EAGLE GLOBAL ADVISORS

Quarterly Commentary | March 31, 2025

Eagle Energy Infrastructure

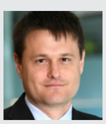
ABOUT US

- Located in Houston, TX
- Founded in 1996
- $2.6B in AUM, $993MM in Energy Infrastructure*
- 23 employees including 10 investment professionals
- 100% employee owned

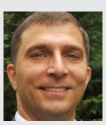
INVESTMENT HIGHLIGHTS

- *Essential Infrastructure:* Energy Infrastructure companies build and operate pipelines and storage facilities for the transmission of vital domestic energy supplies
- *Distributions:* Majority of cash flows are distributed to unit holders
- *Tax Efficiency:* Distributions are largely a return of capital
- *Inflation Protection:* Energy Distributions have grown over time, providing an effective inflation hedge

PORTFOLIO MANAGEMENT



Alex Meier
Portfolio Manager
24 Years of Experience



Michael Cerasoli, CFA
Portfolio Manager
25 Years of Experience

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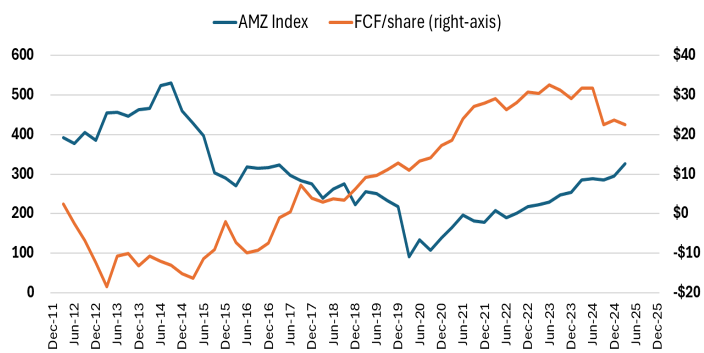
**AUM data is inclusive of both discretionary and non-discretionary client assets.*

Midstream Capex On The Rise

After nearly a decade of prioritizing free cash flow, Midstream capex is set to reach levels unseen since before the pandemic. The counterweight to higher spending is lower return of capital, an exchange that makes some investors nervous (us included!) since de-leveraging, share buybacks, and dividend growth were major drivers of the sector's steady outperformance since the pandemic. The reason why management teams are compelled to spend more is because the market has changed. We're in the midst of a generational shift in energy demand, driven by artificial intelligence, the globalization of natural gas, and the world's desire for energy stability.

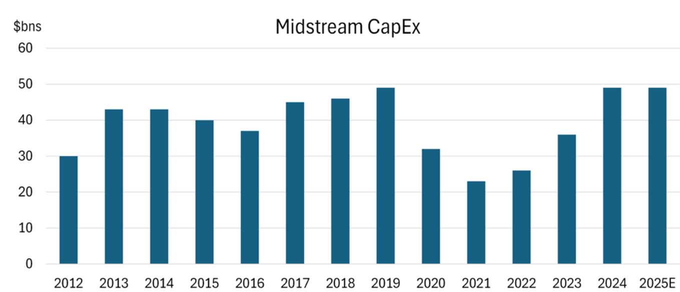
Energy infrastructure is a business, and it's a business's nature to want to grow. It's therefore no surprise that Midstream is eager to provide logistical solutions to those in desperate need of them. However, we've told management teams they're on a short leash since no matter what they tell us, this time will not be different. We expect them to be good stewards of capital and we will adjust positions based on their actions. Some will make the cut, others won't. Stock selection in today's market of rising risks is more critical than ever.



Source: Bloomberg

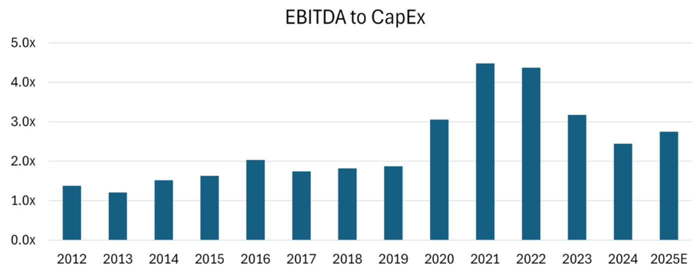
WILL MIDSTREAM MAINTAIN ITS POSITION OF STRENGTH?

The surprise of 2025 isn't that capex is moving higher. The surprise is the scale of the increases this early in the year. With fully reported 2024 capex already matching the 2019 peak, we think it's a foregone conclusion that 2025 spending will set a new record since the starting point is already at the all-time high. This makes us nervous, though there are signs investors may be open to these increases if done right. After all, the Alerian MLP Index (+13%) is again outperforming the S&P 500 (-4%) year-to-date. Midstream is also approaching this new growth era from a position of material strength, so the question is will they maintain it or squander it?



Source: Bloomberg

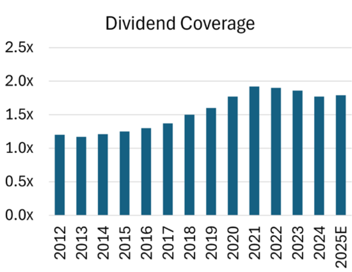
We looked at the relationship since 2012 between capex and cash flow, using EBITDA as a proxy for the latter. This time period captures the reckless spending prior to 2015, the pandemic-driven panic pullback on cash outflows, and the subsequent return-of-capital rally. EBITDA-to-Capex remains above where it was before the pandemic, even as spending has returned to record levels. While this is good, we also see an argument that the spread is tighter than it should be and well below the return-of-capital heyday of 2021-2022.

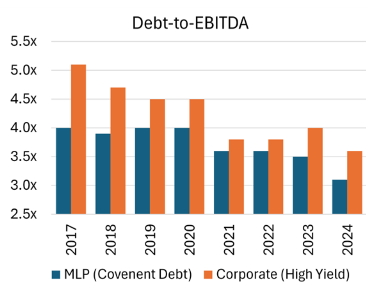


Source: Wells Fargo

There are reasons to be optimistic, though. Coverage ratios remain healthy, reliance on public equity markets is non-existent, and management is focused on driving higher and sustainable cash flow via small-dollar, higher-return projects.

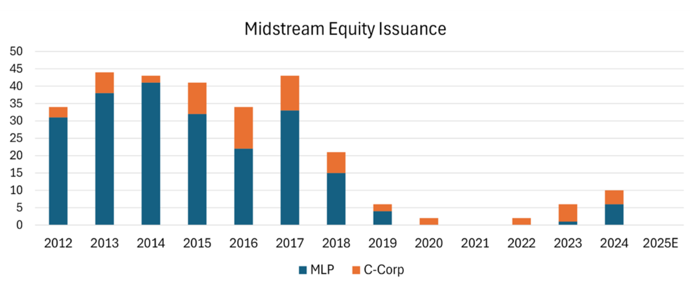
Dividend coverage of 1.77x and 1.79x in 2024A and 2025E, respectively, is 11%-12% above where it was in 2019, and roughly 50% ahead of where it was in 2012-2014. The sector's debt metrics have seen similar improvements over the same time frame. Midstream cash flow is also less commodity sensitive today than it was back then, with the vast majority being fee-based. There is still volume exposure, though even that is mitigated by a producer class that is far more likely to invest through the cycle than any other time in its history. Midstream's risk tolerance could be the highest it's ever been at a time when it's least likely to need it.





Source: Wells Fargo

Another key consideration is how Midstream has little to no reliance on equity capital markets, and we don't expect that will change. To repeat, we expect record capital spending will be financed without a need to raise public equity. The importance of this is it reduces volatility in share prices and gives investors more confidence in management's ability to grow in a disciplined manner as energy demand accelerates.



Source: Wells Fargo

We've believed the world was underinvesting in traditional energy for several years. Even today, with investment starting to ramp up, we're hard pressed to say today's level of investment is appropriate given the subsequent increase in demand. While capex has moved higher, Midstream is investing in what we believe are the right kind of projects. They've prioritized lower-risk, bolt-on, higher-return projects. Most investments are directed toward incremental expansions and system optimizations that enhance existing infrastructure rather than large-scale, greenfield developments. This approach reflects a more measured capital allocation strategy compared to previous cycles, contributing to more substantial risk-adjusted returns and improved capital efficiency.

For example, we've seen Midstream companies expand into adjacent verticals that remain within their core competencies and offer attractive risk-reward synergies. Williams (WMB) publicly detailed a $1.6 billion investment at a highly attractive 5x build multiple and a 10-year fixed-price PPA with a strong counterparty. Similarly, Energy Transfer's (ET) intrastate, multi-billion-dollar Hugh Brinson Pipeline project is a critical component in its deal to provide energy to data center developer Cloudburst.

Meanwhile, the new Republican administration has lifted the ban on building new liquefied natural gas (LNG) export terminals. LNG projects, while capital-intensive, typically feature long-term, take-or-pay contracts with investment-grade counterparties, locking in stable, predictable cash flows. They also tend to reside in far fewer jurisdictions, reducing regulatory risk.

In summary, we're cautiously optimistic about 2025, but we readily admit that record levels of capital spending make us nervous. Midstream is in a stronger position to manage these risks today than the last time we experienced this level of spending. However, risks remain. The most significant of which would be the potential for overbuilding infrastructure or the sector taking on complex, large-scale, multi-jurisdictional projects.

We'd be most concerned about the former if demand does not materialize, particularly in newer verticals like data center infrastructure. If power demand from data centers fails to scale as projected, we could see excess pipeline and transmission capacity, resulting in underutilized assets after initial contracts expire. The latter represents real risk, though so far, we've seen minimal evidence that Midstream is willing to tempt fate in an oppressive regulatory and activist environment.

Finally, a broader economic slowdown or recession driven by a prolonged trade war or anything else seems to be a real risk today and could meaningfully dampen energy demand. Let's also not forget about OPEC, which is executing plans to reverse voluntary production cuts, adding production back to the marketplace that will likely affect oil prices for 2025.

Eagle Energy Infrastructure

ENERGY INFRASTRUCTURE TEAM UPDATE

There were no significant team-related news items to highlight this quarter. We continue to focus on the research and portfolio execution effort and are in constant dialogue with industry experts and management teams. We continue to believe oil and natural gas will play a major and increasing role in the global economy, mainly as new and emerging technologies raise demand for traditional energy. Combined with the sector's healthy balance sheets, solid dividend coverage, and heightened discipline, we see a compelling total return proposition for long-term-oriented investors.

We look forward to communicating your investment results next quarter and thank you for your continued patronage and confidence in Eagle Global Advisors.

DISCLOSURES

The indices shown are for informational purposes only and are not reflective of any investment. They are unmanaged and shown for illustrative purposes only. The volatility of the indices are likely materially different than the strategy depicted. Eagle Global's Renewables Infrastructure Strategy includes buying and selling various renewables infrastructure companies. Holdings will vary from period to period and renewables infrastructure companies can have a material impact on the performance.

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