Tortoise QuickTake Energy Podcast

Tortoise

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

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise

Happy post-President's day and happy birthday to both President Washington and Lincoln.

As we hoped for in the last podcast, Cupid's arrow did indeed hit the mark last week as energy had a good one. The S&P Energy Select Sector® Index up 5%, midstream MLPs gained 5% and broader midstream added 3.5%, all beating the S&P 500®. Markets received a boost from an agreement on the spending bill, avoiding another government shutdown and some progress towards a trade deal with China.

For the portfolio, earnings continued last week so I'll hit some key themes

- First, weather weighed on some, particularly in the Mid-continent and West Texas. Of course these are transitory items versus a change in the outlook for profitability but it's worth mentioning because if drove some headline misses.
- Also, we got clarity on some long awaited structure fixes. EQM's IDR deal came in better than expected at an 11x cash flow multiple compared to the initial 12x initial offer. Also, PBF Logistics announced an agreement with their sponsor, PBF Energy, to swap its IDRs for 10 million LP units, also an 11x multiple. We are encouraged to see this crop of deals coming in well below the historical mid-teens multiples we've seen in many previous deals.
- And as Brian mentioned in last week's podcast, capital discipline continues to be a focus with Antero reducing their production growth rate, EQT reducing capital guidance by $50 million and Pioneer's 2019 capital budget coming in nearly $500 million below consensus.

I want to shift gears and focus on something I don't talk about that often but it's been an active topic around Tortoise recently. The topic is impact investing which has become a bigger emphasis here in recent years. And more specifically how does the energy fit into that? Aren't we investing in big bad oil and gas companies? Well, the answer is yes and no. Obviously we do invest in these companies but, no, they aren't bad. In fact natural gas is one of the single biggest drivers of reduced CO2 emissions in our country. Specifically between 2005 and 2017, CO2 emissions from U.S. power plants declined by a cumulative 3.9 billion metric tons. Of this, switching to natural gas-fired generation accomplished 2.4 billion metric tons of reduction or 60%. The other 40% came from renewable generation as most would expect.

As of result of the shift in the U.S. power generation mix, combined with efficiency improvements, we have seen a sharp breakdown in the historical correlation between GDP growth and CO2 emission. In the U.S., since 2005 C02 emissions have declined by 14% despite 48% growth in GDP. So how does this compare to other developed nations? Well, the EU has seen emissions decline by 17% so a little more than the U.S. on a percentage basis but their economic growth was only 20% during the same time. The difference is interesting because both societies are focused on improving vehicle mileage, appliance efficiency and other consumption saving items. Plus both are focused on increasing renewable generation. You can probably guess where I'm going…the difference is the U.S. energy industry has mastered the production of cheap, clean, reliable natural gas which has been a turbo charger for reducing the carbon intensity of our economy relative to other nations. Specifically, since 2005, CO2 emissions per GDP have dropped a whopping 42% compared in the U.S. compared to the EU, which has also improved, but only by 31%. Now to be fair, the U.S. does still produce more CO2 per GDP versus the EU but if the current rate of improvement holds, the U.S. will be "cleaner" in the next decade. This data can all be found on the EIA website and a link in included in the transcript of this podcast.

Now need to give a special shout out to Jakob Tobler for his help on the stats. And I know what you may be thinking…"Jakob? Isn't he the crazy guy whose Halloween costume always pushes the boundaries of what's acceptable according to HR? Well yes, that's true, but he knows his stuff when it comes to natural gas, renewables and the power sector. Thanks Jake.

I'll leave it there for now, thanks for listening.

https://www.eia.gov/environment/emissions/carbon/

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.

The S&P 500® Index is a market-value weighted index of equity securities.

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = 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.

Producers = Tortoise North American Oil & Gas Producers Index℠
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MLPs = 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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