### Date

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### To

Investment Team

### From

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### Re

Sector Analysis Energy

## OUTLINE

### Weighting Indices (as of 033124, GICS)

* MSCI Energy 4.6
* Utilities 2.5
* SP 500 Energy 3.9
* Utilities 2.2

### SCP Funds (as of 040524)

* AO 14.5
* DVP 19.1
* LRA 35.8 (Fossil Fuels)

## Macroeconomic Background

### Link to Growth and Standard of Living

Energy transitions (wood to coal to oil, etc.) have historically fueled economic growth and increased standards of living. The promise of AI to drive productivity is contingent on stable energy supplies, necessitating advances in energy infrastructure.

### Energy as a Crucial Aspect of National Security

Energy stability is crucial for national security. U.S. energy independence is seen as vital to prevent geopolitical manipulation. Energy concerns have influenced U.S. involvement in Middle Eastern conflicts and are a factor in current geopolitical tensions, contributing to deglobalization trends.

### Link to Pollution and Global Warming Imperative of Sustainability

Increased energy consumption has environmental costs, including pollution and global warming. Sustainable energy paths are critical, as outlined in the Paris Accords. Industry is making significant investments in sustainability.

### Energy Trilemma Implications for Policy Makers

Balancing energy affordability, security, and sustainability is essential. SCP advocates for

* An all-of-the-above strategy recognizing the long-term nature of the energy transition.
* Increased domestic oil and gas production with cleaner consumption methods.
* U.S. Oil Majors playing a critical role in the energy transition.
* Accelerated adoption of clean fuels through subsidies, regulation, and possibly a carbon tax.
* Embracing nuclear energy as a clean and reliable source.
* Upgrading the U.S. electrical grid to improve efficiency and integration of renewable energy.

## Sector Investment Thesis

### General Thesis

SCPs understanding of the energy trilemma supports an all-of-the-above approach. Investing in companies leading this approach will yield significant economic returns.

### Subsector Framework

The energy sector is divided into four subsectors

1. Energy producers (by fuel typeenergy source)
2. Energy enablers (makers of the picks and shovels)
3. Raw material providers
4. Electrification infrastructure providers (smart grid players)

## Sector Analysis

### Oil and Gas Subsector

#### Tailwinds

* OPEC cuts and geopolitical tensions support oil prices.
* Investment in low carbon technology and renewables.
* Strong balance sheets and attractive shareholder yields due to prudent capital management.

#### Headwinds

* Global recession could reduce demand and lower oil prices.
* Permanent supply-demand imbalance due to cleaner energy sources gaining market share.
* Risk of oil majors lagging in the energy transition.

### Nuclear Subsector

#### Tailwinds

* AI data centers demand for stable power.
* Long-term demand for uranium from developing nuclear plants.
* IRA provisions supporting nuclear power growth.

#### Headwinds

* Historical underinvestment in U.S. nuclear infrastructure.
* Limited forecasted increase in nuclear powers share of electricity generation.
* Higher interest rates and debt burdens complicate financing for new projects.
* Supply chain issues for uranium.

### Renewables (Solar and Wind) Subsector

#### Tailwinds

* Solar and onshore wind are expected to lead the energy transition with rapid growth.
* EV market supported by economies of scale, regulations, and incentives.

#### Headwinds

* Protectionist politics could increase prices and reduce demand.
* Offshore wind faces supply chain, logistical, and regulatory challenges.

## Conclusions and Action Items

* Continue monitoring geopolitical developments affecting energy markets.
* Evaluate investment opportunities in companies leading the energy transition.
* Assess the impact of government policies and subsidies on sector dynamics.
* Consider the balance of investments across traditional and renewable energy sources to mitigate risks and capitalize on growth opportunities.

Please review the outlined sector analysis and provide feedback or additional insights for our investment strategy.

Best regards,

Jonathan Quann and Michael Dahl