Navigating Through the Volatile Energy Market
Quarterly Commentary
September 30, 2020

Changing Energy Landscape

The mix of U.S. energy consumption and production has changed over time. We are embracing the change. Through a holistic investment approach, we are building Energy investments of the future.

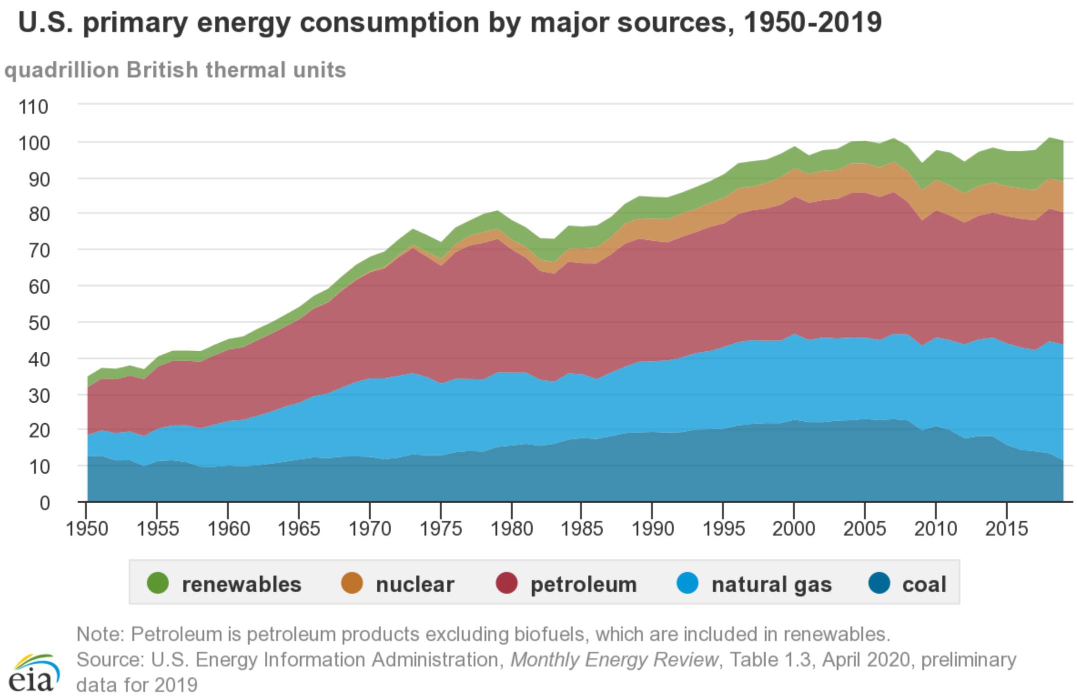
History has shown us nothing is set in stone — we believe the most successful investment strategy is to embrace the changes and continuously seek investment opportunities with an open mind.

DAC has been an Energy Investor since the early days, focused on Energy infrastructure, particularly midstream Master Limited Partnerships. Midstream MLPs are involved in the transportation, processing, and storage of oil, natural gas, and natural gas liquids (NGLs). They typically operate fee-based business models, engaging long term contracts with their customers.

We found that the characteristics of most midstream MLPs align with our investment philosophy and are suitable for clients seeking income and income growth. MLPs offer essential goods and services with higher distribution to unitholders and modest distribution growth in a low-interest-rate environment.

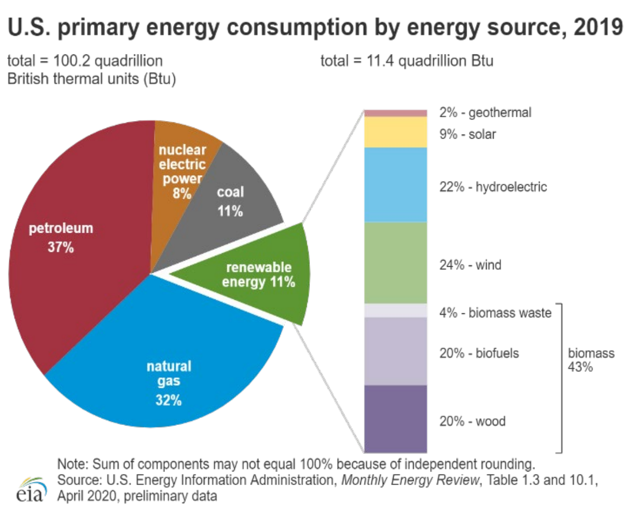
Humans have evolved. Technological breakthroughs such as 3D seismic imaging, horizontal drilling, and hydraulic fracturing triggered the shale revolution. The U.S became a net petroleum exporter for the first time since government records began in 1949. U.S oil output more than doubled in the past ten years, from 5.5mil b/d to 12.9mil b/d at the end of 2019. Transporting volume through pipelines increased accordingly. In

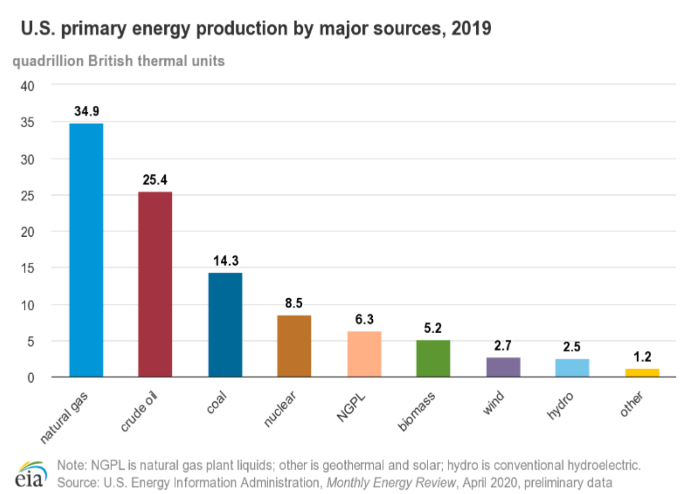
2018, the natural gas transportation network delivered nearly 28 trillion cubic feet (Tcf) of natural gas to about 75 mil customers.



The Interstate Natural Gas Association of America estimates over $500Bn infrastructure investment is required between 2018-2035 to handle the newfound energy resources from wellhead to end-users efficiently.

COVID-19 impact expects to reduce energy consumption globally in 2020. Oil prices collapsed and traded at 2/3 of last year's average price. Energy stocks traded at the lowest valuation we have seen for decades. As major world economies continue to recover from the lockdown, air passenger volumes are expected to improve with





gasoline/diesel demand; oil demand expects to normalize. The amount of oil supply disrupted during the downturn might be more severe than demand withdrawal, resulting in a median term supply deficit. Realistically, the world still commands a great amount of oil and gas. While the energy landscape is evolving, it doesn't change overnight.

Gas use in 2020 will be reduced due to COVID-19. Still, recovery will be underpinned by favorable economics, widening access and a long-term drive towards emissions reductions, including a role for hydrogen and other green gas technologies.

We have a favorable view of long-term gas demand, particularly LNG. New Energy Outlook 2019 foresaw a 22% growth in power sector gas demand to 2050. India plans to almost double the length of its gas transmission grid, while China is predicted to grow its gas network about 60% by 2025. We have already seen unprecedented coal to gas switching in the EU, and clean air policies in major growth markets such as India and China will drive more gas adoption in the next few years.

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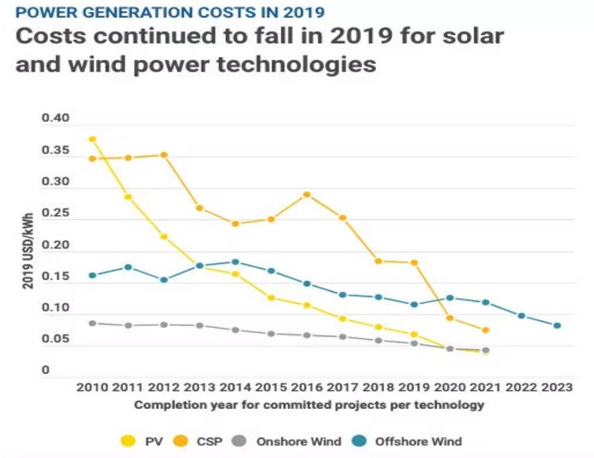
Raising of Renewable and Clean Energy

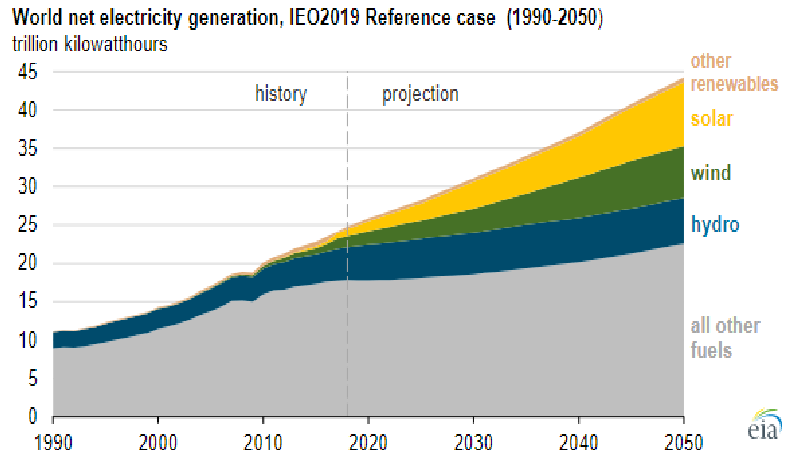
- The threat of climate change triggers worldwide action towards greenhouse gas emission reduction. Investments push renewable energy like Wind and Solar forward.

- Falling clean energy costs can provide an opportunity to boost climate action. Nearly 78% of the net new Gigawatts (GW)of generating capacity added globally in 2019 was in the wind, solar, biomass, and others.

- A 12-Terawatt (TW) expansion of generating capacity requires about $13.3 trillion of new investment between now and 2050 – 77% of which goes to renewables.



Source: World Economic Forum



Source: U.S. Energy Information Administration, *International Energy Outlook 2019*

- Renewables, although a growing share, still accounts for less than half of energy generation. We are in the early inning of a growing clean energy economy.

DAC's North American Midstream Energy Strategy is one of our oldest strategies, formed in 2003. From 100% midstream MLP exposure in 2018 to 16% exposure to renewables today, we demonstrate our acknowledgment of the changing Energy landscape and our commitment to evolve with the industry through investment choices. We have seized the opportunities to invest in midstream reformers and renewable energy through Utility companies and YieldCos that were created by the world's largest wind/solar developer and hydropower operator. We believe this strategic change contributes to our outperformance in the Energy sector. We are committed to seeking suitable investment opportunities for our clients every step of the way.

Thank you for your interest in Dividend Assets Capital and the Energy Insight. Please feel free to contact us with any questions or comments at (843) 645-9700.

<u>Disclosures</u>

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DIVIDEND ASSETS CAPITAL, LLC is a privately held registered investment advisor located in the Low Country of coastal South Carolina. We were founded in 2003 by several investment professionals each sharing the desire to provide clients with a sound investment philosophy using energy related Master Limited Partnerships (MLPs) and dividend growth equities. From its humble beginnings of five employees, the firm now includes a staff of fourteen.

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