

Tortoise QuickTake Energy Podcast



July 8, 2019

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

Hello, I am Matt Sallee, Energy Portfolio Manager at Tortoise. Happy post 4th of July week everybody. Since we rolled over to a new quarter last week, I thought I'd start with a review of Q2 performance. Commodity prices suffered from mild weather, refinery turnarounds and global growth concerns leading oil, gas and NGLs to fall 5%, 10% and 22% respectively. As you would expect this pulled the S&P Energy Select Sector[®] Index down 4% with it. However, it was encouraging to see a breakdown of correlation of infrastructure with the Tortoise MLP Index[®] up 1.4% bringing the year-to-date return to 19%. Let's hope we can keep it up.

On that note, Q3 started off on the right foot with a truce in the U.S./China trade war announced from the G20. This was followed by OPEC agreeing to extend production cuts by nine months and signing a charter with Russia formalizing the OPEC+ group coordination (more on that in a second).

Some interesting data points from the OPEC press conference were that they shifted the inventory target level from the rolling 5-year average to the 2010-2014 average level which is roughly 150 million barrels lower, basically suggesting the curtailments could extend even further. Additionally, Saudi Arabia will continue the heavy lifting and indicated that their production will likely be below 10 mbpd for the remainder of 2019.

The even bigger news from the meeting was a charter formalizing Russia's coordination with the group. This answers the question of whether Russia will continue to play ball as they have been for the last couple years. In fact, OPEC's Secretary General compared the deal to a "Catholic Marriage" saying it would last an eternity. As a Catholic I'm not sure if I'm offended or flattered. Anyway this "marriage" was complete with a poem reading "Uncertainties remain, the challenge gets harder, but the future's bright, now we've a charter." I mean, I can't make this stuff up.

On the natural gas front, a recent Bloomberg survey indicated the worst is likely over for natural gas prices. Gas prices have gotten smoked recently on lofty production levels combined with a mild start to the summer. That is expected to change in July with a forecast for very hot weather.

Speaking of gas prices, the proxy battle for EQT Resources, the largest U.S. gas producer, got even more interesting recently with proxy advisory firm ISS recommending for the Alternate director slate proposed by former management for Rice Energy who was acquired by EQT in 2017. Additionally EQT's largest shareholder, T. Rowe Price announcing they would vote for the Rice slate as well. On the other hand competing proxy advisor Glass Lewis recommends in favor of the EQT's proposed slate. This puppy is going to be close.

On a different note we are working on an energy transition study highlighting our forecasted winners to satisfy future energy demand. Spoiler alert: gas, wind and solar appear best positioned. Keeping in this theme, the lines continue to blur at some utilities with another recent example in UGI's acquisition of TransCanada's gas gathering assets announced last week. Furthermore this reinforces one of our catalysts presented at the start of the year that if public midstream continues trading at discounts these companies will take advantage by shedding assets. This latest deal was at a 13x multiple.

Now I'm going to switch to some Fourth of July fun facts. I didn't fact check all of these so take it with a grain of salt. With that said...

Did you know it was actually on July 2, 1776, that America gained its independence? So why do we celebrate on July 4? Well, while Congress actually ruled in favor of independence on July 2, it wasn't until two days later that Congress accepted Jefferson's declaration. So you could argue July 2nd should be Independence Day.

Furthermore, John Hancock was the only member of the Continental Congress to formally sign the Declaration of Independence on July 4th, 1776 and most of the signers of the Declaration did not formally sign until August 2, 1776. I guess without email and docusign it took longer to get 56 signatures on something. This one is interesting. Three U.S. Presidents died on the Fourth of July: John Adams, Thomas Jefferson, and James Monroe. And my personal favorite...Around 150 million hot dogs are consumed on Fourth of July. I'm not sure how the heck you measure that one! I'll leave it there, thanks for listening.

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 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.

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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