

Tortoise QuickTake Podcast with James Mick

April 4, 2016

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.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

March Madness is winding down for college basketball and the Boys of Summer take their place as baseball season started up yesterday. We are excited in Kansas City as the Royals look to defend their World Series crown from last year. In similar fashion, earnings season rolls around again, with less than 2 weeks until the first energy companies take center stage and update the market on the current landscape. We expect a continuation of themes from 4Q calls as well as further clarity on capex budgets across all energy sectors.

As for last week's performance,

- On the commodity front, crude oil ticked down 6.8%, while
- Natural gas moved higher, up a solid 8% for the week
- Shifting to equities, the broader S&P 500[®] Energy Index was down 1.3%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM, were marginally down, returning negative 0.1%
- And the Tortoise MLP Index[®] bucked the crude correlation, increasing 0.5% last week

Starting on the commodity front, the week had its usual bits of volatility.

- For crude oil, data continues to roll in. Despite another expected build in inventories, bullish data has emerged from non-OPEC, non-US countries. Recall from a previous podcast, we shared our crude oil supply/demand walk for 2016, which discussed an expectation of an approximate 400,000 barrels per day decline in supply from non-OPEC, non-US countries. Recent data out of Colombia, Mexico, Brazil and Argentina have all shown declines that could potentially lead to a larger supply drop than we anticipated. This would certainly be beneficial in further bringing supply and demand back into balance in 2016. Stay tuned for more in future podcasts.
- On the opposite end of the spectrum, the crude markets slid on Friday as Saudi Deputy Crown Prince Mohammed Bin Salman stated his country will only agree to a freeze if Iran takes part, something that doesn't appear likely at all, calling into question the often discussed freeze agreement ahead of the planned April 17th meeting
- Natural gas has actually shown a market structure we haven't seen for a while, one of contango and a solid summer/winter spread, incentivizing storage. The spread represents the difference between the price of natural gas in the summer versus the winter and has traditionally showed a positive incentive to store, i.e. a higher winter price compared to summer due to weather and subsequent demand. However, with the increasing supply and certainty provided by shale gas drilling, the spread has remained rather dormant over the last several years. As always, weather will play a large role in natural gas prices as we head into the warmer months and coal to gas switching for electricity generation moves to the forefront.
- The North American rig count was down 20 rigs to 499, including the U.S. rig count falling 14 rigs to 450 total
- Capital market activity continued for MLPs with another company testing the public equity markets, albeit in smaller scale. PBF Logistics, a midstream crude oil storage and logistics company completed a \$53M equity raise on the last day of the month.

- Midstream bellwether Magellan Midstream Partners held their analyst day on Thursday, March 31st.
 - No surprise, their focus was on the stable, fee-based business model that has generated an impressive compound annual growth rate of 13% in distributions since 2001
 - Magellan operates the longest refined products pipeline system in the US at over 9,700 miles, serving the entire Midwest of the United States from the Gulf Coast to the Canadian border, which provides them access to over 50% of U.S. refinery capacity
 - In addition, Magellan has no incentive distribution rights, and in our view, one of the strongest balance sheets in the entire MLP sector with a BBB+ rating
 - Magellan also generated distribution coverage over 1.3x for 2015 and expects at least 1.2x for 2016
 - Despite some of the headwinds facing many other MLPs, Magellan has indicated it expects to grow its 2016 distribution by at least 10% and at least 8% in 2017
 - Magellan noted growth will continue to be focused on key areas around the mid-continent region and the Gulf Coast. We believe they are uniquely positioned to take advantage of export opportunities of crude oil and refined petroleum products

That wraps up our commentary for today, thanks for listening and we look forward to speaking with you next week.

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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About Tortoise North American Oil & Gas Producers IndexSM

The Tortoise North American Oil & Gas Producers IndexSM 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.

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