

Tortoise QuickTake Podcast

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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 podcast highlighting the top energy events of last week.

Let's start with a quick recap on performance across the energy sector from last week. A 6% rise in oil prices pushed energy stocks higher. The energy sector, as represented by the S&P Energy Select Sector[®] Index, rose by 1.7%, while the MLP sector, represented by the Tortoise MLP Index[®], increased by 1%. Why such a significant rise in oil prices? First, it was reported that Saudi Arabia stated it would work with other producers to stabilize prices. Second, another large decline in weekly gasoline inventories reported by the EIA coupled with a fire at a refinery in Louisiana, means that inventories will likely continue to fall. Those who are bearish on crude oil prices often point to higher gasoline inventories as a reason why oil prices might fall again.

Also, last week the International Energy Agency (IEA) published its monthly energy report. Three important points from this report: First, Saudi oil production is rising to near record levels. While this is a great headline, keep in mind that Saudi oil production always rises this time of year to meet domestic demand. Saudi production will likely decline in the fall. Second, consistent with our thoughts, the IEA expects a hefty draw in third quarter oil inventories after a lengthy stretch of uninterrupted builds. Lastly, while OPEC is one of the fastest sources of supply growth recently, OPEC is also experiencing some of the biggest output losses with oil production from both Venezuela and Nigeria being approximately 250,000 barrels per day lower this year when compared to last year.

The capital markets were active last week as well with seven equity offerings. The largest being a \$600 million offering by Canadian midstream company Inter Pipeline. The proceeds from this offering were used to partially fund a \$1.0 billion acquisition of natural gas liquids assets from Williams.

Last week marked the end of the second quarter earnings season which kicked off July 20th and ended on August 11th. At Tortoise, our portfolio management team that is dedicated to the energy sector listened to more than 250 conference calls across the energy universe including approximately 90 oil and gas producers, 110 energy infrastructure or midstream companies, and 50 downstream companies. Here are some of the highlights from the second quarter earnings season.

Starting with performance, the gold medal given for best performance during the earnings season across the various Tortoise indices was awarded to the Tortoise North American Oil and Gas Producers IndexSM which rose by 2.3% despite declines in both crude oil and natural gas prices. The individual winner in the all-around competition was MLP Global Partners that announced asset sales to bolster its balance sheet, increasing the likelihood of a sustainable distribution. The stock price of Global Partners rose by 25% during the earnings season. In general, small cap, high yielding MLPs were the best performing stocks across the energy universe during the earnings season. On the flip side, the "Mr. Irrelevant" award for the energy stock that was at the bottom of the list with regards to performance goes to Rowan Companies, an offshore contract drilling oil field services company that declined 19%, given the continued challenges faced by many offshore drillers in the second half of 2016 and beyond.

Here are a few highlights from a sector perspective. Beginning with the oil and gas producer sector, U.S. producers consistently raised 2016 production forecasts by 2% on average without increasing capital expenditures. Investors generally reward this combination. The Permian Basin producers led the way with the greatest production beats and many announced rig additions that should positively impact 2017 production. Improved well productivity and efficiency gains are pushing the Permian to a new level. Permian producers are talking like tech companies referring to version 3.0 when referencing the

company's latest well design. Version 4.0 and higher are likely to be announced in the future, which should make the Permian even better. Most Permian producers are already earning healthy returns on investments even with oil prices hovering around \$45 per barrel. This is why the Permian has established itself as the dominant U.S. oil basin and 3 of the top 5 performing oil and gas producers during the earnings season had significant acreage in the Permian Basin.

In the oil field services sector, a showdown between producers and oil field service operators is about to begin as OFS operators want to improve margins through price hikes now that the rig count has bottomed.

The energy infrastructure or midstream sector entered the earnings season with some unanswered questions but exited the earnings seasons with answers. The biggest question centered on the dividend levels paid by Plains and Williams, two of the larger energy infrastructure companies. We addressed the dividend cuts at PAA and WMB on previous podcasts. Last week, additional clarity was provided by Williams in relation to one of its largest customers Chesapeake Energy. Williams and Chesapeake entered into a win-win transaction with Williams receiving an upfront cash payment relieving Chesapeake's volume commitment which allows Chesapeake to remove a future liability. A second question surrounding energy infrastructure companies, including MLPs focused on dividend and distribution growth. Energy infrastructure companies resoundingly answered this question using growing cash flow streams to increase distributions. For the second quarter, the mean distribution increase over the previous quarter excluding the Plains and Williams cuts, was 2.9%. With the Tortoise MLP Index currently yielding 7.2%, and the second quarter earnings season providing answers to many questions, in our view, the midstream sector is well positioned to satisfy investors search for current income in this low interest rate environment.

Lastly, the downstream sector delivered a variety of returns across the various subsectors. Refiners returns were approximately 6% during the earnings season based on the market cap weighted performance of the nine U.S. refiners. Refiners benefited from record utilization rates, significant export volumes and better than expected refining margins. Utilities represented by the Utilities Select Sector Index[®] traded off by almost 2% during the earnings season.

Those are the highlight from last week. Thanks for listening. We will 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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The S&P Energy Select Sector® Index

The S&P Energy Select Sector Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

About Tortoise North American Oil & Gas Producers IndexSM

The Tortoise North American Oil & Gas Producers IndexSM is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

About Tortoise MLP Index®

The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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The Utilities Select Sector Index is a modified capitalization-weighted index. The index is intended to track the movements of companies that are components of the S&P 500 and are utilities.