

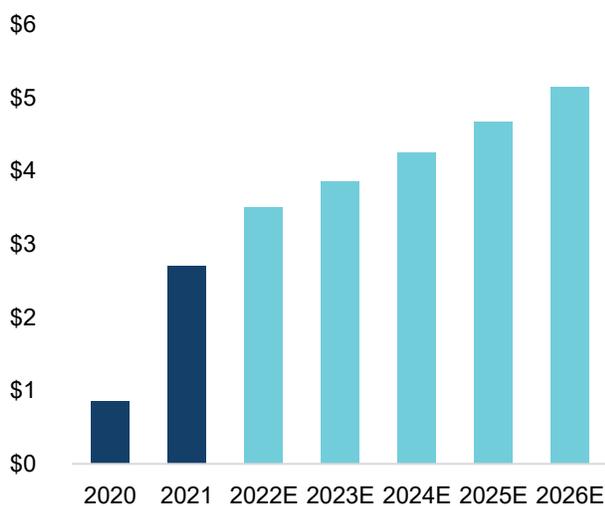
Energy infrastructure

3Q 2022 QUARTERLY COMMENTARY

The third quarter felt reminiscent of the second quarter. Midstream energy started strong and pushed higher throughout the quarter driven by another strong earnings season and a solid fundamental backdrop. Then the Fed came in, once again, with a 75 bps hike along with hawkish commentary that spooked the market and rekindled fears of a recession and a hard landing. One difference this quarter from second quarter was the starting point of the Alerian Midstream Energy Index (AMNA), which was higher when the Fed hike occurred, meaning that despite the downturn in performance, the AMNA was barely negative for the quarter, unlike the second quarter when it returned -8%.

The third quarter opened a bit of a gap between MLPs and c-corps with the latter underperforming fairly significantly. This could have been driven by some index inclusion on the c-corp side and negative flows associated with that and potentially some minor negative feedback on the tax impacts from the Inflation Reduction Act (IRA). Broad equity markets sold off while macro news dominated with China as a key driver of global pressures with continued focus on zero COVID policies. Amidst all of this external noise, we continue to see midstream companies grow distributions, buy back stock at record levels and generally positioning themselves well for most environments.

Share buybacks



Midstream dividend growth CAGR (2021 – 2026E)



Source: TCA, Bloomberg, Company Press Releases. Projections on this page are no guarantee of future outcomes. It is not possible to invest directly in an index.

Macro events are driving energy markets more than ever. Organizational and government policies are altering supply and demand of crude oil over the near term. Recently, the war in Ukraine continued to have more of an impact on the natural gas market than weather. Liquefied natural gas (LNG) was a common theme of positive sentiment during the quarter and natural gas demand helped drive that, as international markets continued to seek U.S. LNG for import. Passage of the IRA should benefit the entire energy value chain. The Senator Manchin proposed act is a helpful start for energy infrastructure permitting reform. November midterm elections are likely to have minimal energy policy impact given the recent passage of the IRA and an obvious need for cheaper, cleaner, and more reliable supplies both domestically and internationally. We believe these event outcomes favor tighter supply and demand and continue to emphasize energy security as a top priority.

There were minor changes to valuations and cash flow from last quarter as the overall total of cash from operations for 2022 rose, while capex came down a bit. We increased our long term forecast for dividends yet again as companies focus on returning payouts to more historical levels. It's possible that we are a bit light on capex in the longer-term forecast, particularly if U.S. production of crude oil, natural gas and natural gas liquids is in high demand internationally, as we expect it will be. That said, we would not anticipate dramatic shifts, but rather modest moves.

Concluding thoughts

Free cash flow remains the primary driver, but multiple events upcoming stand to tighten supply and demand of crude oil and natural gas. Couple that with a sector that is as well positioned as ever to withstand a recession and we believe management is betting on a continued return of capital story with solid fundamentals for the long term, as markets and governments emphasize energy security. We think these catalysts will create compelling investment opportunities within the midstream energy sector.

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The Alerian MLP Index is the leading gauge of energy infrastructure master limited partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX). The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. 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). 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. The Personal Consumption Expenditures Price Index (PCE) is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Past performance is no guarantee of future returns. It is not possible to invest directly in an index.