Tortoise Capital Advisors

Tortoise QuickTake Podcast

May 23, 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.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

The energy sector, as represented by the S&P Energy Select Sector® Index, delivered positive performance last week, outperforming the S&P 500® Index by 1%, sending a clear sign that sentiment around the energy sector is becoming more positive.

Oil and gas producers stocks, represented by the Tortoise North American Oil and Gas Producers Index℠, moved higher by 2% last week. MLPs, represented by the Tortoise MLP Index®, gained 4%.

Oil prices increased by 3%, while natural gas prices declined by 8% last week. Oil prices were supported by unexpected supply disruptions as well as a continued decline in U.S. production. There continues to be little margin for error in OPEC production. Last week, Nigerian rebels attacked a key oil pipeline, reducing the output of this OPEC producer by 800,000 barrels per day. Additionally, wildfires near the Canadian Oil Sands town of Fort McMurray in Northern Alberta reduced Canadian oil production by as much as 1 million barrels per day. Lastly, U.S. oil production fell for the tenth consecutive week and for the 16th time in the last 19 weeks. All of these events are accelerating the pace at which global supply and demand will come into balance.

The Energy Information Administration, or EIA, issued a report last week that projects a 48% increase in world energy consumption by 2040. This equates to an annual growth rate of 1.4% per year. Looking inside the numbers, global liquids demand including oil is forecasted to increase every year by an average of 1.1 million barrels per day. Demand for renewable energy is expected to increase by an average of 2.6% per year, and natural gas consumption is forecasted to grow by 1.9% per year. This report highlights the critical nature of the energy sector and the basic need that energy companies serve. Think about it. Most of us can handle not using our cellphone for a few hours or maybe even a day, unless you are my 13-year daughter. However, if your electricity is out for a day or the potential of a gasoline shortage exists, we all freak out.

Moving onto news in the upstream sector. Range Resources announced its intention to acquire Memorial Resource Development Corp. for $4.4 billion. This transaction is a bit unconventional as Range is one of the largest producers in the Marcellus Shale and they are acquiring natural gas reserves outside of their core operating area. The latest EIA drilling productivity report was released last week as well. It estimates June crude oil production will fall by another 100,000 barrels per day with the largest declines occurring in the Eagle Ford and Bakken. Lastly, two companies announced individual well results that were significant. The first was Continental Resources who announced a record well in Oklahoma's STACK play. The SCOOP/STACK play in Oklahoma is quietly emerging as another significant oil production region in the U.S. A second well announced by Eclipse Resources was significant as well. Eclipse announced it drilled the longest, horizontal, onshore lateral well ever in the United States. The well was drilled in eastern Ohio with a lateral extension over 18,500 feet in 18 days. The lateral length of this well is over three and a half miles. This engineering feat has to qualify for some reality show like Modern Marvels or Extreme Engineering.

In midstream news, I was interested in the market's reaction to the Fed's commentary on the potential of rising interest rates. Yield-oriented MLPs and pipeline corporation's traded lower briefly before bouncing back by the end of the last week. In fact, MLPs were the best performing sub-sector within energy last week. Now, this is not surprising as our analysis indicates MLPs and pipeline corporations have performed well in rising rate environments. Looking back at the last twelve times that the U.S. 10-year has increased by at least 50 basis points over one or more consecutive months, the Tortoise

North American Pipeline Index[SM] has delivered an average positive return of 5.4%. The spread between the current yield on the Tortoise MLP Index® of 8% and the 10-year treasury yield of 1.9% is approximately 610 basis points. This spread is higher than the average spread over the last five years of 414 basis points leaving plenty of room for continued yield compression in the MLP sector. In other midstream news, Shell Midstream Partners was back in the capital markets last week announcing a drop-down transaction from its parent Royal Dutch Shell, and an associated $350 million equity offering. In addition, Tallgrass Energy increased its 2016 financial guidance and extended its long-term guidance through 2018.

Lastly in downstream news, gasoline demand set a record with the highest seasonal level in at least a decade. Average four-week demand for gasoline is almost 6% higher than the same period last year. Also, gasoline prices are expected to be at an 11-year low for drivers when the summer driving season officially begins on Memorial Day weekend. Also of interest, an EIA report last week highlighted that carbon dioxide emissions from electricity generation total 1,925 million metric tons in 2015. That might not mean much to you but this will. Carbon dioxide emissions are the lowest since 1993 and 21% below their 2005 level. The shift away from coal to natural gas is making a difference in reducing emissions and improving the environment.

Those are the highlights from last week. Thanks for listening. We will talk to 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

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.

About Tortoise North American Oil & Gas Producers Index℠

The Tortoise North American Oil & Gas Producers Index℠ 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.

About The Tortoise North American Pipeline Index℠

The Tortoise North American Pipeline Index℠ is a float-adjusted, capitalization weighted index of pipeline companies headquartered in the United States and Canada. A pipeline company is defined as a company that either 1) has been assigned a standard industrial classification ("SIC") system code that indicates the company operates in the energy pipeline industry or 2) has at least 50% of its assets, cash flow or revenue associated with the operation or ownership of energy pipelines. Pipeline companies engage in the business of transporting natural gas, crude oil and refined products, storing, gathering and processing such as gas, crude oil and products and local gas distribution. The index includes pipeline companies structured as corporations, limited liability companies and master limited partnerships (MLPs).

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.

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