JN Asia Infrastructure Fund SP

Newsletter Quarter Ending 30th November 2020

Dear Investor,

This is the quarterly newsletter of JN Asia Infrastructure Fund ("the Fund" or "JNAIF") for the period ending 30th November 2020.

The quarter saw a confluence of positive news flow particularly successful trial of COVID-19 vaccines with likely application in early 2021 and removal of the US elections overhang, addressing key market concerns. This led to a broader rally across Asian equity markets and currencies as well. We also saw some sector rotation out of China tech (post the failure of Ant Financial IPO) to old economy sectors and also to ASEAN markets. Sectors related to '*Work from Home*' theme gave way to the '*reflation trade'* as the commodities continue on their upward trajectory.

JN Asia infrastructure fund performed strongly for the quarter; **going up by 12.5% (gross).** Our portfolio is well poised to benefit from the broader re-opening of the Asian economies. The fund has always focused on owning quality assets that are based on the themes of "*mobility and community*". Covid-19 had a disproportionate impact on these aspects of our society but these intrinsic human traits do not change and have lasted similar events in past. We believe "mobility and community" related activities, assets, businesses, were artificially depressed and should continue bounce back as prospects for the vaccine improve.

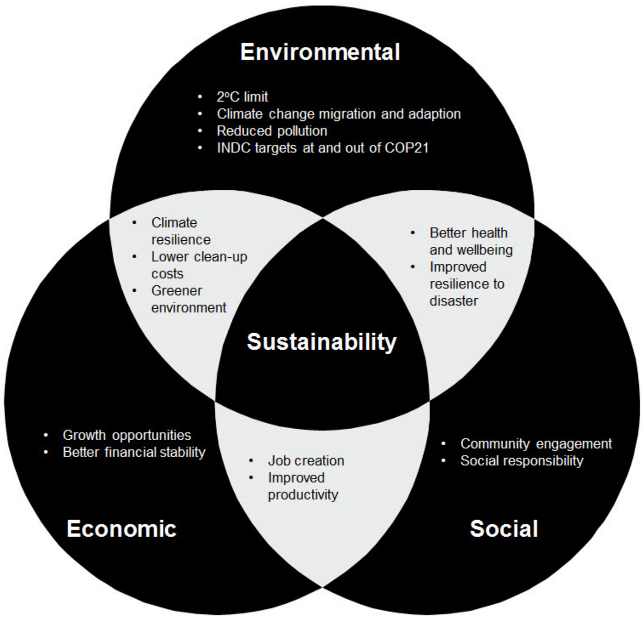
In this newsletter we focus on integration of sustainable investment and ESG within infrastructure sector and how we incorporate the same in JN Asia Infrastructure Fund. At JNAIF, we believe sustainable investing is not an impediment rather it is a facilitator for generating superior fund returns. It is deeply ingrained in our fundamental bottom-up investment approach. We endeavour to stay at the forefront and remain best-in-class responsible investor.

What is sustainable Infrastructure investment?

Globally, infrastructure investments total more than US$2.5trn annually and are expected to double in next 10 years. These investments are a catalyst to boost demand, bring inclusive growth, improve social-economic metrics.

We believe *'sustainable infrastructure investments"* are those that have a positive environmental and social impact, and also provide sustainable economic returns. In the long-run sustainable investments can tilt the balance of various social and environment aspects favourably. This asset class is highly in demand in the unlisted space and now, slowly listed markets are catching up with that trend. The asset class is less correlated, offers stable returns and provides needed diversification.

Chart 1: Sustainable infrastructure investment



Source: Norton Rose Fulbright

On the environmental impact, sustainable infrastructure investments can have two primary styles. **One, *cleaner sources of energy*** like renewable energies. **Second, *efficient usage of energy*** in terms of efficient transport, water and gas supply systems, smart city projects, etc. We evaluate the carbon footprint of investments

across the life cycle and stay away from polluting infrastructure assets and energy inefficient businesses.

For example, coal-based power plants carry high regulatory risks with even emerging markets like Philippine banning new coal-fired power plants. Similarly, Siemens and GE are also exiting the coal-fired power plant business. At the other end, sectors like renewables, waste management and recycling companies have favourable tailwinds of regulatory framework.

On the social impact, **infrastructure investments significantly improve the social quotient of the society**. It enables development of the region by adding jobs and increases overall economic activity. It also enhances quality of life, and promotes an effective and efficient use of resources (natural, energy or financial). This makes social infrastructure like, schools, healthcare facilities, social accommodations, environment protection businesses (like waste management) and other broader social welfare infrastructure assets an essential part of sustainable infrastructure.

No investment is sustainable if it does not lead to economic returns for investors. Sustainable infrastructure investments require strong public policy leadership and responsive private sector entrepreneurship. Union of long-term vision, clear regulatory framework and necessary incentives are required to make projects viable and hence sustainable.

This can also include disincentives for non-sustainable infrastructure investments.

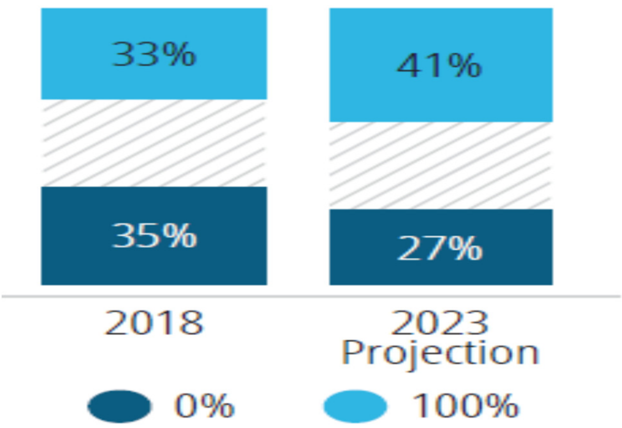
According to Fitch ESG rating study, ESG often drives value by boosting the long-term valuation of a company, improving its financial performance as well as lowering its cost of financing and its operational costs. Businesses that sustainably solve problems for people and the planet are more attractive to investors, talent and society.

Lastly, we need to assess what is sustainable infrastructure in context of the country's stage of economic development. Sustainable investments in one part of the world might not be sustainable in other countries, depending on the level of economic development. E.g. energy consumption or greenhouse gas emission per capita in India is 1/3 of the global average. This does not make India any better than peers, it simply implies that India could stay energy hungry for the next few decades. Capping energy consumption might not be a viable option for India. Rather, India's sustainable goals could focus on affordable, cleaner and efficient energy sources and use.

What are the key ESG opportunities and challenges in Infrastructure investment?

ESG opportunities and challenges, both are equally critical to infrastructure investments. ESG funds globally are reaching US$1trn however, only 1.3% of that is invested in Asia ex Japan. As we can see from the charts below ESG polices are gaining ground and are appreciated by all stakeholders.

Chart 2: Proportion of Fund Managers Implementing ESG Policies



Source: Preqin Fund Manager Survey, June 2018

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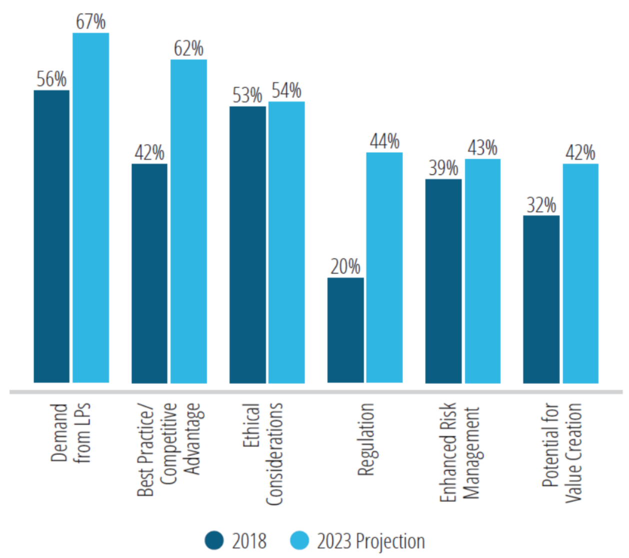
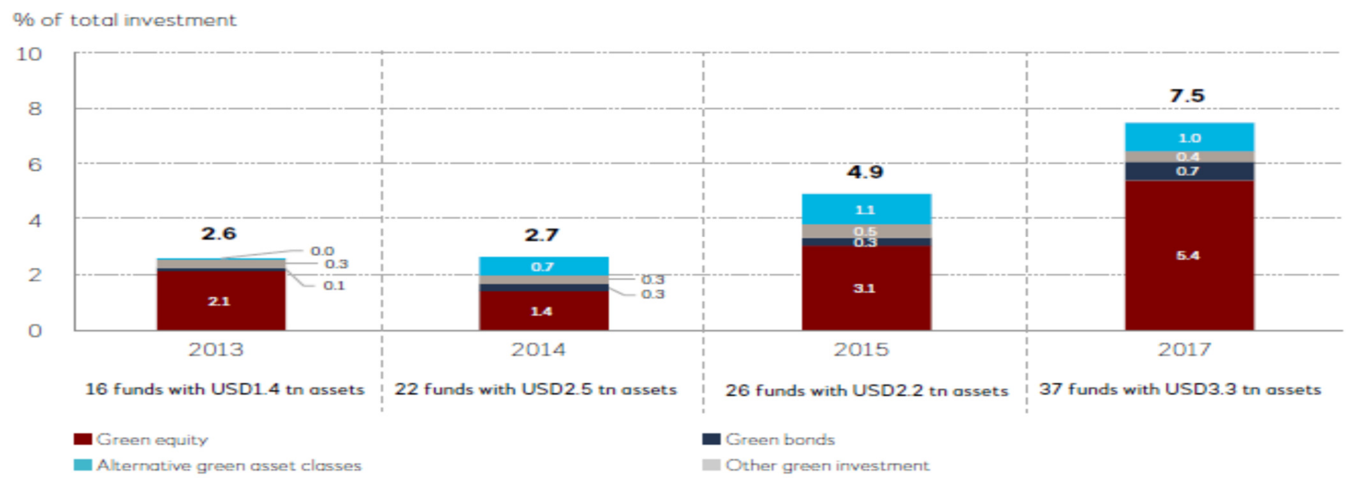
Chart 3: Drivers of ESG Monitoring for Fund Managers



Source: Preqin Fund Manager Survey, June 2018

Capital allocation to green investments has been steadily increasing for institutional investors and now forms more than 7.5% of their portfolio allocations.

Chart 4: Capital Allocation of Large Pension Funds to Green Investment Assets



Source: OECD Annual Survey of Large Pension Funds and Public Pension Reserve Funds, 2014, 2015, 2018, 2019

ESG remains a broad topic and still evolving. Any narrow or rigid approach may not lead to right results. In this letter we intend to cover two topics, A) lifecycle impact and B) focus on energy chain.

A) To understand the ESG impact we need to focus on the **life cycle impact of infrastructure assets**. The life cycle impact includes all aspects of assets' development, operation and disposal (viz. closure of mining sites, nuclear power plants, battery disposal in Electric Vehicles), with focus on environment, social and human factor

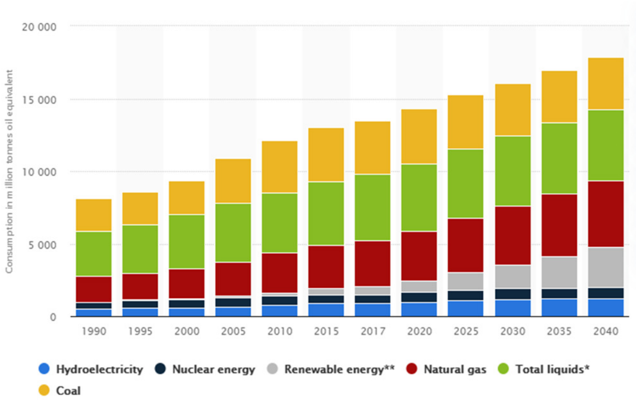
It also includes aspects like land acquisition, any resettlement or community engagement issues, environmental impact studies, net carbon impact including sources of raw materials and overall resource utilisation. One has to particularly focus on the human element to avoid exploitation or reputation risk. Lastly, this includes sustainable sources of financing like Green Bonds. Pricing of carbon credit has to be adequately high and will play a crucial role across life cycle business impact.

B) We believe there is a significant opportunity across the energy value chain primarily focussed on the **twin pillars of *renewable sources of energy and energy efficiency***. As mentioned earlier, de-carbonisation is a slow and sure long-term opportunity that investors should be aligned towards but same stay aware of the pitfalls.

The **first pillar** is sustainable infrastructure investments in **clean energy**. World energy composition stands at a colossus 10% of GDP or US$8trn. However, even in 2020, only 13% of world energy consumption is renewable (plus

hydro) with another 24% sourced from natural gas. Coal and Oil are account for 59% of energy consumption. Over the next two decades demand for energy is expected to grow at 1% CAGR with renewable reaching 23% market share. Coal and Oil would still account for massive 47% energy consumption

Chart 5: Projected energy consumption worldwide from 1990 to 2040, by energy source



Source: Statista 2020

As shown above, energy transition is a crucial challenge for the world. We believe, **gas-based economy is the key intermediate solution for the carbon transition over the next two decades**. Natural gas reduces carbon emissions by 40-50% when switched from to coal and oil. By 2040, based on latest technological advancements, green hydrogen may become viable. Blue hydrogen at best is an intermediate solution over next two decades, and is also sourced from natural gas. Share of Natural gas in energy consumption will broadly stay flat to rise marginally at around 25% over the next two decades. With demand growth coming from Emerging markets like China and India.

The **second pillar** is investment in **energy efficiency,** which can be measured as energy consumption as a % of energy supply. Globally, this is still at 70% thus offering scope of improvement. Particularly, transport, that forms 25% of energy consumption and typically runs at 30-40% energy efficiency. Even, electricity (which is 15% of energy supply and 20% of global energy consumption) runs at 35-50% energy efficiency for thermal based power plants. The International Energy Agency estimates that 40% of greenhouse gas emission reductions needed for the Paris agreement can be achieved by increasing energy efficiency. We saw a similar trend since 1970s from improvements in car fuel efficiency as crude oil prices moved up sharply. **Assets working on shared mobility, smart grids, storage and fibre networks are critical for energy transition and efficiency.**

3) What is the fund's approach towards ESG and sustainable investing?

We follow a holistic and cohesive approach of absorbing the best practices with regards to Environmental, Social and Governance (ESG) and Socially Responsible Investing (SRI) policies. We believe, superior long-term returns are created by investing in companies with better ESG and sustainability policies.

We do not believe in foregoing fund performance for higher ESG score. At the same time, we do not sacrifice ESG for higher near-term fund performance. We seek to find companies that have alignment of interest between shareholder returns and stakeholder returns which includes - employees, suppliers, social and environmental impact, etc.

We believe, **our sustainable infrastructure investment fall under two buckets 1) energy efficiency enablers** which include infra assets that by nature have shared/collective usage leading to energy efficiency in areas of mobility and connectivity and 2) **social or environmental enablers** includes healthcare, waste management, educational assets.

Roughly, 50% of our investment fall under *energy efficiency enablers*. Another 45% of our portfolio can broadly be clubbed under 'social or environmental enablers'.

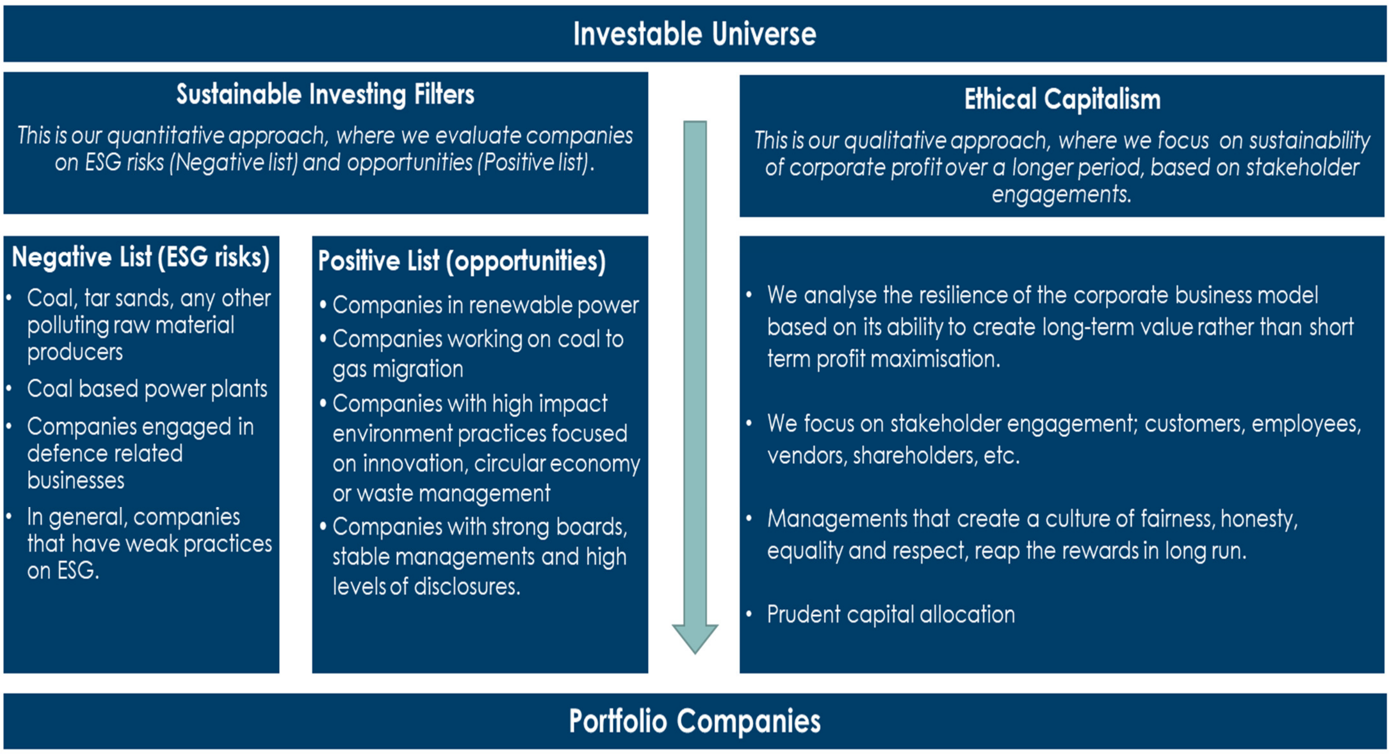
Table 1: JNAIF portfolio representation on sustainable investing framework

Energy Efficiency Enablers	**50%**
Airport and Ports	*10%*
Toll roads	*10%*
Logistics (logistic solutions)	*15%*
Public transport (MRT, Bus services)	*5%*
Energy Transition Enablers (Gas Utilities)	*10%*
Social or Environmental Enablers	**45%**
Health Care Facilities (Hospitals, Diagnostics, Age care)	*15%*
Waste Management Services	*10%*
Digital Infrastructure (Towers, DC, Fibre)	*10%*
Social Facilities (Educational facilities and accommodations)	*5%*
Industrial Infrastructure (Green Buildings)	*5%*
Others	**5%**

Source: JNAIF portfolio

As detailed below, we use qualitative and quantitative aspects to filter the investment ideas from our investable universe.

Chart 6: JNAIF sustainable investing framework



Source: JNAIF

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JNAIF portfolio snapshot at end of Nov 2020

Country Allocation	Portfolio %
China	17.5%
India	16.4%
Australia	14.3%
Singapore	11.5%
Thailand	5.6%
New Zealand	5.4%
Hong Kong	5.2%
Indonesia	4.9%
Taiwan	3.9%
Malaysia	3.8%
Philippines	3.4%
Cash	8.0%
Emerging Markets exposure	**55.6%**
Developed Markets exposure	**36.4%**

Sector Allocation	Portfolio %
Health Care Facilities	16.2%
Industrial Real Estate	14.5%
Highways & Railtracks	13.1%
Air Freight & Logistics	9.7%
Waste Management	9.5%
Airport Services	9.1%
Gas Utilities	7.9%
Telecom Services	4.9%
Education Services	2.5%
Others	4.7%
Cash	8.0%

Disclosures

The information and statistical data contained herein have been obtained from sources, which we believe to be reliable, but in no way are warranted by us to accuracy or completeness. We do not undertake to advise you as to any change in figures or our views.

This is not a solicitation of any order to buy or sell. We, any officer, or any member of their families, may have a position in and may from time to time purchase or sell any of the above mentioned or related securities. Past results are no guarantee of future results.

This report includes candid statements and observations regarding investment strategies, individual securities, and economic and market conditions; however, there is no guarantee that these statements, opinions or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact.

JN Asia Infrastructure Fund is committed to communicating with our investors as candidly as possible because we believe our investors benefit from understanding our investment philosophy, investment process, security selection methodology and investor temperament. Our views and opinions include "forward-looking statements" which may or may not be accurate over the long term. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate. The information provided in this material should not be considered a recommendation to buy, sell or hold any particular securities

Cumulative Returns	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	Launch
Fund (Gross of Fees)	15.02%	12.53%	4.23%	8.22%	24.27%	27.06%	27.16%
Fund (Net of Fees)	15.91%	10.91%	0.85%	4.34%	18.21%	19.31%	19.25%
MSCI Asia Pacific Ex-Japan Index	9.02%	8.82%	12.51%	18.78%	26.42%	12.34%	10.90%
MSCI Asia Ex-Japan Infra Index	7.63%	0.90%	-9.79%	-6.55%	-4.99%	-11.58%	-12.21%

*2017part year from 8th November 2017 (Inception Date). ^ Till 30th November 2020

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