Tortoise QuickTake Special Edition Podcast with Ed Russell and Brian Sulley

March 2016

Welcome to the Tortoise QuickTake Podcast. Thank you for joining us. Today, members of the Tortoise team provide a timely update on trending topics in the market.

Jen Ashlock: From time to time, we like to address questions that we're receiving from investors in the form of a special podcast. Today, we have Ed Russell, Managing Director, and Brian Sulley, Vice President answering some of the most popular questions.

Ed, let's start with you. In our last special podcast, you asked Selman Akyol three questions, and I'm going to ask you the same questions to get Tortoise's perspective. What is the market telling us right now?

Ed Russell: Well, Jen, the TMLP benchmark is yielding 9.5% currently. Now, that's better than the 10% we saw earlier this year, but it's still at a point where we think it reflects the market's opinion that not only will MLPs not grow their distribution, but it's implying that distribution levels are not sustainable. Also, investors are valuing balance sheets, strength, and excess distribution coverage over distribution growth, which is a change from recent periods, and although the last few weeks have been better, the midstream market, like the broader market, has been trading with crude oil prices.

Jen Ashlock: What is Tortoise's take on what the market is telling us right now?

Ed Russell: Well, first of all, we would not generally apply the concerns of some midstream companies, which are valid, to the entire sector. For example, falling crude prices. Now, crude price volatility that results in reduced drilling activity, particularly over long periods, can affect companies with supply push pipelines; however, many long-haul pipelines, which are more likely to be demand-pull oriented, have seen very little decrease in volume over the recent quarters.

We are not completely through Q4 earnings, but generally the midstream companies' EBITDAs are up year-over-year, and Q4 distributions are up healthily as well. So, we think the midstream business model is actually doing much stronger than the market would reflect.

Jen Ashlock: So, what can we expect for the rest of 2016 and into 2017?

Ed Russell: Well, you've heard us talk a lot about our outlook for 2016 and 2017. I'll just deal with one particular question that I get quite often, and that is has the MLP story changed? Well, the answer to that would be yes for some investors but not for Tortoise Capital Advisors. In 2013 and 2014, we saw the MLP sector expand significantly to include more commodity-sensitive companies, and many of those traded at yields that you would typically associate with a diversified midstream company.

If you were one of those investors that subscribed to that yield that all yields in the MLP space should be fairly consistent, then yes, absolutely the story has changed for you. Where at Tortoise Capital Advisors, we have always focused on the larger investment-grade midstream companies that are basically fee-based cash flows. We felt that those were a way for investors to get better returns over a longer period of time with taking less risk, and those business models have remained very solid. So, from our perspective, the MLP story has not changed.

Jen Ashlock: Alright, Brian, let's move on to you. You've been asked repeatedly, what will it take to spur a recovery for pipelines and midstream MLPs, and what will it look like? With strong returns over the past three weeks, are we finally seeing that?

Brian Sulley: Well, since the market bottomed out on February 11th, MLPs as measured by the Tortoise MLP Index, have returned about 31% through March 3rd, which on its surface looks great. Unfortunately, though, they're still largely tied to crude prices which were up about 32% over the same time period. Ultimately, we're really still looking at the same question, when will pipeline market returns decouple from crude oil prices?

Now, traditionally, we've seen that happen when crude prices trough and the market generally accepts that sort of capitulation, which allows the pipelines to trade back in line with the fundamentals because we've got a little bit more visibility towards near- and medium-term oil prices. I think for that to happen this time around, it's going to depend on global supply and demand starting to move back into balance.

The way we would expect that to happen, or at least how the calculus would likely look in this equation, is that we start with the global daily surplus we ended 2015 with and add to that increases in OPEC production, about half of which are coming from Iran. Then we back out from that the expected global daily increase in demand alongside expected production decreases from the US and the rest of the world. That's really what's driving all those calls we've seen the last few weeks about $50-plus oil in the fourth quarter because all those pieces moving together end up giving us a scenario where finally drawing down oil stocks towards the second half of the year and have a little bit more global demand than we do global supply half the time.

If we're looking at the bearish case behind the scenario, then US production is really going to be the biggest risk overall. Specifically, the two risks towards the US production not decreasing in such a manner that would bring global supply and demand in balance are one, seeing servicing costs decrease at the same rate they did in 2015, which would allow producers to continue to pump while having lower costs to do so, or two, seeing banks continue in some cases to be a little bit more generous with the oil companies and gas companies than they are with other clients in allowing them to continue to pump oil and gas in order to pay down debt service under the hope that commodity prices return to where they were previously, and then these companies can catch back up. What would happen then is we would see global supply and demand not moving into balance maybe into 2017, if not the latter half of that year.

Jen Ashlock: Let's switch gears a bit and talk about distribution cuts, which have been discussed in the context of counterparty risk.

Brain Sulley: Yes, there's a few moving pieces here, but this is when it's important to call back to the most basic description of the pipeline business model, which is volume equals revenue. If we look at 2015 across all the different pipeline subsectors, volumes were up, most visibly in natural gas and refined products, but even in oil there was a marginal increase. That led to seeing, year-over-year, a roughly 10% increase in EBITDA, and we're now looking at the seventh quarter of increasing earnings since we've last had $100 oil.

So, looking forward to 2016, while we do expect oil production to go down slightly, refined products and natural gas supply and demand should be up. With the volumes being at risk primarily in the oil pipeline subsector, we're thinking about a portion of the overall pipeline universe where about a third of the cash flows come from. That's the crude oil pipelines.

The decrease in oil production is expected to be broadly split about 50% between alternative forms of transportation like truck and rail and 50% with crude oil pipelines. So, currently, we're seeing a fairly good coverage ratio in the sector, about 1.15 times, while the volume risk that people are attributing across the sector is mostly applicable to a smaller portion of the subsector, crude oil pipelines.

Now, one thing we have been seeing this last quarter is more companies opting to maintain the distribution instead of grow it. While the MLP sector has a capacity for 5% to 7% distribution growth this year, the market's not really rewarding that growth, so some companies are electing to strengthen their balance sheet instead and forego the maximum amount of growth that is possible.

So, moving onto counterparty risk, one of the questions that we get fairly frequently is about contract renegotiations. While there haven't been many contract renegotiations, the most recent one was between Southwestern Energy and Williams. What we like about this deal is that it looks to be a win-win for both parties. With Williams receiving additional future considerations, it appears to be net neutral for both parties.

Jen Ashlock: Well thanks, Ed, and thanks, Brian. This has been really helpful, and we'll talk to you next time.

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

Disclaimer: *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. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise Capital Advisors believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intent.*

About Tortoise MLP Index®

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.

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.