600 N. Pearl St.
Suite 1205
Dallas, TX 75201
(214) 692-6334
www.nxgim.com

July 17, 2024

# The NXG Cushing® Midstream Strategy Market and Performance Update

For the second quarter of 2024, the NXG Cushing® Midstream Strategy gained 5.28% gross of fees, and 5.02% net of fees. The Strategy slightly underperformed its benchmark, the Alerian Midstream Energy Index ("AMNA"), which produced a total return of 5.42% for the quarter.

| | Total Return as of 06/30/2024 (Annualized if greater than 1 year) | | | | | |
|---|---|---|---|---|---|---|
| | 2Q 2024 | YTD 2024 | 1 Year | 5 Years | 10 Years | Since Inception[4] |
| The NXG Cushing Midstream Strategy (gross of fees)[1] | 5.28% | 20.34% | 34.42% | 12.21% | 3.41% | 10.52% |
| The NXG Cushing Midstream Strategy (net of 1% fees)[1] | 5.02% | 19.74% | 33.08% | 11.09% | 2.37% | 9.41% |
| Blended Midstream Index Total Return[2] | 5.42% | 16.12% | 26.68% | 7.93% | 0.08% | 6.00% |
| Alerian Midstream Energy Index Total Return[3] | 5.42% | 16.12% | 26.68% | 11.32% | N/A | N/A |

**PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.**
Note: Indicative return, individual investors may have different returns.

(1) "Gross of fees" returns are gross of fees and expenses. "Net of fees" returns are calculated using a 1% model investment fee. Both gross and net returns are unaudited. Returns greater than one year are annualized. The strategy's returns shown are preliminary and are subject to further revision.
(2) The Strategy has selected a blended benchmark as its benchmark. The returns for the blended benchmark represent the returns of the Alerian MLP Index prior to January 1, 2022 and the returns of the Alerian Midstream Energy Index thereafter. The Alerian MLP Index (AMZ) is a capitalization weighted index of the most prominent energy master limited partnerships. The Alerian Midstream Energy Index (AMNA) is a broad-based composite of North American energy infrastructure companies. Index results assume the reinvestment of all capital gain and dividend distributions. It is not possible to invest directly in an index. Index performance does not reflect the deduction of fees and expenses.
(3) AMNA inception was June 25, 2018.
(4) Strategy inception was June 2010.

In the second quarter of 2024, the Alerian Midstream Energy Index (AMNA) achieved a total return of +5.42%, continuing the robust performance trend observed since 2022. This period marked the AMNA's seventh consecutive quarter of gains—a first for the index. Midstream management teams utilized strong financial metrics—such as positive free cash flow after dividends/distributions, strong balance sheets, and stable earnings—to enhance equity returns. With most deleveraging efforts complete, we observe an "all of the above" capital allocation strategy. This includes dividend growth, share buybacks, and selective growth capital expenditures aimed at increasing shareholder value. The seven consecutive quarters of gains demonstrate that this approach has proven successful and beneficial to shareholders. As financial metrics continue to improve, we see no signs that this comprehensive capital allocation strategy will subside; in fact, we expect it may accelerate for select companies.

Crude oil prices were relatively unchanged, down less than 2% for the quarter. From a midstream perspective, these prices are more than sufficient to promote continued, albeit moderate, growth to fill existing pipeline capacity and maintain high utilization of midstream systems, particularly in the Permian basin.

Natural gas prices rebounded significantly from a steep decline in the first quarter. After plummeting 40% in the first quarter to their lowest levels in nearly 30 years (other than COVID onset distortions), natural gas prices surged over 47% in the second quarter. This recovery was driven in part by producers' announced cuts in capital expenditures and reductions in drilling and production activities. However, we believe the most impactful factor was investor enthusiasm for new power demand sources, spurred by the rapid expansion of data centers supporting artificial intelligence (AI) technology. These data centers are expected to be another "leg of the stool" supporting natural gas demand alongside liquefied natural gas (LNG) exports and coal-to-gas power generation switching.

Merger and acquisition (M&A) activity continued to shape the midstream sector landscape. An estimated $4.5 billion in deals were completed, including Energy Transfer's acquisition of WTG Midstream, Kinetik's acquisition of Durango Permian, and Phillips 66's acquisition of Pinnacle Midland. Notably, all these transactions involved private sellers to public buyers, focusing on natural gas liquid (NGL) systems, as larger public companies seek to gain more control over NGL barrels within their systems.

## Portfolio Highlights

The NXG Cushing® Midstream Strategy's holdings generating the largest contributions to overall returns included those in the Natural Gas Gatherers & Processors, Large Cap Diversified C-Corps, and Large Cap Diversified MLPs (contributions take relative weighting and total returns into account). The Strategy's holdings generating the largest detractions from overall returns included those in the Refiners subsector, which was negatively impacted by weaker refining margins. However, the two refining companies held in the portfolio continue to generate substantial positive free cash flow (FCF) and execute sector-leading share buyback programs.

Relative to the AMNA, the Strategy benefited from overweight positions in the Natural Gas Gatherers & Processors, Crude Oil & Refined Products, and Natural Gas Transportation & Storage subsectors, all of which showed positive performance during the period. Conversely, it was negatively affected by an underweight position in the Large Cap Diversified C-Corps and Canadian Midstream subsectors, despite their strong absolute performance. Overweight exposure to the Refiners subsector, which was the only subsector with material negative performance for the quarter, also impacted the Strategy negatively.

The following table highlights the Strategy positions generating the most positive and most negative contributions to the portfolio relative to those companies' contributions to AMNA.

| Strategy Contribution vs. AMNA for the Quarter Ending 06/30/2024 | | | | | | |
|---|---|---|---|---|---|---|
| | Company Name | Contribution to Portfolio Return (Net) | Contribution to AMNA Index Return | Average Weight in Portfolio | Average Weight in AMNA Index | Relative Net Attribution (% points) |
| **Largest Contributors** | | | | | | |
| 1) | Targa Resources Corp. | +1.50% | +0.85% | 10.10% | 5.60% | +0.65% |
| 2) | Western Midstream Partners, LP | +0.61% | +0.22% | 4.50% | 1.56% | +0.39% |
| 3) | TC Energy Corporation | -0.07% | -0.35% | 1.50% | 8.56% | +0.28% |
| 4) | Genesis Energy, L.P. | +0.29% | +0.08% | 1.10% | 0.29% | +0.21% |
| 5) | Plains All American Pipeline, L.P. | +0.25% | +0.10% | 7.67% | 2.59% | +0.15% |
| | | | | | **Top 5 Total** | **+1.69%** |
| **Largest Detractors** | | | | | | |
| 1) | The Williams Companies, Inc. | +0.55% | +1.07% | 5.65% | 10.51% | -0.51% |
| 2) | Marathon Petroleum Corp. | -0.49% | +0.00% | 3.28% | 0.00% | -0.49% |
| 3) | Kinder Morgan, Inc. | +0.32% | +0.77% | 3.44% | 8.03% | -0.45% |
| 4) | Phillips 66 | -0.38% | +0.00% | 2.61% | 0.00% | -0.38% |
| 5) | ONEOK, Inc. | +0.18% | +0.31% | 6.62% | 9.99% | -0.13% |
| | | | | | **Bottom 5 Total** | **-1.96%** |

The Natural Gas Gatherers & Processors subsector remained the Strategy's largest overweight position versus the benchmark at the period's end. The Strategy also remained overweight the Large Cap Diversified MLPs, Refiners, and Natural Gas Transportation & Storage subsectors. We particularly expect the latter subsector to benefit from secular tailwinds in the natural gas markets, driven by growing demand from LNG exports and artificial intelligence and data center power demands.

The Large Cap Diversified C-Corps subsector remained the Strategy's largest underweight position relative to the benchmark at the end of the period.

## What Helped (Contributors)

- Relative to the AMNA, the Strategy's top contributors for the period were Targa Resources Corp., Western Midstream Partners, LP, and TC Energy Corporation. Both Targa and Western positively impacted performance, both in absolute terms and relative to the benchmark. Notably, this is the second consecutive quarter where Targa and Western Midstream are among the top three contributors to the Strategy's performance, and these stocks continue to be among the top-performing benchmark stocks for the year. The Strategy's performance benefited from its underweight positioning in TC Energy, which posted negative absolute returns during the period and represented the Strategy's largest underweight position. The Strategy maintained its position in all three companies at quarter-end.
- During the quarter, TC Energy's shareholders voted in favor of spinning off the company's liquids pipelines segment into South Bow Corp. in an effort to reduce its elevated debt-to-EBITDA ratio. The spin is expected to be effective late third quarter or early fourth quarter this year, and the company continues to progress with asset sales to accelerate its de-leveraging plan.

## What Hurt (Detractors)

- Relative to the AMNA, the Strategy's biggest detractors for the period were The Williams Companies, Inc., Marathon Petroleum Corporation, and Kinder Morgan, Inc. Both Williams and Kinder Morgan positively impacted performance, but underweight positioning caused them to detract from performance on a relative basis. Marathon Petroleum delivered negative absolute returns, and the Strategy was overweight given the company's absence from the benchmark.

- Williams continued to benefit from a surge in expectations around increased power demand growth resulting from artificial intelligence data centers, which benefits their widespread natural gas transmission footprint, particularly in the Northeast. Furthermore, the company announced strong earnings results during the period, indicating they are tracking towards the upper half of their guidance range. This success is driven by successful integration of recent acquisitions and continued development in accretive organic growth projects.
- As previously discussed, Marathon Petroleum was negatively impacted by weak refining margins. Additionally, Marathon announced during the period that it had returned over $2.5 billion to shareholders in the first quarter, including $300 million through dividends and $2.2 billion in share buybacks. The company also announced an increase in the buyback authorization by an additional $5 billion. Since mid-2021, Marathon's share count has decreased by almost 50%.
- Kinder Morgan benefited from comparable tailwinds as Williams, with expectations around increased power demand growth and rebounding natural gas prices boosting the stock.

All top contributors and detractors remained in the portfolio at the end of the period.

## Outlook

The midstream energy sector, as represented by the AMNA, has exhibited strong absolute and relative performance for three consecutive years and is now halfway to completing a fourth such year. Despite this positive performance, the valuation multiples of midstream companies—measured by enterprise value to EBITDA ratios—have remained relatively unchanged. These multiples continue to be discounted compared to pre-COVID levels and exhibit a more than 30% discount to the S&P 500.

We believe the sustained capital discipline practiced by domestic producers is one of the most bullish long-term developments for energy commodity prices. We remain confident that the ongoing theme of persistent underinvestment in the oil and gas sector will lead to a prolonged period of higher commodity prices and enhanced capital returns for the energy sector. This environment provides a favorable backdrop for energy equities, including midstream energy.

Furthermore, even without the tailwinds from commodity prices, the current strength of the midstream sector's balance sheets is unparalleled in recent history. With less need to allocate FCF towards reducing leverage, the prospects for enhanced cash returns to equityholders—through growth in dividends/distributions and buybacks—are clear and increasingly being realized. This Strategy offers potential protection against future market volatility. With EBITDA expected to grow steadily and a decrease in capital expenditure spending anticipated, especially as we move into 2025, the sector is well-positioned for robust FCF generation. Consequently, returns to equityholders are likely to rise in 2024 and 2025, even without a boost from energy macro tailwinds or an expansion in valuation multiples.

Therefore, our outlook for 2024 remains optimistic. This optimism is based on the durable FCF generation capabilities characteristic of midstream companies, which we believe will continue to drive idiosyncratic and uncorrelated total returns for equityholders. We believe the significant transformation of the midstream energy sector in recent years, alongside its positive FCF attributes, remains unrecognized and mispriced.

Kind regards,

*The NXG Cushing Midstream Team*

**Important Information:**
This information is being furnished on a confidential basis to the recipient and does not constitute an offer of any investment advisory services. It is intended exclusively for the use of the person to whom it has been delivered and it is not to be reproduced or redistributed to any other person without the prior consent of NXG Investment Management.

**Opinions expressed above are subject to change at any time, are not guaranteed and should not be considered investment advice. Investing in master limited partnerships (MLPs) involves risk. Principal loss is possible. There is a risk to the future viability of the ongoing operation of MLPs that return investor's capital in the form of distributions. MLPs concentrate investments in the natural resource sector and are subject to the risks of energy prices and demand and the volatility of commodity investments. Damage to facilities and infrastructure of MLPs may significantly affect the value of an investment and may incur environmental costs and liabilities due to the nature of their business. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment. Investments in smaller companies involve additional risks such as limited liquidity and greater volatility. Investments in foreign securities involve political, economic and currency risks, greater volatility and differences in accounting methods. MLPs are subject to certain risks inherent in the structure of MLPs, including complex tax structure risks, the limited ability for election or removal of management, limited voting rights, potential dependence on parent companies or sponsors for revenues to satisfy obligations, and potential conflicts of interest between partners, members and affiliates.**

Performance information included in this presentation represents composite returns for the NXG Cushing Midstream Energy Strategy (the "Strategy"). Actual account performance for a separately managed account invested in accordance with the Strategy will vary from these returns based upon account cash flows and investment timing.

| | *Total Assets ($ millions)* | | | | *Composite Performance (%)* | | | *Annualized 3-Year Standard Deviation (%)* [3] | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Year End* | *Firm* | *Composite* | **% of Composite Assets from Wrap Program** | *Number of Accounts* | *Gross* | *Net* | *Benchmark (%)* [5] | *Composite* | *Benchmark* [5] | *Internal Composite Dispersion (%)* [4] |
| 2024[1] | 1,184 | 19 | N.A. | 12 | 20.34 | 19.74 | 16.12 | 18.80 | 19.32 | N.A. |
| 2023 | 1,013 | 16 | N.A. | 12 | 18.26 | 17.09 | 14.02 | 19.14 | 20.31 | 0.68 |
| 2022 | 1,039 | 12 | N.A. | 9 | 25.16 | 23.91 | 21.53 | 41.26 | 48.74 | 0.22 |
| 2021 | 972 | 17 | N.A | 11 | 43.22 | 41.80 | 40.17 | 39.80 | 47.52 | 0.44 |
| 2020 | 829 | 11 | N.A. | 7 | -26.77 | -27.50 | -28.69 | 40.54 | 47.85 | N.A. |
| 2019 | 1,807 | 35 | 33.41 | 9 | 11.09 | 9.97 | -6.56 | 18.03 | 17.95 | 0.37 |
| 2018 | 2,712 | 43 | 46.93 | 13 | -12.42 | -13.29 | -12.42 | 19.36 | 18.35 | 0.56 |
| 2017 | 3,608 | 75 | 31.87 | 12 | -6.81 | -7.72 | -6.52 | 20.28 | 19.33 | 0.19 |
| 2016 | 3,722 | 150 | 0.80 | 7 | 25.30 | 24.04 | 18.31 | 21.40 | 20.23 | N.A. |
| 2015 | 2,961 | 51 | N.A. | 4 | -30.64 | -31.38 | -32.59 | 19.16 | 18.76 | N.A. |
| 2014 | 4,601 | 39 | N.A. | 2 | 22.40 | 21.06 | 4.80 | 13.50 | 13.73 | N.A. |
| 2013 | 3,343 | 31 | N.A. | 2 | 42.00 | 40.57 | 27.58 | 13.06 | 13.63 | N.A. |
| 2012 | 2,197 | 19 | N.A. | 1 | 8.44 | 7.36 | 4.80 | - | - | N.A. |
| 2011 | 1,503 | 13 | N.A. | 1 | 16.92 | 15.76 | 13.88 | - | - | N.A. |
| 2010[2] | 1,115 | 13 | N.A. | 1 | 29.48 | 28.39 | 29.11 | - | - | N.A. |

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.
1) Performance reflects the un-annualized performance from 1/1/2024 to 06/30/2024.
2) Performance reflects the un-annualized performance from March 1, 2010 to December 31, 2010.
3) For periods with less than 36 months of composite performance, no 3-year ex-post standard deviation measurement is available.
4) Dispersion is the asset-weighted standard deviation of annual returns of all portfolios in the composite for the entire year. If dispersion is N.A., the composite did not hold 6 or more accounts for the entire year or the period is a partial year.
5) The Strategy has selected a blended benchmark as its benchmark. The returns for the blended benchmark represent the returns of the Alerian MLP Index prior to January 1, 2022 and the returns of the Alerian Midstream Energy Index thereafter

**Important Information: Compliance Statement:** NXG Investment Management (Formerly, Cushing Asset Management, LP) ("NXG") claims compliance with the Global Investment Performance Standards (GIPS) and has prepared and presented this report in compliance with the GIPS standards. NXG has been independently verified for the periods January 1, 2006 through December 31, 2022 The verification report(s) is/are available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific report. GIPS is a registered trademark of CFA Institute. CFA does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. **Description of Composite:** The Composite is comprised of concentrated portfolios of long only publicly traded midstream energy infrastructure companies. The objective of each portfolio is to provide a high after-tax total return through a balance of growth and current income. The Composite was created in June 2010. The investment management fee schedule for the NXG Cushing® Midstream Energy Strategy is 1% on the value of managed account assets. Actual investment advisory fees incurred by clients may vary. Further information regarding investment advisory fees is described in Part 2A of the firm's Form ADV. The current benchmark for the composite is the Alerian Midstream Energy Index (AMNA), which is a broad-based composite of North American energy infrastructure companies. **Past performance is not indicative of future**

**results.** The U.S. Dollar is the currency used to express performance. Performance shown represents total returns that include income, realized and unrealized gains and losses. Gross performance is presented net of transaction costs. Net of fee performance was calculated using a model fee of 1% for each portfolio. The annual composite dispersion presented is an asset-weighted standard deviation calculated using accounts in the composite the entire year. The 3-Year Standard Deviation represents the annualized standard deviation of actual composite and benchmark returns, using the rolling 36-months ended each year-end. Effective as of January 1, 2017, the Firm adopted a Significant Cash Flow Policy for the Composite. The Composite policy requires the temporary removal of a portfolio from the Composite if there is a client-initiated cash inflow or outflow of 20% or more of the portfolio's assets. If the client intends to initiate a series of cash flows over a short period of time (e.g. less than three months) rather than a single cash flow in order to less the impact on the client portfolio, these cash flows will be aggregated to determine if the 20% threshold is met. The temporary removal of such portfolio will occur at the beginning of the month in which the significant cash flow occurs and the portfolio will re-enter the Composite the month after the cash flow. Additional information regarding the treatment of Significant Cash Flows is available upon request. **Additional information:** Additional information regarding the firm's policies and procedures for valuing portfolios, calculating performance, and preparing compliant presentations as well as copies of compliant presentations and a list of composite descriptions are available upon request from institutional@nxgim.com.com or (214) 692-6334.

**Definition of the Firm:** NXG Investment Management is a trade name of Cushing® Asset Management, LP, an investment adviser registered with the U.S. Securities and Exchange Commission (SEC). Registration with the SEC does not imply a certain level of skill or training. The firm was founded in 2003 and was rebranded as NXG Investment Management in 2022. NXG specializes in providing active management in markets where inefficiencies exist. The firm maintains a list of composite descriptions, which is available upon request.

All information provided herein is for informational purposes only and should not be relied upon to make an investment decision. Past performance results relate only to the time periods indicated and are not an indication of, nor a reliable proxy for future performance. This presentation is neither an offer to sell nor a solicitation of any offer to buy any securities, investment products or investment advisory services. The information contained in this document is the most recent information available to NXG (except otherwise noted), however all of the information herein is subject to change without notice. Certain information contained herein represents NXG's opinion and is based upon information, which may have been derived from multiple sources, and which may not be verified. The information has been provided in good faith but is not guaranteed and subject to uncertainties beyond NXG's control. NXG makes no warranty and accepts no liability for the completeness or accuracy of information, the basis of any comparison or any assumptions underlying any opinion.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction and improvement programs, high leverage, costs associated with environmental and other regulations, the effects of economic slowdown, surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Infrastructure companies may also be affected by or subject to difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets; inexperience with and potential losses resulting from a developing de-regulatory environment; costs associated with compliance with and changes in environmental and other regulations; regulation or adverse actions by various government authorities; government regulation of rates charged to customers; service interruption due to environmental, operational or other mishaps; the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards; technological innovations that may render existing plants, equipment or products obsolete; and general changes in market sentiment towards infrastructure assets. Because the Strategy will be concentrated in the group of industries constituting the energy and energy infrastructure sectors, it will be more susceptible to the risks associated with those sectors than if it were more broadly diversified over numerous industries and sectors of the economy. Companies in the energy and energy infrastructure sectors may be affected by fluctuations in the prices of energy commodities.

Certain information contained in this presentation may constitute "forward-looking" statements, which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "estimate," or "believe" or other variations thereof. Such statements reflect various assumptions by NXG concerning anticipated trends or events, which may or may not occur. Due to various risks and uncertainties, actual events or results may differ materially from those reflected or contemplated in such forward-looking statements.

This presentation is not an advertisement for any product offered by NXG or its affiliates and is not intended for public use or distribution. This presentation is not to be reproduced or redistributed to any other person without the prior consent of NXG.

**Alerian MLP Index TR (AMZ) and Alerian Midstream Energy Index TR (AMNA) ("the Indices") are servicemarks of VettaFi LLC ("VettaFi") and their use is granted under a license from VettaFi. VettaFi does not guarantee the accuracy and/or completeness of the Indices or any data included therein and VettaFi shall have no liability for any errors, omissions, interruptions or defects therein. VettaFi makes no warranty, express or implied, representations or promises, as to results to be obtained by Licensee, or any other person or entity from the use of the Indices or any data included therein. VettaFi makes no express or implied warranties, representations or promises, regarding the originality, merchantability, suitability, non-infringement, or fitness for a particular purpose or use with respect to the Indices or any data included therein. Without limiting any of the foregoing, in no event shall VettaFi have any liability for any direct, indirect, special, incidental, punitive, consequential, or other damages (including lost profits), even if notified of the possibility of such damages.**

Certain accounts in the composite may incur fees and expenses not incurred by other accounts. In addition to management fees, net of fee return calculations may include the deduction of administration, accounting, custody and other fees and expenses.