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Welcome to another TortoiseEcofin QuickTake podcast. Thank you for joining us. On this podcast, we highlight what happened in the energy sector during the month of February.

Hello I am Tortoise Senior Portfolio Manager Rob Thummel.

The overall energy sector as represented by the S&P 500 Energy Select Sector Index underperformed the S&P 500 during February declining by 5% compared to 1% decline in broader index. However, the energy infrastructure sector represented by the Alerian Midstream Energy Index retreated by only 1% as investors assess the possibility and severity of a recession.

Commodity prices remain below our targets as US oil prices were unchanged for the month while U.S. natural gas prices declined by almost 7%. Natural gas prices are weaker primarily due to higher-than-expected inventory levels in the U.S. and Europe. This challenge could persist throughout 2023; however, the return of natural gas demand at Freeport LNG, increased LNG demand from China, and Europe's need to replace Russian natural gas volumes could result in higher natural gas prices as the year progresses. Related to global oil markets, the International Energy Agency or IEA expects world oil demand to reach record highs in 2023 led by a strong recovery in demand from China. Currently, the global oil market appears to be slightly oversupplied but is expected to become undersupplied in the second half of 2023 as oil demand from China steadily rises leading to a higher oil price by the end of the year.

February is traditionally packed with earnings updates. Three key themes highlighted this year's fourth quarter earnings season. First, the U.S. energy sector is setting new operational records. For example, U.S. natural gas production set a record high in 2022. Enterprise Products Partners highlighted record transportation volumes and exports of natural gas liquids that are key raw materials for many consumer-related products. U.S. LNG export volumes are reaching record levels with Freeport LNG back on-line. Yet the most interesting record from my perspective came from Magellan Midstream who operates one of the largest refined product or gasoline and diesel pipeline networks in North America. Magellan expects to set a record for transportation volumes of gasoline, diesel, and jet fuel transported in 2023 – a good sign for the entire energy complex. A second key theme during the earnings season is returning cash to shareholders. Cash dividends and distributions from energy infrastructure companies increased while lower commodity prices led to declines in the variable dividends paid by many oil and gas producers. The last theme related to capital discipline primarily through lower capital expenditures leaving excess cash available for many companies to buy back stock after paying dividends. In fact, the energy infrastructure sector set a record of almost \$5 billion of stock buybacks in 2022 led by Cheniere Energy that bought back \$1.7 billion of stock and is expected to buyback at least \$2 billion in stock over the next 18 months.

We expect oil and gas producers to increase capital spending in 2023 predominantly associated with cost inflation to drill new wells. Energy infrastructure capex will be higher in 2023 as companies expand the U.S. energy infrastructure network to transport rising U.S. oil and gas volumes primarily from the Permian Basin and build new infrastructure to support growing levels of U.S. energy exports. The largest energy infrastructure operator Enbridge forecasts U.S. LNG exports will grow to 28 bcf per day by 2035 from around 13 bcf per day today and U.S. crude oil exports will reach 8 million barrels per day rising from around 4 million barrels per day today.

We believe that the U.S. and Canada will be key global energy suppliers of oil and gas for the decades to come. The essential nature of oil and gas is becoming widely accepted. President Biden stated in his state of the union address that oil and gas will be needed for at least another decade. In 2020, energy major BP announced that it was shifting away

from carbon fuels; however, during its most recent earnings call BP stated its spending more on oil and natural gas drilling.

That said, many energy companies continue to take an all-of-the-above approach to energy transition. Valero and Darling will become one of the largest sustainable aviation fuel producers in the U.S. after announcing plans to expand their Diamond Green Diesel facility in Texas to produce over 200 million gallons of sustainable aviation fuel. Enbridge agreed to invest \$1 billion to expand the operation of Divert Inc which produces renewable natural gas or RNG from food waste. Shell acquired the largest producer of RNG in Europe. And Verde Clean Fuels a provider of renewable gasoline de-SPACed and began trading under the symbol VGAS during February.

Thanks for listening and have a great day!

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 **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).

Liquefied Natural Gas (LNG) is 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

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.

The **S&P 500**[®] **Index** is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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