TortoiseEcofin QuickTake Podcast

September 26, 2022

Welcome to the TortoiseEcofin QuickTake podcast. I'm Brian Kessens, senior portfolio manager and managing director. Thank you for joining us as we provide timely updates on the market.

Last week was a tough one for financial markets and you get the sense the Fed wanted it that way. After announcing, as expected, another 75 bps increase to interest rates, the Fed also raised the prospect of even higher rates for longer, even if that meant a harder landing for the economy. Taking their cue, markets across the board were sharply lower last week with the S&P Energy Index down 9% and the Alerian Midstream Index off by the same amount. After beating the broad market the first four days of the week, energy lost ground on Friday. Traders noted a couple of things, (1) energy's been a strong performer YTD and is one of the few places to take profits, and (2) there are fears of global energy demand slowing, despite the continued supply squeeze. In fact, OPEC+ data for August showed the group's production 3.6 million bpd below combined output quotas. It is alarming that spare capacity appears so negligible. With OPEC now managing for price, the output decision at their next meeting on October 5th carries more uncertainty.

For those investors recognizing that energy supply will be short for a long-time, that the US is well positioned to supply the world with more energy, and that energy companies are increasingly returning more cash flow to shareholders, yet those investors wanted a better entry point, we think last week provides an opportunity. In the sell-off, we anticipate many midstream companies bought back stock, as they have substantial free cash flow yet to allocate. That was the playbook companies employed in mid-June and early July when we witnessed a similar drawdown. We look forward to 3Q earnings next month to confirm our expectation.

On to the news, last week Senator Manchin provided details of his Energy Independence and Security Act of 2022, essentially an infrastructure permitting reform bill. Remember, this is the permitting bill that was promised in conjunction with the Inflation Reduction Act, and takes specific aim at helping Equitrans Midstream's long delayed Mountain Valley Pipeline reach full completion. That pipeline would transport natural gas from the Marcellus through West Virginia and into Virginia. The Act would require that federal agencies reissue permits for the pipeline within 30 days, and those permits would not be subject to judicial review, with any challenges needing to be handled at the DC Circuit Court. The Act contains a host of other provisions as well that benefit the entire energy value chain, especially where new infrastructure is needed. Those include: (1) requiring the President to designate and prioritize reviews for 25 strategically important energy and mineral projects within 90 days of enactment, (2) giving more authority to FERC for transmission projects, (3) limiting National Environmental Policy Act (NEPA) reviews to two years, (4) regulating interstate hydrogen infrastructure with FERC (similar to natural gas pipeline infrastructure), and (5) modernizing the Clean Water Act. If we want cheaper, cleaner, and more reliable energy, these measures are real helpful. Yet while many of these measures have corporate and would seemingly have bipartisan political support, given the forthcoming midterms elections in November, no party wants the other to have a perceived win. Speaking with Washington consultants, the Act has long odds of passage anytime soon.

It wouldn't be 2022 without a week of US LNG developments. Last week there were two. First, Cheniere Energy and Whistler Pipeline agreed to construct a 43 mile, 1.7 Bcf/d pipeline from the current end of the Whistler Pipeline to Cheniere's Corpus Christi LNG export facilities. That's a high five to natural gas demand from the Permian basin. Second, Tellurian, which is seeking to build LNG export from Louisiana and is unique among its peers by relying on the spread between US and international LNG prices for its economics, pulled its high yield bond financing and two of its potential customers cancelled their agreements. It's back to the drawing board for Tellurian where we expect more commonplace LNG economics contracts to be pursued. Those economics would rely on a fee to liquefy LNG, and are much more financeable. The good news is there are a lot of those to be had still.

This week look for tropical storm and hurricane activity to potentially impact energy prices. Notably, Tropical Storm Ian, currently causing chaos in the Caribbean, is expected to hit Florida late this week. Governor DeSantis already declared a state of emergency for the state. Also Friday marks the end of the third quarter, a time noted for lower liquidity and elevated volatility as investors position for the year's final quarter. With that also comes lots of opportunity. Thanks for listening.

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.

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.

Liquefied Natural Gas (**LNG**) **=** Natural gas that has been cooled to a liquid state for shipping and storage - the volume in this state is about 600 times smaller than in its gaseous state, able to transport for much longer distances when pipeline transport is not feasible.

Midstream = 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 basis (AMNA) and on a total-return basis (AMNAX).

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.

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.

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

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.*