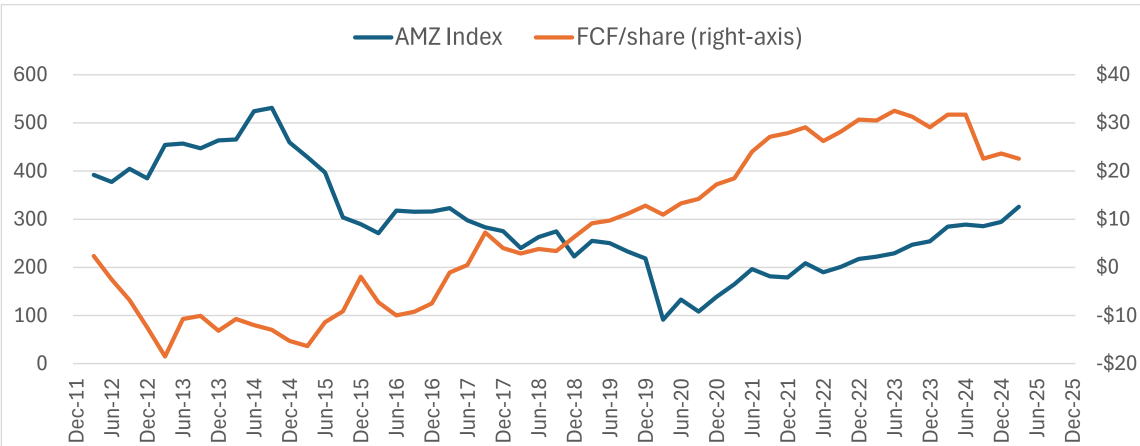
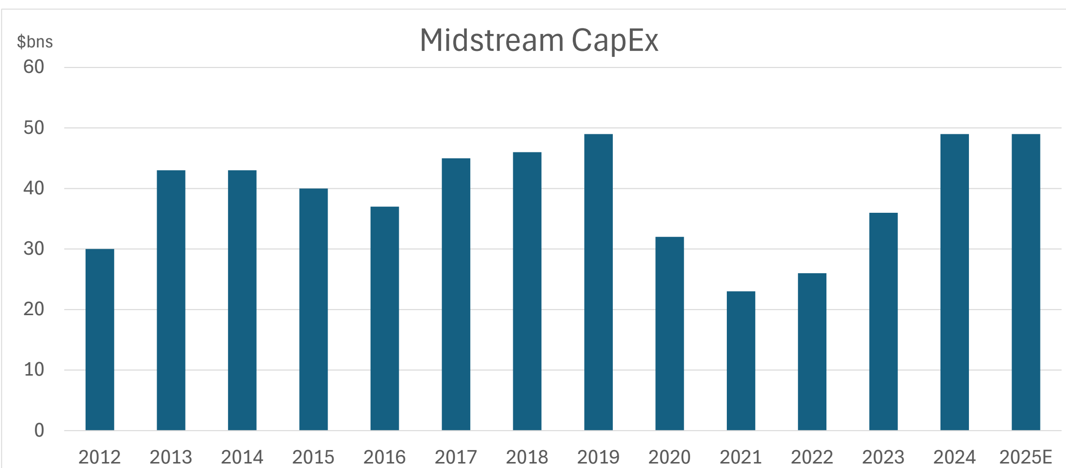
Midstream Capex On The Rise

After nearly a decade of prioritizing free cash flow, Midstream capex is set to reach pre-pandemic levels. The reason why management teams are compelled to spend more is because the market has changed. We're in the midst of a generational shift in energy demand, driven by artificial intelligence, the globalization of natural gas, and the world's desire for energy stability.

Energy infrastructure is a business, and it's a business's nature to want to grow. It's therefore no surprise that Midstream is eager to provide logistical solutions to those in desperate need of them. However, we've told management teams they're on a short leash since no matter what they tell us, *this time will not be different*. We expect them to be good stewards of capital and we will adjust positions based on their actions. Some will make the cut, others won't. Stock selection in today's market of rising risks is more critical than ever.

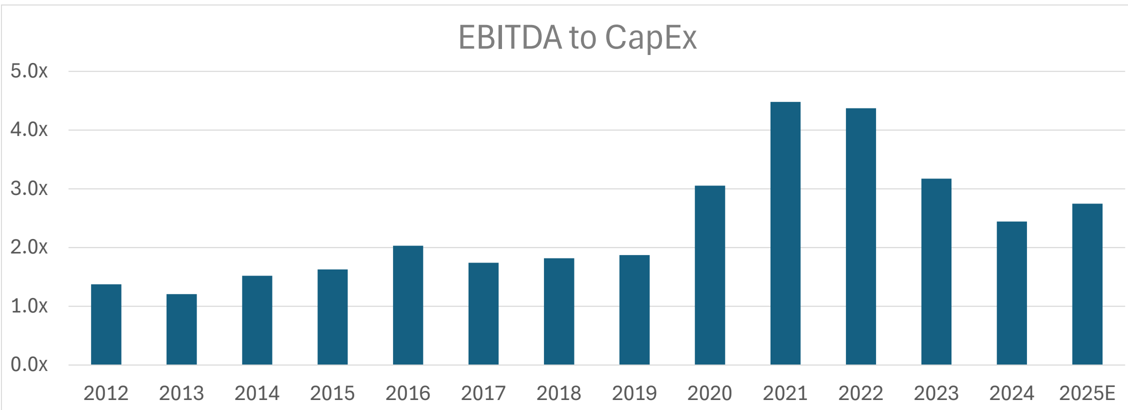


Source: Bloomberg



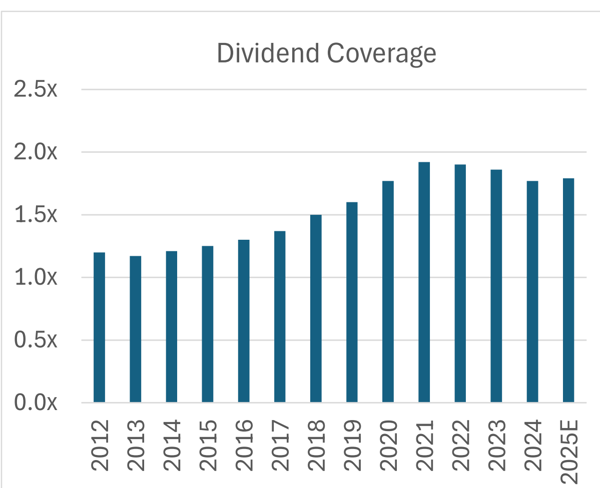
Source: Wells Fargo

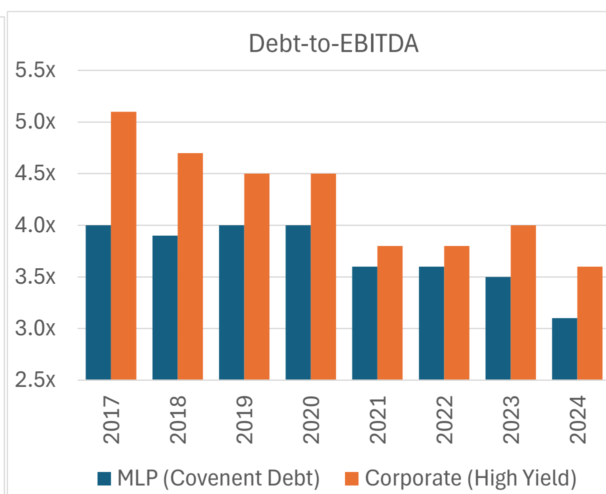
We looked at the relationship since 2012 between capex and cash flow, using EBITDA as a proxy for the latter. This time period captures the reckless spending prior to 2015, the pandemic-driven panic pullback on cash outflows, and the subsequent return-of-capital rally. EBITDA-to-Capex remains above where it was before the pandemic, even as spending has returned to higher levels. Coverage ratios remain healthy, reliance on public equity markets is non-existent, and management is focused on driving higher and sustainable cash flow via small-dollar, higher-return projects.



Source: Bloomberg, Wells Fargo

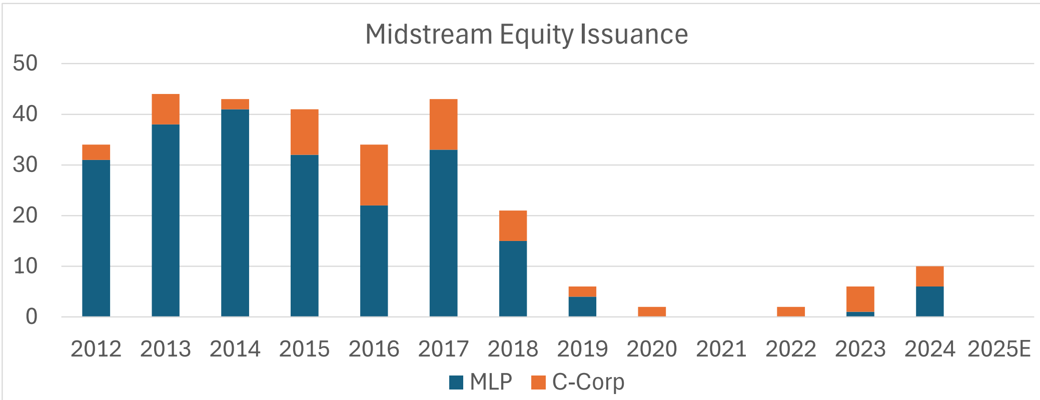
Dividend coverage of 1.77x and 1.79x in 2024A and 2025E, respectively, is 11%-12% above where it was in 2019, and roughly 50% ahead of where it was in 2012-2014. The sector's debt metrics have seen similar improvements over the same time frame. Midstream cash flow is also less commodity sensitive today than it was back then, with the vast majority being fee-based. There is still volume exposure, though even that is mitigated by a producer class that is far more likely to invest through the cycle than any other time in its history.





Source: Wells Fargo

Another key consideration is how Midstream has little to no reliance on equity capital markets, and we don't expect that will change. To repeat, we expect record capital spending will be financed without a need to raise public equity. The importance of this is it reduces volatility in share prices and gives investors more confidence in management's ability to grow in a disciplined manner as energy demand accelerates.



Source: Wells Fargo

We've believed the world was underinvesting in traditional energy for several years. Even today, with investment starting to ramp up, we're hard pressed to say today's level of investment is appropriate given the subsequent increase in demand. While capex has moved higher, Midstream is investing in what we believe are the right kind of projects. They've prioritized lower-risk, bolt-on, higher-return projects. Most investments are directed toward incremental expansions and system optimizations that enhance existing infrastructure rather than large-scale, greenfield developments. This approach reflects a more measured capital allocation strategy compared to previous cycles, contributing to more substantial risk-adjusted returns and improved capital efficiency.

For example, we've seen Midstream companies expand into adjacent verticals that remain within their core competencies and offer attractive risk-reward synergies. Williams (WMB) publicly detailed a $1.6 billion investment at a highly attractive 5x build multiple and a 10-year fixed-price PPA with a strong counterparty. Similarly, Energy Transfer's (ET) intrastate, multi-billion-dollar Hugh Brinson Pipeline project is a critical component in its deal to provide energy to data center developer Cloudburst.

Meanwhile, the new Republican administration has lifted the ban on building new liquefied natural gas (LNG) export terminals. LNG projects, while capital-intensive, typically feature long-term, take-or-pay contracts with investment-grade counterparties, locking in stable, predictable cash flows. They also tend to reside in far fewer jurisdictions, reducing regulatory risk.

<u>Outlook & Positioning</u>

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

Economic conditions are highly uncertain and there is no guarantee that these opinions or forecasts will come to pass.

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.

A C corporation or "C corp" is a legal corporate structure in which the owners or shareholders are taxed separately from the entity. C corporations are the most prevalent of corporations and they're also subject to corporate income taxation.

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.