Private Markets Fund

QUARTERLY INVESTOR LETTER
AMSTERDAM, Q2 2018

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Kempen

DEAR INVESTOR,

We are proud that Kempen has successfully launched the Private Markets Fund on 2 May. The Fund combines four private markets asset classes in an open-end fund structure. As a private markets Team, we have the interesting challenge of sourcing investments that have an attractive return potential and offer sufficient protection. Examples include the focus on relatively less competitive market segments (such as life sciences venture capital and small buyouts within Private Equity) and on emerging institutional investment markets (such as agricultural land in New Zealand). In our investment process, we also look in particular at investments that offer a good answer to the broader global long-term challenges such as developments as aging, increasing health care costs, energy transition, climate and food scarcity. At the time of writing, we have completed the first 7 investments spread across all four categories; Private Equity, Infrastructure, Land and Real Estate. We will expand the portfolio further in the coming quarters. We thank you for your trust and hope that you will enjoy reading this quarterly update.

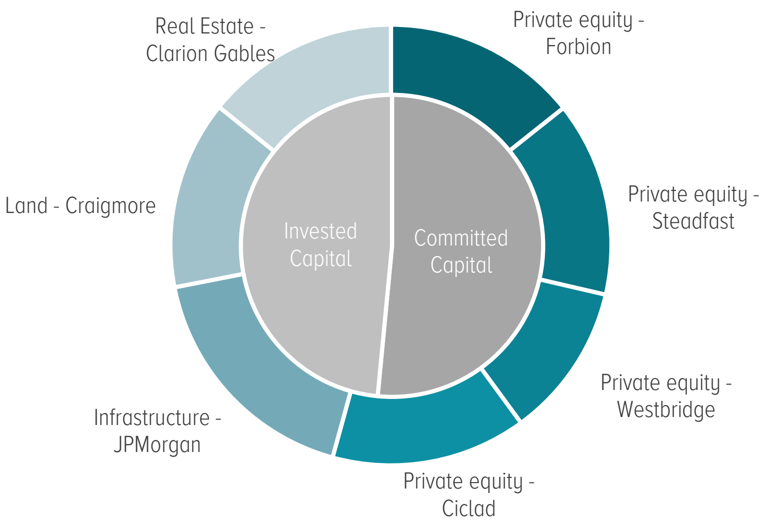
Portfolio activity

The Kempen Private Markets Fund was launched on 2 May and so, it has not yet completed a full quarter. Nevertheless, over the months in preparation of the launch, we have worked hard performing in-depth due diligence on various private markets General Partners (GPs). Up until mid-July, we were able to commit 94% of client committed capital to high-quality specialists.

Most of the capital commitments we made for the Fund were confirmed by GPs mid-July. We are therefore writing this update looking at a portfolio snapshot per mid-July instead of end of June, so as to be able to provide a bit more colour on actual investments. We note, however, that as the commitments were made until mid-July, we are unable to report a performance figure for the first period, as it is simply too early. As we all know, private markets investments are long-term, illiquid assets and it typically takes several years for the committed capital to be drawn and to be put to work in diversified private portfolios and to start generating returns. However, as we invest in a mix of closed-end and open-end funds, we have been able to put to work nearly half of the capital already, which should start to generate returns in the next few quarters. When we are further underway and the portfolio is up and running, we will be able to start reporting meaningful performance figures. This report employs data obtained from the underlying GPs.

€ 34.9 MLN COMMITTED CAPITAL

AS FROM MID-JULY 2018



Within Private Equity, we successfully committed to four GPs. Three of the private equity GPs are focused on the small-cap to lower-mid-market buyout market, where we prefer regional specialists. We have selected a France-focused buyout partner (Ciclad), a UK specialist (WestBridge) and a DACH (Germany, Austria and Switzerland) focused firm (Steadfast). The fourth private equity GP we added to the portfolio is Forbion, a venture capital specialist focused on life sciences. More details on each specialist will follow in the next few paragraphs. We note that all selected GPs are finalizing the fund raising process, so they will now focus on investing the committed capital in new deals. Interestingly, Ciclad already put to work 20% of the committed capital into the first two investments and they are finalizing two more investments at the time of writing. WestBridge, Forbion and Steadfast both are also negotiating their first deals, so we expect the first capital to be drawn and put to work by these partners in the coming two quarters as well.

Within Infrastructure, during the quarter, we invested in the J.P. Morgan Infrastructure Investments Fund, which is a non-listed global core plus oriented infrastructure GP. What is unique is the fact that the J.P. Morgan fund is an open-end fund and as such has an existing globally diversified portfolio of attractive infrastructure assets that generate yield immediately. Our capital was drawn and put to work fully by mid-July.

Within Land, we invested in the Craigmore Permanent Crop Limited Partnership, which focuses on the attractive New Zealand agricultural permanent crops market. Our capital was drawn and put to work by mid-July already whereby the capital will primarily be invested in three crops: kiwis, apples and wine grapes. More details can be found below.

Last but not least, within Real Estate, we subscribed to the Clarion Gables Multifamily Trust, an open-end fund with a mature portfolio of private multifamily apartment blocks, in high-quality area codes, mostly in the faster growing southern states. With these first six high-quality investments, we believe the Kempen Private Markets Fund is well-positioned to profit from future opportunities in the various private markets categories we cover.

Looking ahead

We are looking to further broaden the Private Equity portfolio. Specifically, we are looking into the Nordics and the UK at the moment. We also see good deal flow of direct co-investments and we are working on a direct co-investment in the UK health services sector which is scheduled to be signed in the third quarter. Further ahead we are looking at several venture capital technology specialists.

Within Infrastructure, we aim to add a complementary value-add specialist next to the J.P. Morgan Infrastructure Investment Fund, which pursues a core plus investment strategy. We still see interesting opportunities in exciting themes such as stabilization of the (renewable) energy grid, the rollout of fibre and the development of data centres within the communications sector, and new transport and logistics solutions for a growing economy. Value-add specialists take a more forward-looking (infrastructure of the future) approach than core GPs and may benefit more from the ongoing transition. In parallel, we are working on a direct co-investment in a greenfield wind park in Sweden, which is scheduled to be signed in the third quarter as well.

Turning to Land, we are aiming to add a global fund focused on both farmland and timberland going forward. This will further increase our geographic and crop diversification within this asset class. Hereby we look for a specialist with strong regional presence to be able to step into interesting investment opportunities across the globe effectively.

Within Real Estate, we are evaluating interesting opportunities within European niche classes such as student housing. Within two decades, purpose-built student accommodation (PBSA) penetrated the UK market by growing from low levels to a market share of nearly 35%. With the current trend of rising global student mobility, European and Asian universities have ramped up their offerings to international students with full English Bachelor’s and Master’s degree programs. A growing international student community will result in a growing demand for PBSA that is better tailored to facilitate easy bookings, secure environment and proximity to the respective universities.

FORBION

CHARACTERISTICS

GP	Forbion Capital Partners Fund IV
Structure	Closed-end
Focus	Venture capital - life sciences
Fund size	EUR 250 mln (target), hard cap of EUR 350 mln

The fund subscribed for EUR 5 million to Forbion Capital Partners fund IV. Forbion started as an independent company in 2006 as a spin-out from ABN AMRO Life Sciences. Forbion is one of the most experienced life science specialists in Europe.

Forbion primarily focuses on Europe, where most investments are expected in the Netherlands, Germany and the UK, but also makes some investments in North America. They operate out of two offices in Naarden and Munich and have representation in Boston (through a venture partner). Most of the core team members have been with Forbion pretty much since the start of the company in 2006. In our view, Forbion is one of the few specialists with a credible Pan-European life sciences franchise, combining strong academic networks with good financial networks, also in the US.

The focus is on drug development (90%), with on top a small allocation for MedTech investments (10%). Their attention for drug development is the result of the market opportunity and track record of Forbion. The focus is on drugs and treatments with positive health economic aspects, addressing substantial and unmet medical needs, providing improvements in the quality of lives, and lowering the overall costs of disease management. There is no specific bias for a particular field or disease.

They have managed to lower the average holding period compared to a typical life science investment

Forbion has a strong track record with some early exits, as a result of which they have managed to lower the average holding period compared to a typical life science investment. Besides traditional life science deals, Forbion has increased their focus on building companies around an existing asset. They seek to invest in the late preclinical to precommercialization stages, as close as possible to a value inflection point. The stage of investment depends on the type of deal (earlier in the Build strategy, later in the Growth strategy). Most of the deals are expected to be series A, B or C investments. The weighted average holding period has been relatively short for a life science investor. We like the way Forbion has managed this as it creates a more interesting value proposition for investors.

The focus is on drug development with on top a small allocation for MedTech investments.

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CICLAD

CHARACTERISTICS

GP	Ciclad VI
Structure	Closed-end
Focus	France, small buyout
Fund size	EUR 180 mln

The fund subscribed for EUR 5 million to Ciclad VI. Ciclad is a French private equity firm that focuses on the French small/lower mid-market. In general, the French small/lower mid-market is seen as more flexible than other market segments in France.

The company was established in 1988 as one of France's first private equity firms and currently operates out of two offices in Paris and Lyon. Since its foundation, Ciclad has managed five funds, and it is currently raising for fund VI. All Ciclad funds have used the same strategy and approach. Over the years, they have made 151 investments, 125 of which have been realized.

Ciclad has a well-defined process, applying their so-called 3D toolkit: developing leadership, delivering change and driving growth. It is expected that Ciclad VI will hold approximately 20 to 25 investments with a deal value ranging from EUR 3 million to EUR 15 million. Most of Ciclad's deals are primary deals in which companies are taken over directly from the original founder/families. Companies need to have an enterprise value of around EUR 5 to 50 million to fall within the Ciclad universe.

Ciclad VI currently has two investments in the portfolio (both primary deals) and has two additional signed deals (also primary deals). Furthermore, Ciclad is making significant progress with three other deals. The two deals that are already part of Ciclad VI are CinéChèque and Seat Ventilation.

CinéChèque is the leader in France in the field of ticketing solutions for cinemas. Currently, it is accepted in over 1300 movie theatres. The tickets are sold to works councils as well as to groups as part of marketing programmes. Renault dealers, for instance, present potential customers with a complimentary ticket.

Seat is a leader in the production of fans for corrosive environments (mainly used in laboratories), which is a very small niche market. Consequently, they benefit from the barriers to entry into this market segment. This is a succession case where some key people were retiring and Ciclad, therefore, had to find the right manager before doing the deal, which they believe they have done now.

CinéChèque is the leader in France in the field of ticketing solutions for cinemas.

Seat is a leader in the production of fans for corrosive environments.

STEADFAST

CHARACTERISTICS

GP	Steadfast Capital IV
Structure	Closed-end
Focus	DACH lower mid-market buyout
Fund size	EUR 300 mln (cap)

The fund subscribed for EUR 5 million to Steadfast Capital IV. Steadfast is a Frankfurt-based lower mid-market private equity buyout specialist focused on the DACH market (Germany, Austria and Switzerland). Steadfast was founded in 2001 and invested over EUR 300 million in 17 investments, 10 of which have been realized thus far. They are currently raising their fourth generation fund.

Due to its lower mid-market focus, the fund invests mainly in primary management buyout deals and sources most deals on either a proprietary or a limited competition basis through its vast network of regional M&A advisors. Steadfast invests in both domestic champions and export-driven businesses with defendable niche strategies and positive EBITDA margins and cash flows. The GP typically invests in businesses with strong management teams that require strengthening rather than replacements. Value is added by supporting management on strategic planning, supporting growth either organically or through add-on acquisitions, optimization of working capital and costs, and professionalizing governance, marketing and finance.

There are over thirty thousand SME companies in the DACH market

With this investment, the fund will gain access to the vast market of traditional German 'Kleine und mittlere Unternehmungen' (KMU or in English, SME). There are over thirty thousand SME companies in the DACH market. Many German entrepreneurs and family-owned businesses are opening up for private equity capital because of succession issues or the desire to expand the business internationally together with a trusted professional partner. With nearly two decades of presence Steadfast is well positioned. We believe it is a good opportunity to invest at the lower end of the market in primary (first-time ownership) buyout deals.

Steadfast's third fund is currently fully invested and they have already had two successful exits. We expect that the first deals for Steadfast Capital IV will come through in the second half of this year.

The senior members of the Steadfast team.

WESTBRIDGE

The Private Markets Fund subscribed for EUR 4 million to the WestBridge SME fund II. WestBridge was founded in 2008 by four highly experienced founding partners. They have an average of 27 years' experience in Private Equity. WestBridge is a relatively new launch, but they have a decent team size of nine investment professionals to cover the small buyout market in the UK.

CHARACTERISTICS

GP	WestBridge Capital SME fund II
Structure	Closed-end 10 year
Focus	UK, small buyout
Fund size	GBP 100 mln target

The first fund, which WestBridge launched back in 2012, is on track to triple the money (on a gross basis) for its investors and fund II has the same return target. We believe WestBridge's focus on the UK small buyout market positions them well to continue to generate attractive returns. The sweet spot enterprise value is relatively low; GBP 15 million to GBP 20 million. We believe this is an attractive market as there is a large pool of over 15,000 commercial companies available in this segment, while there are only a handful of private equity specialists active in this segment (i.e., limited competition for deals). The average entry deal multiple WestBridge pays for companies is relatively low compared to to mid-market private equity firms and large LBOs where deals tend to be priced significantly above 10 times EBITDA. We also like the fact that WestBridge focuses on operational value creation, as opposed to financial engineering. WestBridge aims to grow their companies together with the company management teams, which always have a big stake in the company as well. Although developments regarding Brexit may increase macroeconomic uncertainty in the UK in the upcoming years, WestBridge focuses on acquiring niche, B2B companies with demonstrable growth that tend to have less cyclical characteristics.

We also believe that Brexit may present WestBridge with potential opportunities as the level of competition for companies is decreasing significantly, especially from Pan-European players and foreign buyers who used to be active in the UK private equity market. WestBridge is currently finalizing their first deal for fund II, which should be closed during the summer. The first deal is a buyout together with the management team of a company active in the local UK healthcare sector with a defensive business model based on long-term contracts with trustworthy counterparties.

The senior members of the Westbridge team.

J.P. MORGAN

The Private Markets Fund subscribed USD 7.2 million to the J.P. Morgan Infrastructure Investments Fund. The fund is managed by a large, dedicated infrastructure team spread over two locations in London and New York.

CHARACTERISTICS

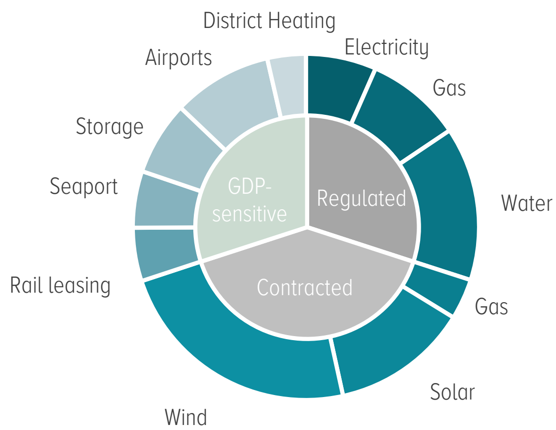
GP	J.P. Morgan Infrastructure Investments Fund (IIF)
Structure	Open-end
Focus	Core+ OECD
Fund size	USD 21,101 million GAV USD 9,437 million NAV

The J.P. Morgan fund is one of the largest global core infrastructure funds available in the market and it has a ten-year live track record. The fund has a high-profile institutional investor base consisting of some of the world's largest pension funds, insurance companies and endowments. As the fund is open-ended, the capital was drawn and put to work immediately in an existing globally diversified portfolio of infrastructure assets. The existing portfolio of infrastructure assets is currently worth USD 21 billion and consists of 14 investment platforms that together own 165 infrastructure assets across 13 countries and 8 sectors. The fund is designed to deliver stable returns with inflation protection, with a considerable portion of the return expected from cash yield over the long term, by investing in a broad range of infrastructure assets.

The portfolio allocated roughly a third to regulated assets (water, electricity and gas), a third to contracted assets (mostly renewable energy) and a third to GDP-sensitive assets (mostly transport and logistics). The fund deployed over USD 160 million during Q2 and continued to execute on its platform growth strategy through acquisition investments in Beacon Rail Leasing, North Queensland Airports and Southwest Generation. The so-called 'bolt-on' acquisitions are very much part of the IIF strategy to deploy assets by buying or creating new companies.

PORTFOLIO ALLOCATION

AS FROM MARCH 31, 2018



SPOTLIGHT ON KOOLE TERMINALS, J.P. MORGAN

One of the largest assets in the J.P. Morgan portfolio (almost 10% of the fund) is Koole Terminals. Koole was acquired in 2015 and is an international storage company providing logistics solutions. Handling the entire logistics chain for its customers, the company has major storage facilities sited strategically at five locations in the Netherlands, two in the UK and one in Poland. With a total capacity of over 2,000,000 cubic metres, its facilities allow the handling of a highly diversified base of products, including edible and vegetable oils, base oils, oleochemicals, nonhazardous chemicals, biodiesel, liquid agricultural products, fuel oil, middle distillates and gasoline.

With a total capacity of over 2,000,000 cubic metres, its facilities allow the handling of a highly diversified base of products

Koole also provides a wide range of ancillary services, including blending, mixing, heating, temperature control and quality control. Furthermore, the two Koole terminals in Rotterdam own a private, well-equipped railway for quickly loading and unloading cargo. To maintain its independence, Koole has its own locomotive that operates at the facilities. Obviously, this is just one example of a specific Dutch asset and as mentioned above, the portfolio is globally and broadly diversified.

Utilities

Power generation/renewables

Transport

CRAIGMORE

CHARACTERISTICS

GP	Craigmore Permanent Crop Limited Partnership
Structure	Closed-end 10 year
Focus	New-Zealand Farmland (permanent crops)
Fund size	NZD 250 mln (target)

The Private Markets Fund subscribed for NZD 8.35 million (EUR 5 million) to the Craigmore Permanent Crop Limited Partnership. Craigmore was founded by Forbes Elworthy and Mark Cox in 2008. The organization is fully focused on Land investments in New Zealand, where it has over NZD 600 million in assets. Craigmore is based in Christchurch (New Zealand) and has a satellite office in London (United Kingdom).

With the investment in Craigmore, the Private Markets Fund will gain access to the attractive New Zealand agricultural permanent crops market. Craigmore aims to invest alongside some of the leading growers, packers, processors and exporters of permanent crops in New Zealand. The focus is on permanent crops where New Zealand or certain regions of New Zealand have a cost of production and quality advantage over competitors. Given the population of New Zealand, the country is primarily an export market. The fund focuses on the three main permanent crop export products: kiwis, apples and wine grapes. Given seasonal effects, New Zealand mainly competes with other southern hemisphere countries like Chile, South Africa and Argentina (dependent on crop type).

For kiwis, they take an active approach, converting green kiwi orchards into gold kiwi orchards and in some cases organic gold kiwi orchards. Craigmore implements an own-and-operate approach, mostly in a JV relationship with some of the largest kiwifruit packagers in New Zealand (they currently work with Trevelyan's Pack and Cool). While the actual property management is outsourced, Craigmore bears the full operational risk as well as the upside.

Within apples, Craigmore adopted a flexible approach. Some of the investments are expected to be leased out, while other investments will have a participating rent (crop share model). Craigmore will be active in bare land development and variety conversions. Most notably, new orchard structures are considered with potentially much higher production per hectare.

For wine grapes, Craigmore leases the lands out to winemakers. Given the fact that winemakers need consistently high-quality production (New Zealand wines sell at the highest price after France), alignment of interests is safeguarded relatively naturally. For all crops, Craigmore works closely together with experienced operators, packagers and distributors.

SPOTLIGHT ON WAINUI ORCHARD, CRAIGMORE

Located near Edgecumbe, approximately 60 kilometres from Te Puke, Wainui Orchard totals 11.96 hectares with a canopy area of 10.33 hectares, predominantly under nets. With the construction of additional overhead net shelters, fruit loss and damage will be significantly reduced in the coming years. This has also enabled the canopy area to increase by 0.7 hectares to approximately 10.33 hectares. Craigmore is in the process of converting 100% of the orchard to organic gold kiwifruit.

Upon takeover, Craigmore immediately converted the remaining 1.56 hectares of green kiwifruit into gold G3 kiwifruit. Further rehabilitation work was also undertaken on a small block of one-year-old grafts and the remaining 7 hectares of gold kiwifruit, which have an overly dense canopy. Addressing this canopy issue will impact production for this current year, but with the benefit of higher fruit quality and quantity in future years.

The harvest of gold kiwifruit is now complete and this year, the quality of the fruit has been excellent with low levels of rejects and very high quality and Zespri taste scores, especially compared to the prior season. Yield was also much higher than forecast with a total of 82,879 class 1 trays or 11,739 trays/ha (compared to the pre-harvest crop estimate of 9,000 trays/ha). Pricing continues to remain strong with forecast prices for both green and gold drifting higher, now at NZD 5.70/tray for green and just over NZD 10 for gold.

The harvest of Gold kiwifruit at the Wainui Orchard.

CLARION GABLES

CHARACTERISTICS

GP	Clarion Gables Multifamily Trust
Structure	Open-end
Focus	Multifamily apartments US
Fund size	USD 2.1 billion NAV USD 4 billion GAV

The Private Markets Fund subscribed for USD 5 billion to the Clarion Gables Multifamily Trust. The fund is managed by a rather unusual partnership between a reputable US real estate specialist (Clarion) and one of the top brands in property management and property development in the south, Gables.

Gables is fully owned by the fund and hence its staff is fully aligned with the performance of the fund. Both Clarion and Gables were founded in the 1980s and they have formed a partnership since 2005. The fund runs a mature portfolio comprising 57 properties, all multifamily apartment communities, in high-quality area codes, mostly in the southern states of the US. Gables invests mainly in second-tier cities: cities with over one million citizens that are not part of the big gateway cities (New York, Los Angeles and Chicago). These are characterized by higher job growth, better affordability as measured by rent-to-income ratios and therefore higher rental growth prospects.

Gables invests mainly in second-tier cities: cities with over one million citizens

Almost all assets have been developed by Gables and cater for higher-end renters. Over the past almost two decades, Gables has built up a brand and expert knowledge on this renters-by-choice segment, which fits well with secular trends towards the high-quality urban lifestyle of these renters. The fund's development activities are expected to be a significant value driver in this fund. The current development pipeline equals USD 833 million in gross value (a fifth of current GAV), looking to be stabilized between now and 2020.

Gables Brookhaven

Gables Buckhead

MANAGEMENT AND ADMINISTRATION

Fund structure	Luxembourg SICAV Reserved Alternative Investment Fund ('RAIF')
Management company	Kempen Capital Management N.V. (AIFM)
Management team	Sven Smeets, Richard Jacobs, Marvin de Jong, Edzard Potgieser, Bram Bikker
Administrator/depositary	J.P. Morgan Bank Luxembourg S.A.
Auditor	PricewaterhouseCoopers
Legal advisor	Elvinger Hoss Prussen
Eligible for:	Professional and/or well-informed investors only

SUBSCRIPTIONS AND REDEMPTIONS

Subscriptions	Quarterly, 10 business days' notice before quarter end
Redemptions	After a 3-year lock-up period, quarterly liquidity on best-effort basis (90 days' notice)
Minimum investment	€ 125,000.-
Subscription charge	None
Redemption charge	None
ISIN Code EUR	Kempen Private Markets Fund Klasse FC EUR: LU1789511141
ISIN Code GBP	Kempen Private Markets Fund Klasse FC GBP: LU1789511224

FEES AND EXPENSES

Management fee	0.55% p.a.* (>10 mln commitment)
	0.80% p.a.** (<10 mln commitment)
Taxe d'Abonnement	0.01%
Service fee	0.17%
Performance fee	None

Only 0.40%*/0.55%** management fee per annum for a period ending on 2 May 2023 for investors committing in the first year after launch

CONTACT

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