Tortoise QuickTake Energy Podcast

Tortoise

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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. Happy Holidays everyone! What a great time of year it is to spend with friends, family and of course investing in the stock market.

Last week marked the end of November. For the month, the MSCI World Energy Index rose by 1.4% while the MSCI World Utilities Index declined by 1.9%. For energy infrastructure stocks, there was a divergence of returns with energy infrastructure corporations as represented by the Tortoise North America Pipeline Index falling by 1.6% while MLPs as represented by the Tortoise MLP Index® declined by 5.2% during the month. What is going on with MLPs? We answered several of the questions that you may have in a special energy podcast entitled 4Q Midstream volatility posted to the Tortoise website last week. It highlights how technicals like tax-loss selling are currently overwhelming the improving free cash flow growth fundamental story. For those of you looking for cyber Monday bargains in the stock market, take a look at MLPs. Several analysts are highlighting the current disconnect between the technicals and fundamentals. In addition, 2020 is around the corner. Did you know that over the last three years, the average return for MLPs during month of January has been 7.5%?

Moving on to other news from last week. The U.S. energy sector achieved a significant milestone. For the first time in over 70 years, the U.S. is a net petroleum exporter as the Energy Information Administration reported that the U.S. exported 89,000 barrels per day of crude oil and petroleum products more than it imported in September. The U.S. is officially a net energy exporter as U.S. natural gas exports have continued to rise. The economic benefits are tremendous, improving the U.S. trade balance by over $400 billion.

Switching topics, all of us are making a list and checking it twice and finding out who is naughty and nice. That is exactly what members of OPEC are doing as well as they converge in Vienna this week for the 177th Meeting of the OPEC Conference. Here is a quick recap of what has been going on at OPEC leading into the meeting. In December 2018, OPEC members plus Russia announced a deal that reduced global oil production by 1.2 million barrels per day for the first six months of 2019 amid concerns of rising global oil inventories and uncertainty related to near-term global demand. This deal was extended through March 2020 in July. Some OPEC countries like Iraq have been naughty and not complied with the agreed-upon production cuts. As the OPEC members convene, global oil inventories are at normal or historical levels, uncertainty remains around 2020 global oil demand growth, and there are a wide range of estimates related to how much U.S. shale will add to 2020 global supply. We expect OPEC and Russia to select one of the following options. First, extending the production cut agreement to June 2020 and improve compliance with production cut agreement. This outcome likely results in a decline in oil prices. Second, extend the agreement to December 2020. This is the consensus outcome and likely keeps U.S. oil prices above $50 per barrel. Lastly, OPEC could announce an increase in production cuts in an effort to reduce global inventories even more. This results in higher oil prices in our opinion. In another interesting twist, the record-setting Saudi Aramco IPO is scheduled to price the same day as the OPEC meeting. The IPO likely needs stable, if not higher, oil prices to reach its valuation target.

At Tortoise, we see electrification that uses more electricity replacing transportation that consumes more petroleum as the key energy demand growth driver in the future. As a result, oil remains relevant but becomes less important. While we will keep a close watch on the OPEC meeting, we are even more interested in the U.N. climate talks in Madrid this week. We want to hear how China, the world's large polluter, plans to address the role of coal and its negative impact on the environment. One of the members of the Tortoise global investment team in London mentioned to me that China is adding more coal-fired power plant capacity than the entire capacity in the European Union. It seems like China is going to the wrong way in terms of climate change.

Conversely, several European utilities are moving in the right direction towards reducing carbon emissions while still increasing earnings as electrification drives demand growth. Our London-based investment team invests in several of these companies that we refer to as utilities in transition. One of those companies held an analyst day last week. Enel

Corporation is an Italian based company that generates electricity as well as distributes electricity and natural gas. At its analyst day last week, Enel highlighted how the utility has transitioned from coal to cleaner supply sources such as renewables. For example, coal represented 31% of Enel's electricity production in 2012. Today, coal represents 17% of electricity generation. By 2022, Enel expects coal to represent 7% of electricity generation. Clearly, less coal allows Enel to lower emissions. In addition, Enel expects to also be able to grow its cash flow while lowering emissions. This is an example of a utility in transition that we expect investors will reward through a higher multiple.

Lastly on the news front, another large European based energy provider Total reported the startup of the largest solar power plant with energy storage in France last week. Total is another energy company that is ahead of the curve when it comes to the energy evolution. Total is one of the world's largest oil and gas producers in terms of market cap. It is in the same company with Exxon, Chevron, PetroChina, and Royal Dutch Shell. In 2019, Total created a new segment titled Integrated Gas, Renewables, and Power or iGRP for short. This segment is focused on its global LNG portfolio and low carbon electricity businesses similar to the solar project discussed above. At Tortoise, we believe the large energy companies like Total will also be part of the solution as these companies invest in research and development searching for the the next technological breakthrough that will reduce carbon emissions.

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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