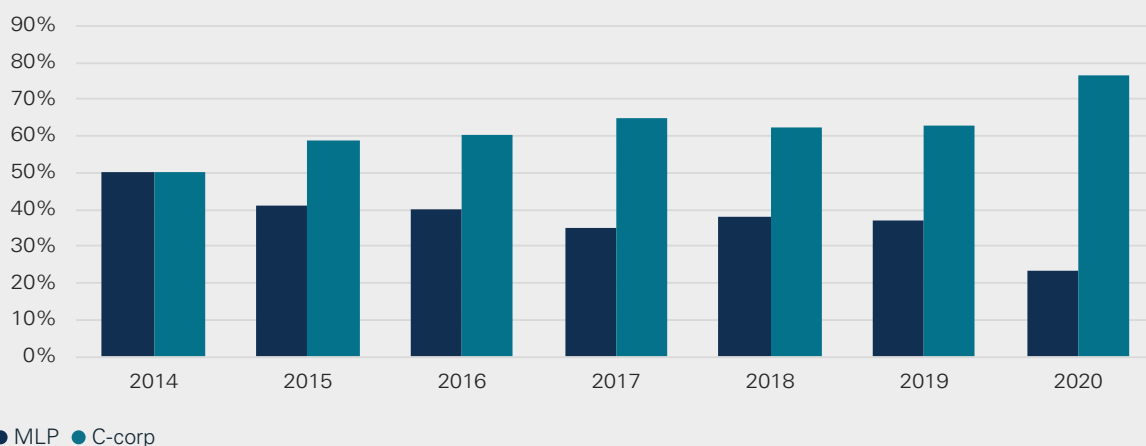


Choosing the right index for midstream energy

Indices that appear very similar on the surface may represent the desired asset class in materially different ways, often driving different risk/return characteristics. We believe this rings particularly true when investing in midstream energy, where the importance of corporate structure for both product and security create disparities that can often be even more dramatic. The midstream energy sector has undergone some major changes in recent years and we feel that it is time to review the indices that track the sector to make sure that they still accurately represent today's midstream investing environment. Sector dynamics have shifted as many simplifications/mergers have occurred, sources of capital have changed, tax reform plans were put into effect (both broad and industry specific) and regulations continue to evolve.

Midstream energy companies can be structured one of two ways: as an Master Limited Partnership (MLP) with no corporate tax, or as a C-corp, a traditional taxable corporation. Although MLPs have become synonymous with midstream energy, the pipeline universe is much broader with MLPs comprising about three quarters of the pipeline universe¹, and if you look on a float-adjusted basis as shown in the chart below, they comprise even less. While we still believe achieving a diversified portfolio purely through MLP exposure is possible, it's certainly much more difficult than it used to be. At Tortoise, we're firm believers in the fundamentals of pipeline companies, regardless of the corporate structure. We think that an all-inclusive pipeline index may more accurately represent the risk/return profile that investors are looking for.

Investable pipeline market by structure



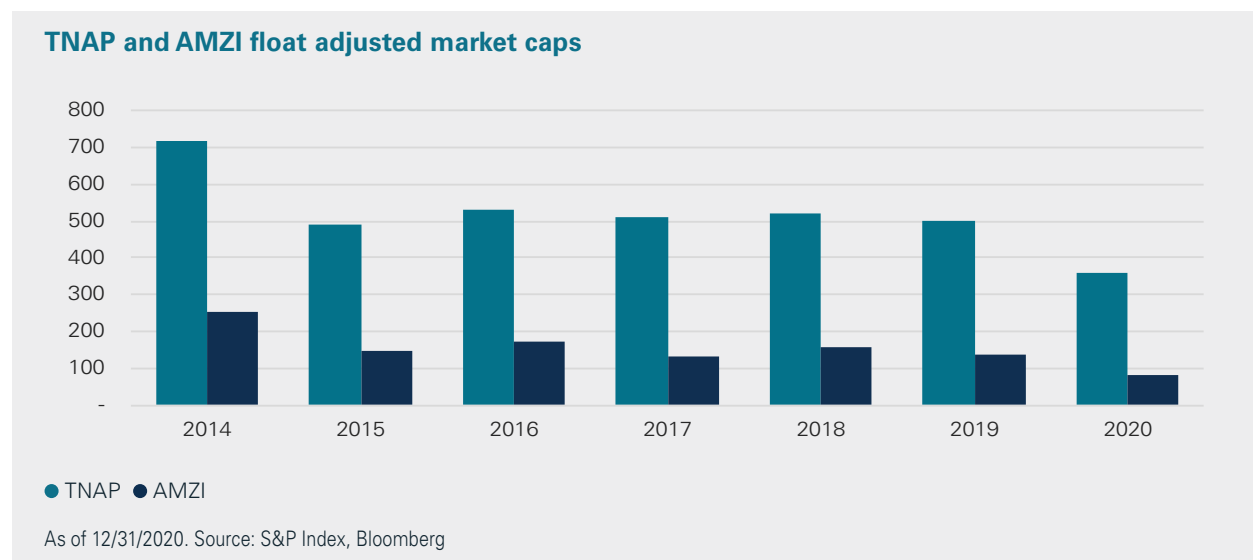
As of 12/31/2020. Float-adjusted market capitalization. Source: Bloomberg

¹As of 12/31/2017. Source: Bloomberg

At the end of Q4 2020, although the total market cap of midstream MLPs was \$159 billion, the actual float adjusted market cap was only \$83 billion. While \$83 billion may seem like a big number, it's actually a very low number for an entire asset class. The market cap of the S&P 500 Index is approximately \$35 trillion and the market cap for Energy Select Sector SPDR (XLE) is \$737 billion.

A quick assessment of the liquidity of the MLP asset class can further emphasize the relative size of the space in 2020. Based on existing Alerian MLP Infrastructure Index (AMZI) constituents, and assuming 25% of volume is reasonable, approximately \$20 million is tradeable in a single day based on the liquidity of the individual AMZI constituents. With more than \$10 billion in passively managed MLP products there is significant potential risk and enhanced volatility since even only 2-3% of the money coming out could very easily create a liquidity event.

There is more to midstream energy investing than just MLPs, and Tortoise North American Pipeline IndexSM (TNAP) is our representation of the complete midstream universe. With 57 names in TNAP compared to only 19 names in the AMZI, investing in the broad midstream sector provides a more diversified portfolio with significantly less concentrated exposure and more market cap, as noted in the chart below.



Based on the chart, it's becoming increasingly difficult to achieve a passive diversified MLP-only portfolio. With MLPs representing roughly one-quarter of the total midstream market cap, asset managers are realizing that in order to provide a complete and diversified midstream portfolio, non-MLP pipeline companies must be included.

In addition to the benefits provided by a much larger and more diversified universe, midstream indices with a broader strategy have historically provided better returns, lower volatility and thus better risk-adjusted returns.

TNAPT vs. AMZIX - Indexed 5-year total returns



As of 12/31/2020. Source: S&P Index, Bloomberg
It is not possible to invest directly in an index.

	TNAPT	AMZIX
Returns		
10-year	5.8%	-2.1%
5-year	4.6%	-7.0%
3-year	-4.2%	-13.7%
1-year	-20.9%	-31.5%
Std. Deviation		
10-year	20.2%	29.2%
5-year	24.2%	37.9%
3-year	29.7%	46.8%
1-year	45.2%	75.7%
Sharpe Ratio		
10-year	0.39	0.08
5-year	0.01	0.02
3-year	0.02	-0.06
1-year	-0.27	-0.08

While current valuations and strong market fundamentals are attracting investors into the midstream space, we think it's important to pay attention to the changing dynamics and how it might affect indices and the passive products that track them. The recent trend toward conversions is changing the general characterization of MLP centric indices. As the MLP universe shrinks, it represents an even smaller portion of the pipeline asset class. We believe a concentrated MLP position and the inclusion of a product with broader midstream exposure has historically provided investors greater diversification, lower volatility and higher total and risk-adjusted returns.

For investors looking for exposure to midstream energy pipelines, they may want to consider a broader index that will likely provide a better proxy for this evolving universe

Disclosures

The characteristics provided for the index are illustrative of the characteristics of an asset class and are not indicative of the performance of any investment product. The historical data of the index prior to its inception date was calculated on the same basis on which the index is currently calculated. Past characteristics are no guarantee of future results. It is not possible to invest directly in an index.

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The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX). The Alerian MLP Infrastructure Index is a composite of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZI) and on a total-return basis (AMZIX). Energy Select Sector SPDR Fund (XLE) tracks a market-cap-weighted index of US energy companies in the S&P 500. 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.

For additional information on TNAP, please call 844-TR-INDEX (844-874-6339) or visit www.TortoiseEcofin.com.
For more information on AMZ or AMZI, visit www.alerian.com.

It is not possible to invest directly in an index.