Kempen Global Listed Infrastructure

Q2 2022 – QUARTERLY UPDATE
JULY 2022

THERE'S SOMETHING ABOUT LISTED INFRA...

Let us take a look at the performance of listed infrastructure this year: remarkably so, it is still in positive territory whilst most other asset classes are down materially. So what has changed? Whilst the sector characteristics have remained, one can note that there has been a clear shift in investor preferences. Although the inflation protection offered by infrastructure has always been there, the relevance of hedging against rising inflation has suddenly become very relevant in the last couple of quarters. Similarly, the defensive profile of infrastructure has always been there, but now investors are more actively looking for ways to protect their portfolio.

In the last months we have seen a rebound in consumer demand after the lockdown period, new supply chain bottlenecks, and too the dramatic unfolding of the Ukraine crisis. All have contributed to a rapid rise in global inflation figures. It is not only the scale of the inflationary spike that is above expectations, but also expectations on how long inflation will actually prevail. Hence, the only thing 'transitory' about inflation was the economist's use of the word transitory.

Now macro concerns are moving along a familiar road: inflation concerns, leading to rate hike concerns, which in turn are leading to recessionary concerns. The latter is now debated in terms of shallow versus deep recession.

INFRASTRUCTURE VS INFLATION AND RECESSION RISK

Although infrastructure companies are not immune to recession risk, the sector has proven to be resilient in the current economic environment - just as it showed in 2008 too. The listed infrastructure sector is up more than 4% YTD, outperforming traditional equities. Infrastructure companies benefit from having pricing power in the market, their innate focus on energy security & independence, as well as defensiveness. We expect those trends to continue, although we do now take a more cautious view on cyclical infrastructure; trimming our exposure and reinvesting in infrastructure that is less exposed and reliant on economic growth.

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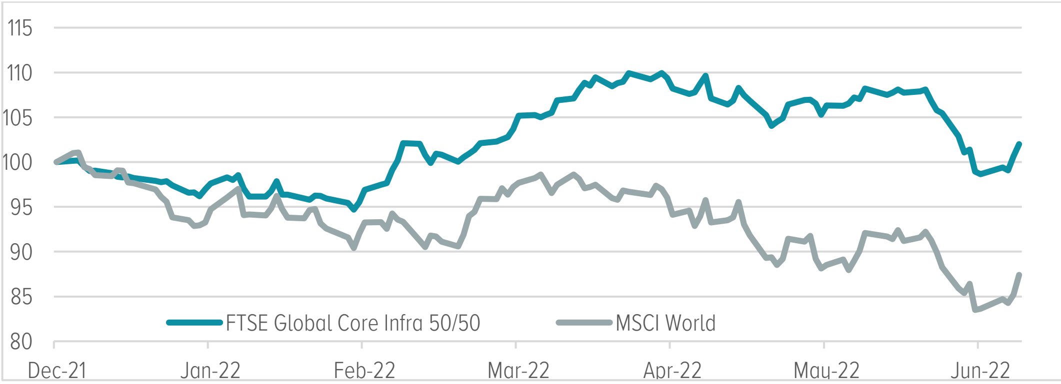
GLOBAL LISTED INFRASTRUCTURE HAS OUTPERFORMED GENERAL EQUITIES BY 18% IN 2022H1



Source: Kempen, FactSet, July-22

Inflation protection from pricing power

Generally speaking, the higher costs for labor, materials, and energy, the more pressure there is on companies' margins as they cannot increase revenues at the same pace. There are only a few industries / companies that have enough pricing power to offset this inflationary impact. The high barriers to entry, regulation, and concession agreements allow pricing of infrastructure services often to be linked (indirectly) to inflation. Most business models of infrastructure companies allow them to pass price increases swiftly to their clients. It is not a surprise therefore that in periods when inflation has exceeded 2.5%, listed infrastructure stocks have on average outperformed global equities.

Inflation protection is found in several infrastructure sectors that have pricing mechanisms designed into their contracts that offer inflation pass through. By way of example, we are invested in regulated utilities in Europe, **Terna** and **National Grid**. The regulation for these companies sets a real return, while inflation is added to get to a nominal return which is charged to the consumers. In addition, we have added **INWIT** to our portfolio, which is an Italian communication tower company with long-term contracts linked to the consumer price index.

Defensiveness from Stable Cash Flows

Investors' recession fears have triggered a material capital reallocation in the market to more defensive sectors. The listed infrastructure sector is no exception and is benefitting from this trend. It is made up of some large sub-sectors which are less cyclical; such as utilities and digital infrastructure, where revenues are less dependent on overall economic growth. For example, electricity networks and renewables which typically have long-term contracts, benefit from the stable income stream. Furthermore, take for instance tower companies, and their long-term contracts with telco's and which are not linked to volume (wireless data consumption).

Having said that, as tax payers' disposable income is ultimately negatively impacted by inflation pressure, we expect regulators to be focused increasingly on the customer bill. As the energy transition (which requires significant investment) will be funded via the customer bill, affordability is becoming increasingly important. A low electricity bill combined with a high average disposable income is preferred as regulators are likely to support the growth opportunities for utilities. With this in mind, we own utility companies like Entergy and American Electric Power. These companies have a lot of opportunities to decarbonize and optimize their portfolio, but at the same time their customer bill in their service territories are below average.

Energy independence / security to support growth

Heightened levels of geopolitical risk now means energy independence has become more significant. As a result, we expect the energy transition to be accelerated; enabling governments and the like to take key steps to become less dependent on traditional energy imports. This opportunity (or necessity) has pushed government bodies to offer attractive returns to investors willing to fund the transition. We have seen signs of this from the EU in their announcements on the RePowerEU plan, which in May of this year raised renewable ambitions for 2030 from 40% to 45% of the energy mix.

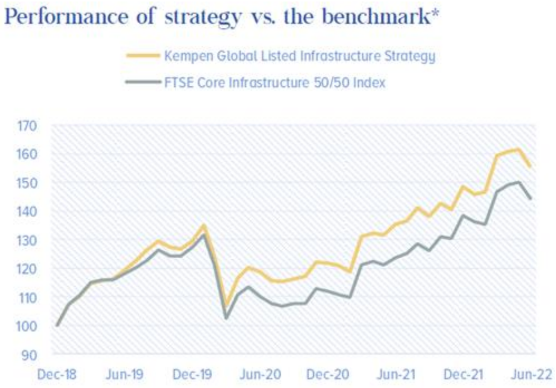
We expect the renewable sector to continue to follow a strong growth trajectory going forward, driven by a favorable regulation framework and the inevitable phase-out of the coal energy. Additionally, we believe an increased focus on sustainable investing will continue and be supportive to valuations. As such, we took a position in Acciona Energia earlier this year. Acciona is one of the biggest global operators which is exclusively dedicated to renewable energy.

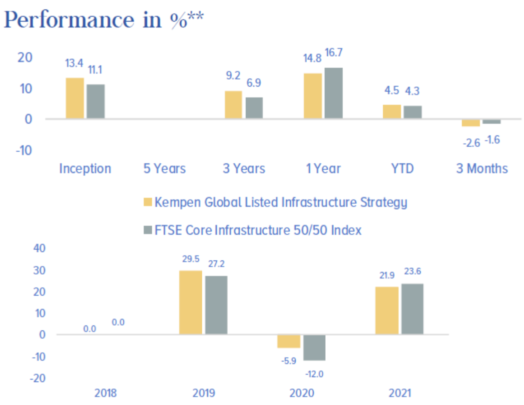
Geopolitical concerns are currently critical in the infrastructure investment landscape. The conflict in Ukraine has triggered an enormous hike in energy prices. Western Europe is challenged to diversify its energy supply source as the gas supplied by Russia will eventually be cut drastically towards the end of 2022. Setting up new energy supply sources will take years to come operationally online. In the short run, the access to US liquid natural gas is an alternative. Hence, we trust US gas pipeline companies have benefitted materially from the rally in energy prices, signing 20 year contracts for gas supply into Europe. We remain positive about the fundamental drivers of the investment case for companies like Cheniere and Williams.

FUND PERFORMANCE AND AUM UPDATE

The case for listed infrastructure has strengthened this year. In the first half of 2022, the Kempen (Lux) Global Listed Infrastructure fund was up 4.5% (gross, EUR), whilst global equities were negative (MSCI world all country index -13% in EUR). It illustrates the positive diversification benefits of that asset class in an investors' portfolio.

YTD, the fund has been slightly ahead of its benchmark, the FTSE Global Core Infrastructure 50/50. Since its inception more than 3 years ago, the fund is clearly ahead of its benchmark, see graph below.





Source: Kempen, Factset, BNP. Data as at 30/6/2022. The figures are gross performance, the effect of management fee and charges is not included. The level of the applied fees and charges will depend on the applied product structure and will have an effect on the net performance.

* The value of your investment may fluctuate. Past performance is no guarantee for future results.

** 2 January 2019 - 30 June 2022, annualised figures.

In terms of size, our journey continues its steady upwards trajectory: the strategy passed the €100m AuM threshold in January and grew above €137m by the end of June 2022. We thank our existing clients for their trust and are happily welcoming all our new investors .

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The information in this document provides insufficient information for an investment decision. Please read the Key Investor Document and the prospectus. These documents as well as annual report, semi-annual report and the articles of incorporation of the Fund are available free of charge at the registered office of the Fund located at 6H, route de Trèves, L-2633 Senningerberg, Luxembourg and on the website of Kempen (https://www.kempen.com/en/asset-management).

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