Kempen Global Listed Infrastructure

Q1 2022 - QUARTERLY UPDATE
APRIL 2022

Our quarterly updates will give an overview of the main themes dominating the quarter, our outlook for these themes, and then an overview of the performance of the strategy, and development in strategy size.

KEY THEMES: INFLATION, YIELDS AND GEOPOLITICS

At the start of the year, investors were mainly focused on the rising inflation and the number of rate hikes, and the timing, by the FED this year. It shifted abruptly from rate hikes towards geopolitical risks as the tragedy unfolded in the Ukraine. As energy independence and security came into focus, accelerating the energy transition, and energy prices increased further, the listed infrastructure sector finished the quarter in positive territory as one of the few equity sectors.

TRENDS NOT EXPECTED TO FADE AWAY ANY TIME SOON

Energy concerns

The tensions in the energy markets materially accelerated towards the end of 2021, and prices were pushed even higher due to the geopolitical tension since the invasion, with European gas and power prices reaching record highs. The tight energy market continues and creates volatility in the short-term, but also create opportunities.

European governments have signaled their intention to reduce their dependency on the supplying of energy resources coming out of Russia. In those plans, accelerating the energy transition towards locally produced renewable energy solution has gained further traction. The British government has unveiled its strategy for energy independence recently - with 95% of electricity to be low carbon by 2030 with 50 GW of offshore wind. In Europe we await the 'RePower EU" plan in May, where Frans Timmerman (EU Commissioner for the Green Deal) is already suggesting increasing the renewables goals. Concurrently, electricity grids will have to be upgraded and expanded to secure reliability and connect renewable energy to the grid – driving a multi-year capex cycle. As such, we expect capex for companies like Terna and National Grid to increase and stay elevated for longer.

In the meantime, energy prices and the demand for US LNG are expected to stay elevated given the uncertainty and Europe's shifts away from Russian gas (approx. 30% of European gas mix). What is more, gas is needed as transition fuel as it takes time (think decades) to realize the energy transition goals. The gas pipeline companies have benefitted materially from the rally in energy prices. Although the companies are often engaged in long-term contracts - and are thus economically less sensitive to variations in spot prices - , the market believes that the strong energy prices would prove supportive of the growth outlook for these companies as demand is expected to stay firm. We have already seen some signs of this, with companies such as Cheniere Energy – a leading US exported of liquified natural gas, announcing in March contract revisions (UK customers wanting more gas).

Inflation protection

The war in the Ukraine has disrupted supply chains and increased scarcity of commodities, pushing inflation even higher. Although central banks are expected to continue rate hikes more aggressively, inflation is expected to stay above the average of the last decade in 2022/23. In an inflationary environment, listed infrastructure has appealing characteristics: most business models of infrastructure companies allows them to pass price increases swiftly to their clients. Hence, it is not a surprise that in the past, listed infrastructure stocks have on average outperformed global equities when inflation was above 2.5%.

Higher oil prices could weigh on transport infrastructure in the short-term

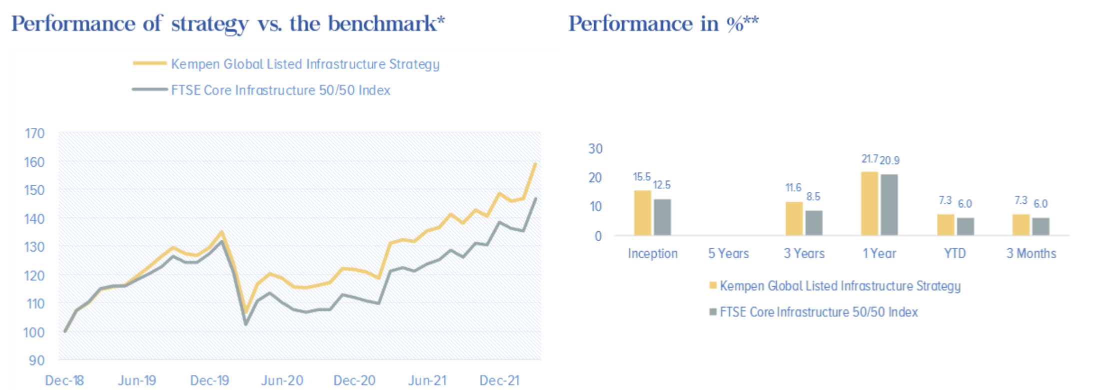
One of the sectors that tend to perform well during periods of higher inflation is the transport sector. The assets benefit from increasing tariffs and extra volume driven by economic growth. However, the high oil price is expected to impact volume growth – at least in the short-term with the initial fuel price shock.

Despite the initial reaction, the correlation turns out to be limited in the mid-term as the initial shock fades as we have seen historically with French toll roads like Vinci. As such, we expect the reopening trade to remain the dominant driver for transport infrastructure in the next months. As geopolitics uncertainty will weigh on long-haul flights, the focus should remain on toll roads and short-haul leisure traffic for airports, in our view.

STRATEGY PERFORMANCE AND AUM UPDATE

In the first quarter of 2022 Kempen (Lux) Global Infrastructure strategy was up 7.3%, strongly outperforming global equities which were down 3% (MSCI world all country index as per 31 March 2022). The Kempen (Lux) Global Listed Infrastructure Strategy outperformed the reference index (FTSE Core Infrastructure 50/50 Index) by 1.3%.

Figure 1: Kempen (Lux) Global Infrastructure performance



Figures are gross performance, the effect of potential fees and charges is not included. The level of the fees and charges will depend on the applied product structure, this will have effect on the net performance. Source: Kempen, Factset, BNP Paribas. *The value of your investment may fluctuate. Past performance is no guarantee for future results. ** 2 January 2019 – 31 March 2022**Annualised Figures

Source: Kempen, FactSet, BNP, 31 March 2022

The outperformance was mainly driven by our stock selection in Emerging Markets in Asia. Malaysia Airport benefited from easing of COVID related restrictions, while the port company ICT benefited from pricing power and volume in its ports. In addition, the US gas pipelines contributed strongly to the relative performance as they outperformed their oil peers as gas demand shifted away from Russia to alternatives, including liquid gas from the US,

Most noteworthy positive performance came in 22Q1 from (% return in EUR):

1) Cheniere (+40%) and Williams (+33%). The former benefited from LNG demand and high energy prices, fueled by geopolitical uncertainty, while also the latter benefited from strong macro.

2) CCR (+41%) showed good car volume growth and shareholder overhang was removed, while currency was strong too.
3) Sempra (31%) as the market focused on its LNG growth opportunity given higher LNG prices and geopolitical concerns

On the contrary, the biggest distraction came from:

1) China Gas (-37%) as the company announced an expensive acquisition and poor corporate governance, in our view. Following the lack of progress of our engagements with the company last year and poor capital allocation from management, we decided to exit stock (and are currently no longer shareholders)
2) Cellnex (-15%) which was impacted by the rotation trade to value, and sold off strongly in the beginning of January.
3) American Water Works (-10%) was also impacted by the rotation to value. The company announced early February that its CEO Mr. Lynch retired from the company, and Susan Hardwick, who recently served as Interim CEO will replace Mr. Lynch.

STRONG GROWTH IN AUM CONTINUED

At the start of the quarter, the Kempen (Lux) Global Listed Infrastructure fund reached its three year track-record. Following the milestone, the growth in AuM has accelerated - reaching almost EUR 130m currently. As well as welcoming our new clients, we would also like to thank our existing clients for their trust in us.

CONCLUSION

Listed Infrastructure benefitted from its defensive characteristics, while the focus on energy independence and security pushed (gas) pipelines and renewables higher. For the rest of the year, we expect more supportive plans for the build out renewables and grid upgrades. The high inflation and supply chain disruptions remain a concern, and will need to be assessed carefully before investing – we find ourselves more closely questing companies new development plans. Regulation (based on real returns) and pricing power are important to remain focused on in this macro environment.

Furthermore, the reopening trade is gaining momentum. We expect toll road volumes to remain robust, while airports passenger numbers are already improving. By way of example, Aena (Spanish airport we own in the fund) showed March 2022 passenger numbers at almost 80% of 2019 levels. Easter is expected to be strong based on bookings, whilst leisure travel should continue its upward trend into the summer. Although geopolitical uncertainty will have an impact, including higher oil prices, we expect short-haul to perform decently given pent-up demand.

With inflation expected to remain elevated, we believe listed infrastructure is an attractive asset class given its pricing power (as long as interest rates do not move significantly more than the market expects). What is more, the tailwinds from the energy transition and digitalization are expected to accelerate – driving sustainable long term growth.