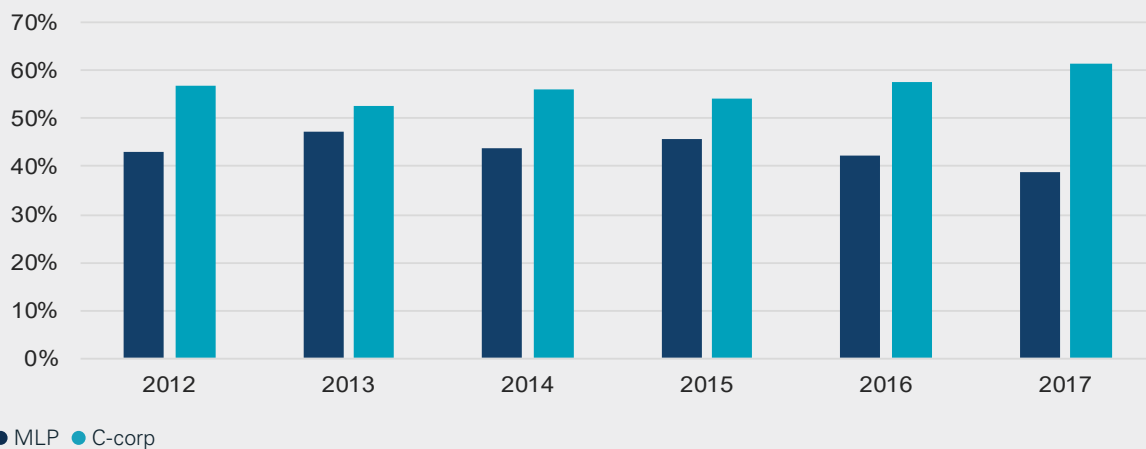


Choosing the right index for energy pipeline exposure

The wealth management industry is more frequently using passive ETFs that track rules-based indices to obtain beta exposure. However, indices that appear very similar on the surface may represent the desired asset class in materially different ways, often driving different risk/return characteristics. We believe this rings particularly true when investing in midstream energy, where the importance of corporate structure for both product and security create disparities that can often be even more dramatic. Why do we think this is important to investors? More than \$20 billion dollars has been invested in funds that track an index that reflects a business structure rather than an entire asset class.

Midstream energy companies can be structured one of two ways: as an Master Limited Partnership (MLP) with no corporate tax, or as a C-corp, a traditional taxable corporation. Although MLPs have become synonymous with midstream energy, the pipeline universe is much broader. As a matter of fact, MLPs make up less than half of the entire pipeline universe¹, and if you look on a float-adjusted basis as shown in the chart below, they comprise even less. At Tortoise, we're firm believers in the fundamentals of pipeline companies, regardless of the corporate structure. We think that an all-inclusive pipeline index may more accurately represent the risk/return profile that investors are looking for.

Investable pipeline market by structure

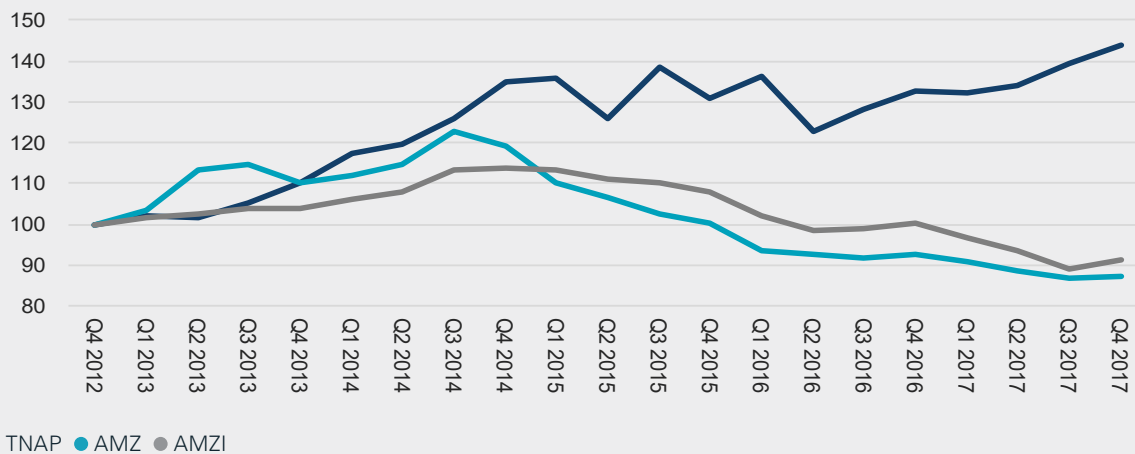


As of 12/31/2017. Float-adjusted market capitalization. Source: Bloomberg

¹As of 12/31/2017. Source: Bloomberg

Below is a chart showing distributions over time for three pipeline indices. The dark blue line represents the Tortoise North American Pipeline index (TNAP), that includes both C-corps and MLPs. The Alerian MLP Index (AMZ) only includes MLPs that span the entire energy value chain and the Alerian MLP Infrastructure Index (AMZI) represents midstream MLPs exclusively. As you can see, since the energy downturn began in 2014, a broader approach to pipeline investing has resulted in higher distribution growth than pure MLPs.

Cash distributions over time (Indexed)



As of 12/31/2017. Source: Bloomberg

A recent trend driving the chart above is that some midstream MLPs have chosen to forfeit their pass through partnership status to convert to C-corps, with most rolling up into their general partner and some converting directly. Conversions are driven ultimately by cost of capital decisions, and the traditional MLP funding model can be stressed when equity yields are high, leaving some management teams to make the decision to convert when it makes sense for the business and ultimately investors. We do not believe that the MLP business model is broken. In fact, we think many of the midstream companies structured as MLPs will remain MLPs, and likely prosper as a result. But for some MLPs, converting to a C-corp or rolling into their general partner makes sense financially at this time. We think this evolution is good for the sector and will result in lower cost of capital, improved corporate governance and healthier balance sheets.

While current valuations and strong market fundamentals are attracting investors into the midstream space, we think it's important to pay attention to the changing dynamics and how it might affect indices and the passive products that track them. The recent trend toward conversions is changing the general characterization of MLP centric indices. As the MLP universe shrinks, it represents an even smaller portion of the pipeline asset class and passive investments that track an MLP-only index will become more concentrated. This issue does not have as great of an impact on active management as it generally allows a more flexible mandate.

For passive investors looking for exposure to midstream energy pipelines, they may want to consider investments that track a broader index that will likely provide a better proxy for this evolving universe.

Disclosures

The characteristics provided for the index are illustrative of the characteristics of an asset class and are not indicative of the performance of any investment product. The historical data of the index prior to its inception date was calculated on the same basis on which the index is currently calculated. Past characteristics are no guarantee of future results. It is not possible to invest directly in an index.

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The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX). The Alerian MLP Infrastructure Index is a composite of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZI) and on a total-return basis (AMZIX).

For additional information on TNAP, please call 844-TR-INDEX (844-874-6339) or visit www.tortoiseadvisors.com. For more information on AMZ or AMZI, visit www.alerian.com.

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