Tortoise QuickTake Podcast with Brian Kessens
Sept. 28, 2015

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

Brian Kessens: Hi, I'm Brian Kessens, Managing Director and Portfolio Manager at Tortoise Capital Advisors, with this week's podcast. "It's like déjà vu all over again." That phrase coined by the recently departed Yankee great Yogi Berra, aptly described MLP markets last week as they fell 6.3% as measured by the Tortoise MLP Index.

Rewinding…July of 2007 was the last cycle's peak in the Tortoise MLP index which troughed in November of 2008, after declining 53% during a financial crisis the world had never witnessed. In this cycle, August 2014 marked the peak. Since then, the Tortoise MLP index is down 36%, through Friday. While the current crude oil price environment is poor, things do seem overdone at these levels. Similar to the previous cycle when an unwinding of the total return swap market and closed end fund redemptions drove performance. We spoke with several Wall Street trading desks last week all characterized the MLP sell-off as due to technical factors including: hedge fund redemptions and liquidations, closed-end fund deleveraging and retail selling of open-end fund products. The fundamentals don't suggest this weakness. While the current crude oil pricing environment is weak, the financial system and macro picture has been holding, U.S. GDP grew by 3.9% in 2Q) and Janet Yellen is apparently comfortable enough with conditions to raise rates this year.

We believe there's value in MLPs with the Tortoise MLP Index yield above 8% and that given time investors will realize that as well.

In other energy markets, crude oil prices generally stabilized, ending the week stronger by 2.2% after a solid storage withdrawal of 1.9 million barrels and further rig count declines. Yet energy equities did lose some ground with the broadest energy index, the Energy Select Sector Index off by 1.1%.

In energy news…capital market access for energy companies is proving challenging. Weatherford (ticker WFT) found pricing unacceptable for a contemplated $1 billion equity offering to reportedly fund a purchase of divested assets from the Halliburton / Baker Hughes transaction. Though that was the only deal to be pulled…recognizing capital markets pushback and wanting to show strength, Valero Energy Partners had the lone dropdown transaction last week, acquiring terminalling assets with its parent, Valero Energy, financing 100% of the transaction.

Also last week, Dominion Resources authorized the only share buyback of $50 million of Dominion Midstream units over the next year. If needed, we expect companies to continue to show they have additional arrows in their quiver to access capital aside from the public markets.

Moving on to what's ahead…

The only people busier than the White House event planner last week were the management teams and boards of The Williams Companies (ticker WMB) and Energy Transfer Equity (ticker ETE). This week just began with resolution to Williams' strategic process where Energy Transfer Equity agreed to buy Williams for $38 billion, representing a 4.5% premium to Friday's closing price. After negotiating from the initial June offer, the transaction is generally in-line from what was telegraphed to the market over the past couple of weeks.

For the rest of the week, we think it's likely the government passes federal funding, preventing shut down on October 1st, though the unexpected can happen – after all, John Boehner resigned.

We'll be back next week to kick off the fourth quarter.

Narrator: 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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