Tortoise Capital

Pipeline companies in a rising rate environment

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- Historically, pipeline companies have generally outperformed bonds and other yield-oriented securities in a rising rate environment.
- MLPs and pipelines companies outperformed bond returns in 14 of 18 periods of rising rates since 2000 by an average margin of 13.0% and 10.1%, respectively. Pipeline companies have typically fared better than bonds and other yield-oriented securities during a rising interest rate environment, but it is important to remember that they are not immune.
- While the persistence of this inflation continues to be debated, we believe the result remains a clear preference for inflation protected holdings including commodities and real assets.

	10-year Treasury yield change	MLP Index returns	Pipeline company returns	Bond returns	Equity returns
Average return during time periods with rising rates since 2000	**1.0%**	**10.3%**	**7.4%**	**-2.7%**	**5.8%**

10-year Treasury yield change source = Bloomberg. MLPs = Tortoise MLP Index®. Pipelines = Tortoise North American Pipeline Index℠. Bonds = Bloomberg Barclays U.S. Aggregate Bond Index. Equities = S&P 500® Index. It is not possible to invest directly in an index. Management fee, transaction costs and expenses are not reflected in index returns. Returns shown are period specific and are not annualized. Please see chart below for more information.

Past performance is no guarantee of future results.

Let's take a look at both the potential direct and indirect effects of rising rates on pipeline companies.

Direct effects

The direct relationship is fairly simple as it reflects how increasing interest expenses can affect variable or floating rate debt held by companies. The key mitigating factor is that pipeline companies have historically been very conservative in terms of their debt structure. Midstream companies, including long-haul crude oil, refined product and natural gas pipeline companies generally utilized 80% to 100% fixed-rate debt, making their cash flow growth and longer-term performance less sensitive to higher rates. In short, we believe the direct impact of rising rates on pipeline companies is minimal and in our view will not significantly hinder growth.

Indirect effects

The indirect effect of higher interest rates on midstream energy relates to their impact on total return. There are three main factors that can provide a buffer to rising rates:

1. ability to pass through inflation in tariff rates or benefit from increased demand
2. focus on internal growth versus external growth - this has shifted significantly in recent years as many companies are now free cash flow positive and any spending comes from internal cash flow from operations
3. excess coverage can allow for slightly lower returns on invested capital

The catalyst for rising rates is typically either rising inflation or an improving economy. Both have potential benefits for midstream energy:

- A strengthening economy benefits pipeline companies transporting energy because an increase in aggregate demand typically leads to more volumes transported.
- If inflation is the catalyst, liquids pipeline companies can receive a boost in their tariff rate by an amount based on the change in the producer price index (PPI).

History as teacher

MLP and pipeline companies, like all distribution-paying entities, can experience some short-term volatility during periods of rising rates. Historically, midstream energy companies have experienced short-term volatility when interest rates increased, followed by a rebound and solid long-term performance.

The following table reflects our analysis of the past 18 periods of one or more consecutive months with a 50 basis point or more increase in the 10-year Treasury since 2000. During those periods, the 10-year Treasury yield change has averaged 1.0%, MLPs returned 10.3% and pipeline companies returned 7.4%, compared to -2.7% for bonds and 5.8% for U.S. equities.

Impact of rising interest rates on pipeline companies

Time period	10-year Treasury yield change	MLP returns	Pipeline company returns	Bond returns	Equity returns
3/2001 - 6/2001	0.5%	11.0%	-1.4%	1.1%	-0.9%
11/2001 - 3/2002	1.2%	0.8%	1.7%	-1.9%	8.9%
10/2002 - 11/2002	0.6%	0.2%	2.7%	-0.5%	15.2%
6/2003 - 8/2003	1.1%	7.3%	2.6%	-2.9%	5.1%
4/2004 - 5/2004	0.8%	-8.6%	-2.8%	-3.0%	-0.2%
9/2005 - 6/2006	1.1%	-0.2%	5.0%	-1.2%	5.7%
4/2008 - 5/2008	0.6%	8.3%	11.5%	-0.9%	6.2%
1/2009 - 6/2009	1.3%	32.9%	10.9%	1.9%	3.2%
12/2009	0.6%	6.9%	7.0%	-1.6%	1.9%
9/2010 - 3/2011	1.0%	24.6%	32.1%	-0.8%	27.8%
5/2013 - 8/2013	1.1%	-0.9%	-2.6%	-3.7%	3.0%
2/2015 - 6/2015	0.7%	-5.1%	-1.9%	-2.2%	4.4%
8/2016 - 1/2017	1.0%	9.4%	10.6%	-3.0%	6.0%
9/2017 - 4/2018	0.8%	-4.2%	-3.5%	-2.3%	8.4%
10/2020 - 3/2021	1.1%	57.2%	39.1%	-2.7%	19.1%
7/2021 - 4/2022	1.7%	21.8%	23.0%	-10.4%	-5.0%
7/2022 - 10/2022	1.4%	9.5%	-2.6%	-8.2%	-5.9%
4/2023-10/2023	1.5%	14.1%	1.8%	-6.1%	1.4%
Averages	**1.0%**	**10.3%***	**7.4%**	**-2.7%**	**5.8%***

As of 6/30/2025 *Time periods are determined using end of month yields and returns. Periods shown are those where the 10-year Treasury yield increased by at least 50 basis points over one or more consecutive months. *Returns are period-specific and are not annualized. 10-year Treasury yield change source = Bloomberg. MLP returns source = Tortoise MLP Index® (as of 1/1/2000). Pipeline returns source = Tortoise North American Pipeline Index℠ (as of 1/1/2000). Bond returns source = Bloomberg Barclays U.S. Aggregate Bond Index. Equity returns source = S&P 500® Index. It is not possible to invest directly in an index. Management fee, transaction costs and expenses are not reflected in index returns. **Past performance is no guarantee of future results.**

Looking ahead

We believe pipeline companies remain attractive long-term investments in both periods of economic growth and uncertainty. If higher interest rates are a result of accelerating economic growth and / or increased inflation, pipeline companies may be well positioned to benefit through greater volumes transported and / or higher tariffs.

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