Chickasaw Capital Management

DECEMBER 3, 2020

MIDSTREAM UPDATE

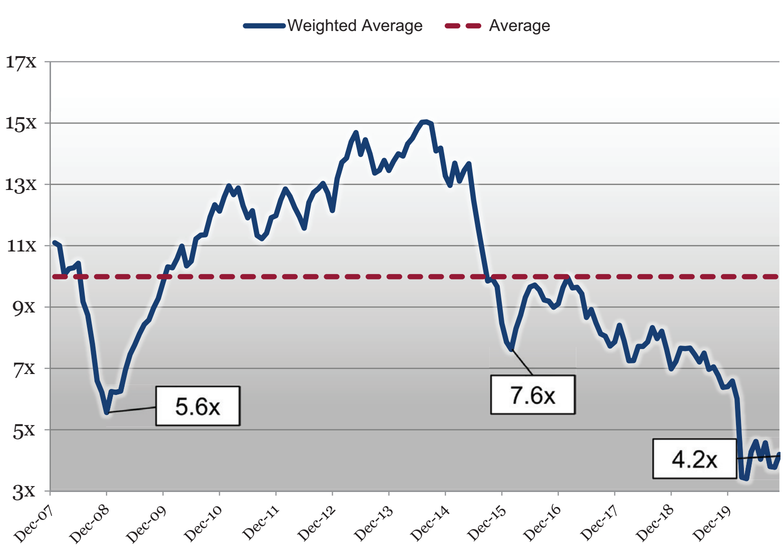
DECEMBER 2020

Given the quarter-to-date (QTD) performance of the Alerian MLP Index TR (AMZX), which is up 29.2% through November 30th, our last communication reflecting on Third Quarter results and outlook for the Fourth Quarter feels validated. In that newsletter, we highlighted that extreme valuations, corporate cost savings actions (operating costs and capital expenditure reductions), and, most notably, the potential for Midstream companies to begin repurchasing their equity could all serve as support for a sector that needed it. This view was balanced by lingering concerns including the upcoming U.S. Presidential election and its potential for a "Blue Wave", as well as the stagnation of worldwide crude oil demand, both of which had the potential to serve as near-term headwinds.

While we felt comfortable in the companies' abilities to exert greater control over their own destiny, the market clearly was overestimating the odds of a Blue Wave, and underestimating the odds of quite positive vaccine news, which ultimately bodes well for an improvement in global crude oil demand in 2021. The harmony of positive earnings results, balance sheet improvements and buyback announcements aligning with the potential for political gridlock and an improved 2021 economic outlook led to the best November for the AMZX on record, up +23.7%.

However, to provide our view on the inevitable question: no, you did not miss it. The AMZX P/DCF valuation increased 10% from the 3.8x P/DCF it traded at on 10/31/20, but still trades similar to recent historical lows as seen in the chart below.

Alerian Weighted P/DCF



Average = 10.0x | Current = 4.2x | Minimum = 3.4x

Bloomberg, Chickasaw

INVESTMENT TEAM

Geoffrey P. Mavar – Principal
Matthew G. Mead – Principal
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Reviewing the financial and operating results for the portfolio, on a weighted average basis, companies beat EBITDA expectations by 6.5% and distributable cash flow (DCF) per unit by 9.7%. Additionally, reflecting both conservative expectations as well as company efforts to reduce cost structure, the DCF/u *grew* 1.3% on a year-over-year basis. This also improves the portfolio's projected 2020 consensus, weighted average decrease in DCF to (5.6%), from the estimate of (9.7%) in April.

The most common feedback we received regarding our September management meeting takeaways was "but will they really repurchase their shares"? Great question! Prior to the Q3:20 reporting cycle we estimate there were $6 billion of authorized repurchase programs from 5 companies that were roughly 25% utilized, and ~10% utilized for those companies deemed to be currently "active". On a weighted average basis, the remaining authorizations on these programs could repurchase ~3.8% of the float outstanding. Post-earnings, another $2.2 billion of authorizations were announced from 5 companies, which represented a weighted average of 13.4% of the float outstanding for these securities. Importantly, management commentary on their quarterly calls all indicated they would not have authorized repurchases if they didn't intend to be "active".

Ironically, now the biggest question is "will they stay disciplined and keep repurchasing their equity?" We believe this is actually an easy answer, which we say is "yes" because (a) there are fewer near term projects needed, (b) if they were needed, capital expenditures have an extremely difficult time exceeding the comparative hurdle or reinvestment rates of repurchasing equity, and (c) the empirical evidence shows the market is rewarding companies with active repurchase programs. The QTD average performance of the newly announced buyback group was +52.9% vs. the AMZX of +29.2%.

We are positive going into the end of the year for the reasons above, but also because:

- Influential Wall Street research organizations believe now is the time to go on "offense" while being cautious to negative for the majority of 2020;
- Low levels of tax loss selling expectations, as indications are this took place mostly in September and October;
- Closures of a few large hedge fund teams, which should decrease volatility and market rumors.

Portfolio Update

Emphasizing our last newsletter's commentary, we felt confident regarding the relative weights going into earnings with the potential for increased buyback commentary and authorizations. With increased macro confidence around government actions post-election and the potential strength of a global re-opening in 2021, we have taken an increased, but measured, amount of risk by leaning into the buyback theme even stronger.

To provide context, at September 30, 2020, the portfolio had 30% of its weightings towards companies with buyback authorizations. At the end of the reporting season, this figure increased to 63% organically, i.e. existing weights announcing new programs. After portfolio changes made since, we have increased the percentage of companies with re-purchase programs to 68% which compares to the AMZX at 54.8%.

We remain actively engaged with Midstream management teams regarding our thoughts on capital allocation with a current emphasis on equity repurchases, and have received positive feedback and requests for additional details from them. Our recent conversations with our investors also indicate strong support for this message, and communicating our alignment is also key to these discussions.

Geoffrey Mavar Matt Mead Robert Walker Bryan Bulawa

The Alerian MLP Index is a composite of the most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis (NYSE: AMZ), and the corresponding total-return index is disseminated daily (NYSE: AMZX). Relevant data points such as dividend yield are also published daily. For index values, constituents, and announcements regarding constituent changes, please visit www.alerian.com.

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Distributable Cash Flow (DCF) is calculated as net income plus depreciation and other noncash items, less maintenance capital expenditure requirements.

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.

Growth Capital Expenditures or Growth CapEx or GCX 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.

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