Energy Infrastructure Review & Outlook

4Q 2023

EAGLE GLOBAL ADVISORS

Macro Environment

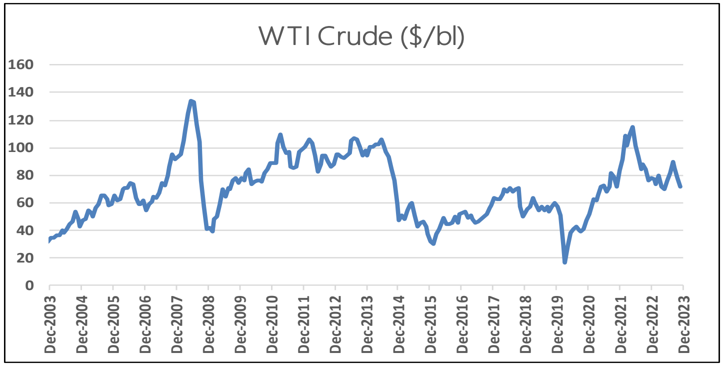
- The Federal Reserve held the benchmark rate steady during the quarter in a range of 5.25%-5.50%. Inflation has showed meaningful signs of cooling although it remains above the Fed target of 2.0%, prompting the Fed to signal three rate cuts in 2024.

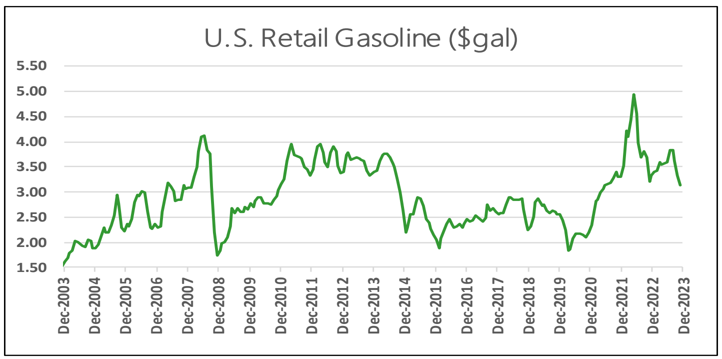
- Risk assets rallied on the prospects of a Fed pivot. After briefly touching 5%, the 10-year treasury rate finished the year at 3.95%. The S&P 500 hit a new high of 4,783 on December 27th.

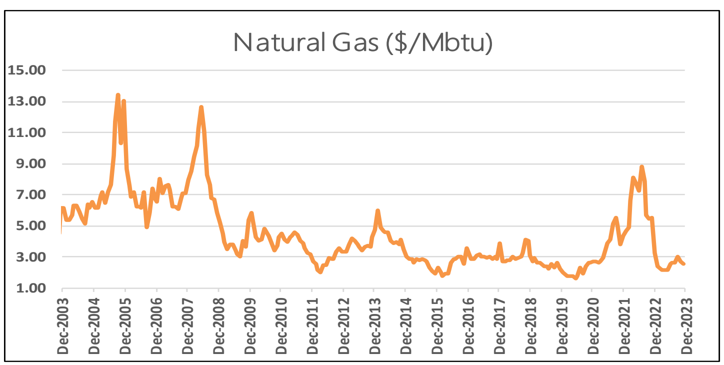
- OPEC+ led by Saudi Arabia and Russia continue to extend voluntary crude oil production cuts to support prices.

- U.S. Crude Oil production continued to all-time records, exceeding 13Mbpd in August, September and October.

Demand > Supply = Higher Prices For Longer

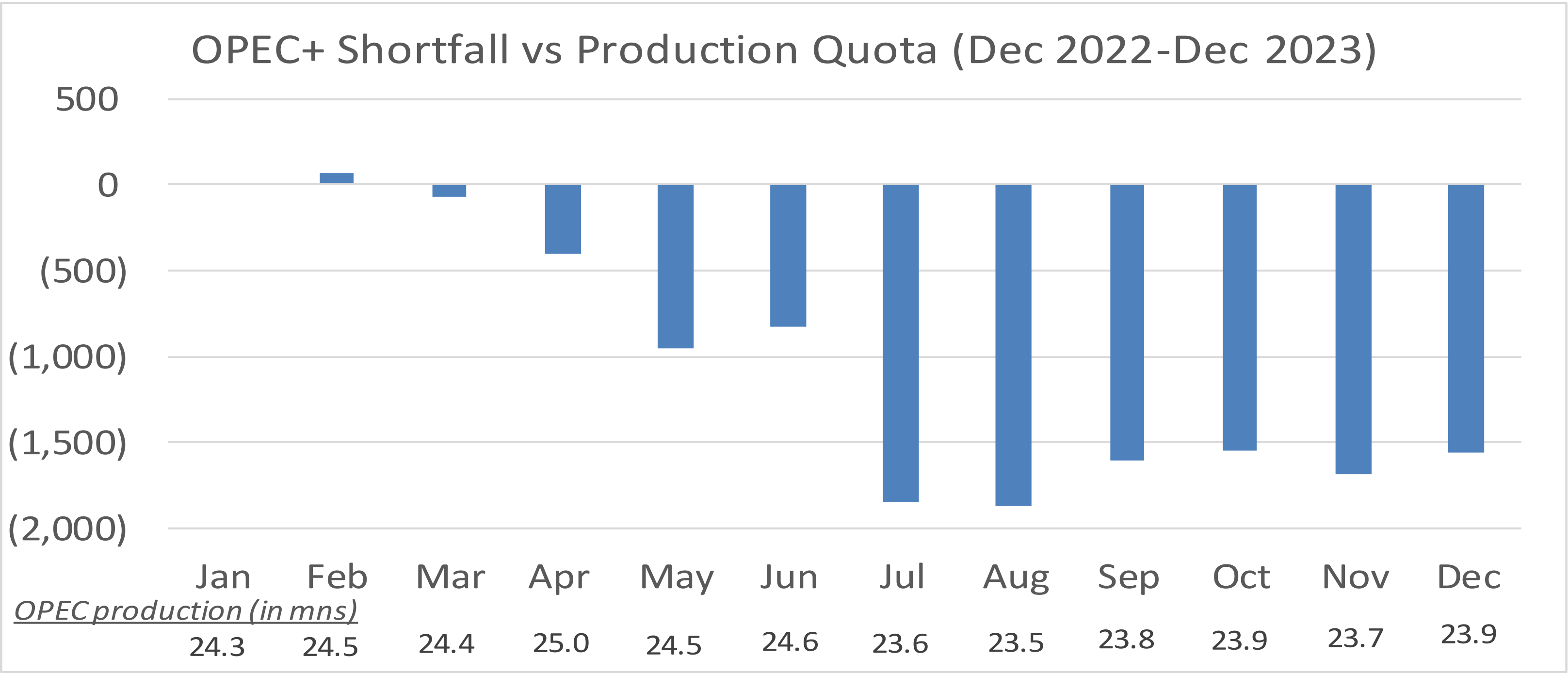






- Commodity cycles tend to be multi-year.
- OPEC+ led by Saudi Arabia and Russia continue to extend voluntary crude oil production cuts to support prices.
- Domestic U.S. producers are focusing on shareholder friendly initiatives (e.g., debt reduction, dividend growth, buybacks).

OPEC+ Failing To Keep Up With Production Quotas



OPEC+ production has failed to meet their established quota each month since Jan 2021, despite reducing quotas twice.

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Source: Energy Information Agency, Wells Fargo Securities. Data as of December 2023

Rediscovering The Importance Of Traditional Energy

The United States and Western Europe are re-discovering the important role hydrocarbons play in the global economy:

- G-7 reverses commitment to halt financing of overseas fossil-fuel projects by year's end.
- European Union pushing to allow natural gas (and nuclear) to qualify as "sustainable energy" for purposes of achieving climate-friendly future.
- Germany (and Europe) fast tracking LNG import facilities to diversify supply away from Russia.
- Increasing support in the United States for an "all under the sun" approach to energy policy.

Midstream Outlook

Net Free Cash Flow, Attractive Value Proposition, and Inflation Protection

- <u>Attractive free cash flow yields</u> provide for accelerated deleveraging and increased adoption of share buyback programs to return value to equity holders.
- <u>High distribution coverage</u> supports sustained and potentially growing dividends, the reversal of a multi-year trend of cuts.
- <u>Valuations remain low</u> relative to history and other yield-oriented asset classes, creating the opportunity for a further re-rating of the sector.
- <u>Share buybacks and dividend increases</u> expected to continue to provide a tailwind for investors.
- North American Midstream infrastructure is <u>critical to ensuring global energy security</u> in a volatile geopolitical environment.

Heightened Midstream M&A Activity

Acquisitions Highlight Sector Value

Transaction	Size
ONEOK acquires Magellan Midstream	$ 19.0B
Enbridge acquires nat. gas distribution assets from Dominion	$ 14.0B
Energy Transfer acquires Crestwood Equity Partners	$ 7.0B
Western Gas acquires private Meritage Midstream	$ 0.9B

Why Now?

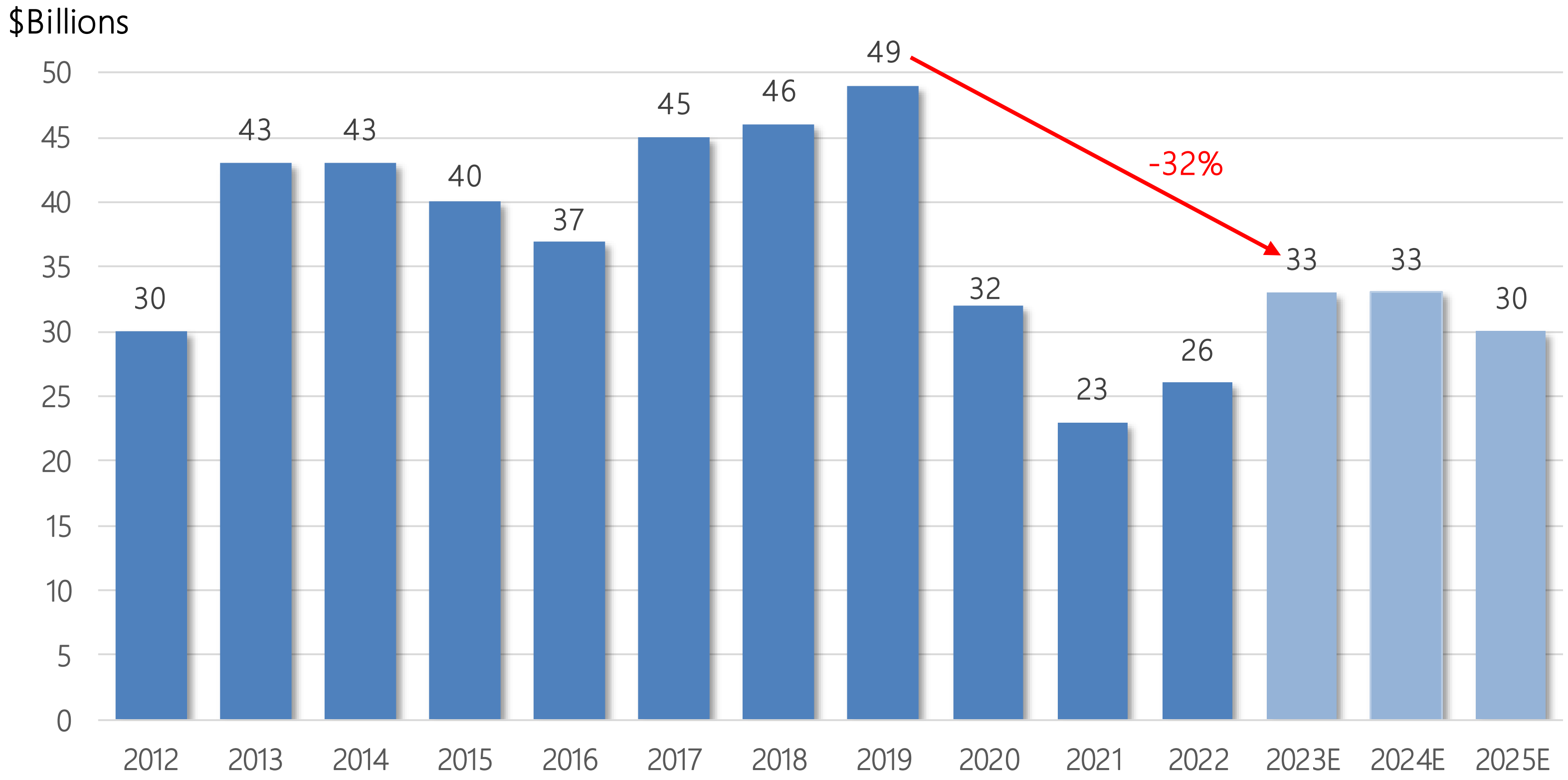
- Excess cash flow + healthy balance sheets creates attractive currency
- Acquisitions done right can deliver
- 3rd party willingness to sell

What Does it Mean?

- Sector is cheap
- Midstream still out of favor
- Regulatory environment favors acquisitions over organic growth

Midstream Organic Capex

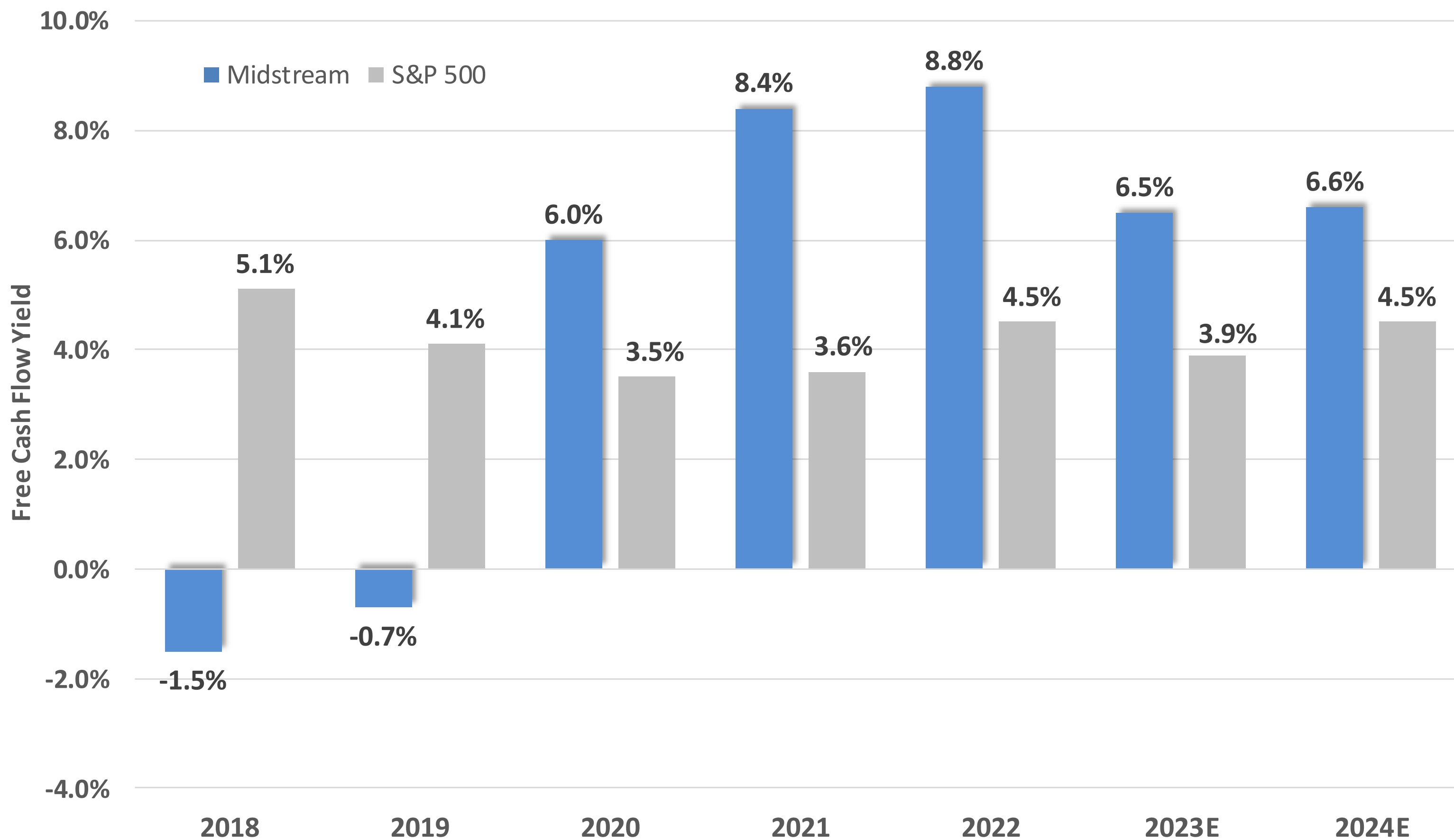
Shale Assets Have Matured, Requiring Less Capital Expense



Source: Company Data, Wells Fargo Securities, LLC. Data as of December 2023.

Free Cash Flow

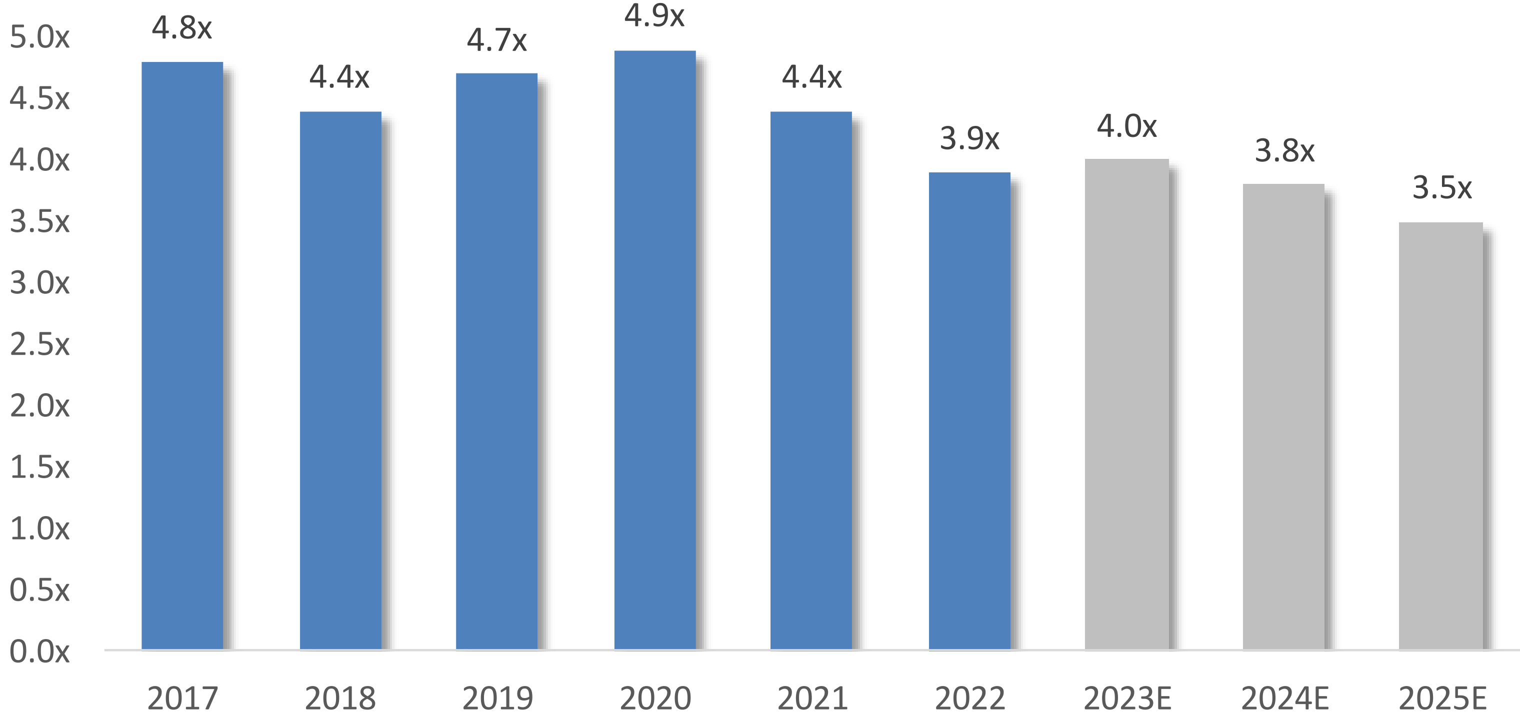
Higher EBITDA + Lower Capex = More Free Cash Flow



Source: Company Reports and Wells Fargo Securities, LLC. Data as of December 2023

Rating Agency Debt to EBITDA

Leverage Improvement Expected to Continue Through 2025

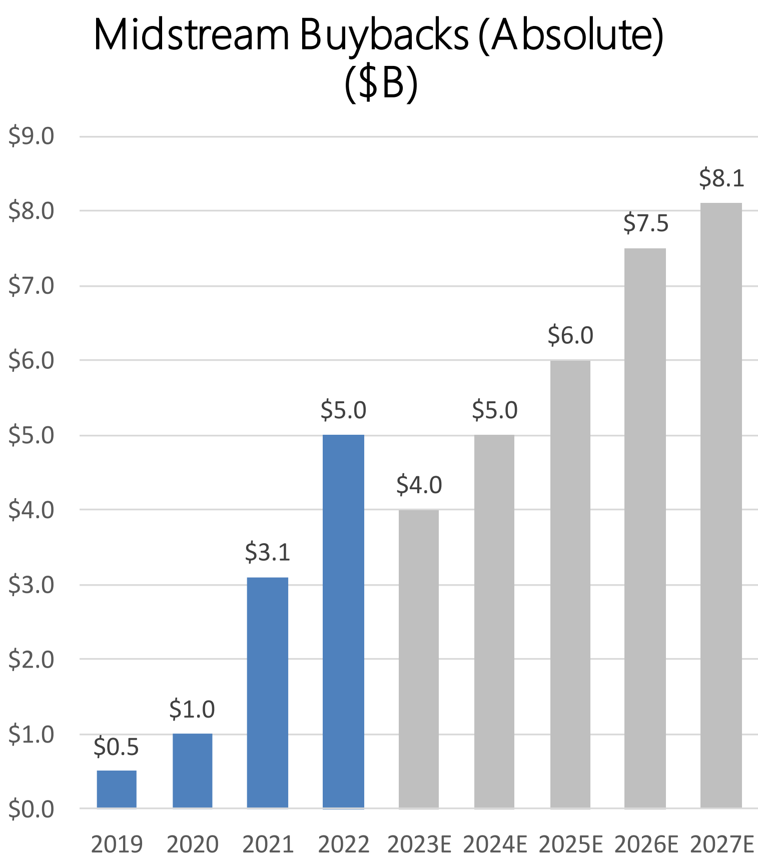


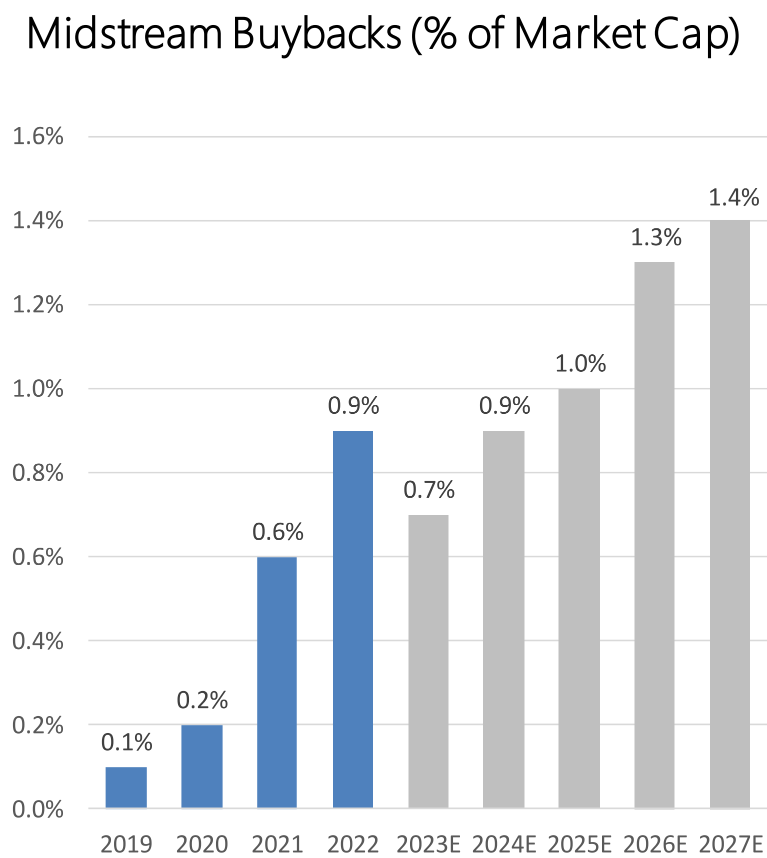
Source: Company reports and Wells Fargo Securities, LLC estimates

Note: Leverage metrics reflect the median for Pipeline MLPs and Midstream C-Corps currently under coverage, whereas coverage metrics reflect all C-Corps and MLPs under coverage. Data as of October 2023.

Midstream Share Buybacks

Expect Trend To Accelerate As FCF Grows In 2022 And Beyond



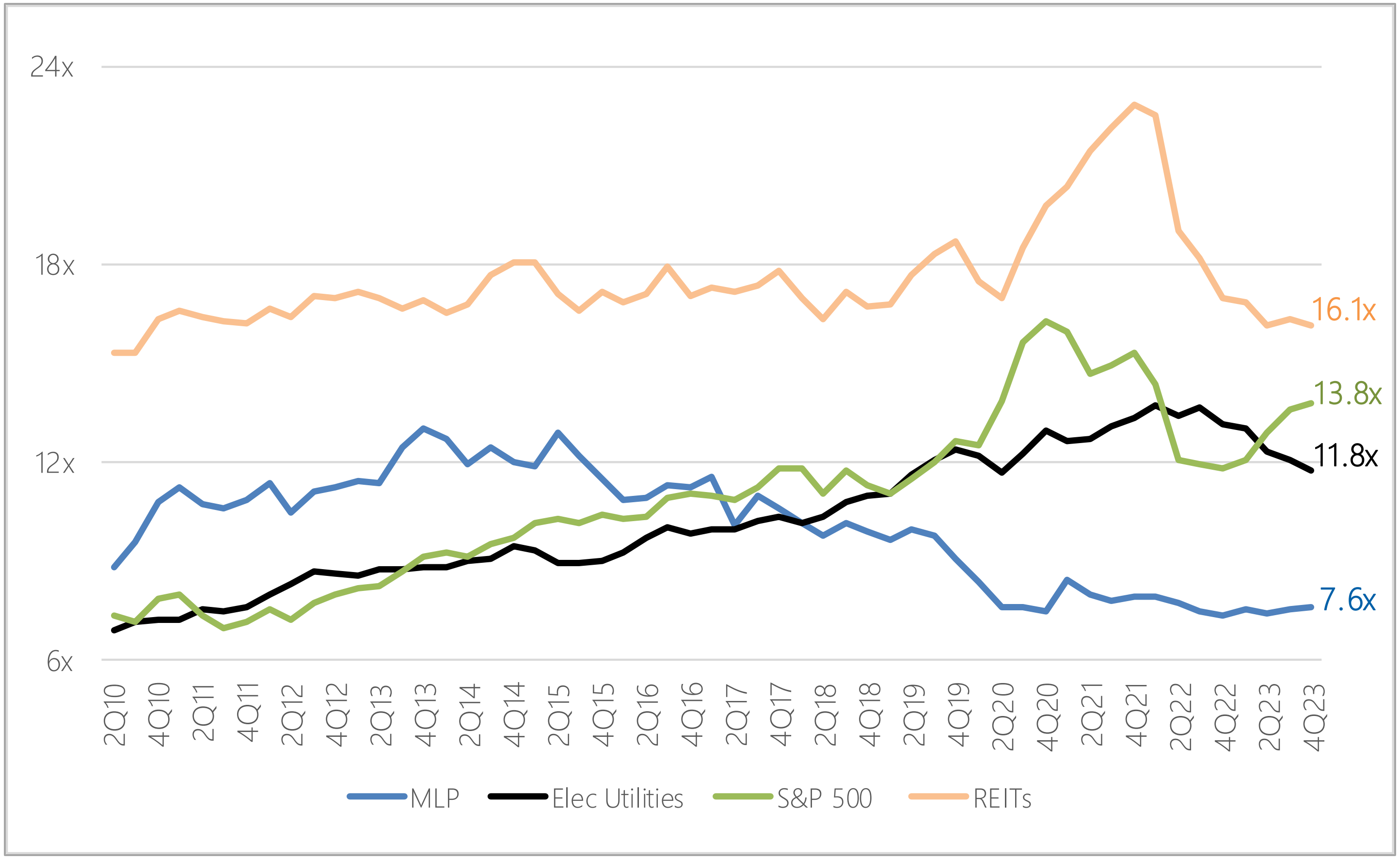


Source: Company Reports, FactSet and Wells Fargo Securities, LLC. Data as of December 2023

Valuations Remain Cheap to History

Midstream is Discounted to Other Energy and Other Yield-Oriented Securities

EV/EBITDA Multiples for MLPs, Utilities, S&P 500, REITs
2010 – 2023

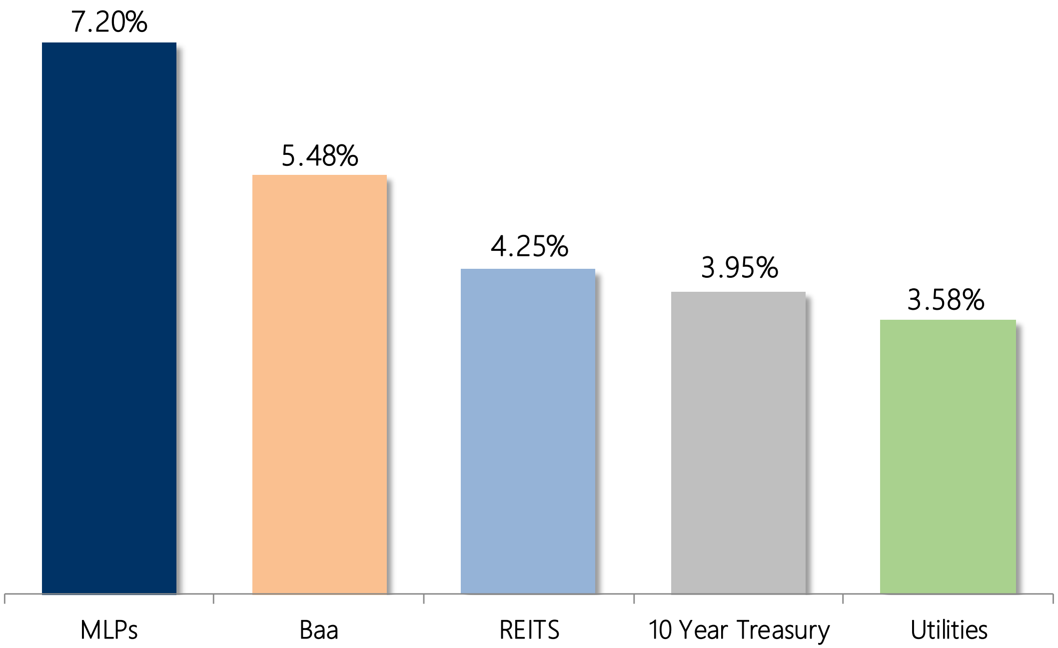


Source: Bloomberg. MLPs are represented by the Alerian MLP Index (AMZ), Electric Utilities are represented by the Philadelphia Utility Index (UTY), S&P 500 is represented by the S&P 500 Index (SPX), REITs are represented by the MSCI US REIT Index (RMZ). Data as of 12/31/2023.

Current Yield

MLP/Midstream Yield Remains Elevated

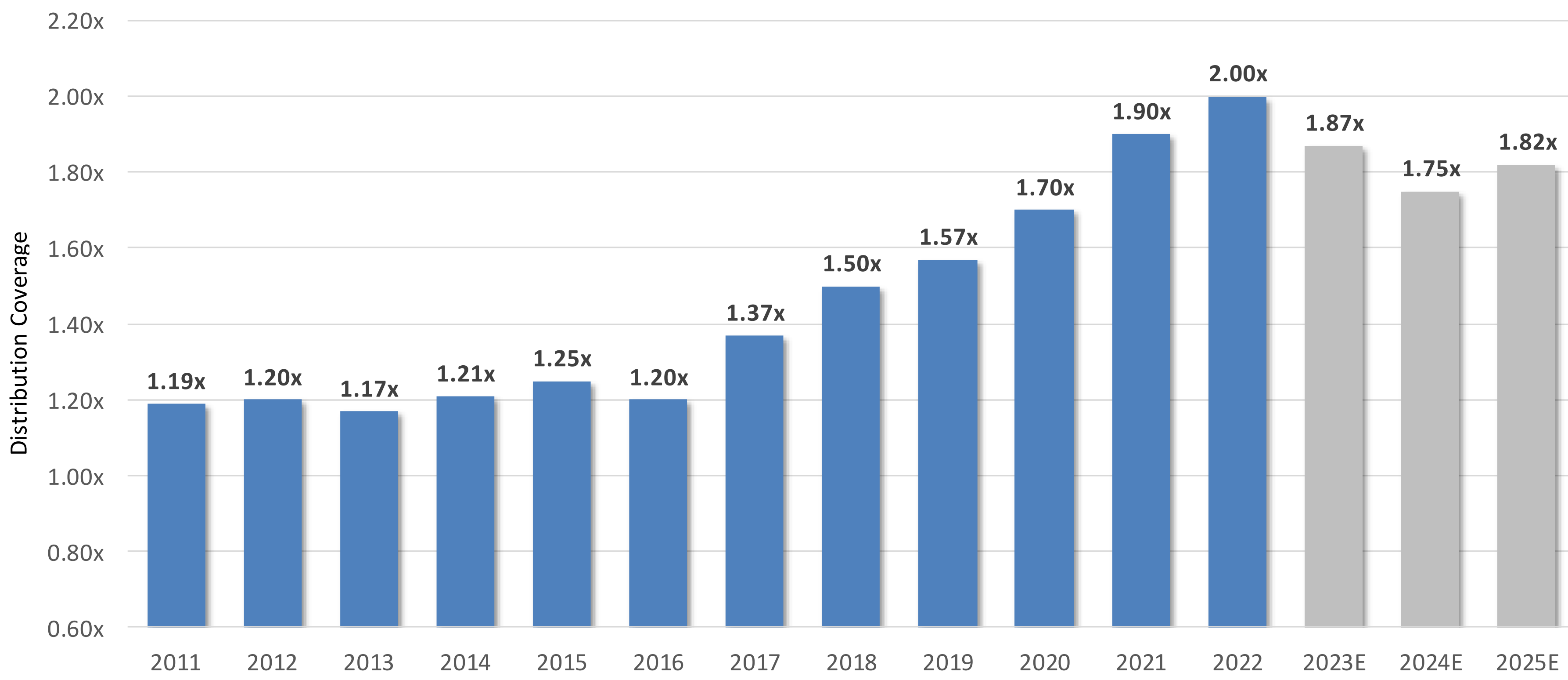
- MLP yield advantage remains, though all yields have backed up.
- Prior distribution cuts have eroded investor confidence in payouts.
- Current distribution coverage ratio is 1.9X versus 1.2X in 2015.



Source: Alerian, NAREIT, Dow Jones, Moody's, US Federal Reserve. MLPs are represented by the Alerian MLP Index (AMZ). Baa is represented by the Moody's seasoned Baa corporate bond index. REITS are represented by the NAREIT Equity REIT total return index. Utilities are represented by the Dow Jones Utility Index. Data as of 12/31/2023.

Midstream Distribution Coverage

2.0x In 2022 versus 1.2x In 2016



Eagle Global Advisors

Source: Company reports and Wells Fargo Securities, LLC estimates
Note: Coverage figures derived from an aggregate calculation.
Data as of December 2023

Portfolio Positioning

- Focus on free cash flows that support incremental shareholder returns through accelerated share buybacks and increased dividends (e.g. TRGP, LNG, PAA).

- Mitigate inflation risk by owning companies whose contracts are tied to inflation escalators (e.g. TRGP, MPLX).

- Own businesses positioned to capture strong oil and gas fundamentals (e.g., ET, PAA, WES, TRGP).

- Capitalize on Global Energy Security theme by owning companies with energy export infrastructure (LNG, ET, TRGP, EPD).