

Tortoise QuickTake Podcast

November 21, 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 Brian Kessens, Managing Director and Portfolio Manager at Tortoise Capital Advisors with this week's QuickTake podcast.

Last week the driver of energy sentiment was OPEC's inspired confidence following informal discussions among member countries and Russia that a detailed agreement to reduce oil supply would be reached at their November 30 meeting. Key to the improved cut likelihood were comments from Saudi Arabia's energy minister who thinks OPEC will reach a deal to cut oil output and said a production ceiling of 32.5 million barrels a day (over 1 million barrels per day below current levels) would speed the balancing of supply and demand. This rhetoric led crude higher by 4.9% last week. That jump occurred despite the U.S. rig count increasing by 20 and the third consecutive weekly crude oil inventory build, this time at 5.2 million barrels. Increased inventories were to blame, rising to 8.4 million barrels per day, offset somewhat by higher refinery utilization, which topped 89%.

Natural gas inventories increased 30 Bcf, leaving a record 4.047 Tcf in storage after another week of warm weather. It's notable the past six weeks have been 34% warmer than normal, leading to the large storage overhang. The forecast for colder weather in the near term, however, drove natural gas prices higher by 8.6% last week.

No surprise that energy stocks then were higher. Specifically, MLPs gained 2.4%, producers 3.1% and broader energy 1.6%.

On the news front:

In the week's largest M&A transaction, Tesoro Corporation announced the acquisition of Western Refining for \$6.4 billion, or at a 22% premium to the previous close. The deal diversifies Tesoro's largely West Coast geographic footprint into the growing Permian basin and results in a company with 1.1 million barrels per day of refining capacity.

In capital markets, HollyFrontier Corporation re-opened their existing notes due 2026 and raised another \$750 million in the largest investment grade bond offering of the week. In the biggest equity deal last week, Weatherford International, the fourth largest oilfield services company, issued new shares and warrants, potentially raising up to \$1 billion, used largely to reduce the company's debt load.

On the regulatory front, the Army Corps of Engineers, continued to hold off on issuing an easement for the Dakota Access Pipeline until additional discussion is held with the Standing Rock Sioux Tribe. Energy Transfer and Sunoco Logistics subsequently announced they're seeking Federal court intervention to stop interference to complete the pipeline.

We attended an MLP conference last week. Versus last year, we saw more long-only investors and fewer hedge funds. Overall sentiment was positive, underpinned by accelerating producer activity and a recognition that balance sheets are improving, distributions secure and organic projects are moving forward. Company commentary was balanced – clearly mindful of lessons learned over the past two years of elevated commodity price volatility. Consistent areas of commentary were

1. The new Presidential administration is viewed positively on regulation
2. There was acknowledgement that more consolidation is likely, and
3. Some companies were more forthcoming about a need to restructure incentive distribution rights to lower the cost of capital

This week, expect trading volume to incrementally lighten into the holiday shortened week. We're likely to continue to hear oratory from OPEC in front of their meeting in Vienna on November 30th. And refiners are anxiously awaiting the EPA's expected announcement any day now of the final 2017 renewable fuel standards volume requirements.

To close, we at Tortoise appreciate your ear and attention to our weekly podcasts and your trust in us to manage your investments. Thank you from all of us.

Happy Thanksgiving.

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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