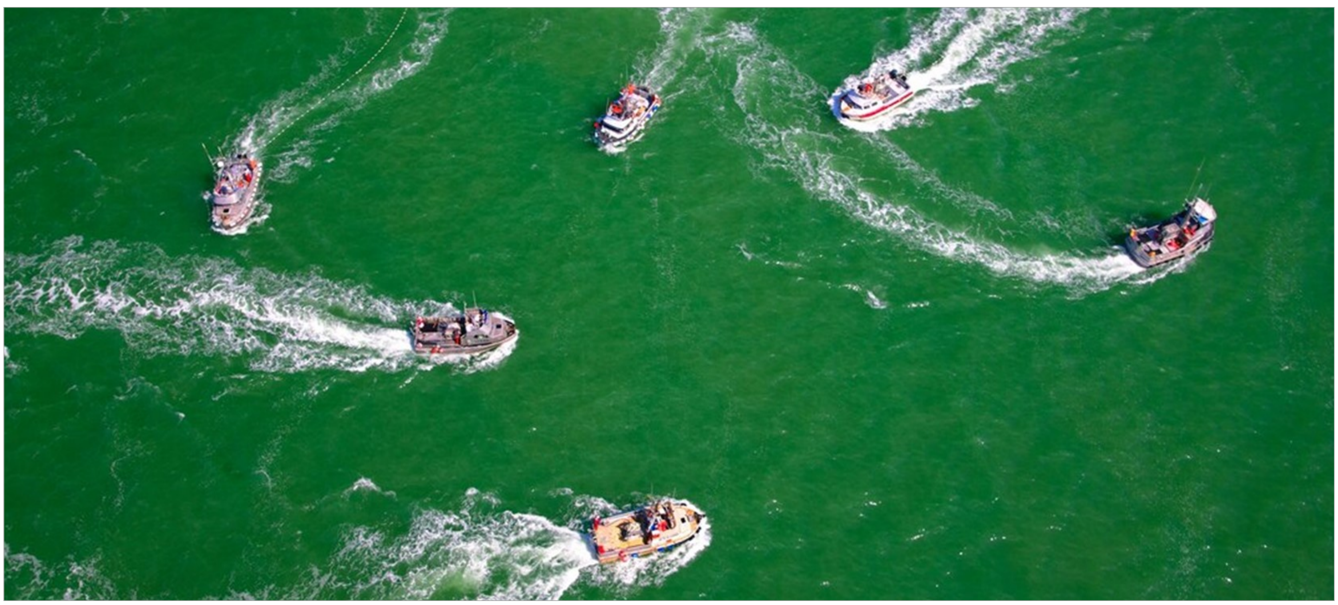
Quarterly Commentary
2Q 2023

EGA Renewables Infrastructure

From the EGA Portfolio Management Team

Renewable Energy Infrastructure: Jockeying For Position

Every summer in Bristol Bay (Alaska) thousands of fishing boats head out and wait for the proverbial horn to sound. When it does, the nets get dropped into the water and towed around with the hope of netting thousands of pounds of salmon. The overseers (Alaska's Department of Fish and Game) carefully monitor the catch and when the quota is reached a second proverbial horn is blown, the nets are reeled in, and the fishing boats deliver what they caught in return for a (hopefully) fat paycheck. It's quick and chaotic, and prior to the start of this rush the fishing boats are motoring around, jockeying for position, and maneuvering their boats into ideal positions in order to snag the largest catch. It's a wild scene that's worth watching on National Geographic, and not unlike what seems to be happening in renewable energy infrastructure.

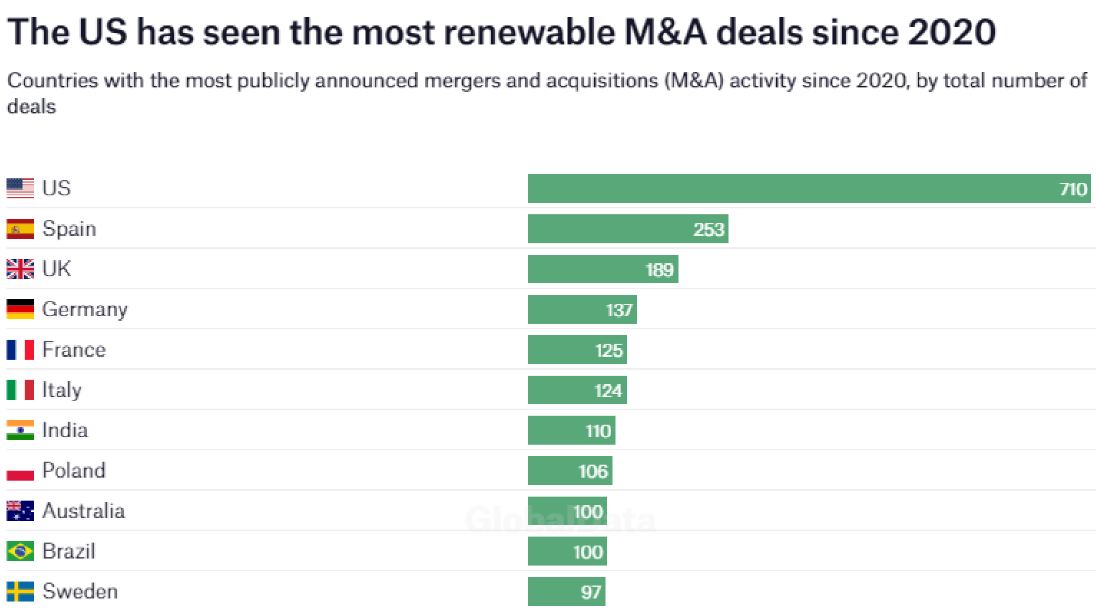


So far 2023 has been mildly disappointing as the Eagle Global Renewables Infrastructure Index (Bloomberg ticker: RENEW; Factset ticker: RENEWINDEX) has posted +3% total return versus the S&P 500's +17%. In the words of Yogi Berra though, "It ain't over til it's over". This year renewable energy investors have felt a bit like those fishing boats in Bristol Bay jockeying for position before the rush. We say this because things are happening. Contracts and development projects are being advanced, aging assets are being re-powered, and infrastructure is being bought at a solid clip in the third-party market. The latter is compelling to us because it implies that valuations are not stretched, it implies confidence these assets are necessary and when in the right hands are ripe for growth, and so management teams are putting their money where their mouth is.

Everybody Wants To Rule The World

There are four major ways renewable energy infrastructure companies can expand cash flows: (1) acquisitions, (2) "greenfield" organic growth, (3) "brownfield" organic growth, and (4) efficiency gains by way of revenue optimization and/or cost management. Typically, companies are trying to execute on (4) while strategizing on how to best allocate a finite amount of capital into (1), (2), or (3). In other words, determining which of those three will return the most bang for your investment buck. Perhaps an over-simplification, but companies tend to prefer acquiring assets during downturns and build via organic growth during upturns. So, what does today's market of simultaneous acquisitions and project development tell us about where we are? In our view it means there is a lot of jockeying for position for enormous opportunities that when done right should yield full nets and fat paychecks.

Acquisitions. In June Brookfield Renewables (BEPC) announced it will acquire Duke Energy's (DUK) utility-scale, unregulated renewable energy portfolio for $2.8 billion. This follows Brookfield's decision in November to participate in the $10.2 billion acquisition of Australian company Origin Energy (AGL AU) and German-based RWE AG's (RWE GR) acquisition of Con Edison's (ED) clean energy business for $6.8 billion. Since 2020 Italy-based Enel SpA (ENEL IM) has transacted over 25 times, according to Energy Monitor. The point is that assets are changing hands. Companies are making decisions about where they want to be, and if the price is right they're willing to jump in and buy assets rather than build organically. Increasingly, these deals are targeting exposure to the United States, no doubt a response to the passing of the Inflation Reduction Act (IRA). In fact, RWE has made it quite clear the reason they purchased the Con Edison clean energy portfolio was to get a meaningful foothold in the United States, and no doubt were helped along by a desire for diversification in light of the geopolitical uncertainty in Europe.

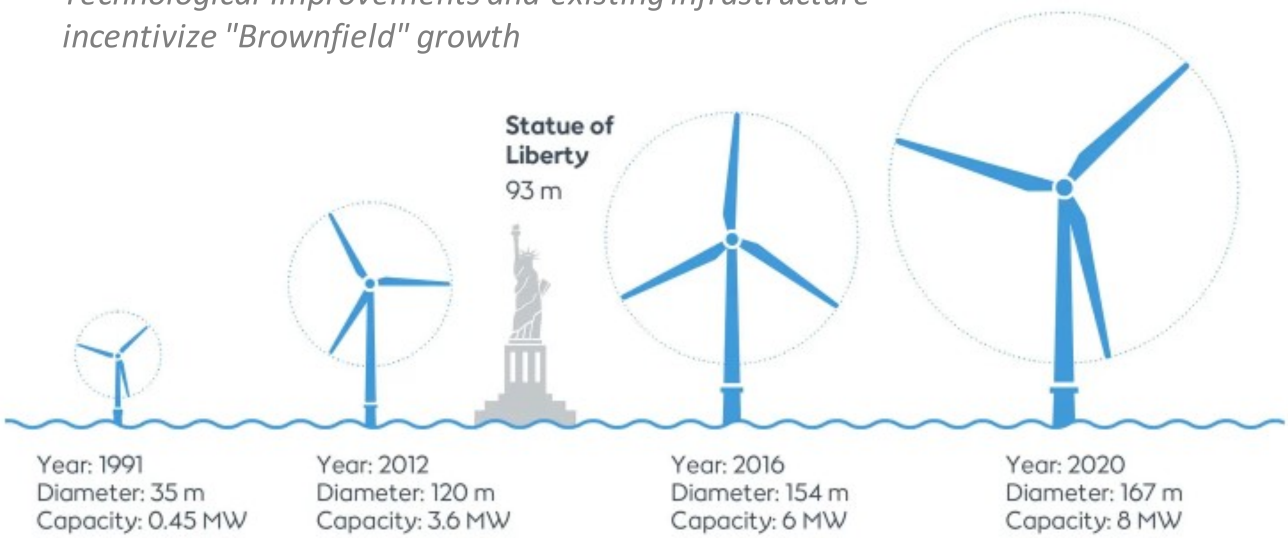


Source: *Energy Monitor*

Also worth noting is there is a bit of a reckoning among some companies that may own unregulated renewable energy assets. Investors are questioning whether regulated electric utility companies are the appropriate vehicle to own unregulated assets. The companies that are better suited to own unregulated assets are as a result finding these assets for sale at the right price. This should improve market efficiency and in some cases create a win-win for both parties.

"Brownfield" organic growth. We define "brownfield" as land that has previously been built on. As an example, an operating wind farm that is reaching the end of its contracted life. A company could decide to keep operating the farm and selling power into the spot market or it can replace the existing towers and turbines with the latest wind technology and secure a new long-term contract. The latter is typically preferred because the productivity of new technology far exceeds technology that could be well over a decade old. Returns are also enhanced because companies can reuse some of the infrastructure already in place, extend existing permits for the land, and use the electricity that already has grid connections and deliverability to the market. This last point on grid connectivity is critical given current bottlenecks to expand long distance electric transmission.

Technological Improvements and existing infrastructure incentivize "Brownfield" growth



Source: Orsted

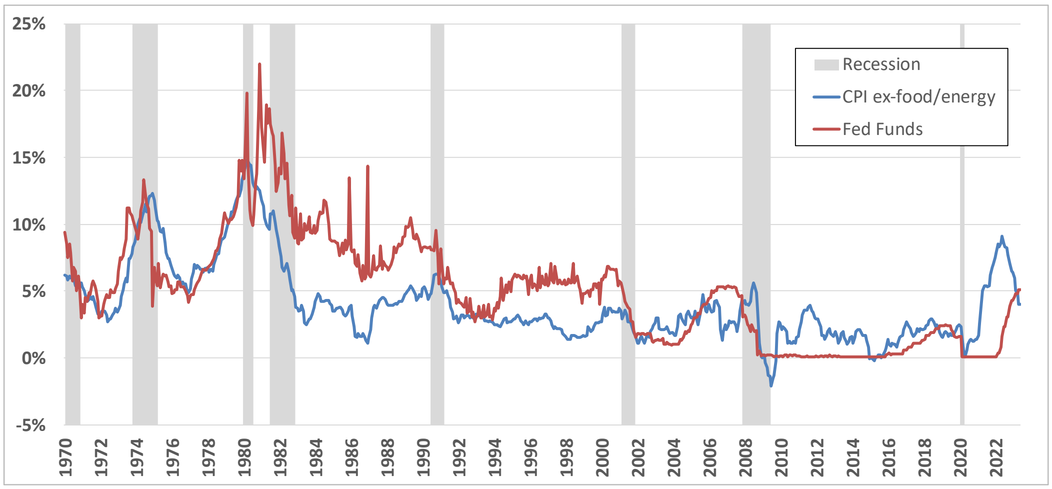
When we started looking at renewable energy infrastructure, re-powering projects (i.e., "brownfield) was somewhat theoretical because most assets were relatively new and had many years left on their contracts. Fast forward nearly ten years and more companies are launching re-powering programs. It's no longer theoretical. In fact, a company with expiring contracts and old technology can be advantaged over others without it because of the healthy returns associated with "brownfield" projects.

"Greenfield" organic growth. The opposite of "brownfield" is "greenfield", since it implies a grassy field that is undeveloped. These projects take time to construct as all the infrastructure, permits, interconnects, and contracts need to be secured and developed from scratch. "Greenfield" returns are typically less juicy than "brownfield", but they can also be more ambitious, more strategic, at a larger scale, and can open a company to other lucrative opportunities down the road. Practice typically makes perfect when it comes to "greenfield" projects, and companies with more experience tend to execute better than those with limited experience (but not always!).

In summary, this conglomeration of growth strategies tells us that companies are either unsure of where we are in the cycle or have such a bullish view of renewable energy that they are prioritizing both acquisitions and organic growth. *It's important to note that being able to prioritize both is a sign that capital markets are accessible.* Normally, the natural course of business would have them choosing between one or the other. Not today. We think these are bullish indicators, though management teams still have to execute, supply chains need to enhance efficiency and expand, and inflation/interest rates need to stabilize or decline. Clear these hurdles and the stocks will likely continue on what we expect will be a multi-decade megatrend.

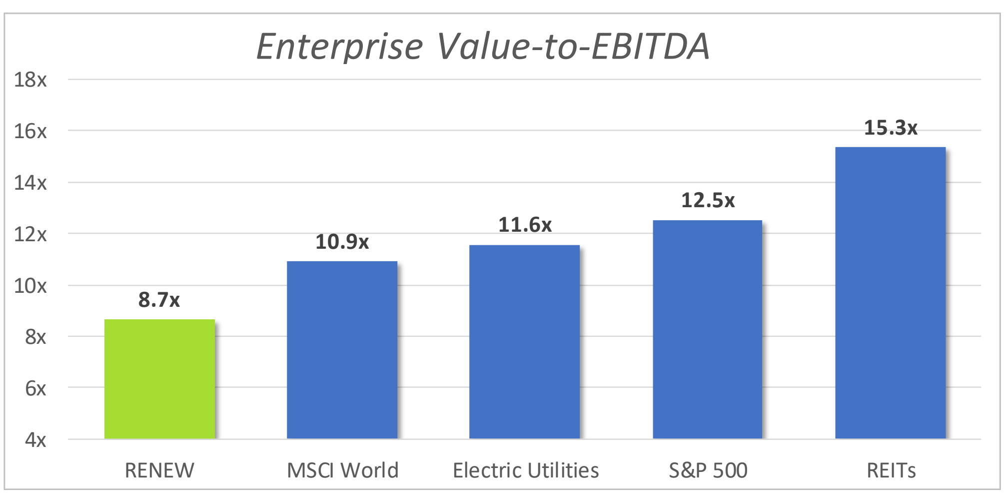
The Fed Slows Down

In mid-June the Federal Reserve decided to hold rates flat, breaking the streak of ten consecutive increases over fifteen months that was the fastest series of increases in four decades. However, the Federal Reserve's policymakers also hinted that interest rate hikes are not over and there could be several more by year-end. For the time being the Federal Reserve's approach is wait-and-see what the data says. While stressing we're not economists, we consider this change in pace a positive. In our view, inflation has done more to set back energy transition over the last 18 months than anything else in the world today. Put simply, controlling inflation and stabilizing interest rates is critical in helping provide visibility for companies to move forward with acquisitions and organic growth. While the capital markets are open, the scale of energy transition requires more capital to come off the sidelines. You have to crawl (stabilize inflation) before you can walk (push down inflation).

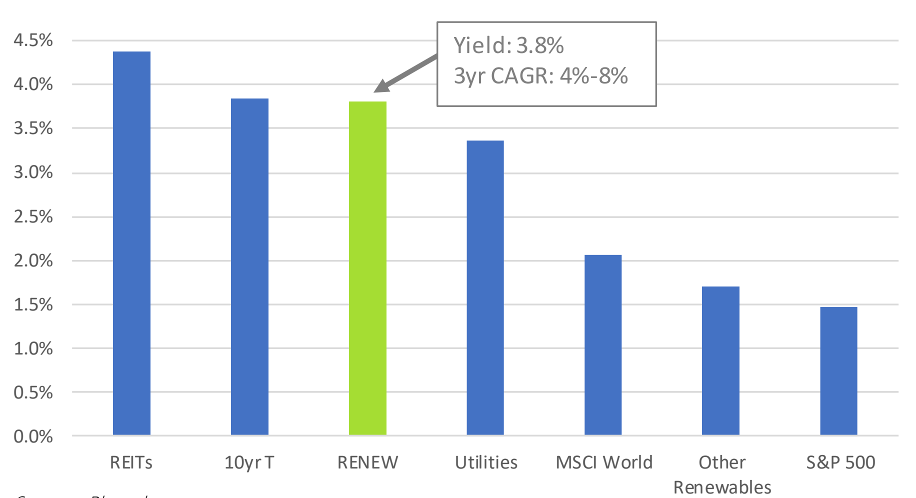


Source: Bloomberg

Macroeconomic uncertainty continues to have an impact on renewable energy infrastructure, with our index returning +0% in the second quarter versus +9% for the S&P 500. It's also overshadowed what we believe is compelling valuation. The EV/EBITDA of the Eagle Global Renewables Infrastructure Index (Bloomberg ticker: RENEW; Factset ticker: RENEWINDEX) trades at a 31% 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 renewables infrastructure should trade *at least* in line to these other sectors, given the sector's unique setup to take advantage of what most believe is the pre-eminent megatrend over the next several decades.



Source: Bloomberg



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 as well as our indexing initiative and are in constant dialogue with industry experts and management teams, both domestically and in Europe. We see the energy transition or de-carbonization megatrend continuing to gain traction among investors, supporting our view societal and political support are making renewable infrastructure increasingly inelastic to market forces.

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

- The Eagle Renewables Infrastructure Team

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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EGA Renewables Income Composite

October 1, 2017 through December 31, 2022

	2022	2021	2020	2019	2018	2017
Total Return (%) Gross	**(7.90)**	**2.01**	**55.79**	**33.87**	**(7.63)**	**4.96**
Total Return (%) Net	**(8.60)**	**1.25**	**54.67**	**32.89**	**(8.32)**	**4.76**
Eagle Renewables Infrastructure Benchmark Total Return (%)*	**(8.70)**	**(3.60)**	**35.50**	**33.06**	**0.08**	**0.65**
Composite 3 Year Std. Dev.	22.74	19.67	18.95	N/A	N/A	N/A
Benchmark 3 Year Std. Dev.	21.34	18.12	16.88	N/A	N/A	N/A
Number of Portfolios	9	7	<6	<6	<6	<6
Composite Dispersion (%)	N/A	N/A	N/A	N/A	N/A	N/A
Composite Assets at End of Period (US$ 000)	2,923	3,541	1,340	862	646	702
Total Firm Assets (US$ 000)	1,698,720	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.

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- 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 is available upon request. Eagle policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Renewables Income Fee Schedule (minimum annual fee: $2,500)			
Account Size	Under $5 million	$5 to 25 million	Over $25 million
Annual Fee	0.95%	0.85%	0.75%