Lazard
Global Listed Infrastructure

4Q24
Strategy Review

Market Review

The fourth quarter was emblematic of the entire calendar year, with the interest-rate policy paths of key central banks at the forefront of investors' minds globally. All eyes were on the US, where the US Federal Reserve (Fed) began its highly anticipated monetary easing cycle in September. However, Fed Chair Jerome Powell's negative outlook for lower inflation and signals for fewer interest rate cuts in 2025 triggered a large sell-off in US stocks in December. In the eurozone, the European Central Bank lowered interest rates in October and December, reiterating that economic growth remained its highest priority. In the UK, the Bank of England lowered interest rates in November but held them steady in December despite the country's stagnant economy.

Listed infrastructure underperformed the broader global equity markets over the quarter mainly due to high interest rates and a shift in investor focus towards higher-growth sectors, particularly technology. Listed infrastructure had underperformed over the period of rising rates and is now looking relatively attractive compared to broader global market capitalisation indices.

Portfolio Performance

The Lazard Global Listed Infrastructure strategy ("the strategy") outperformed the MSCI World Core Infrastructure Index but trailed the MSCI World (Local) Index over the quarter ended 31 December 2024.

During the fourth quarter, performance came from a diverse range of stocks in the strategy.

Exhibit 1
Q4 2024 Contributors and Detractors

Contributors	Explanation
Ferrovial	Global toll road and airport owner/operator Ferrovial (FER) continued its solid performance during the quarter. In November, FER announced new toll rates for its key asset, the H407ETR toll road in Canada, with the most common tariff increase across its multiple toll points up around 19% YoY. In December, FER announced the completion of the disposal of its 19.75% stake in Heathrow Airport. We estimate that FER will receive proceeds exceeding EUR 2.7 billion from its three most recent disposals, part of which we believe is earmarked for additional shareholder remuneration. Despite the strong share price performance over the last 12 months, we continue to view FER as an attractive investment proposition.
Power Assets CK Infrastructure	Sister listed infrastructure investment holding companies, Power Assets Holdings (PAH) and CK Infrastructure (CKI), both rose during the quarter despite no specific company news. Both PAH and CKI have performed strongly over the last six months following better than expected regulatory outcomes in the UK and the apparent excitement from investors following the UK secondary listing in August.
Fraport	German airport operator Fraport contributed to performance after agreeing a four-year tariff increase at Frankfurt Airport, slightly higher than we had forecast.
Transurban	Transurban, a major toll road investor with concessions to operate tolled motorways in Australia and North America, added to performance following the release of its October and November traffic data which showed top-line growth. Traffic in Sydney, Brisbane and Melbourne all exceeded expectations, suggesting that the impact of roadworks is diminishing and the economic slowdown is stabilising.

Detractors	Explanation
National Grid	UK diversified utility National Grid gave back some of its recent gains during the quarter, as the run-up to the October 2024 budget announcement led to an increase in perceived political risks. We do not believe that the budget, as announced, has any negative consequence on the prospects of the company and its ability to create value from the stepped-up investment program.
Snam	Shares of Italian gas utility Snam were weaker after the Italian Antitrust Authority opened a probe into the company's acquisition of Edison's gas storage assets. We believe this will have no material impact on the intrinsic value of the company. We continue to view Snam as one of the best regulated companies in the sector, with consistent execution and supportive regulation.
Vinci	Vinci shares were impacted by the fall of the French government, leading to ongoing uncertainty in the market. Despite this, Vinci held a Capital Markets Day on its Energies division, showcasing growth and profitability targets that exceeded our assumptions. As the company

	evolves, it is diversifying away from the French market, which helps mitigate single-country risk. Traffic remained healthy through Vinci's network and airport traffic continues to exceed our expectations.
Algonquin Power & Utilities	Diversified US utility Algonquin Power & Utilities (AQN) fell during the quarter. In August, the company reduced its dividend to $0.26, indicating a target payout ratio of 60%-70%, implying a mid-point of $0.40 EPS. The company also indicated it will take a few years before it will be earning a full allowed regulatory return on its entire rate base. That said, having secured good prices for its non-regulatory assets in recent months, AQN shares are trading at an attractive value relative to rate base. Our valuation is conservative compared to company guidance as we assume AQN continues to under-earn on its regulatory rate base going forward.

As of 31 December 2024
Source: Lazard

Impact of the US Presidential Election

The re-election of former US President Donald Trump has significant implications across various sectors and the broader economic landscape.

The ongoing US-China trade war is expected to persist and intensify under a second Trump presidency, creating volatility in global markets and impacting sectors differently. This trade conflict could limit growth opportunities in certain areas. Under Trump, sectors like oil and gas, financials and infrastructure may attract more investment due to anticipated government spending and deregulation efforts. However, heightened geopolitical tensions might necessitate a more cautious approach to investing in certain international markets. Trade policy and the imposition of tariffs are also likely to increase input costs for the infrastructure sector. The president-elect's promise of an "America First" economic and trade agenda has touted the imposition of a 10-20% tariff on all imports and 60% on Chinese imports. Trump is likely to take a gradual and phased approach to new tariffs, seeking leverage for negotiations, with China being the main initial focus. This would create inflationary pressures, leading to higher interest rates, which would weigh on infrastructure projects.

Specifically in relation to the Global Listed Infrastructure strategy, Trump's skepticism towards climate change initiatives may favour fossil fuel industries and hinder long-term sustainability efforts but benefit the traditional fossil fuel industries. The Fed's response to inflation will be critical during this transition period. We believe monetary policy might shift towards prioritizing fiscal restraint as well as the inflation implications of increasing protectionist policies. These factors will affect interest rates, borrowing costs, and overall economic growth.

Regarding the Inflation Reduction Act (IRA), its potential impact centers on the future of clean energy investments and regulatory changes. Trump has pledged to rescind unspent funds from the IRA, which allocates over US$390 billion to clean energy initiatives, including electric vehicles and renewable energy technologies. This could significantly reduce financial support for sectors focused on sustainable and clean energy solutions. Given its popularity and some Republican party support, a full repeal of the IRA is unlikely. Instead, there might be caps on tax credits or changes to funding mechanisms that benefit clean technology sectors. The IRA has been instrumental in driving investments in clean energy projects and technologies. If Trump's administration succeeds in altering the act, it could lead to decreased investment in these areas, potentially affecting companies that focus on sustainable and clean energy solutions. Beyond the IRA, a number of federal channels to fund renewable energy projects (e.g., the Department of Energy's Loan Programs office) could be shuttered, further negatively impacting clean energy investments.

With regard to his proposed corporate tax cut, we believe the impact for US regulated utilities is negligible to modestly positive. The regulatory structures are based on a post-tax Return on Equity, so any changes in tax rates are simply passed through to consumers in terms of lower utility rates. It is the potential for this lowering of tax passthrough which may create additional consumer demand as a second order effect.

The political climate surrounding this leadership transition is charged with tension due to ongoing legal issues facing Trump. The new administration's appointees will be an important indicator to monitor. The balance between technical credentials and loyalty to the president-elect will serve as important measurements of how swift or chaotic the implementation of the Trump administration priorities will be. All of this will be defined over the 75-day transition period.

Trading Activity

During the quarter ended 31 December 2024, we initiated a position in Auckland International Airport following the sales process by Auckland Council, as the stock appeared attractive on the Value Rank. Auckland Airport is an international airport serving Auckland, the most populous city of New Zealand. It is the largest and busiest airport in the country.

During the quarter, we also sold out of our position in Pinnacle West Capital following a period of outperformance. We believe the stock had reached their intrinsic value and there were better opportunities elsewhere. We also sold out of our position in Atlantica Sustainable Infrastructure as its acquisition by California Buyer Limited controlled by Energy Capital Partners and other institutional co-investors was finalised.

Portfolio Composition

Based on our estimates, the fair value of a A$100 investment into Lazard Global Listed Infrastructure is worth approximately A$103 (Exhibit 2). Which means, as at 31 December 2024, our strategy was trading at approximately 3% discount to fair value.

Exhibit 2
Lazard Global Listed Infrastructure— Fair Value Assessment

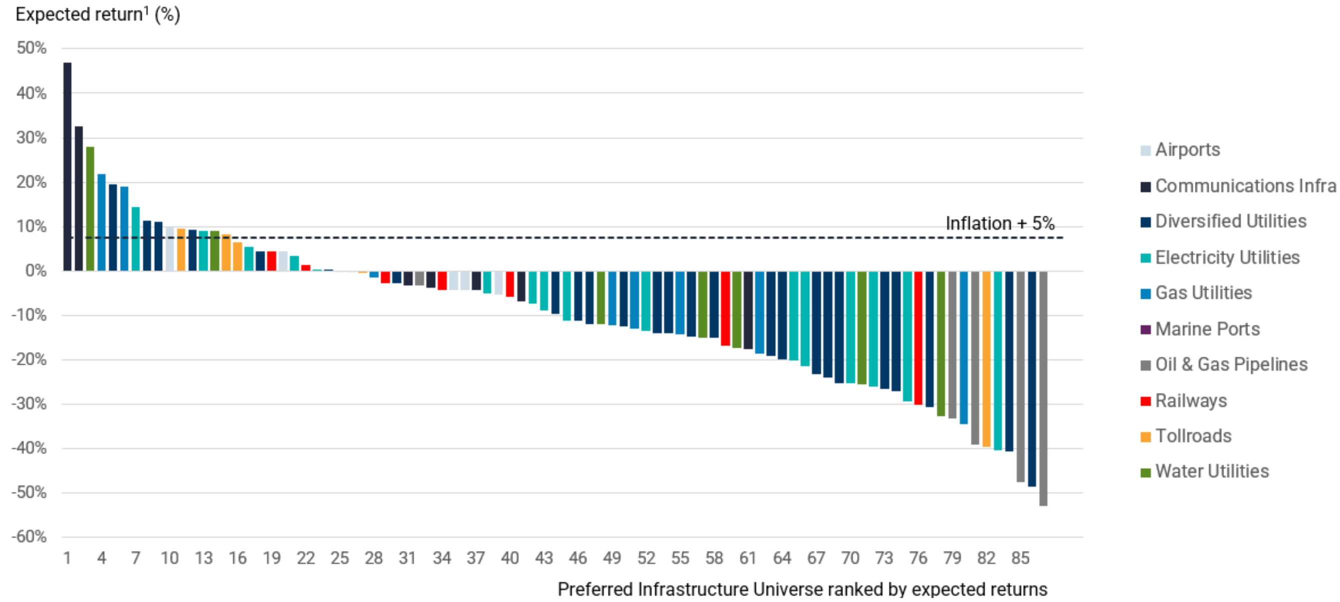
Fair value of stocks held as of 31 December 2024. Fair value of stocks are calculated over 3 years, assuming all stocks trade at our valuation in 3 years' time; annualised in AUD. The information presented is theoretical and is shown for information purposes only. It is based on Lazard's assumptions underlying the calculation of fair value as at 31 December 2024 and is subject to change should our assumptions change. The information does not represent a promise or guarantee that the stocks will achieve fair value.

Source: Lazard

The number of opportunities available in our Preferred Infrastructure Universe has not dramatically changed. It remains our view that security selection in listed infrastructure is critically important. Exhibit 3 shows a wide dispersion in our value-ranked return expectations across our Preferred Infrastructure Universe. In Exhibit 3, each bar represents a stock in our Preferred Infrastructure Universe and our expected annual return over three years, based on the assumption that all of the stocks will trade at our valuation in three years' time. As the chart shows, we believe there is wide dispersion in the asset class.

We see select areas of opportunity, specifically in European-listed toll roads, UK water utilities, US railroads, and satellite companies. We are also beginning to see some specific stock opportunities within the US utilities sector. Our portfolio today is diversified by infrastructure sectors (Exhibit 4), and the companies in which we invest collectively own over 400 individual infrastructure assets.

Exhibit 3
Lazard Global Listed Infrastructure—Value Ranked by Sector

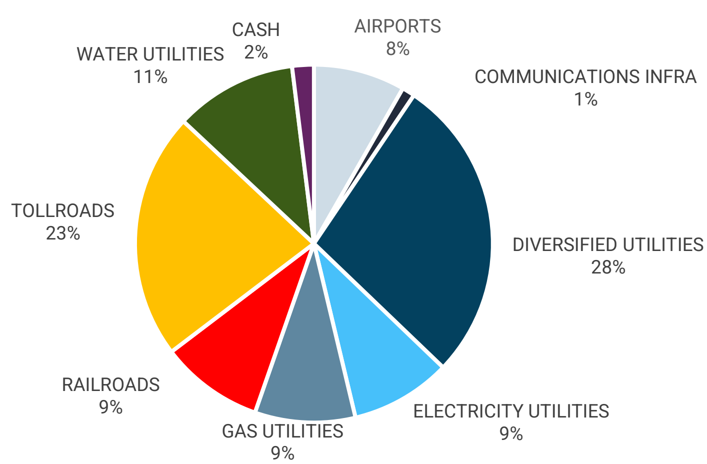


As of 31 December 2024

[1]Over 3 years, assuming all the stocks trade at our valuation in 3 years' time. The opinions and estimates contained in this graph are based on current information and are subject to change. It should not be assumed that any investment was or will be profitable. Expected returns do not represent a promise or guarantee of future results and are subject to change. Shown for illustrative purposes only. Each bar represents an individual stock's expected return per annum for the next three years. This is based on a comparison of Lazard's Global Listed Infrastructure team's intrinsic valuation of the stock three years out, the market price of the stock today, and the interim forecast dividends.

Source: Lazard

Exhibit 4
Portfolio by Sector



As of 31 December 2024

The allocations mentioned are based upon a portfolio that represents the proposed investment for a fully discretionary account for the AUD Hedged version of the strategy. Allocations are subject to change. Portfolio summary is based on underlying company assets. This information is for illustrative purposes only and is supplemental to the "GIPS® Standards Composite Information." Source: Lazard, FactSet

Outlook

The combination of volatile equity markets and our conservative approach leads us to view current market conditions cautiously. We see some pockets of attractive value opportunities, particularly in Europe. While we are starting to see signs of inflation moderating, we believe inflation will remain above most Central Bank target ranges for a number of years ahead. High bursts of inflation have positive cashflow implications for toll roads, airports, railways and non-US utilities. In contrast, the implications of higher inflation for US utilities are likely negative.

We remain cautious on the US utilities sector as a whole. That said, we are beginning to see some specific stock opportunities within the US utilities sector. We may seek to take advantage of these opportunities in the months ahead.

The scarce valuation opportunities have led to a relatively concentrated portfolio where we believe the risk/return trade-off is favourable, however this brings a higher degree of stock-specific risk. In our opinion, the only way to generate returns that properly compensate for the risk taken is through highly selective stock-picking. We caution investors to expect increased volatility in the short to medium term.

Value is emerging now and on a 5-year view, valuations look more attractive on a risk/return basis. We believe returns available in the strategy look relatively attractive at this time when compared to a passive investment in infrastructure indices, bonds or in broader equity markets. We believe the preferred infrastructure characteristics we seek for all our investments will continue to serve our investors well over the longer term.

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