Brookfield

Capturing the Midstream Opportunity

BROOKFIELD PUBLIC SECURITIES GROUP

As we enter 2025, we believe the midstream sector offers a compelling investment opportunity, even after last year's strong performance. While we cannot forecast a repeat of 2024's level of return, we believe there are three key reasons to own midstream equities today.

Attractive Total-Return Potential

We believe the total-return proposition for energy infrastructure, or midstream, is underpinned by the same pillars that have been prevalent for some time—the sector's strong free cash flow, visible cash flow growth, and healthy balance sheets with self-funding models. In our view, these underpinnings are likely to drive attractive and durable total return for investors, particularly through growing income.

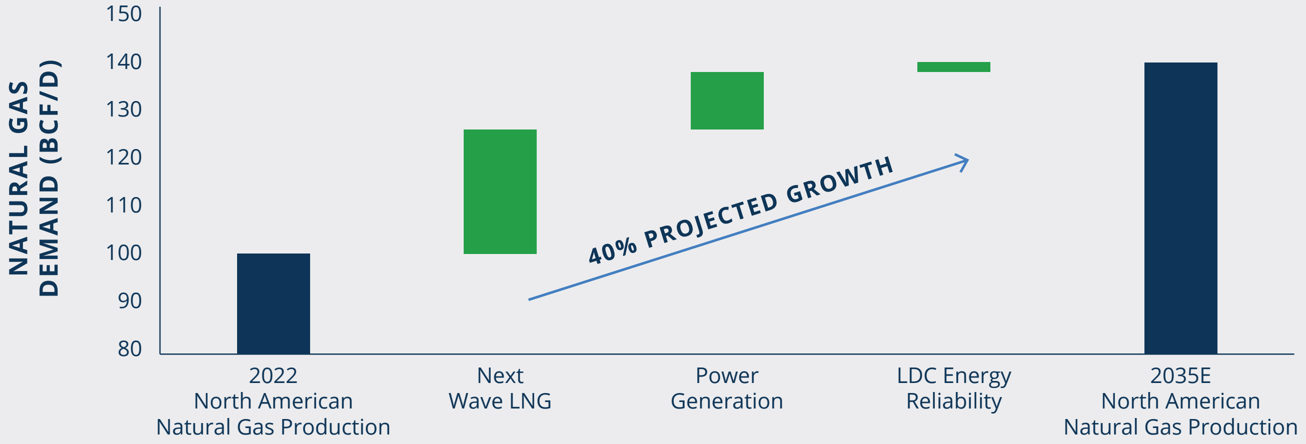
The industry continues to generate an attractive level of free cash flow, after satisfying capex obligations, that it can return to investors via distributions, share buybacks or debt reduction. We expect this cash flow will grow further, particularly on the back of strong long-term demand for natural gas. As global economies prioritize energy security and reliability, exports of liquefied natural gas (LNG) out of North America are expected to nearly double by the end of the decade, with growth likely to continue beyond that.

Meanwhile, rising power demand from the AI-driven buildout of data centers is a more recent tailwind for domestic gas consumption that we expect to accelerate.

With this substantial demand growth on the horizon, we believe midstream companies will be able to further capitalize on their self-funding business models. They will be able to use their cash flows to execute on growing capital backlogs, potentially generating strong returns on capital. In our view, by living within its cash flows rather than relying on external debt and equity financing, the industry can accomplish its business plans with insulation from market volatility and without diluting existing shareholders. Against this backdrop, we believe the industry is undergoing a period of growing returns on invested capital (ROIC) above and beyond its weighted average cost of capital (WACC) unlike any other period in recent memory.

Power Load and LNG Demand Are Driving Natural Gas Demand Growth

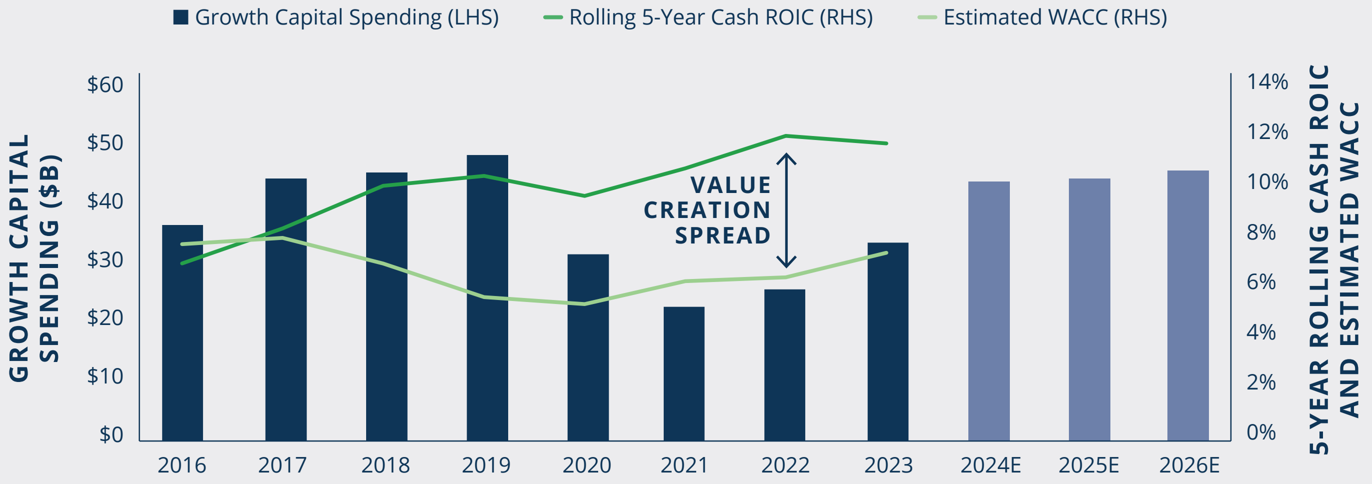
Projected North American Natural Gas Demand Growth (2023-2035)



As of December 31, 2024. Source: TC Energy 2024 Investor Day Presentation, International Energy Agency (IEA). Next Wave LNG refers to LNG expected to be constructed. LDC refers to local distribution company. 2022 North American Natural Gas Production based on IEA estimate of 40,355,138 terajoules of production and conversion factor of 1 megajoule per 0.915 cubic foot of natural gas.

Strong Value Creation on a Growing Opportunity Set

Midstream 5-Year Rolling Cash ROIC, Estimated WACC, and Growth Capital Spending



As of December 31, 2024. Source: Wells Fargo, Brookfield Public Securities Group, Bloomberg. ROIC refers to return on invested capital. WACC refers to weighted average cost of capital. Growth capital spending is according to Wells Fargo Securities, LLC estimates and based on company reports. Rolling 5-Year Cash ROIC is based on "Summary Of Cash Returns Over Our Last Nine 'Show Me The Money' Reports" according to Wells Fargo Securities, LLC. Estimated WACC is based on Bloomberg WACCs of Brookfield midstream coverage universe. Midstream refers to the sector. **Past performance is not indicative of future returns.**

Attractive Valuations

Following the sector's strong performance over the previous few years, including last year's 44.53% gain for the Alerian Midstream Energy Index, it is fair for investors to question what the market is expecting the sector to deliver in terms of growth. We currently think that the market is implying about 3-4% cash flow growth through the end of this decade, on average, with 1-2% growth in the 2030s, and terminal declines thereafter.

While we believe any long-dated projections are fraught with too much uncertainty to be of much use, we think that the industry's demand dynamics support growth rates above these market expectations through 2040. As such, we believe that there could be another 1.0-1.5x turns of multiple expansion potential (similar to what occurred in 2024), on average.

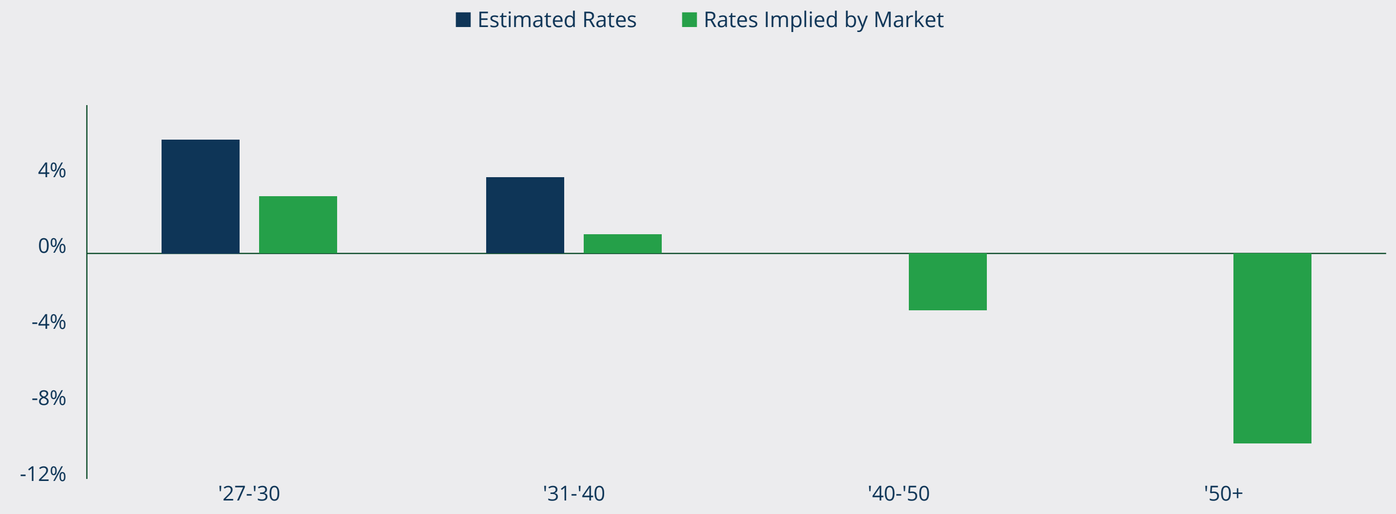
Uncorrelated Returns

The midstream sector has also been exhibiting other notable positive technical attributes that make it an attractive investment allocation opportunity, most notably lower correlation to the broader equity market and to crude oil, among others.

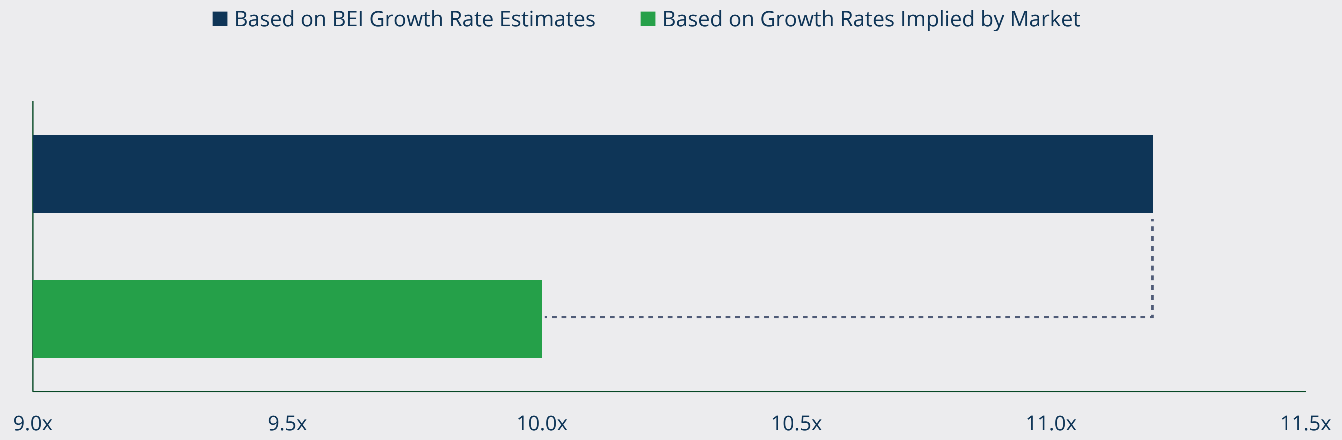
The self-help measures that the industry has undertaken—lower leverage levels and reduced dependence on capital markets—have made midstream equities "healthier" than they were a decade ago. As a result, the Alerian Midstream Energy Index's correlation to the S&P 500 and to crude oil were both at decade lows in 2024, with the latter substantially below any other year in the prior decade.[1] This means midstream can potentially offer diversification to investor portfolios.

We Believe the Market Is Underestimating Potential Cash Flow Growth Through 2040, Providing an Opportunity for Midstream Multiples to Expand

DCF Annual Growth Rates



2026E EV/EBITDA Multiples



As of December 31, 2024. Source: Company filings, Brookfield Public Securities Group estimates, Wells Fargo Securities, LLC, Bloomberg. DCF refers to Distributable Cash Flow. EV/EBITDA is a ratio that compares a company's Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA). Multiples represent averages of the PSG BEI midstream universe. BEI refers to the Brookfield Energy Infrastructure Team. "Market" is the stock market prices of Brookfield Energy Infrastructure's midstream universe.

Accessing the Opportunity

Industry returns in 2024 certainly exceeded our expectations, but we believe such healthy returns were warranted, based on the evolving fundamental landscape. As we look forward to the remainder of 2025 and beyond, we believe the case for investing in the midstream sector is still strong.

Energy infrastructure equities offer strong total-return potential, attractive valuations, and favorable technical attributes, in our view. Given the potential for quickly changing market dynamics, we favor accessing the opportunity with the help of an active manager that can adapt exposures as needed and invest in a diversified mix of high-quality master limited partnerships (MLPs) and C-corps without structural restrictions.

Endnote

[1] Source: FactSet and Wells Fargo Securities, LLC.

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Index Definitions

The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMNA) and on a total-return basis (AMNAX).

The S&P 500 Index is an equity index of 500 widely held, large-capitalization U.S. companies.

Definitions

Correlation is a statistic that measures the degree to which two securities move in relation to each other. Correlation data for fixed-income products is based on the average of monthly price changes. All other correlations are based on daily price changes.

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