Energy Infrastructure: Midstream and Natural Resources have historically offered a strong inflationary hedge for investors. But since May 2023, every consumer price index (CPI) reading has been in the low- to mid-3% range. So why did January's CPI, at 3.1%, put markets on edge? Since the mid-2022 peak in CPI, ~80% of all CPI declines have come from Energy prices, even as energy represents <7% of the CPI basket! Energy's decline came from government and consumer actions that are unlikely to recur, while other CPI categories remain stubbornly inflationary. Investors must now consider a world where energy no longer offsets the other 93% of CPI categories, and may once again contribute to CPI inflation in 2024.

Click here for our new midstream white paper, which explores midstream's excess (and growing) yield vs. fixed income.

Click here for our white paper on the long-term relationship between inflation and capex

Natural Resources: with initial signs of re-accelerating US inflation, investors are dusting off their inflation playbooks. Below, we examine a key decision for investors in search of inflation hedges: direct investment in commodities vs. investing in natural resources equities. In our July 2022 white paper, we noted that in the 1970s, natural resources equities benefitted from inflation, resulting in significant outperformance vs. broad equity and bond markets. More recent data suggest that within commodity-sensitive investments, resource *equities* may offer total return potential that is meaningfully higher commodities alone.

Click here for our 2022 white paper on Shale's increased strategic importance in a time of ESG

*January 2023 Performance Summary and Market Commentaries*

Please find below performance and commentary for our strategies – MLP & Infrastructure and Natural Resources. Performance follows at the bottom of the commentary. For additional information, please contact us at (832) 241-6400 or info@recurrentadvisors.com.

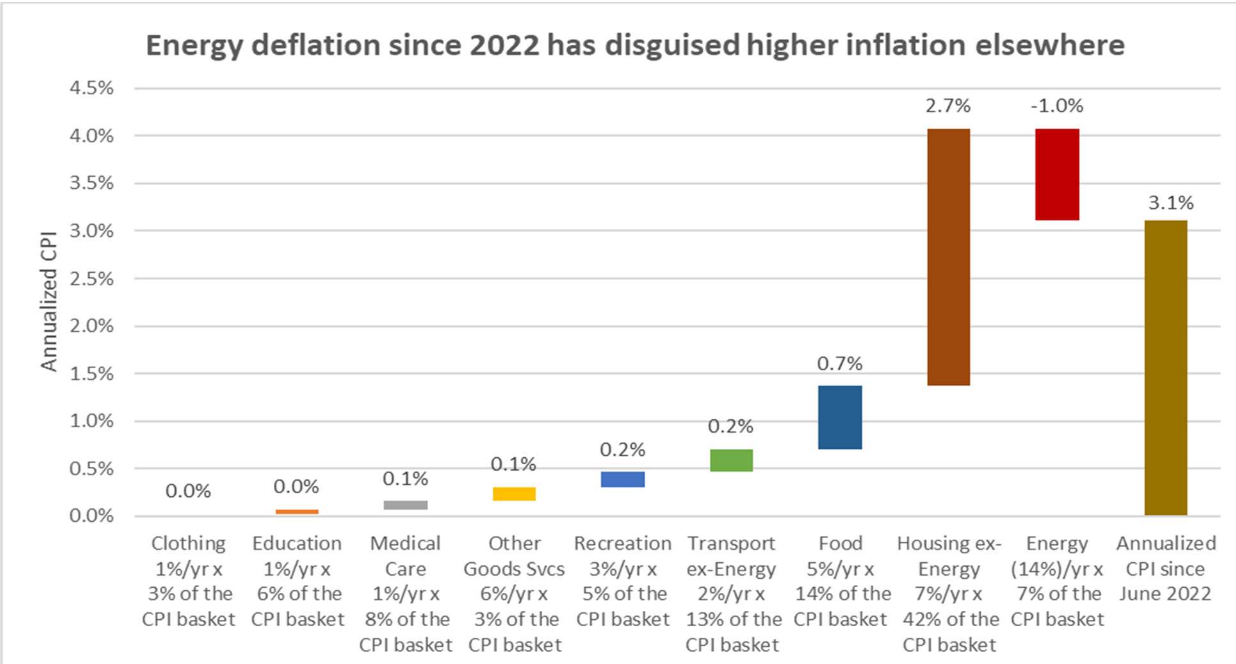
# MLP & Infrastructure

## Performance review

During the month of January 2023, the Recurrent MLP & Infrastructure Strategy generated net returns of +1.10%, trailing the Alerian MLP Index's (AMZ) +4.41% return by -3.33%. Since the strategy's July 2017 inception, Recurrent's MLP & Infrastructure Strategy has outperformed the AMZ by +19.63% (+1.99% annualized), net of fees. Please see the performance section at bottom for more detail.

## 2023's mid-3% CPI readings kept investors happy; but 2023 inflation benefitted from dramatic energy deflation

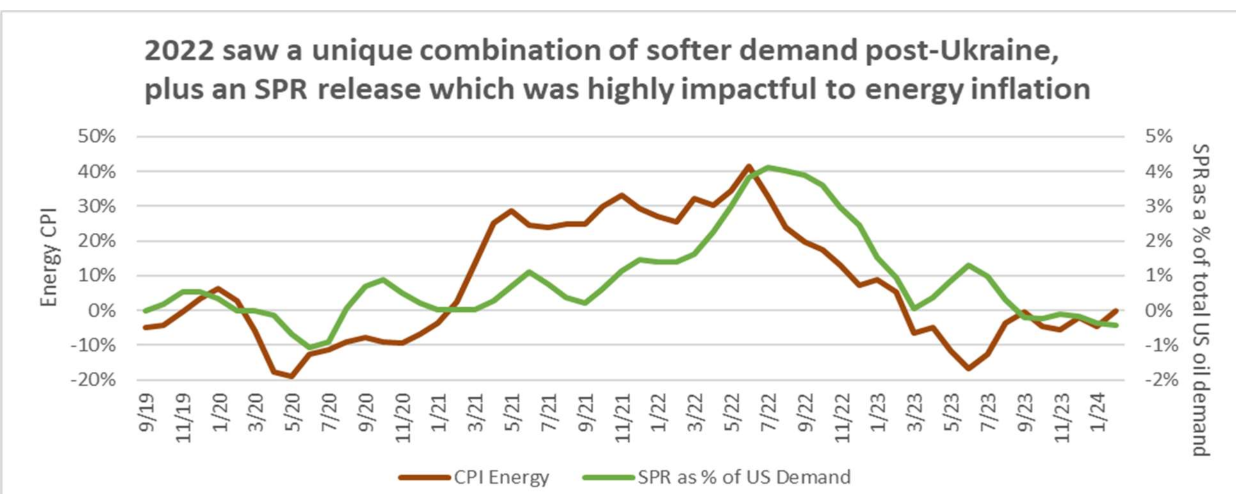
As the US consumer price index (CPI) fell from its mid-2022 high of 9.0% to a steady stream of low-to-mid 3% readings in 2023, investors largely put away "inflation protection" playbooks and went back to growth-oriented investing. But if we take a closer look, we find that the large majority of reduction in CPI readings came from the Energy CPI category, as shown below. This meaningful contribution is despite the fact that Energy CPI only represents <7% of the total CPI basket. Even though Energy CPI is less than 7% of the total CPI basket, other drivers of inflation (such as wages) tend to be highly correlated to energy inflation, so arguably CPI has benefitted even more than the negative 1% indicated below.




*Source: St Louis FRED database, Recurrent Advisors' research, Bloomberg, public filings.*

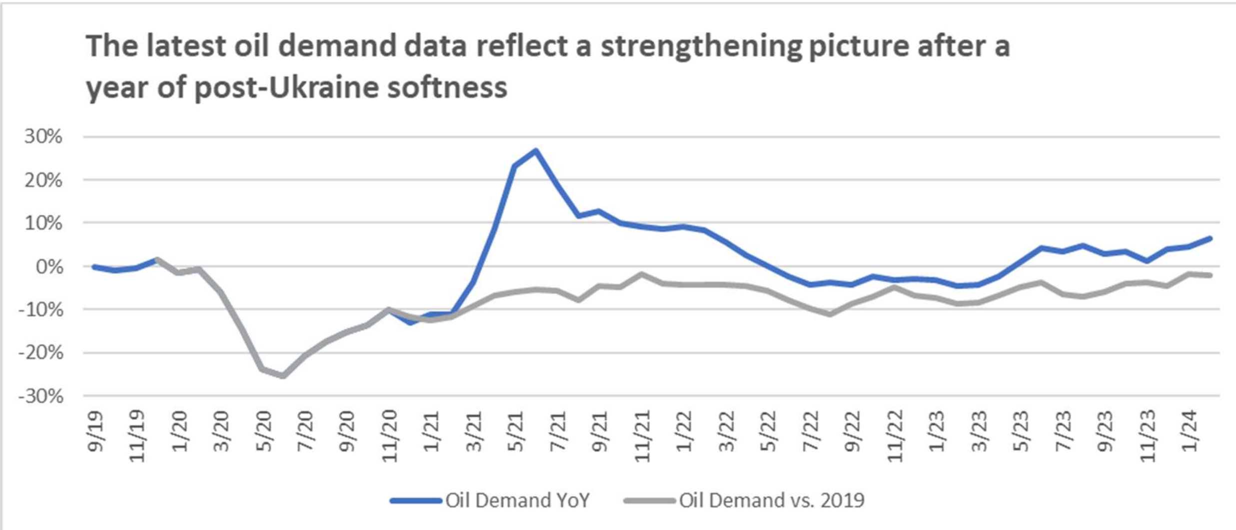
## Energy deflation has driven lower CPI readings; but energy deflation is running out of steam

In late 2022, investors were concerned that persistent energy inflation would drive elevated CPI readings for the foreseeable future. Instead, the opposite happened: CPI readings actually benefitted from energy deflation. Below, we can see how the Energy CPI reading collapsed as SPR releases met roughly 2-4% of domestic oil demand in late 2022 and early 2023. While future SPR refills are unlikely to be a significant driver of oil markets, in our view, the lack of additional SPR releases means that midyear demand peaks are likely to create additional inflationary pressures for energy markets.




*Source: US DOE Energy Information Administration (EIA), St Louis FRED database, Recurrent Advisors' research, Bloomberg, public filings.*

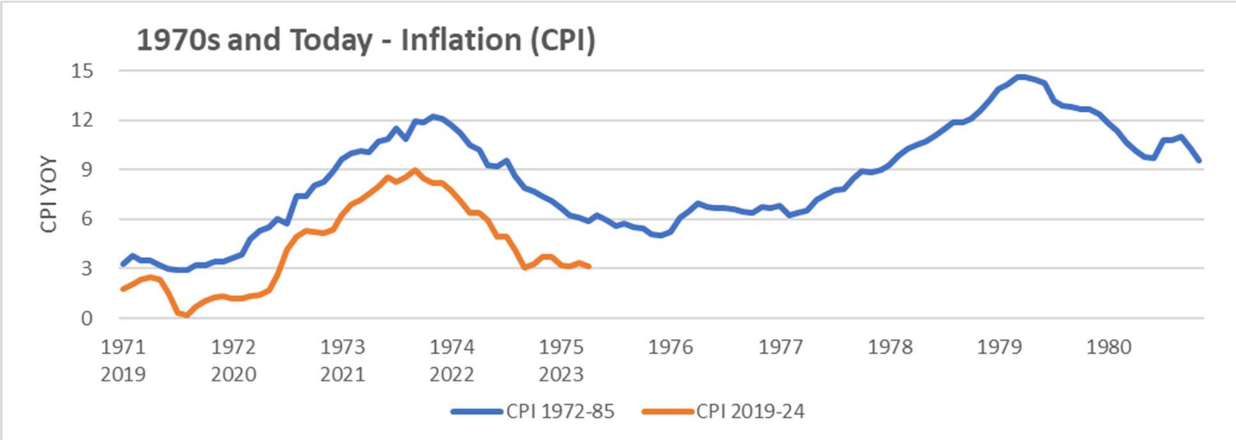
Additionally, energy demand weakened in the face of surging prices in late 2022 and early 2023. It now appears that consumer restraint has run its course as seasonally-adjusted oil demand inflects towards post-COVID record highs and year-on-year comparisons also reflect a meaningful uptick.

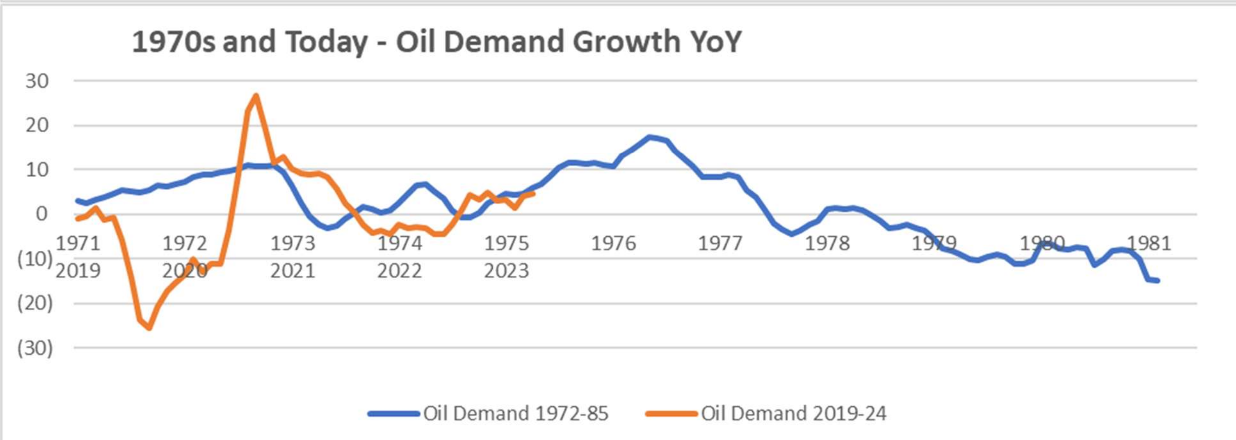



*Source: US DOE Energy Information Administration (EIA), Recurrent Advisors' research, Bloomberg, public filings.*

## Our 1970s analog appears intact: CPI may be bottoming as economic activity reaccelerates, with capex still restrained

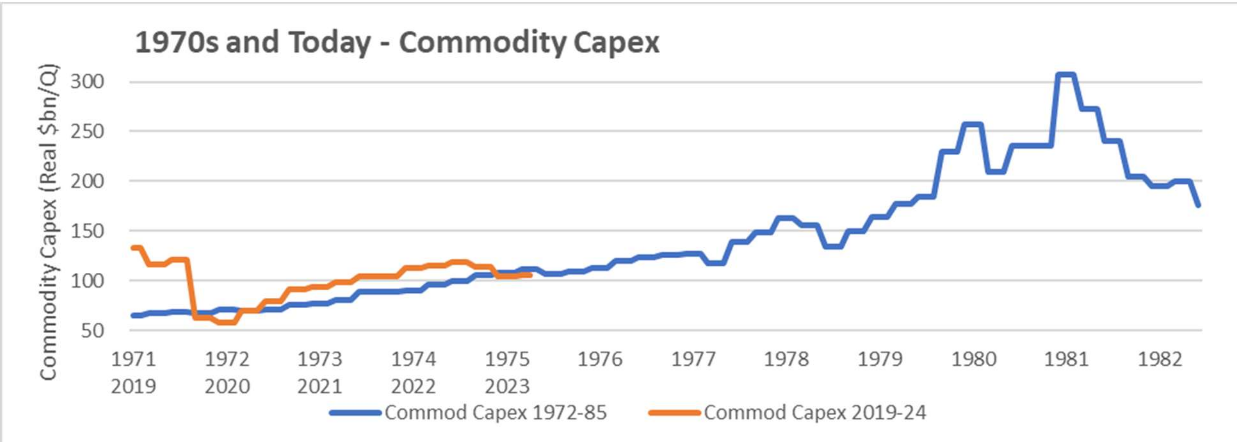
We return to the 1970s analogy that we explored in our white paper, "The Great Inflation Misdiagnosis." We can see that the broad parallels are intact, both in terms of CPI readings as well as reaccelerating demand growth roughly 2 years after a commodity price shock.




*Source: US DOE Energy Information Administration (EIA), St Louis FRED database, Recurrent Advisors' research, Bloomberg, public filings.*

To conclude, we return to the one variable we believe is key to definitively extinguishing inflation: **commodity capex.** Inflation readings have benefitted over the past 18 months from one-time governmental interventions and consumer sensitivity to spiking commodity prices; those benefits are now largely over. On the supply side, we have not seen the capex response required to definitively put inflation to bed. We believe investors should avoid complacency in inflation-sensitive assets such as long-duration bonds and growth equities, and position for a potential resurgence in inflation.




*Source: US DOE Energy Information Administration (EIA), St Louis FRED database, Recurrent Advisors' research, Bloomberg, public filings.*

# Natural Resources

## Performance Review

During the month of January 2024, the Alma Recurrent Global Natural Resources Fund fell by -4.12% net of fees, outperforming the S&P Global Natural Resources Index's -5.33% return. During the month, the portfolio's refiner investments - Marathon Petroleum, Phillips 66 and Valero – outperformed meaningfully. Refiners remain one of the portfolio's largest sector overweights. Paper products companies – an underweight portfolio position – underperformed the broader benchmark, with Mondi PLC and Stora Enso underperforming the benchmark.

## Investment Discussion

For many years, as we've introduced the Global Natural Resources strategy to allocators, we have regularly heard that some investors choose to create their "real assets" portfolio using direct exposure to commodities/futures, rather than investing in natural resources equities. In an attempt to identify the relative pros/cons of the natural resources vs commodities discussion, we want to outline some of the commonly cited investment rationales.

For much of the analysis, we have used 20 years of history using the following benchmarks to help frame the discussion:

- Natural Resources Equities: S&P Global Natural Resources Index (GLOBNR)
- Commodities Current Month ("Spot") Contracts: S&P GSCI Index (SPOT)
- Commodities Futures Contracts: S&P GSCI Total Return Index (FUTURE)
- Global Equities: MSCI World Index (WRLDEQ)
- Global Bonds: MSCI World Index (WRLDFI)
- US CPI Inflation: US Consumer Price Index Year-over-Year (CPI)

## Performance Comparison: Resource Equities vs. Direct Commodity Investing

When looking at the performance of global natural resources equities vs direct commodity investment, the results are very clear, as seen in the table below.

***Annualized Returns from Jan 31, 2004 through Jan 31, 2024:***

| | |
|---|---:|
| S&P Global Natural Resources Equities | 6.67% |
| S&P GSCI Index | 3.86% |
| S&P GSCI Total Return Index | -1.27% |

Over the 20 year time frame, global natural resources equities have significantly outperformed direct commodity investments. To put the 20-year return difference in context, global natural resources equities outperformed the spot commodity index by 150.7% and the futures commodity index by 286.8%!

## Correlations: Resource Equities and Commodities vs. Broad Market Indices

While the return difference is one component of the investment decision, natural resources are regularly included in portfolio allocations due to their positive correlation to inflation. As seen in the table below, over the last 20 years, correlations between US inflation, global natural resources equities and commodities have been slightly positive. Unsurprisingly, the correlation to broad based equities and bonds have been slightly negative. When considered for inclusion in the context of diversified equity/bond portfolios, the rationale for diversification remains true.

01/31/2004 - 01/31/2024 Monthly Calculation Correlation Local

<Filter> Correlation Matrix (6 Rows x 6 Columns)

| Security | GLOBNR | SPOT | FUTURE | WRLDEQ | WRLDFI | CPI |
|---|---:|---:|---:|---:|---:|---:|
| 11) GLOBNR | 1.000 | 0.719 | 0.692 | 0.810 | 0.387 | 0.037 |
| 12) SPOT | 0.719 | 1.000 | 0.984 | 0.508 | 0.169 | 0.059 |
| 13) FUTURE | 0.692 | 0.984 | 1.000 | 0.490 | 0.147 | 0.038 |
| 14) WRLDEQ | 0.810 | 0.508 | 0.490 | 1.000 | 0.459 | -0.012 |
| 15) WRLDFI | 0.387 | 0.169 | 0.147 | 0.459 | 1.000 | -0.023 |
| 16) CPI | 0.037 | 0.059 | 0.038 | -0.012 | -0.023 | 1.000 |

*Source: Bloomberg, Recurrent research*

While the correlations over the last 20 years provide some context for the expected relationship between commodities and inflation, the last 20 years are marked by low inflation and falling interest rates. Investors seeking inflation protection are most likely to be looking for investments with low correlations to broad equity and bond markets, with positive correlations to inflation.

It is in this context that historical analysis becomes more complicated, because historical information on equity indices doesn't extend to even the most recent relevant time horizon of the 1970s and early 1980s. From this perspective, the most commonly available data is the relationship between spot commodities and inflation. As expected, the correlation between commodities and inflation is positive, a highly desirable attribute during a period of high inflation. Unsurprisingly, the correlation between global equities and inflation is negative during the period, meaning that as inflation rises, broad based global equities fell. To the degree that investors are looking to allocate to asset classes with positive correlations to inflation, commodities performance in the 1970s/1980s provides historical support.

12/31/1973 - 12/31/1983 Monthly

<Filter> Correlation Matri

| Security | SPOT | CPI | WRLDEQ |
|---|---|---|---|
| 11) SPOT | 1.000 | 0.169 | 0.023 |
| 12) CPI | 0.169 | 1.000 | -0.103 |
| 13) WRLDEQ | 0.023 | -0.103 | 1.000 |

*Source: Bloomberg, Recurrent research*

## Conclusion: For investors looking to hedge inflation, natural resources equities continue to offer unique exposure

Unfortunately, there is no reliable index for natural resource equities that extends all the way back to 1970s and 1980s. That said, for as long as we have data, resource equities have provided strong correlations to inflation, and higher total returns than direct investing in commodities. This has logical appeal, as equities in theory should generate a cash yield from operations even during times when commodity prices are flat and commodity futures curves do not offer a positive carry. While the lack of 1970s data prevents us from making a stronger claim about resource equities' performance over this time period, there remains a clear 20-year correlation (71.9% as outlined in the above table) between commodities and natural resources equities since 2004. There appears to be a strong argument that natural resources equities can provide a comparable inflation hedge vs. direct investments in commodities, with experience since 2004 suggesting that equities may in fact offer better total return attributes.

This email may contain forward-looking statements. These statements are not guarantees of future performance and undue reliance should not be placed on them. This email also may contain references to indices. Such references are for comparison purposes only and should not be understood to mean that there will be a correlation between the Strategy's returns and any index. All investing involves risk.

Recurrent Investment Advisors LLC
*Manager of the of the Recurrent MLP & Infrastructure Fund*
3801 Kirby Dr, Ste 654
Houston, Texas 77098
d: 832.241.6400