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Insights Series | Dissecting the Energy Landscape

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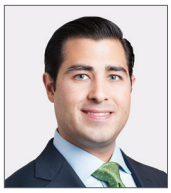

Chris Villalba
Investor Relations

Welcome to Boston Partners Insights going beyond the headlines with our investment team to provide a deeper perspective on the capital markets. I'm Chris Villalba from Boston Partners Investor Relations Team. On this episode, we flipped the switch on a conversation about energy, focusing an investment lens on a sector that powers our lives and makes the world move. This year has been a tough one for consumers at the pump. And it's more than just shocks such as the war between nations in Eastern Europe, causing energy prices to make headlines. Enduring attention to climate effects, carbon reduction and clean energy around the world have put the energy sector under a microscope, perhaps like never before. To deepen our understanding of the state of the energy sector, we are joined by a pair of Boston Partners experts with deep and distinct experience leading the firm's energy coverage. Each brings insights and expertise based on what they covered and the time at which they covered it. Josh Jones is the portfolio manager of the Boston Partners Global Equity and International Equity Strategies. Josh was Boston Partners energy analyst from 2006 to 2015, a time when the United States was undergoing its shale boom. Equity analyst Aaron DeCoste stepped into that role in 2018. Not only does he specialize in energy, he also covers the materials and transportation sectors. On this episode of Boston Partners Insights we came together remotely – Josh joining us from his office in London, and Aaron with me at our headquarters in Boston to drill down on the energy sector, the investment landscape today, and what the future may hold. Welcome, gentlemen. Josh, we appreciate you working late to be with us.

Josh Jones
Portfolio Manager

J.J. | Great. Thanks, Chris. I'm really excited to be here to talk about energy.

C.V. | And Aaron, nice to be with you here in Boston.

Aaron DeCoste
Equity Analyst

A.D. | Thanks, Chris. Thanks for having me.

C.V. | Let's start with you, Aaron. Give our audience a sense of the energy market right now.

A.D. | The energy market right now is seeing turmoil that really hasn't been seen since probably the 1970s. Several years of lower investment, increasing demand has really led to shortages. On top of that, the conflict in the Ukraine has even led to a more suppressed supply dynamic in the market, with Russia supplying about 10% of the global oil supply.

C.V. | Josh, what's changed in the energy market over the years since you first started covering it back in 2006?

J.J. | There's been quite a few changes since I started covering energy and as I've joked with investors lately. It's the first time in my career as a generalist, so it feels like it's a good time to have a background in oil and gas. But when I started it was 2006 and that was just as the shale boom was occurring in the U.S., a lot of the exploration and production companies had figured out from a technology standpoint how to drill for gas and then eventually oil from what are considered tight shale formations. These are geologic formations that were traditionally too tight to produce oil and gas from on an economic basis. But through the advent of fracking, they were able to break the rock and extract oil and gas on an economic basis. So there was a significant amount of capital that was attracted into the space from the mid 2000 through the early 2010s post-financial crisis. And a lot of companies at that point were able to delineate large portions of acreage effectively and tell their investors a story about significant amounts of oil and gas in place. And that attracted a lot of capital. And there was just a surge in capital spending. And that resulted in a surge in production growth. Natural gas supply grew rapidly, and eventually oil supply did as well. And it ultimately created a period where there was a significant amount of overinvestment in too much capacity. Ultimately, that cycle broke in 2014 – 2015, when the dollar started to strengthen and the central bank tightened. And we basically saw a period where effectively OPEC, particularly the Saudis, were fighting with U.S. shale for market share and there was just an excess of supply. And we saw a breakdown in prices. But as Aaron alluded to, it's set up a period now where companies have actually cut back on spending and capital allocation is much better and is set up for the period now that we have where we're effectively undersupplied in a lot of these commodity markets.

A.D. | Just on top of what Josh had talked about over the past five or six years, you've seen companies investing heavily, a lot borrowing money. There wasn't a lot of free cash flow within the industry and shale, in general, is a higher cost way of extracting oil – conventional oil – onshore in particular, these are higher pressure reservoirs. Think about it as a lake 5,000 feet underground with pressure where the oil just comes to the top. Shale, you actually need to apply pressure to the shale that's fracking. And then you've got the large offshore projects. Those are more expensive. There's longer lead times, but the cost for those, once you get them going, tends to be more economic. The issue you have today is that these conventional reservoirs are becoming more limited. You're seeing a lot of companies pull back in exploration capital, particularly the domestic integrated Chevron and Exxon have been focusing more on shale, less on international. You look at the Europeans Shell, BP, they're focusing more on renewables, pulling back from large international projects. So the costs in general have started to go up. And then you've got on top of that inflation.

C.V. | Let's talk about inflation and its effects on these companies, the prices of commodities. Obviously, there's labor, there's wage inflation. There's a lot of things that are going on right now in the world that haven't happened in a very, very long time.

A.D. | What I've done is for next year, I've taken up my CapEx numbers 15 to 20% with the same amount of activity for for all of these for all the upstream companies, not so much for the oil sands, because, again, that they don't have a lot of capital intensity because their projects have long duration. The CapEx was already spent, but particularly for shale, you've got higher steel prices, oilfield service costs for drilling completions has gone up and that lags into the business because they are on usually longer term contracts, 12 months and those contracts are starting to roll off and prices are rising and then labor as well. There is a huge challenge in this industry and as I said before, what people are seeing and what companies are seeing is that someone would rather go work for an Amazon warehouse than work in this industry where you're away from your family for 1 to 2 weeks traveling to the drill site. So it is certainly a problem at which at the point that inflation does start to abate. We're still trying to understand that, but the oilfield service companies haven't been adding capacity. So until we start seeing capacity added by them, we expect inflation to continue to go up.

J.J. | I've usually approached the space with a consistent 10% cost of capital, so it really hasn't really changed the way we value the companies. But from the perspective of the market, it's had a big impact because effectively the trade that was popular with markets in general over the last ten years was long duration asset. So as interest rates declined and inflation was relatively benign, investors chased both growth companies where a lot of the value was at well on the future and there's very little cash flow today. Low volatility companies were, you know, consumer staples, companies with a lot of pricing power, but a stable earnings, but not necessarily a significant amount of earnings growth and investors placed effectively

a low discount rate on those companies. And as interest rates have risen, that's caused significant pain. It's almost like there's been one big duration unwind in the market. Obviously, the bond market's been hit really hard. Some investors have experienced one of their worst years, year to date ever in like a 60/40 portfolio of equities bonds, because the bond market usually does well even when equities are getting hit. And a lot of the other value sectors and not just energy had really seen no multiple expansion through that period of low interest rates. So that's provided a big cushion to those valuations to those businesses and it helped their relative performance. So this could go on for quite a while. We're hopeful that it does. It's aided our style of investing as value investors, but it's definitely been a tailwind and a change in the market regime from where we were over the last ten years.

A.D. | And I would add to that, the leverage within the industry was historically very high. Companies were issuing equity or borrowing and always one of the concerns over the past six years was when is the next term debt coming due and what will they refinance it at? These companies are all naturally high yield issuers, but with the amount of cash that's been generated, leverage isn't an issue anymore –a lot of it's gone to debt. So you're not seeing those rising interest rates as you're seeing with some other companies are now struggling to get debt off and watching the interest costs rise. So it's something we really haven't seen in two decades of them really focusing on the balance sheet. And one of the things that we looked at coming into this to levelize all the companies was looking at free-cash-flow to EV since there was different capital structures, different debt that's really normalized with debt effectively paid down across most companies. There's a few laggards that are getting to that point where debt's hitting their targets.

C.V. | Looking at the world today, how have geopolitics and current events, especially the war in Ukraine, shaped the investment outlook for energy?

A.D. | To talk about where we are today, we have to go back and talk about some of the decisions that were made a decade ago. We'll start with oil and renewables in Europe. The Europeans and really a lot of the world started to focus on renewables, cutting back on oil investment. We talked about Shell and BP earlier. Even on the natural gas side to LNG, there's ample amounts of natural gas in the U.S. that we can extract relatively cheaply. If you go to the rest of the world, there isn't natural gas. You have to go to, usually an emerging market country, extract it there and then turn it into LNG and ship it. These projects are very costly. A good stat is pre-COVID. 25% of the cost of an LNG plant, which takes about five years to build, was steel. Steel prices have doubled since then. So just alone on the cost of steel to build a new LNG plant right now would cost 30% more, not including labor and other things. And then you get into the coal aspect of it. There's really been a pivot to get away from investments in coal. So you've actually seen coal production start to decline globally. There's still a significant amount of electricity in the world on coal, but the only investment in coal is really going on in China. We've talked to companies in the U.S. they don't believe that they can ever access the capital markets again. So there really is no incentive for them to grow. And what you've seen going back over the past ten years, LNG investment dried up in 2015 – 2016. These assets have come online through 2021. Going forward, there's really no supply coming in the next five years. And at the same time, you're seeing demand is growing really everywhere for LNG, particularly in Asia. China is trying to double their import supply. So you've got a lack of supply there that's caused natural gas prices to go up. This was prior to the conflict in the Ukraine. That is even further push prices up as Russia is a very large gas supplier to Europe, in particular Germany. As you've seen in the news, they've cut supplies off. So that's pushing prices higher. But one thing to note is prices were going up even prior to the conflict – this has just made a bad situation worse. And on the coal side, we've seen coal prices, thermal coal go from $50 a ton to over $400. So what we're seeing now is in Europe and Asia, it is cheaper to burn diesel to generate electricity, than natural gas or coal by quite a bit. And as we look through the landscape, we don't see a near-term solution for this.

J.J. | One of the most interesting things is just the way it's changed the dynamics of how oil flows with Russia. About there are 10 million barrels per day of production, five, they export another million, they turn into basically refined product, mostly diesel – and most of that goes into Europe – so only four stays in Russia. And most of the Russian crude is still flowing is just selling at large discounts and going to India and China who are really the only buyers that are willing to buy Russian crude right now. China's demand this year has been relatively weak because of lockdowns, but you're seeing signs that basically spiking tanker rates for what we're seeing the market is having to step it back in to buy more crude, but they're basically maxed out on the amount of boats that they can take, Russian crude that would otherwise be flowing into Europe and take that that crude's going all the way from the western side of Russia, all the way around to China. And then the Chinese are stepping into the market and buying in, what looks like West Africa, and bidding up tanker rates. So basically the crude market's gotten through this year – we had the spike earlier this year on the war – but on the basis that the Chinese have had weak demand and the U.S. has been releasing from the Strategic Petroleum Reserve about a million barrels, and that's helped the crude markets balance. But basically the SPR releases end pretty soon and on the likely basis that we're going into a stronger demand period in the winter, as Aaron described, in terms of fuel switching and the Chinese

buying, is that the market's going to get quite tight and there's just very limited spare capacity. So if we do continue to see pressure in political regions like the Middle East and you're seeing riots in Iran and Iraq, especially over food, you're just increased risk for more supply disruptions and there's really just no spare capacity there to handle it. So it's a pretty fragile situation.

A.D. | And I would add to that too, when we look at OPEC and I think there's been a misnomer and you know, me and Josh have talked extensively about this over the past 6 to 12 months. The market just assumed that OPEC had this large amount of capacity. And as we went through the numbers, we looked at the investments, our numbers were significantly lower – and you're starting to see that play out. And what you've seen is OPEC's setting quotas coming out of the 2020 curtailments that they made. And you're seeing several countries underproducing their quota because they're in structural decline. So we're seeing Angola, Nigeria in structural decline. There's a few other countries, Libya, Josh talked about Iran and Iraq. Libya has had some outages because of internal fighting within the country. So you're really reaching what we see is the lowest spare capacity that we've seen in two decades, which poses possibly a risk as you come to the end of the SPR releases and then potentially capping or the EU mandating that countries can't take Russian crude. So it is going to be pretty precarious, I think, as we move forward. One thing to note, when we look at demand and obviously demand a huge factor in this, if we looked at the global financial crisis, we saw a demand destruction of about 2 to 3 million barrels per day. We're still about 1 to 2 below pre-COVID levels. So the demand that we're seeing right now is close to what we saw in the global financial crisis. While at the same time, as Josh mentioned, China is still – demand is down about 1 to 1 and a half million barrels. So when China does come back, you likely will see an uptick in demand.

C.V. | Who are going to be the beneficiaries of that is going to be the U.S. Are we going to be building more LNG plants? How is that going to play out or how do you think that's going to play out?

A.D. | To me, it's certainly going to be the U.S. producers provided that Washington does help with some of the permitting process. It's going to be some of the emerging market nations – West Africa, Australia has a fair amount of gas. We haven't seen a lot of developments on that – and part of that is you need other governments or companies to step in and lock up long term contracts. That hasn't happened yet, but certainly they will be the beneficiaries. Europe, if they do cap energy prices, most likely based on conversations we've had would limited investment into the continent directly, as companies would be unwilling to make investments in the continent. And in particular, you've got some countries like Norway or Ireland who are rich in natural gas or oil. If you capped prices there, the companies are already paying royalties and taxes, so that would actually cut into the tax revenue of the countries. It remains to be seen what they're going to do and whether or not they're going to cap it or perhaps there's a mechanism on the consumer side where the government step into to back it. And we've seen that in the materials sector where the governments, particularly the UK, has stepped in to keep some assets running that are energy intensive in order to supply carbon dioxide to some industries, for instance.

C.V. | Josh, why should investors have some exposure and where are some of the best places to invest within the energy sector?

J.J. | One of the big themes that's emerged here is because of the crash in shale spending, there's been a collapse in capital spending. There's two impacts on that. And one is investors like Boston Partners have been speaking to the E&P companies and said, look, you guys destroyed you guys being the management teams of the companies, destroyed a lot of capital last cycle. You spent a lot of money that didn't earn a sufficient return on capital. And you need to be more disciplined this cycle. And there's a secondary impact where basically a lot of investors have put higher cost of capital in the companies for ESG reasons. So when we look across the space, the investment opportunities from is basically unparalleled. If you track the history of the space at the bottom, I think U.S. energy was like 2% of the S&P 500. So a lot of investors just chose to ignore this space. They said, look, for ESG reasons, we don't believe in it. We don't believe in demand. EVs will take over. We're not going to really pay attention to the oil markets or the companies. So the companies have just been under looked. Now, when we look at them, we think the compounding of the cash flows in a really, really attractive investment opportunity. I'll use one example, which is a large holding in the international fund, and that's Cenovus Energy in Canada. This is a mid to large cap company in Canada. It's primarily an oil sands producer. It's historically been an okay asset base and importantly, they're very long in duration. So their ability to produce oil for quite a long time is relatively good. But the most important thing is this management team is committed to maintenance, capital spending, and we saw that commitment occur over the last two years and they've been generally using free cash flow to pay down debt. Cenovus is particularly attractive because they've committed to 100% capital return, but we're seeing businesses between 50, 70, 80% cap returns and there's quite a few good investment opportunities across energy. And generally speaking, because of the discipline in capital spending, it just raises the probability that oil prices will be stronger for longer. And this is a space that's just been overlooked by investors.

C.V. | Aaron, are there areas within energy that are attractive that once were not?

A.D. | I would say oilfield services are probably the one that particularly sticks out. I would compare those more closely to industrial companies. And as I've talked about before, the amount of investment, private equity in particular, that was pouring into that business, particularly North America, was depressing earnings, was creating a lower utilization in the industry because of the oversupply and the ability for companies to earn an economic profit were difficult. One of the other issues, too, that we saw was there was constant negative revisions. So in order to justify the prices of these, which they traded at elevated multiples, you would have to put out of your numbers significantly up as if things were always improving. Those numbers were consistently cut. When we got to the middle of 2020, what was interesting Schlumberger is a great example. This is one of the first stocks that we bought, I guess, September of 2020 when we looked out for 2020, 20, 21, 22, 23 consensus estimates were flat as if everything would be the same as 2020. We knew that was just not likely. Not only that, the company was actually pricing in a trough valuation. So we looked at it as trough on trough. Those numbers weren't likely to happen. Things were going to get better, and that's what we looked for. We've also seen that within companies like Halliburton that we own. And one of the interesting things is there's been a lot of consolidation in the oilfield service space. So the really is only a few major players, particularly globally. There is still some fragmentation in the U.S. market, but you're not seeing the lack of discipline that you've seen historically.

C.V. | Josh, are there any areas that are not attractive and why?

J.J. | The companies that I would highlight probably at the top of my list or some of the national oil companies like a Petrobras in Brazil, even some of the Chinese national oil companies. What I mean, national oil companies – these are large, mega-cap oil companies, but they have a large ownership and largely controled by the governments, their local governments, hence their national oil companies, rather than integrated oil companies where they're truly independent like we're used to with an Exxon or a Chevron. And really the reason is because we think ultimately the reason these are good investments is because the companies are acting in a very shareholder friendly manner. So they're spending low levels of capital spending and returning net capital to shareholders. And unfortunately, that's just not the same situation with the NOCs where the government's basically just dictating a lot of the capital spending. So there's been a revolving door of Petrobras with leadership and that's basically the government determining who they want there because they want certain things done there. And that often means controlling fuel prices to consumers, reinvesting in the country and not necessarily giving the capital back to shareholders. So all of these things playeded in. While energy is, we think, a really good investment. Not all energy ideas are created equal. You have to separate the companies that are focused on their shareholders versus those that are not.

A.D. | I would agree with Josh on that and more on the NOCs is these are generally diversified companies with both upstream, midstream and downstream operations refining. And what you see outside of the U.S. and outside of Europe as we talk about price controls in Europe, in Brazil, India, China – there is controls on the price of fuel, gasoline, diesel. So what ends up happening is as oil prices rise, governments are unwilling to raise fuel prices to keep the consumers happy. And these businesses end up taking large losses in another side of the business, so as their upstream segment does go up, though, there is a lack of capital discipline there, offset by larger sometimes losses in other segments because of the control of fuel. And that also at the end of the day, does help demand that they keep fuel prices artificially low. And that's actually one of the reasons why two years ago, you saw Petrobras see the first change in management that the existing CEO raised fuel prices domestically. And you saw the president step in to remove him and lower fuel prices.

C.V. | So stay away from NOCs, where else is there within the oil supply chain or in the oil industry that may not be as attractive right now for investing?

A.D. | Probably the next one would be the midstream companies. While still good companies still generate decent amount of free cash flow, there is better capital discipline in these businesses. Generally, the value in these businesses have been driven by growth in the upstream space. So higher oil production means you need more pipelines to transport. Well, if oil production isn't going up, then you don't need as much growth in these businesses, the multiples have to come down. Now, this could change going forward as we're starting to build more LNG assets on the Gulf Coast of the U.S. There's an opportunity there within that space, particularly some of the construction engineering companies that build these assets.

C.V. | It's interesting to me that you're analyzing specific companies in a sector that is tied so much to the supply and demand balance and the price of the commodity. How much do you take the price of the commodity into effect when you're doing analysis?

A.D. | Obviously, the price of the commodity is critical. We don't try to predict the price of the commodity. What we look at is the marginal cost of supply and the supply demand fundamentals in the market and let that dictate. So in general, if we look at the marginal cost of supply, we think it's probably moving close to $60 at this point, just as a break even. That's what most of these firms are earning, an economic return. All in – so you're talking about the cost to run existing wells, the GNA, the interest expense, the CapEx, just to hold that production flat. So it is critical, but it's not fully what we look at. Part of it is also the cost structure of the firm. Is it getting worse? What is their inventory look like? And in particular, we are seeing some depletion of inventory in the shale industry.

C.V. | No discussion of energy can be had these days without three letters ESG, environmental, social and governance, the E probably being the most obvious factor. Aaron, how does this movement towards ESG investing affect the energy markets today?

A.D. | This movement started maybe a little over a decade ago in earnest. In the U.S., it's been limited thus far. Europe's really the prime example of what you've seen – and this is going to more than oil. But it's, I believe, the grids in the UK and Germany where 10% renewables are intermittent, solar and wind ten years ago, they're now about 30. While at the same time they've retired baseload nuclear and coal, so they've created a lot of volatility on the grid. And what you're seeing now is gas prices rising. They're needing this energy as consumption goes up and then this gets into thermal coal as well. Germany's trying to restart some coal plants, but there's no coal inventories left. So what it's really done is constrain capital globally. And as I said before, thermal coal prices are skyrocketing. That's impacting electricity prices. Natural gas prices, LNG, are skyrocketing as well. That's going to require investment and the downstream impact into renewables directly – if you think about it, and these are some of things we've looked at – there's not a great understanding of how you make renewables. For instance, solar farm requires a lot of silicon panels. It's silicon metal and aluminum. Aluminum requires about 12 to 15 megawatts of electricity. So the cost of just electricity and aluminum has quadrupled, and you're seeing plants in Europe shut down because of the costs. Silicone metal, the same thing. And now we're talking about silicon wafers that go into the chip space, but also into renewables. So you are seeing rising costs there. And we've heard tangential evidence of some PPAs - power purchase agreements - having to be bought out because the costs rose so quickly that the PPAs with some of the utilities are basically gone uneconomic.

C.V. | Beyond ESG minded investors, consumers seem to be driving the rise in the market for electric vehicles for EVs. What does this mean for energy investment?

A.D. | One of the things I think is a misnomer for most consumers and understandably is oil is gasoline, and you can just displace that. If you step back and think about where a barrel of oil goes and on average, global demand is about 100 million barrels a day. So we'll keep it around number only 25% that goes into gasoline. So if you think about offsetting that with electric vehicles, it's 25%. For 35% is diesel. So you're talking about the trucks, trains. It gets a little more difficult to transition those, and other 15% is jet fuel and then about 25% is petrochemicals. Synthetic shirts, the dashboard of your car, the TV, the chair you're sitting at home, the carpet, you're walking around on.

C.V. | On basically everything.

A.D. | So and you've heard comparisons of oils, coal, and this is what's going to happen, which I don't think is fair because coal is very one dimensional. You burn it, you can mix some fertilizers with it. Very few things you can do with it versus oil is very diversified.

J.J. | Morgan Stanley's commodity research team actually had a nice piece and they took Norway as an example. They basically studied oil demand in Norway. And why Norway is important is because it's a country with a lot of hydroelectric power. So environmentally it actually makes sense to go EV because it has a lot of green electricity production. It's also a very, very wealthy country. So they've been able to afford investing in the grid and investing in recharging stations, and then they tax new vehicle production very significantly, basically a 100%. If you were to purchase a $50,000 car in the U.S., that equivalent car in Norway would cost you $100,000. And what they did for a while to incentivize EV uptake was basically cut that tax to zero so that the economic incentives to buy an EV in Norway are very high. But the last four or five years, more than 50% of their new car sales have been EVs, and the penetration rate is quite high. It's effectively where the world wants to be in 2030 if everything goes well. But unfortunately, Norway's oil demand is held flat through that period. So it's not growing, but it's not shrinking. Mind you, Norway is the best in class example, right? But the vast majority of the world isn't as wealthy as Norway, so they don't have the ability to upgrade the grid and give the incentives to buy EVs. And even if they did, we just don't really have the raw material production to supply that many cars and in a 10 to 15 year period. So while the EV transition is likely very real, it looks to us like it's just going to take a lot longer time than the

optimists report. And it seems very unlikely that oil demand shrinks before 2030 and likely not even before 2035. So the whole concept of the last cycle where oil was a stranded asset and there was liabilities at the end of the production and the companies would only be producing cash flow for a short amount of time. Seems like a low probability event, economically speaking. It just doesn't look like an economic bet you really want to make, which just largely means we're probably going to be using oil for a lot longer than people expect.

A.D. | I would add to that too, there's limited penetration even in the U.S., California, Texas, and you're already starting to see strains on the power grid. Obviously, massive investment is going to need to be made in the grid into power generation, and that's not something we've seen yet.

C.V. | So, Josh, what are companies doing today to set themselves up for the future?

J.J. | If you think about this EV transition, the energy companies approach it from it we'll just spend maintenance capital and harvest cash flows, which we think is an attractive proposition. And then I think if you look at the metals and mining side, there are opportunities in metals and mining has been a bad investment for the last ten years. It's a similar situation to energy. The valuations are very attractive, but we're going to need a lot of metals. The obvious place is lithium and lithium prices are quite elevated, so it seems to be that there's sufficient capital being attracted there. Copper is probably underappreciated. It's going to play a really important role and great electrification and grid upgrades. And if you look at the copper market, there is a decent amount of projects coming on over the next 12 months, but after that very little. So there's a high probability we have a really attractive copper cycle for the next 5 to 8 years. Nickel, cobalt – some of these other materials that are used, aluminum is going to be really important. One of the things that's going on in the aluminum market that we think is probably underappreciated is electricity is about 50% of your cost of goods sold in aluminum production – it's really the most important input. So that basically just means the cost curve is going up and aluminum is very carbon intensive. So we've looked at businesses like North Kudrow in Norway, which have primarily hydro based aluminum production – so it's quite green relative to the rest of the aluminum producers globally, and they have a low cost base because they have low electricity costs. So this is a business that was pretty mediocre for the last five to ten years, but quickly becomes a highly competitive with lots of cash generation for the next 5 to 10 if we're right. And there's quite a few other investments that have that profile where likely the next 5 to 8 years is going to be a lot more attractive than the last 5 to 8.

C.V. | So as we begin to wrap up, Josh, give us the world view now and for the future of the energy sector. What should we have our eyes on?

J.J. | I think the key focus is looking at capital spending for these companies. And when we have continued low levels of capital spending, it just increases the probability we're going to have persistently high oil prices. Now, as everyone's aware, oil prices have come off their peak levels this summer, but a lot of that is because the U.S. central bank has been particularly hawkish. They've been undergoing significant interest rate increases and the U.S. dollar has been strong. So it looks like a relatively high probability that we'll go into a recession and maybe even a bad recession if you include Europe or there's just some real difficult things going on. So the oil prices largely reflected that. But the way I would think about that is you can't permanently stand in a state of a recession. At some point here, inflation will come down, the central banks will get what they want. And when it does, they'll likely go back into an easing cycle to allow growth to resume. But as soon as growth resumes, it's increasingly likely we won't have enough oil and we won't have enough metals and mining because we haven't invested in it. So these commodities will act as basically a governing factor on growth. And in that sense, the cycles are very much like the 1970s where there's a lot of volatility, just as you think the commodity markets are calmer and inflation's come down and growth resumes, you run back into issues so persistently high commodity prices look to me like a higher likelihood over the next 5 to 7 years at the very least, until there's more investment in the space. And that should just create a lot of opportunities as the stocks are quite cheap and very overlooked by the investors in general.

C.V. | Aaron, since your Boston Partners Energy lead, you get to close the show. What's the key takeaway for investors looking at the energy sector right now?

A.D. | The key for investors and the key for me really is the focus on capital discipline. So continued disciplined by the companies to not increase CapEx and continue returning cash to shareholders. And we're also looking at, obviously, global supply demand fundamentals. So looking at supply, capital discipline and shale oil, you're not seeing growth there. Looking at what companies in Europe are doing, and what companies in Asia are doing, OPEC. So to that extent, we're seeing discipline onshore. As long as we continue to see discipline, it is something that we view as an opportunity we haven't seen in multiple decades, given the positive momentum we're seeing from the companies, the capital discipline, the free cash flow being returned to shareholders, and valuations that are the lowest that we've seen in 3 to 4 decades.

C.V. | So these companies are falling right in line with the Boston Partners way of thinking of high quality businesses, attractive valuations and good momentum behind them.

A.D. | Exactly.

C.V. | Well, guys, really appreciate the education on the oil industry and energy sector. I know I learned a lot. I hope our audience feels the same way. Aaron, thank you for joining us.

A.D. | Thank you.

C.V. | Josh. Great having you on the show.

J.J. | Thanks, Chris. Thanks for everyone for listening in.

C.V. | That was Boston Partners equity analyst Aaron DeCoste with me here in Boston and portfolio manager Josh Jones calling in from London. We thank them for the insights and also thank all of you for listening. We look forward to having you back to share future episodes of the show. For more investment related content from Boston Partners, check out our Entry Points video series along with other content, all of which can be found on our website. Boston-partners.com. You can also stay up to date with us by following us on LinkedIn. I'm Chris Villalba. We'll see you next time with more Boston Partners Insights.

Christopher Villalba
Investor Relations

Mr. Villalba is a member of the Investor Relations team at Boston Partners and joined the firm in 2010. In this capacity, his responsibilities include sales and relationship management of Boston Partners products within financial intermediary channels. Prior to joining the firm, Mr. Villalba was a regional private banker with Wells Fargo Bank, N.A. Before that, Mr. Villalba held the role of investment associate at Morgan Stanley in the firm's Global Wealth Management division. He holds a B.B.A. degree in finance from Pace University and FINRA licenses series 7, 66, and 3. Mr. Villalba has fourteen years of industry-related experience.

Josh Jones
Portfolio Manager

Joshua Jones is a portfolio manager on the Boston Partners Global Equity, Global Long/Short Equity and International Equity strategies. Prior to this role, he was a research analyst specializing in the energy, metals and mining sectors of the equity market and was a global generalist. He joined the firm from Cambridge Associates where he was a consulting associate specializing in hedge fund clients. Mr. Jones holds a B.A. degree in economics from Bowdoin College. He holds the Chartered Financial Analyst® designation. He has eighteen years of investment experience.

Aaron DeCoste
Equity Analyst

Aaron DeCoste is an equity analyst with Boston Partners specializing in the energy, engineering & construction, and metal & mining sectors of the equity market. He joined the firm from Loomis Sayles where he was an equity analyst covering the energy and materials sectors. Prior to that, Mr. DeCoste was a senior director at Devonshire Investors, Fidelity Investments private equity investment arm, focusing on energy, transportation, construction and fintech investments. He began his career in audit at KPMG. Mr. DeCoste holds a B.S. degree in finance with a minor in mathematics from the Bentley University and an M.B.A. and M.S. finance degrees from Boston College. He has seventeen years of investment experience.

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