Energy Value Chain Update Call
Prepared Remarks
Jan. 24, 2018

Ed Russell: Good afternoon and welcome to the Tortoise Energy Value Chain update call. I'm Ed Russell, Senior Managing Director at Tortoise. Today we're going to review the state of the energy sector as we launch into 2018. Following that, we'll open up the call for questions from our listeners. As a reminder, some of the statements made during the course of this presentation 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. This presentation is for information only and shall not constitute an offer to sell or a solicitation of an offer to buy any securities.

Ed Russell: Today I'm joined by energy Portfolio Managers Brian Kessens, Rob Thummel and Matt Sallee. Rob, I'll start with you first. Thanks for joining us. The tide seems to be turning for the energy sector. Can you discuss what's driving the change in sentiment?
Rob Thummel: Sure Ed. The energy sector is off to a good start in 2018. The sector continues to gain momentum that really started to build in the second half of 2017. Last year, we think the energy sector was underappreciated by investors with the S&P Energy Select Sector® Index down 1% for the year. After being the worst performing sector during the first half of the year, the energy sector rallied posting a positive return in four out of the last six months of 2017. A dark cloud hanging over the energy sector dissipated when OPEC and non-OPEC producers agreed to extend the production cut agreement through the end of 2018. OPEC made it clear that their focus is on reducing the global oil inventory surplus and returning oil inventory levels to the 5-year average. The result has been rising oil prices propelling the energy sector higher. However, there are several other factors outside of oil prices that should provide fundamental catalysts that will add to the momentum in the energy sector moving forward. 2017 was a record setting year for the U.S. energy sector in many ways but 2018 will be a record breaking year.

Ed Russell: Thank you. Brian, can you comment on U.S. energy supply and demand expectations for crude oil?
Brian Kessens: Sure. As Rob indicated, the market strength we're witnessing is a continuation of crude oil rebalancing. To illustrate the point, today's EIA inventory report shows U.S. crude inventories dropped 1.1 million barrels last week, marking the 10th consecutive weekly draw and bringing U.S. crude oil stocks to their lowest point since February 2015. In 2018, we expect crude oil production to grow even as producers focus more on investing capital within cash flow. According to the EIA, U.S. crude oil production is expected to average 9.3 million barrels per day (MMbbl/d) in 2017. The 2018 forecast is for 10.3 MMbbl/d, or 1 million bbl/d higher. If reached, it would be a record high. On demand, we expect meaningful demand growth. The EIA forecasts global crude oil demand to increase 1.7 million bbl/d this year, driven by a healthy economic backdrop. Specific to the U.S., there is growing demand for U.S. light, sweet crude oil internationally, particularly from China. We expect this to bode well for U.S. producers**.**

Ed Russell: Matt, it's kind of hard to talk about oil demand without talking about outlook for prices. Can you touch on that?
Matt Sallee: Oil prices are off to their best start in 11 years, and for the reasons Brian and Rob discussed, we think the current range should hold. As of today, WTI is right around around $65 and Brent crude is over $70. We believe that U.S. oil prices (WTI) will remain range-bound between $55-$65 per barrel through the end of 2018, thanks to what we're projecting to be tight supply-demand balance. That said, we're closely watching whether U.S. producers adhere to their plans for disciplined capital budget in light of higher oil prices. On the geopolitical front it is expected that this week will hold President Trump's

decision on whether or not to extend waivers on Iran's nuclear deal which would potentially impact between 500,000-one million bpd of production if the U.S. were to re-impose sanctions. This, coupled with the impact of declining production in Venezuela, certainly brings a geopolitical risk premium back into the discussion.

Ed Russell: In the Midwest and on the East Coast in particular, we've seen lower temperatures, but we've also seen higher natural gas prices, can you talk about our outlook for natural gas and natural gas liquids?
Rob Thummel: In the natural gas market, the weather is always relevant. The extreme cold across the country is generating significant demand for natural gas so inventories are declining. In fact, a record was set during the first week of January for storage withdrawal, when almost 360 bcf was taken out of storage to meet heating demand. Currently, natural gas inventory levels are 12% below normal or the five year average, per the EIA. So all this demand is supportive for prices and the driver behind the 17% surge in natural gas prices this past month.

Longer term, the U.S. is expected to play a bigger role in supply of natural gas to the rest of the world. 2016 was a milestone year for the U.S. energy sector with a series of firsts including the first shipment of liquefied natural gas or LNG. 2017 was a record setting year for the U.S. energy sector. 2017 recorded the highest U.S. natural gas production volumes in history and record levels of LNG exports as well as natural gas exported to Mexico. Of course, those records are made to be broken and we believe many of these will be broken in 2018 and beyond which would be a positive catalyst for the U.S. energy sector.

For example, natural gas production is expected to average 72.6 billion cubic feet per day (bcf/d) in 2017, and 79.3 (bcf/d) in 2018 supported by a rise in both natural gas exports and domestic consumption. And we expect LNG exports to triple from current levels as we move through 2018 into 2019.

Ed Russell: Thank you Rob. I'd like to move onto the midstream space. Brian, the market seemed a lot better of the past few weeks. Is it too early to say we've turned the corner from a midstream perspective?
Brian Kessens: While midstream fundamentals remained steady throughout the year, supported by consistently by strong quarterly earnings reports, these solid fundamental, results didn't always translate to positive stock performance. Pipeline companies, as measured by the Tortoise North American Pipeline Index℠ returned almost 3% for the year. MLPs as represented by the Tortoise MLP Index®, didn't fare as well declining 6% for the year, driven by uncertainty regarding simplification and IDR restructuring transactions and the overall trend towards self-funding.

We are optimistic for much improved returns in 2018. Over half of the sector doesn't have IDRs now and there is a more certain path for others to simplify through IDR eliminations. Further, new equity needs to fund capital expenditure is diminished due an improved ability for self-funding. The need for new equity this year is actually below what were meager fund flows in 2017. If fund flows are merely flat year over year, we have a positive supply and demand picture for MLP stocks. Finally, we have certainty in tax reform – for MLPs, the definition of qualifying income is unchanged, the tax-advantaged status is preserved and the net rate to the investor remains advantageous versus C-Corps. Given those structural items, and the fact that volumes for crude oil, natural gas liquids and natural gas will likely be meaningfully higher this year, we are excited about the prospects for MLPs in 2018.

Ed Russell: Matt, there's three topics that a lot of people are talking about. The evolution MLPs, the project financing going forward and the GP/LP relationship? Can you give us your take on those three issues?
Matt Sallee: Sure. The prolonged energy downturn and related poor equity capital market access has resulted in management teams evaluating the right mix of equity sources to fund their growth projects. Historically, that playbook has been to payout nearly all distributable cash flow in the form of distributions to limited partners and fund growth projects with a 50/50 mix of new debt and equity. In recent years, in particular 2017, we've witnessed a shift toward reducing new equity needs and instead relying more on retained cash flow to balance against new debt financing for capital investments. The result to investors is lower distribution growth potentially, but greater distributable cash flow on a per unit basis. So, the way

I'm thinking about it is the bottom line is while investors may receive less upfront distribution growth they can earn on offsetting benefit in the form of less total units outstanding with ever increasing coverage and cash flow accretion. On the structure side, we've witnessed and acceleration of companies moving to simplify their structure and eliminate IDRs. Removing IDRs results in a more sustainable MLP model in our view as cost of capital is lowered and corporate governance is improved. Brian mentioned this, but about 50% of the companies in the Tortoise MLP Index® no longer have IDRs. That number was virtually none about 10 years ago. If you look, six of the seven largest MLPs no longer have IDRs. We expect MLPs will continue this trend of getting rid of the incentive distribution rights. And we anticipate looking forward by the end of 2019, approximately three/fourths of the companies on a weighted basis in the Tortoise MLP Index® will no longer have IDRs and all of the 10 largest MLPs, at least based off today's sizes, will not have IDRs by the end of 2019.

Ed Russell: Brian, from a capital markets perspective, what impact is self-funding expected to have on the MLP model?
Brian Kessens: Though total capital market issuance in 2017 was nearly equal between debt and equity, debt markets remained supportive for MLPs throughout, while equity access was fickle. Consequently, management teams are working towards being less reliant on the equity capital markets. We expect MLP equity issuance to decline over the next three years as excess cash flow and debt capacity increase, while capex budgets remain relatively stable. Further, multiple alternative funding options exist and may come in the form of preferreds, PIPEs or other structured equity.

Specific to capex, our long-term outlook for the midstream sector remains positive as the need for greater pipeline takeaway capacity remains due to strong production growth. We project capital investments in MLPs, pipelines and related organic projects at approximately $145 billion for 2017 to 2019.

Ed Russell: Matt, can you walk us through midstream valuations as they look today?
Matt Sallee: I will Ed, but let me warn you that I'm going to sound like a broken record here! Even with the recent run-up that we've seen year-to-date, midstream MLPs are trading at attractive valuations. Approximately, call it 15% to 30% depending on the metric you look at, and really you can pick your metric. If you're a traditional equity investor – price-to-earnings. You can look at price-to-cash flow, price-to-book, EV/EBITDA, yield & growth or yield spreads to other asset classes. Really under all these measures, pipeline valuations look attractive. Specifically for 2018, our total return outlook for MLPs is a current yield of roughly 7.5%, we think that at the index level grows 5-7%, and then we are expecting some compression in the yield this year to call it a 7% exit rate. So the valuation expansion from going to a 7% exit yield plus the yield on the growth would get you to a total return of just over 20%. So we're pretty optimistic.

13:24 Ed Russell: Just one more thing Matt on midstream companies. Brian mentioned that we have certainty in tax reform. How is tax reform impacting the midstream companies? Who benefits and do you anticipate more MLPs shifting to the C-Corp structure as a result of this?
Matt Sallee: The nice thing was there was a little something for both structures. The C-Corp and the MLP both received an incremental benefit through the reform. In our view, the MLPs continue to receive the tax exempt status and therefore in our view are advantaged against corporations or continue to be just to be from a structure standpoint.

So what changed? I would just highlight a few key things. 1) The corporate tax rate of course was reduced from 35.0% to 21.0% 2) MLP investors will receive a 20% deduction for pass through income and also 3) Bonus depreciation was replaced with 100% expensing of capital investments, and that's a pretty nice benefit, income shield, for the foreseeable future for both structures. So, pretty nice outcome from the plan.

Ed Russell: Brian, can we shift to the downstream sector? Touch a little bit on what's going on there. Both historically and your outlook going forward.
Brian Kessens: The downstream sector housed the best performer in 2017, the refiners, which were up over 30% on average last year. We see several positive trends that should continue to positively impact

refiners in 2018 and beyond, including wide crude oil quality differentials, a wide Brent / WTI spread and high Latin American demand for U.S. refined products.

Regarding LNG infrastructure, low domestic natural gas prices make U.S. natural gas exports competitive. For many countries, specifically in Europe and Asia, it's cheaper to import U.S. natural gas than it is to produce domestically. In particular, 2017 was the strongest year for U.S. natural gas exports. According to the EIA, natural gas exports to Mexico were 10% higher on average in 2017 compared to 2016. In 2017, liquefied natural gas (LNG) exports from the U.S. averaged nearly 2 bcf/d. With several additional LNG facilities expected to come online this year and 2019, we believe growth will continue. This creates a significant opportunity for many U.S. companies along the entire energy value chain, including U.S. natural gas producers, natural gas pipeline operators, as well as LNG facilities operators.

We continue to believe renewables will play an increasing role in electricity generation. U.S. wind electricity generation totaled 81 gigawatts (GW) at the end of 2016. That total is expected to increase to 88 GW and 96 GW by the end of 2017 and 2018, respectively. U.S. solar generation at the end of 2016 was 22 GW. With expected capacity additions, that total is expected to increase to 27 GW by the end of 2017 and 30 GW by the end of 2018.

Ed Russell: Rob, can you summarize the Tortoise outlook for 2018?
Rob Thummel: We think there are a lot of reasons to be optimistic with all indications that there is a great deal of new interest in the energy space, a space vital for economic growth. As we begin 2018, energy investors should keep their eye on global energy demand. Here's one thing we do know. If this bitcoin craze continues, then I am confident that demand is going higher. The one thing that I know about bitcoin, is bitcoin is energy intensive. But with our without bitcoin, in our view, 2018 will likely extend the streak of low energy prices to a fourth consecutive year. Global economies are prospering partially due to low commodity prices. Stronger economies around the world boost global demand for energy, and the U.S. is becoming the critical supplier of crude oil, natural gas, propane and gasoline as global demand for these energy products grows. Many of the records set in 2017 related to exporting of U.S. energy.

So, the fundamental backdrop is solid and improving with supply and demand both working in favor of energy companies in the U.S. right now, and increasing exports allowing for an outlet for U.S. produced hydrocarbons, driving the need for infrastructure to support the growing trend.

For MLP investors, and all fixed income investors, keep your eye on interest rates. The 10-year Treasury yield has creeped up to almost 2.7%, and many economists are forecasting several interest rates hikes by the end of 2018. MLPs, though are well positioned to absorb these hikes. First, the current yield of the Tortoise MLP Index® is approximately 7.5% and the yield spread between MLPs and utilities and REITs is 400 basis points and 350 basis points, respectively. In addition, history suggests that MLPs perform well in a rising interest rate environment. Since 2001, there have been 15 periods when the 10-year Treasury yield rose by 50 basis points or more. The average return of MLPs during those 15 periods is 6.8% compared to the S&P 500® return of 5.1% over the same periods.

MLP investors should expect a shift in focus from restructuring and distribution concerns to improving volumes, operating leverage and attractive valuation. And we expect some additional restructuring and IDR collapses this year, but expect these would be done from a position of strength and not generate a negative outcome.

At Tortoise, we believe that the world is in the midst of a major change and the U.S. playing a pivotal role as the low cost supplier of energy to the rest of the world. As an investor, you want to be part of the significant transformation that's happening in the global energy sector, in our view.

Ed Russell: Thank you Rob. So to recap some of the highlights from this discussion:

- We are entering 2018, with a significantly improved energy fundamental outlook.
- Supply and demand fundamentals in the U.S. remain favorable with commodity prices at levels supportive of further production growth.

- Recently, we've seen new fund flows have been outstanding and the crude oil market continues to rebalance.
- We expect exports will only grow as the U.S. is a low cost energy provider to the rest of the world.
- Recent favorable changes to corporate tax rates add to a growing list of competitive advantages for U.S. energy.
- The MLP business model evolution and enhanced corporate governance is expected to continue.
- Our long-term outlook for the midstream sector remains positive as the need for greater pipeline capacity remains.
- MLP valuations are attractive relative to history and other sectors
- We project capital investments in MLPs, pipelines and other organic projects at approximately $125 billion for 2017 to 2019.
- And finally, we're optimistic returns will be compelling across the energy value chain in 2018.

Ed Russell: Okay, then, that concludes our prepared question and answer session. Thank you all for joining us today. We look forward to talking with you again. In the meantime, we invite you to check out our Tortoise QuickTake energy podcast series where we share our views on timely energy events.

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