



## Kayne's Hamilton: 'Historic' Oil Drawdowns Create Energy Infrastructure Opportunities

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Chuck Jaffe in this episode of The NAVigator podcast interviewed Gordon Hamilton, Senior Managing Director for Kayne Anderson, Portfolio Manager for the Kayne Anderson Energy Infrastructure fund. Gordon says that there will be a big call on U.S. energy infrastructure companies to meet global demand for propane, butane, crude oil, and natural gas as the world gets through the current energy crisis created by war in Iran. Coupled with an energy "supercycle" driven by artificial-intelligence needs, it is creating a positive long-term demand picture where infrastructure should be

able to have persistent performance even if current events or A.I. expectations add concerns to the market.

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**CHUCK JAFFE:** We're talking energy infrastructure with Gordon Hamilton, portfolio manager at Kayne Anderson, 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, an industry organization representing the entire closed-end fund business from investors and users up to fund managers, sponsors, and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. And today it's pointing us in the direction of energy infrastructure with Gordon Hamilton, he's senior managing director and portfolio manager for Kayne Anderson, where he's one of the managers running Kayne Anderson Energy Infrastructure, a closed-end fund that trades under ticker symbol KYN. You can learn about the fund at [KayneFunds.com/KYN](https://www.KayneFunds.com/KYN), and you can learn more generally about closed-end funds, interval funds, and business-development companies at [AICAlliance.org](https://www.AICAlliance.org), that's the website for the Active Investment Company Alliance. Gordon Hamilton, welcome to The NAVigator.

**GORDON HAMILTON:** Chuck, thank you for having us. There is no shortage of things to cover in our world right now, so happy to be on.

**CHUCK JAFFE:** Yeah, there isn't, and you know the funny side is everybody when they talk about energy infrastructure, first wants to talk about all the things that are AI and supporting that, and we're going to get there, but given what we're living through with the oil industry, how is that changing or shifting the energy infrastructure picture? Because it's not necessarily ongoing investment, it's not like you can say, "Oh, we'll build more ships," or we'll build more whatever and this will solve the problem, but it certainly is affecting energy infrastructure plays.

**GORDON HAMILTON:** Yeah, that's exactly right. So the power supercycle has been a pretty constant theme over the past two years, and we can get to that, there's a lot of exciting things to talk about, but on the liquid side of the portfolio, everything has changed, and so it's pretty hard to understate just how significant these events in Iran have been. So 20% of global oil supply and liquified natural gas supply transits through the Strait of Hormuz, and now for liquids, cumulative side size losses are nearly a billion barrels, and that's relative to total global inventories of about eight billion, so these are just historic drawdowns that are taking place as the Strait's been closed. Now these energy infrastructure companies, they facilitate the US exports of energy, the US is the single largest producer of oil and gas globally, it's easy to forget about that but these are the assets and these are the businesses that make that happen, so the relevance today is just increasingly important.

**CHUCK JAFFE:** At the same time, it's really hard to read the opportunities. We're looking at oil inventories potentially being depleted basically to the bottom of the tank, and there's not much of a parallel, there's not anything really in our lifetimes that most of us can look at that's similar, but we can look at the opposite. In 2020 when we went through Covid, the oil inventories got to the top of the tanks, and I don't want to bring up a sore subject, but at KYN that was a really tough year, the fund lost 50%, which by the way didn't make it terrible among its peer group because everybody was getting hammered. So we saw demand destroyed, inventories got to maximum levels, and funds did horrible, now we're looking at inventories being completely depleted. If that happens, what does that portend for the investments you look at?

**GORDON HAMILTON:** So these companies, they don't have direct commodity price exposure, and I think it's important to emphasize what happens as this all unfolds, right? We will get a peace deal eventually, supply will resume, to the extent that does not occur in the short term, prices need to rise to a level to incentivize demand destruction to rebalance the market. So yes, this is the inverse of Covid, but in some ways you're still solving for the same outcome, which is a demand-driven response. But for what we do, you're going to see a big call on US energy supply, meaning propane, butane, crude oil, natural gas, and these big international players are going to be calling on the US to meet that demand, and so the role that US energy infrastructure plays is even more important today than it was just three months ago. It's a durable growth story that adds another leg to it.

**CHUCK JAFFE:** From that perspective, when you're talking about energy infrastructure, and again, we haven't touched on what you call the power supercycle that we need, energy infrastructure is affecting everything. How much are you investing in oil energy infrastructure versus liquid natural gas energy infrastructure versus the power generation stuff? How are you deciding where you want to be deploying your assets now?

**GORDON HAMILTON:** Coming into the year we were tilted towards natural gas, for all the themes that we can discuss on the power side, we are a bit more balanced today because, as you mentioned, both pockets of the portfolio, both liquids and natural gas, have incredible tailwinds. I'd say the portfolio is relatively balanced between the two, and we seek to provide exposure to both of those baskets. There is a big bifurcation that's occurred in the space between natural gas-weighted businesses versus liquids-focused businesses, natural gas

names are more growth oriented as a way to capitalize on the growing power backlog, liquids are a bit more value-oriented, but we have seen growth rates start to increase on that side of the book too, so think of it as a balanced opportunity for both of those fundamental tailwinds.

**CHUCK JAFFE:** Do the opportunities impact natural gas versus liquid natural gas equally, and so for you it's more about the infrastructure play? Or do they not increase it equally, in which case it's more about where you see the demand for each side?

**GORDON HAMILTON:** So between natural gas and natural gas liquids?

**CHUCK JAFFE:** Yes.

**GORDON HAMILTON:** So it's a relatively similar outcome, I think the difference for natural gas is just the investment cycle for those assets. So for natural gas you have to liquify that gas to export it globally, the build time for those facilities is three to five years, and they require \$20-30 billion of capital to build that project, so because of that you have the very visible growth wedge as that supply source comes on. The impact to natural gas liquids could be much more short term in nature. We have a lot of that export capacity already built, those docks are currently maxed out trying to pull volume through the system, but you don't have as a big of a growth wedge over the next five to seven years to pull through the story. There is a difference in the growth rates for those businesses, the natural gas demand pool is going to be quite a bit higher than natural gas liquids.

**CHUCK JAFFE:** Let's bring this to the power supercycle that you talked about. AI has been driving so much, the data center story is out there, when we see all the capital expenditures that are going, you're AI-adjacent, which is a place that a lot of folks want to be. What is this doing for demand, and what is this doing for potential? Because there have been plenty of industries that have developed that have required demand, we've seen cycles before, we just haven't maybe seen cycles like this in recent memory, right?

**GORDON HAMILTON:** That's right. I think the first question, so we can all see the numbers and the unbelievable amounts of capital that the hyperscalers are spending, I think the question is what supply source or what energy source is the best solution to meet that demand? In our view, it is clearly natural gas because speed to market and reliability are their two biggest priorities, so again, natural gas is the right answer. If you look at just the size of the domestic gas market today, call it about 100 BCF a day of demand, the growth wedge from data centers, and there's a wide range of investments out there, but it's

anywhere from 5-10 BCF a day through 2030, so that step change in growth can be extremely meaningful, and it's also important where that growth is concentrated. Now if you compare that to what's occurring with natural gas exports, that's 15-30 BCF a day, so you have both of these demand drivers stacked on top of each other at the same time, and they're both starting to accelerate, that dynamic is really important. And remember that the growth wedge for LNG is even bigger than the wedge for data centers, and they're combined together.

**CHUCK JAFFE:** Is there any worry on the infrastructure side, the way there is on the folks who are investing in the AI technology companies? That, okay, everybody had to put money into AI, but now we need to see it proven, we need to see that productivity actually works for everybody to follow through with all of their planned capital expenditures? Do you worry at all that here's what we think the demand is going to be, but if we wind up backing away from the CapEx spending or if something else happens, that this story doesn't turn out?

**GORDON HAMILTON:** Well, that's clearly a big question in the market and I think everybody wishes that they had the answer, and the risk is real. The difference in what we are invested in is that they are providing that supply under-fixed long-term contracts, so it's an infrastructure solution that's separated from the AI economics and what it means for the hyperscaler spend. And then the other piece of this is what does it mean for the overall health of the counterparty? If you're signing contracts with the hyperscalers, their balance sheets are phenomenal, and does the AI disappointment really bring real risk to counterparty strength? I think the answer is no. So yes, it matters, yes, we're thinking about it, but for what we do, we're able to lay off some of that risk and focus on the infrastructure solution and not entirely the AI "economics".

**CHUCK JAFFE:** I talk to a lot of money managers, plenty of them who are not dedicated to infrastructure are talking about it these days in similar ways. They haven't done your deep dive and they're not competitors of yours, but how crowded is the trade and how hard is it given the interest that there is for you to find the values that you want? And how important is valuation if we have this capital expenditure wave?

**GORDON HAMILTON:** I think you need to look at it on a much longer time horizon. So if you look at our space today, EV to EBITDA multiples are around 11x on average, and that's actually in line with historical trading levels and still well beneath where valuations were at

the peak of prior cycles. So even though the space has performed extremely well and equity prices have risen throughout this, they've been able to grow into those trading multiples and valuations are actually not anywhere near where you'd probably expect just looking at underlying equity price performance. Again, that's 11x EV to EBITDA, which is right in line with where the historical average is. So there has been a lot of interest, but in our view, the fundamentals are still supportive enough in valuations there to where you can still get involved in the story.

**CHUCK JAFFE:** It's been a great year thus far for your fund, up 15%, et cetera, how much have things actually been muted or might things be muted at least until we get resolution? Is there a reason to expect that once we understand how this plays out in the Middle East, we can all breathe a sigh of relief? And even if it takes longer to clear or any of those other sorts of things, at that point do we wind up seeing a real boost?

**GORDON HAMILTON:** Well, what's interesting, if you look at performance throughout this year, January and February were the two strongest months for the sector, and so since the conflict, performance has actually been relatively muted. A lot of that is pre-traded on the speculation and just the risk of the geopolitical side unravelling, but just structurally through the conflict we haven't been on as big of a run. There is a risk that if we get a peace deal the commodity prices will decline as some of the risk premium comes off and sentiment changes, our space will probably be weak with that, but we do have the view that just structurally coming out of this there is duration to the story. This will take a long time for the industry to recalibrate, so yes, there might be some short-term noise with resolution, but there's enough there where the fundamentals are supported over the next 12-18 months despite some headline risk as things clear.

**CHUCK JAFFE:** Gordon, really interesting, I appreciate you taking the time to talk with us about it. I look forward to chatting with you again as we see how it all plays out.

**GORDON HAMILTON:** Happy to do it, Chuck. Like we were talking about earlier, it is a very unique time to be in this industry, there's a lot to be excited about.

**CHUCK JAFFE:** There sure is. The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yes, I'm Chuck Jaffe, you can check out my show at [MoneyLifeShow.com](http://MoneyLifeShow.com) or anywhere you find your favorite podcasts. Now to learn more about closed-end funds, interval funds, and business-development companies, go

to [AICAlliance.org](https://AICAlliance.org), that's the website for the Active Investment Company Alliance. Thanks to my guest Gordon Hamilton, senior managing director and portfolio manager for Kayne Anderson, working on Kayne Anderson Energy Infrastructure, that's a closed-end fund that trades under KYN, get more on the firm at [KayneFunds.com](https://KayneFunds.com), add /KYN to get more details on the fund directly. The NAVigator podcast has something new for you every Friday, so make plans to join us again next week for some more closed-end fund fun. Until then, happy investing, everybody.

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