Quarterly Factsheet

September 30, 2020

Global Infrastructure

A high-conviction portfolio seeking capital appreciation and current yield

Strategy Overview

Firm AUM:	$203.7B
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: 21 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

	3Q20	1 Year	3 Years	5 Years	10 Years	Since Inception
Global Infrastructure Composite (Gross)	2.8%	-2.2%	5.1%	8.2%	10.0%	7.3%
Global Infrastructure Composite (Net)	2.7	-2.8	4.6	7.6	9.4	6.7
S&P Global Infrastructure Index (Net*)	1.4	-14.6	-2.3	3.5	4.6	2.5

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.*

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Region and Country Allocation

North America	57.0%	Western Europe	32.1%	Asia & Pacific Rim	8.8%
United States	46.0	Spain	12.7	Australia	8.1
Canada	9.9	France	7.4	Hong Kong	0.7
Mexico	1.1	Germany	5.3		
		Italy	3.7		
South America	**2.1%**	Denmark	2.9		
Brazil	2.1				

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

Industry Allocation

Utilities	43.3%
Transportation Infrastructure	32.3
Telecommunications Infrastructure	15.5
Midstream Infrastructure	8.8

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	5.7%
Cellnex Telecom	5.5
RWE	5.3
Union Pacific	4.4
Enel	3.7
Iberdrola	3.4
Norfolk Southern	3.2
Vinci	3.2
Orsted	2.9
Equinix	2.9
	40.2%

Source: Jennison. See disclosures for important information.

Largest Absolute Impact (3Q20)

Top Five	Average Weight	Total Return	Contribution to Return
NextEra Energy	5.5%	16%	0.81%
Union Pacific	3.7	17	0.55
Orsted	2.8	20	0.49
Norfolk Southern	2.5	22	0.45
RWE	5.2	7	0.40

Bottom Five	Average Weight	Total Return	Contribution to Return
FirstEnergy	2.7%	-25%	-0.54%
Eiffage	2.9	-10	-0.29
VINCI	3.6	-9	-0.26
Ferrovial	2.4	-9	-0.18
Equitrans Midstream	1.2	3	-0.14

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

The S&P Global Infrastructure Index (the Index) posted modest gains over the quarter, with electric utilities and airport services leading the way. Midstream infrastructure, along with highways & railtracks and marine ports & services posted minor declines. Notable Index contributors were NextEra Energy, Duke Energy, and Auckland International Airport. Notable detractors included midstream infrastructure stocks Kinder Morgan and ONEOK, along with electric utility FirstEnergy.

The 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 portfolio’s (hereinafter the “Portfolio”) holdings within electric utilities, railroads, and environmental & facilities services were among the primary performance drivers for the period. The construction & engineering segment was the biggest detractor, while midstream infrastructure and renewable electricity stocks also slipped.

Relative to the Index, overweight allocations to railroads was among one of the largest drivers of relative performance over the quarter. The Portfolio’s underweight positions as well its stock selection within midstream infrastructure were strong contributors. Additionally, both successful stock selection and underweight positions among highways & railtracks also meaningfully contributed to the Portfolio’s performance. On the contrary, the Portfolio’s dominant detractors included overweight allocations to construction & engineering, underweight exposure to airport services, and poor stock selection within electric utilities. Selection within water utilities also hurt, albeit modestly.

Key Contributors

- **NextEra Energy** (NEE) announced it was raising its 2021 earnings guidance and extending its 8% growth outlook to 2023. Management pointed to the ongoing strength of its renewables development and execution across all business, which has led to its increased conviction in its outlook. The Company also approved a 4:1 stock split – which was approaching $300 share – more investable to a broader investment pool – typically a move to attract retail investors. From Jennison’s view, NEE continues to be the best-in-class clean energy/ESG story.
- Denmark-based **Orsted** is one of the leading global developers of renewables and is a global leader in offshore wind development. With demand for new offshore wind generation about to enter an accelerated growth phase, we believe Orsted is well-positioned to capture market share in this fast-growing segment of global electricity generation.
- **RWE** has benefitted from the global movement towards cleaner electricity sources through its development of renewable power generation. The Germany-based integrated utility is in the process of transforming itself into the third largest renewables developer in Europe and the second largest offshore wind operator globally. We feel RWE should continue to benefit, given its platform to capture the long-term growth in wind and solar generation, along with a clear path to becoming carbon-neutral by 2040.

Key Detractors

- **FirstEnergy** (FE) along with its subsidiaries is an electric distribution and transmission company serving over six million electric customers across six states while also running one of the largest transmission systems in the US with over 25,000 miles of lines. On July 21st media outlets reported a lobbying scandal related to actions surrounding the passage of House Bill 6 (HB6) – a nuclear subsidy bill in 2019 to assist struggling nuclear power plants in Ohio. The bill was instrumental in enabling FirstEnergy’s former subsidiary (FES) to emerge from bankruptcy and separate itself, leaving the FE as a clean and fully regulated utility. The news sent shares down ~17%. The following day, as more details surrounding the investigation surfaced, shares fell an additional ~30%. Over the course of two days, more than $9.5B in the stock’s market cap had been wiped out. The stock’s violent reaction was overdone in our view, and was likely a result of forced-selling by hedge funds and other long-only investors exiting their positions. FirstEnergy’s Ohio business makes up only a quarter of its total earnings per share (EPS), which roughly equates to around 10% of total EPS. We continue to maintain our current position and believe the valuation discount is unwarranted, even when factoring in any potential fines/punishment or impact to earnings.
- Transportation infrastructure stocks took a leg down after increasing Covid-19 cases in Europe forced new restrictions on the mobility of people. As a result, both toll-road and airport traffic in France has declined hurting operators such as **Eiffage** and **VINCI** over the quarter. The curtailment of mobility, not typical in a recession, has created new dynamics in the post-pandemic/work-from-home environment. Despite decreased toll-road traffic and Covid-related impacts, we continue to maintain our positions in both names. We believe Eiffage has excellent liquidity and should benefit as traffic growth slowly returns, while its improving contracting business helps to offset other business segment weakness. Additionally, Vinci – one of the best-run, diversified European infrastructure companies, in our view - operates in attractive end markets, while its core toll-road assets provide a stable base of growing free cash-flow. We continue to believe VINCI should benefit from managements’ effectiveness of layering on attractive, longer-duration and faster growth airport assets in Portugal, France, UK, and Japan.

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Key Detractors (continued)

- Despite weaker traffic trends related to the pandemic, over the longer-term, we believe **Ferrovial** should benefit from its solid mix of long duration and young infrastructure assets enabling it to compound long-term free cash-flow. The Spanish-based infrastructure and construction company, operates and runs infrastructure-related assets and services across the globe. Its core 407 ETR (express toll route) in Toronto and its managed lane toll road assets in Dallas, TX are core drivers of its long-term equity value and growth, in our view.

Outlook

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 our transport sector exposure in 1Q, we further increased exposure in 3Q after seeing solid sequential improvements in US freight volumes, and signs of stabilization in toll-road and airports. Transport infrastructure levered to the movement of goods has continued to recover while infrastructure tied to movement of people (toll-roads/airports), as well as changes in regulations and COVID progression, remain more volatile. Within transports, we continue to favor rails who are well positioned to leverage accelerating freight volumes over the next year while adding costs at a much slower pace – should enable solid incremental margins and free cash-flow growth, in our view. Our preference remains for rails with PSR (precision schedule railroading) exposure. We continue to own waste companies where we see solid pricing power and free cash-flow generation despite COVID. Furthermore, 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 3Q, and favor names exposed to short haul leisure demand, which in our view, will recover first. However, more broadly, we still expect airports to face a multi-year path to get back to 2019 traffic levels while the sector also confronts a more uncertain regulatory outlook – a key pillar of our more cautious industry view prior to COVID.

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 not only modernize aging networks, but to also 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 Europe, we continue to see compelling growth potential through M&A within the independent tower sector alongside the organic secular growth opportunity. 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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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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