TortoiseEcofin QuickTake Podcast

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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. Last week we had a series of COVID-19 vaccine news that is worth reviewing. Having already approved the Pfizer-BioNTech booster shots for those at higher risk, the FDA will approve boosters for the Moderna and Johnson & Johnson vaccines as well. Additionally, the FDA will allow the practice of getting a booster shot different than the type a patient was originally injected with, for example getting a Pfizer booster shot even though the person originally received the J&J shot. Pfizer announced that the booster shot returns effectiveness of their vaccine to 95% in a study of 10,000 people aged 16 and older in three countries on three different continents. The effectiveness was proven across all demographic modalities such as age group or gender. This update is important to near term economic recovery in the developed world, but obviously doesn't address the poor vaccine roll out globally. There is also some concern about a new Delta+ variant currently spreading in the United Kingdom. With that, let's look at market performance last week.

Markets were up modestly:
- The Alerian MLP Index was flat, and is up 52% year to date
- Other energy stocks, represented by the Energy Select Sector Index, were up 1.1% for the week
- In broader markets, the S&P 500 gained 1.7% and ten-year treasury yields were up slightly, finishing at 1.64%

One month ago the House Ways and Means Committee released the Build Back Better plan and we expected much horse trading in the weeks to come. As expected, Senators Manchin and Sinema have played an oversized role in the talks. Both thought the headline $3.5 trillion price tag was too high, Manchin views picking winners in the energy space as generally unfair and bad for West Virginia, and Sinema seems to be against raising corporate taxes too high. So at this stage it seems that the bill will be smaller, it is uncertain how much it will address President Biden's climate initiatives, and it isn't clear how it will be paid for regardless of the ultimate size. What appears to still be in the bill is the expansion of the definition of qualifying income for MLPs to include renewables and carbon capture, among other energy transition items. We view this positively, but I will note that there is a competing proposal from the Senate that eliminates the MLP allowances all together. Last month there was talk of passing the Build Back Better plan and the bipartisan infrastructure bill together by October 31st when the current highway spending extension expires. That seems less likely today, but progress is being made and a vote may occur at any time before the year is out.

As you heard on last week's podcast, third quarter earnings season has begun so we will hit many highlights today. Nextera Energy kicked us off with an in-line quarter. Nextera said its renewable backlog of projects grew more than expected, and they reaffirmed their earnings growth target of 6-8% going forward. Kinder Morgan announced a ho hum quarter, announcing EBITDA slightly below consensus expectations and reaffirming 2021 guidance. Kinder highlighted their increased investment in natural gas storage, which could drive near term earnings if we experience a cold winter. However, the National Oceanic and Atmospheric Administration released its forecast for the coming winter and most of the U.S. is projected to be warmer than normal. Kinder also announced that they were able to roll customers into new storage contracts at better terms. It might interest listeners to hear that Kinder is investing to repurpose many of its terminals to handle renewable fuels and doing it at better than 25% returns. Baker Hughes and Chart Industries both announced earnings misses last week. These two companies are big players in providing the equipment necessary to the energy transition. Both had higher than expected costs and lower than expected order books, likely a timing issue between expenses and revenues. Like the energy squeeze in Europe, the announcements are another example of how difficult executing on the energy transition will be. In further company news, Magellan Midstream announced a 1% increase to its quarterly distribution and a $750 million expansion of its equity buyback plan. Although not an earnings announcement, it suggests the company has confidence in its financial strength and that management is listening to investors, like Tortoise, who have been calling for a return of free cash flow back to investors. Last week Brian mentioned that the hot global LNG market is leading to new supply contracts for U.S. exporters. Previously it was Cheniere, this week Venture Global announced a deal with Sinopec, the Chinese energy giant. The deal was huge and long-term: four million tons per annum for twenty years. We will wrap up last week's earnings with a strong beat from Valero Energy. The beat was both in cash flow and earnings, in the end producing almost $1 billion in free cash flow. Interestingly, on a volumetric basis traditional refined product volumes surprised to the upside while renewable fuels were lower. Specifics aside, these numbers are further evidence of the demand recovery for energy.

That is lot and there will be more earnings and company announcements to come over the next couple of weeks. Let me leave you with an updated view from the United Nations Climate Program. The group now projects that fossil fuel demand in 2030 will be double what is required to achieve the 1.5 degree Celsius warming scenario. This suggests that while the urgent need for climate action is widely held, the will to achieve change might be hard to come by. We will learn more on this front when the world gathers in Scotland next week for the UN's Climate Change Conference, COP26. 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.

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