CHICKASAW
CAPITAL MANAGEMENT

APRIL 8, 2022

MIDSTREAM UPDATE

FIRST QUARTER 2022

First Quarter 2022

First quarter 2022 produced a strong total return of 18.8% as measured by the Alerian MLP TR Index (AMZX). Many of the themes we have been highlighting in previous newsletters played out strongly, and were mostly better than we were expecting including:

- *Increased returns to equity holders through buybacks*: $2 billion was repurchased in 2021, and now Wells Fargo "conservatively" estimates a potential $40 billion over the next 5 years including $4.2 billion in 2022 and $6.2 billion in 2023[1].
- *"One-time" step ups in distributions/dividends occurred, and modest year-over-year (Y/Y) growth in distributions/dividends is forecasted*: the Model Portfolio's weighted average 2022e distribution growth rate increased to 32.8% from 19.7%[2]. Several management teams indicated the one-time nature of this quarter's distribution/dividend bumps may, in reality, be repeatedly executed upon until they reach pre-pandemic levels.
- *This is a growth portfolio*: The Model Portfolio's 2022e weighted average distributable cash flow per unit (DCF/u) growth rate increased 370 basis points (bps) absolutely to 9.6% from 5.9% previously, and consensus forecasts another ~7% growth in 2023e[3].
- *A continued, blistering pace of energy transition announcements*: 34 project announcements, joint ventures (JVs), memorandum of understanding (MOUs), or government awards were announced by public & private energy companies as well as U.S. and Canadian regulatory bodies.

While we forecasted continued strengthening of demand for fuels as part of the post-pandemic recovery, the key event we did not and would not have wanted to predict was the ramifications that became evident from Russia's hostile invasion of Ukraine. Rather than flesh out how the invasion affects Global energy security and Midstream assets in this newsletter, we put together a "prequel" discussing this topic on March 31st, which, in case you have not already received it, can be found at chickasawcap.com >> Newsletters >> Midstream & Global Energy Security.

No! You haven't missed it

The question of "did I miss it" tends to permeate many discussions. Let's address why we believe the answer is "No" from a few angles.

Valuation

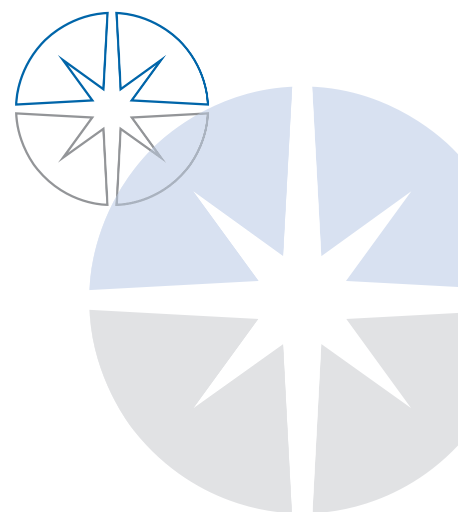
We measure the AMZX's Price/DCF as of 3/31/22 to be 6.0x, still below the long-term average of ~10.0x and the average since 2016 of 7.1x. While not an absolute measure of value, it is a good indicator of valuation sentiment, which remains depressed relative to history.

MLP COMPOSITE

Annualized Return

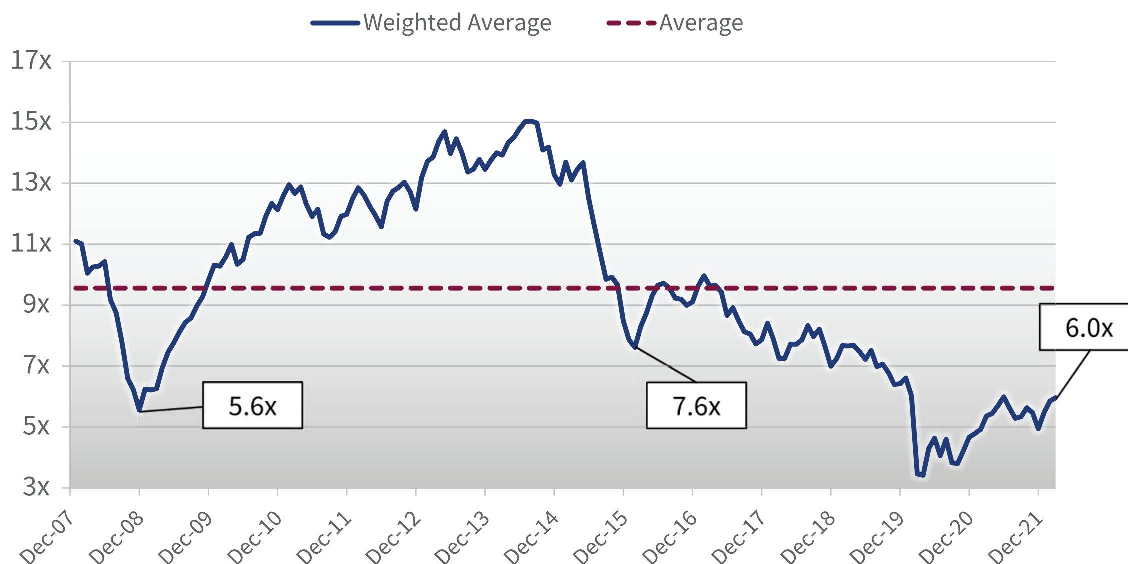
Trailing as of 3/31/22	Net	Alerian MLP Total Return	S&P 500 Total Return
Month-to-Date	4.66%	2.05%	3.71%
Quarter-to-Date	23.47%	18.81%	-4.60%
Year-to-Date	23.47%	18.81%	-4.60%
1 Year	49.80%	36.56%	15.65%
3 Year	3.59%	2.70%	18.92%
5 Year	-1.13%	-0.07%	15.99%
10 Year	4.99%	1.28%	14.64%
Inception	7.05%	5.79%	10.26%

Please note *Additional Information* on final page.



[1] Wells Fargo, "Weekender: If there's a will (for buybacks), there's a way", April 1, 2022. Actual share/unit repurchases may vary significantly.
[2] Distribution and dividend estimates sourced from Bloomberg, LP.
[3] Weighted average distributable cash flow growth refers to the estimated 2022 or 2023 (where indicated) weighted average Distributable Cash Flow (DCF) growth rate. This is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio. DCF data is CCM-calculated consensus of Wall Street estimates.

Alerian Weighted P/DCF



Average = 9.6x | Current = 6.0x | Minimum = 3.4x

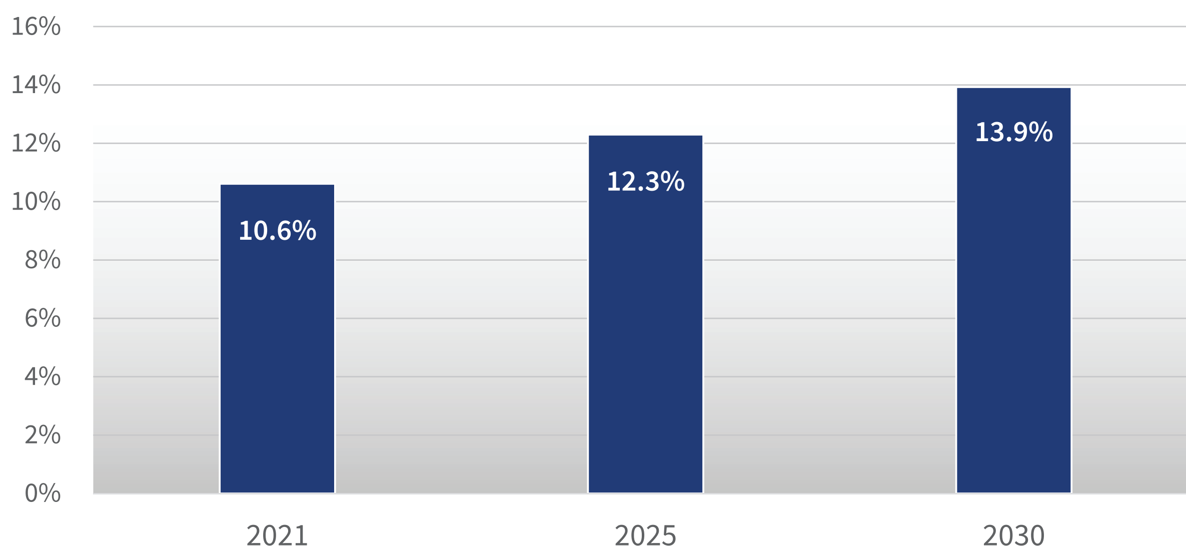
Bloomberg LP, CCM

From a more academic valuation standpoint (wonky to some!), we updated our discounted cash flow analyses using the free cash flow to equity (FCFE) approach and found some interesting, collective data points. First, the weighted average share/unit price discount to intrinsic value is 29%, which provides an adequate cushion. Secondly, the assumptions driving the price targets remain conservative, in our opinion. To provide some color, growth rates in the present value of 10 years of cash flow (PV10) component remain modest at 6.2%, the weighted average terminal value growth rate is 0.04%, and the discount rates used are 7.5% and 10.3% for the PV10 & terminal value components, respectively. Lastly, because we don't want to overlay our assumptions regarding Management's capital allocation decisions, we have the majority of excess cash flow going to debt repayment so average debt to earnings before interest, taxes, depreciation and amortization (D/EBITDA) leverage at the end of 10 years is 1.9x. This is well below the current 3.4x leverage, and we believe represents being under-levered for a suite of assets with highly recurring, contracted cash flow. Modest tweaks to any of these assumptions drive magnified increases in FCFE-based price targets, and given the solid footing these companies find themselves in, we place increased odds on our assumptions being too conservative.

Finally, as markets shift away from bonds, simply look at the yields of this sector. The 2022e forecasted yield for the AMZX is 6.8%, which is protected by 2.06x coverage. And the free cash flow (FCF) yield is 14.1% giving companies plenty of excess cash flow to fund highly accretive growth projects (increases both PV10 and terminal value components), or return cash to equity holders through buybacks, and/or dividends/distributions. Note, we did not include further debt reduction in decision optionality as balance sheets remain by and large at or below management targets.

Future Outlook

This is a growth industry, full stop. Whether the growth is coming from increased asset utilization in a post-pandemic recovery, high-returning growth capital projects, or from the reduction in corporate equity outstanding, the per share/unit economics are increasing. One of the simplest ways to look at this is the incremental return on invested capital (ROIC) that is being generated. As the previous growth factors continue to mix together, the spread between the ROIC and the cost of capital continues to widen, which becomes further self-fulfilling for companies in future years. We estimate nearly 200 bps of absolute improvement across our holdings on a weighted average basis through 2025.



SEC filings, company information, CCM

While many industry participants indicate lessening concerns about terminal value, this concern is still mathematically present in company prices as discussed above. But let's qualitatively think about terminal value. The energy crisis created by Russia's invasion of Ukraine has exposed a risk we have been highlighting for years, namely dependency on energy from hostile regimes. Even if the conflict mercifully ends soon, the ruptured commercial relationships will likely be rebuilt in a way that minimizes exposure to Russian energy. This lengthens the runway for U.S. resources, particularly natural gas and natural gas liquids (NGLs), to, at a minimum, take market share, and thus further extend the terminal value for companies with assets built to handle these fuels.

Finally, Energy Transition is in its infancy, primarily the announcement phase. Several Wall Street analysts have written they are giving zero credit in their valuations for these announcements. We believe companies are credible with their MOUs, JVs, etc. and if the market is not valuing them correctly, this provides another excellent margin of safety for the long-term investor. Many of these projects will be the next wave of "PV10" as they begin to come online in 2024/2025 with long-term contracts, thus pushing terminal value further out, too.

Fund Flows

If performance had been strong *and* the sector was experiencing strong inflows of new funds, then maybe we'd be more mindful of near-term tops. However, not for a lack of trying, fund flows out of the space remain a stubborn issue. While net inflows to passive were healthy at $728 million across passive products, active dedicated products saw ($7.4) million of net outflows during Q1:22. Our surmise is most of the flows into the passive products were by macro and trend following funds, not individual investors.

Despite the relative flows imbalance between active and passive, we stand by our belief that active management is the best approach for investors as evidenced by the attractive total returns we generated this quarter and the past few years.

Energy within the S&P 500

The weighting of Energy companies within the S&P 500 Index at the end of Q1:22 was ~3.87% vs. the historical average (monthly) of 8.6.%.

Energy Weight Within the S&P 500 Index

Bloomberg, LP

With strong tailwinds at the back of many of those companies, it's logical to assume they can continue to increase share within the index. However, it's important to note the Energy weight can increase not just through appreciation but also from adding companies that have increased in market value. As JP Morgan notes[4], many of the former large-cap exploration and production (E&P) names migrated to the mid-cap indices, but now have market capitalizations above certain, current S&P 500 constituents. In whichever way the weighting in the S&P increases, it could cause a flood of capital to "chase" weight and inclusion, which could have positive spillover effects for all energy companies regardless of capitalization or subsector.

Additionally, it may be more difficult for the generalist active investment manager to simply avoid energy all together as has been the case in recent years. The fear of missing a potential rising tide for energy companies may force allocations to modestly rise from these investors as the importance of U.S. energy security becomes more apparent over time.

Strategic petroleum reserve (SPR) release—an optical illusion?

On 3/31/22, the Biden Administration authorized a 180 million barrels (MMBbls) release from the SPR over the next six months; however, we see the potential for more folly than strategy in this action. We'll begin with the generally accepted theory about the SPR: it is not designed to lower fuel prices, rather its role is to act as a buffer from disruptions caused by wars, hurricanes or other major events. In fact, the market read right through the release as the back end of the futures curve *rose* on the day of the announcement as it now anticipates fewer barrels to be available in the future.

Currently, the refining industry is running at the highest seasonal utilization levels seen in the past five years. Releasing more oil doesn't make them run any more efficiently, and releasing barrels from the SPR in the current supply/demand dynamic means we're just releasing from an underground salt cavern to an above ground storage facility, hence the illusory nature of this release. Additionally, the storage caverns are closest to the U.S. Gulf Coast refiners which are unfortunately engineered to take a different grade of crude oil. Therefore, the release is potentially more likely to be exported (to another form of storage: floating vessels) for the benefit of international customers, not U.S. consumers seeking lower gasoline prices. As for Midstream, where barrels attempt to move to inland U.S. refiners, this could increase utilization of storage and terminal assets owned by certain companies, but we do not view this as a needle mover.

The last point on this topic makes us worry about supply and its effect on future prices: how are we going to replace the released barrels? We listened to comments from President Biden and his advisors, which indicated they had assurance from

[4] JP Morgan, "Global Energy Strategy Webcast", March 31, 2022.

U.S. producers that they can replace the barrels in six months. However, all our research and tuning in to public CEO commentary suggests six months is out of the question and nine months is probably still optimistic due to a depleted drilled but uncompleted (DUC) well inventory and oil field service inflation. Referring back to our Q3:21 newsletter (chickasawcap.com >> newsletters >> Midstream Update Q3 2021), E&P companies' plans in 2021 were focused on completing wells that were already drilled rather than actually drilling new wells given capital market constraints. As they begin to ramp up 2022 activity, capex will now include the cost of drilling and completing new wells, which appear to be 10-15% more expensive due to inflation. Even though producer capex is expected to increase 23% Y/Y, 2/3rds of the increase is attributable to service cost inflation[5]. Supply chains need to be rebuilt, workers need to be hired and trained, and logistical constraints at the well pad sites will need resolution. These two factors help explain why public E&P budgets imply only a 2-3% increase in oil production this year, much less than what would be needed to re-fill the SPR[6].

We could be wrong, and the current release could defy all previous history as well as economic theory regarding the function and execution of the SPR. Or, it could be setting us up for a worse situation than we currently have.

…But we are watching gasoline prices and their impact on the consumer

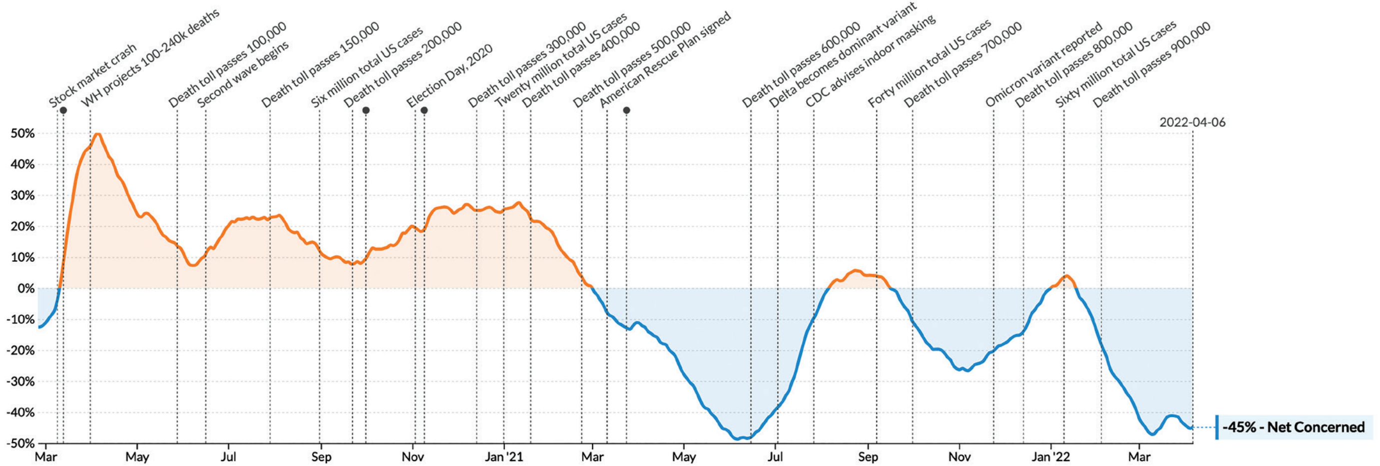
With recessionary risks on the horizon, we continue to study the impact energy could have on consumer wallets and whether it would be a driver of or a result of how a recession begins. Higher oil prices have people thinking back to 2008 and the highs reached of $145 per barrel, which did cause demand destruction. We are seeing some very modest demand destruction at the margin in the Department of Energy (DOE) weekly data, but still believe it's too soon to draw conclusions. A few things are different this time though, namely the causes of how we arrive at higher prices, and the differences in driving habits around a recession.

Having fully experienced 2008, we think our recall of history is pretty good. First, this was pre-Shale, and the concern was dual-fold in that the U.S. would run out of reserves faster than anticipated, and the estimated spare capacity of the Organization of the Petroleum Exporting Countries (OPEC) was substantially less than reported. Both of these proved to be inaccurate but still caused a rush to the front end of the curve. Secondly, following academic research emphasizing adding commodity exposure to institutional portfolios as a way to play the demand growth in China, we saw peak inflows of institutional funds into commodity products such as indices including oil, and direct investments into oil strategies. The reversals were painful for everyone. Lastly, the final flurry to $145 was caused by a short squeeze where a not-to-be-named-here trader was over-exposed being "short" contracts tied to WTI, was found out, and then subsequently ruined as bigger fish in the market decided to exploit his position.

Today, prices certainly have some degree of a security or war premium in them—the amount of which is a subject of debate. However, we've been writing since our Q1:20 newsletter the odds of reaching $100+ were increasingly likely without including any conflict premium primarily due to underinvestment in production. These higher prices are in motion against the coiled spring of U.S. consumers' desires to return to travel in what looks to be an unencumbered driving season.

[5,6] RBN Energy LLC, "I Can't Go For That (No Can Do), Part 2 – E&P Capex And Production Guidance, And Why They Aren't Doing More", 3/27/22.

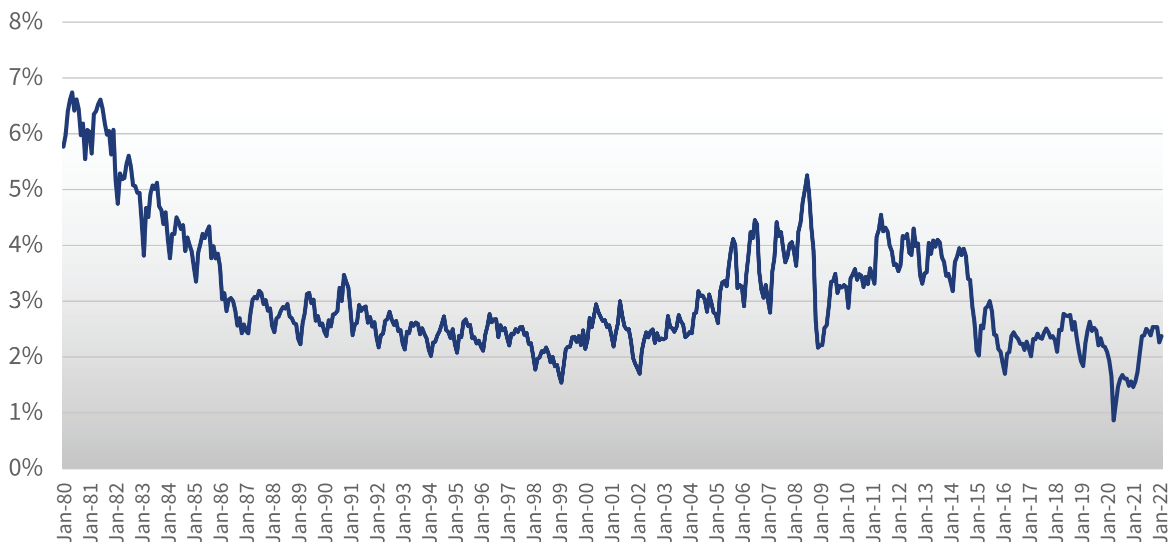
How concerned are you about a coronavirus outbreak in your local area?



CIVIQS National Coronavirus: Outbreak concern, poll of registered voters, February 25, 2020 – April 4, 2022.

When measured against personal income levels over a long period of time, gasoline expenditures as a percentage of personal income are still relatively low at 2.3%.

Consumer Gasoline Spending as % of Disposable Income



U.S. Energy Information Administration (EIA), Federal Reserve Bank of St. Louis (FRED), CCM

These factors related to driving habits combined with diesel inventories at record lows (discussed in the Midstream & Global Energy Security piece), as well as the fact most of the SPR release won't come to U.S. consumers, will probably keep the pressure on at the pump through the summer and potentially beyond.

Chickasaw Capital Management

Portfolio Update

The Model Portfolio is allocated towards companies with, in our view, strong integrated business models, exhibiting good growth, an inexpensive valuation, stable and improving ROICs, and excess FCF that can be returned to equity holders on a ratable basis through distributions/dividends, equity repurchases, and/or special payouts. As stated in our March 31st newsletter on Midstream & Global Energy Security, the Model Portfolio remains overweight to natural gas and NGL value chain companies representing 66%, or 2/3, of the Model Portfolio's underlying cash flow. We believe our portfolio is well-positioned for long-term cash flow stability and a continued validation of long-term asset values.

Conclusion

Thank you to our investors. Between this and the Midstream & Global Energy Security newsletters, we have tried to cover a lot of topics for our broad audience of readers. However, we know we can't cover all your questions, and look forward to engaging with you in the upcoming months.

Geoffrey Mavar Matt Mead Robert Walker Bryan Bulawa

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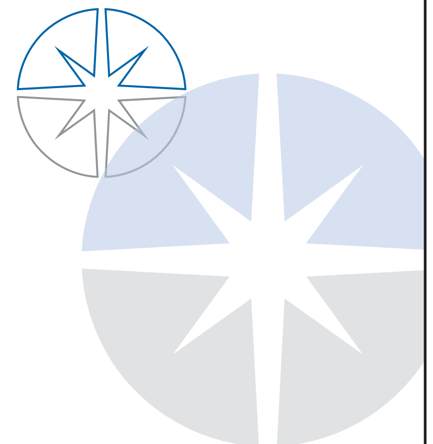

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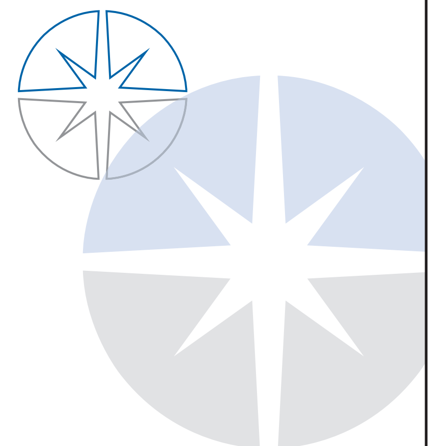
S&P 500 Total Return Index tracks the total return of the S&P 500 Index, an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. Dividends are reinvested. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.



Distributable Cash Flow (DCF) is calculated as net income plus depreciation and other noncash items, less maintenance capital expenditure requirements. Distributable cash flow (DCF) data is CCM calculated consensus of Wall Street estimates. The estimated consensus weighted average distributable cash flow (DCF) per unit growth rate for the AMZ and our Model Portfolio incorporates market expectations by using the average annual growth rate using rolling-forward 24-month data. DCF growth rate is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio.

Distribution Coverage Ratio is calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Distributions are quarterly payments, similar to dividends, made to Limited Partner (LP) and General Partner (GP) investors. These amounts are set by the GP and are supported by an MLP's operating cash flows.

EBITDA is earnings before interest rates taxes depreciation and amortization.

Free Cash Flow (FCF) is a measure of financial performance calculated as operating cash flow minus capital expenditures.

Free Cash Flow to Equity (FCFE) represents the amount of cash a company can pay to equity shareholders after all expenses, reinvestments, and debt payments.

CHICKASAW
CAPITAL MANAGEMENT

Growth CapEx or Growth Capital Expenditures refers to the aggregate of all capital expenditures undertaken to further growth prospects and/or expand operations and excludes any maintenance and regulatory capital expenditures.

Leverage is net debt divided by EBITDA.

Return on Invested Capital (ROIC) is the amount of money a company makes that is above the average cost it pays for its debt and equity capital. ROIC is used to assess a company's efficiency at allocating the capital under its control to profitable investments. ROIC = EBIT (1 - Tax rate) / (Total Assets – Total Liabilities).

Terminal Value is the value of an asset, business or project in perpetuity beyond a set forecast period for which future cash flows are estimated.

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content. It is the underlying commodity of Chicago Mercantile Exchange's oil futures contracts.

Yield refers to the cash dividend or distribution divided by the share or unit price at a particular point in time.

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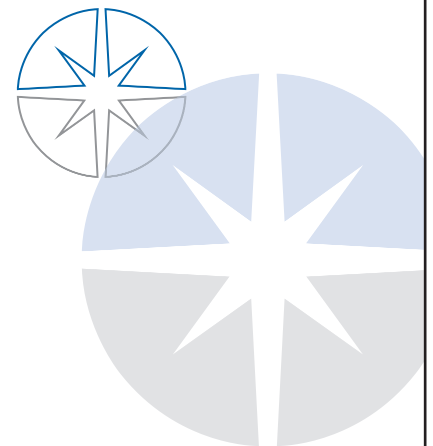
PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.



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Chickasaw Capital Management

Chickasaw MLP SMA Composite | October 31, 2006 – March 31, 2022

3/31/22	ANNUALIZED RETURN (%)			CUMULATIVE RETURN (%)		
	Net-of-Fees Return	Alerian MLP Total Return*	S&P 500 Total Return*	Net-of-Fees Return	Alerian MLP Total Return*	S&P 500 Total Return*
Month-to-Date	4.66	2.05	3.71	4.66	2.05	3.71
Quarter-to-Date	23.47	18.81	-4.60	23.47	18.81	-4.60
Year-to-Date	23.47	18.81	-4.60	23.47	18.81	-4.60
1 Year	49.80	36.56	15.65	49.80	36.56	15.65
3 Year	3.59	2.70	18.92	11.18	8.32	68.20
5 Year	-1.13	-0.07	15.99	-5.50	-0.33	109.94
10 Year	4.99	1.28	14.64	62.69	13.54	291.97
Inception	7.05	5.79	10.26	185.77	138.23	350.33

Year	Net-of-Fees Return (%)	Alerian MLP Total Return* (%)	S&P 500 Total Return* (%)	Number of Portfolios	Annual Composite Dispersion (%)	Composite 3-Year Ex-Post Standard Deviation (%)	Alerian MLP 3-Year Ex-Post Standard Deviation (%)	S&P 500 3-Year Ex-Post Standard Deviation (%)	Total Composite Assets (USD mil)	Total Firm Assets (USD mil)	Bundled Fee Assets as a % of Total Composite Assets
2022 YTD	23.47	18.81	-4.60	251	NA	NA	NA	NA	877	2338	30.40
2021	44.33	40.17	28.71	249	1.19	44.36	46.86	17.17	749	2053	28.56
2020	-31.14	-28.69	18.40	257	2.36	44.61	47.18	18.53	713	1881	22.54
2019	9.00	6.56	31.49	546	0.89	18.87	17.70	11.93	1812	3472	17.94
2018	-21.08	-12.42	-4.38	707	1.02	20.70	18.10	10.80	1968	3513	18.60
2017	-8.40	-6.52	21.83	817	0.72	21.93	19.06	9.92	2272	4915	20.55
2016	25.61	18.31	11.96	891	2.02	23.37	19.95	10.59	2490	5015	19.53
2015	-31.46	-32.59	1.38	421	1.57	20.39	18.50	10.47	1187	3108	9.14
2014	21.71	4.80	13.69	251	1.38	14.91	13.54	8.97	1292	3054	4.74
2013	46.64	27.58	32.39	166	3.23	13.04	13.43	11.94	988	1933	2.86
2012	15.87	4.80	16.00	118	2.17	13.17	13.37	15.09	563	949	NA
2011	22.30	13.88	2.11	98	2.05	18.82	17.19	18.71	406	690	NA
2010	43.59	35.85	15.06	76	4.45	NA	NA	NA	170	393	NA
2009	111.65	76.41	26.46	18	NA	NA	NA	NA	37	289	NA
2008	-59.75	-36.92	-37.00	3	NA	NA	NA	NA	0.7	224	NA
2007	4.83	12.72	5.49	1	NA	NA	NA	NA	0.5	346	NA
2006	5.84	6.03	3.33	1	NA	NA	NA	NA	0.4	334	NA

Firm and Composite Information: Chickasaw Capital Management, LLC ("CCM") is an independent investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. CCM manages a variety of equity, fixed income, and balanced assets for wealthy families and institutions with a focus on master limited partnerships ("MLPs"). The Chickasaw MLP SMA Composite (the "Composite") consists of fee-based, discretionary accounts that invest in MLPs and MLP affiliates that trade on U.S. stock exchanges. The Composite's inception date is October 31, 2006. The Composite was created in August 2009 and prior results contain historical data. All historical performance was constructed in accordance with the composite construction policies set forth within the firm's policies and procedures. A list of CCM's composite descriptions are available upon request. All underlying accounts were treated on a consistent basis with respect to composite inclusion. As of 5/31/2015, the minimum account size for inclusion into the Composite is $75,000. Accounts will not be removed from the Composite if they fall below the minimum due to market fluctuations or client withdrawals.

***Benchmark:** The benchmark is the return of the Alerian MLP Total Return Index ("Alerian") and the S&P 500 Total Return Index ("S&P 500"). The Alerian is a market-capitalization weighted index composed of the most prominent energy Master Limited Partnerships. The S&P 500 is a market-capitalization weighted, broad-based securities market index containing the 500 most widely held companies chosen with respect to market size, liquidity, and industry. As of 6/30/15, the Alerian was added as a primary benchmark to provide additional information and was applied retroactively. As of 12/31/2011, the benchmark changed to the S&P 500 Total Return Index from the S&P 500 Principal Only Index and was applied retroactively. The index information is included merely to show the general trend in the markets for the periods indicated and is not intended to imply that a client's investment portfolio will be similar to the index either in composition or risk. The volatility of the S&P 500 and the Alerian may be materially different from that of the strategy depicted, and the holdings in the strategy may differ significantly from the securities that comprise the S&P 500 and the Alerian. The S&P 500 and the Alerian are unmanaged and are not assessed a management fee and other expenses typically associated with a managed account or an investment fund. Investments cannot be made directly in a broad-based securities index.

Performance Calculations: Valuations and returns are computed and stated in U.S. Dollars. The performance shown is for the stated time period only; due to market volatility, each account's current performance may be different. Returns are calculated using a time-weighted rate of return ("TWR") calculation methodology. TWR is computed by calculating a simple rate of return between each period, and linking them. Results reflect the reinvestment of dividends and other earnings. As of 6/30/13, the Composite contains portfolios with "bundled" and "non-bundled" fees. "Bundled" fees include investment management fees as well as other sponsor platform fees that include but are not limited to transaction costs, custodial fees, advisory, and other administrative fees. Pure gross returns are presented as supplemental information to the net-of-fee returns due to certain portfolios not paying a transaction cost in a "bundled" fee structure. Pure gross performance is also presented gross of all investment management fees; gross of custodial fees in "non-bundled" portfolios; gross of all "bundled" fees charged by the platform sponsor; net of transaction costs on "non-bundled" portfolios; and net of withholding taxes. Net-of-fee returns are presented net of actual investment management fees; net of trading expenses; net of actual "bundled" fees; net of withholding taxes; and gross of custodial fees for "non-bundled" portfolios. The standard management fee for the MLP strategy is 1.50% per annum. Additional information regarding CCM's fees is included in its Part 2 of Form ADV. The Gross-of-fees return and Net-of-fees return for 2006 are the same since the return is measured from 10/31/2006 to 12/31/2006 and no fees were charged during that two month period. Dispersion is calculated using the asset-weighted standard deviation of all accounts included in the Composite for the entire year. Dispersion is not presented for periods less than one year or when there were five or fewer portfolios in the Composite for the entire year. Three-year ex-post standard deviation is not presented prior to 2011 as this was not required. The calculations for dispersion and three-year ex-post standard deviation use net returns. Differences in account size, timing of funding or transactions in securities and other market conditions may cause the performance of any account to differ from that of other accounts managed by CCM and/or that of the Composite. Differences in the methodology used to calculate performance might also lead to different performance results than those shown. Additional information regarding CCM's policies and procedures for valuing investments, calculating performance, and preparing GIPS reports is available upon request.

GIPS Compliance Statement: Chickasaw Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. CCM has been independently verified for the periods 1/1/2006 – 12/31/2020. The verification report is available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

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