August 16, 2021

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

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and I am happy to host this week's QuickTake Podcast. Despite markets reaching all-time highs, concerns around the world are rising about the spread and potential economic impact of the delta variant. Economic recovery continues in the United States, evidenced by higher inflation measures across the economy. Globally, the recovery seem less sustained. We see the impact of this in U.S. crude exports, which have fallen precipitously over the last few weeks. There is encouraging data as new COVID cases have come off their recent peak in the U.K. and new cases remain low across India. We'll see how the summer progresses but we are encouraged by the increasing vaccination rate and the resilient nature of the U.S. economy despite these challenges. Now let's look at market performance for the week.

Markets were mixed:
- The Alerian MLP Index finished up 2.9%, and is up 37.0% year to date
- Other energy stocks, represented by the Energy Select Sector Index, were down -0.4% for the week
- In broader markets, the S&P 500 gained 0.8% and the ten-year treasury yields were basically flat, finishing at 1.28%

The United Nations released its updated report by the Intergovernmental Panel on Climate Change or IPCC. There were no new findings, but there were some interesting points worth highlighting. The IPCC found through better attribution science that is it irrefutable that humans have been the major driver of climate change. While this is not news, the conviction with which the IPCC stated it was more certain. The IPCC also pointed out that reducing methane emissions can have the single biggest impact on the trajectory of the climate. To address this issue requires investment by the emitters, which means energy companies in large part. Not surprisingly the energy group traded poorly on Monday after these headlines. We think this was the incorrect reaction. To make these emission reducing investments the market must bring capital to, not divest from, the energy industry. You might ask "Can energy investments actually reduce methane emissions?" We looked at eight of our midstream companies that have comparable reporting, and from 2017 to 2019 this group reduced their collective methane emissions by 28%! It is an admittedly small sample size due to different reporting methods making companies not comparable. However, every single earnings call I listened to in recent weeks addressed climate challenge and what each company was doing or planning to do to improve its own greenhouse gas footprint. It was encouraging to say the least.

After a poor start to the month for energy stocks, investor chatter turned to a possible resurgence of the cyclical/value rotational trade. We heard from various banks about a fear of missing out as generalists were not positioned well for this trade after moving earlier in the summer to address delta variant fears. Sure enough, after soft Monday trading energy rallied through the rest of the week to post the gains mentioned above. The day to day and week to week volatility we are seeing in energy is no doubt driven by a changing and in some ways conflicting series of data coming out of the industry. Last week the IEA and OPEC both announced their expected crude oil demand exit rate for 2021 at around 96 million barrels per day. IEA cited a decline in demand in July which it says will change the trajectory of demand for the second half of the year. The change is generally attributed to delta variant impacts in Asia. Both entities see crude demand growing more than three million barrels per day in 2022 to at or better than 100 million barrels per day by year end 2022. Here at home the EIA, an agency in the Department of Energy, lowered its U.S. supply growth forecast. We still view their growth forecast as too high for 2022 as most oil and gas producers are exhibiting a strong will to show capital discipline in the near term. Regardless of the accuracy of these projections, the trend of lower supply expectations and increasing demand is a bullish set up for 2022. Today, we see evidence of a tight oil market with higher gasoline prices at the pump. While energy is not the only source of inflation, it is very visible to the consumer and therefore a political issue. In a reaction to this reality, the Biden administration reached out to OPEC suggesting that they increase supply to stabilize global energy prices. OPEC has already stated a measured plan to bring back 400,000 barrels per day each month, the U.S. government view seems to suggest that is insufficient to keep prices at the pump suitably low. It is ironic that the administration would limit access to drilling on U.S. government property and request increased supply from foreign sources. It seems to us this does not advance their agenda of lowering global emissions and strengthening our economy. In fact, there are some U.S. producers that rival the low carbon intensity production of Saudi Arabia, and many surpass the average OPEC country. That said, prodding OPEC with increased U.S. production could spark a market share war like we saw last spring, and that would not be good for U.S. producers or domestic jobs as OPEC still has significant spare capacity it is holding off the market. Mixed messages from all corners indeed; which we think will continue to

drive volatility in the energy patch for now. For those worried about missing the return of a cyclical/value trade, the summer sell-off may have presented an attractive entry point to reposition into energy stocks.

Last week James had the pleasure of trying to distill the busiest week of energy earnings into a few minutes. Fortunately I get the chance to summarize a week of earnings that came at a much slower cadence. There were many themes that stayed consistent: beats and raises, capital discipline, and returning free cash flow to shareholders. Western Midstream (WES) announced strong second quarter earnings, beating consensus and set expectations towards the high end of their previous 2021 guidance. WES announced higher 2021 capital expenditures than expected, but short cycle projects that lead to contracted cash flows should not bother markets. Especially when WES announced that they will address 2022 and 2023 debt maturities with free cash flow, plan to opportunistically execute on their equity buyback plan, and increase the distribution by five percent annually. Chesapeake Energy announced an earnings beat as well. The company emerged from bankruptcy within the last year and has an improved outlook as a result of higher realized commodity prices and good performance from their producing wells. As a result, the company announced a plan to return 50% of free cash flow to shareholders on a quarterly basis. The company will measure its fourth quarter free cash flow and return half to shareholders with a variable dividend payment during the first quarter of 2022. We have seen this move from multiple oil and gas producers this year, and many, like Chesapeake, have surprised with earlier than expected plans. This trend has pushed energy to be the highest yielding sector in the market; one factor causing it to be the best performing sector year to date.

Bringing us back to energy investment as a solution to climate change we have an announcement from TC Energy and Irving Oil. The two companies announced a memorandum of understanding to form a partnership that will build solutions to reduce greenhouse gas emissions. The partnership will initially target Irving's New Brunswick refinery in an effort to reduce emissions and implement carbon capture and sequestration. The agreement is at its initial stages and no timeline has been set, but this an example of the types of efforts, partnerships, and areas of investment that we are seeing across the energy industry.

Finally, this week we will be tracking the path of two tropical depressions that may threaten the U.S. Gulf coast. Today it looks like these storm will land east of the Gulf coast energy complex, but if that changes it could impact energy trading in the coming days. With that, thanks for joining us and we will be back next week. Please stay safe.

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.

The S&P 500® Index is a market-value weighted index of equity securities.

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).

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

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.

© 2021 TortoiseEcofin

TortoiseEcofin

The indices are the exclusive property of TIS Advisors, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by TIS Advisors and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Through our family of registered investment advisers, we provide investment advice to related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, we stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*

© 2021 TortoiseEcofin