TortoiseEcofin QuickTake Podcast

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

Football season is finally here. The NFL kicked off this past week and it was great to have it back. The Chiefs got off to a fast start with a big win over the Cardinals, but the schedule is brutal, so fans can't get too excited yet. School is also in full swing and my boys are now both playing high school soccer. It's a blast to go watch them play for their school in front of all their friends. The market has continued its gyrations, with energy and commodities doing the same. We had some more in person conferences last week as well, so lots to touch on.

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

- On the commodity front, crude oil was essentially flat, with futures falling 9 bps, while
- Natural gas was volatile, dropping almost 9% on futures pricing,
- Shifting to equities, the broader S&P Energy Select Sector Index® was modestly positive, increasing 73 bps
- Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index also inched higher, rising 57 bps
- Utilities, per the Dow Jones Utility Index, were strong, moving up 3.6%
- And finally MLPs, as represented by the Tortoise MLP Index® acted more like utilities, outperforming broader energy and returning 1.7%

The week started with an interesting OPEC plus meeting, where the group elected to cut production by 100,000 barrels per day, effectively reversing the previous 100,000 bpd increase after the Biden visit. The move was largely symbolic, yet did send a message that OPEC is willing to defend price at this point. As noted previously, Saudi in particular feels there is a glaring disconnect between the paper and physical markets, leading to ineffective price signals. The lower prices lead to a lower propensity to invest, meaning we don't get the eventual increase in production due to higher sustained outer year prices.

UBS had an interesting note that stated OPEC+ production has increased just 440,000 bpd since February despite the almost 3 million bpd increase in their stated quotas. Meanwhile, Evercore ISI noted that total crude oil inventory in the United States now stands at levels not seen since 2003, at which time the US population was approximately 47M less and our oil usage was 4M bpd less. That's pretty consistent with my messaging from a month ago in this very podcast.

Working against supply were more demand concerns, with the continued rolling lockdowns in China of various cities. In fact, Chinese demand for crude oil in 2022 may contract for the first time since 2002. The question is what happens when that comes back.

On the natural gas front, both Matt and Rob touched on the European energy situation the last two weeks, but still no let up on that side of the pond. The energy war continues as Nord Stream 1 remains shut. For the upcoming winter, Europe remains at the whims of Mother Nature, which will ultimately decide how long natural gas storage levels last.

On company specific news a few items to highlight.

First up, Cheniere Energy heard from the EPA regarding its desire to exempt already installed turbines at export facilities related to formaldehyde pollution. The EPA denied the request, yet we don't think this is all that surprising. It likely just means the company will work with the EPA to remediate any turbines deemed out of compliance. This was generally expected.

Williams Companies made a $423M acquisition of NorTex Midstream Partners, a company with natural gas storage and pipelines in north Texas, just west of Dallas. Williams has some complimentary assets in the area, so likely some nice tie-ins there and some economies of scale.

EQT, the largest natural gas producer in the U.S., acquired Tug Hill upstream assets and XcL Midstream from Quantum Energy Partners for $5.2 billion dollars. The deal was structured as 50/50 cash and stock. These are core assets in the Marcellus, so right in the heart of EQT's main areas. Per management, it's a 2.7x EV/EBITDA multiple and a 27% free cash flow yield on next twelve months projections. The transaction is also setup to be leverage neutral. Finally, EQT will double its existing share repurchase to $2.0 billion and increase its debt reduction target from $2.5B to $4.0B, both by year-end 2023.

Finally, both Rob and Brian attended the Barclays' CEO conference this past week in New York. Overall, a crowded conference with investors feeling energy is back in vogue. The carbon capture presentation was standing room only and LNG was an obvious topical discussion point. In general, companies feel they are in great shape, with better balance sheets and solid free cash flow helping to withstand the recession outlook.

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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The **Dow Jones Utility Index** is a price-weighted index composed of stocks of 15 utility companies listed on the New York Stock Exchange.

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.

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

The **S&P Energy Select Sector Index** is a modified market capitalization-based index of S&P 500 companies in the energy sector that develop and produce crude oil and natural gas and provide drilling and other energy related services. Returns include reinvested dividends.

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