

Tortoise QuickTake Podcast with Brian Kessens

April 11, 2016

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 Brian Kessens with this week's QuickTake podcast.

As we look at energy and the geopolitical backdrop last week, we conclude that The World is Upside Down. For example, who expected these five items?

1. There are several wars being fought in the Middle East currently, and the warring nations agreed to discuss a 'freeze' on April 17th. Though this freeze discussion regards oil, not arms.
2. Donald Trump is leading the Republican delegate count despite no support from party leaders, and Bernie Sanders, the oldest candidate remaining at 74, seems more in touch with the younger voter than anyone else, politician or otherwise.
3. Interest rates in the developed world of Europe and Japan are below zero. I looked in my old economics textbook this weekend for implications yet didn't find any mention of the now commonplace policy.
4. And on the lighter side
5. Leicester City is leading the English Premier League, and is the odds on favorite to win it with just five games left, despite starting the year with odds of 5,000 to one.

And finally

6. Who knew that our ancestors spoke in hip-hop? Afterall, the first financial and flamboyant Federalist founding father is billing Benjamins by the boatload on Broadway by brandishing brilliant brains at Burr and writing and riffing restless resounding raps around rights, wrongs, rivalry and rebellion.

It is enough to make your head spin. So it should come as no surprise in energy last week that...

Despite April being in the middle of the shoulder season when demand troughs and being at near record levels of supply, natural gas prices rose and eclipsed \$2 per mmbtu for the first time since February.

Crude oil experienced an unexpected inventory decline of 4.9 million barrels versus the expectation of a 2.9 million barrel build, again in a period of traditionally low demand. Consequently, crude oil prices climbed 7.4% to \$39.50 per barrel for WTI.

Energy stocks followed both benchmark commodities higher with MLPs up 2.7%, producers jumping 4.3%, and broader energy gaining 2.2%.

In capital markets, the MLP generally serves as the primary public issuing currency. Yet, parent Spectra Energy Corporation issued \$420 million of common equity to the public and then turned around and used the proceeds to purchase equity in its MLP, Spectra Energy Partners. That's one way to get it done in our upside down world.

And C-Corps weren't done there, as the utility Dominion Resources issued \$750 million in equity and producer Parsley Energy raised \$450 million.

Also noteworthy, in high yield energy, Sunoco LP raised \$800 million in 5-year paper.

Clearly capital markets are starting to open, though MLPs have traditionally led the way, not C-Corps.

We've focused on counterparty risk and pipeline contract viability in previous podcasts. In an encouraging turn, Bluestone Natural Resources and Crestwood reached agreement on a new 10-year contract in the Barnett. Previously, Bluestone

purchased an asset from the bankrupt Quicksilver contingent on midstream contract rejection. We expect to see more negotiations going forward versus courtroom declarations as producers and pipelines reach agreement on market rates.

And in the most atypical news of the week, one company announced that it is suing its future self. The Williams Companies commenced litigation against Energy Transfer Equity and its Chairman in response to ETE's private convertible preferred offering. According to Williams, this is a violation of terms of their merger agreement and Williams is seeking to unwind the transaction.

Our working assumption continues that the acquisition of Williams by Energy Transfer will close sometime in June, but there is more likely to be another chapter in this epic before a final resolution.

Our broad takeaway from this past week and recently is the ice in energy is thawing slowly and in an unexpected manner. Yet, I think when the ice fully melts it will reveal a North American energy sector that is stronger and more competitive globally than we've ever seen before, with low extracting costs, high reserves and the infrastructure to efficiently transport product both domestically and globally. Being the marginal producer requires it.

We believe in a world turned inside out, our investment process of focusing on the seams and the tags remains the right one.

Given the unexpected happenings recently, it is appropriate to look to the finest explainer of humanity, Shakespeare – and commemorate what will be the 400th anniversary of his death this month. He penned, "Madness is the glory of this life". Well said Will.

Thanks for listening.

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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