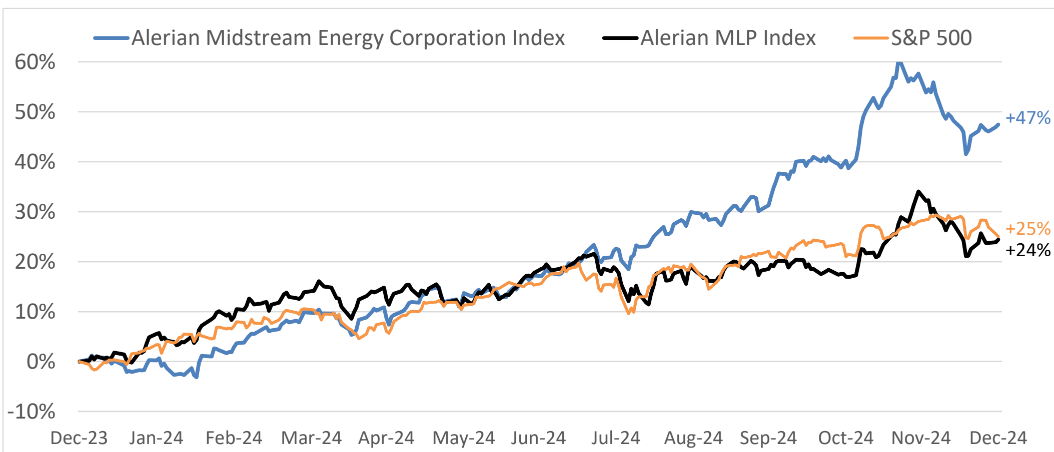
Midstream Finally Breaks Through

Something interesting happened in 2024. The Midstream sector broke through in a big way. Investors realized the power of generative A.I., how it requires large numbers of new and more powerful data centers, and the energy needed to supply these data centers was most likely going to come from traditional sources. It's not slowing down either. A few weeks ago, Microsoft's President revealed the company was going to spend $80 billion on data centers in fiscal 2025, a 60% increase from the prior year. The race to control generative A.I. is cutthroat and will leave some hyperscalers behind, though for Midstream the opportunity set in 2025 ranks among the strongest sector-wide tailwinds we've seen in our multiple decades of experience. Investors looking for alternative ways to capitalize on generative A.I. recognize this, and just like that Midstream is once again *en vogue.*

This is not to say that 2025 is without risk, and stock selection remains key. On the former, *Midstream needs to be diligent and thoughtful about capital spending* as increases are sometimes rewarded more than return of capital initiatives. On the latter, C-Corps materially outperformed MLPs in 2024; C-Corps outperformed the S&P 500 by +2,245 basis points while MLPs marginally underperformed by 60 basis points. We believe this divergence was largely driven by how the institutional investors that led the charge into Midstream simply prefer 1099s over K-1s. The point is … *stock selection was key in 2024 and will be critical in 2025.*



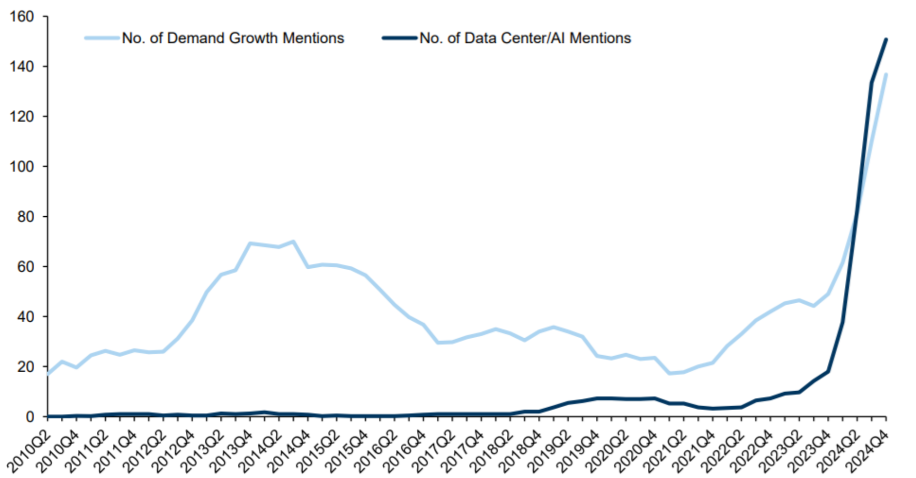
Source: Bloomberg

Emergence Of The Theme

It wasn't that long ago that growth-focused capital expenditure strategies were viewed with a healthy dose of skepticism, and stocks that deviated from return of capital strategies (e.g., debt reduction, share buybacks) were punished. However, a switch flipped in 2024. The market seemed to recognize the significant opportunities tied to supporting generative A.I. This pivot in sentiment was particularly pronounced for natural gas midstream companies, which are uniquely positioned to supply the reliable and scalable energy required by data centers.

The potential of generative A.I. as a technology disruptor has been acknowledged for years, propelled by rapid advances in machine learning. However, its implications for energy infrastructure remained underappreciated by investors until 2024. Though difficult to pinpoint precisely, we believe the narrative began to inflect around 1Q 2024 earnings. Management teams – largely from the Electric Utilities sector – and analysts highlighted the massive power requirements posed by generative A.I.

Numbers of mentions of power demand growth and data centers in quarterly earnings calls of US utilities



Earnings calls in a quarter (labeled on the x-axis) discuss earnings in the previous quarter.

Source: company data, Goldman Sachs Global Investment Research

This focus on soaring energy consumption sparked renewed interest in energy infrastructure, including Midstream. The reality is the urgent need to bolster capacity for reliable power generation requires a lead role for natural gas. To help illustrate the power of the data center narrative, we look at share price performance for Midstream companies with more exposure to the data center theme relative to the broader sector. These companies outperformed the Alerian MLP Index by 2,700 basis points. Interestingly, every “U.S.” Midstream company beat the index and outperformed those categorized as “Canadian” (ENB, PPL, TRP). We believe near-term growth projects represent just one factor of this outperformance, with another being the sustainability of longer-term cash flows that in turn, has led to a recalibration of terminal values. For 2025 we expect a broadening of this trend as investors reassess asset lives and utilization rates on existing assets.

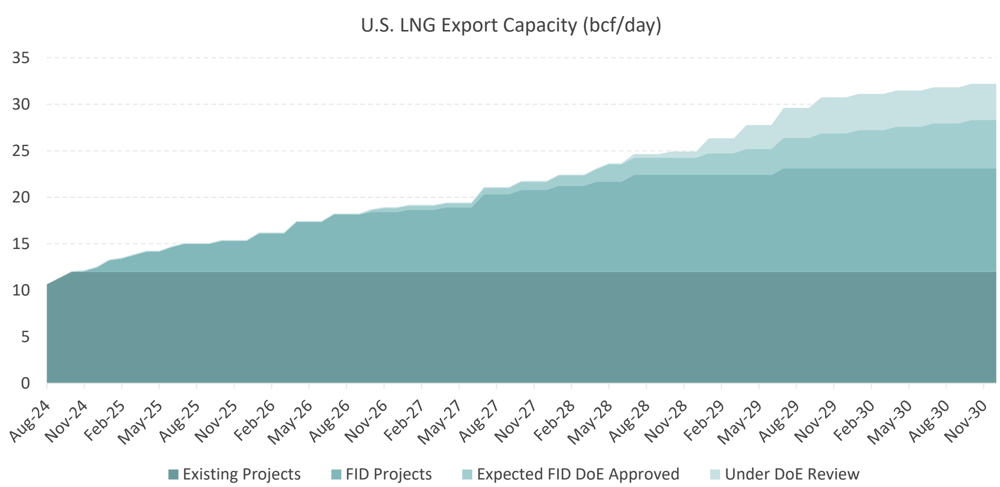
Ticker	Company	Market Cap ($mns)	Est. Exposure to New-Build Data Centers (MW)	2024 Total Return
KMI	Kinder Morgan	62,450	2,987	64.4%
TRP	TC Energy Corp	49,208	2,968	39.2%
ENB	Enbridge Inc	93,623	2,967	26.4%
ET	Energy Transfer	67,485	2,777	53.9%
WMB	The Williams Cos	68,118	2,399	62.4%
DTM	DT Midstream	10,254	971	88.9%
OKE	ONEOK Inc	59,452	138	50.2%
PPL	Pembina Pipeline Corp	23,748	129	22.9%
Average				**51.0%**
AMZ	Alerian MLP Index			24.1%

Source: Bloomberg, Eagle Global Advisors

Not A One-Trick Pony

We're excited data centers finally helped Midstream breakthrough, though we'd be remiss to not also mention other tailwinds for the sector. Specifically, the positive impact of liquefied natural gas (LNG) and how U.S. natural gas *and crude oil* production is a stabilizing force in an increasingly unstable world.

For LNG, the U.S. currently has approximately 12 bcf/day of export capacity, though this is set to nearly double by 2029 to just over 23 bcf/day. Beyond this, an additional 5 bcf/day of projects have received Department of Energy (DOE) approval and are likely to achieve a final investment decision (FID) in the near-term. Moreover, another 4 bcf/day of capacity is under DOE review and awaiting approval. Altogether this represents over 32 bcf/day of planned liquefaction capacity, nearly triple the current capacity.



Source: East Daley

This capacity expansion will require a significant expansion of natural gas infrastructure to supply these facilities. For perspective, the cumulative capacity detailed above represents more than 12% of current U.S. natural gas production. While growing demand for infrastructure supported by LNG exports has been anticipated for some time, we expect this demand to materialize meaningfully in 2025. Heading into end-2024, both Cheniere's Corpus Christi Midscale project and Venture Global's Plaquemines plant have begun producing LNG. Feed gas volumes for these facilities are expected to ramp up steadily throughout 2025. Toward end-2025 an additional boost is expected from ExxonMobil's Golden Pass project. The market has known about these capacity expansions for years, though it does set up the ongoing rally for another boost as investors see for themselves the impact these capacity expansions will have on energy flows.

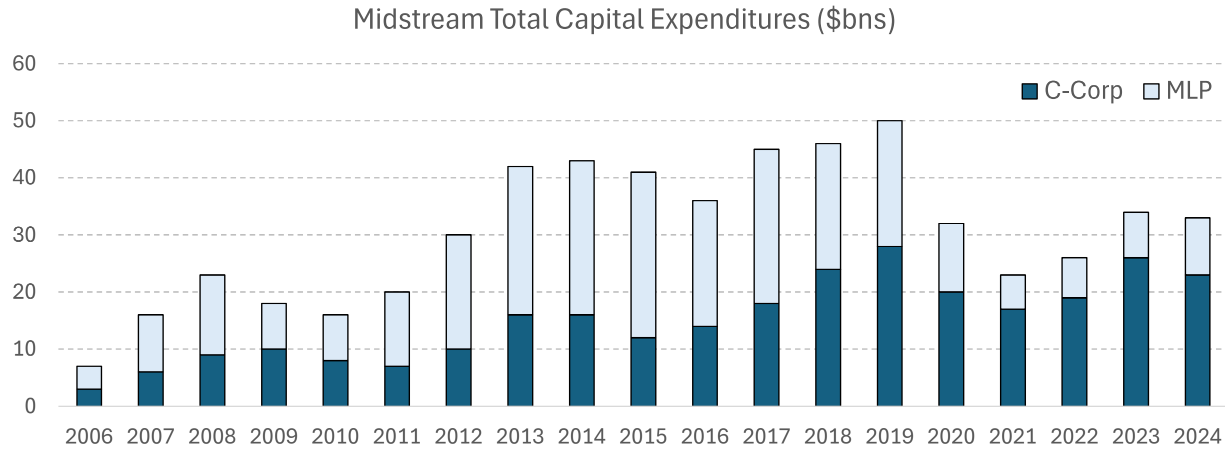
Separately, while we're less bullish on oil, it's important to highlight less bullish is still bullish. We see two major reasons why oil will continue to benefit energy infrastructure. First, much of the world wants the quality of life provided by developed economies like the U.S. The developed world consumes roughly 4x more oil per capita than the non-developed world, despite the non-developed world outnumbering them nearly 7-to-1. Bringing the non-developed world up to the developed world's standards (a noble goal) would require a large increase in oil consumption. This feeds into our second reason, the most politically stable and secure source of oil in the world is found in the U.S. This is not a small thing in a world that has grown more volatile over the last few years. We're always hopeful that peace breaks out across the globe, though in the absence of peace consumers want access to stable oil and that's a tailwind for U.S. oil infrastructure as well.

Signs Of A Shifting Tide

We expect free cash flow generation will remain a cornerstone of investor focus, though we're seeing a shift in sentiment toward organic growth. We believe this is driven by rising confidence around the long-term outlook for hydrocarbon demand, supported by demand drivers like data centers and LNG exports. Investors have long memories though, and there is an expectation management will deliver the attractive returns they're targeting. Of particular importance to us is that increases in growth capital expenditures will be financed internally and not rely on external financing. We believe a major reason why Midstream has experienced lower volatility and lower correlation to energy prices is because a company's free cash flow is meaningfully higher than its financial obligations.

The tide is now shifting towards growth. In 2024 this was more exclusive to those with exposure to data centers, although we see the possibility that investors will also reward the other themes that are currently positive for Midstream. The key is delivering on promises made. A prime example is Targa Resources (TRGP), which delivered the best performance among large caps in 2024 despite increases to capital spending that was minimally tied to data centers. We think this was because investors had more faith in TRGP's cash flow growth projections as time went on and rewarded them for it. Similarly, Kinetik Holdings (KNTK) posted impressive results that benefited from unique opportunities tied to Permian Basin rollups and the associated capital spending required to support them.

As a whole, Midstream capital spending remained relatively subdued in 2024. We see a high probability that this could influence the market positively in 2025 as a reflection of rising investor confidence in the projects and the asset class itself. This is something we, as asset managers, are comfortable with.

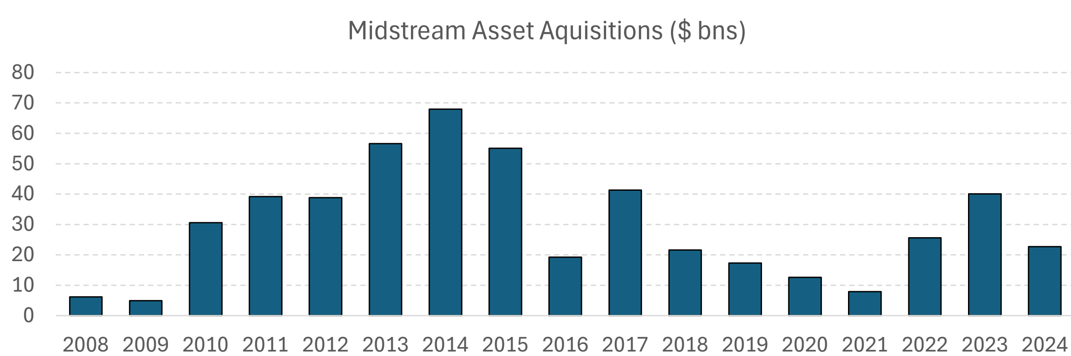


Source: Wells Fargo

Shift to Asset-Level M&A Expected in 2025

Finally, we expect acquisition-driven growth to yet again play a key role in 2025. While there may be some corporate-level M&A, we anticipate asset acquisitions will play a more dominant role. We see private equity as a likely source of willing sellers given the number of energy infrastructure assets held in funds nearing the end of their lifecycle. These assets, while subscale for independent operation, could integrate effectively into our existing energy infrastructure coverage universe. Such acquisitions would provide Midstream with an opportunity to extend its growth trajectories while improving utilization rates on current infrastructure.

The chart below illustrates trends in Midstream asset acquisitions. After peaking in 2014, acquisition volumes steadily declined as the industry faced challenges such as falling energy prices and excess capacity, culminating in a low in 2020 due to the Covid-19 pandemic. However, activity rebounded in 2022 and 2023 as constrained spending and incremental financial realignment during the pandemic gave way to an avalanche of positive free cash flow that could support renewed investment. With limited appetite to invest organically, management naturally turned towards return of capital initiatives and acquisitions. We continue to expect investors to reward acquisitions executed at attractive multiples, particularly those offering clear synergies or opportunities to enhance efficiency and expand capacity.



Source: Wells Fargo

Outlook & Positioning

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, particularly as new and emerging technologies raise demand for traditional energy. Combined with what we believe are the sector's healthy balance sheets, solid dividend coverage, and heightened discipline we see a compelling total return proposition for long-term oriented investors.

Important Risk Disclosures:

Investors should carefully consider the investment objectives, risks, charges and expenses of the Eagle MLP Strategy Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-888-868-9501 or visiting www.eaglemlpfund.com. The prospectus should be read carefully before investing. The Eagle MLP Strategy Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. Eagle Global Advisors, Princeton Fund Advisors, LLC and Northern Lights Distributors, LLC are not affiliated.

This is an actively managed dynamic portfolio. There is no guarantee that any investment (or this investment) will achieve its objectives, goals, generate positive returns, or avoid losses. The information provided should not be considered tax advice. Please consult your tax advisor for further information. Past performance does not guarantee future results.

A master limited partnership (MLP) is a limited partnership that is publicly traded on a securities exchange. It combines the tax benefits of a limited partnership with the liquidity of publicly traded securities. To qualify for MLP status, a partnership must generate at least 90 percent of its income from what the Internal Revenue Service (IRS) deems "qualifying" sources, generally relating to the production, processing or transportation of natural resources, such as oil and natural gas.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology.

The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies.

The S&P 500 Index is a capitalization-weighted index that measures the performance of 500 U.S. large-capitalization domestic stocks representing all major industries.

The Barclays Capital U.S. Aggregate Index provides a measure of the performance of the U.S. investment grades bonds market.

Enterprise Value-to-EBITDA is a multiple used to determine the value of a company. It shows the value of a company based on a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA).

Price-to-Distributable Cash Flow is a valuation ratio calculated by dividing a company's current stock price by its distributable cash flow per share.

Standard Deviation is a statistical measurement of volatility risk based on historical returns.

Risk Factors:

Credit Risk: There is a risk that note issuers will not make payments on securities held by the Fund, resulting in losses to the Fund. In addition, the credit quality of securities held by the Fund may be lowered if an issuer's financial condition changes.

Distribution Policy Risk: The Fund's distribution policy is not designed to guarantee distributions that equal a fixed percentage of the Fund's current net asset value per share. Shareholders receiving periodic payments from the Fund may be under the impression that they are receiving net profits. However, all or a portion of a distribution may consist of a return of capital (i.e. from your original investment). Shareholders should not assume that the source of a distribution from the Fund is net profit. Shareholders should note that return of capital will reduce the tax basis of their shares and potentially increase the taxable gain, if any, upon disposition of their shares.

ETN Risk: ETNs are subject to administrative and other expenses, which will be indirectly paid by the Fund. Each ETN is subject to specific risks, depending on the nature of the ETN. ETNs are subject to default risks. Foreign Investment Risk: Investing in notes of foreign issuers involves risks not typically associated with U.S. investments, including adverse political, social and economic developments, less liquidity, greater volatility, less developed or less efficient trading markets, political instability and differing auditing and legal standards.

Interest Rate Risk: Typically, a rise in interest rates can cause a decline in the value of notes and MLPs owned by the Fund.

Liquidity Risk: Liquidity risk exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations.

Management Risk: Eagle's judgments about the attractiveness, value and potential appreciation of particular asset classes and securities in which the Fund invests may prove to be incorrect and may not produce the desired results. Additionally, Princeton's judgments about the potential performance of the Fund's investment portfolio, within the Fund's investment policies and risk parameters, may prove incorrect and may not produce the desired results.

Market Risk: Overall securities market risks may affect the value of individual instruments in which the Fund invests. Factors such as domestic and foreign economic growth and market conditions, interest rate levels, and political events affect the securities markets.

MLP Risk: Investments in MLPs involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. Depending on the state of interest rates in general, the use of MLPs could enhance or harm the overall performance of the Fund.

MLP Tax Risk: MLPs, typically, do not pay U.S. federal income tax at the partnership level. Instead, each partner is allocated a share of the partnership's income, gains, losses, deductions and expenses. A change in current tax law or in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP. Thus, if any of the MLPs owned by the Fund were treated as corporations for U.S. federal income tax purposes, it could result in a reduction of the value of your investment in the Fund and lower income, as compared to an MLP that is not taxed as a corporation.

Energy Related Risk: The Fund focuses its investments in the energy infrastructure sector, through MLP securities. Because of its focus in this sector, the performance of the Fund is tied closely to and affected by developments in the energy sector, such as the possibility that government regulation will negatively impact companies in this sector. Energy infrastructure entities are subject to the risks specific to the industry they serve including, but not limited to, the following: Fluctuations in commodity prices; Reduced volumes of natural gas or other energy commodities available for transporting, processing, storing or distributing; New construction risk and acquisition risk which can limit potential growth; A sustained reduced demand for crude oil, natural gas and refined petroleum products resulting from a recession or an increase in market price or higher taxes; Depletion of the natural gas reserves or other commodities if not replaced; Changes in the regulatory environment; Extreme weather; Rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities; and Threats of attack by terrorists.

Non-Diversification Risk: As a non-diversified fund, the Fund may invest more than 5% of its total assets in the securities of one or more issuers. Small and Medium Capitalization Company Risk: The value of a small or medium capitalization company securities may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. Structured Note Risk: MLP–related structured notes involve tracking risk, issuer default risk and may involve leverage risk. Mutual Funds involve risk including possible loss of principal.