Tortoise QuickTake Energy Podcast

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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 Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast.

Last week, investors debated how President Trump's tweet suggesting China is manipulating its currency would impact the U.S. and China trade war. It ended up being a wild week on Wall Street with triple digits movements in the Dow Jones Industrial Average occurring each day. When the dust settled, the Dow Jones Industrial Average ended up trading down by 0.6% last week. The energy sector represented by the S&P Select Energy Sector Index fell by 2% as investor appetite for risk dwindled as the 10-year Treasury yield fell to 1.7%. Oil prices declined 2% last week as well once again tied to global demand growth concerns as there is end in sight for the U.S. and China trade war. However, there was one interesting development in oil prices that is worth mentioning. Global oil prices represented by Brent crude fell into a bear market territory last week after closing over 20% below April 2019 highs. Shortly after bear market for crude oil headlines were flashed across the media, Bloomberg reported that the Saudis are considering all options to halt drop in oil prices. Global oil prices rose by 4% after the Saudis comments. Clearly, the Saudis need higher prices and could be willing to cut production even more if global oil demand growth slows.

Energy stocks continue to be shackled as rising uncertainty regarding the global economic expansion tied to the U.S./China trade war is reducing investor's willingness to take on risk. Last week, a popular S&P Oil & Gas Exploration & Production ETF – the XOP dropped to its lowest level ever. Yes, to lower levels than during the 2008/2009 financial crisis. Yes, lower levels than February 11, 2016 when oil prices bottomed out at $26.21 per barrel. Due to continued poor performance of U.S. oil and gas producers, many of you saw that we announced a distribution reduction in two closed-end funds that invested in U.S. oil and gas producers. Please see the press release and associated podcast found on our website for the details but let me give you a few highlights. Following our quarterly comprehensive review of all funds and their distribution levels, we determined TTP and NDP will decrease third quarter distributions to $0.285 and $0.10, respectively. This represented a 30% and 77% distribution cut. NDP and TTP generate a significant amount of investment income from investing in oil and gas producers. The continued weak stock market performance of oil and gas producers has made generating the historical level of covered call income unachievable and resulted in elevated fund leverage. Our decision to cut distributions of NDP and TTP was a very difficult decision but a necessary one. We are still believers in the U.S. energy sector as well as U.S. oil and gas producers. We maintain our strong conviction in the future of the U.S. energy sector and we believe the sector is undervalued and underappreciated. Global demand for energy has increased 35 out of the last 36 years and is forecasted to continue on this rising trend. Global energy supply sources are changing but the U.S. is days away from becoming a net energy exporter. The U.S. will play a critical role as a future supplier of oil and natural gas to countries around the world as the U.S. retains its title as the world's largest producer of oil and natural gas in the years to come.

However, the model for U.S. oil and gas producers is changing. U.S. oil and gas producers are transitioning from production growth toward free cash flow generation to attract investors back to the sector. This transition is ongoing with certain oil and gas producers further along in the transition than others. From here on, each successive earnings season will reveal the producers headed on the right path. Those producers that deliver will be rewarded while the ones who don't will be punished. This was on display last week as the second quarter earnings season came to a close. Pioneer Natural Resources, Parsley Energy, and WPX delivered production results that met or exceeded estimates while maintaining or lowering capital expenditure forecasts. The result is that these stocks outperformed their peers rising by an average of 6% while peers declined by 4%. On the other hand, Continental Resources and Cimarex Energy came up a little short on production and cash flow per share while leaving capital expenditures unchanged. The result was an average decline in stock prices of these stocks of 7% significantly underperforming peers last week.

Energy infrastructure companies wrapped up second quarter earnings as well. Plains All American and Energy Transfer capped off another strong earnings season for energy infrastructure companies. Both Plains and Energy Transfer raised

2019 EBITDA guidance while Energy Transfer also lowered capital expenditures guidance. The essential nature of the energy infrastructure assets operated by both of these companies positions them well for the future.

Lastly, the purest way to play rising LNG exports reported results last week. Cheniere Energy reported lower than expected EBITDA tied to weak LNG pricing across the globe. While weaker LNG pricing could be a short-term headwind, it could turn into a long-term tail-wind as global natural gas demand could accelerate due to cheap natural gas prices. In the meantime, Cheniere still expects to meet its full-year guidance and management has increased its fee-based cash flow; therefore, improving the quality of Cheniere's earnings as future results will be less impacted by spot LNG prices.

Those are the highlights from last week. Thanks for listening. We will talk to you 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 **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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