# Tortoise QuickTake Podcast

January 16, 2018

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

Thanks for joining us today on the Tortoise QuickTake Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

Given this is my first podcast of 2018, I wanted to first say, "Happy New Year." As the calendar flips people are often working on resolutions and goals they want to accomplish. Naysayers often ask, why should simply flipping the calendar matter so much as to whether or not you want to get in shape or lose weight? But in my view, any impetus to bring about change can be powerful and rewarding. The same thing goes for investors. There are certainly fundamental reasons why energy is performing well for 2018, including many of the things that Rob and Matt touched on in our first two podcasts of the year, notably increasing production of oil, natural gas and natural gas liquids, as well as certainty around taxes. But a big part can also be sentiment swinging in your direction. Investors have clearly analyzed returns for the calendar year 2017 and a simple rebalance of portfolios generates a tailwind for last year's worst performing sector, energy.

Whatever the case may be, we'll take it.

Let's start with a recap of market performance:

- On the commodity front, crude oil was higher for the week, up approximately 4.7%, while
- Natural gas was robust, up 14.5% on a significant draw amidst colder weather
- Shifting to equities, the broader S&P Energy Select Sector Index® increased 3.2%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ increased as well, up 3.0%
- And finally MLPs continued their strong start to the year, as the Tortoise MLP Index® improved by 4.2%

It was a busy week, I'll start with commodity moves.

Crude oil was strong for the week as we saw additional draws announced mid-week from the API reported numbers and the DOE reported numbers. A further overhang revolved around President Trump's decision on whether or not to extend waivers on Iran's nuclear deal. The very threat of the U.S. imposing sanctions was enough to keep prices elevated. Ultimately the President decided to extend the waivers until mid-May. However, it came with an ultimatum that puts the ball in Congress' court to come up with a resolution or the waivers will not be extended again.

The outcome from a crude perspective could potentially take somewhere between 500,000 and one million barrels per day of supply out of the world market if the U.S. were to re-impose sanctions.

Coupled with the impact of declining production in Venezuela, the geopolitical risk premium is certainly making its way back into the oil price.

On the natural gas front, it's pretty simple: cold weather equals huge gas demand and declining inventories. In fact, this past week set a record for a storage withdrawal, when almost 360 bcf was taken out of storage to meet heating demand. This brought inventory levels 12% below the five year average, per the EIA, and with the cold weather sticking around, expect more large draws in the upcoming weeks. All supportive for prices and the driver behind the 14% surge this past week.

Shifting gears now, I want to discuss two major conferences we attended last week.

A host of individuals from our team bravely attended a major bank's annual investment conference in Miami. It was rough duty, but we pulled through. When we left K.C. it was about 10 degrees and when we landed in Miami, it was about 75 degrees.

The conference provides an excellent backdrop for what broader energy companies are thinking, primarily attended by large E&Ps, oil field service companies, and refiners. The takeaways were many, but I would highlight two of note:

- One, capital discipline was the main point of interest from investors
  - With a rising crude oil price, investors wanted to know if management teams would accelerate capital spending or stick to their most recent commentary of living within cash flow and/or being more disciplined
  - Many capex budgets will be finalized and announced on 4Q calls, so we'll be watching closely to see how this takes shape
- Two, management teams are not changing their price decks for crude oil and natural gas.
  - Most management teams noted a price deck of $50 for crude oil and $3 for natural gas
  - Professing to not get caught up in the rise in prices, it should be pointed out the forward curve is clearly in backwardation, with outer year prices some $10 below current year prices
  - As such, management teams want to be conservative and not utilize a higher price that could change materially

Almost 2500 miles away, on the other side of the U.S., we had members of the team at an annual MLP conference in Utah. While certainly colder, the outlook was similar.

Main themes from Utah on the MLP front were primarily:

- One, cautious optimism
  - Sentiment is improving, finally moving towards fundamentals, but management teams remain cautious and want to be conservative
- Two, self-funding
  - Management teams are working towards being less reliant on the equity capital markets
  - While this will certainly take time, we believe it has the ability to reduce volatility in the space and hence, drive higher stock prices as a result of of a higher multiple applied to the respective companies
- And three, the fundamental backdrop is solid and improving
  - Supply and demand are both working in favor of energy companies in the US right now and increasing exports allow for an outlet for U.S. produced hydrocarbons, driving the need for infrastructure to support the growing trend

That will do it for today. May all your New Year's resolutions come true and we look forward to speaking with you again soon.

**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.**

**The S&P Energy Select Sector® Index**

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®**

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.

**Tortoise North American Oil & Gas Producers Index SM**

The Tortoise North American Oil & Gas Producers Index SM 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.