

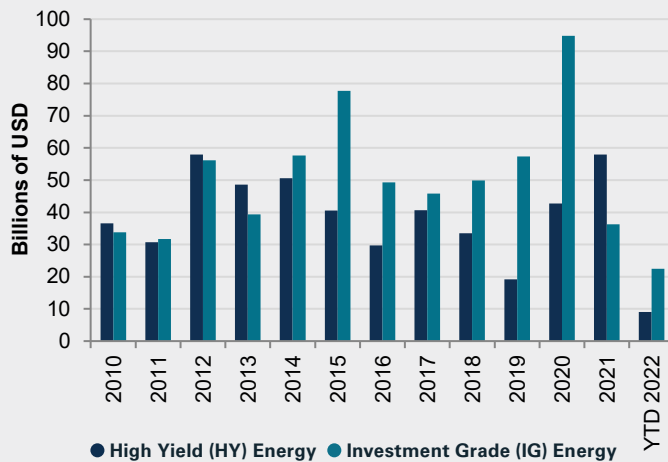
# Midstream: Why the Macro won't overwhelm the Micro in a Recession

Leverage in the energy and midstream sectors added volatility in past periods. Today, there is a stark difference in leverage versus previous macro environments. We believe less leverage should lead to less volatility for the sector.

## Shifted Business Model

Today, most energy companies generate positive free cash flow and finance any spending with internal capital. With free cash flow increasing, 2022 debt issuance is on pace to be its lowest in over a decade.

Energy Bond Issuance: Amount Issued



Source: TCA, Bloomberg data as of 9/30/2022. High Yield Energy = Bloomberg US High Yield Energy Index; Investment Grade Energy = Bloomberg US High Yield Energy Index

Debt outstanding in the energy sector has dropped 10% since 2020.

	Amount outstanding (\$ billions)		Total
	IG Energy	HY Energy	
12/31/2020	472	207	678
12/31/2021	465	202	667
9/30/2022	440	171	612

## How is this helpful to midstream?

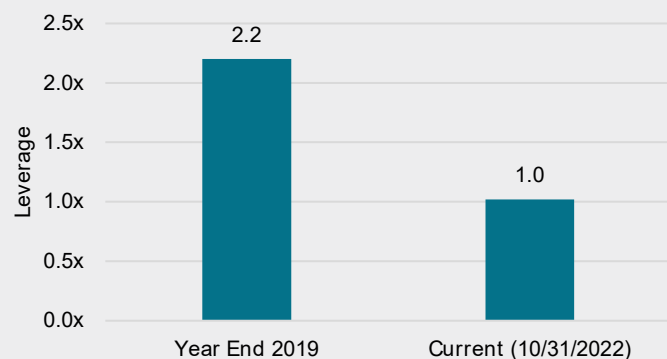
1. We believe midstream company leverage should trend down an additional full turn over the next few years.
2. Exploration & Production companies (E&Ps), whose median leverage was 2.2x Debt/EBITDA has shrunk to 1.0x Debt/EBITDA. Less leverage at the E&P level means less counterparty risk for midstream, a major concern in 2020.

Leverage



Source: TCA, data as of 6/30/2022

E&P Sector Debt-to-EBITDA



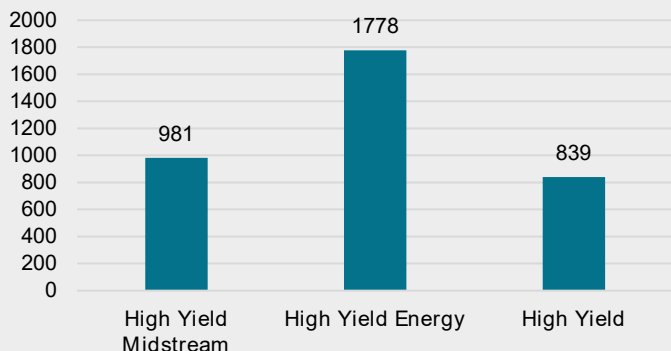
Source: TCA, S&P Oil & Gas Exploration & Production Select Industry Index, data as of 10/31/2022

### Are the Credit Markets implying these changes have been meaningful?

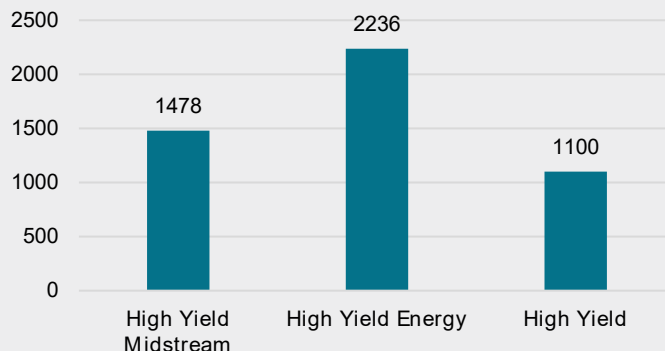
We believe the answer is a resounding yes!

Credit Spreads in past pullbacks saw the broad high yield index have tighter spreads than high yield energy and high yield midstream.

2015-2016 Energy Pullback Credit Spreads



2020 Covid Credit Spreads

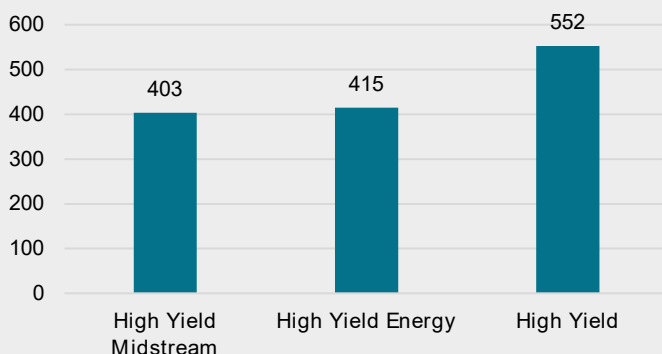


Source: TCA, Data as of 9/30/2022. High Yield Midstream = Bloomberg US High Yield Midstream Index; High Yield =Bloomberg US Corporate High Yield Index; High Yield Energy =Bloomberg US High Yield Midstream Index.

Bloomberg US Corporate High Yield Index: The Bloomberg US Corporate High Yield Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with and emerging market country of risk, based on Bloomberg EM country definition, are excluded. Bloomberg US High Yield Energy Index: The Index is the Energy component of the Bloomberg US Corporate High Yield Index. Bloomberg US High Yield Midstream Index: The Index is the Midstream component of the Bloomberg US High Yield Energy Index. Bloomberg US Investment Grade Energy Index: The Index is the Energy Component of the Bloomberg US Corporate Bond Index. The Bloomberg US Corporate Bond Index measures the investment grade, fixed rate, taxable corporate bond market.

Credit spreads today have flipped! The broad high yield midstream spread is lower than high yield energy spread, which is lower than the broader high yield index spread.

Current: 9/30/2022 Credit Spreads



Source: TCA, Data as of 9/30/2022

### Lower Volatility on the Horizon

With a less volatile business model, we believe midstream can be resilient in an uncertain macro environment, with the ability to decouple from S&P 500 returns as seen in 2021 and 2022 YTD.

## Disclosures

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**All investment involves risk including the loss of principal. Investments where this is a concentration in a certain sector may be subject to greater risk and volatility than one which invest more broadly.**

**This material contains certain forward-looking statements. These forward-looking statements include all statements regarding the intent, belief or current expectations regarding matters covered and all statements which are not statements of historical fact. The forward-looking statements involve known and unknown risk, uncertainties, contingencies and other factors, many of which are beyond our control. Since these factors can cause results, performance and achievements to differ materially from those discussed in the presentation, you are cautioned not to place undue reliance on the forward-looking statements. Projections on this page are shown for informational purposes only and no guarantee of future outcomes.**

Midstream sector represented by the Alerian MLP Index. The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX). The Alerian MLP Infrastructure Index is a composite 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 (AMZI) and on a total-return basis (AMZIX). 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. Securities are classified as investment grade if the middle rating of Moody's, Fitch, and S&P is Baa3/BBB-/BBB- or above. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers. The S&P Oil & Gas Exploration & Production Select Industry Index represents the oil and gas exploration and production segment of the S&P Total Market Index ("S&P TMI").

**Past Performance is not guarantee of future outcomes. It is not possible to invest directly in an index.**