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Winter 2024 Newsletter

Fengate Infrastructure Yield Fund

INSIGHTS FROM THE **PORTFOLIO MANAGER**

I'm delighted to share our latest Fengate Infrastructure Yield Fund ("Yield Fund" or "the Fund") newsletter as we begin a new year. At our recent Annual Investor Meeting in Vancouver, Canada, my remarks on the market included an update on cost of capital and asset pricing. This continues to be an important topic for infrastructure investors as they evaluate their current portfolios and consider new opportunities. In this newsletter, I'm sharing my insights on how Fengate is navigating the current market environment to deliver on our objective of generating long-term, stable cash flows for investors.

Navigating the Current Interest Rate Environment

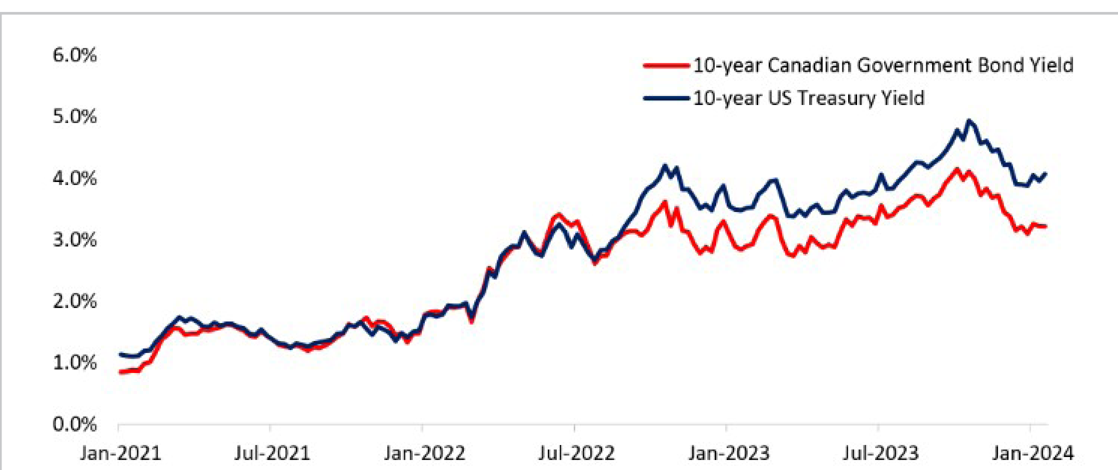
As of writing this, the 10-year Canadian government bond yield and the 10-year US treasury yield have increased by about 175 and 250 basis points, respectively, since the end of 2021. Although this is lower than the cyclical peak in fall 2023, it is still high and likely to remain so in 2024. This signals the end, at least for now, of the declining cost of capital that we have enjoyed for the past decade. In this new era of higher cost of capital for core and super core infrastructure assets, investors can no longer rely on buying assets and watching values appreciate simply by holding them. Active portfolio management is a requirement, with managers creating value and adjusting required returns (i.e., discount rates) for new investments.

Looking to central bank policy, economists are optimistic that the first half of 2024 could start to see rate cuts once inflation targets are within reach. We are balancing near-term adjustments with a focus on long-term value.

Higher Return Targets

The first half of 2023 saw minimal changes to return expectations in the secondary market for private super core and core infrastructure assets, with the exception of public-private-partnerships ("PPP").

10-Year US & Canadian Benchmark Bond Yields



Source: S&P Capital IQ weekly data for January 2021 to January 2024.

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By the second half of 2023, return requirements had increased by approximately 100 basis points. This was clearly different than public markets where valuations changed rapidly. While this varied by each sub-sector, generally the more fixed the cash flow profile, the more correlated equity returns were to longer-term bond yield changes. PPP exemplified this. Contracted renewable power also saw an increase in required returns while the impacts on US cell towers and regulated utilities were more muted, possibly due to scarce supply and their real return profile during a period of higher inflation, respectively. Given these market developments, Yield Fund is now targeting returns that are 100 basis points higher, relative to the start of 2023, for new investments.

Discount Rate Reviews

At Fengate, we take a prudent, data-driven and long-term approach to determining discount rates and adjusting valuations in a timely and transparent manner. As of the third quarter of 2023, the weighted average discount rate across the Yield Fund portfolio was 8.0%. PPP, representing 41% of Yield Fund's invested capital, is the most sensitive sub-sector to long-term interest rate movements. This is because the investment structure is similar to a bond; the cash inflows and outflows are contractually set at fixed rates for the long-term with almost no ability to adjust. This leaves equity discount rates as the primary way to adjust for macroeconomic changes. We are currently completing our 2023 review and anticipate modest increases across all of our investments (including PPP) in line with our market observations.

Active Value Creation and Asset Management

At Fengate, value creation and asset management have been core areas of expertise since we entered the infrastructure space in 2006. We have a team of more than 40 professionals in our Infrastructure Value Creation and Asset Management ("VCAM") team continuously evaluating opportunities to de-risk and further improve the Yield Fund portfolio. We look for operational enhancements including capacity expansion and improvements in both technology and reliability, all leading to increased efficiency. We implement commercial improvements by renewing or renegotiating key contracts, enforcing our contractual rights and managing disputes. We also continually look for ways to optimize the capital structure of our projects and the Fund. Our VCAM team is involved in the investment process from the first day of diligence, identifying levers to maximize the long-term value of the portfolio, regardless of the interest rate climate.

Focus on Long-term Returns

Yield Fund holds a diversified portfolio of 28 high quality, low risk, essential infrastructure assets with revenues underpinned by contracts, monopolistic positions or favourable regulatory regimes. This diversification, along with our balanced approach to sectors, revenue profiles and geography, provides substantial risk mitigation and is designed to provide stable long-term performance. While discount rate changes do impact asset valuations, they do not affect

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the underlying asset performance or cash distributions. Assets in Yield Fund are held for the long-term to generate stable cash flows for investors. The portfolio has shown resiliency in this high inflationary and interest rate environment, with the Fund delivering a since inception return and cash yield that achieve our targets.

When we look at new investment opportunities for the Fund, the consideration of long-term value and strong cash distribution potential is critical. By closely monitoring market activity and being steadfast in our detailed diligence process, we are disciplined about the prices we pay. We firmly believe it is better to pass on overpriced opportunities and instead seek assets that meet our investment criteria and where we can create value. Our portfolio is expected to deliver stable cash yield over a long period of time, even if there are fluctuations in the short-term. Our focus is on identifying investments that support the Fund's ability to generate growing cash distributions through different economic environments.

Fundraising and Pipeline Update

To date, Yield Fund has held seven closings and has total capital commitments of C$1.2 billion. We look forward to welcoming new investors in our next close, currently planned for the first quarter of 2024.

We continue to leverage our long-standing relationships with industry and development partners to identify new brownfield investments in our target sectors. The Fund has a robust pipeline of C$1 billion (US$750 million) in potential investment opportunities in Canada and the US.

I believe that Yield Fund's diversified portfolio will continue to provide investors with stable returns through market cycles.

Please don't hesitate to reach out with any questions.

Andrew

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