Tortoise QuickTake EnergyPodcast

Tortoise

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide 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.

Last week something completely unexpected happened. You guessed it – for the first time ever #16 seed UMBC upset #1 Virginia in the NCAA basketball tournament. It must have been the week for the unexpected. Another four letter government institution – the Federal Energy Regulatory Commission or FERC made a surprise announcement that sent shock waves through the MLP sector with investors expressing many four letter words in reaction to the announcement. Of course, I am talking about FERC's announced revision to its policy that will no longer allow an MLP operating a pipeline to recover an income tax allowance in its cost of service rates.

As a result of the announcement, the stock prices of MLPs as represented by the Tortoise MLP Index® fell by 3% last week. The energy sector, as represented by the S&P Energy Select Sector® Index, fell by 0.8% while oil prices posted gains rose by 0.5%. In our opinion, the most relevant news supporting the move higher in oil related to an OPEC internal debate on the appropriate oil price level. Saudi Arabia wants $70 oil while Iran $60. At Tortoise, we are happy with either as both signal stability of oil prices. Stable oil prices will bring back investors to the energy and energy infrastructure sectors.

Moving on to FERC's decision. Immediately after FERC's announcement last Thursday, my fellow portfolio manager Matt Sallee and Tortoise client portfolio manager Brian Sulley recorded a special podcast that contains a lot of great information. I would encourage you to listen to it. Let me give a few updates to the information presented last week. First, we emphasized how we expected the impact of the FERC's decision to be immaterial. Specifically, we expected the FERC announcement to impact the cash flows of our portfolio companies by 2% or less. This has now been confirmed by the management teams across the MLP space. As of last Friday, almost all of the MLPs that operate FERC-regulated pipelines had issued press releases confirming that the FERC decision is not expected to have a material financial impact. The one exception was Enbridge Energy Partners that expects cash flows to be reduced by 9% of current EBITDA. You might be asking yourself - how can this decision not have an impact on pipelines operated by MLPs? FERC does serve an important role in protecting customers by regulating pipelines that operate with limited to no competition. However, the emergence of the U.S. as a significant producer of oil and natural gas over the past decade has created the need for a significant amount of new energy infrastructure. The growing need for new energy infrastructure has increased the competition as new projects have been built. Due to increased competition, the free market has taken over from the FERC in establishing pipeline transportation rates that are fair and reasonable for pipeline operators as well as pipeline customers or shippers. We do not expect this to change. We expect a significant amount of new pipelines to be constructed over the next couple of decades to transport rising U.S. oil and natural gas production volumes. We believe that all of the pipelines constructed will be supported by negotiated rates between the pipeline operator and customers allowing the market not the FERC to decide a fair and reasonable rate.

Another relevant question is will the FERC decision result in changes to MLP distributions? At Tortoise, we don't expect widespread distribution cuts as a result of the FERC's decision. We still believe that current yield is a great reason to invest in the MLP sector. The current yield of the Tortoise MLP Index® is 8.5% - very compelling given REIT and utility yields below 4%. If you are an investor looking for a 10% return from the broad stock market, getting a significant amount of your expected return in the form of a cash distribution seems attractive, in our view.

Of course, there are other compelling arguments as to why we think you should own MLPs. Another reason is that cash flow growth drives value. At the most fundamental level, higher cash flow will eventually be rewarded by investors in the stock market. MLPs have a history of growing cash flows. We do not expect the FERC decision to alter the cash flow growth of the companies that we are invested in. At Tortoise, we still expect cash flow growth of our portfolio companies to exceed 10% in 2018.

The last reason we believe owning MLPs is the low risk nature of the MLPs assets. Companies in the U.S. own and operate over 200,000 miles of liquids pipelines that transport approximately 12% of the global oil and natural gas liquid production in the world. In addition, U.S. companies own and operate over 300,000 miles of natural gas transmission pipelines that transports over 20% of global natural gas production. Many of these assets are operated by MLPs. Clearly food, water, and shelter are the most basic needs. However, turning on your lights, heating and cooling your house, and driving your car have become basic necessities for most of us. The entire energy infrastructure asset network is critical to providing the basic necessities of their lives. With growing demand for low cost U.S. oil and natural gas throughout the world, MLPs are assisting in improving the quality of life in other areas around the world as well.

So in summary, we believe the energy infrastructure asset class, including MLPs, offers many compelling attributes. MLPs offer investors high current yields with growing cash flows supported by multi-year backlog of pipeline projects while operating critical infrastructure assets.

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 is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

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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