JN Asia Infrastructure Fund

Newsletter March 2021 Quarter

Dear Investor,

This is the March 2021, quarterly newsletter of JN Asia Infrastructure Fund ("the Fund" or "JNAIF").

The quarter saw robust performance across the broader Asian market. Asian equity indices moved up driven by the Chinese Internet names aided by tech names from Korea and Taiwan. Unlike the previous quarters, market breadth was narrow driven by massive China Southbound flows, that drove the large cap Chinese tech names listed in Hong Kong market. On other hand, resurgence of COVID cases in a number of countries in Asia along with the logistics difficulties of vaccine distribution, dragged the performance of '*Reopening trade*' - in particular the ones related to cross-border travel. This largely explained the outperformance gap between North Asia vs. South Asia/ ANZ/ ASEAN countries. JN Asia Infrastructure Fund performed reasonably well for the quarter.

As we move into the spring of 2021, vaccination drive is picking up in many countries. The initial signs are positive as vaccines have been able to reduce both hospitalisation and mortality rate. We expect, the ongoing vaccination drive will lead to a gradual pick up in mobility within these countries and also between countries with higher share vaccinated population. **We are positive on a pan Asia Pacific recovery with a bias towards South East Asia by end of third quarter of 2021.**

We expect, by then a large portion of Asian population will be vaccinated and starting to show results in terms of reduced hospitalisation and fatality. This will prompt governments to open border and economies with life returning back to a new normal in the later part of this year. While we don't claim any expertise on this subject, however, based on the current evidence we expect **mortality rate can see a sharp decline which could catalyse government confidence in opening economies**.

In addition to that, further fiscal stimulus in the US and easy monetary policy by most central banks will help further economic recovery.

Covid-19 had a massive positive demand effect on durable goods and commodities. We expect that to reverse with an even stronger positive swing towards service sector once cross-border travel starts.

We expect, the switch from '*Work from Home*' theme to the '*reopening trade*' sometime in summer of 2021. This is the primary focus of this quarterly newsletter.

Our portfolio is well poised to benefit from the broader re-opening of the Asia Pacific economies. The fund has always focused on owning quality assets that are based on the **"*mobility and community*" theme**. 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 could bounce back as prospects for the vaccine improve.

At same time, we are wary of the three significant and perceptible risks on the horizon, which may particularly impact growth sectors or stocks not backed by earnings or cash flow improvement. We are apprehensive that currently a large sub-segment of investors is overly optimistic and their behaviour is reminiscent of something we had witnessed in 1988, 1999 or 2008 prior to major market dislocation. We are seeing signs of exhaustion and increased volatility in those market segments which are typically a precursor to large market corrections.

These risks are, a) **Inflation surprising on the higher side, leading to higher bond yields**. Initially this could be positive for equities. However, the prospect of tapering down monetary stimulus can create market dislocation at a later stage. At our fund we tend

to avoid 'Bond proxies' and the matured utility plays that are at risks from rising bond yields. Most of our holdings have pricing power to improve revenue and profitability in an inflationary environment.

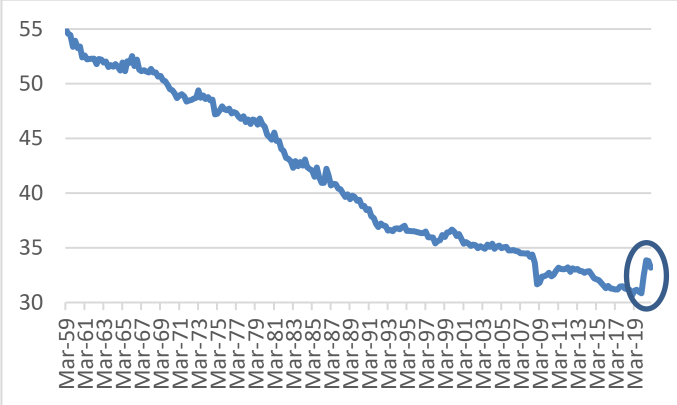
b) China's full-scale recovery and a surge in debt/ GDP in 2020, may prompt **PBOC to unwind easy monetary stance**. They showed their intent by withdrawing liquidity in recent past as well as reduction in issuance of 'Special purpose' local govt. bonds. History suggests this could be painful for equity market. We believe, China could lead the global markets in the next monetary tightening cycle.

c) **Anti-trust moves against big-tech companies** in China starting with Alibaba/ Ant-Financials. China's recent regulations on on-line lending are quite restrictive. There have been sporadic incidences of opposition by individual governments (Australia) against tech giants, these could snowball into greater scrutiny/control on these corporations.

Are we ready for a monumental shift from goods consumption towards services? What are the investment implications?

Over the past 60 years, an uninterrupted trend has been the shift from consumption of goods to consumption of services. Even though there have been some short-term reversals but the trend has sustained that of increasing share of services in the consumption basket. This is a natural evolution of growth in any economy where the society increasingly moves towards services or experience based consumption while goods consumption remaining stagnant. The same trend is visible when income level of a household goes up, the share of essential goods and subsequently durable go down, while share of services in the consumption basket goes up.

Chart 1: 60 years of US goods consumption as % of Nominal GDP



Source: Bloomberg

As we can see from the chart above; COVID-19 has led to one of the most dramatic reversals in this trend in the past 60 years, where share of goods increased at the cost of services. As the service sector involves human mobility and touch like travel, tourism, healthcare, outdoor entertainment, corporate interactions, site visits, etc; COVID-19 dealt a body blow to many key parts of the service sector.

Broadly, on a USD 85 trillion global economy, ***a 4% shift resulted in more than a USD 3trn negative impact on services sector in 2020 in favour of goods sector.*** Goods consumption was further accentuated by the combination of large fiscal stimulus (viz. various job protection schemes) and very low interest rates.

While confined at home, increase in share of goods consumption, led to demand surge in a vast swathe of items starting with toilet rolls, consumer staples, grocery items, healthcare products, home improvement, consumer electronics. This further morphed into big ticket items like automobiles, new homes etc as the smaller ticket purchases got consummated.

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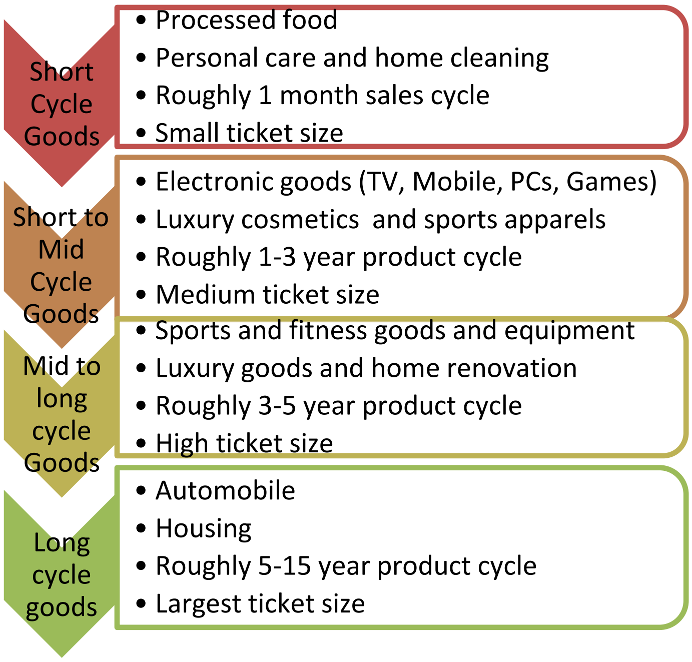
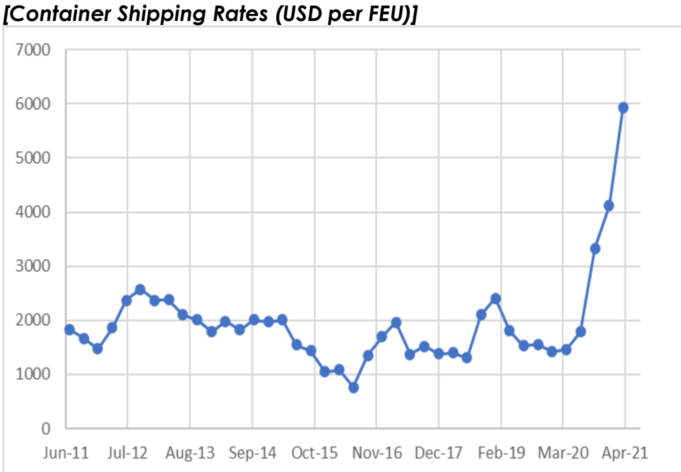
Chart 2: Sequence of consumption pattern during COIVD-19 lockdown period



Source: JNAIF

This is well captured by the container freight rates, which are at an historic high. No other chart better reflects the 'service' to 'goods' consumption switch.

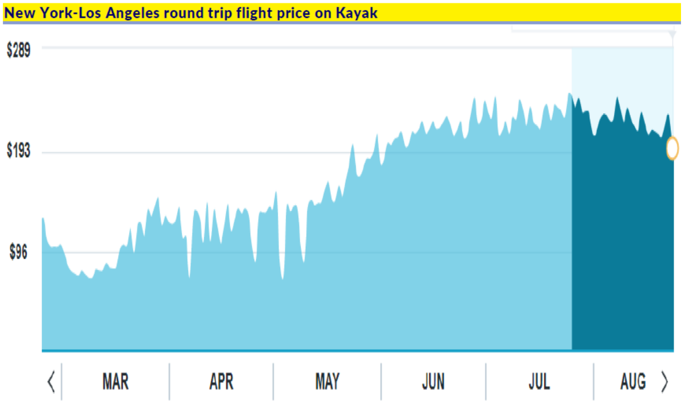
Chart 3: Drewry Hong Kong to Los Angeles Container Rate [Container Shipping Rates (USD per FEU)]



Source: Bloomberg, Drewry Shipping consultants

However, we expect, we are going to see something similar in Airline ticket prices in the coming quarters. And, that will reflect the true reversal back to services sector from goods sector.

Chart-4: Airfare fare contango of 100% in NY-LA route



Source: Kayak

Investment implications

As we discussed in previous newsletters, a large section of investors is struggling with the **'recency bias'** which is further amplified by low interest rate environment. They firmly believe that the current high multiple ascribed to the fast growing, new economy companies are a permanent feature despite many of them having no path to profitability or cash flows. Opening up of the economies, and a nasty surprise in inflation can give a rude jolt to these investors.

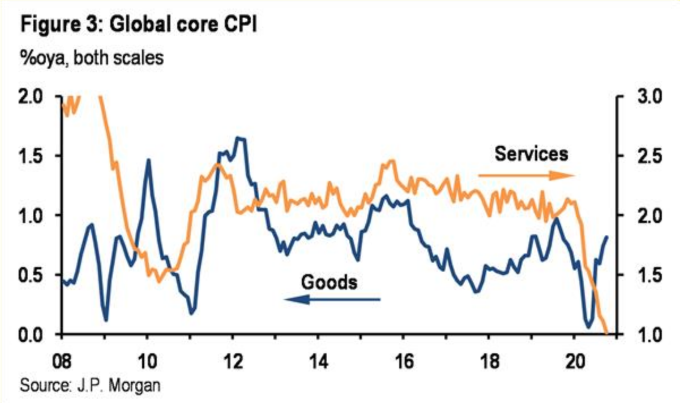
Interestingly, at same time, we believe that the market is not yet ready for the biggest travel explosion in past century which may unfold starting later this year. As vaccination drive accelerates and vaccine stamped passports becomes more acceptable, international borders are likely to open up. This will jumpstart an explosive travel growth - something we have not seen even in distant past. The travel surge post-Sept'2001 attack or 2003 SARS virus, will look a small blip compared to upcoming travel binge. **The uplift in in spending towards service sector will be a much bigger surprise to investors than the increase seen in ecommerce spending and online activities during 2020.**

Also, services sector expansion will have a bigger multiplier effect on job creation. Job creation will be further accentuated by real estate and infrastructure build-out. In

comparison, increase in goods consumption had a marginal impact on employment and wage growth.

However, this will also bring higher inflation in the economy. As shown in the graph below, while goods inflation is moving up, service inflation has been subdued. Thus, when service sector starts firing up in latter part of the year, an additional fiscal stimulus in the US or other developed countries may lead to above trend line inflation, for which the market may not be prepared.

Chart 5: Global Core CPI may move up as service sector opens up



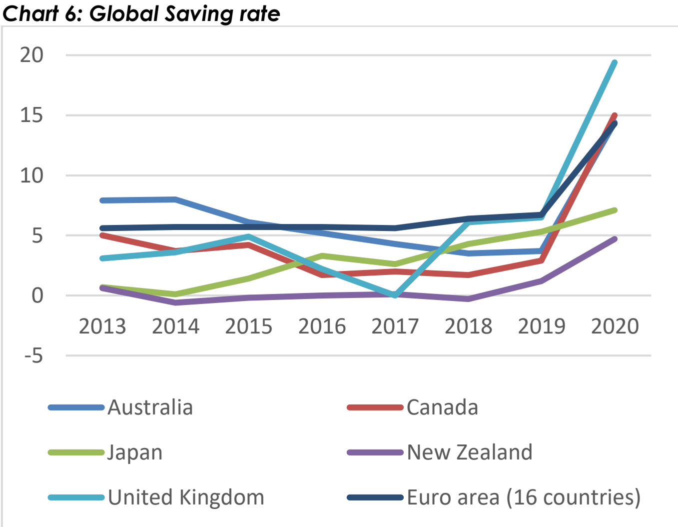
We believe the service sector will not only get back the 4% share it has lost to good consumption, but it may also see a further temporary swing of another 3-4% in favour of services consumption. Since the consumption of durables by nature is one-time (viz. average life of car is 10 years, smart phone is 2-4 years, home purchase is 15-20 years), there could be temporary drop in 'goods' consumption in favour of 'services.

On top of that, we have a rebound in *World real GDP growth at 5-6% in 2021 and an above trend line inflation at* 3-4%. **Thus, we would see a nominal World GDP growth of 8-10%, similar to what we witnessed in 2010, one year post GFC.** A swing of 7-8% towards consumption basket on a GDP that is seeing rapid expansion; could imply an ***incremental impact of USD 6-7 trillion in favour of service sector***. This is more than 2x the impact we had seen in 2020 in favour of consumption of goods.

We need to juxtapose this scenario with two other key aspects - a) **higher saving rate** for households due to historic level of fiscal stimulus in developed countries (estimated at USD 3 trillion) and lack of spending avenues, b) **unprecedented wealth effect** from all-time high asset prices driven by synchronised global stock recovery, commodity inflation as well as upsurge in housing prices. Both aspects are related; higher level of fiscal stimulus initially led to higher goods consumption and, lesser avenue of spending in service sector led to higher savings, which in turn went back into the stock market. We believe re-opening of economy will see a profound impact of these factors in accentuating spending in service sector.

Lastly, wealthy people, largely remained unaffected by COIVD-related job disruption, have seen a bigger rise in their wealth in the current zero rate regime. For them, goods are a much smaller portion of consumption basket compared to an average household. For them, the experiential consumption (viz. cruise line, concert, destination trips) was not possible due to COIVD-19. Thus, when the pandemic recedes, the experiential consumption will surge in an unprecedented manner. This in turn will push up the share of service sector in the economy and related asset classes will benefit.

Chart 6: Global Saving rate



Source: Bloomberg Intelligence

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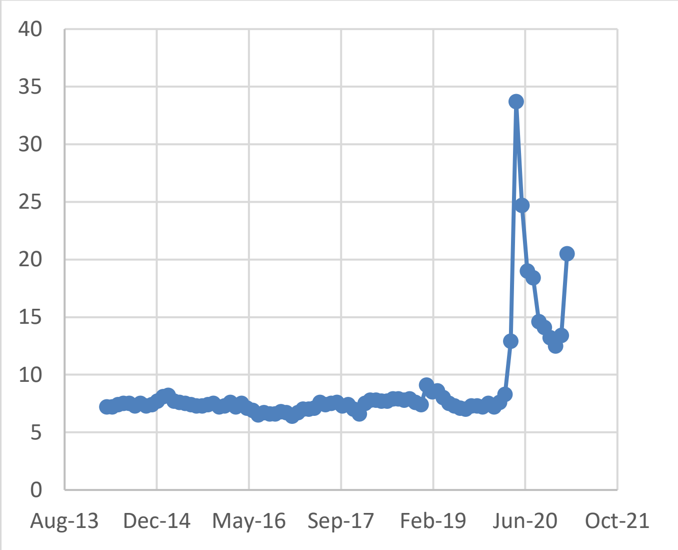
Chart 7: US Personal Saving rate

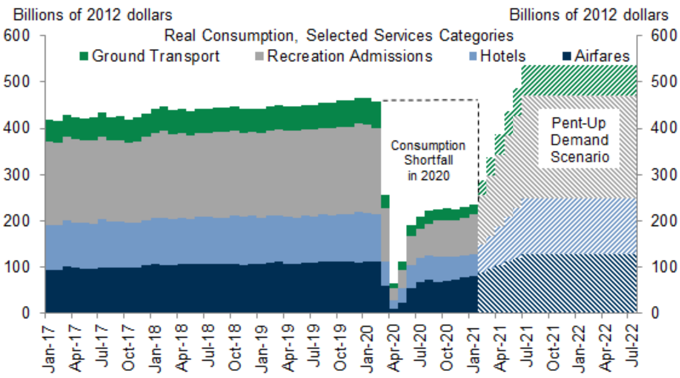


Source: Bloomberg Intelligence

How are we positioned?

A large part of Infrastructure assets is dependent on *mobility and community* of human beings and these two key services were impacted by COVID. Lack of movement and absence of any form of gathering, led to underperformance of travel & tourism, live events, sit-in dining, student accommodation etc.

Chart 9: Pent-Up Demand Could Boost Consumption of Travel and Recreation Above Pre-Crisis Levels After Restrictions End



Source: Department of Commerce, Goldman Sachs Global Investment Research

In 2020, while spending turned away from services and went towards goods, certain set of companies started over-earning and while others were under-earning. We believe, when economy and international borders open up, the extent to which the service sectors will over-earn, may come as a big surprise to the investors.

We continue to have a large exposure to ***'mobility' and 'community'*** related segment of the economy. While we may avoid the high beta exposure like airlines, cruise lines or hotels, we are happy to participate in the same event by owning long term secular assets like ***Airports, toll roads, student accommodation, medical tourism and public transport***. Cumulatively, about 70% of our portfolio will have a positive impact from the re-opening of economy and revival of service sectors.

Table 1: JNAIF model portfolio: 'reopening trade' & 'reflation trade'

High Impact from Re-opening trade	**40%**
Healthcare infra (Medical tourism, Diagnostics, Age care)	*15%*
Airports	*10%*
Toll roads	*10%*
Public transport (MRT, Bus services)	*5%*
Medium Impact from Re-opening trade	**30%**
Logistics & warehouses	*15%*
Waste Management Services	*10%*
Social Infra (Educational and Student accommodations)	*5%*
Neutral Impact to Re-opening trade	**30%**
Digital Infrastructure (Towers, DC, Fibre)	*10%*
Gas Utilities and Ports	*10%*
Industrial Infrastructure	*5%*
Others	*5%*

Source: JNAIF portfolio

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JNAIF portfolio snapshot at end of Feb 2021

Country Allocation	Portfolio %
Australia	21.1%
China	20.0%
Singapore	11.6%
India	10.9%
New Zealand	6.9%
Hong Kong	6.5%
Thailand	5.1%
Taiwan	4.1%
Indonesia	4.0%
Malaysia	3.8%
Philippines	3.3%
Cash	2.9%
Emerging Markets	**51.0%**
Developed Markets	**46.1%**

Sector Allocation	Portfolio %
Industrial Real Estate & Warehouse	15.6%
Health Care Facilities	14.1%
Airport Services	11.9%
Highways & Railtracks	11.1%
Waste Management	10.9%
Gas Utilities	9.0%
Air Freight & Logistics	8.7%
Telecom Services	4.0%
Digital Infrastructure	3.5%
Education Services	2.9%
Renewables	1.2%
Others	4.3%
Cash	2.9%

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.

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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

Calendar Returns	2017*	2018	2019	2020	2021^	Annualized
Fund (Gross of Fees)	2.66%	-0.88%	19.88%	7.04%	3.49%	9.46%
Fund (Net of Fees) #	2.27%	-2.03%	18.02%	3.38%	3.20%	7.22%
MSCI Asia Pacific Ex-Japan Index	1.59%	-16.25%	15.85%	19.80%	4.75%	6.59%
MSCI Asia Ex-Japan Infra Index	1.08%	-8.65%	5.39%	-7.73%	1.63%	-2.71%
MSCI World Infra Index	1.10%	-8.11%	17.77%	-2.71%	-3.12%	0.93%

*2017part year from 8th November 2017 (Inception Date); ^ Till 28th Feb 2021;
Net of management and performance fees

Nuvest Capital