Brookfield | OAKTREE
WEALTH SOLUTIONS

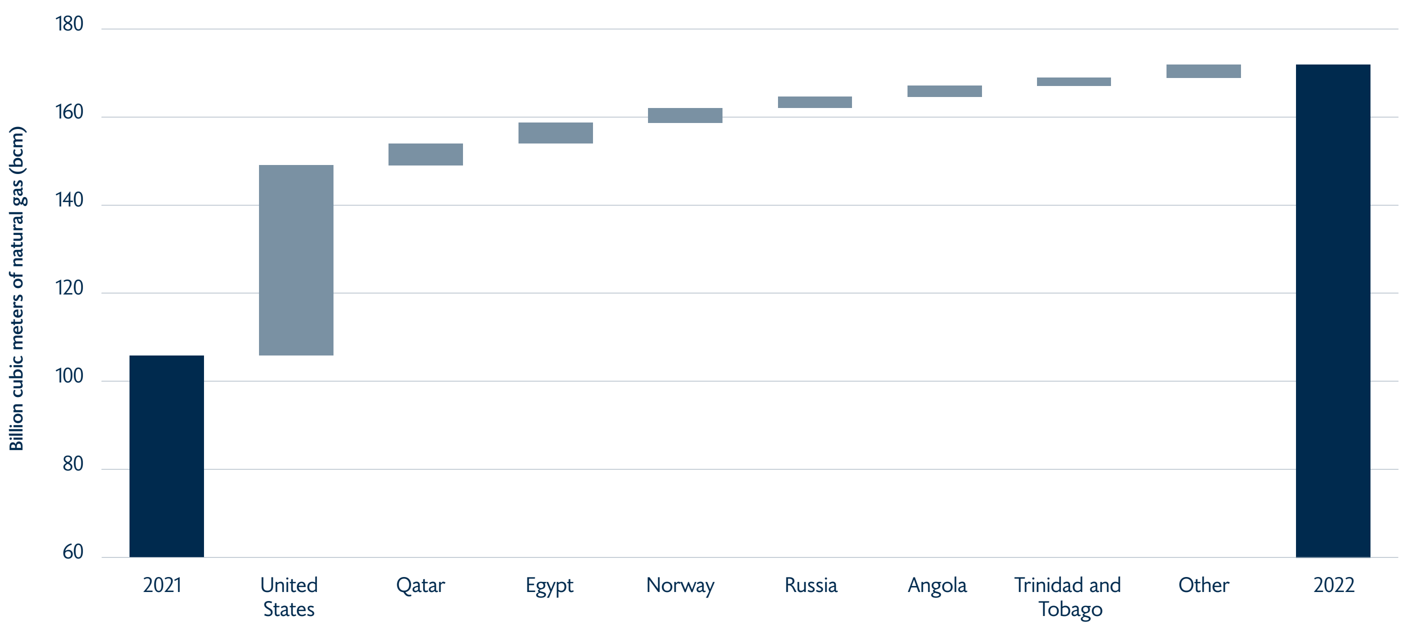
Three Reasons to Consider Investing in Energy Infrastructure Equities

Energy infrastructure is a diverse industry that connects energy producers with energy consumers, and we believe listed energy infrastructure offers a compelling opportunity for investors today. Here are three reasons why we're excited about the asset class, as well as our thoughts on how to potentially capture this opportunity.

The global push for energy security. Governments around the world are seeking safer and more secure sources of energy supplies. Last year's energy crisis, when lost Russian supplies resulted in acute energy security concerns in Europe, drove commodity prices higher and highlighted the importance of decreasing reliance on Russian hydrocarbons over time. In our view, U.S. hydrocarbons will be required to meet this energy security push and fill the demand growth coming from Asia's reopening, and especially China's reopening. This paradigm could support the entire North American energy infrastructure system that generates its primarily fee-based earnings by moving hydrocarbon volumes from the wellhead to the export dock, often clipping multiple fees along the way for the same energy molecule.

The U.S. Supplied Two-Thirds of the Liquefied Natural Gas (LNG) Imports Europe Needed in 2022 to Make Up for Decreasing Imports of Piped Russian Gas

Additional 2022 LNG Import Flows Into Europe by Source



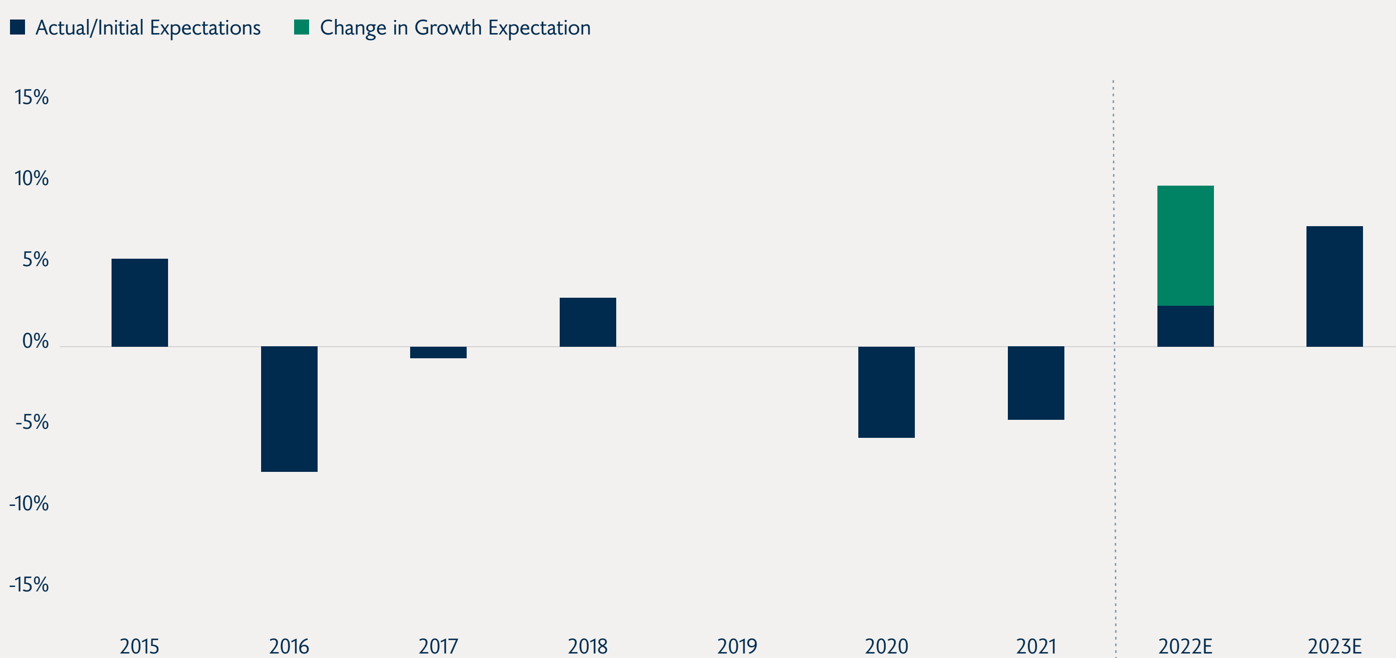
Source: International Energy Agency "Gas Market Report, Q1-2023."

Potential for significant dividend growth. The U.S. energy industry, including the midstream sector, has significantly improved its corporate finance model in the years since the COVID-19-induced economic slowdown. Management teams have focused on deleveraging, driving operating efficiencies and improving corporate governance. As a result of these changes, the midstream industry now has excess free cash flows that it's using to return value to equity holders via strong income, share buybacks, further deleveraging, and dividend growth.

In fact, in 2022, U.S. energy infrastructure grew their distributions by around 10%, above consensus expectations for low-single-digit growth coming into the year.[1] We foresee another year of continued dividend growth, with mid- to high-single-digit distribution growth forecasted in 2023—all while companies maintain their strong balance sheets and leverage profiles. We expect the total return to shareholders will approximate a double-digit free cash flow yield, with free cash flow yield defined as how much free cash flow is available in relation to a company's market capitalization. We believe a double-digit free cash flow yield represents an attractive level of cash return during a period of potentially extreme market volatility.

Listed Energy Infrastructure Distributions to Shareholders Are Growing

Annual Implied Distribution Change

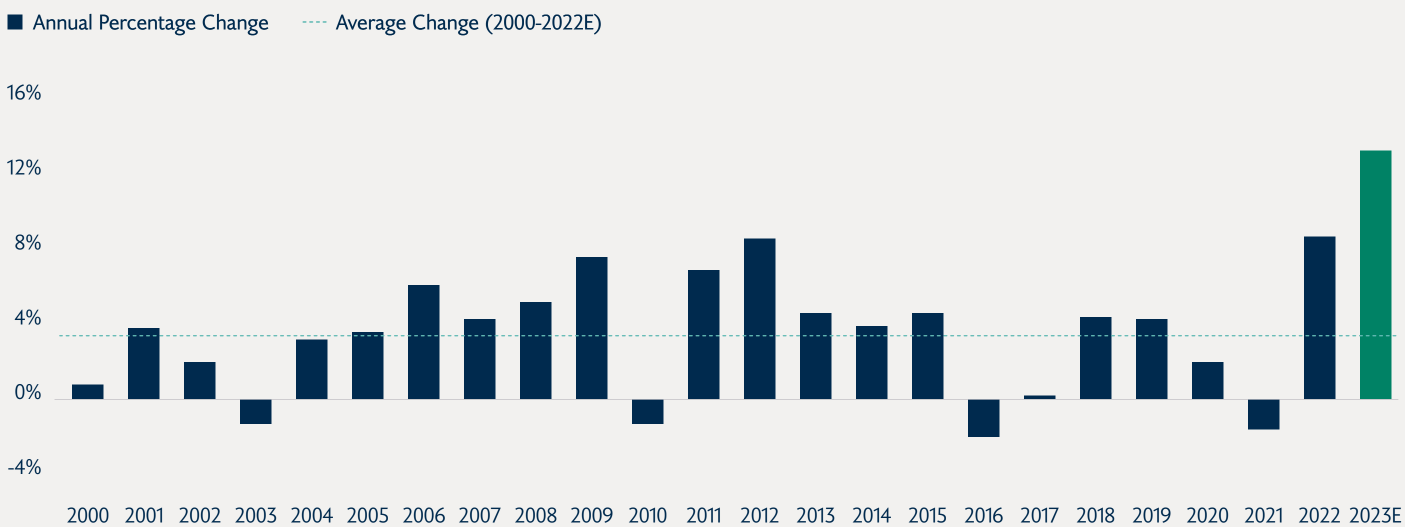


As of March 16, 2023. Source: Bloomberg, Brookfield Public Securities Group LLC. Listed energy infrastructure represented by the Alerian Midstream Energy Index (AMNA). Current analysis does not guarantee future results.

Potential for inflation protection. Energy infrastructure companies' cash profits tend to benefit from higher inflation, with inflation escalators frequently built into fee-based contracts for regulated and unregulated assets alike. For example, contracts with explicit built-in inflation protection mechanisms are most notable among liquid pipelines subject to the U.S. Federal Energy Regulatory Commission (FERC) indexation methodology. Under this methodology, pipeline operators contractually can raise their tariffs each year by the amount of the Producer Price Index (PPI) plus an "adder[2]" reviewed every five years and determined based on an analysis of a pipeline operator's cost changes. This tariff structure ensures that pipeline operators are protected from rising inflation, which is important in today's environment where investors want to know that their investments are keeping pace with inflation.

Inflation Provides Top-Line Tailwinds for Many Midstream Contracts

FERC Oil Pipeline Index – Annual Change (Represented as %)



As of March 20, 2023. Source: https://www.ferc.gov/general-information-1/oil-pipeline-index, BEI. FERC = Federal Energy Regulatory Commission. PPI = Producer Price Index. Tariff increase applies to July 1 in year provided. % changes represent issued indexes from FERC minus 1. For 2023, -0.21% adjustment was added to the average of non-final annual PPI-FG (PPF TOT Index in Bloomberg) reported monthly from January-December 2022 to estimate index change expected to take place on 7/1/23. This expected change was 13.53% before incorporating -0.21% adjustment.

Capturing the opportunity

As pioneers in energy infrastructure investing with an owner-operator mentality, we believe the optimal way to potentially capture this opportunity is through an actively managed, high-conviction strategy focused on quality midstream energy infrastructure companies. We believe our experience and proprietary research give us an edge in appraising the quality of the midstream assets and management teams, as well as the durability of cash flows and associated risks.

Our energy infrastructure equities team utilizes a disciplined active approach to invest in companies that appear well-positioned to benefit from the push for energy security, generate growing cash flows and attractive distributions, and provide a hedge against inflation.

ENDNOTES

[1] Energy infrastructure companies represented by the Alerian Midstream Energy Index (AMNA).

[2] The adder is set by the FERC every five years.

IMPORTANT DISCLOSURES

 Brookfield Asset Management Inc. completed a 62% acquisition of Oaktree Capital Group, LLC ("Oaktree") on September 30, 2019.

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INDEX DEFINITIONS

The Alerian Midstream Energy Index is a broad-based, capped, float-adjusted, capitalization-weighted index of North American energy infrastructure companies.

A WORD ABOUT RISK

All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results. 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 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 factor

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