



## Kayne Anderson's Baker On The Big Potential Of Energy Infrastructure

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Jim Baker, Co-Head of Energy Infrastructure Strategies for Kayne Anderson Capital Advisors, President of the Kayne Anderson Energy Infrastructure Fund. Jim Baker discusses generating "excess free cash flow" that helped the midstream index generate gains of over 50 percent for fiscal 2024, an impressive gain that still actually lagged the total return of his fund. Moving forward, and despite a political climate that he says could be a double-edged sword in the infrastructure space,

Baker sees gains continuing potential for the sector to earn gains in the "low to mid-teens" for the next three to five years, fueled by the power demands of artificial intelligence, data centers and other applications.

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**CHUCK JAFFE:** We're talking energy infrastructure investing with Jim Baker, president of the Kayne Anderson Energy Infrastructure Fund, welcome to The NAVigator. This is The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, which is a unique industry organization representing the full spectrum of the closed-end fund business, from sponsors and creators all the way down to fund investors and users . If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today, we're going in the direction of

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energy infrastructure investing with Jim Baker, he's managing partner and co-head of energy infrastructure at Kayne Anderson Capital Advisors, he's president of the Kayne Anderson Energy Infrastructure Fund, which is ticker symbol KYN. You can learn more about the firm at [KayneAnderson.com](http://KayneAnderson.com), and more about the fund at [KayneFunds.com/KYN](http://KayneFunds.com/KYN). And if you want to learn more about closed-end funds, interval funds, and business-development companies generally, visit [AICAlliance.org](http://AICAlliance.org), that's the website for the Active Investment Company Alliance. Jim Baker, welcome back to The NAVigator.

**JIM BAKER:** Chuck, thank you very much. It's a pleasure to be on your show.

**CHUCK JAFFE:** When we last spoke, it was before the midpoint in 2023. Man, energy infrastructure has gone gangbusters since then, 2024 really good year for energy infrastructure, particularly for midstream companies, et cetera, and a really good year for KYN. So what set things up so well? But then let's look forward to see how is energy infrastructure set up for the rest of this year and beyond?

**JIM BAKER:** Yeah, absolutely, Chuck. It's really been since we last spoke, which it's been too long by the way, it was a fantastic couple of years. If we go back, and some of the themes that I covered almost two years ago really have rung true over the last two years, and I'd say 2024, and when I talk about that, I'm really talking about KYN's fiscal year-end, which is November 30<sup>th</sup>. But it was a very good year for the fund and for the sector, and if we just focus first on the sector, in a lot of ways it was blocking and tackling and continuing to do the things that they've done very successfully since Covid. So reducing leverage, having the sector remain disciplined on their capital spending, making sure they generate free cash flow, and actually generate a term we made up, "excess free cash flow", which I think is very important when you talk about midstream. Because these stocks pay equity dividends, so it's free cash flow even after paying those dividends, and that capital can be used again to reduce debt, buy back stock, put to work in capital projects, and it's really borne fruit, and so the midstream index was up about 53% in fiscal 2024, KYN was actually up 57%, and when I say that, the way we measure it is the change in NAV plus the distributions that the fund pays over that period. Just a fun fact would be the fund celebrated its 20th anniversary during 2024, and our returns for fiscal 2024 were the best in the 20-year history of the fund, so really, really good 12-month period for us. Not to say we're not excited about the future, but certainly a really fantastic outcome.

**CHUCK JAFFE:** Those returns, you're using the words "excess", yeah, that is well beyond what most folks would expect, but of course we're also talking energy infrastructure, which infrastructure itself has been a bit of a political football in some ways. Not necessarily in all the ways that you're looking at it from an energy infrastructure standpoint, but still there's a lot going on and there's a lot of geopolitical risk that's at least being talked about. Is that an overhang at all or is that, since it's all wait and see, everybody's making hay while the sun is shining and waiting for rain if that's what's going to happen?

**JIM BAKER:** Look, it's a consideration. It's something that we pay attention to very closely, as you would expect, and certainly manage the portfolio in recognition of that, and so an obvious statement would be that the new administration has really made energy infrastructure and power infrastructure a cornerstone of its agenda items. So you've heard phrases like "Energy Excellence" or "Energy Dominance", you've also heard a phrase, which we don't completely agree with, "Drill, baby, drill," but it's clear that the administration wants to do everything they can within reason to create a constructive backdrop for energy infrastructure. But a lot of things going on in the world that you have to pay attention to, I'd say the most noteworthy recently would be the potential, and we all hope this happens, of some form of a peace agreement in the Russian-Ukraine war. Hopefully we can do that, that had huge implications for Europe. It does have implications for the US and US energy infrastructure because we're such a large exporter, and in particular of natural gas in the form of LNG from the US to Europe, but net-net, over the next few years, we think there are a whole lot more positives than there are potential negatives, but we've always got to be on top of things.

**CHUCK JAFFE:** Let's talk a little bit about drill, baby, drill, because on the surface everyone assumes that's great for the energy space, but a lot of people I've talked to have said, "Yeah, it's a different time in the energy space." So for you, good environment, bad environment, or questionable environment because we have to see how it plays out this time?

**JIM BAKER:** We think it's a good environment for midstream and energy infrastructure, but I think to start, we certainly do not think the upstream companies, so the people that actually drill the wells, are going to respond and increase activity levels, or said differently, drill, baby, drill. Investors have been very clear that they want companies in energy to remain capital disciplined, they want companies, as much as they can, to generate consistent free cash flow,

and so prudence I think is the order of the day. And then if you take that a step further, from our vantage point, we're a bit cautious on crude oil prices for the next year or two, if only because global production is growing faster than global demand. It's all manageable and there'll be surprises along the way, but maybe taking it back to the start, we don't see the world needing the US in particular on the crude side to drill, baby, drill, because there isn't this signal of, "Oh gosh, guys, we need you to produce a lot more oil." Domestic production will grow, but we certainly hope at a manageable rate, but the nice thing about energy infrastructure, you're exposed to volumes, not commodity prices. And so as domestic production grows, it's the sector that has the logistical assets that facilitate handling that incremental production, and you're agnostic, within reason, as to the price that the producers are receiving for the commodity that they're actually producing.

**CHUCK JAFFE:** The energy infrastructure that's getting talked about most these days is not related to drill, baby, drill, it's related to AI, mining of cryptocurrency, and all the need to be able to create power and infrastructure for that. From an investable standpoint, how much of that is not necessarily a shift for you, but is that where you see the opportunity set moving to?

**JIM BAKER:** Certainly it gets a heck of a lot of attention. We're all focused on AI and the implications thereof, and I think it's pretty clear, look no further than the big tech companies, the Mag 7, I think that they've almost all reported, except maybe NVIDIA, and capital expenditures in aggregate for those companies for 2025 I think is between \$250 to \$300 billion. That's a huge increase year over year, it's a massive increase relative to where they were five years ago, a lot of that capital is being spent to make sure they have adequate data centers, the compute power, in their jargon, not that I should ever speak tech jargon, but they have the ability to ramp up their efforts in AI. What's very clear is that those facilities have a voracious appetite for power. The other thing I think that's pretty clear is that natural gas is going to be a critical component, so natural gas-fired electrical generation to satisfy the needs for those data centers. What's interesting, as we look at it, that is undoubtedly a growth opportunity for energy infrastructure and for natural gas demand growth over the next five or so years. What I think is lost along the way is in the near term, increased LNG exports and industrial reshoring and manufacturing will have a more pronounced impact, but over the

next 10 years clearly data centers is an enormous opportunity for the energy infrastructure sector.

**CHUCK JAFFE:** So let me see, if I sum this up, you've got reasonable valuations, a more favorable political and regulatory environment, good stuff happening on the energy side, good stuff happening with demand. Yeah, it seems totally reasonable that that 57% year that KYN had last year, that's easily repeatable. Or maybe it isn't, so what's a more reasonable expectation?

**JIM BAKER:** Yeah, I wish it was, but I think we try to go to great pains when we talk to people. When you think about the assets and what we're talking about, these are hard assets, they produce free cash flow, these are mature businesses and industries where a nice growth rate, which we think they can do for the next five years or so, let's call it high single digits, so let's say 5-10%, and when we think about the asset class, we see the opportunity set really as being low to mid-teens over the next three to five years, so 10-15%. Hopefully we can do our job and get towards the higher end, we think relative to the risk that you're taking and the fact that you're investing in things that generate, call it 5-6% yields, that's really attractive. It's not to say we're not going to try really hard to repeat 2024, but we want to make sure people understand what they're investing in, what the drivers are, and what we think the right return expectations are, or hopefully reasonable expectations are, which I would again say 10-15%.

**CHUCK JAFFE:** Jim, great stuff. I really appreciate you joining me on the show. We'll be watching how it turns out and we'll talk to you again down the line.

**JIM BAKER:** Take care, Chuck. It's always a pleasure.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, I'm Chuck Jaffe and I'd love it if you would check out my hour-long weekday podcast on your favorite podcast app or by going to MoneyLifeShow.com. Now to learn more about interval funds, closed-end funds, and business-development companies, check out AICAlliance.org, the website for the Active Investment Company Alliance. Thanks to my guest Jim Baker, he's managing partner and co-head of energy infrastructure strategies at Kayne Anderson Capital Advisors, he's president of the Kayne Anderson Energy Infrastructure Fund, which is ticker symbol KYN. Learn more about the firm at KayneAnderson.com, KAYNE for Kayne, and about the fund at

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