Clean energy transition — An infrastructure investment supercycle

MAY 2021

Jeremy Anagnos, CFA
Portfolio Manager,
MainStay CBRE Global
Infrastructure Fund
CBRE Clarion Securities

CBRE Clarion Securities is the listed equity management arm of CBRE Global Investors, a global real asset investment firm sponsoring investment programs across real estate, infrastructure, and private equity. CBRE Clarion manages client portfolios with a focus on generating attractive risk adjusted returns through a total return and income-focused strategies.

Executive summary

Investment needs for the clean energy transition are accelerating globally and driving a multidecade long investment supercycle. Commitments to net-zero carbon emissions from a wide range of stakeholders raise environmental standards and increase an already robust level of required investment in clean energy infrastructure. The outlook for increased investment beyond current targets translates into a long runway of growth potential for companies in listed infrastructure's utility sector, leading the shift to a renewable and sustainable future.

The scale of investment opportunity: epic and growing

The clean energy transition has already begun. Utilities are leading the way as the investment needs to facilitate the transition are accelerating. Globally, utilities are actively repositioning their platforms to develop renewable power generation, upgrade networks, and transition to the electrification of end-uses. According to the International Renewable Energy Agency (IRENA), the current Planned Energy Scenario (PES), which includes government energy policies and targets through the end of 2019, estimates a massive $95 trillion of required clean energy infrastructure investment by 2050. Despite the magnitude of this commitment, the PES will only marginally reduce harmful carbon emissions and fall short of curbing increasing global temperatures.

We believe IRENA's Transforming Energy Scenario (TES) to be the more likely scenario. Under this scenario, $110 trillion in investments are required by 2050 to reshape global energy markets and meet climate goals. This scenario will require an investment of $3.3 trillion annually, which is an additional $400 billion above

NEW YORK LIFE INVESTMENTS

the level of investment required under the PES. The TES is necessary to hold global temperatures from rising more than two degrees Celsius. In this more ambitious scenario, 70% of the world's energy-related carbon dioxide (CO_2) emissions would be cut by 2050, with over 90% of that reduction coming from renewable and energy efficiency measures. The result is a more electrified system where electrification's share of final energy rises from 20% to nearly 50% by 2050. (**Figure 1**)

Figure 1: Investment required to reshape global energy markets

		Where we are heading	Where we need to be
	Current	**PES** Planned Energy Scenario (2050) **$95 trillion** Required clean energy infrastructure investment	**TES** Transforming Energy Scenario (2050) **$110 trillion** Required clean energy infrastructure investment
Renewable share in electricity generation			
	26%	55%	86%
Electrification share of final energy			
	20%	30%	49%
Energy-related CO_2 emissions			
	34 gt	33 gt	9.5 gt

Source: IRENA Global Renewable Outlook, Summary Addition: 2020.

The long-term growth potential for the utilities sector is supported by the increasing need for clean energy investment.

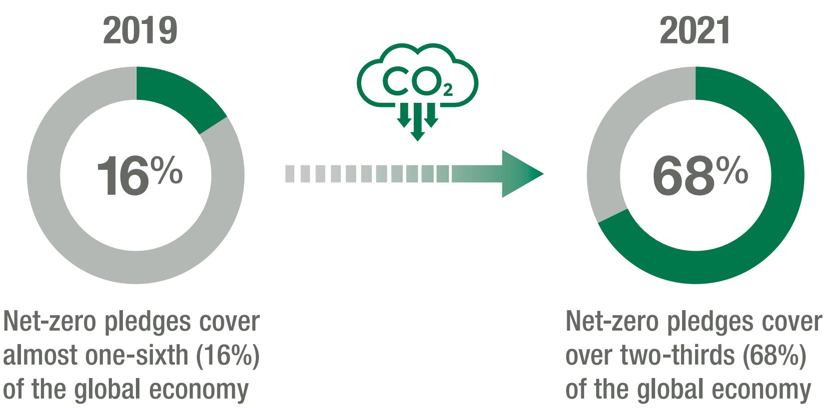
Global race to net-zero supports growth potential

Commitments to a future net-zero economy are intensifying from a wide range of stakeholders, including China, the U.S., and the EU, which account for over half of the world's economy and 46% of its greenhouse gas emissions. As a result, between June 2019 and March 2021, the percentage of global GDP covered by net-zero targets has soared from just 16% to 68%. (**Figure 2**)

The increasing number of commitments and related regulatory policy enhances the already robust cash flow growth projections for the utilities sector. Regulatory support, including the Biden Administration's proposed American Jobs Plan and the EU's Taxonomy Climate Delegated Act, are designed to support sustainable investment. These plans include incentives for renewable infrastructure development, emission reduction targets, criteria to guide corporate investment, access to low-cost project financing, and subsidies to support investment and tax credits for renewable projects.

We expect the net-zero commitments combined with supportive government policies to have profound implications for the utilities sector by extending the duration of the investment opportunity, supporting stable earnings and dividend growth, and de-risking the regulatory environment.

Figure 2: Net-zero targets as a percentage of GDP are accelerating



Source: Energy & Climate Intelligence Unit "Taking Stock: A Global Assessment of Net Zero Targets", March 2021.
GDP is assessed in purchasing power parity terms.

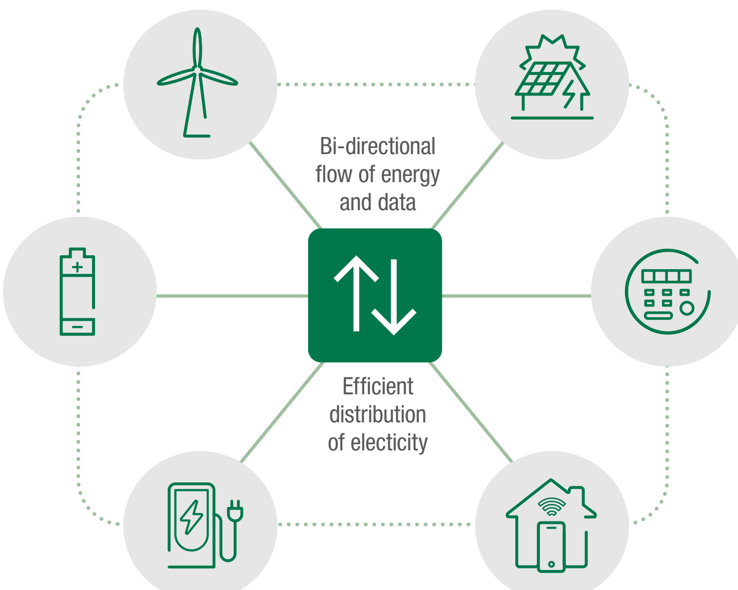
Smart grid investment is critical to clean energy transition

The utility sector's renewable energy leadership goes beyond the transition away from fossil fuel power-generating assets. The modernization of the electrical grid and investment in Smart Grid technologies are required to manage an increasingly electrified system powered by renewable infrastructure assets. The Smart Grid will enable the bi-directional flow of electricity and data throughout an interconnected network of infrastructure assets and innovative clean energy technologies. Using data from its network, the Smart Grid manages decentralized variable renewable energy sources like wind and solar according to its availability and efficiently distributes the flow of electricity throughout the grid, thereby reducing costs, managing surpluses, and limiting outages. (**Figure 3**)

Utilities have become leaders in facilitating the clean energy transition through investment in renewable power generation, the power grid itself, as well as innovation in battery storage, smart meters, and end-use assets like electric vehicle charging stations.

Regulated and contracted cash flow from these investments may translate into a long runway of growing dividends for utilities.

Figure 3: Smart grid provides network flexibility, efficiency, and reliability



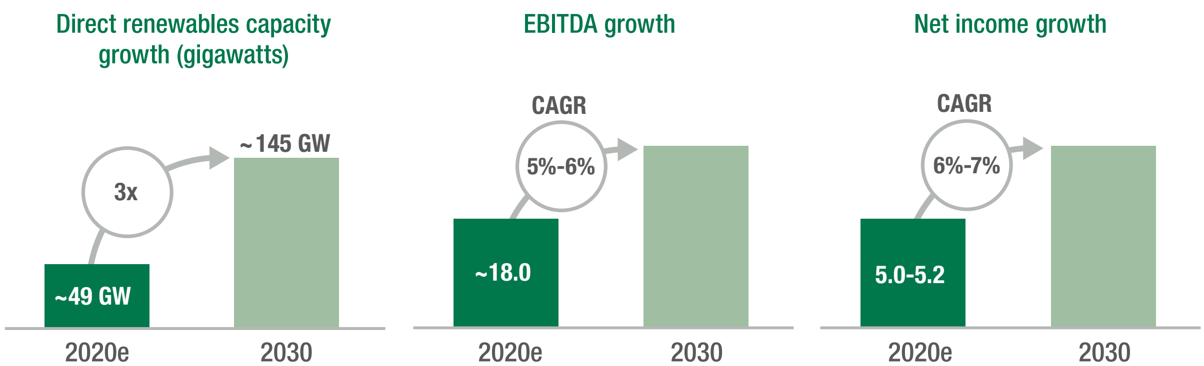
Globally, utilities are actively repositioning their platforms and investing in developing renewable power generation, modernizing networks, and transitioning to the electrification of end-uses.

Enel: A case study in renewable super major growth

The opportunity for investment in the energy transition is so significant, and the growth outlook is so robust that it can be hard to imagine what it could mean for an individual company. Italian utility Enel offers a clear example of a company with a large, visible pipeline of energy transition investments that translates into robust, long-term growth.

By 2030, Enel plans to invest more than 150 billion euros to modernize its network grid and increase renewable power capacity. Those investments will triple Enel's renewable generation capacity from 49 gigawatts today to 145 gigawatts over that time. As a result, Enel expects to grow EBITDA at a CAGR of 5%-6% over the next ten years, driving annual net income growth of 6%-7% that should extend its 7% dividend growth guidance beyond current guidance through 2023. (**Figure 4**)

Figure 4: Increased renewable capacity supports company growth outlook



Source: Enel 2021-2023 Strategy Plan Presentation, November 24, 2020. Billions in €.

Utilities leading the shift to a sustainable future

Forces are aligning for a long tail of large-scale investments in the clean energy transition. A global policy push from the world's largest economies and leading corporations are accelerating investment needs. While smaller companies investing in early-stage, unproven clean energy technologies generate market enthusiasm, we believe investors have underappreciated the utility sector's leadership. Utilities within the listed infrastructure universe have scaled platforms, regulatory relationships, and long-term investment plans that are best positioned to benefit from the clean energy investment supercycle and provide investors an attractive combination of income and growth potential.

We believe investors have underappreciated the utility sector's leadership role in the clean energy transition.

About risk

Enel was a holding of the MainStay CBRE Global Infrastructure Fund as of 3/31/21. Click here to view current holdings.

Dividends fluctuate and are subject to change. There is no guarantee they will continue to be paid. While dividends may cushion returns in down markets, investments are still subject to loss of principal amount invested.

Before considering an investment in the Fund, you should understand that you could lose money.

The investment strategies, practices and risk analyses used by the Subadvisor may not produce the desired results. Investments in infrastructure-related securities will expose the Fund to potential adverse economic, regulatory, political, legal and other changes affecting such investments. Issuers of securities in infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental or other regulations and the effects of economic slowdowns. MLPs carry many of the risks inherent in investing in a partnership. State law governing partnerships is often less restrictive than state law governing corporations. Accordingly, there may be fewer protections afforded investors in an MLP. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The risks of investing in emerging markets include the risks of illiquidity, increased price volatility, smaller market capitalizations, less government regulation, less extensive and less frequent accounting, financial and other reporting requirements, risk of loss resulting from problems in share registration and custody, substantial economic and political disruptions, and the nationalization of foreign deposits or assets. Small and mid-cap stocks are often more volatile than large-cap stocks.

Because the Fund concentrates its investments in securities issued by companies principally engaged in the infrastructure group of industries, the Fund may be subject to greater risks and market fluctuations than a fund whose portfolio has exposure to a broader range of industries.

Portfolios concentrated in infrastructure securities and Master Limited Partnerships ("MLPs") may experience price volatility and other risks associated with non-diversification. Investment in infrastructure-related companies may be subject to high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, the effects of energy conservation policies, governmental regulation and other factors. MLPs often own interests Related to the oil and gas industries or other natural resources but may finance other projects. As such, MLPs will be negatively impacted by economic events adversely impacting that industry. Investments in MLPs may offer fewer legal protections than investments in corporations, and limited voting rights. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors, as well as increased volatility and lower trading volume. Other risks of the Fund include but are not limited to: Company; Convertible Securities; Currency; Derivative Instruments; Investment Model; Liquidity; Market; Market Capitalization; Other Investment Companies; and Securities Lending risks.

This information is subject to change and should not be construed as investment advice.

Please ask your clients to consider the investment objectives, risks, charges, and expenses of the investment company carefully before investing. The prospectus or summary prospectus contains this and other information about the Fund and can be obtained by contacting you, the financial professional. Instruct your clients to read the prospectus or summary prospectus carefully before investing.

Definitions

EBITDA, or Earnings Before Interest, Taxes, Depreciation, and Amortization, is a metric used to evaluate a company's operating performance.

CAGR, or Compound Annual Growth Rate, is the rate of return that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each year of the investment's lifespan.

NEW YORK LIFE INVESTMENTS

For more information
800-624-6782
newyorklifeinvestments.com