

First Quarter 2024 Update

Energy infrastructure returns are off to a great start in 2024 with the Alerian Midstream Energy Index (AMNA) gaining 10.15% in the first quarter.¹ The Westwood Salient MLP SMA Composite outperformed the benchmark with a return of 11.98%.² On the commodity front, crude oil (WTI) gained 16.1% for the quarter as the previously implemented supply curbs by OPEC+ have had their intended impact of tightening the supply/demand balance, while the continuing tensions in the Middle East have certainly not eased concerns over regional escalation that could further impact supply. Natural gas was, frankly, a disaster as U.S. prices fell 29.9% for the period, while both Asian and European liquefied natural gas (LNG) prices were down ~17% due to yet another warmer than normal winter. U.S. prices (Henry Hub) hit an intraquarter low of \$1.58 — a level not seen since the COVID-19 lows in June 2020 when much of the world was still in lockdown.

Returns for energy infrastructure in the first half of the quarter were a bit soft as the AMNA was down 1.7% at its low on Valentine's Day and then staged an impressive rally through March 31.¹ We believe the rally was due to a handful of reasons, including (1) earnings reports and guidance started to hit and were in-line to better than expectations, (2) an article revealed that Occidental Petroleum (OXY) was looking to sell its ~49% interest in Western Midstream Partners L.P. (WES) in order to help fund its previously announced acquisition of CrownRock, (3) WES effectively confirmed the story and then announced a 52% distribution increase a couple of days later, and (4) Equitrans Midstream (ETRN) announced that it would be acquired by EQT Corporation (EQT) — the exploration and production company that had spun off ETRN in late 2018. The potential WES sale and ETRN news came after the January announcement that Sunoco L.P. (SUN) would acquire NuStar Energy L.P. (NS), all of which furthered the consolidation narrative that has emerged in recent years.

In our [monthly video](#) for February, we opined on the frequently asked question, “Who’s Next?” Popular thought among analysts and investors is that those with ~\$1B or less in EBITDA would be the most likely to be consolidated. In the table below, we show names that are in one or more of the Alerian indices that have EBITDA below \$2 billion. The names above the dotted line are those we believe might be the most likely candidates to be acquired in the near-term. These are NOT meant to be predictions, and we would also note that there are some companies with

¹ Alerian, March 31, 2024. Past performance is not indicative of future results. One cannot invest directly in an index.

² Westwood Management Corp., March 31, 2024. Performance shown is net of fees.

Please see “Notes to Performance Information” at the end of the document for a list of definitions.

Performance metrics sourced from Westwood Management Corp. Performance shown reflects composite performance for Westwood Salient MLP Separately Managed Accounts (SMA), including those accounts no longer with the firm. The Portfolio's performance is net of management fees and expenses, including transaction costs, and reflects reinvestment of dividends and income. Past performance is not indicative of future results. Individual results may vary in the Westwood Salient MLP SMA Strategy based upon the following factors, (i) individual account asset management fee, and (ii) when the investor enters and exits investment in the Portfolio. It should not be assured that investors in the Portfolio will experience returns in the future, if any, comparable to those discussed herein. The performance results have not been audited and the results of the current year are subject to year-end adjustments. Past performance is not necessarily indicative of how the index will perform in the future. The index reflects the reinvestment of dividends and income and does not reflect deductions for fees, expenses, or taxes. The index is unmanaged and is not available for direct investment. No investment strategy can guarantee performance results.

EBITDA well above \$2B (including WES) that may be targets as well. At the time we published the video, NS had been announced already, and ETRN was “above the line” as a Bloomberg article in December suggested that management was exploring “strategic alternatives” including a sale.

Ticker	Name	Structure	2024E EBITDA
NS	NuStar Energy L.P.	MLP	\$750
ETRN	Equitrans Midstream Corp.	C Corp	\$1,353
HESM	Hess Midstream L.P.	C Corp	\$1,150
DTM	DT Midstream, Inc.	C Corp	\$965
KNTK	Kinetik Holdings, Inc.	C Corp	\$935
ENLC	Enlink Midstream LLC	C Corp	\$1,379
KEY CN	Keyera Corp.	CN	\$1,135
AM	Antero Midstream Corp.	C Corp	\$1,067
SUN	Sunoco L.P.	MLP	\$1,049
GEL	Genesis Energy L.P.	MLP	\$732
GEI CN	Gibson Energy, Inc.	CN	\$665
NGL	NGL Energy Partners L.P.	MLP	\$645
USAC	USA Compression L.P.	MLP	\$546
DKL	Delek Logistics Partners L.P.	MLP	\$414

Source: Bloomberg and Westwood Holdings Group, as of March 31, 2024

Why we believe they may be near-term candidates:

- In October, Hess Midstream’s (HESM) parent company — Hess Corporation (HES) — announced that it would be acquired by Chevron (CVX). We believe there is historical precedent for CVX to acquire HESM because CVX acquired Noble Energy in July 2020, and by March 2021, it had also acquired Noble’s MLP, Noble Midstream. It seems likely to us that CVX will fold in HESM as well, but it is also possible that it could sell to a third party.
- When DT Midstream (DTM) was spun off from Detroit Edison a few years ago, it was thought by many on the roadshow that it would eventually be acquired. We believe that DTM may be close to getting an investment-grade credit rating that could serve as a catalyst for the stock to move higher. For the company to be acquired, we believe that there would need to be an attractive premium.
- When we published the [video](#) in February, Kinetik Holdings (KNTK) was controlled by Apache Corporation (APA) and two private equity firms — Blackstone and I Squared. In March, APA sold its remaining interest in an overnight offering (and we bought some for accounts that could participate). We expect that the private equity firms will seek an exit at some point in the not-too-distant future.

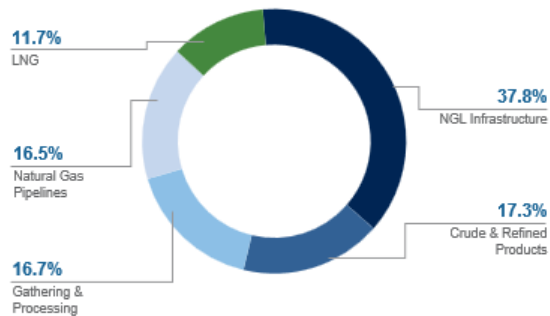
The remaining names below the line are sorted by EBITDA, and we believe there are varying degrees of probability for these companies. Without getting into specifics, we think some are pretty unlikely, some could definitely happen and the rest are question marks.



Portfolio Breakdown

The breakdown of the Westwood Salient MLP SMA Composite by subsector as of March 31, 2024, is shown in the graph below.

Portfolio Breakdown as of 03/31/2024



Source: FactSet., March 31, 2024. Percentages have been rounded to the nearest tenth for illustrative purposes only. The Composite's allocation may vary at any point in time. Sector weightings are stated ex-cash and shown as supplemental information.

Portfolio Performance, Contribution and Attribution

In the first quarter, the Westwood Salient SMA composite gained 11.98% vs. 10.15% for the AMNA. The relative outperformance was driven by significant overweights on positions including Targa Resources Corp. (TRGP) and WES that were up more than 20% each, as well as meaningful underweights on the two largest Canadian companies, Enbridge, Inc. (ENB) and TC Energy Corp. (TRP), that lagged the AMNA by a wide margin. The top 10 holdings in the Westwood Salient composite are shown below.

Returns and Contribution of Top 10 Holdings – 1Q 2024

Ticker	Company	03/31/2024 Weight	Average Weight	Average Weight (AMNA)	1Q 2024 Return	1Q 2024 Contribution
ET	Energy Transfer L.P.	14.5%	14.6%	10.2%	16.6%	2.42%
LNG	Cheniere Energy, Inc.	11.3%	11.1%	8.8%	-5.4%	-0.68%
OKE	ONEOK, Inc.	9.4%	9.1%	9.8%	15.8%	1.48%
EPD	Enterprise Products Partners L.P.	9.3%	9.3%	9.3%	12.9%	1.22%
TRGP	Targa Resources Corp.	8.9%	8.8%	4.8%	29.5%	2.54%
WMB	Williams Companies, Inc.	8.6%	8.6%	9.8%	13.5%	1.11%
KMI	Kinder Morgan, Inc. Class P	5.8%	6.2%	7.9%	5.6%	0.31%
ENB	Enbridge, Inc.	4.5%	5.6%	9.9%	2.4%	0.07%
PBA	Pembina Pipeline Corp.	4.1%	4.4%	4.4%	3.9%	0.17%
WES	Western Midstream Partners L.P.	4.0%	3.8%	1.4%	23.9%	0.90%

Source: Westwood Management Corp., March 31, 2024. Numbers have been rounded for illustrative purposes only. Past performance is not indicative of future results.

Contribution

The top contributor to portfolio returns in the first quarter was TRGP (29.7% return, 2.54% contribution). TRGP's guidance for 2024 EBITDA and capex was in line with expectations, but management's early guidance for 2025 capex is \$1 billion less than 2024 and analysts expect 2025 EBITDA to grow ~10%. In other words, free cash flow will ramp substantially in 2025, which provides management with the flexibility to return capital to shareholders via dividends and/or stock buybacks.

The largest detractor for the quarter was Cheniere Energy, Inc. (LNG, -5.3% return, -0.68% contribution). As mentioned previously, global LNG prices were down ~17% due to warm winter weather, which impacts the company's marketing profits. That said, the company will have much lower marketing volumes in 2024 than in previous years since almost all its production capacity is reserved under long-term contracts. As a result, global pricing will not have much impact on the company's cash flow this year.

Top 5 Contributors – 1Q 2024

Ticker	Company	03/31/2024 Weight	Average Weight	Average Weight (AMNA)	1Q 2024 Return	1Q 2024 Contribution
TRGP	Targa Resources Corp.	8.9%	8.8%	4.8%	29.7%	2.54%
ET	Energy Transfer L.P.	14.5%	14.6%	10.2%	16.6%	2.42%
OKE	ONEOK, Inc.	9.4%	9.1%	9.8%	15.8%	1.48%
EPD	Enterprise Products Partners L.P.	9.3%	9.3%	9.3%	12.8%	1.22%
WMB	Williams Companies, Inc.	8.6%	8.6%	9.8%	13.4%	1.11%

Source: FactSet, March 31, 2024. Numbers have been rounded for illustrative purposes only. Past performance is not indicative of future results.

Bottom 5 Contributors – 1Q 2024

Ticker	Company	03/31/2024 Weight	Average Weight	Average Weight (AMNA)	1Q 2024 Return	1Q 2024 Contribution
LNG	Cheniere Energy, Inc.	11.3%	11.1%	8.8%	-5.3%	-0.68%
GEL	Genesis Energy L.P.	2.1%	2.3%	0.3%	-2.8%	-0.08%
EE	Excelerate Energy, Inc. Class A	0.4%	0.4%	0.0%	0.0%	0.01%
*KEY	Keyera Corp.	0.5%	0.5%	1.3%	7.7%	0.04%
DKL	Delek Logistics Partners L.P.	0.6%	0.2%	0.1%	-2.8%	0.04%

Source: FactSet, March 31, 2024. Numbers have been rounded for illustrative purposes only. Past performance is not indicative of future results.

In terms of subsector allocations, NGL Infrastructure and Gathering & Processing were the two largest contributors to returns at 5.32% and 4.08%, respectively. Energy Transfer L.P. (ET), ONEOK, Inc. (OKE) and Enterprise Products Partners L.P. (EPD) drove the NGL Infrastructure contributions, while TRGP and WES drove Gathering & Processing. The LNG subsector detracted 0.66% due to our position in Cheniere.



Contribution by Subsector – 1Q 2024

Company	Average Weight Portfolio	Average Weight AMNA	1Q 2024 Return Portfolio	1Q 2024 Return AMNA	1Q 2024 Contribution
NGL Infrastructure	37.9%	34.9%	13.8%	13.3%	5.32%
Gathering & Processing	15.3%	9.8%	27.2%	23.0%	4.08%
Natural Gas Pipelines	16.7%	28.3%	11.8%	8.6%	1.88%
Crude & Refined Products	18.6%	17.2%	9.4%	7.7%	1.69%
Water	0.0%	0.2%	0.0%	17.4%	0.00%
LNG	11.5%	9.5%	-5.0%	-4.8%	-0.66%

Source: Westwood Management Corp., March 31, 2024. Numbers have been rounded for illustrative purposes only. Excludes cash. Past performance is not indicative of future results.

Attribution

Three of the top five individual sources of alpha for the quarter were overweight positions vs. AMNA that outperformed — TRGP, WES and KNTK. The underweight position in ENB and zero-weight position in TRP also generated alpha. Overweight positions in Cheniere and Genesis Energy L.P. (GEL) were the primary detractors to alpha given their underperformance, while underweights in NS (which announced it would be acquired), Williams Companies, Inc. (WMB) and HESM also detracted slightly.

Top 5 Attribution vs. AMNA – 1Q 2024

Ticker	Company	03/31/2024 Weight	Average Weight	Average Weight (AMNA)	1Q 2024 Return	1Q 2024 Attribution
TRGP	Targa Resources Corp.	8.9%	8.8%	4.8%	29.5%	0.74%
TRP	TC Energy Corp.	0.0%	0.0%	9.5%	0.0%	0.52%
ENB	Enbridge, Inc.	4.5%	5.6%	9.9%	2.4%	0.34%
WES	Western Midstream Partners L.P.	4.0%	3.8%	1.4%	23.9%	0.33%
KNTK	Kinetik Holdings Inc., Class A	2.1%	1.2%	0.1%	29.1%	0.30%

Source: FactSet, March 31, 2024. Numbers have been rounded for illustrative purposes only. Past performance is not indicative of future results.

Bottom 5 Attribution vs. AMNA – 1Q 2024

Ticker	Company	03/31/2024 Weight	Average Weight	Average Weight (AMNA)	1Q 2024 Return	1Q 2024 Attribution
LNG	Cheniere Energy, Inc.	11.3%	11.1%	8.8%	-5.4%	-0.34%
GEL	Genesis Energy, L.P.	2.1%	2.3%	0.3%	-2.8%	-0.27%
NS	NuStar Energy L.P.	0.0%	0.0%	0.6%	0.0%	-0.08%
WMB	Williams Companies, Inc.	8.6%	8.6%	9.8%	13.5%	-0.04%
HESM	Hess Midstream LP Class A	0.0%	0.0%	0.5%	0.0%	-0.03%

Source: FactSet, March 31, 2024. Numbers have been rounded for illustrative purposes only. Past performance is not indicative of future results.

Gathering & Processing was the largest subsector contributor at 1.29%, driven by the overweights on TRGP, WES and KNTK. Natural Gas Pipelines also contributed 0.70% to alpha due primarily to the zero-weight in TRP. The LNG subsector was the largest detractor from alpha due to the overweight on Cheniere, which underperformed in the first quarter.



Attribution by Subsector – 1Q 2024

Company	Average Weight Portfolio	Average Weight AMNA	1Q 2024 Return Portfolio	1Q 2024 Return AMNA	1Q 2024 Attribution
Gathering & Processing	15.3%	9.8%	27.2%	23.0%	1.29%
Natural Gas Pipelines	16.7%	28.3%	11.8%	8.6%	0.70%
Crude & Refined Products	18.6%	17.2%	9.4%	7.7%	0.31%
NGL Infrastructure	37.9%	34.9%	13.8%	13.3%	0.29%
Water	0.0%	0.2%	0.0%	17.4%	-0.02%
LNG	11.5%	9.5%	-5.0%	-4.8%	-0.30%

Source: FactSet, March 31, 2024. Numbers have been rounded for illustrative purposes only. Excludes cash. Past performance is not indicative of future results.

As always, we sincerely appreciate your confidence and trust in us to manage your energy infrastructure allocation. Please call us with any questions.

The Westwood Salient Energy Infrastructure Team



Risk Disclosure

Master Limited Partnership Risk

MLP returns have the potential to be highly volatile, an MLP is also subject to liquidity risk, potential conflicts of interest as a result of the MLP ownership structure and the risks of the specific sector in which the MLP is concentrated. Investments in the equity securities of master limited partnerships involve risks that differ from investments in the equity securities of corporate issuers, including risks related to limited control and limited rights to vote on matters affecting the partnership, risks related to potential conflicts of interest between the partnership and its general partner, cash flow risks, dilution risks, liquidity risks and risks related to the general partner's right to require unit holders to sell their common units at an undesirable time or price. These risks are not inclusive of all potential risks as they relate to investments in Master Limited Partnerships. All investments are subject to investment risk, including loss of principal invested. Performance described herein reflects the reinvestment of interest, dividends and other earnings, net of fees. The performance results have not been audited, and the results of the current year are subject to year-end adjustment. Prospective investors should read all documents thoroughly prior to making an investment in the Portfolio.

Market Risk

Market risk is the risk that the markets on which the Separately Managed Account (SMA) investments trade will increase or decrease in value. Prices may fluctuate widely over short or extended periods in response to company, market or economic news. Markets also tend to move in cycles, with periods of rising and falling prices. If there is a general decline in the securities and other markets, your investment in the SMA may lose value, regardless of the individual results of the securities and other instruments in which the SMA invests.

Tax Risk

Changes in tax laws or regulations, or interpretations thereof in the future, could adversely affect the SMA or the Energy Infrastructure Companies in which the SMA invests. Any such changes could negatively impact the investor. Legislation could also negatively impact the amount and tax characterization of distributions received by the investor.

Forward-Looking Statements

This newsletter contains "forward-looking statements". Forward-looking statements can be identified by the words "may," "will," "intend," "expect," "estimate," "continue," "plan," "anticipate," "could," "should" and similar terms and the negative of such terms. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect actual results are the performance of the portfolio of securities, the conditions in the U.S. and the international financial, natural gas, petroleum and other markets and other factors. Actual results could differ materially from those projected or assumed in our forward-looking statements.

The Alerian Midstream Energy Total Return Index (AMNAX) is the benchmark index for the Strategy. The benchmark for the Strategy changed 1/1/2019 from the Alerian MLP Total Return Index (AMZX). The AMNAX is a comprehensive midstream index that reflects the investable universe of midstream securities as it is agnostic to corporate structure. The AMZX is used in addition to the AMNAX in order to provide further market sector performance comparisons to exchange-traded energy related partnerships. Prior to 1/1/2019, the S&P MLP Index (SPMLP) was used in addition to the AMZX in order to provide further market sector performance comparisons.

"Alerian Midstream Energy Total Return Index", "Alerian MLP Total Return Index", "AMNAX" and "AMZX" are trademarks of Alerian and their use is granted under a license from Alerian.

Notes to Performance Information

1. Annualized returns are period returns re-scaled to a period of 1 year. This allows investors to compare returns of different assets that they have owned for different lengths of time.
2. Midstream sector involves the transportation (by pipeline, rail, barge, oil tanker or truck), storage, and wholesale marketing of crude or refined petroleum products.
3. Master limited partnerships (MLPs) are publicly traded limited partnerships and limited liability companies that are treated as partnerships for federal income tax purposes.
4. Alerian Midstream Energy Index (AMNA) is a market-capitalization weighted, float-adjusted index of North American energy infrastructure companies. Launch date of the AMNA is June 25, 2018.



5. Gathering and Processing (G&P) describes the actions important in the natural gas sector; when natural gas is produced from wells, the wells are connected to a gathering system comprising a network of smaller pipelines that collect the gas and deliver it to larger pipeline systems for longer-distance transport.
6. COVID-19 Coronavirus disease (COVID-19) is an infectious disease caused by a new virus. The disease was first identified in December 2019 in Wuhan, the capital of China's Hubei province, and has since spread globally, resulting in the ongoing 2019–20 coronavirus pandemic.
7. A commodity trading advisor (CTA) is an individual or firm that provides personalized advice regarding the buying and selling of futures contracts, options on futures and retail off-exchange forex contracts or swaps.
8. Beta (β) is a measure of the volatility—or systematic risk—of a security or portfolio compared to the market as a whole (usually the S&P 500).
9. Crude oil is a naturally occurring petroleum product composed of hydrocarbon deposits and other organic materials.
10. Natural gas liquids (NGLs) are components of natural gas that are separated from the gas state in the form of liquids.
11. Brent crude oil is a light, sweet oil produced in the North Sea, with most of it being refined in Northwest Europe.
12. Liquefied natural gas (LNG) is natural gas that has been cooled to a liquid state, at about -260° Fahrenheit, for shipping and storage.
13. A futures market is an auction market in which participants buy and sell commodity and futures contracts for delivery on a specified future date.
14. The International Energy Agency (IEA) is an international intergovernmental organization that was established in 1974 to ensure the world's oil supply.
15. Time spread is an options strategy in which an investor takes the same position in two different option contracts that are identical in every way
16. except the expiration date.
17. Backwardation means that crude oil prices in the future are significantly lower than today – a sign of tight markets.
18. The Energy Information Administration (EIA) is a government agency formed in 1977. The EIA is responsible for objectively collecting energy data, conducting analysis and making forecasts.
19. Natural gas is a fossil energy source that formed deep beneath the earth's surface.
20. OPEC+ is a group of 24 oil-producing nations, made up of the 14 members of OPEC and 10 other non-OPEC members, including Russia and Mexico. The expanded group arose from a desire to coordinate oil production in a bid to stabilize global oil prices.
21. Organisation for Economic Co-operation and Development (OECD) is an international organization of 34 countries that accept the principles of representative democracy and a free market economy. The organization collaborates on domestic and international policies concerning economic, environmental and social issues.
22. Carbon capture is the process of capturing and storing carbon dioxide before it is released into the atmosphere.
23. Inflation Reduction Act (IRA) is a law passed in August 2022 that aims to curb inflation by reducing the deficit, lowering prescription drug prices and investing into domestic energy production while promoting clean energy.
24. National Environmental Policy Act (NEPA) was signed into law in 1970 to promote efforts that prevent or eliminate damage to the environment.
25. Strategic Petroleum Reserve (SPR) is an emergency stockpile of crude oil set aside to ensure supply in the event of a disruption.



Disclaimers

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Advisory services are through Westwood Management Corp. Parent company Westwood Holdings Group, Inc. ("WHG"), which together with its wholly owned subsidiaries, Westwood Management Corp. ("WMC"), Westwood Advisors, LLC ("WA"), Westwood Trust ("WT"), Salient Advisors, LP ("SA") and its affiliate Broadmark Asset Management, LLC ("Broadmark"), provides investment, asset and portfolio management services. "WMC", "WA", "SA" and "Broadmark" are SEC- registered investment advisors. Registration as an investment advisor does not imply any level of skill or training. WT is a Texas chartered Trust company overseen by the Texas Department of Banking. Westwood does not offer legal or tax advice. Please contact your attorney and or tax professional for advice regarding your specific situation.

