

Tortoise QuickTake Podcast with Rob Thummel

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of Tortoise provides a timely update on trending topics in the market.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake pod cast highlighting the top energy events of the week.

Ouch! that hurt is the best way to describe the feeling of investors last week as all major U.S. stock market indices fell by at least 2%. Energy stocks declined by 4% as measured by the S&P Select Sector Energy® Index. WTI oil prices declined by 6% dropping below \$50 per barrel for the first time since early April. Why? First, Concerns regarding global growth negatively impacted the broad market as well as oil last week. Second, a surprise increase in U.S. crude oil inventories and an increase in U.S. rig count provided additional fodder for the growing number of oil and energy bears.

Harry Potter fans celebrated Daniel Radcliffe's birthday on July 23rd, the same day as the 1 year anniversary of WTI oil reaching its peak of \$107.62 in 2014. Since then, WTI oil prices have fallen by 55% and natural gas prices have dropped by 23%. The Tortoise North American Oil and Gas Producers Index has declined by 48% while the Tortoise MLP Index® has dropped by 22%. Conversely, the refining sector is up 28% since July 23rd, 2014.

The second quarter earnings season has begun. Here are few developing themes:

First, MLP distribution growth remains solid. With over half of the MLP distributions declared, the average distribution growth of MLPs in the second quarter is approximately 2% excluding distribution cuts from MLPs that provide frac sand.

A second theme is that oil field service companies or OFS companies are maintaining positive operating markets in this environment. Oil and gas producers are pressuring oil field service providers to lower their rates which reduces the revenue line for OFS companies. In turn, OFS operators are receiving cost reductions from their suppliers. For instance, one oil field service company reported this week that costs of frac sand and chemicals dropped 25 - 35% in the second quarter.

A third theme is the development of the Utica shale which is an emerging natural gas shale basin that resides a few thousand feet below the Marcellus Shale location in Pennsylvania and West Virginia. With weak natural gas liquids price realizations in the Northeast, many producers are drilling dry natural gas wells in the Utica. This week a new King of the Utica was crowned as EQT announced results of one of its Utica natural gas wells which delivered the highest initial production rate of any well in that shale region. Several other Utica producers will be vying for the title of King in the next several weeks as results are announced with earnings. The development of the Utica should provide infrastructure opportunities as well. Stay tuned.

One additional news items before we wrap up. The details of the Iran nuclear deal were sent to Congress starting the 60 day review setting up a historic vote in late September. I'm not sure which will create more intrigue in late September - the results vote or a new series on ABC called Blood and Oil about Life in the Bakken which debuts on September 27.

I will end with a quote from legendary investor Warren Buffett who has navigated through many investment cycles. Buffet's quote "you want to be greedy when others are fearful."

Thanks for listening. We'll talk to you next week.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com

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