Tortoise QuickTake Podcast

November 14, 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 QuickTake Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital Advisors.

About four weeks ago on this podcast, I spoke about how investors must be cautious when everyone is stating an outcome as fact. I was generally speaking about commodities and investments. Who knew it would be foreshadowing a political outcome as well. It was mostly a foregone conclusion that Hillary Clinton would win the presidency and on Tuesday night, November 8th, the U.S. and the world were shocked when Donald Trump prevailed. Additionally, Republicans now control both chambers of Congress. As such, our government policies will undergo several changes. Our job is not to opine on the election or our political views, but rather to discern what impact the new administration will have on the companies within the portfolio and the prospective companies across the entire energy landscape.

The main question we've heard from investors this past week has been, "what impact does a Trump presidency have on energy broadly and more specifically on MLPs and midstream?"

It's a great question, so let's start out at a higher level and work our way down.

First, let's examine what Trump's stated growth initiatives are for the economy as a whole:

1. Reduce taxes on corporations and individuals
2. Deregulation of various sectors of the economy, including energy
3. Infrastructure spending

This is certainly not an exhaustive list, but captures the essence of the message he has delivered regarding the economy.

In short, we expect a more pro-business environment.

As it relates to energy, the Republican victories create a more constructive environment to operate in, and in our view, are generally positive for energy.

It is our understanding that a Trump administration will focus on

1. Supporting infrastructure buildout
2. Growing oil and natural gas production, and
3. Reducing carbon regulation

We expect producers to benefit from less regulation, more opportunities to drill on Federal lands and an environment that encourages the production of domestic energy sources.

We expect midstream companies to benefit from less regulation, a more constructive permitting environment on pipelines and increased spending on infrastructure.

We expect downstream companies to benefit from less regulation as well.

Contrary to some views, we don't have a doomsday scenario for renewables. Rather, it is our understanding that the investment and production tax credits for solar and wind respectively, are likely to remain in place.

In general, we feel the energy outlook is one of an "all of the above" strategy. However, we believe it is one that will likely eliminate some of the burdensome regulations and instead focus on the economics of the underlying projects.

To be clear, all of this could change as we are essentially in uncharted territory.

And while the initial view looks positive, it's important to remember that President-elect Trump must work with Congress to accomplish many of these goals. Additionally, many energy policies and regulations reside at the state level, which can vary substantially from the Federal view, depending on the state.

And let us not forget about supply and demand. Those will ultimately be the key drivers of how energy plays out, but clearly the election results have been received as a positive.

On that note, let's take a quick look at market performance this past week:

- On the commodity front, crude oil was down about 1.5%, while
- Natural gas was down big, 5.4% for the week on warmer weather
- Shifting to equities, the broader S&P Energy Select Sector Index® finished higher, rising 2.6%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ increased as well, up 2.0%
- And finally MLPs were very strong, as the Tortoise MLP Index® finished up 4.2%

It should be noted, MLPs traded very well despite the sharp rise in the yield on the 10-year Treasury. That's consistent with historical data we have observed, but is a question we anticipate answering often moving forward. We'll save that for another podcast.

So energy markets responded favorably in the short-term and rightfully so given the campaign rhetoric. But while the regulatory environment is likely to be more constructive, we remain diligently focused on fundamentals, as that is the ultimate driver.

That will do it for today. Have a great week 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

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 North American Oil and 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.

The 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 publiclytraded 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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