Kayne Anderson

NextGen Energy & Infrastructure, Inc.

KMF Q2'21 Stockholder Letter

July 22, 2021

KAYNE ANDERSON NEXTGEN ENERGY & INFRASTRUCTURE, INC.
LETTER TO STOCKHOLDERS

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Dear Fellow Stockholders:

We hope this letter finds you and your families healthy and beginning to return to a more normal life. Thanks to the miraculous development and distribution of effective vaccines, we are cautiously optimistic that the worst of the pandemic is behind us in the United States. That said, the spread of variants and numerous “hot spots” around the world remind us that the global battle against COVID is far from over. Notwithstanding these concerns, we believe there is reason for optimism about our ability to contain the virus and resume more normal day-to-day activities. This confidence was certainly expressed in the financial markets during the first six months of fiscal 2021, with broad equity indices continuing to set new record highs and commodities trading higher on bullish demand expectations. Energy infrastructure equities performed well during the first half of fiscal 2021, and the midstream sector, in particular, was exceptionally strong.

In this letter, we discuss the energy infrastructure markets and highlight KMF’s strong performance thus far during fiscal 2021. We also discuss the rationale behind our recent decision to increase KMF’s quarterly distribution by 56% to 14¢ per share.

Market Conditions

The broader equity markets traded higher during KMF’s second quarter, setting several new record highs. The S&P 500 ended the quarter up 11%[1] and increased 17% during the first six months of fiscal 2021. Market optimism about the global recovery has generally outweighed numerous concerns, ranging from greater than expected inflation and higher interest rates, on one hand, to potentially resurgent COVID cases and lower growth rates on the other. The result has been a broad market narrative focused on “growth” versus “recovery” stocks, with sentiment changing frequently. It is worth noting that interest rates — as measured by the yield on 10-year U.S. Treasury bonds — have declined materially over the past few months, with the yield currently around 1.3% versus a high of 1.7% in late March. Volatility in interest rates is another symptom of the market’s struggle to gauge the strength of the recovery versus underlying inflationary pressures, growth expectations, and the Federal Reserve’s expected policy.

Energy equities and energy commodities also continued to trade higher during KMF’s second quarter of fiscal 2021. WTI crude oil prices were up 8% during the quarter to $66 per barrel and continued to rally after quarter-end to over $75 per barrel before trading back down to approximately $70 per barrel. We discussed the potential for a short-term price spike in last quarter’s letter based on plans for a measured increase in production by OPEC+ in a market where inventories are rapidly declining back to normal levels. More supply is expected to reach the market in the coming months, however, which should ease the upward pressure on spot prices. Similarly, natural gas prices have increased dramatically, with Henry Hub now trading near $4 per million Btu on strong demand domestically and globally. While our expectations for U.S. oil and gas production growth have increased somewhat, we continue to expect public upstream companies to set modest growth targets for 2022 and be disciplined in adhering to those plans. As we discussed last quarter, we believe this is an extremely positive backdrop for the midstream sector because of a better capitalized upstream industry focused on moderate, sustainable growth.

1 Performance metrics in this letter represent total returns unless specifically noted otherwise.

On the political and regulatory fronts, we are sanguine about the current backdrop. In the U.S., we continue to believe federal and state policies will be extremely supportive of Energy Transition[2] investments, and we remain cautiously optimistic that the current administration recognizes the important role of traditional energy sources in bridging to a lower-carbon future. Globally, support for renewable energy investment has never been stronger — as evidenced by record growth in wind and solar generation during 2020, despite the pandemic. We also see early indications that investments in carbon capture and sequestration will be another key component of the effort to reduce carbon emissions. We believe KMF is in an excellent position to provide investors with direct exposure to these important themes, with the majority of its portfolio invested in NextGen Energy and Infrastructure Companies that are participating in, or benefiting from, the transition to lower-carbon energy.

Each of KMF's primary investment sectors — renewable infrastructure, utilities, and midstream (including natural gas and LNG infrastructure) — performed well during the second quarter of fiscal 2021.

- Renewable infrastructure returned 4%[3] for the quarter after a relatively flat first quarter.
- Utilities rebounded nicely, with the PHLX Utility Index (UTY) returning 12% after declining 6% in the first quarter.
- Midstream performance was very strong for the second consecutive quarter, with the Alerian Midstream Energy Index (AMNA) up 22% — outperforming the S&P 500 by approximately 11%.

For the first six months of fiscal 2021, the AMNA returned 37%, which is approximately 20% greater than the S&P 500's return over the same time period. While returns for utilities and renewable infrastructure have been more modest (both sectors up 5%), companies in these sectors provide attractive long-term opportunities as they participate directly in the Energy Transition. We also believe that significant allocations to these sectors, alongside KMF's midstream holdings, provide unique diversification benefits because renewable infrastructure and utility equities tend to be less correlated with midstream equities.

Portfolio and Performance

At the end of our second fiscal quarter, KMF's allocation to equities of NextGen Companies — including certain Utility Companies, Renewable Infrastructure Companies, and Natural Gas & LNG Infrastructure Companies — was 56%. These NextGen holdings are generally in large-cap companies, many with geographically diverse assets providing broad exposure to Energy Transition investments. The remainder of our portfolio is invested in credit/preferred securities and larger, diversified midstream equities. We favor these larger, diversified midstream companies over their smaller-cap peers because we believe they are best positioned to generate sustainable free cash flow over the long term. Several of them are also taking important steps to focus on sustainability and capitalize on potential Energy Transition investment opportunities.

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2 Refer to the Glossary of Key Terms in KMF's most recent financial report for definitions of capitalized terms.

3 Based on a composite total return for 38 domestic and international renewable infrastructure companies (calculated on a weighted market-cap basis).

We are pleased that KMF continued its recent strong performance in the second quarter with a Net Asset Return of 15.5%[4] and a Market Return of 18.3%[5]. Since the start of our fiscal year, KMF's Net Asset Return was 28.6%, and KMF's Market Return was 44.4% as of July 22nd. This strong performance compares favorably to more diversified Infrastructure funds. It has also been accompanied by much lower portfolio volatility than many other energy infrastructure and midstream focused funds because of the diversity of KMF's holdings.

Distribution Philosophy

We are optimistic about the outlook for KMF's portfolio and its exposure to the unfolding Energy Transition. We also believe KMF's portfolio provides a unique mix of energy infrastructure investments that should generate attractive returns with less volatility than many of its peers. The durability of this diversified portfolio approach was one of the factors we considered in increasing KMF's distribution in the most recent quarter. Another factor was a recognition that returns generated by our portfolio companies will accrue to us through a more balanced combination of dividends and capital appreciation compared to historical periods — when most of KMF's holdings employed a high dividend payout model. Midstream companies, in particular, have pivoted to a lower payout model where free cash flow (in excess of dividends and capital expenditures) is used primarily to buy back stock or reduce debt. Renewable Infrastructure Companies, which make up 19% of the portfolio, also tend to pay lower dividends as cash flow is used to fund growth. Recognizing these factors alongside our desire to pay shareholders an attractive distribution, we announced an increase in KMF's quarterly distribution of 56% to 14¢ per share for the second quarter of fiscal 2021 (paid on July 13th). We believe this distribution is sustainable based on our outlook, and it is consistent with our stated philosophy of considering the income we receive from our holdings, as well as capital appreciation in the portfolio, in determining KMF's distribution. We also want to make clear that nothing has changed with respect to KMF's leverage policies. We continue to target leverage levels equal to 25% to 30% of KMF's total assets and a "downside cushion" of roughly 30% to 40% to KMF's leverage covenants. We believe the prudent use of leverage will enhance shareholder returns over the long term, but we have designed our leverage policies to position KMF to withstand periods of volatility in the financial markets.

We encourage investors to visit our website at www.kaynefunds.com for more information about the Fund, including the podcasts posted within the "Insights" page that discuss performance and key industry trends. We appreciate your investment in KMF and look forward to providing future updates.

KA Fund Advisors, LLC

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4 Net Asset Return is defined as the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

5 Market Return is defined as the change in share price plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).