

MAY 13, 2026

MID-QUARTER UPDATE

Reviewing Midstream securities as measured by the Alerian MLP Total Return Index (AMZX), it delivered a quarter-to-date (QTD) return of +3.21% through May 11th. This compares to the S&P 500's (SPXT) +13.7%, and the S&P 500 Energy Sector's (S5ENRS) -7.51%. Extending out the full Midstream universe to incorporate a broader set of companies not limited to tax structure, the Alerian Midstream Total Return Index (AMNAX) has returned -0.33% QTD.

It was a strong quarter for our Model Portfolio's financial results during the Q1:26 quarterly reporting period. The Model Portfolio's earnings before interest, taxes, depreciation, and amortization (EBITDA) beat estimates by +5.1%, weighted average. EBITDA increased +3.7% quarter-over-quarter (Q/Q) and +11.8% year-over-year (Y/Y), both weighted-average, reflecting solid growth. Distributable cash flow (DCF) rose +13.6% Y/Y, and distribution growth increased +4.4% Q/Q, and +9.0% growth Y/Y, all figures also weighted average.¹

Buyback activity remained consistent with the prior year period. Repurchase activity during Q1:26 was ~\$1.1 billion, versus \$1.05 billion in Q1:25. Even though repurchase activity is a relatively new feature within Midstream, there is somewhat of a seasonality emerging where companies begin the year more conservatively. Midstream balance sheets are in a solid position to consistently weigh repurchases against other accretive options.

2026 Tailwinds Picking Up

Unsurprisingly, we were pleased with this quarter's reporting period, having entered the year with more caution while awaiting more meaningful drivers of growth to appear in the second half of the year. Of course, the Strait of Hormuz (SoH) and the Middle East conflict changed the game for both commodity flows and prices, and both were drivers of Midstream results during the last month of the quarter.

We saw guidance increases in 60% of holdings (75% by weight), which is rare given companies typically get through at least June before raising forecasts. Higher prices driven by Winter Storm Fern, as well as increases in global prices due to the SoH effects, and better volume flows, particularly across export docks in March, were net positives to a mostly consistent volume picture we had expected. We're still expecting an acceleration of cash flow growth in 2H; we just feel better about it now.

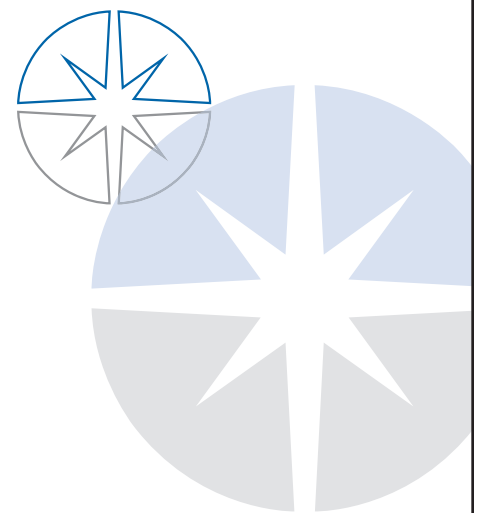
What we've been able to ascertain from earnings calls is the guidance ranges are driven higher by prices and the volumes companies expect to receive in Q2 by locking in hedges or with short-term contracts in place for increased volume delivery. As a reminder, 90%+ of Midstream remains long-term contracted, but when volatility arises, companies are poised to see higher cash realizations. Additionally, because much of the commodity price upside is tied to natural gas liquids (NGLs) that don't have much depth from a hedging profile (typically 3 months or less), they have good knowledge of what their hedged books look like through June but not much further. Thus, they retain the ability to offer additional upside to guidance in Q3 and Q4 should prices persist.

(1) This is not a forecast of the portfolio's future performance. Neither distributable cash flow (DCF) growth nor distribution/dividend growth for the portfolio's holdings guarantees a corresponding increase in the market value of the holding or the portfolio.

INVESTMENT TEAM

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While this is short-term cash flow, it's still a boon to investors because distributions & dividends are already well-covered, and there is good visibility into payout trajectories through the end of the decade. Growth within our Model Portfolio is expected to be 9-10% weighted average for the next 5 years.² So, what will they do with the excess cash flow? Our first preference is to apply it to their growth capex plans for 2026. This year has a heavier capex spend than previous years and boosting returns with zero cost equity and less need for debt bolsters corporate level return on invested capital (ROIC). Obviously, it also keeps already historically low debt to EBITDA leverage ratios at strong levels, too. After satisfying funding needs, we would expect to see additional excess cash flow applied to repurchases but likely weighted toward the back half of 2026.

Turning to other near- and medium-term fundamental drivers, several companies, particularly with export docks, indicated much higher foreign interest in greater U.S. product flows. The cadence of conversations since February was as one might expect with initial discussions focused on securing flows ASAP as the SoH closure impacted global hydrocarbon availability. The evolution to the present now has foreign buyers, many of whom Midstream executives say they've never talked to before, engaged for higher volumes at higher rates and offering longer contractual commitments. While good for the dock operators, this will have a demand-based pull-through effect all the way to the wellhead benefiting the full value chain of Midstream assets. This is incremental to the other mega drivers for Midstream growth: liquefied natural gas (LNG) exports, increases in power demand by data centers, and continued gains by U.S. manufacturing through onshoring/reshoring.

Hydrocarbon Impacts on Global Economics

Probably like many of you, we continue to be in awe of this market. AI infrastructure spending is taking the lead in driving what forecasters see as strong economic growth extending the remainder of this year. We're also seeing first fruits of AI productivity growth showing up, as organizations balance efficiencies across revenue and expenses that can now be accomplished by devoting more resources to AI.³

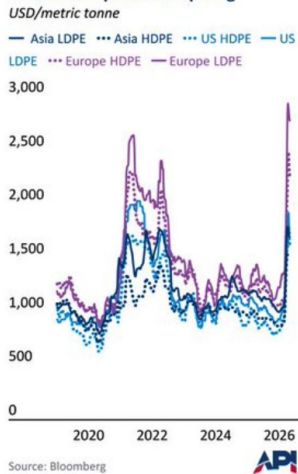
Of course, we balance this with our perspective we are hurtling into the worst energy supply crisis we've seen. There are signs to be hopeful, but we believe we're running out of options. All of the barrels of crude grades or refined fuels filling the supply gap are coming from global inventories not new production. It's been terrific to see international buyers show up at U.S. docks for supply, but most of what they've been buying has been U.S. Strategic Petroleum Reserve (SPR) barrels not new production.⁴ We see this as ironic that our "strategic" barrels are primarily going to non-U.S. buyers as a measure of price control rather than on a time of domestic need basis and worry about the potential delays of market discovery for crude prices. As a "hopeful" sign, companies are starting to add rigs and indicating more are coming, but these volumes are 6-9 months away, and while good for Midstream utilization, are not substantive enough to fill the supply gap. We reiterate, if the market returned to normal tomorrow, we are still set up for a massive restocking wave through at least 2027.

The U.S. export capacity is at physical limitations. The U.S. is estimated to have 5 to maybe 6 million barrels per day (MMBpd) of export capacity for crude and 2-2.5 MMBpd of refined products export capacity, in each case if fully utilized. We're approaching those levels now and don't expect to see significantly increased volumes without significant customer underwriting of downstream assets. NGL export capacity is ~2.5 MMBpd, and that is highly utilized as well. Also, since there is not a "Strategic NGL Reserve" we see continued higher pressure on prices and volumetric pull-through all the way back to the production sites as more buyers compete for fewer available global barrels.

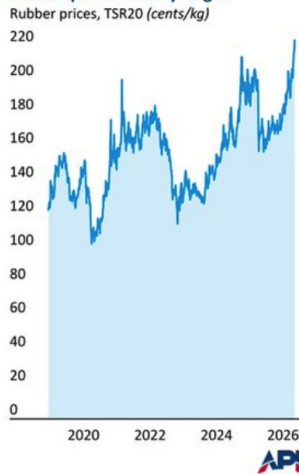
(2) Bloomberg LP, May 11, 2026. "Growth" refers to the estimated 2026 weighted average distributable cash flow (DCF) growth rate. This is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio. DCF data is CCM-calculated consensus of Wall Street estimates. (3) Morgan Stanley, "Productivity: AI is boosting output rather than cutting jobs", April 24, 2026. (4) RBN Energy, "How High? Surge in US Crude Exports Ups Estimates of What Gulf Coast Terminals Can Handle" May 11, 2026.

We showed the dislocation between crude input barrel prices and refined product barrel prices in our April newsletter, and how gasoline, diesel, and jet fuel prices were all already trading at ~\$200/barrel levels. We forecasted this would have ripple effects into other oil derivative sectors, and according to the American Petroleum Institute (API), this is showing up nearly as immediately as in hydrocarbon prices.⁵ These charts scream inflation.

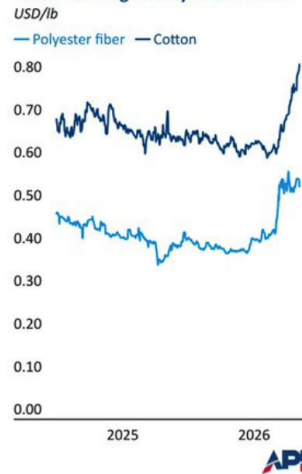
Plastic resin prices are spiking



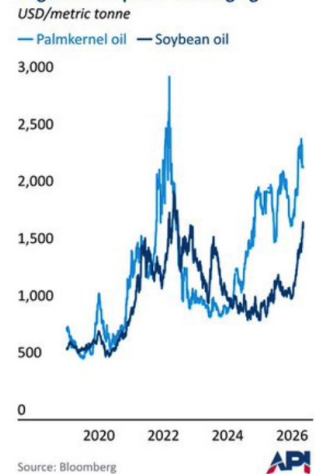
Rubber prices hit 13 yr highs



Cotton is rising with synthetic fibers



Vegetable oil prices are surging



Also in the April newsletter, we discussed how China’s release of LNG cargoes is providing buoyancy to the market that needs the supply, but it appears these cargoes have been snagged up (at a high price, mind you) more by their regional counterparts rather than the developed economies of Europe. In fact, EU gas storage inventories are at 35% of their winter target,⁶ are unlikely to hit their 90% target by the start of winter, and it now looks like they won’t even hit 80%.⁷ It’s kind of weird how Europe appears to be hoping this just goes away.

Luckily, Midstream fundamentals can benefit from a strong economy, an energy crisis, and increasing trends in inflation. If the economy remains strong, it’ll be driven by construction, manufacturing, and eventually, compute power, thus validating two of the three mega gas themes. The third theme, LNG exports, fits securely into the supply deficit theme, as does all the activity U.S. exports docks will be pulling from U.S. resource reserves. Lastly, it’s nearly impossible to write a newsletter without reminding our readers how Midstream not only gives modest inflation exposure to higher commodity prices, but also through contractual commitments with annual inflation escalators tied to various government statistical measures such as the Consumer Price Index (CPI) and Producer Price Index (PPI).

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(5) Twitter, Mason Hamilton, API Analyst, May, 8, 2026, 6:32AM. (6) Swiss Federal Office of Energy SFOE, Gas Storage Dashboard, 5/9/26. (7) Reuters, “Europe is unlikely to reach 80% pre-winter gas storage target, Equinor says”, May 6, 2026.

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Cash Flow is a revenue or expense stream that changes a cash account over a given period. Cash inflows usually arise from one of three activities - financing, operations or investing - although this also occurs as a result of donations or gifts in the case of personal finance. Cash outflows result from expenses or investments. This holds true for both business and personal finance. Cash flow can be attributed to a specific project, or to a business as a whole. Cash flow can be used as an indication of a company's financial strength.

CPI (Consumer Price Index) is a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Distributable Cash Flow (DCF) is calculated as net income plus depreciation and other noncash items, less maintenance capital expenditure requirements. Distributable cash flow (DCF) data is CCM calculated consensus of Wall Street estimates. DCF growth rate is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio.

Distributions are quarterly payments, similar to dividends, made to Limited Partner (LP) and General Partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

EBITDA is earnings before interest rates taxes depreciation and amortization.

Growth CapEx or Growth Capital Expenditures refers to the aggregate of all capital expenditures undertaken to further growth prospects and/or expand operations and excludes any maintenance and regulatory capital expenditures.

Leverage is net debt divided by EBITDA.

PPI (Producer Price Index) is a measure of the change in the price of goods as they leave their place of production.

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