IntegrityViking

ENERGY BEAT

Integrity

Mid-North American Resources Fund

ICWIX // ICPAX // ICPUX

Energy Macro Update

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Portfolio Update

Winter 2024

ENERGY MACRO UPDATE

Data Centers Drive Power Demand Growth – Natural Gas to Play a Key Role

The surge in energy demand driven by the rapid expansion of data centers, fueled by AI-related investments from tech giants, is creating significant strain on electrical grids. This growing demand for computing power, particularly for AI applications, is central to the expansion of data centers globally. However, this expansion is running up against infrastructure limitations, with parts of the electrical grid struggling to provide sufficient new supply to meet these energy needs.

Data Centers and AI Investment: As AI-driven applications continue to gain momentum, the need for vast data processing capabilities grows exponentially. Data centers, which house the servers and infrastructure needed to support AI workloads, are rapidly scaling up. This development is driving a sharp increase in power demand, as these centers require large, continuous energy supplies to operate efficiently.

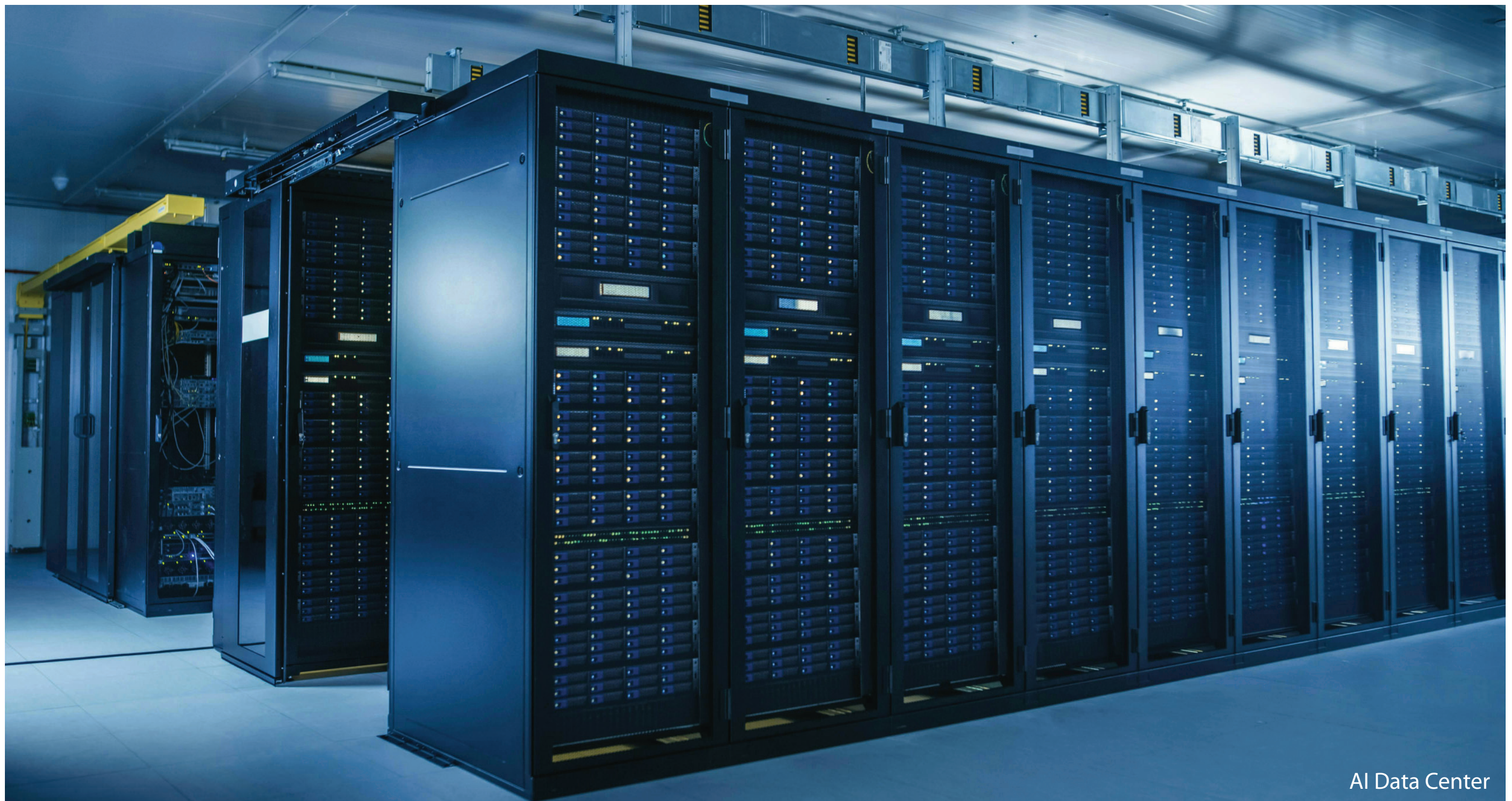
The Limitations of Renewable Energy: Despite the significant push for renewable energy sources like solar and wind, these are insufficient on their own to meet the massive, steady energy needs of expanding data centers. The intermittency of renewables – wind and solar are not always available – creates challenges for maintaining reliable, 24/7 power supply. In addition, renewable energy projects often face long timelines for development and integration into existing grids, making them less viable for the immediate surge in demand driven by AI and data center growth.

Onshoring of Manufacturing: Further compounding energy demand pressures is the onshoring of manufacturing. As companies look to move production closer to home, particularly in the U.S. and Europe, energy demand will rise even more. Onshoring is expected to add significant load to electrical grids, necessitating reliable, scalable energy sources to avoid supply shortfalls.

Natural Gas as a Key Solution: Given concerns about grid reliability and the intermittent nature of renewable power, natural gas will play a crucial role in bridging the energy gap. Natural gas offers a flexible, reliable power source that can complement intermittent renewable energy, ensuring that data centers and manufacturing facilities have a consistent supply of electricity when they need it most.

Natural gas-fired power plants are already a significant part of the energy mix in many regions, and as data center demand grows, their role in maintaining grid stability will only become more critical. With natural gas providing base-load power generation that is both scalable and more reliable than renewables alone, it is positioned to be a central player in meeting the evolving energy needs of a data-driven world.

Conclusion: As data centers continue to expand and AI-driven demand accelerates, we believe natural gas will be an essential part of the solution to meet power requirements. While renewables will continue to play a growing role in the energy transition, the role of natural gas in ensuring energy security and reliability cannot be overstated. The energy landscape is shifting, and natural gas will remain a vital pillar of global energy infrastructure in the face of surging demand from data centers and the broader shift toward onshoring manufacturing.



AI Data Center

WINNER'S CIRCLE // EQT Corporation

EQT Corporation has a lengthy history in the Appalachian Basin, which can be traced back to 1878 and the first commercial natural gas well in Murrysville, PA. Throughout the next 10 years, this well, named Haymaker #1, was bought and sold via multiple acquisitions before it landed with The Philadelphia Company, formed by George Westinghouse in 1884. In 1888, The Philadelphia Company created a new subsidiary named Equitable Gas – and that was the official origin of EQT. What began as a modest utility company in the late 1800s eventually became a standalone entity in 1950 when it separated from its parent company and was listed on the NYSE under the ticker "EQT". Today, EQT has operations in Pennsylvania, West Virginia and Ohio, developing their world-class asset base in the Appalachian Basin. EQT is the largest natural gas producer in the United States.

Photographed by Mike Wintermantel 11/30/2014

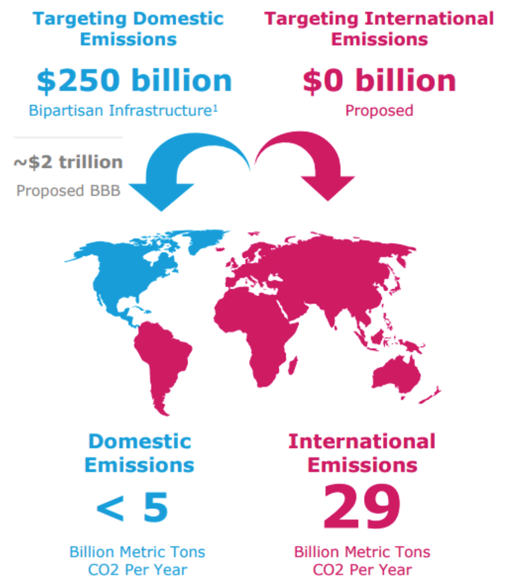
EQT Completes Acquisition of Equitrans Midstream

According to EQTs press release, the merger of EQT and Equitrans ("ETRN") creates America's only large-scale, vertically integrated natural gas business. The combined company is projected to have an unlevered NYMEX free cash flow breakeven price of approximately $2 per MMBtu, which is at the low end of the North American cost curve and ensures robust free cash flow generation through all parts of the commodity cycle. EQT has identified more than $450M of annual synergies associated with the combination, which upon realization could drive even further downside to EQT's long-term free cash flow breakeven price. The integration of ETRN's midstream assets immediately improves the economics of EQTs approximately 4,000 drilling locations, unlocking unrivaled terminal value at a time when demand for natural gas is inflecting both domestically and abroad.

Unleashing U.S. LNG

Unleashing U.S. LNG is the name of EQTs plan to reshape the world's energy mix by increasing U.S. LNG exports to connect our affordable, reliable and clean natural gas to the world's coal consumers. According to the plan:

- Replacing foreign coal with U.S. natural gas should be our #1 focus for reducing global emissions. It's an opportunity unlike any other.
- The U.S. currently has no international plan.
- Industrial coal consumption, outside U.S. borders, is responsible for 48% of energy emissions.
- Climate change can only be solved by addressing international emissions.
- The U.S. must look beyond its borders and provide solutions.
- By 2030, emission reduction of U.S. LNG replacing international coal can be equivalent to 1) electrifying 100% of U.S. vehicles; 2) rooftop solar on every U.S. home; and 3) doubling U.S. wind capacity, combined.
- U.S. citizens will be paid for this initiative with tax revenues and royalties, as opposed to paying for it.
- Natural gas is the only exportable, currently scalable solution to international coal.
- EQT is the #1 producer of natural gas in the U.S.



Source: EQT Corporation; IEA World Energy Outlook 2021 for 2019; The White House Briefing; ICF Update to the life-cycle analysis of GHG emissions for U.S. LNG exports analysis; [1]Only counting clean energy related investment based on 11/08/21 statement from The White House.

Constructive Outlook

EQT management is constructive on natural gas fundamentals with supply moderating to the 101-102 Bcf/d range from 105 Bcf/d in the prior year. On the demand side, LNG start-ups, coal-to-gas switching and the demand for data centers should boost natural gas demand by approximately 10 Bcf/d by 2030, with a bigger buildout of data centers potentially doubling that rise. EQT expects natural gas to take a large portion of incremental power generation as intermittent renewables are not ideal for 24/7 reliability and only a limited number of nuclear facilities can be restarted by the end of the decade. EQT has signed two long-term supply deals for the delivery of 1.2 Bcf/d of gas to two utility companies under which they expect to receive $0.15-$0.50 per Mcf premium to Henry Hub pricing which they view favorably. Although EQT's stock has lagged its natural gas peers YTD, likely as a result of above average leverage, EQT management is confident they will achieve their year-end 2025 debt target of $7.5B vs. over $13B currently. In fact, on November 25th, EQT announced that it is selling a portion of its regulated midstream assets to Blackstone for $3.5B in cash. Structured as a joint venture ("JV") with Blackstone, the transaction takes total asset sales above target and ahead of schedule. In a positive surprise within the JV, EQT retained the rights for growth projects and also retains a buyout option as part of the agreement with the implied repurchase at less than 4x EBITDA between the 8th and 12th anniversary of the deal's closing. We believe this pending midstream asset sale, the resulting deleveraging of the balance sheet and a potential '25 inflection in shareholder returns all serve as positive catalysts for the stock. The favorable gas demand outlook offers further support.

PORTFOLIO UPDATE

Increasing Exposure to Natural Gas

The Integrity Mid-North American Resources Fund (the "Fund") has strategically tilted its portfolio to capitalize on the increasing demand for natural gas, driven by strong growth in data centers and liquefied natural gas (LNG) exports. With the ongoing global trend towards electrification, natural gas is also becoming an essential bridge fuel due to its lower carbon footprint compared to coal and its reliability as a backup to intermittent renewable energy sources. These factors continue to make natural gas a crucial component in the global energy transition and, in turn, the Fund's portfolio.

Michael Morey

Shannon Radke

Key Adjustments in 2024:

- **Increased Exposure to Natural Gas E&Ps:** The Fund has increased its holdings in exploration and production (E&P) companies focused on natural gas. These companies stand to benefit from the robust demand for natural gas, particularly in regions experiencing rapid infrastructure development.
- **Increased Exposure to Natural Gas-Focused Midstream:** We have also increased our position in midstream companies that transport and process natural gas. As the natural gas market expands, these companies are well-positioned to generate steady cash flows from long-term contracts and infrastructure investments.
- **Independent Power Producers:** We have also added exposure to independent power producers (IPPs) that rely heavily on natural gas for their electricity generation. These companies are well-positioned to benefit from the increasing use of natural gas in power generation, especially as coal is phased out in many regions. IPPs are crucial players in the evolving energy landscape. IPPs provide opportunities for more market-driven growth, especially in the natural gas space, where flexibility and efficiency are key.
- **Utility-Scale Renewable Energy Investments:** In addition to traditional energy sources like natural gas, the Fund has strategically targeted investments in companies driving utility-scale renewable energy projects. These projects are crucial for the global shift to cleaner energy, especially as electrification across industries accelerates. We believe that the growth of renewable energy should primarily be led by corporate innovation and investment, rather than relying solely on government mandates. Major corporations, particularly the four largest hyperscalers—Amazon (AMZN), Google (GOOGL), Meta (META), and Microsoft (MSFT)—have committed to ambitious sustainability goals. These commitments position these companies to significantly expand renewable energy usage, particularly in their data centers, which are large consumers of power. While the transition to renewable energy is promising, ensuring the reliability of energy supply remains a key challenge, which is where natural gas will continue to play an important role in complementing renewables and supporting grid stability. Investing in companies that are building these utility-scale renewable projects offers significant potential for long-term growth as the global energy landscape evolves.

Political and Market Impacts: The 2024 Republican sweep in the U.S. elections has introduced positive implications for the energy market. Republicans have supported fossil fuels (including natural gas) as a key part of the U.S. energy strategy, especially in terms of exports and domestic energy independence. This political shift further underscores our conviction in energy, especially natural gas, as an integral component of the energy mix.

Although we are still constructive on oil levered companies, which remain a significant portion of the portfolio, we have increased exposure to natural gas levered companies to take advantage of the multifaceted demand pull for natural gas.

Outlook: We believe the Fund's tilt towards natural gas, through these various strategic positions, provides investors with exposure to critical segments of the energy value chain that are poised for market share growth. This shift enhances the Fund's potential to outperform the broader energy sector, offering attractive alpha opportunities in a market that is increasingly favoring natural gas.

All expressions of opinion are subject to change without notice in reaction to shifting market conditions. Data contained herein is obtained from what are considered reliable sources. However, its accuracy, completeness or reliability cannot be guaranteed.

Investments may lose value. The Fund is sold by prospectus only. An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus contains this and other information about the Fund. You may obtain a prospectus at no cost from your financial adviser or at www.integrityvikingfunds.com. Please read the prospectus carefully before investing.

The Fund's top ten holdings represented 48.10% of the Fund as of 9/30/2024: Targa 7.59%, Cheniere 7.38%, Permian Resources 5.94%, Exxon Mobil 4.51%, Entergy 4.28%, Baker Hughes 4.08%, Phillips 66 3.93%, Enbridge 3.82%, Diamondback Energy 3.39%, Devon Energy 3.18%. The portfolio may or may not hold and is not restricted to the companies listed.

Because the Fund normally invests in common stocks of companies engaged in natural resources-related activities in a limited geographical area, the Fund's performance largely depends on the overall economic condition of the related sectors and geographical area. Additionally, diplomatic, political or economic developments in foreign countries could adversely impact the Fund's investment in securities of foreign companies.

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