Tortoise's 2021 Essential Playbook for Midstream Management

We believe that we can use our position as a large shareholder to engage with our portfolio companies and advocate for change and improvement regarding governance. In 2020, we created a playbook of considerations for management of midstream companies that we believe are essential to deliver value to shareholders. We saw improvement from many companies after engagement activities throughout the year. This is our second published playbook with revised and more stringent recommendations for companies. This list is not intended to be comprehensive, rather focus areas needing improvement.

Exercise Capital Discipline

- Focus on generating free cash flow
- Capital expenditures should generally be modest and limited to brownfield projects
- Project return hurdle guidelines; all numbers vary based off actual weighted average cost of capital (WACC)
  - o >20% return on equity (ROE) for logistics with contract
  - o >30% ROE for gathering
    - – Baseline numbers assume those with lowest WACC
- Rationalize existing capacity of assets and consider sale of non-core assets
  - o Consolidate potential projects with partners

Return Capital to Equity

- Should be funding any capital expenditures and dividends with internally generated cash flow
- Repurchase stock. Unless leverage is well above target, prioritize cash returns to equity holders over debt paydowns
  - o This is corporate finance 101; cost of equity and debt near all-time high and low, respectively

Report Widely Accepted Metrics

- Report free cash flow consistently with S&P 500; CFO-CFI
- Return on equity and earnings need to be a part of the discussion

Improve Financial Health

- Leverage Targets
  - o 4.5x is maximum and less than 4.0x is ideal for logistics companies
  - o 3.5x or less for gathering
- Distribution/dividend coverage
  - o 1.3x for pipeline/logistics companies
  - o At least 1.5x for gathering and processing companies
  - o Well connects and other capital to maintain cash flow are sustaining capex

ESG Integration is Critical

- Implement governance best practices
  - o Elected board is essential
  - o Majority independent board is essential
  - o Separate chairman and CEO roles preferred
  - o Improve management and unit/shareholder alignment
    - – Compensate management on TSR relative to S&P500 and/or absolute level of return
    - – Compensate management on ESG metrics
- Implement environmental best practices
  - o Methane and CO_2 emission reduction programs are required
  - o Be transparent. Impact or sustainability report is required
  - o Impact should be a part of every discussion and presentation
  - o Embrace renewable power in operations
  - o Integrate RNG, RD into supply if possible
  - o Invest in carbon capture around operations
  - o Participate in best practices coalitions such as One Future
- Implement social best practices
  - o Embrace diversity across management, workforce and board
- Engage with ESG ratings firms to tell your story

We do not believe that divestment is the answer to more socially responsibility and accountability. We believe that active engagement with our portfolio companies can drive vast improvements in all areas of ESG.