TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Good to be with you today, I am Quinn Kiley, Managing Director and energy Portfolio Manager at Tortoise and I am happy to be with you for this week's Energy Podcast. As we enter the fourth quarter, the market continues to be volatile due to the possible economic implications of COVID-19, for both good and bad. Last week we saw the President and many members of his administration be exposed to the virus and the market moved accordingly. Early in the week the market popped on the news that President Trump's condition was improving to the point that he was able to return to the White House. Markets reversed when the President tweeted there would be no additional stimulus until after the election, despite calls from the Federal Reserve to support the recovery with additional fiscal support. The market reaction appeared to be violent enough to lead the President to express support for some form of direct fiscal stimulus to taxpayers. The combination of a pandemic and election year politics is a recipe for a rocky ride for markets near term.

Despite the mixed messaging markets were generally positive:

- The Alerian MLP Index finished up 8.4%, but remains down over -41% year to date
- Other energy stocks, represented by the Energy Select Sector SPDR (XLE), was up 5% for the week
- In broader markets, the S&P 500 gained 3.9% for the week, its best week in months, and the ten-year treasury inched higher to a yield of 77 basis points.

As the pandemic ensues and the economy reopens we continue to watch for signs that demand for energy is resurfacing. On that front, we saw an overall draw in total petroleum inventories last week, as reported by the Department of Energy. Refinery utilization increased from the prior week, running at 77% of operating capacity. These bullish data points were offset by a modest crude oil inventory build, which caused WTI oil prices to lose some of the momentum they had established earlier in the week. Energy commodity prices were boosted later in the week by yet another storm in the Gulf of Mexico which threatened to disrupt over 90% of offshore oil and gas production. Hurricane Delta is the record tenth named storm to hit the U.S. this year. Globally, we see mixed industry data as well. Chinese refinery runs topped pre-COVID levels while India refineries were operating closer to COVID lows. Finally, there was word out of Saudi Arabia that a planned increase in production may be delayed until the end of the first quarter of 2021, another positive for prices.

For many midstream companies we are in distribution or dividend announcement season. Given poor equity price performance year-to-date many of these companies are trading at high yields. In specific company news, Enterprise Products Partners (EPD) and Plains All American Pipeline (PAA) are both yielding over ten percent and announced flat distributions quarter over quarter. At a ten percent yield, investors will have one hundred percent of their purchase price returned to them in just over seven years. We think that is compelling and only assumes a flat distribution throughout the period. In other company specific news, Energy Transfer announced that chairman of the board Kelcey Warren will give up his CEO role and CFO Tom Long and COO Mackie McRea will split the role as co-CEOs. While Kelcey will stay involved with the strategic direction of the company, we generally view splitting the chairman and CEO roles as a positive for governance.

Another way investors can see a return on their capital is through equity buybacks. We have been preaching that the companies we own should use the free cash flow they are generating to buy in their own equities if they are undervalued. This is a widely used tactic in the broader equity markets, but historically has not been adopted by energy infrastructure companies. The free cash flow inflection we are seeing in the group may be a catalyst for this practice to change. Last week Targa Resources (TRGP) announced a $500 million stock buyback program. The stock reacted positively, outperforming the Index for the week by posting a gain of 17%. We are actively telling other companies that have the wherewithal to consider doing a similar program. At the right valuations, these transactions should boost share prices and be cash flow accretive. With that outlook, we look forward to third quarter earnings season, which kicks off next week with Kinder Morgan (KMI).

Thanks for joining us and we will be back next week. Please stay safe.

Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseecofin.com.

The S&P 500® Index is a market-value weighted index of equity securities.

Alerian MLP Index is the leading gauge 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 (AMZ) and on a total-return basis (AMZX).

Broad Energy = 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.

Producers = Tortoise North American Oil & 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.

MLPs = 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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