



VAN LANSCHOT
KEMPEN

INVESTMENT MANAGEMENT

Key themes for infrastructure investors

Global Listed Infrastructure strategy

February 2025

25

FOR PROFESSIONAL INVESTORS ONLY

Infrastructure tail winds continue

Volatility, nuclear energy and rates

Casting our minds back a year ago, rate cuts were the focus of the 2024 forecast, as inflation was largely viewed as under control. Next to the macro tail wind for Infra, we expected bottom-up secular themes to get stronger – especially around digitisation, with the boom of data centres and AI, as well as energy security with a renewed interest in gas and nuclear energy. What happened was not only that those themes played out as expected, but their effect was magnified by reinforcing one another: the fast adoption of AI into our daily lives meant substantially more data consumption for data centres, which, in turn, fostered a far higher electricity demand in order to power them. The result was an unprecedented demand on energy for utility companies. Ultimately, this demand was satisfied by ramping up gas distribution and re-starting nuclear reactors.

The start of 2025 has been notably eventful, with the US tariff announcements on Canada and Mexico, which were ultimately paused at the last minute, and the newly announced 10% tariff on China (in place of the threatened 60%). China responded with their own tariffs mainly on US energy imports. Also from China, we had a new AI contender (DeepSeek) that surprised markets. The administration's tariff policies introduced volatility. And China's retaliatory tariffs on U.S. energy imports and the emergence of a new AI competitor, DeepSeek, have further complicated the landscape. DeepSeek's impact is significant, as it increases data centre demand due to more efficient AI processing, which could in turn lead to higher power consumption and pricing power for data centres. This situation exemplifies Jevon's Paradox, where increased efficiency leads to greater usage. Utilities are expected to benefit from this demand, alongside trends like re-shoring and electrification; although the energy transition remains complex, with gas and nuclear energy playing pivotal roles in ensuring energy security.

Tariffs

Tariffs have created both short-term challenges and long-term opportunities by potentially redirecting trade routes, which could benefit intra-Asian trade and U.S. domestic infrastructure through near-shoring. Inflation protection becomes crucial in this volatile environment, as infrastructure assets offer resilience against inflation and economic slowdowns. Energy security is a pressing theme, driven by global initiatives like the European Green Deal and China's Five-Year Plan, with gas and nuclear energy providing reliable pathways for transition. Despite challenges in offshore wind, nuclear energy is poised to play a significant role in both energy security and transition. Interest rates and debt refinancing remain important considerations, but overarching trends in energy transition, emerging market decoupling, and digitisation continue to present opportunities for investment and growth.

Inflation

The infrastructure asset class can offer investors protection from inflation – which can result from tax cuts in an economy operating close to the limits of its capacity, or from tariffs. Given that the majority of the companies in the sector have degrees of inflation protection, this protection strongly supports the asset class in an inflationary scenario. Another protection offered by the infrastructure asset class, should the US tariffs turn into trade war, is protection in a slowdown, as several areas of infrastructure (utilities, towers, pipelines) are less economically sensitive in the short-run.

Nuclear Power

A re-emerging secular theme for 2025 will be nuclear power generation. After an extended hiatus following the disaster in Japan in 2011 (that led to much tighter safety standards), a renaissance is emerging in the US, as well as continued strong buildout in China. In the US, the main driver has been a demand for electricity which is forecasted to grow from the increase in data centres, and in China the main driver is the ongoing march towards energy security and energy transition, where China has now moved into pole position.

Looking forward

A bullish longer-term stance can be further cemented by the asset class's ability to exhibit its attractive traits – secured organic growth, cash flow visibility, with inflation protection for real cash flows, coupled with an inherent diversification within the asset class itself. From the more defensive regulated utilities, to the most cyclical airports, the asset class is able to benefit from a wide array of potential future economic scenarios.

Discussions around rate cuts have now faded into the background for 2025. Yields remained elevated, despite central banks beginning to cut rates globally during 2024. Going forward, we expect yields to start heading downwards, which would act as an additional tailwind for the asset class, in particular for sectors such as towers. However, that will remain dependent on the new US administration's policies and inflation data. In either case, we believe that infra is well placed to benefit from the characteristics of inflation protection and solid growth fundamentals that our holdings possess.





Mega-trends create opportunities: Energy Security & Digitisation

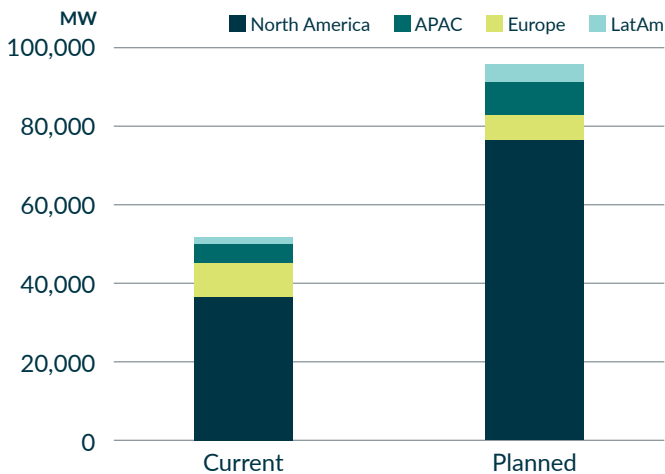
The Data Centre Revolution

There's two things to note regarding DeepSeek in terms of impact. The first is data centre demand. For data centres the amount of data you process drives demand for their capacity. Whether you are processing the data from a US or Chinese AI system, does not matter so much for data centres. As AI becomes more widespread (that's what a new, cheaper AI supply does) the amount of data being processed will increase. That's called Jevon's Paradox – as something gets more efficient, you use it more. If you're a data centre at 80% utilisation rate, this means pricing power.

Data centres are experiencing record growth and investment, driven by the rise of AI and the continued expansion of cloud computing. Projections of the international Energy Agency (IEA) forecast a staggering 2tn USD investment over the next five years. AI workloads are expected to grow by 25% to 35% annually through 2027, spurring a material increase in single data centre capacity from today's 50-200MW to over a 1GW. The ASEAN region, though behind the US, also shows immense growth potential in the data centre market. With an average utilisation rate of 84%, the strong demand for data centre services signals a need for capacity expansion. Projections indicate the region's data centre capacity will grow to more than five times today's inventory.

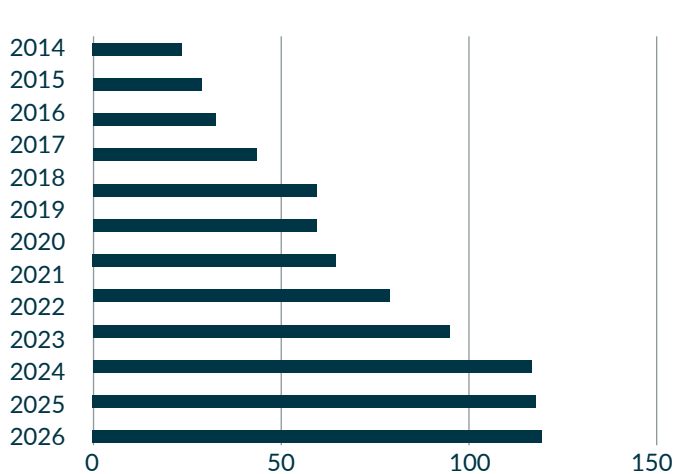
It is however, important to note, that this explosive growth comes with a very strong pricing environment and an increase in the average contract duration, pushing both returns and cashflow visibility to high levels. Therefore, the current landscape makes data centres a prime investment opportunity to capitalise on the AI boom within the infrastructure asset class.

Global data center capacity



Source: International Energy Agency, 2024

Annual spending on cloud/AI infrastructure 2014-2026



Source: Statista, 2024

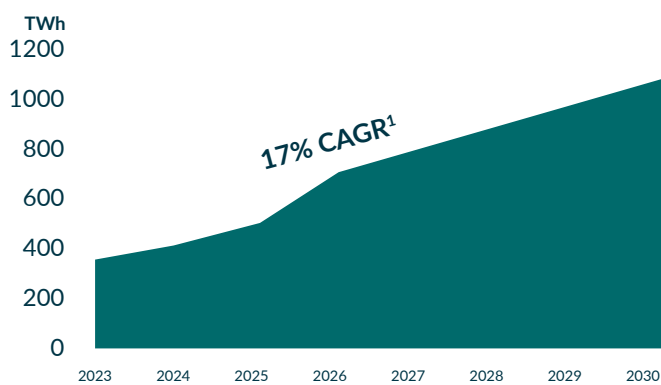
A hunger for power

The rise of data centres, however, presents a new challenge for power availability. AI's impact on power consumption is striking: a ChatGPT query uses 10x the power of a Google search¹, while AI-generated content can consume 50x more power. The simultaneous electrification of “everything” and industrial reshoring is expected to foster a 2-3.5% CAGR¹ growth for power demand through 2030, after two decades of stagnation.

The US would need to double its power grid capacity over the next decade to keep pace with the increased demand. Current estimates forecast that data centres will use 8-10% of US power by 2030², up from 4% in 2024, requiring around \$50 billion of investments to support expansion of the grid. This represents a significant investment opportunity for utility companies, which earn a regulated return – the higher the investment, the higher the return.

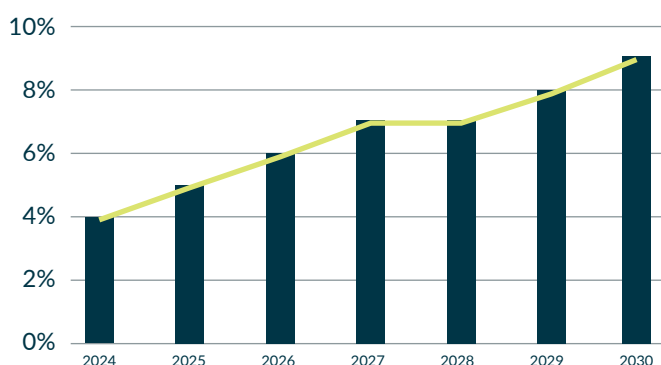
Similarly, as mentioned above, the ASEAN region is also expected to see a five-fold increase in capacity by 2030, with countries like Singapore, Malaysia and Indonesia emerging as key players. Meeting the increased capacity will require significant growth in power generation. Countries that effectively address these power challenges will gain a competitive edge in attracting data centre investments. Our fund's value proposition includes investing in emerging markets, enabling us to benefit from the same trend across several geographies.

Global electricity demand by data centers



Source of charts: International Energy Agency, 2024

% of US power demand from Data centers



Utilities under the spotlight

The second thing to consider from the arrival of DeepSeek is if processing becomes easier, will it need less electricity, and is that a problem for utilities? The simple answer is this – utilities power demand is helped by data centres, it's also helped by re-shoring (if the US put tariffs on foreign competition, helping domestic industries, more manufacturing in the US means more power is needed), it's also helped by electrification trends - which may slow, but don't go away. Utilities have more than one driver of power demand. The utility industry is aligned with one of the biggest investment themes of 2024—artificial intelligence - which pushed the sector to a strong year, rising 20% after a challenging 2023. Utilities provide the electricity needed for the giant AI data centres being constructed across the U.S, and the world. While both regulated utilities and independent power producers are benefitting from the AI theme, that doesn't apply blindly across the sector. The industry is now bifurcating into companies which can capitalise on the explosive demand from artificial intelligence, and those which are likely to grow more slowly.

Historically, utility stocks have been a haven for investors seeking steady quarterly dividends and protection from economic downturns. Even during tough economic times, consumers tend to pay their electric bills. While these attributes still matter, they are not the primary reason to invest in utility stocks today. Hence, we believe that understanding the dynamics of the sector and company specific can make a difference in picking the winners.

1. Scientific American, 2024.

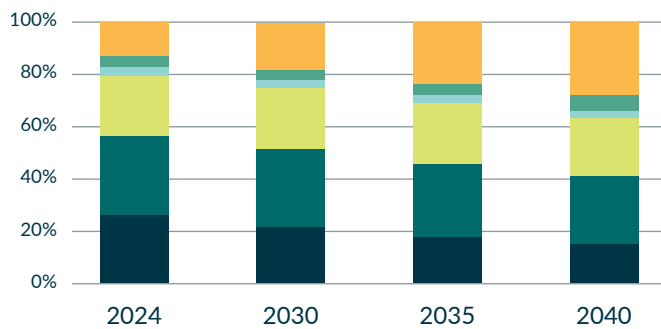
2. IEA, 2024.

3. The compound annual growth rate represents the mean annualized growth rate for compounding values over a given time.

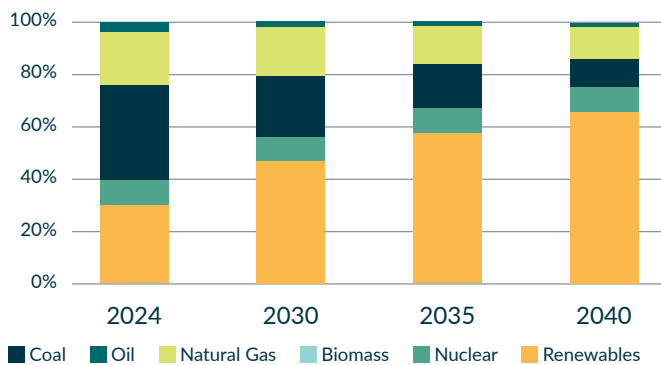
The energy game: Spread and add nuclear to the mix

The doubling of the global electricity demand by 2030 will significantly impact local electricity markets. Balancing the load of the (now 11,000 registered) data centres worldwide across regions/countries, and expanding energy sources, is crucial to resolve or avoid power availability constraints. While enhancing grid capacity becomes imperative, modernising the aging congested power grid is a complex and costly endeavour, often facing construction and permitting delays.

Global Energy supply (IEA)



Global Electricity generation (IEA)



Source of graphs: International Energy Agency, 2024

To meet the burgeoning electricity demand in the short to medium term, natural gas can offer a flexible, reliable and efficient bridge, especially with the anticipated retirement of coal plants. This provides opportunities for investors, since it is estimated that an increased need for natural gas would require the building of new pipeline capacity, thus creating a secular tailwind for the sector. However, in the push towards decarbonization, natural gas cannot be the only solution. Renewables like wind, solar, and hydro remain crucial for long-term sustainability. According to the IEA, clean energy is entering the energy system at an unprecedented rate, with more than 560 gigawatts (GW) of new renewables capacity added in 2023 (we're still awaiting data for 2024). This number, while promising, disguises the fact that deployment is far from uniform across technologies and countries.

Nuclear revival

Last but not least, it is nuclear energy which increasingly emerges as a key component in meeting growing energy demand and climate goals. Governments are turning more nuclear-positive, and companies are restarting old plants, as the benefits of its zero-emissions, high energy density, and ability to provide stable, reliable power make nuclear an attractive choice. Advances in technology, particularly the development of small modular reactors (SMRs), which offer flexibility, reduced cost and less manufacturing time, enhance nuclear's appeal. Additionally, the Production Tax Credit (PTC), under the Inflation Reduction Act, provides financial incentives for nuclear generated electricity, making it more economically viable.

The US government recently committed to adding 200GW of net new nuclear capacity by 2050, which would triple current capacity, with the first 35GW targeted by 2035 (not included in the IEA report). We also see potential for the new US administration to provide additional support to nuclear under the US energy independency prism. A clear example has been the recent award by the U.S. General Services Administration (GSA) of a series of long-term contracts that will supply for more than 1 million MWh annually to over 13 government agencies owned/operated across five states including Illinois, Maryland, New Jersey, Pennsylvania, and OH to a nuclear Independent Power Producer (IPP) on Jan 2nd.



New US Administration – introducing volatility

Tariffs under the new US administration have introduced volatility, creating short-term opportunities but making the U.S. a less stable trading partner in the long-run. This unpredictability complicates investment decisions that require long-term planning. For export-exposed sectors like ports and industrial freight for rails, tariffs are a significant concern, affecting about 14% of the benchmark.

However, other infrastructure sectors such as utilities, towers, pipelines, and data centres are less impacted as they are not directly tied to exports. The market may be overlooking the potential for tariffs to redirect trade routes in the medium term, which could benefit intra-Asian trade and create investment opportunities. For instance, Asian ports could see increased activity as trade shifts, similar to the redirection of Chinese solar panels to other Asian markets when faced with U.S. tariffs. In the U.S., protectionist policies could boost domestic infrastructure by increasing demand for freight transport and utilities, supporting near-shoring and re-shoring efforts.

Volatility brings opportunity – as some comments and market moves will edge stocks away from fair value, and that's an opportunity we can use for alpha. A mathematical consequence of which will be trade turnover increasing. In order to build resilience against volatility in regional moves (i.e. from a potential trade war), we rely on one aspect of our investment process that we have had since day one of our fund six years ago – our regional neutral approach.

In our fund, we hold the same regional exposures as the benchmark. We do not take regional overweights or underweights (e.g. US vs EU) for two reasons: we are not macro strategists, geopolitics forecasters, or able to predict what presidents do; and more importantly, our alpha is driven by bottom-up stock selection, and not by other factors which we can't analyse such as country/regional allocations.

The hidden beneficiaries of geopolitical turmoil

Looking at the Emerging Markets, the decoupling of global trade and the diversification of supply chains is fostering a shift of production sites, and therefore of global shipping routes, benefiting freight from ports located in countries such as Malaysia, the Philippines and Mexico. From the USA's push to repatriate manufacturing to the US, we expect a strong increase in domestic transport of goods. Given the vast dimension of the country, most of the goods will be transported by rail, and we expect an uptick in rail volumes for the 10th consecutive year in 2025.





Powering up your portfolio

With the AI wave unfolding in front of our eyes, the increasing demand for data centres, the necessity for expanded and modernised utilities, and the shift to cleaner energy sources, all of this can create new opportunities for investors across multiple sectors within the infrastructure universe.

Guided by our motto "Asset specific – Macro neutral alpha", the infrastructure team of Van Lanschot Kempen seeks out companies which we consider to be the winners of tomorrow. Companies across industries and themes which affect our everyday life, but with limited exposure to macro factors, and remaining within the benchmark weights. Moreover, we identify infrastructure based on a company's earnings rather than its revenues, while our idea generation involves seeking beyond the beaten path to find undiscovered or underrated stocks across the globe.

While every new theme (e.g. AI and power demand) brings excitement and can push sector returns higher collectively, over the long-term we believe that picking the right companies and having an active portfolio is the way to secure superior returns, as the tide may raise all boats for a period of time, but no tide lasts forever.

Our core investment beliefs

- Our alpha is dominated by bottom-up stock selection: This is achieved by constructing our portfolio with same regional and currency weights as our benchmark. This neutralises regional and currency risks.
- Generate better insights through data: data helps us increase the efficiency of our process, identify opportunities more quickly and make better-informed decisions. It also helps us identify risks, such as physical asset risks, that companies might be exposed to.
- Use ESG for alpha and to mitigate asset risk: Key focus areas are understanding a firm's transition towards sustainability and how this can generate financial returns, and the company's physical asset risks. All this is quantified with data and a strictly forward-looking approach. We hold the conviction that it is vital to incorporate sustainability into our selection. By weaving these key considerations into our valuation process, we are well-equipped to capture a more precise understanding of fair value, ultimately paving the way for sustained alpha generation. Find out more on our website.

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Kempen (Lux) Global Listed Infrastructure Fund (the "Sub-Fund") is a sub-fund of Kempen International Funds SICAV (the "Fund"), domiciled in Luxembourg. This Fund is authorised in Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier. Van Lanschot Kempen Investment Management NV is the management company of the Fund. Van Lanschot Kempen Investment Management NV is authorised as management company and regulated by the Dutch Authority for the Financial Markets (AFM). The Sub-Fund is registered with the Dutch Authority for the Financial Markets (AFM) under the license of the Fund.

Paying agent and representative in Switzerland is RBC Investor Services Bank S.A., Esch-sur-Alzette, Zurich Branch, Bleicherweg 7, CH-8027 Zurich. The Sub-Fund is registered with the Dutch Authority for the Financial Markets (AFM) under the license of the Fund.

The information in this document provides insufficient information for an investment decision. Please read the Key Information Document (available in Dutch, English and several other languages, see website) and the prospectus (available in English). These documents of the Fund are available at the registered office of the Fund located at 60, avenue J.F. Kennedy, L-1855, Luxembourg and on the website of Van Lanschot Kempen Investment Management NV (www.vanlanschotkempen.com/investment-management). The information on the website is (partly) available in Dutch and English.

The Sub-Fund is registered for offering in a limited number of countries. The countries where the Sub-Fund is registered can be found on the website. The value of your investment may fluctuate. Past performance provides no guarantee for the future.

Listed Infrastructure: general risks to take into account when investing in Listed Infrastructure strategies

Please note that all investments are subject to market fluctuations. Investing in a Listed Infrastructure strategy may be subject to country risk and equity market risks and risks specific to the infrastructure market, which could negatively affect the performance. Under unusual market conditions the specific risks can increase significantly. Historic data for similar investment vehicles indicates that the strategy can carry an aggressive level of risk. Potential Investors should be aware that changes in the actual and perceived fundamentals of a company may result in changes for the market value of the shares of such company. The strategy is allowed to invest in financial derivatives and (short-term) money market instruments. Currency exposures may be hedged.

Profile of the typical investor in Listed Infrastructure strategies:

The strategy may be suitable as a core or supplemental investment for those:

- interested in a convenient way of gaining exposure to global listed infrastructure companies (international equity markets);
- seeking long-term growth of their investment (5 years or longer);
- who can bear the possibility of significant losses, especially in the short term

The value of your investment may fluctuate, past performance is no guarantee for the future. Do not take unnecessary risks. Before you invest, it is important that you are aware of and are informed about the characteristics and risks of investing. This information can be found in the available documents of the strategy and/or in the agreements that are part of the service you choose or have chosen.

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February 2025