Fueling the Future: Data Centers, LNG and the Case for an Allocation to Energy Infrastructure

In this article, we review:

- Why energy infrastructure stands to benefit from two secular megatrends
- How the power supercycle is reshaping U.S. energy demand
- The strategic role of infrastructure in an era of global energy security
- Why investors should increase exposure to this critical asset class

A Durable Shift in Energy Demand, Hidden in Plain Sight

In a market shaped by short-term headlines and rapidly rotating narratives, the story unfolding across U.S. energy infrastructure is quietly gaining strength. We have entered an era where energy infrastructure will play an even more prominent role facilitating economic development – these companies own and operate the critical infrastructure enabling profound shifts in the global economy.

This piece spotlights why the energy infrastructure asset class is increasingly central to how we think about the energy & power sectors, economic development, and portfolio construction. The energy infrastructure sector offers investors the best of both worlds – exposure to durable, long-term growth ***<u>while at the same time</u>*** also providing defensive attributes that can help investors navigate today's uncertainty.

The Power Supercycle: Natural Gas Steps into the Spotlight

The first major trend reshaping the U.S. energy landscape is what we call the Power Supercycle. The forces driving a structural surge in power demand are deeply rooted and remarkably broad: the rise of energy-intensive AI workloads, a national manufacturing renaissance, and the electrification of transportation and industry.

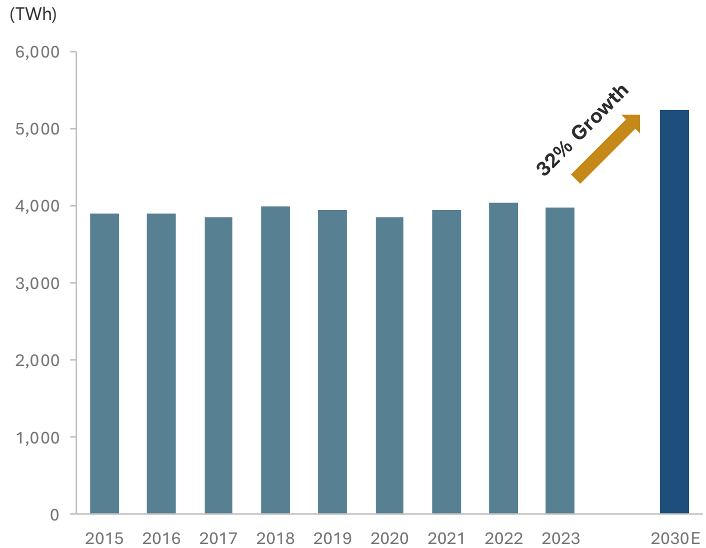
Each of these drivers places enormous pressure on the nation's power grid, pushing utilities and developers to seek solutions that are scalable, dispatchable, and available now. While renewables continue to play an important role, they are intermittent by nature. Nuclear, though reliable and carbon-free, faces long lead times and regulatory complexity.

Enter natural gas.

With its unique combination of scale, flexibility, and readiness, U.S. natural gas has become the essential workhorse of the domestic power grid, and the obvious choice to satisfy growing power demand over the next decade. For investors, this marks an important structural shift. Visible, long-term demand growth is converging with a sector already producing reliable, cash-generative returns.

The infrastructure networks that handle natural gas (pipelines, processing systems, and storage assets) are not only economically critical, but also strategically advantaged. They are difficult to replicate, capital-intensive to build, and positioned to earn durable returns as demand for their services expands. As electricity consumption rises over the next decade, so too will the value of the infrastructure that makes it possible.

Chart 1: U.S. Electricity Demand (TWH)
Forecasted U.S. electricity demand growth through 2030 driven by data center demand and reshoring activity.



(Source: 2015 to 2023 from Energy Information Administration (EIA). 2030 estimate from Department of Energy (DOE), McKinsey & Company, July 2024.)

Energy Security: A New Strategic Premium

The second megatrend reinforcing the case for energy infrastructure is the renewed emphasis on energy security and the United States' role as an energy superpower. Over the past few years, global disruptions, from the war in Ukraine to unrest in the Middle East, have cast a spotlight on the reliability (or lack thereof) of global energy supply chains.

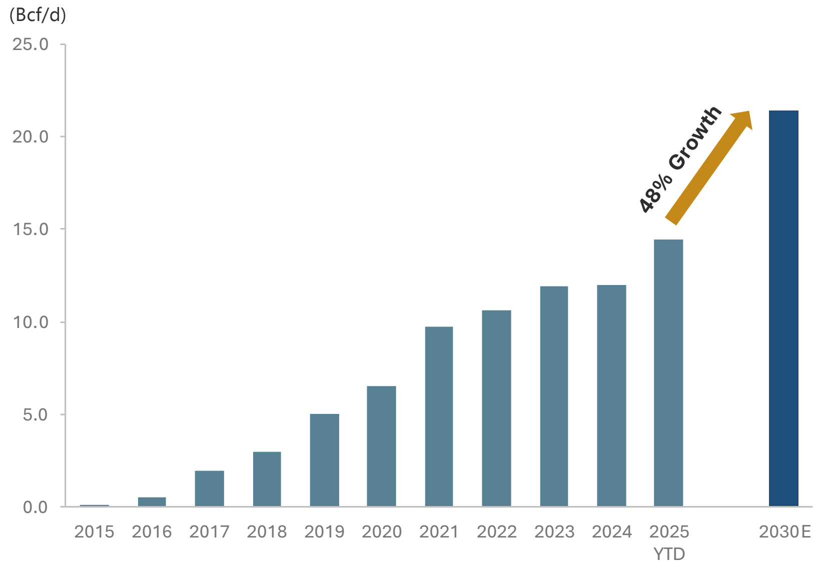
For decades, energy policy and investment decisions were guided by efficiency and cost. Today, security of supply is the new necessity, not just for governments, but for global buyers of energy who increasingly value reliability.

Nowhere is this shift more evident than in the global trade of liquefied natural gas (LNG). The U.S. has rapidly become the world's largest exporter of LNG, with capacity expected to grow by 48% in the coming years according to the EIA. These exports play a critical role in helping European and Asian allies reduce dependence on volatile or adversarial suppliers.

This energy security megatrend has created a strategic premium around U.S. energy infrastructure (including pipelines, liquefaction terminals, and export-related midstream assets), which is already in place and capable of expansion at attractive returns on capital. As global economies increasingly prioritize reliability and geopolitical alignment, U.S. infrastructure operators are securing some of the longest-duration contracts in their history with highly rated international counterparties. These agreements not only provide cash flow visibility, but also reflect the growing recognition of U.S. energy and its infrastructure as a cornerstone of global supply.

The operational complexity, capital intensity, and permitting barriers associated with this infrastructure create a natural moat for these companies. These are not easily replicated businesses, and the economic rents they generate are becoming more valuable as the energy security conversation moves to the forefront. In a world where molecules matter, the "pipe in the ground" has secured its place as a durable, income-generating asset that will play a central role in global energy markets well into the middle of this century.

Chart 2: U.S. LNG Exports (Bcf/d)
The U.S. is now the largest LNG exporter globally.



(Source: Energy Information Administration (EIA))

Why Midstream Infrastructure Is Positioned to Benefit

Midstream energy infrastructure is uniquely positioned to benefit from both megatrends.

Over the last decade, midstream companies improved their balance sheets, adopted disciplined capital allocation strategies, and shifted to self-funded growth models. Today, they are not only well positioned financially, but they also own the infrastructure necessary to support new power projects, rising LNG exports, and resilient demand from industrial reshoring.

Key characteristics of this sector include:

- Inflation-linked cash flows through long-term, fee-based contracts
- High free cash flow generation, with return-of-capital strategies (including growing stock dividends and stock buybacks)
- Defensive growth from investment-grade customers, utility demand, and long-term contracts
- Attractive valuations, particularly when compared to broader equity and credit markets

Energy Infrastructure: The Best of Both Worlds – Durable Growth and Defensive Attributes

These megatrends are long-term structural changes. And with the majority of U.S. infrastructure already built and operating, the investment thesis is less about what might happen and more about what is already unfolding. And, importantly in today's market, it is doing so in a manner that is hard-asset-based, cash-flow generative, and built to endure uncertainty.

For clients seeking income in a liquid format, public energy infrastructure can serve an important role with durable, long-term growth with defensive attributes.

Investing in listed energy infrastructure securities provides investors exposure to large, well-capitalized companies with diversified asset bases. In Kayne's opinion these companies are best positioned to capitalize on the sector's tailwinds. Further, strategies focusing on listed markets can be custom tailored in ways that are very difficult to replicate in the private markets and stand to benefit from the ability to dynamically shift portfolio allocations as market conditions evolve.

About the Advisor

Kayne Anderson, founded in 1984, is a leading alternative investment management firm focused on real estate, credit, infrastructure, and energy. With a team defined by an entrepreneurial and resilient culture, Kayne Anderson's investment philosophy is to pursue cash flow-oriented niche strategies where knowledge and sourcing advantages enable us to deliver above average, risk-adjusted investment returns. Kayne manages $38 billion in assets for institutional investors, family offices, high net worth and retail clients and employs 350 professionals.

Kayne Anderson's energy infrastructure group has almost three decades of experience managing portfolios of listed energy infrastructure securities. Currently, the group has $5 billion in assets under management and strategies focused on midstream equity, power equity and energy infrastructure credit.

We invite you to learn more about Kayne Anderson and our public infrastructure investment strategies by visiting our website at www.kaynefunds.com.