NXG INVESTMENT MANAGEMENT

The Next Generation of Investment Management

Investing Across Energy

November 2022

At NXG we think that to capitalize on the energy transition it is important to have the ability to invest in the entire energy value chain. There will be winners and losers across both old and new energy, and we are able to invest based on our view of the best risk-adjusted returns without sector limitations. Our firm's origin as a traditional energy infrastructure investor has allowed us to see multiple energy cycles. Technology adoption is always led by lowest cost solutions but is often a bumpy road. In an effort to optimize exposure to the Next Generation of energy production, we invest across the energy technology spectrum.

NXG Investment Management is dedicated to providing Next Generation investment strategies to investors seeking long-term growth in companies focused on a clean and sustainable future, as well as traditional and transformational infrastructure companies.

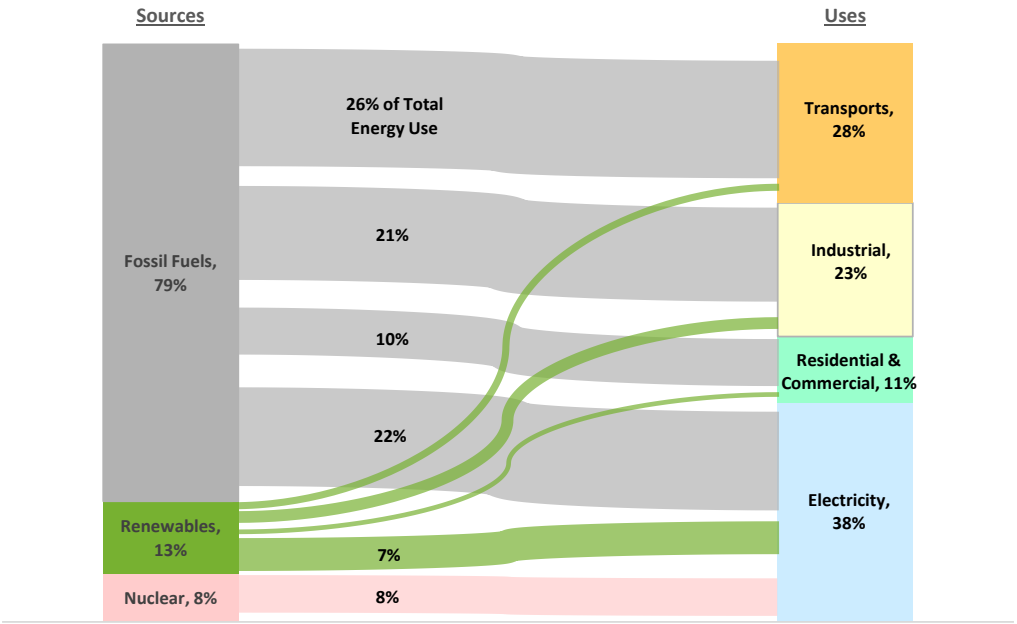
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Total Return Focus

Many investment firms focus solely on either clean energy or fossil fuels; indeed, energy seems at times to be the only sector where investors ignore competing technologies. This approach is very narrow and has the potential to limit returns.

Clean technologies' main competition comes from natural gas for electricity production and refined oil for transportation fuels. Adoption of clean energy, like any other technology, will be driven by economics. We think it is critically important to understand the costs of competing technologies when assessing clean investments. Alternatively, understanding the benefits and limitations of clean options should allow us to make more informed oil and gas investments. All energy sectors, including clean energy, have a history of booms and busts. A complete view of energy markets enables a more diversified approach. **NXG's approach uses risk-adjusted total returns as the basis for investment decisions and is not bound to a single industry**.

US Energy Supply & Demand[1]



[1] Data as of 2021. EIA, "Monthly Energy Review" April 2022.

Energy Usage Increasing Globally

Energy is required to power our homes, offices, cars, and to move goods. **Since 1965, there have only been five years where global energy demand has declined**[2]. Long term energy demand is very stable, growing on average +2.2% per year since 1900[3]. This has been driven by global population growth and higher energy use per capita over time. These trends are likely to continue for decades as global energy usage per capita is 73% lower than in the US[4].

Volatility in energy sectors and commodities is not due to demand. Energy usage in the US is split relatively equally between transportation, industrial, and electricity generation with the small balance being consumed directly by commercial and residential[5]. Each of these markets has their own regional demand drivers. Complexity is amplified by each demand group having multiple input sources, each with their own supply dynamics.

The Energy Revolution Will Still Require Fossil Fuels

Renewable energy is the cheapest source of new electricity generation for 90% of the world[6]. We expect the bulk of new electricity production will come from renewables because of the cost advantage and increased cost and scarcity of non-renewable fuel sources. This irreversible trend is being bolstered by a global push for energy independence in the wake of the Russian invasion of Ukraine and attendant petroleum and natural gas market disruptions. However, these facts do not necessarily mean that fossil fuel demand has peaked.

Clean technologies are making incredible improvements in efficiency and storage. Fossil fuels are still needed to help balance renewable intermittency while battery storage infrastructure is built out. The shift away from coal – which still produces 36% of global electricity[7]– will accelerate demand for new electricity generation sources, like natural gas and renewables. Refined products will be needed for their incredible energy density that help resolve weight limitations in the aviation and heavy trucking industries. The chemicals industry also requires petroleum-based feedstock for plastics and asphalt. Finally, the reshoring of supply chains will create more transportation and industrial demand that relies heavily on fossil fuels. Fossil fuels will not be going away soon, in our opinion.

Summary

We believe both that clean energy adoption is on a tremendous growth trajectory and that fossil fuels will be required for years to come. Overall demand for energy has grown consistently for decades and we expect that trend to continue. We believe that in order to maximize investment performance, it is important to invest across the energy supply spectrum.

[2] As of 2021. Our World in Data, BP Statistical Review.
[3] As of 2021. Our World in Data, BP Statistical Review.
[4] BP. “BP Statistical Review of World Energy 2022”
[5] Data as of 2021. EIA, “Monthly Energy Review” April 2022.
[6] BNEF, “1H 2022 LCOE Update” 6/30/2022
[7] BP. “BP Statistical Review of World Energy 2022”

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