

Eagle Renewables Infrastructure

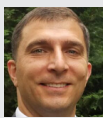
ABOUT US

- Located in Houston, TX
- Founded in 1996
- \$2.2B in AUM*
- 22 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
24 Years of Experience



Alex Meier
Portfolio Manager
23 Years of Experience

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

An American Icon Splits Up at the Start of Another Energy Revolution

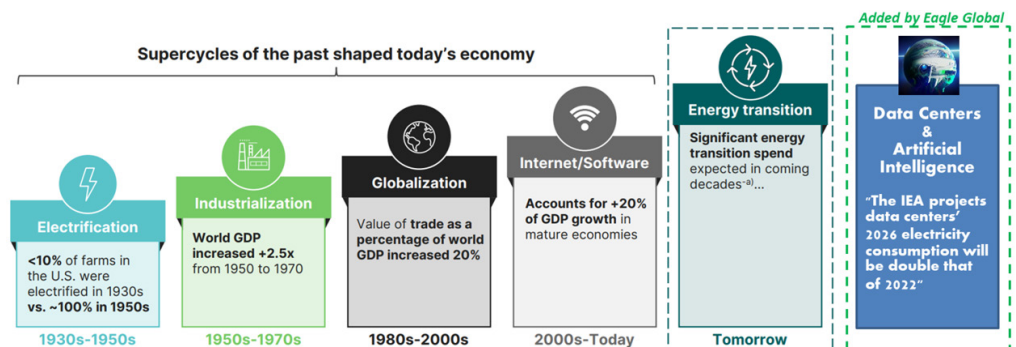
In November 2021 an American icon, General Electric, announced it would split itself up into three independent companies. This multinational conglomerate founded in 1892 by legendary inventor Thomas Edison is as American as it gets and was among the *original* stocks included in the Dow Jones Industrial Average when it launched. The rationale for its split was



straightforward, a simpler structure with less debt would allow each component to compete more effectively. In other words, they believe the sum of General Electric's parts is greater than its whole. Therefore, in July 2022 General Electric unveiled its three new companies: GE Aerospace, GE HealthCare, and GE Vernova (energy technology). In March 2024 GE Vernova started trading as a stand-alone entity, and we considered it relevant and imperative to attend GE Vernova's first Analyst Day earlier in the month.

THE DUAL SUPERCYCLE: TWO IS BETTER THAN ONE

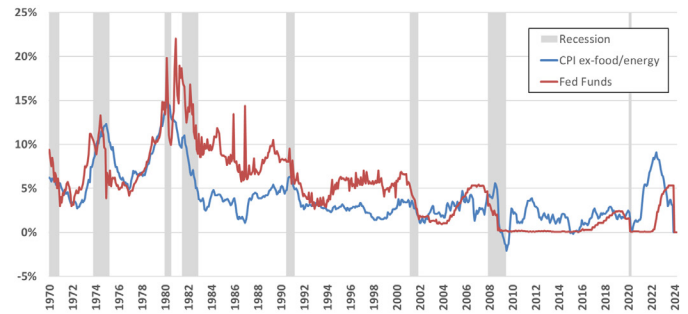
Front and center among GE Vernova's presentation was the below pictorial showing the many energy supercycles that have shaped our economy over the last hundred years. It dawned on us that the supercycles preceding Energy Transition were demand-driven, in that some paradigm shift in the way the global economy functioned required energy markets to step up supply to help support growth. However, Energy Transition is supply-driven. Energy Transition is attempting to alter the makeup of where our energy comes from. It was at this point we thought GE Vernova's pictorial was missing something, and so we took it upon ourselves to add "Data Centers & Artificial Intelligence" since we believe only including Energy Transition ignores the fact that energy demand is almost assuredly going to keep growing and perhaps not slowly.



Source: GE Vernova, Eagle Global Advisors

On the last point regarding energy demand, there is currently no shortage of experts forecasting the technology sector will require multiples more energy to deliver on the promises of its latest innovations. A few examples, Nextera Energy (NEE) highlighted at a major industry conference in March that U.S. Power Growth, driven by artificial intelligence, will increase 81% over the next five years. AES Corp (AES) told investors that data centers could comprise up to 7.5% of total U.S. electricity consumption by 2030 (currently: approximately 4%).

What does this all mean? We think it means the energy industry could be amidst two supercycles happening at once, one demand-driven via technological innovation and the other supply-driven via Energy Transition. To achieve progress on both fronts implies a tremendous amount of capital is needed to invest in energy infrastructure. Case in point is another slide in GE Vernova’s presentation, which shows the trillions of dollars expected to be invested annually through 2030 and 2040.



Source: Bloomberg

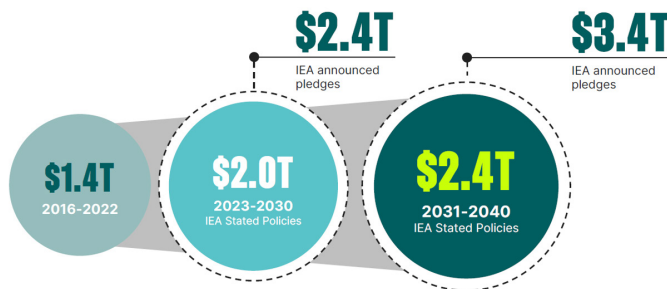
As a reminder, renewable energy infrastructure companies rely on stability and a predictable investment environment to determine whether a project moves forward. Since a large majority of project financing comes from debt, interest rate stability is critical to helping companies get comfortable with return expectations and to quantify risk.

Meanwhile in New York, state officials selected Orsted to negotiate a new 25-year contract for its Sunrise Wind offshore wind farm. This follows what had been a challenging 2023 for Orsted, littered with problems related to its development program in the United States. The company’s stock got hit hard after revealing significant cost overruns and delays related to three of its projects (Ocean Wind in New Jersey, Sunrise Wind in New York, and Revolution in Connecticut/Rhode Island). Here we stand almost six months later and the company has walked away from Ocean Wind, made a positive Final Investment Decision (FID) on Revolution Wind, and successfully rebid Sunrise Wind. In each instance the company’s management focused on economic returns and reducing risk associated with financing and inflation. Orsted’s stock has been a positive outlier so far in 2024.

That’s not to say Orsted or the renewable energy infrastructure sector is out of the woods. Though we believe the euphoria related to Energy Transition and “free” or easy capital financing has fully dissipated and left the sector on much better footing. Companies are much more focused on risk than before the pandemic, securing contracts that better protect against supply chain issues, inflation, and more expensive financing. In addition, companies are far less likely to spend money before all the pieces are in place, which in theory should limit write-downs to the extent that projects fail to move forward for one reason or another. Like most things in life, these lessons were learned the hard way.

The other thing worth highlighting is the response of Power Purchase Agreement (PPA) pricing. Following the adjustments made by companies to lower their risk profile we’ve seen a meaningful increase in pricing. We believe this was inevitable absent cost deflation and further declines in interest rates. In order to move projects to the construction phase and deliver on Energy Transition promises, higher prices were to be

IEA Global power sector and end-use average annual capital investment



Source: GE Vernova

As a final highlight of what we considered an excellent presentation was the sheer breadth of the opportunity, for ALL of energy infrastructure. The data GE Vernova presented supports our long-held view that Energy Transition, Data Centers/Artificial Intelligence, and whatever other paradigm shifts in energy demand are no doubt coming, requires an all-under-the-sun approach when it comes to the energy needed to feed innovation. You’ve heard us say this is a game changing positive for renewable energy like wind and solar though we also recognize the effects of this will have positive ramifications for multiple other technologies, including traditional energy. GE Vernova specifically mentioned coal-to-natural gas switching, hydrogen, carbon capture, and nuclear via small modular reactors, though we believe the slide simply wasn’t large enough to factor in all the possibilities and opportunities for energy infrastructure over the next few decades.

IN OTHER NEWS, FINANCING COSTS TAKE BABY STEPS IN THE RIGHT DIRECTION

Let’s start off with an update on inflation and interest rates, which after another three months are showing more signs of stabilization. We’ve written how stable and perhaps declining interest rates should reverse what had been a strong headwind for renewable energy infrastructure into a modest tailwind. While inflation stubbornly remains above the Federal Reserve’s long-term target of 2%, we are optimistic central banks are winning the fight and it’s only a matter of time.

should inflation rear its ugly head once again and force central banks to raise interest rates it would likely drive the growth outlook lower, absent a substantial increase in pricing to make up for the lost economics.

In summary and as we wrote last quarter, we remain cautiously optimistic on 2024.

US offshore PPA pricing has inflected upwards

Average award price over duration of award (accounting for inflator), in 2024 prices



Source: BNP Paribas Exane estimates

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

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