Tortoise Special Edition QuickTake Podcast with Matt Sallee

Thank you for joining us for this special edition of the Tortoise QuickTake podcast. I am Pam Kearney, Director of Investor and Public Relations at Tortoise Capital. Joining me is Managing Director and Portfolio Manager Matt Sallee who will give us an update on the broad energy sector and the midstream MLP sector in particular.

Matt, set the stage for us. What's your macro view of the energy sector?

Yeah, in energy markets, while the current pricing environment is still pretty weak, oil prices have been relatively stable recently trading in the mid $40s. That has been supported by a continued rig count decline and solid evidence of U.S. production declining. In spite of this, energy equities did lose some ground with the S&P Energy Index off 5 percent just over the last week. More broadly, the financial system and macro picture appears to be holding pretty steady, U.S. GDP grew by 3.9 percent in 2Q and Janet Yellen is apparently comfortable enough with conditions to potentially raise rates this year.

Ok, the midstream energy sector has dropped approximately 29 percent year-to-date and with about 16 percent of that occurring in the past month. Broadly speaking, what's your sentiment on the space?

While pressure on the midstream and MLPs in particular has been significant, we maintain a long-term outlook and we believe that midstream fundamentals remain strong. Volatility aside, these companies own real assets that provide essential services that are critical to our economy as long as people keep driving cars, using electricity and heating their homes this winter.

Our midstream portfolio companies have seen greater than 20 percent EBITDA growth year over year through Q2 earnings, DCF/unit grew over 10 percent versus Q2 last year and distributions grew 2 percent sequentially and more than 10 percent year over year.

So we believe the midstream pipeline companies in our portfolios have the ability to at least maintain, and in the vast majority of cases, grow distributions. We'll expect to get validation of our assumption soon, as most of these companies will begin to declare distributions in mid-October.

Ok, so then what's putting pressure on midstream energy stocks? Is it technically driven or fundamentally driven?

The broader energy space has been under tremendous pressure and midstream energy stocks have not received a "pass," if you will, even though their performance is not generally tied to commodity prices.

With fundamentals intact, we believe the extreme recent weakness is technically driven. By our estimates, there's been more than $1.5 billion in increased short interest and open end fund and exchange traded product outflows. On top of this we believe there has been at least a couple hundred million of closed-end fund selling to reduce leverage, possibly more. We also spoke with several Wall Street firms recently, their trading desks, and they all characterized this recent MLP sell-off due to technical factors, further supporting our research.

So, have we seen this environment before?

Unfortunately, yes! We've been investing in MLPs for quite a while now and have one of the longest, if not the longest, institutional track records in the space. We successfully navigated the 2008 market and learned some important lessons along the way as we observed the resiliency of the sector. For perspective, July of 2007 was the last cycle's peak in the

Tortoise MLP Index® which troughed in November of 2008 after declining 58 percent during a financial crisis the modern world had never witnessed. In this cycle, August 2014 marked the peak. Since then, the Tortoise MLP Index® was down 46 percent through yesterday. So we are down nearly as much of 2008 but the fundamentals and macro backdrop are in much better shape.

So, in your view, how stable is the MLP business model?

There was an article recently published that asserts that MLPs are funding their distributions by relying on capital market financing – and their distribution coverage, basically that implies that their distribution coverage is sub 1.0 times. For the midstream MLP sector that is simply not the case, as coverage overall remains healthy and near historical averages. Our midstream portfolio companies carried a weighted average coverage of about 1.15 times last quarter and many of our top 10 holdings had distribution coverage of 1.3 times or better.

We agree with the article that many MLPs need capital market access to fund their growth capex, but we adamantly disagree that they are solely reliant on the capital markets. There are many other means for MLPs to fund their growth capex other than overnight offerings, including the following:

- Sponsor/parent financial support
- Retained cash flow
- Private investments in public equity (PIPEs)
- At-the-market programs (ATMs)
- Private equity co-investment

So, while capital market access is currently challenged, we believe the debt markets are open for investment-grade companies and high yield midstream companies. Also of note, there have been several research reports from some of the most reputable Wall Street firms recently published in response to the aforementioned article that support our conviction to the midstream energy space and the MLP business model.

So as we wind up our podcast, tell us your outlook for midstream MLPs.

Well, while we expect continued volatility in the near term in the broad energy market, including the midstream sector, we have strong conviction that midstream fundamentals remain solid. For the patient investor, we believe MLPs are a very attractive investment, especially at current MLP yields, which are measured by the Tortoise MLP Index®, nearly 9% as of last night.

Thanks Matt. And thanks for those joining us for this special edition of QuickTake. Please be sure to join us for our scheduled quarterly update call on October 28. We welcome your feedback and suggestions on topics you'd like us to cover going forward.