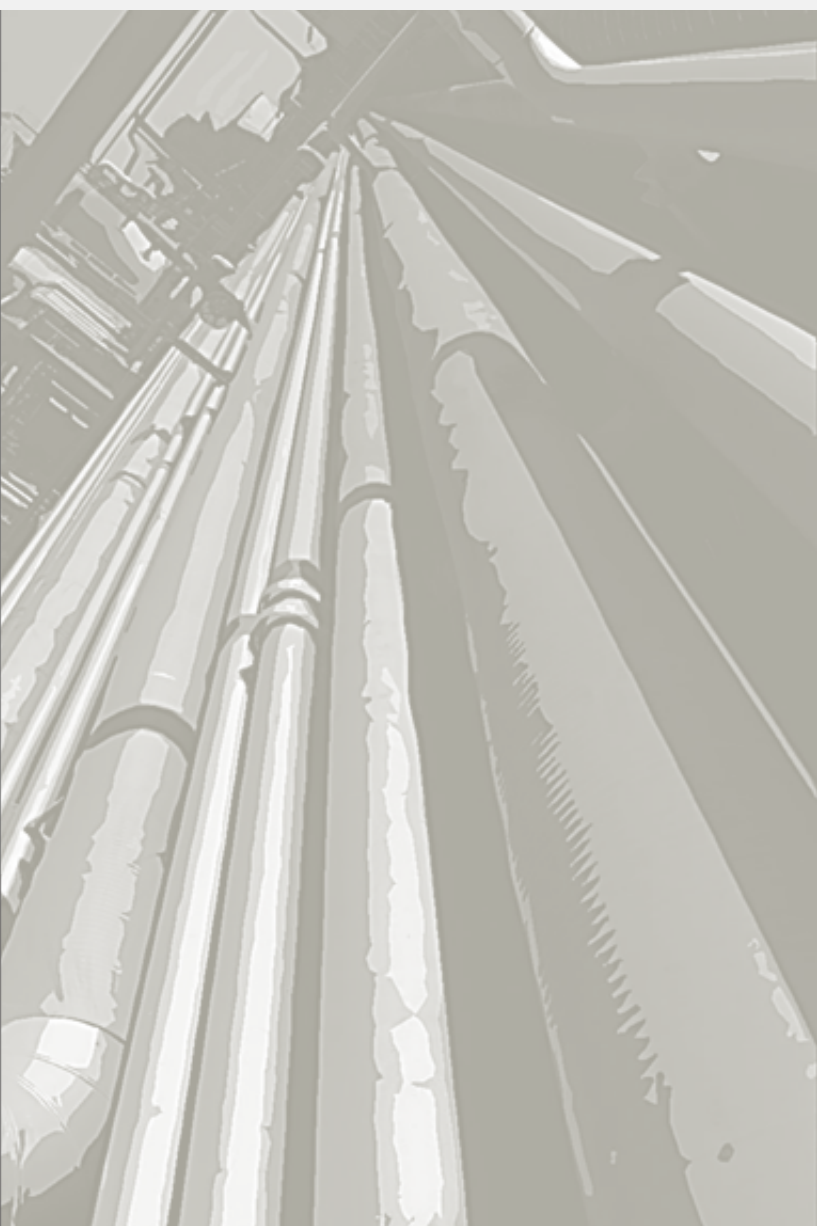


Kayne Anderson

Capital Advisors, L.P

ESG in Energy Infrastructure

2020 Whitepaper



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OVERVIEW

Public infrastructure companies own long-term, durable assets that underpin global economic growth and are central to meeting the world's energy needs. Infrastructure investing, by its nature, is compatible with environmental, social and governance (ESG) factors and has long been a focus of managers as they make investment decisions regarding return on investment. ESG risks are also increasingly becoming a more important consideration for investors and infrastructure companies have responded through enhanced ESG disclosure.

The world is experiencing an energy transition and we believe this has direct implications for ESG considerations. As the world's demand for energy increases, the world's supply will transition from one that is predominantly fossil-fuel based to a sustainable mix of renewable and conventional energy. With this transition comes increased availability of ESG information, more focused scrutiny of companies' vis-à-vis ESG performance and greater client interest in ESG risks and opportunities. We believe we are well positioned to adapt to this change.

In Kayne Anderson's Energy Infrastructure Strategy, our research analysts consider ESG risks and opportunities as one of several inputs in our fundamental equity investment process. Many of the companies that we are considering for investment or currently invest in are actively developing new assets and we believe that a company's ability to manage ESG risks and opportunities has an impact on operational, reputational and financial performance. This whitepaper highlights our approach to ESG integration in energy infrastructure.

ESG is a Fundamental Component of Infrastructure Investing

Public infrastructure companies have notably increased their transparency and disclosure of ESG risks and opportunities. At the 2019 MLP and Energy Infrastructure Conference, not only was ESG a topic of discussion among management teams but there was a dedicated and well-attended ESG panel regarding the growth of ESG reporting across the industry. We have also observed the introduction of ESG-related compensation metrics and annual ESG reports by a growing number of midstream companies. Many infrastructure companies are aligning their ESG reporting with standardized frameworks, such as the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). For example, Kinder Morgan – one of the largest operators of pipelines and terminals in North America – has strengthened its disclosure over time and currently aligns the majority of its ESG metrics with SASB and GRI indicators. In general, this is one example of how midstream companies are placing a higher priority on ESG.

Given the critical role that infrastructure companies play in supporting the world's energy supply, they are naturally well positioned to contribute to the UN Sustainable Development Goals (SDGs). We have witnessed an uptick in the number of companies that have made explicit commitments to advance the SDGs. The renewable infrastructure industry, in particular, has been at the forefront of contributing to the SDGs. Orsted, for example, maps the company's sustainability initiatives to the SDGs and provides annual updates regarding its approach to each SDG, targets and indicators to demonstrate progress. Many of the companies in Renewable Infrastructure have strong sustainability track records and are providing solutions to global environmental challenges like climate change.

Sustainable Development Goals (SDGs)

The SDGs were unanimously adopted by the 193 Members States at the United Nations Sustainable Development Summit in September 2015. The SDGs include a universal set of 17 goals, 169 targets and 232 unique indicators to help organizations monitor and assess their progress. The SDGs represent the priorities of governments, corporations, investors, and NGOs to enhance peace and prosperity, eradicate poverty and protect the planet.

ESG Risks and Opportunities in Infrastructure

The below factors represent the ESG risks and opportunities that we believe are material to these industries and our investment decisions.

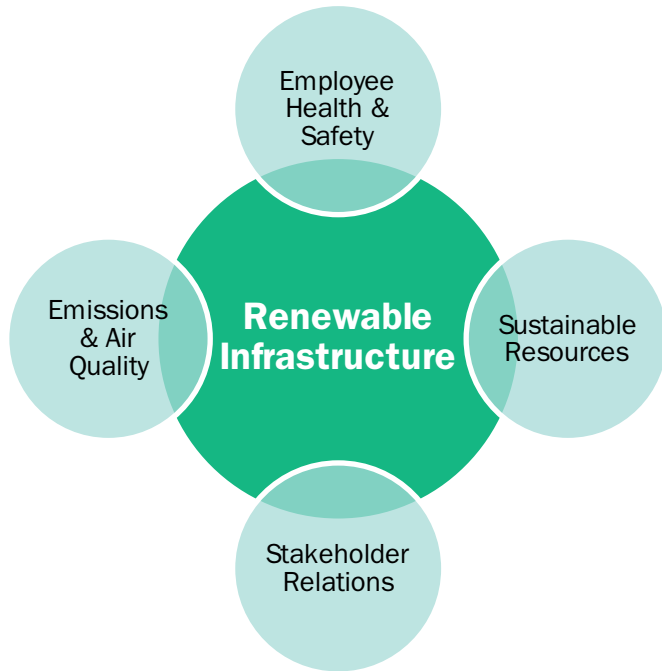
Examples

Atlantica Sustainable Infrastructure is one of the leading companies in Renewable Infrastructure. The company has identified health & safety as a material risk and links a portion of management compensation to the company’s health and safety metrics. Over the past few years, the company’s targeted health and safety metrics have become more stringent and require improved performance for management to receive a portion of their targeted bonus. Notably, AY’s Loss Time Incident Rate decreased by 39% in 2019 and remains well below sector averages. Minimizing asset downtime is critical to AY’s financial performance as ~55% of its cash flows come for asset availability.

Furthermore, the company’s strong planning and commitment to human capital management has allowed AY’s operations to continue at full capacity despite the impacts of Covid-19. Despite operating in multiple countries, the company has not seen any material disruptions at their plants and sites due to Covid-19 since the pandemic started.

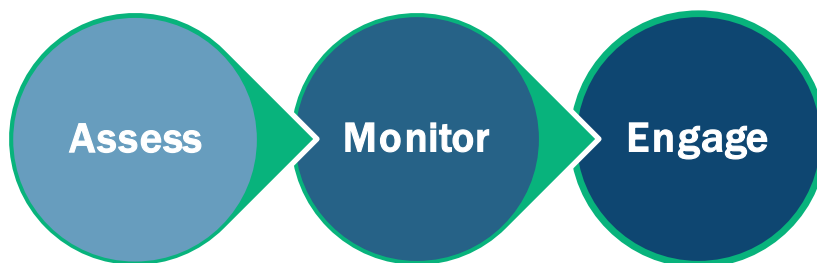
In the Midstream industry, community relations represent a material risk in both existing and new projects. Pipelines require working with a number of stakeholders, including regulatory agencies, local communities, and Indigenous Peoples. Success in the midstream industry requires an effective program to engage stakeholders and address their concerns and shortfalls may result in operational, regulatory and legal risks.

Enbridge Inc., for example, has made demonstrable efforts to strengthen its engagement with Indigenous Peoples. In 2017, the company made a commitment at its Annual General Meeting to enhance its transparency regarding the implementation of its Indigenous Peoples Policy and the integration of that policy in its business decisions. Enbridge subsequently became one of the few midstream companies to publish a report regarding its approach to integrating the impact on Indigenous Peoples within its operations, and its efforts led to public support from Canadian First Nations leaders in August 2019 for its Line 3 Replacement Project in Canada.



**We consider Governance considerations universally material risks across all industries. In MLPs, we specifically consider alignment of interest between LPs and sponsors a material issue.*

ESG in our Investment Process



Company Assessment

We regularly evaluate all the listed companies in the investment universe across our infrastructure strategies. As part of our assessment process, we assign numerical scores to each company across a range of categories, including ESG risks. Our scores are frequently reviewed and change according to market conditions and issuer specific events. For example, positive structural changes to a company’s governance and management system will likely result in an improved score, whereas negative controversies may result in a lower score.

Monitor

Active monitoring of our holdings is key component of our investment process. Our analysts regularly track material events, including ESG controversies, through our fundamental equity analysis. We use a wide range information sources, such as management meetings, industry-specific publications, media sources, regulatory bodies, etc., to monitor corporate events and updates across our holdings. Material events are discussed in our weekly analyst meetings and quarterly earnings updates, where any follow-up actions are identified.

Engagement

We consider direct engagement with management an important tool to express our views on a wide range of material topics or to gain valuable insight into management’s actions and views on certain issues. Our analysts regularly engage management directly to evaluate progress related to ESG commitments, risk, and opportunities.

Case Studies

ENVIVA is a publicly traded MLP that aggregates, processes and transports wood fiber into wood pellets for use in power generation and it has been a holding in the Kayne Renewable Infrastructure Fund since May 2018. During our monitoring of the company, we discovered some allegations regarding Enviva’s sourcing practices. Given our open dialogue with management, the primary analyst and the Director of ESG Strategy engaged the company regarding this issue. Management not only confirmed that the allegations were dated and did not reflect the company’s current practices, but they provided our team with greater insight into the company’s governance of ESG risks, its sourcing policy commitments and their comprehensive Track & Trace program.

NORTHLAND POWER is an independent power producer that develops, builds, owns and operates sustainable infrastructure assets that produce electricity from natural gas and renewable sources. As part of our regular research update of the company, we evaluated Northland Power’s most recent ESG disclosures and identified a number of areas for improvement, notably board oversight of material ESG risks and linking ESG performance to executive compensation. Our analyst raised these issues with management and stressed the importance to shareholders. Northland Power was very responsive to our concerns and noted that some of their long-term stock awards are driven by ESG performance and their Board is considering some changes that would address our concern.

Proxy Voting

We consider proxy voting an important component of our fiduciary duty to clients. We start with the view that management and the board are carrying out their responsibilities in the best interest of the company and shareholders. However, from time to time we may disagree with management proposals and may oppose their proposals. Similarly, we may conclude that certain shareholder proposals not well aligned with the long-term strategy of a company or shareholder interests at large. There may also be cases where we choose to engage management regarding certain proposals because we believe we can more effectively create change through direct dialogue. In either case, we carefully consider the merits of both management and shareholder proposals and evaluate them on a case by case basis, consistent with our proxy voting policy.

CONCLUSION

Managing ESG factors is embedded in the operational fabric of infrastructure companies. While not new to investors, the access to additional ESG information through greater transparency by infrastructure companies and the growth of ESG service providers, investors are refining their approach to evaluating the ability of companies to manage ESG risks and opportunities. Kayne Anderson's Energy Infrastructure strategy offers an integrated approach to ESG risks and opportunities, which includes consideration of ESG factors in our investment analysis, monitoring of related risks and direct engagement with portfolio companies regarding these factors. We believe that companies which effectively manage their ESG risks are best positioned to deliver superior risk-adjusted returns over the long term.

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The above-stated return for "since inception of the strategy" is calculated on the following basis: (a) for the period February 2000 through December 2002, the monthly returns represent the performance of the energy master limited partnership strategy within Kayne Anderson Capital Income Partners (QP), L.P. (KACIP) (Note that the computation of returns for the carve-out portfolio entails the use of certain assumptions and estimates we believe to be reasonable); (b) for the period January 2003 (inception) through January 2009, the monthly net of management fee (pre-performance fee) returns for Kayne Anderson MLP Fund, L.P. (KAMLP); (c) for the period February 2009 to January 31, 2019, the monthly net of management fee returns for Kayne Anderson Midstream Institutional Fund, L.P. (KAMIF). Returns for investors in each of the funds will differ for a number of reasons including differences in fee structures, investment timing and the ability to participate in new issues. The "since inception of the strategy" is a composite and not indicative of the actual returns realized by any one investor in the funds over time. Past performance is not a guarantee of future results.

Past performance is not necessarily indicative of future results and there can be no assurance that targeted returns will be achieved. There can be no assurance that the Funds will achieve results comparable to or that the returns generated will equal or exceed those of other investment activities of KACALP or its affiliates or that the Funds will be able to implement its investment strategy or achieve its investment objectives. KACALP does not make any representation or warranty, express or implied, regarding future performance. Targeted investor returns shown herein are based on assumptions and calculations of KACALP using data available to it. Targeted returns are subjective and should not be construed as providing any assurance to the results that may be realized by the Funds in the future.

The Funds have an absolute total return objective and do not have a relevant comparative index. The possible inclusion of indices in this presentation are not for comparison purposes, but rather to show the performance of other investments during the relevant period. Data is obtained from FactSet and is assumed to be reliable.

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Past performance is no guarantee of future results. An investment in the Fund could suffer loss.

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