TortoiseEcofin QuickTake Podcast

July 5, 2022

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. I hope that you had a wonderful long weekend with family celebrating July 4th. We purchased a ping-pong table, so I was busy schooling my boys in the fine art of table tennis. Some good summer lessons being taught! The market has not given us a lot to celebrate lately, but hopefully the back half of the year will continue the strong returns energy has provided year-to-date. Funny enough, we can't wait for earnings. While most of the market is anticipating negative earnings revisions, not so in energy land. We fully expect another excellent quarter to lead off the back half of 2022. We'll talk commodities and weave in the news as we go.

Let's start things off with performance for the week that was:

- On the commodity front, crude oil was down modestly, with spot down 95 bps, while
- Natural gas was negative, falling 5% on spot pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® improved 1.3%
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index did not follow, declining 88 bps
- Utilities, per the Dow Jones Utility Index, continued to outperform, up 4.2%
- And finally MLPs, as represented by the Tortoise MLP Index® also moved higher, rising 2.2% for the week

A quick recap of where the 1st half of 2022 ended from a performance standpoint:

- Midstream ended positive 10.6%
- Utilities were generally flat
- Broad energy was up 31.6%
- The S&P 500 was down 20%, its worst 1st half performance since 1970

So despite the recent pullback in energy stocks from the early June peaks, they remain strong performers year-to-date and we believe will continue to outperform given the fundamental backdrop and robust free cash flow generation.

Crude oil continues to garner a ton of attention, but for the most part was fairly benign, trading in a decently tight range for the week. OPEC plus met and of course decided to once again grow production 648,000 bpd for August. Three things stand out. One, the group continues to produce well below the allowed quota amount as underinvestment has made returning to prior levels difficult. Two, spare capacity for the group remains exceptionally low, with most assuming only Saudi Arabia and the UAE have any sort of capacity available. Three, as August will represent the last month of the official agreement and OPEC plus production would theoretically be back to pre-pandemic levels, what happens next? As we have stated before, if Saudi and UAE increase production, it naturally lowers the remaining spare capacity and that can actually have a negative effect on price expectations. I.e. the increase in production may not bring about the desired drop in price as the market will fear lack of ability to handle any type of supply disruption.

It was an active week on the natural gas front. First, as Brian reported about a month ago and Matt followed up with two weeks ago, Freeport LNG's fire and subsequent restart timing has played a major role in US and international natural gas prices going opposite directions. The most recent headline from this past week was news that in order to restart, Freeport would require approval from PHMSA, or the Pipeline and Hazardous Materials Safety Administration. This is due to a regulator citing unsafe conditions at the facility. Hard to say how long this extends the outage, but it's possible the late September timeline initially laid out will push to the right.

Speaking of high international natural gas prices, Tudor Pickering hosted a virtual LNG conference this past week as well and the key takeaway from my view was the fact Europe is clearly coming around to the idea that natural gas, in the form of

LNG, will have to play a big role for them. This has been proven out by the multitude of contracts signed of late between European companies and US exporters.

On the pipeline side, two nice announcements:

- First, Kinder Morgan announced FID, or final investment decision, on the Permian Highway Pipeline expansion of 550 mmcf/d, primarily through adding compression with an expected completion in late 2023
- Next, Williams Companies announced FID on its Louisiana Energy Gateway project
  - This will feed nat gas to the Gulf Coast, including LNG facilities
  - What is cool about this project is that it will integrate real-time, end-to-end emissions data to demonstrate the low carbon benefits of natural gas
  - In-service is expected in late 2024

BP released its annual Statistical Review of World Energy, a look back at the prior year's energy supply and demand. Lots of great information, but I would just highlight a couple:

- One – China and India accounted for over 70% of the growth in coal demand in 2021
- Two – China also surpassed Japan as the world's largest LNG importer
- Three – China also led the world in wind and solar capacity growth for 2021

The bottom line, the world needs more energy, especially as developing markets move out of energy poverty. We must figure out how to supply it with as little emissions as possible, but it takes more than one country. The U.S. can play a huge part in the outcomes by simply exporting our lower carbon natural gas to the rest of the world. Maybe then we could slow the pace of coal growth in India and China. That alone would have massively positive benefits in total CO2 emissions globally.

Finally, speaking of emissions, the Supreme Court ruled to limit the EPA's ability to regulate emissions through agency actions, rather mandating it should come from Congress. In general, I'm not of the view this is as big of a deal as many perceive. Yes, it could be viewed as a modest setback, but the market will dictate the timing for the transition and we believe this is under way, including several utilities already mandating and executing on plans for cleaner energy.

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.

The Dow Jones Utility Average (DJUA, also known as the "Dow Jones Utilities") is a stock index from S&P Dow Jones Indices that tracks the performance of 15 prominent utility companies traded in the United States.

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

The S&P Oil & Gas Exploration & Production Select Industry Index represents the oil and gas exploration and production segment of the S&P Total Market Index ("S&P TMI"). The S&P TMI is designed to track the broad U.S. equity market. The oil and gas exploration and production segment of the S&P TMI comprises the following sub-industries: Integrated Oil & Gas, Oil & Gas Exploration & Production, and Oil & Gas Refining & Marketing. The Index is one of twenty-one (21) of the S&P Select Industry Indices (the "Select Industry Indices"), each designed to measure the performance of a narrow sub-industry or group of sub-industries determined based on the Global Industry Classification Standard ("GICS").

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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