TortoiseEcofin QuickTake Podcast

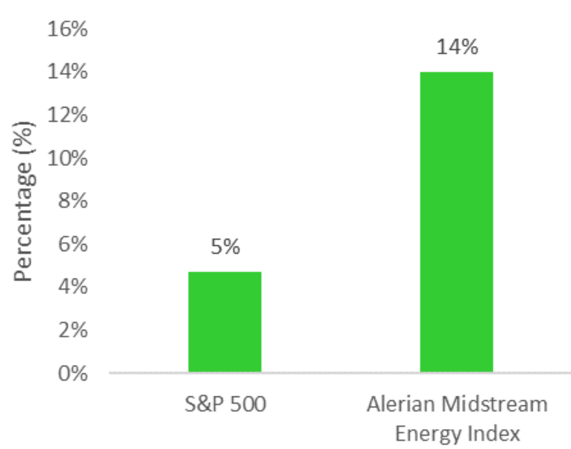
January 4, 2021

Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Happy New Year! I am TortoiseEcofin Managing Director and Portfolio Manager Rob Thummel with the first TortoiseEcofin QuickTake podcast in 2021.

2020 will go down as a year that we all want to forget. In the energy sector, 2020 global energy demand will decline for only the second time in the last 38 years. Average daily oil production in the U.S. is forecasted to decline by almost 6.5% ending the year at 11 million barrels per day according to the EIA. U.S. crude oil prices fell by 20%. And stock prices declined with the U.S. energy sector as represented by the S&P 500 Energy Select Sector Index declining by 37% and the Alerian MLP Index falling by 29%. However, not all was gloom and doom. The U.S. energy sector displayed some encouraging signs in a tough year. The U.S. expanded its role as a supplier of energy to other countries. Oil exports were 3% higher than 2019. Propane exports reached record levels – 28% higher than 2019. Liquefied natural gas LNG exports ended 2020 at the highest levels in history and are expected to continue to rise given current double-digit natural gas prices in Asia. Good news on the emissions front as well. Carbon emissions in the U.S. are expected to fall in 2020 as coal production declined by 15% and wind and solar generation increased by 9%. According to the EIA, U.S. renewable energy consumption surpassed coal for the first time in 130 years.

Figure 1
Free Cash Flow Yield (2021)
Source: Bloomberg



Focusing on the midstream for a second, the sector ended the year with a bang. In the fourth quarter, the Alerian MLP Index rose by 32% outperforming the S&P 500 index that increased by 12%. Investors are beginning to recognize the free cash flow generation potential of the sector. Figure 1 illustrates the projected 2021 free cash flow yield of midstream sector compared to the stocks in the S&P 500. The anticipated 2021 free cash flow yield of the midstream sector is 14% that is almost 3 times higher than the 5% free cash flow yield of stocks in the S&P 500. Prior to 2020, free cash flow was non-existent in the midstream sector as most midstreamers were using almost all of the cash flow generated from the business to fund infrastructure network expansions. That has changed. Today, a vast majority of the U.S. midstream infrastructure network in North America is in place. Midstream management teams now can use the cash generated by the business to continue to pay dividends, buyback shares and/or reduce debt. At Tortoise, we see the free cash flow yield gap between midstream stocks and the S&P 500 narrowing which means midstream stock prices are expected to move higher on a relative basis. Also, we believe that this free cash flow party is just getting started. In 2021, we want midstream management teams to provide investors with greater transparency into the compelling, consistent, long term free cash flow generation potential for their respective company we believe this will attract new investors.

So free cash flow will be the key driver in midstream in 2021. Let me highlight a few additional thoughts from our 2021 outlook highlighted by our portfolio managers on December 21. You can find the complete podcast on our website. Electrification and de-carbonization are two megatrends that will drive the global energy sector in 2021 and beyond. More energy and less carbon has emerged as the rally cry for the energy sector. Two of the largest energy companies in the world BP and Royal Dutch Shell are setting a new course for the energy sector by expanding the sector to include renewables such as wind and solar facilities. Midstream companies like Enbridge are beginning to invest in renewables as well. 2021 will see continued growth in global wind and solar development resulting in double digit growth in renewable generation. Keep an eye on the development of offshore wind in the U.S. and globally that will likely attract investment from traditional energy companies. We also expect 2021 to result in the advancement of several other promising emissions reducing technologies such as carbon capture and hydrogen development. We expect the midstream sector to play a critical role in the advancement of these technologies especially in efficiently transporting hydrogen. As the world continues to demand more energy and less carbon, we believe an all of the above energy policy that includes the cleanest fossil fuel natural gas combined with wind and solar as well as emerging energy technologies such as hydrogen, carbon capture, and energy storage can assist in accomplishing this goal.

In summary, the energy sector comes in many flavors: value plays, high income opportunities, and growth stories. In 2021, we believe the best risk adjusted return opportunities in the energy sector are investing in stocks of high yielding midstream infrastructure as well as renewable infrastructure growth stocks.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseecofin.com.

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The **Alerian Midstream Energy Index®** is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basas (AMNA) and on a total-return basis (AMNAX).

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers Index℠

The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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