

Tortoise QuickTake Podcast

November 13, 2017

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.

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

I spent the weekend running between sporting events for my kids as an outdoor soccer tournament quickly reaffirmed why natural gas prices have been moving higher. The sports world is picking up steam as we start a new college basketball season and begin to figure out the landscape for the college football playoffs. Speaking of college football, it was a wild week, including losses by several top 10 teams, including number 1, Georgia. If you are a college basketball fan, be sure to tune in Tuesday night as 4 of the top 5 teams in the nation square off at the Champions Classic in Chicago. Similar to college football this past weekend, energy markets have been in turmoil virtually all year. Yet, of late, we have seen signs of life, hopefully they continue.

Let's start with a recap of market performance:

- On the commodity front, crude oil was higher by approximately 2.0%, while
- Natural gas was even stronger, up 7.7% on colder weather expectations
- Shifting to equities, the broader S&P Energy Select Sector Index® increased 1.3%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM followed the commodities, up 2.7%
- And finally MLPs were in the green, albeit marginally, as the Tortoise MLP Index® improved by 21 bps
- It was an eventful week on many fronts, starting with crude oil:
- Internationally, Saudi Arabia was the epicenter of news as Crown Prince Mohammed bin Salman led a corruption crackdown by detaining and freezing the assets of multiple Saudi princes and other citizens
 - While the headlines were regarding corruption, multiple observers believe the real story is a consolidation of power by bin Salman, clearing the way for his eventual ascendance to the throne
- In other Saudi news, tensions escalated as a missile fired from Yemen targeted Riyadh.
 - Per several reports, it was an Iranian developed missile, prompting the Saudis to state this could be viewed as an act of war
- In Nigeria, the Niger Delta Avengers decided to end their cease fire, increasing the potential for attacks on oil facilities
- Venezuela is nearing default on several billion dollars of debt and has apparently gone six months without paying India's top oil producer
 - Russia noted it may restructure some Venezuelan debt to allow for some type of relief
 - Debt default just feels like an inevitable event that is only being prolonged by band-aid type relief
- In short, it's safe to say that the price of crude oil may once again have some geopolitical risk premium embedded
 - As well it should, as we have seen a spate of events that in normal markets would have sent the price of crude skyrocketing, not simply meandering higher, as it has been

In one of two analyst days during last week, ConocoPhillips, the larger of the two companies, spent the day emphasizing one of the key themes we heard repeated throughout earnings, a focus on returns. COP noted its focus on increasing shareholder returns by growing capital return on capital employed. While the business model is setup to operate in a \$45 to \$55 per barrel world, I felt the best slide title was "Predicting price is useless, scenario planning is priceless." That slide was followed up by a

depiction of how COP intends to drive shareholder returns through various cycles. Of course, just because a company wants to increase returns, it does not mean production growth will be zero. Quite the contrary, in particular in areas of the world that command capital be deployed because of superior returns. In the case of COP, it noted within the Permian Basin, it expects to grow production from its Delaware Basin assets at a 60% compound annual growth rate through 2020. While not quite as high, the Eagle Ford checks in at a 25% CAGR for COP. Still very solid.

With earnings season all but wrapped up last week, conference season kicked off. The annual EEI conference for utilities was hosted in Orlando.

The main themes centered on:

- 1) Tax reform and the resultant impact on utilities;
- 2) Continued capex spending on grid modernization; and
- 3) Renewable energy and impacts on not only the grid, but the utilities themselves.

Overall, Wall Street commentary was pretty positive and supportive of the conference tone and management messaging. One big theme from a valuation perspective was how utilities perform when interest rates start rising more meaningfully.

Finally, President Trump visited Asia this past week and apparently the trip produced some potential deals for energy companies, including possible LNG export contracts with China. We won't count these in the backlog just yet, but the rhetoric was certainly positive.

We have a host of analysts attending an MLP conference in Dallas this week and we inch ever closer to the OPEC meeting on November 30th. With Thanksgiving in between, November will be over before you know it.

That will do it for today...have a great week and we look forward to speaking with you again soon.

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@tortoiseinvest.com.

Disclaimer: *Nothing contained in this communication constitutes tax, legal or investment advice. Investors must consult their tax adviser or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intent.*

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.

The Tortoise North American Pipeline IndexSM is a float-adjusted, capitalization weighted index of pipeline companies headquartered in the United States and Canada. A pipeline company is defined as a company that either 1) has been assigned a standard industrial classification (SIC) system code that indicates the company operates in the energy pipeline industry or 2) has at least 50% of its assets, cash flow or revenue associated with the operation or ownership of energy pipelines. Pipeline companies engage in the business of transporting natural gas, crude oil and refined products, storing, gathering and processing such as gas, crude oil and products and local gas distribution. The index includes pipeline companies structured as corporations, limited liability companies and master limited partnerships (MLPs).

The 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.

Tortoise MLP Index[®], Tortoise North American Oil & Gas Producers IndexSM, (the "Indices") are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) to calculate and maintain the Indices. The Indices are not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. S&P[®] is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones[®] is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones").