Essential Assets Update Call
Prepared Remarks
Jan. 23, 2020

Pam Kearney: Thank you welcome to our listeners to the call. I'm Pam Kearney, Vice President of Investor and Public Relations at Tortoise. I'm joined today by Senior Portfolio Manager Brian Kessens, Director Maneesh Jhunjhunwala and Investment Analyst Michael Perry.

Some of the statements made during this call are not purely historical and may be forward-looking statements regarding our intentions, projections and strategies for the future. These statements are subject to various risks and uncertainties and actual outcomes and results may differ materially from our forward-looking statements. We do not update our forward-looking statements and this presentation is for information only and shall not constitute an offer to sell or a solicitation of an offer to buy any securities.

We'll begin with Brian Kessen's energy sector update, followed by Michael Perry who will discuss sustainable energy and Maneesh Jhunjhunwala will wrap up with a discussion about the social infrastructure sector followed by a Q&A session. With that, I'll turn the call over to Brian Kessens.

Brian Kessens: Thanks Pam. We're here in Kansas City, we're certainly excited about the Chiefs and we're equally if not even more excited about energy for 2020, but first a little bit of a look-back. Broad energy in the fourth quarter of 2019 increased by 5.5%, bringing 2019 returns to 9.5%. Providing a tailwind through the year, crude oil prices jumped 31% in 2019 on strong compliance by OPEC+ and heightened geopolitical risk. Natural gas prices did slump 26%, as production, higher by nearly 10%, outstripped demand growth from more coal to gas power generation switching and LNG exports. A mild start to winter weather didn't help either.

Specific to midstream, C-Corp pipelines improved by 1.5% in the fourth quarter, ending the year 23% higher. MLPs underperformed in the fourth quarter, losing 3.1%, leaving 2019 returns higher by 9.2%. Specific to the fourth quarter, midstream headwinds included counterparty risk concerns following lower natural gas prices and extensive tax loss selling, especially in November. MLPs did stage a strong comeback in the back half of December, potentially in anticipation of a January rally.

Moving to 2020, we see three catalysts for the midstream sector – more transparency, return of capital to shareholders and lower volatility.

First, we expect midstream companies to be more transparent about their environmental activities. Specifically, we believe companies will highlight their emission controls programs and further reduce methane emissions. We also think companies will improve corporate governance through better management and shareholder alignment and issue inaugural or updated sustainability reports.

Return of capital is a further catalyst. In 2020, we estimate midstream free cash flow will be a positive 4% after being negative in 2019. Reduced capex and higher EBITDA following more volumes transported and the completion of some long lead-time projects are the drivers. We believe this higher free cash flow will lead to further reduced leverage and to potential share buybacks. And as recent, Magellan Midstream authorized a $750 million share buyback program just earlier this week.

We also expect lower midstream volatility in 2020. 2014-2017 saw elevated midstream stock price volatility due partly to higher leverage, structural changes leading to lower dividends and distributions, and negative free cash flow from a large pipeline project backlog. Now the midstream sector carries lower

leverage, is self-funding its equity needs and dividend and distribution stability is significantly improved. And with management favoring more discipline and visibility to positive free cash flow, we're confident in lower volatility.

Based on this assessment we expect returns in the lower double digits based on yield and growth. Yet over the longer term, we believe share buybacks and lower leverage adds up to an additional 7% of annual total return alone. That's even if trading multiples show no improvement, and I'd add cash flow trading multiples are well below historical averages by 40% and 15% respectively for MLPs and C-Corp pipelines.

Staying with valuation, in 2020, midstream free cash yields compare favorably to the broader S&P 500 yet the EV/EBITDA multiple is about 75% of the S&P's multiple. Further, midstream fixed income markets are healthy and private equity continues to pay a multiple near 13x EBITDA for midstream assets versus public MLPs at 9x.

Some key risks we're looking out for… the energy platform of the pending Democratic candidate, where we think with a Democrat in the Oval Office there's a chance that drilling on Federal lands is significantly slowed. It also is likely that permits for new pipelines become harder to secure. The decline in coal-fired power generation probably accelerates, while the growth in renewable infrastructure will continue unabated. The other notable risk is if the global economy experiences a recession, what is the impact on energy demand? Historically, demand proved to be relatively inelastic.

A common question we get is what about M&A? On the corporate side, we don't expect much in 2020. All the natural MLPs to be acquired by parent C-Corps have taken place. Certainly the aforementioned private equity continues to demonstrate interest in midstream. And we expect that to remain, yet to be more focused on asset transactions and not corporate ones.

Regarding upstream, producers are also focused on free cash flow generation. We believe they'll put less money in the ground and more in shareholders hands this year. That should also lead to supply and demand for energy commodities finding a better balance.

And U.S. refiners will benefit from more stringent marine fuel oil requirements and from the ability to buy various crude oils at attractive prices due to proximity to the Permian and heavier crude oils from Canada.

In sum, we're optimistic across energy in 2020. Fundamentals are positive and valuations are compelling. Catalysts include greater transparency, return of capital to shareholders and reduced volatility. The transformation energy has undergone the past five years is significant, and we are excited not only for energy in 2020, but over the next decade as well.

Speaking of transformation, Michael, what's going on with renewable developments?

Michael Perry: Thanks Brian. Turning to what we term the sustainable sector, we continue to see strong momentum behind renewable generation deployments. According to the EIA, renewable generation accounted for over half of the utility scale electricity generation capacity additions in 2019 and that was for data through October.

Digging into the solar market, solar power generation continues to be very cost-competitive, with system pricing across all market segments including residential, commercial and utility markets, at all-time lows, according to recent research from Wood Mackenzie. And even despite declining investment tax credits over the next few years, Bloomberg New Energy Finance still forecasts growth in solar generation additions over the next two years, including 17 GW in 2020 which also surpasses the previous solar installation peak in 2016 and is up from nearly 13 GW in 2019.

We continue to see strong growth in on-shore wind generation capacity as well, though the upcoming expiration of tax credits are expected to slow that growth a bit in the coming years. A tax relief bill was signed into law in December that extended the Production Tax Credit for one year to allow wind generation projects that begin construction in 2020 to receive credit. Wind projects that begin construction in 2021, however will not receive this tax credit. And given this credit expiration, Bloomberg New Energy Finance forecasts generation additions to peak in 2020 at 13.5 GWs, and that's after adding just over 10 GWs in 2019.

Though offshore wind development has lagged onshore development, although we have seen some momentum through state level legislation. Northeast states, particularly Massachusetts and New York, have worked alongside the Bureau of Ocean Energy Management of the U.S. Department of Interior to develop large scale offshore wind projects. Most recently, in late October, Massachusetts selected an offshore project that will provide over 800 MW of offshore wind to the state, bringing its total procured offshore generation to 1.6 GW.

Here at Tortoise, we continue to actively pursue investments in the sustainable infrastructure sector. We are currently developing or operating solar assets in various states across the U.S. including California, Massachusetts, Colorado, Florida and New Jersey and these are all accompanied with long-term power purchase agreements, typically those are15-25 years. The projects are a combination of ground and roof-mounted installations selling power to investment-grade, federal and corporate off-takers. These investments do allow us to leverage our competitive advantages and earn attractive returns for our shareholders.

I'll turn it over to Maneesh for an update on social infrastructure.

Maneesh Jhunjhunwala: Thanks Michael. Our outlook for the social infrastructure sectors in which we invest remains positive. Beginning with the education sector, as the 2020 election campaign intensifies, charter schools, and school choice in general, are receiving increased media attention.

We've probably heard several presidential candidates taking on public education reform, though public sentiment appears to tell a different story. A recent national poll indicated that a majority of voters (69%) support some form of school choice with the overwhelming majority of African-American voters indicating it is an "Important Priority." On top of that, in faster-growing states, many school district superintendents have acknowledged they would be unable to meet increasing enrollment without the growth of charter public schools.

To support that, new issues of public, tax-exempt bonds for charter public schools hit an all-time high in 2019 with par value in excess of $3.1 billion. This included more than $450 million of single investor projects, which are viewed in the public markets as higher risk. Fourth quarter volume alone was approximately $1.3 billion in par value across 40 separate offerings. A majority of charter laws across the nation don't require school districts or municipalities to provide funding for charter school buildings for charters, which makes access to facilities one of the greatest challenges faced by charter school leaders. With less than 10% of charter schools having ever accessed the public tax-exempt bond market, and resistance to purchasing bonds for early-stage charter schools by many of the large, high-yield bond funds, Tortoise believes the unmet demand for private, single-investor capital for charter school facilities to be at least as large as today's public market for charter school bonds. Tortoise will continue to seek out high-quality and high potential charter schools and selectively invest.

Moving to our next sector, which is the senior living sector, according to the National Investment Center for Seniors Housing and Care (or NIC), the national market occupancy for senior housing increased to 88.0% in the Q4 2019, that's up from 87.9% in Q3 and up further from the low of 87.7% in Q2 2019 which was its lowest level in eight years.

While demand for senior housing remains strong across the country, we do see variation in occupancy across regional markets. For example, San Jose, Calif. and New York City recorded the highest occupancy rates at 95.7% and 91.3%, respectively, while Atlanta and Houston were in the 82% ranges which were the lowest of the major markets. This variation by region highlights the importance of performing ample due diligence on each new deal and accounting for regional dynamics which could affect the performance of the investment.

Regardless of whether they're a for-profit or non-profit senior living provider, the local variation between market supply/demand seems to be widening while national construction continues to slow, which should help markets with oversupply over the long term.

We remain bullish in the senior living space, with demographic trends in our favor. The aforementioned NIC estimates that 881,000 additional units of senior housing inventory will be needed to serve seniors between 2019 and 2030. If you consider the typical senior living facility size of about 100 units, that's nearly 9,000 different projects that will be needed.

Finally, moving to the project finance sector, demand for energy-related projects remains strong as efforts continue to de-carbonize power generation and fuel production throughout the U.S. In particular, there have been several positive renewable natural gas or RNG updates. In July 2019, the Coalition for Renewable Natural Gas announced that the North American RNG industry had surpassed the 100-facility milestone, equating to nearly 150% growth over the past five years versus the 41 projects built in the previous 30+ years combined, with more than 50 additional projects under construction or in development. The State of Colorado a feasibility study to evaluate the implementation of a low carbon fuel standard, similar to the program adopted by the State of California, which would place a premium on RNG. In addition, the EPA's proposed 2020 biofuels volume under the Renewable Fuel Standards program includes a 29.2% increase in RNG volume from 2019. Finally, in late December 2019, the U.S. Congress and the President passed an extension of the biomass-based diesel tax credit as part of the year-end tax extenders package. The so-called "blenders tax credit" stands at its full $1 per gallon level through 2022, providing significant additional revenue to projects that convert biomass into renewable diesel.

Pam Kearney: Thank you Maneesh. That concludes our prepared remarks. Thank you all for joining us today. We invite you to visit our website at www.tortoiseadvisors.com and subscribe to receive our weekly Tortoise QuickTake podcast series and insight pieces and we look forward to speaking to you again on our next call. Thank you.

Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Views expressed herein should not be relied on as investment advice or an indication of trading intent. Past performance does not guarantee future results.

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.

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.

The Tortoise North American Pipeline Index℠ is a float-adjusted, capitalization weighted index of pipeline companies headquartered in the United States and Canada. A pipeline company is defined as a company that either 1) has been assigned a standard industrial classification (SIC) system code that indicates the company operates in the energy pipeline industry or 2) has at least 50% of its assets, cash flow or revenue associated with the operation or ownership of energy pipelines. Pipeline companies engage in the business of transporting natural gas, crude oil and refined products, storing, gathering and

processing such as gas, crude oil and products and local gas distribution. The index includes pipeline companies structured as corporations, limited liability companies and master limited partnerships (MLPs).

Tortoise North American Oil & Gas Producers Index℠

The Tortoise North American Oil & Gas Producers Index℠ 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.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) (“S&P Dow Jones Indices”) to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an “Index”). S&P® is a registered trademark of Standard & Poor’s Financial Services LLC (“SPFS”); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC (“Dow Jones”); and, these trademarks have been licensed to S&P Dow Jones Indices. “Calculated by S&P Dow Jones Indices” and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.