Tortoise Capital

Tortoise North American Pipeline Fund (TPYP)

3Q 2024 QUARTERLY COMMENTARY

The Tortoise North American Pipeline Fund is an exchange traded fund that uses a passive management approach and seeks to track the total return performance of the Tortoise North American Pipeline Index[SM].

Tortoise Capital provides research-driven indices that can be used as a realistic basis for exchange-traded products and thought leadership in the universe of essential assets. Its indices are intended to fill a void in the market and provide benchmarks and investable asset class universes for use by investment professionals, research analysts and industry executives to analyze relative performance as well as to provide a basis for passively managed exchange-traded products.

The midstream energy sector, as represented by the Alerian Midstream Energy Index, improved nearly 10% in the third quarter, while the broad energy sector, as represented by the S&P Energy Select Sector Index®, fell by 2.3%. Midstream companies benefited again from earnings that exceeded expectations and disciplined capital allocation, along with more capital investment growth opportunities targeted toward demand focused customers like data centers. In addition, energy producers' ability to extract more drilling and completion efficiencies is providing more conviction in U.S. supply growth. Broader energy's underperformance partly resulted from lower crude oil prices due to softer Chinese demand and ample Organization of the Petroleum Exporting Countries Plus (OPEC+) supply capacity, mergers & acquisitions (M&A) deal uncertainty, and lower refining margins following high levels of utilization and newly added international capacity.

U.S. energy supply continues to grow. According to the Energy Information Agency (EIA), U.S. crude oil production grew in the third quarter to 13.4 million barrels per day (bpd) from the second quarter's 13.2 million bpd. For the year, the EIA forecasts crude oil production to be 2% better than 2023 levels, and to grow another 3% in 2025, averaging 13.7 million bpd. The increased production is largely from the Permian basin, the source of nearly 50% of all domestic crude oil production. Regarding crude oil (WTI) prices, the third quarter averaged just over $75 per barrel, lower than second quarter's average of $80 per barrel as Chinese demand growth softened while OPEC+ holds the ability to supply more oil to the market. U.S. natural gas production improved in the third quarter to 103.3 billion cubic feet per day (Bcf/d) from 102.1 Bcf/d in the second quarter due to higher summer demand. Yet the warm winter left natural gas inventories relatively full and producers continue to curtail production. That action is part of the reason natural gas prices ended the third quarter at 2.92 per million British thermal units (mmbtu), well ahead of the 2024 nine-month average of $2.22 per mmbtu. The EIA forecasts slight natural gas production growth in 2025 to 104.8 Bcf/d. Weather will likely remain the biggest driver of price, though new U.S. liquefied natural gas (LNG) export facilities set to start coming on-line later this year may require more supply to meet higher natural gas demand.

Energy infrastructure

Energy infrastructure earnings largely beat estimates, with over half of companies exceeding expectations. Driving results were continued growth in volumes, particularly higher production from the Permian basin. Further, there were six new Permian projects announced because natural gas and natural gas liquids pipeline utilization out of the basin stands at 90%+. The effects are natural gas prices in West Texas are a fraction of prices at other price points and are even routinely negative. Incrementally more takeaway capacity is needed. Capital expenditure though remains about half of what it was prior to 2020, with ample cash flow available to be returned to shareholders. In fact, the second quarter saw over $1 billion again in share buybacks, bringing the year-to-date share repurchase amount to $2.6 billion, well on pace to exceed our $4 billion expectation in 2024.

There were two notable acquisitions by Oneok and a rare spin-off in the third quarter. First, Oneok announced it is buying GIP's 43% controlling stake in EnLink, and all of Medallion Midstream for a total value just shy of $6 billion. The assets fit well with Oneok as they are likely to fill Oneok's west Texas crude and natural gas liquids (NGL) pipelines and processing plants. Leverage does increase in the near-term yet is expected to decline to 3.9x earnings before interest, taxes, depreciation and amortization (EBITDA) by year-end 2025. And Oneok still plans to repurchase $2 billion in shares over the next four years, while growing the dividend 3% to 4%. Second, TC Energy spun-off of its liquids business, South Bow Corporation (SOBO), just prior to quarter end. South Bow's primary asset, the Keystone Pipeline System, delivers growing Canadian crude oil production to refineries in the U.S. Mid-Continent and Gulf Coast. The company benefits from stable, fee-based, contracted cash flows with high quality counterparties and expects to return cash to shareholders primarily through its dividend.

Higher power demand from artificial intelligence led data center build out continues as a theme. In the quarter, Kinder Morgan announced a $3 billion pipeline expansion project coming on-line in 2028 to power data centers, and Williams, DT Midstream, and Energy Transfer, among others, indicated they are engaged in discussions with data centers about providing natural gas for power generation. Natural gas offers data centers several key benefits. First, natural gas is available at all times of the day in all parts of the year. It is also cleaner than coal, and in the U.S. natural gas is abundant and relatively low cost. We expect the announced project by Kinder Morgan to be the first of many natural gas data center deals signed over the coming years. In the near-term, we think independent power producers (IPPs) will benefit from their ability to enter power supply contracts with data centers and to supply marginal power to data centers when regulated electric utility companies are unable to meet demand.

Broader energy reported earnings that generally met expectations. We attribute the slight third quarter performance decline to the continued absorption of substantial corporate M&A activity and weaker crude oil prices. In the third quarter, Devon Energy announced and completed the acquisition of the Bakken assets of Grayson Mill Energy for $5 billion using a mix of cash and stock. The Chevron and Hess deal received FTC approval, though remains on hold until Hess' ownership dispute with ExxonMobil over an oilfield in Guyana is resolved, likely in 2025. We also think expected lower refining margins following demand concerns and higher supply impacted stocks. Nonetheless, capital allocation remains unchanged. It is in favor of shareholders, characterized by growing dividends and opportunistic share buybacks along with low debt levels.

Top five contributors
TC Energy Corp.
Enbridge Inc
ONEOK, Inc
Kinder Morgan Inc
Nisource Inc

Bottom five contributors
New Fortress Energy Inc.
Equitrans Midstream Corporation
Sunoco LP
Western Midstream Partners LP
Genesis Energy L.P.

Top 10 holdings (as of 9/30/2024)			
1. TC Energy Corp.	7.6%	6. Cheniere Energy Inc.	6.7%
2. The Williams Companies, Inc.	7.5%	7. NiSource Inc	4.0%
3. Enbridge Inc.	7.4%	8. Atmos Energy Corp.	4.0%
4. ONEOK Inc.	7.4%	9. Pembina Pipeline Corp.	4.0%
5. Kinder Morgan Inc.	7.1%	10.Targa Resources Corp.	4.0%

Performance (as of 9/30/2024)

	QTD	Calendar YTD	1 year	3 year	5 year	Since inception[1]
TPYP market price (total return)	10.02%	25.17%	34.31%	18.38%	11.68%	7.39%
TPYP NAV (total return)	10.27%	25.00%	33.96%	18.44%	11.70%	7.40%
Tortoise North American Pipeline Index℠ (TNAPT)	10.50%	25.81%	35.12%	19.31%	12.34%	8.03%
S&P 500® Total Return Index (SPXTR)	5.89%	22.08%	36.35%	11.91%	15.98%	13.82%

Source: Bloomberg for TNAPT

[1]The fund commenced operations on 6/29/2015.

Past performance is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than original cost. Returns less than one year are not annualized. NAV prices are used to calculate market price performance prior to the date when the fund first traded on the New York Stock Exchange. Market performance is determined using the bid/ask midpoint at 4:00pm Eastern time, when the NAV is typically calculated. Market performance does not represent the returns you would receive if you traded shares at other times. For the fund's most recent month end performance, please call (844) TR-INDEX or (844) 874-6339.

As stated in the Prospectus, the total annual operating expenses are 0.40%. The advisor has agreed to pay all expenses incurred by the fund except for the advisory fee, interest, taxes, brokerage expenses and other fees, charges, taxes, levies or expenses (such as stamp taxes) incurred in connection with the execution of portfolio transactions or in connection with creation and redemption transactions.

Index returns are for illustrative purposes only. Unlike the fund return, index return is pre-expenses and taxes. Index performance returns do not reflect any management fees, transaction costs or expenses.

Disclosures

TIS Advisors is the adviser to the Tortoise North American Pipeline Fund and is a registered investment advisor providing research-driven indices that can be used as a realistic basis for exchange-traded products and thought leadership in the universe of essential assets. Its indices are intended to fill a void in the market and provide benchmarks and investable asset class universes for use by investment professionals, research analysts and industry executives to analyze relative performance as well as to provide a basis for passively managed exchange-traded products. Exchange Traded Concepts, LLC serves as sub-adviser to the Fund.

The fund's investment objective, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectus contains this and other important information about the fund and may be obtained by calling 844-TR-INDEX (844-874-6339) or visiting www.tortoiseadvisors.com. Read it carefully before investing.

Shares of Exchange Traded Funds (ETFs) are not individually redeemable and owners of the shares may acquire those shares from the ETF and tender those shares for redemption to the ETF in Creation Units only. See the ETF prospectus for additional information regarding Creation Units. Investors may purchase or sell ETF shares throughout the day through any brokerage account, which will result in typical brokerage commissions.

Investing involves risk. Principal loss is possible. The fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the fund is more exposed to individual stock volatility than a diversified fund. Investing in specific sectors such as energy pipelines may involve greater risk and volatility than less concentrated investments. Risks include, but are not limited to, risks associated with companies owning and/or operating energy pipelines, as well as Master Limited Partnerships (MLPs), MLP affiliates, capital markets, terrorism, natural disasters, climate change, operating, regulatory, environmental, supply and demand, and price volatility risks.
The tax benefits received by an investor investing in the fund differ from that of a direct investment in an MLP by an investor. The value of the fund's investment in an MLP will depend largely on the MLP's treatment as a partnership for U.S. federal income tax purposes. If the MLP is deemed to be a corporation then its income would be subject to federal taxation, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. Investments in non-U.S. companies (including Canadian issuers) involve risk not ordinarily associated with investments in securities and instruments of U.S. issuers, including risks related to political, social and economic developments abroad, differences between U.S. and foreign regulatory and accounting requirements, tax risk and market practices, as well as fluctuations in foreign currencies. The fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The fund is not actively managed and therefore the fund generally will not sell a security due to current or projected underperformance of a security, industry or sector, unless that security is removed from the index or the selling of the security is otherwise required upon a rebalancing of the index. There is no guarantee that the fund will achieve a high degree of correlation to the index and therefore achieve its investment objective. Shares may trade at prices different than net asset value per share.

The S&P 500® Index is an unmanaged market-value weighted index of stocks, which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The Tortoise North American Pipeline IndexSM 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). Returns include reinvested distributions and dividends. 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 Tortoise North American Pipeline IndexSM (an "Index") is the exclusive property of TIS Advisors, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Index. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by TIS Advisors and its affiliates. S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). No portion of this publication may be reproduced in any format or by any means including electronically or mechanically, by photocopying, or by any other form or manner whatsoever, without the prior written consent of TIS Advisors.

The Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable rate mortgage pass-through securities), asset-backed securities and commercial mortgage-backed securities (agency and non-agency).

Liquefied Natural Gas (LNG) is a 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 it's gaseous state, able to transport for much longer distances when pipeline transport is not feasible. Liquefied Petroleum Gas (LPG) is a group of hydrocarbon gases, primarily propane, normal butane and isobutane, derived from crude oil refining or natural gas processed. They may be marketed individually or mixed. They can all be liquefied through pressurization for convenience of transportation or storage.

Free Cash Flow is the cash a company produces through its operations, less the cost of total capital expenditures (growth and maintenance). EBITDA, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a non-GAAP measure used to provide an approximation of a company's profitability. This measure excludes the potential distortion that accounting and financing rules April have on a company's earnings; therefore, EBITDA is a useful tool when comparing companies that incur large amounts of depreciation expense because it excludes these non-cash items which could understate the company's true performance.

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