Tortoise QuickTake Podcast

November 28, 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.

Happy Holidays to everyone, and I hope each of you enjoyed your Thanksgiving holiday with friends and family. Since 2012, the S&P 500® Index has delivered a positive return during the week of Thanksgiving. Last week extended this streak with the S&P 500® rising by 1.5%. The energy sector performed well also with the S&P Energy Select Sector® Index increasing by a little over 2%. Oil and gas producers as represented by the Tortoise North American Oil & Gas Producers Index℠ rose by almost 3%, while MLPs represented by the Tortoise MLP Index® were modestly higher by 40 basis points.

Since Donald Trump was elected President, the S&P 500® Index has risen by almost 4%. Energy stocks have performed even better with the Energy Select Sector Index up 5% and the Tortoise MLP Index® higher by 6%. The outperformance of the Tortoise MLP Index® is even more exaggerated when compared to other dividend-oriented equity securities like REITs and utilities. Since November 8th, the Dow Jones Utility Index has declined by 4%, while the Dow Jones Equity REIT Index has fallen by almost 1%. The weaker performance of REITs and utilities is associated with the almost 50 basis point rise in the 10-year Treasury note. However, MLPs have remained resilient due to higher current yields and wider spreads to the 10-year, as well as MLPs' demonstrated history of growing distributions over time.

Commodity prices were mixed last week. Spot oil prices fell by 2%, while natural gas prices increased by 6%. The countdown is on to the 171st OPEC meeting. Once again, there is a showdown expected in Vienna on November 30th with the stakes being high. Early last week, oil prices increased as optimism rose regarding an OPEC agreement to cut production; however, by the end of the week, the optimism faded with news of the cancellation of a meeting between Saudi Arabia and Russia, sending spot oil prices into negative territory. The stakes are high for this meeting as the majority of analysts believe that OPEC members will reach a formal agreement to cut production volumes to 32.5-33 million barrels per day. Failure to reach an agreement likely brings significant volatility back into the oil prices, resulting in short-term declines in prices. In our view, lower oil prices mean that OPEC member budget deficits persist and the humanitarian crisis in countries like Venezuela deepens. If an agreement is reached, oil prices will likely move higher but remain range-bound as the oil market waits for OPEC members to prove that they will adhere to the stated production quota. History has proven that OPEC doesn't always do what they say they are going to do, but economics never lie. To this point, oil and gas producers in the U.S. have lowered costs to become very competitive in the global oil markets. These producers will continue to focus on producing low cost crude oil despite whatever action OPEC takes. In short, U.S. shale oil is here to stay.

Last week offered several notable news items across the energy sector, despite being a holiday-shortened week. We believe the most significant news to come out of the midstream sector was MLP Sunoco Logistics Partners' announcement of its intention to acquire another MLP, Energy Transfer Partners, in the only deal of its kind last week. We thought this announcement was a bit of a head scratcher as the smaller $9 billion Sunoco Logistics is acquiring the larger $20 billion market cap Energy Transfer Partners, yet the combined company will be called Energy Transfer Partners. Management's stated rationale for the merger includes commercial synergies, cost reductions and simplification of the Energy Transfer family organizational structure. The ultimate goal is to reduce the cost of capital to better compete for future acquisitions. Regardless, the initial market response to the transaction was not positive as the stock prices of both Energy Transfer Partners and Sunoco Logistics fell by 10% and 9%, respectively last week. The transaction requires a vote by Energy Transfer Partners shareholders that is expected in the first quarter of 2017.

In the only upstream news of its kind last week, Permian Basin producer Concho Resources paid $430 million to acquire approximately 16,000 net acres in the northern Delaware Basin in New Mexico. The acquisition of this acreage allows Concho to double the number of longer horizontal wells that they can drill in the northern Delaware Basin. Consolidating and blocking up acreage in the Permian Basin has been a common theme across the upstream sector in 2016 as oil and gas producers look to become some of the lowest cost producers in the global oil markets. One way to accomplish this is to drill longer horizontal wells. Concho shares responded positively to this news, rising over 3% last week.

Lastly, in downstream news, hedge fund manager Elliott Management sent a letter that they made available to the public to a downstream refiner, Marathon Petroleum, with several suggestions to unlock shareholder value. The first recommendation proposed a drop down of all of the MLP qualifying assets into its MLP — MPLX immediately. A second recommendation requested that Marathon management perform a strategic review of its current structure to evaluate separating the company into three separate entities — a refining company, a midstream company and Speedway. MPC shares rallied on this news, ending the week 11% higher. MPLX also outperformed the MLP benchmark, rising by 2%.

Those are 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.

S&P 500® Index
The S&P 500® Index is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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 & 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.

The Tortoise MLP Index®
The Tortoise MLP Index® is a float-adjusted, capitalization-weighted index of energy master limited partnerships. 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.

Dow Jones Utility Average Index
The Dow Jones Utility Average Index is a price-weighted index composed of stocks of 15 utility companies listed on the New York Stock Exchange.

Dow Jones Equity All REIT Index
The Dow Jones Equity All REIT Index represents all publicly traded real estate investment trusts in the Dow Jones U.S. stock universe classified as Equity REITs according to the S&P Dow Jones Indices REIT Industry Classification Hierarchy. These companies are REITs that primarily own and operate income-producing real estate.

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