Market Update

NXG NextGen Infrastructure Income Fund (NYSE: NXG)
NXG Cushing Midstream Energy Fund (NYSE: SRV)

Dear Shareholders,

The days since the midterm elections have brought significant weakness and turbulence in the stocks our funds own, as investors sold broadly out of the companies that build, power and supply AI infrastructure. A central theme behind our investment choices for the NXG closed-end funds has been that the data center buildout sparked by AI is a transformative infrastructure event. We view the rapid development and adoption of AI as a technological milestone that will be remembered alongside the steam engine, electric power, wireless communication and the Internet. Nothing in the election results changes that view. We also believe (and we are not alone in this) that the selling has gone beyond any realistic change in the prospects of many established businesses, which is where we see opportunity emerging.

What Happened

Democrats won majorities in both the U.S. House and the Senate, but for our holdings it was the state results that mattered more. The dramatic swing in party control was perhaps nowhere more pronounced than in our home state of Texas, where Democrats swept the statewide races. The governor-elect of Texas, as well as the governors-elect of Ohio and Georgia – states that are among the country's largest data center markets – campaigned on pausing or putting conditions on future development of new data centers, and polling by the Associated Press found that local opposition to data center construction crossed party lines.[1] Going into the election, we thought stock prices already reflected much of the risk of a Democratic Congress. The Democratic sweep in Texas was a different matter, and it caught us and most of the market by surprise.

The selling was heaviest in power producers, electrical equipment makers and on-site power suppliers, and it spread to the natural gas pipelines that would fuel new power plants, while a sharp drop in oil added separate pressure on energy stocks. It would be too simple to pin all of this on the election. AI-related stocks had become widely owned, and the most popular names were hit hardest as investors reduced exposure across the theme at the same time. Several of these groups had also fallen meaningfully before the vote, as the hyperscalers (the large cloud computing companies that fund most data center construction) became more selective about where they build and broader buildout financing concerns were raised.

What It Means

Data centers need enormous amounts of electricity, much of which comes from natural gas delivered by pipelines, and whether and where those data centers get built is decided mostly by states rather than Washington. Texas had already paused new data center approvals before the election, and Governor-elect Hinojosa wants that pause to stay in place until the Legislature passes protections for household power and water bills and requires developers to pay their own way. She has also said she isn't against data centers, and none of the new governors have called for a permanent end to data center development. Since the election, she has said that projects already approved or under construction will be allowed to finish, and with the Texas Legislature now divided, lasting changes will require compromise.

[1] Marc Levy, "AI data centers took a beating in the midterm elections. A reckoning may be ahead for tech giants," Associated Press, November 6, 2026.

The market has blurred together three very different categories of risk:

(i) already real, the Texas pause, restrictions in several other states and new control of some utility regulators;

(ii) now more likely, a longer Texas pause and rules that make data centers pay more of their own costs; and

(iii) priced in, but not yet realized, permanent bans, cancellation of projects under construction, a federal moratorium and a collapse in AI demand.

Slower, more expensive construction is a reasonable conclusion, so the question is how much slower and how much more expensive.

The answer to that depends a great deal on the kind of business. A delayed power plant delays new revenue for the pipeline that would serve it, but the existing system keeps collecting fees, many of them under contracts in which customers pay for reserved capacity whether or not they use it. **In other words, the risk is to the growth rate, not the base.** Likewise, a power plant that is already built and connected produces exactly what it did before the election, and what the market has removed is the premium investors were paying for future data center contracts.

Where We See Opportunity

We have reduced exposure to make the portfolios more defensive, but that doesn't conflict with our view that this selloff has created opportunity. The selling did not distinguish between businesses whose prospects changed and those whose prospects did not. Long-term shareholders will recall that we have made defensive adjustments during past periods of disruption and repositioned as the opportunities became clearer, and we are approaching this period the same way.

We have not seen any evidence that underlying demand has weakened. Vacancy rates in the largest U.S. data center market are near record lows, and industry estimates show midstream companies committed nearly twice as much capital to new projects in the third quarter of 2026 as in the second, driven mainly by power demand. Analysts who have revisited their forecasts since the election have largely left their estimates for hyperscaler spending unchanged, expecting some projects to slip from 2028 into 2029 rather than be cancelled. We believe the businesses most likely to have been sold beyond any realistic change in their prospects are those with existing, connected assets and contracted or fee-based revenue. That group includes operating pipelines and storage, power plants with output already sold forward, and behind-the-meter power providers with contracted customers. **If power is the real constraint on AI, as we believe it is, making new supply harder to build gives existing capacity a scarcity value that current prices don't accurately reflect.** Speculative projects without firm customers, financing or a clear path to power and permits face real and possibly lasting damage.

The most likely outcome, in our view, is that building gets slower and more expensive but continues, with some investment shifting to states where many of our companies already do business. The risk is that pauses last longer and spread, and that the hyperscalers use the friction as a reason to slow spending, which is why we are watching what they say and do closely. **Even so, current prices treat regulation as if it were cancellation, and the evidence doesn't support that.**

Conclusion

The election added real uncertainty, which will rise and fall in the weeks ahead, to the timing and cost of building data centers and the energy infrastructure behind them. It shifted the timeline for parts of the buildout, but it didn't change the underlying need for more power or remove the opportunity. **We believe AI is one of the most important technologies of our time, and we don't see policy debates over where and how data centers are built stopping its adoption.** The near-term path may be bumpier, but in our view the long-term outlook for AI, and for the power and infrastructure it depends on, remains bright.

Our focus is on separating the businesses that were repriced from those that were impaired, and positioning the funds for sound infrastructure opportunities, wherever they may lie.

If you'd like to talk through any of this, please reach out to us.

Thank you for your continued support of the NXG closed-end funds.

Sincerely,

John Musgrave
Chief Executive Officer • Chief Investment Officer • Portfolio Manager

Todd Sunderland, CFA, FRM, CMT
Chief Risk Officer • Chief Operating Officer • Portfolio Manager

NXG INVESTMENT MANAGEMENT

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