the security or group, divided by the total dollar value of the entire portfolio displayed as a percentage. It is calculated as the simple arithmetic average of daily values. **Total Return** is the price change of a security or group including dividends accrued over the report period or the "in-portfolio return" which includes only the time period that each security was in the portfolio. **Contribution to Return** is the contribution of a security or group to the overall portfolio return. It is calculated as the security weight multiplied by the daily security return linked daily across the reporting period.*

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