EAGLE GLOBAL ADVISORS



# Eagle Renewables Infrastructure

## An Activist Makes A Case For Discipline

A well-known activist investor authored a letter in March to RWE AG, a German company that ranks among the top developers of renewable energy. The letter indicated satisfaction with management's decision to reduce capital spending, raise return targets, and accelerate its farmdown strategy. However, they also questioned why, given RWE's undervaluation, management wasn't increasing its share buyback program more significantly. It's a good question, especially when considering the positive effect that returning capital had on traditional energy (oil and gas) infrastructure stocks following the 2020 pandemic. At that time, traditional energy was at its nadir when management decided to slash capital spending and redirect the resulting positive free cash flow towards deleveraging, followed by increasingly larger quantities of share buybacks and dividend increases. Traditional energy infrastructure stocks embarked on a multi-year rally that continues to this day.

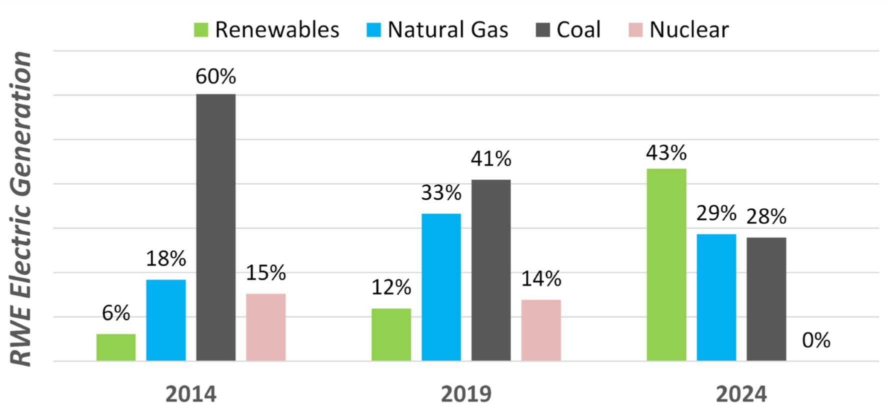
We understand the differences between the two asset classes, and the conditions they faced then and now raise questions about the translatability of such a strategic shift. However, there are ample similarities that make prioritizing the return of capital to shareholders worthwhile. RWE opened the door to this debate, perhaps unintentionally, and the activist investor seized the opportunity to kick the door wide open. Whether they will be successful remains to be seen; nonetheless, as asset managers, we're excited that this conversation is taking place. We've seen firsthand how discipline can correct bad habits and lead a sector to a more sustainable operating environment.

RWE

*Source: RWE AG*

### RWE RAISES ITS OWN BAR

RWE AG is a German company in the business of generating and trading electricity. Earlier in its history, it generated electricity primarily from coal and nuclear. However, its recent buy-in to Energy Transition has seen the company become a leader in the development of renewable energy. Ten years ago, approximately 78% of RWE's generation was traditional (e.g., coal, natural gas), with the remaining 22% coming from renewable energy or nuclear sources. Today, renewable energy accounts for 43% of RWE's generation. However, we estimate that in 2024, roughly 65% of RWE's EBITDA will come from renewable energy sources, including wind, solar, and hydro. Only 35% of its EBITDA came from traditional energy and nothing from nuclear. It's also worth noting that while RWE may be a German company, they're geographically diverse. Roughly 47% of the company's generation is in the United States, which is a close second to its European generation of 51% and, in fact, much larger than its generation within Germany (~12%) alone.




*Source: RWE AG*

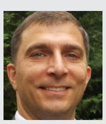
### ABOUT US

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

### INVESTMENT HIGHLIGHTS

- *Essential Infrastructure:* Renewables Infrastructure companies own or have interests in renewables or renewable-related infrastructure assets (i.e., wind, solar, electric transmission, hydro, biomass, etc.)
- *Income + Growth:* Compelling dividend yield supported by stable cash flows and long-term contracts
- *Energy Transition Megatrend:* Transition to clean energy will require multiple trillions of dollars to be invested over multiple decades
- *Historical Performance:* Renewables Infrastructure stocks have historically outperformed other yield-oriented investments

### PORTFOLIO MANAGEMENT



**Michael Cerasoli, CFA**
*Portfolio Manager*
*25 Years of Experience*

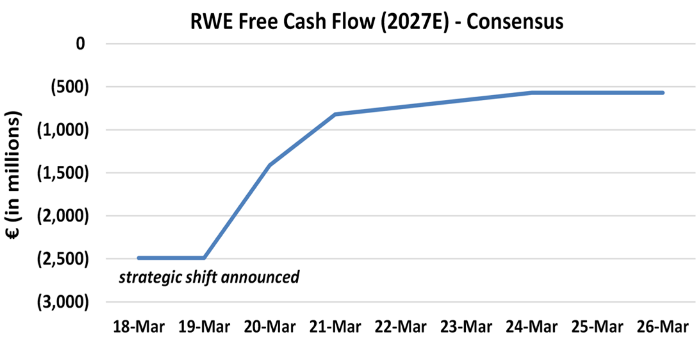
**Alex Meier**
*Portfolio Manager*
*24 Years of Experience*

### CONTACT US

**Steven Russo**
713.952.3550
srusso@eagleglobal.com

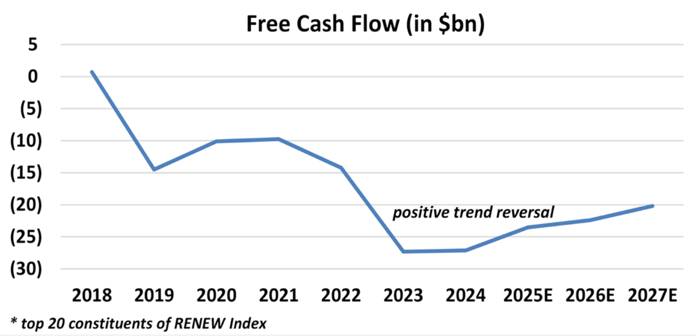
**AUM data is inclusive of both discretionary and non-discretionary client assets.*

In mid-March, RWE released full-year 2024 results and highlighted in its press release that the company faces “regulatory uncertainties, constraints in the supply chain, geopolitical risks and higher interest rates”. They therefore decided to raise the required rate of return for new projects to an average of 8.5% (prior: 8.0%), which reduced their planned capital spending by roughly €10 billion less than previously expected (now: €35 billion) through 2030. According to Bloomberg, the consensus forecast for free cash flow in 2027 improved by nearly €2 billion following this news. When paired with its healthy balance sheet (2.0x debt/EBITDA at end-2024), RWE’s outlook appears to be the most stable it has been in years. This was the context when an activist investor published their letter imploring RWE to step up its rate of share buybacks.




*Source: Bloomberg*

It’s important to mention this trend of retaining more free cash flow is not unique to RWE, as the renewable energy infrastructure sector has also experienced steady improvement. This is not by accident. It’s happening because management teams have been forced into being disciplined with their capital spending. Let’s remember that developers massively increased spending following the passage of several large-scale public policy initiatives (e.g., Inflation Reduction Act, EU Green Deal). Competition whittled away returns as investors rewarded companies with the biggest (not healthiest) appetites. Unfortunately, reality bites. Inflation, rising interest rates, and supply chain issues exposed what had been mediocre risk management. Costs were cut where they could, and some projects were outright cancelled, resulting in a positive trend reversal in free cash flow.




*Source: Bloomberg*

In our opinion, the key for renewable energy infrastructure in the future is to maintain the discipline that has helped it onto a more sustainable path. One way to convince investors that the sector is investable again is to return capital to shareholders, and the above activist investor believes the best form of this is share buybacks. We believe success breeds replication, and other companies will take similar actions if RWE’s strategic shift towards discipline drives its stock higher.

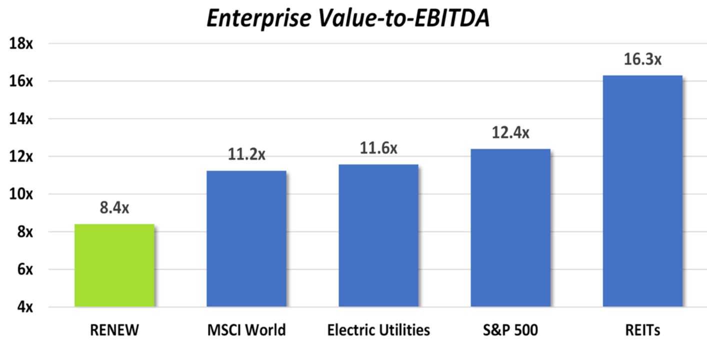
## CONSOLIDATORS GO BARGAIN HUNTING

In late February, Innergex (INE CN), a pure-play renewable energy owner/operator, agreed to be acquired by Canadian pension fund manager CDPQ. The agreed price represented a 58% premium to the prior day’s close. This follows other sector consolidation examples, including the private equity takeout of Atlantica Yield and Brookfield’s acquisition of NEOEN SA. These announcements encapsulate the divide between public markets and the private sector concerning renewable energy assets. Put more simply, the private sector values renewable energy assets much higher than public markets.

We’re not entirely sure why this is, and we’re also unsure what will close this public-to-private valuation gap. What we feel good about is how consolidation should positively affect the sector’s operating environment. For starters, consolidation reduces competition, which should help management teams achieve their goals of higher returns and increased capital discipline. We believe the surge in public policy caused a mad rush of new entrants into renewable energy development, with many recklessly trying to buy their way into Energy Transition. But circumstances have changed. Many of those companies are now gone, while others have been swallowed by larger companies. The reason RWE can raise its return thresholds and maintain compelling growth is because they’re not being undercut. This is healthy and sustainable, and we believe it is a recipe for success.

We’ll end with a familiar chart that shows how renewable energy infrastructure looks attractive on a relative basis. The EV/EBITDA of the RENEW Index trades at a 32% discount to the S&P 500 and a material discount to other income-oriented, value-focused investment opportunities, like Electric Utilities and REITs. We believe the sector has taken meaningful steps towards prioritizing returns and fiscal discipline. Furthermore, the sector remains among the best positioned to benefit from Energy Transition, which is still happening despite a slowdown in the pace of development. Whether you believe Energy Transition will take five years or fifty years is somewhat beside the point. We prefer slow and steady, focusing on sustainable, return-focused growth programs that should enhance shareholder value over the long-term.

# Eagle Renewables Infrastructure




*Source: Bloomberg*

## RENEWABLES 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 our indexing initiative. We are in constant dialogue with industry experts and management teams, both domestically and in Europe. We see the Energy Transition or decarbonization megatrend continuing to gain traction among investors, supporting our view that societal and political support are making renewable infrastructure increasingly inelastic to market forces.

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

- The Eagle Renewables Infrastructure Team

# Eagle Renewables Infrastructure

EAGLE GLOBAL ADVISORS

## EGA Renewables Income Composite
October 1, 2017 through December 31, 2024

| | 2024 | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **Total Return (%) Gross** | **(3.45)** | **(3.54)** | **(7.90)** | **2.01** | **55.79** | **33.87** | **(7.63)** | **4.96** |
| **Total Return (%) Net** | **(4.18)** | **(4.26)** | **(8.60)** | **1.25** | **54.67** | **32.89** | **(8.32)** | **4.76** |
| **Eagle Renewables Infrastructure Benchmark Total Return (%)*** | **(8.63)** | **1.33** | **(8.70)** | **(3.60)** | **35.50** | **33.06** | **0.08** | **0.65** |
| Composite 3 Year Std. Dev. | 21.24 | 19.24 | 22.74 | 19.67 | 18.95 | N/A | N/A | N/A |
| Benchmark 3 Year Std. Dev. | 21.07 | 18.96 | 21.34 | 18.12 | 16.88 | N/A | N/A | N/A |
| Number of Portfolios | 9 | 9 | 9 | 7 | <6 | <6 | <6 | <6 |
| Composite Dispersion (%) | 0.29 | 0.46 | 0.24 | N/A | N/A | N/A | N/A | N/A |
| Composite Assets at End of Period (US$ 000) | 27,346 | 2,771 | 2,923 | 3,541 | 1,340 | 862 | 646 | 702 |
| Total Firm Assets (US$ 000) | 2,428,076 | 1,940,225 | 1,700,514 | 1,911,969 | 1,571,232 | 2,279,115 | 2,632,277 | 3,561,407 |

* Benchmark: Eagle Renewables Infrastructure

- **EGA Renewables Income Composite** - The EGA Renewables Income composite consists of those equity-only portfolios invested in a concentrated portfolio of renewable infrastructure companies.
- For GIPS purposes, Eagle Global Advisors, LLC is an independent investment advisor, registered with the SEC, actively managing individual investment portfolios containing domestic equity, international equity, master limited partnerships, and domestic fixed income securities, (either directly or through a sub-advisory relationship), for mutual funds, high net worth individuals, retirement plans for corporations and unions, financial institutions, trusts, endowments and foundations. SEC registration does not imply a certain level of skill or training.
- Eagle Global Advisors, LLC claims compliance with Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS standards. Eagle Global Advisors, LLC has been independently verified for the periods 1/1/1997 to 12/31/2021. The verification reports are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Only direct trading expenses are deducted when presenting gross of fee returns. In addition to management fees, actual client returns will be reduced by any other expenses related to the management of an account such as trustee fees or custodian fees. The reporting currency is the U.S. dollar. Returns are calculated net of non-reclaimable foreign withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes are not accrued, but are cash basis as received. Eagle uses the asset-weighted standard deviation as the measure of composite dispersion of the individual component portfolio gross full period returns around the aggregate composite mean gross return. The 3 year annual standard deviation and internal dispersion are calculated using Gross of Fees returns. If the composite contains 5 portfolios or less (<=5) for the full period, a measure of dispersion is shown as not meaningful (N/A) and the number of portfolios is not reported. Past performance cannot guarantee comparable future results. All investments involve risk including the loss of principal. This presentation is only intended for investors qualifying as prospective clients as defined by GIPS.
- The composite start date is October 1, 2017 and was created in 2020. The composite consists of separate accounts where the firm has full investment discretion, the portfolio contains over $100,000 in renewable infrastructure companies, and the portfolio properly represented the intended strategy at the end of the calendar quarter. All performance returns assume the reinvestment of dividends, interest, and capital gains.
- The benchmark is the Renewables Infrastructure Index and is designed to track the performance of renewable infrastructure or renewable-related infrastructure assets, primarily wind, solar, hydro, biomass and electric transmission lines. Constituents are companies whose stocks trade globally in OECD countries. The index is a capped, float-adjusted, capitalization-weighted index developed by Eagle Global Advisors and disseminated real-time on a price-return basis (RENEW) and on a total-return basis (RENEWTR).
- The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Indices do not include fees or operating expenses and are not available for actual investment. Indices presented are representative of various broad based asset classes. They are unmanaged and shown for illustrative purposes only. The volatility of the indices is likely materially different than the strategy depicted. Eagle Global's Renewables Infrastructure strategy include buying and selling various renewables infrastructure companies. Holdings will vary from period to period and non-renewables companies can have a material impact on the performance.
- The Eagle list of composite descriptions, limited distribution pooled funds, and list of broadly distributed pooled funds is available upon request. Eagle policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.
- Net-of-fee returns are calculated using a model fee consisting of the largest fee in the fee schedule, taken quarterly.

| **Renewables Income Fee Schedule**<br>(minimum annual fee: $2,500) | |
|---|---|
| Account Size | All assets |
| Annual Fee | 0.75% |