

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.

Thanks for joining us today on the Tortoise QuickTake Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

If you follow the Olympics, it has truly been an amazing two weeks for the United States. U.S. athletes finished the Rio games with the most overall medals of any country, but even more impressive, they actually had the most bronze, silver and gold medals as well. While energy stocks have fared better of late, it's hardly been gold medal territory. That being said, it's felt like the Olympics within energy, with lots of activity this past week, including a major midstream conference that I'll touch on shortly.

First let's take a quick look at performance:

- On the commodity front, crude oil was up over 9% as news of OPEC talks circulated.
- While natural gas was essentially flat, down 8 basis points for the week
- Shifting to equities, the broader S&P 500 Energy Select Sector Index[®] finished higher, up a strong 2.2%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM, performed even better, up 3.6%
- And finally MLPs edged higher as the Tortoise MLP Index[®] finished up 66 basis points last week

A September meeting in Algeria with OPEC members has sent oil markets higher, as standard rhetoric about a potential production freeze has been brought up by a few countries. One would assume that the market would not fall for this type of banter yet again, but here we are. These type of events cause price moves in the market, but are not fundamentally driven, just simply noise. More positively for crude oil was the weekly Department of Energy (DOE) report on inventory released Wednesday. Both crude oil and gasoline had solid draws, offset somewhat by a distillate build. We remain well above historical levels but hopefully more draws on inventory are in store for the future. News reports also cited an increase in production for weekly figures, but this was simply a true-up of the weekly numbers, which are estimates, to the monthly production figures, which are more accurate, but delayed. In short, we wouldn't read too much into the increase at this point unless it becomes a trend.

Natural gas continues to have lighter than normal builds. Injections at this point of the season are approximately 35% below their five year average per the EIA. If we continue with just normal injections from this point forward, we should be comfortably below the feared storage numbers of over 4.2 Tcf (trillion cubic feet) when we began injection season in April.

To round out the commodity discussion, the Baker Hughes U.S. rig count was plus 10 last week, to just under 500 total rigs. Oil represented the entire gain as natural gas rigs were flat. We continue to see companies put capital back to work in the space with anticipation of a better price environment in 2017.

On the regulatory front, in the only decision of its kind last week, Spectra Energy received some negative news when the Massachusetts Supreme Court ruled utilities were not allowed to enter into contracts for capacity on natural gas pipelines and placed the costs of those contracts into the rate base, effectively passing the costs along to consumers. This impacts Spectra's proposed Access Northeast Pipeline project. The decision seems strange given the region is short pipeline capacity and relies heavily on expensive fuel oil for heating purposes. The project is not dead, but clearly will be delayed while Spectra regroups and assesses their next move.

In our attempt to help out the product oversupply situation for the U.S., a large number of the Tortoise portfolio team boarded flights to attend a major midstream conference hosted by one of the large investment banks. The conference was very well attended and provided a great opportunity to meet one-on-one with virtually all of our portfolio companies.

Some of the key takeaways were:

- Sentiment was greatly improved from last year, as expected
- Supply push project rationalization will continue
- Several management teams highlighted new projects or plans for future buildout
- Simplification and general partner/limited partner cash flow splits were a consistent topic of interest from investors
- Goals to improve distribution coverage and balance sheet leverage are taking priority over distribution growth
- Bullish Permian Basin growth was highlighted by several management teams, driving increased need for infrastructure if high end production targets are achieved
- And finally, valuations look attractive, especially on a relative basis compared to other asset classes.

That will do it for today. Congrats to the men and women who competed at the Olympics and so proudly represented our country. We look forward to speaking with you again 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 500 Energy Select Sector® Index

The S&P 500 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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