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

Thanks for joining us today on the Quick Take Podcast. I'm James Mick, Managing Director and Senior Portfolio Manager with TortoiseEcofin.

Happy birthday America! Hopefully you were able to spend some quality time with friends and family for the Fourth of July. The weather has been hot in some parts of the country, but actually pretty modest here in Kansas City, given it is July. After a short month or so off from soccer, my boys are back at it and getting prepared for the next season. Speaking of next seasons, we just finished the first half of 2021 and energy had a fantastic start to the year. We'll recap that and more as we go.

Moving to the markets, let's start things off with performance for the week that was:

- On the commodity front, crude oil was up, with spot prices increasing 1.2%, while
- Natural gas was negative on spot prices, but positive on the front month futures contract,
- Shifting to equities, the broader S&P Energy Select Sector Index® was down a little over 1%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were a touch inside of that, lower by about 80 bps
- Utilities, per the Dow Jones Utility Index, also felt a little pain, down 31 bps
- And finally MLPs, as represented by the Tortoise MLP Index® bucked the trend, moving higher by 1.8% for the week

Having just crossed over the half year mark, I thought it would be instructive to quickly recap the first half of 2021.

- The Tortoise MLP Index finished up 20.2% for the second quarter, bringing the half year mark to 45.8%
- The S&P Energy Index finished plus 11.3% for 2Q and 45.6% for the first half
- Finally, crude oil and natural gas were up 24.5% and 35.8% for 2Q and 50.6% and 43.4% for the first half, respectively
- So energy continues to surge ahead, driven by not only the reopening of the economy, but even more so now by the free cash flow stories unfolding across the sector
- As Rob noted last week, this is far from over in our view, as we believe investors have yet to take notice
- Wait until the investment community really wakes up to what is happening and sees the returns being generated
- We've said it before, but this is a sector far from all-time highs, which cannot be said for a lot of the market
- Hence more room to run as we move to the back half of 2021

I'll lead off with the news that wasn't, i.e. the OPEC meeting last week that produced absolutely nothing. In a move that has held up any decisions from the producer group, the United Arab Emirates threw a wrench into the proceedings by demanding to reset its baseline production number to a higher level, effectively allowing it to produce at such amount immediately. Of course this was not well received by Saudi and other members and led to a bit of a standstill. On the Saudi side of the equation, they would like to be conservative and not only continue modest increases, but importantly in their view, extend the cooperation to the end of 2022, as opposed to the current expiry of April of next year.

The UAE came out on Sunday night and said they were fine with the increase in production, but believes a decision on extending the agreement beyond April should be tabled. Frankly this doesn't seem to be that big of an issue. While a continuation of the agreement would be nice, it's not a prerequisite for a well-functioning crude market in 2022 and let's be honest, that date is still 9 months away with plenty of time for OPEC and partners to get back to the negotiating table. In short, the market really shouldn't overreact on either side of the price dynamic.

Three events took center stage this past week. I'll start with ConocoPhillips and their annual market update. The company noted lower capex and opex in 2021, along with higher than expected synergies on its recent acquisition of Concho, leading to an increase of $1 billion dollars for its share repurchases, with a new estimate of $2.5 billion. Importantly, Conoco provided 10 year guidance of $145B of cash from operations, over $70B of free cash flow and $65B of capital returned to shareholders in the form of dividends and share buybacks. I should mention as well, this is all based on a $50 per barrel WTI crude oil price. Finally, Conoco outlined a plan to reduce routine flaring as early as 2025, reduce greenhouse gas, or GHG, intensity at various interim points and be net zero on scope 1 and 2 emissions by 2050. Carbon capture as well as blue and green hydrogen were also highlighted as potential future investment areas. Overall, a very positive update and the market liked it as well, with ConocoPhillips outperforming on the day and the week.

The second event of note was the analyst day held by California based utility Sempra. It was actually a pretty quiet update in terms of new announcements, yet a few things stood out to me from the presentation.

1) Sempra noted the greatest challenge of the 21st century is how to address global emissions and climate change while meeting rising demand for the energy that is needed to support global economic growth and prosperity
    a. By 2050 they anticipate both the global population and global energy demand grows approximately 20%
    b. This is exactly what we have been espousing for some time; more energy, less carbon
2) They want to increase the use of renewable natural gas at SoCalGas from 4% currently to 20% by 2030
3) Sempra highlighted briefly two hydrogen demonstration projects that, while very small scale right now, are projected to begin operations in 2022

The last event of note was the release of EQT Corporation's ESG report and associated conference call. At the heart of discussion were three updated goals, including:

1) Achieve net zero scope 1 and 2 GHG emissions by or before 2025
2) Reduce scope 1 GHG emissions intensity by ~70% by or before 2025
3) Reduce scope 1 methane emissions intensity by ~65% by or before 2025

EQT noted the critical role that natural gas has played to date and can play in the future in terms of providing reliable, low-cost, scalable power that, critically, is also exportable. Recall just last week Rob mentioned how US Energy Secretary Jennifer Granholm made similar statements. One interesting data point presented by management; if all coal in use around the world was replaced by natural gas, it would result in about 175 bcf per day of incremental demand, which is almost double the current usage of the United States. EQT is playing a leading role in GHG emission reductions and we believe they, along with others, are driving change all along the energy value chain. This enhances the value of the product they sell and creates incremental shareholder value as well. Energy companies are embracing the change and making an impact. This will not go unnoticed for long and we believe when it does get recognized, it has the potential to drive yet another leg higher of returns.

With that, have a great week and we look forward to speaking with you again soon.

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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