

# Tortoise North American Energy Infrastructure Fund

A sub-fund of Tortoise SICAV

## 1Q 2019 QUARTERLY COMMENTARY

### Investment strategy

The fund will primarily invest in securities of North American midstream energy infrastructure companies. Midstream energy infrastructure companies own and operate a network of asset systems that transport, store, distribute, gather and process natural gas, natural gas liquids (primarily propane), crude oil or refined petroleum products.

**The energy sector bounced back strongly after a dismal end to 2018 returning 16.3% during the first quarter, driven partly by both planned and unplanned curtailments from The Organization of Petroleum Exporting Countries (OPEC) that lifted crude oil prices more than 30%, their strongest quarter since 2009. Macro themes that caused headwinds at the end of 2018, specifically concerns of Fed tightening appear to have abated somewhat and the government seems to be edging closer to a trade war solution. Following a solid earnings season, midstream energy is gaining back favor with strong fundamentals and the winding down of restructurings driving strong performance for the first quarter.**

### North American pipeline sector update

The Tortoise North American Pipeline Index<sup>SM</sup> improved in the first quarter by 21.7% and the Tortoise MLP Index<sup>®</sup> by 17.6% for the same period. Fundamentals continue to show strength on the back of higher production. Partly due to greater need to export crude oil and natural gas, the organic growth opportunity for midstream companies is healthy at approximately \$124 billion for 2019 to 2021.

With lower leverage and improved distribution coverage, there is visibility to funding the equity portion of projects with discretionary cash flow. Additionally, private equity interest in midstream is healthy to help fund larger projects. To illustrate, Targa Resources recently sold a 45% interest in its Bakken energy infrastructure assets to GSO Capital Partners and Blackstone for \$1.6 billion. The transaction, valued at a 15x multiple of cash flow, assisted Targa Resources in meeting its 2019 equity needs and exemplifies how private equity investors are valuing the cash flows of energy infrastructure companies at a higher value than public investors.

### Capital markets

Capital markets activity remained challenged compared to historical averages in the first quarter with midstream companies raising approximately \$12 billion in total capital, with almost all of the issuance in debt. Alternative options for raising capital remain available, including joint ventures, partnerships, partnerships, private investment & public equity (PIPE) and sale of non-core assets.

Merger and acquisition activity among midstream companies was relatively light during the first quarter with approximately \$3 billion in announced transactions. The largest announced transaction for the quarter was EQM Midstream Partners acquiring additional midstream assets in the Appalachian Basin for approximately \$1 billion.

Private equity companies continue to acquire midstream assets, spending approximately \$12 billion in the first quarter. We expect midstream companies to continue divesting non-core assets to private equity investors to help finance growth projects and decrease leverage.

Energy sector = S&P Energy Select Sector<sup>®</sup> Index

Equity market = S&P 500<sup>®</sup> Index

Pipeline companies = Tortoise North American Pipeline Index<sup>SM</sup>

MLPs = Tortoise MLP Index<sup>®</sup> (TMLP)

## Key quarterly asset performance drivers

Top five contributors	Company type	Performance driver
Kinder Morgan Inc	Midstream natural gas/natural gas liquids pipeline company	Dividend increase of 25% and announced share buyback authorization
Williams Companies, Inc	Midstream gathering and processing company	Delivering efforts through joint venture and asset sales
ONEOK, Inc	Midstream natural gas/natural gas liquids pipeline company	Initiated 2020 EBITDA growth guidance of 20%
Transcanada Corp	Midstream natural gas/natural gas liquids pipeline company	Delivering efforts through asset sales
Cheniere Energy Inc.	Midstream natural gas pipeline company	Greater visibility to additional liquefied natural gas (LNG) infrastructure buildout

Bottom five contributors	Company type	Performance driver
Altus Midstream Company	Midstream natural gas pipeline company	Largest counterparty, Apache, lowered 2019 capital investment
Nextera Energy Partners LP	Downstream power company	Poor performance from wind generation portfolio
Tallgrass Energy LP	Midstream natural gas/natural gas liquids pipeline company	Announced partial Blackstone acquisition of shares disappointed investors
Dominion Energy Inc.	Downstream power company	Atlantic Coast Pipeline project regulatory delays
CMS Energy Corp Com	Midstream natural gas/natural gas liquids pipeline company	High quality consistent performer that relatively underperformed in a strong market

### Portfolio as of 31/3/2019 (unaudited)

#### By asset type

Natural gas/natural gas liquids pipelines	42%
Crude oil pipelines	20%
Power	19%
Gathering & processing	19%

#### By ownership structure

Other pipeline C-corps/LLCs	57%
Related MLP companies	43%

Fund holdings are subject to change and are not recommendations to buy or sell any security.

### Top 10 holdings (as of 31/3/2019)

1. The Williams Companies, Inc.	8.9%	6. NextEra Energy, Inc.	4.8%
2. Kinder Morgan, Inc.	8.7%	7. Plains GP Holdings, L.P.	4.7%
3. ONEOK, Inc.	8.3%	8. Enbridge Inc.	4.5%
4. Cheniere Energy, Inc.	7.4%	9. Targa Resources Corp.	4.3%
5. TransCanada Corporation	6.8%	10. Pembina Pipeline Corporation	4.1%

## Performance (as of 31/3/2019)

	ISIN	Quarter to date	1 year	Since inception
Tortoise North American Energy Infrastructure Fund - USD Retail Class (Inception date: 29/8/2016)	LU1345283466	19.69%	13.71%	4.15%
Tortoise North American Pipeline Index <sup>SM</sup>		21.71%	20.58%	6.82%
Tortoise North American Energy Infrastructure Fund - USD Institutional Class (Inception date: 9/12/2016)	LU1345296799	19.99%	14.85%	4.02%
Tortoise North American Pipeline Index <sup>SM</sup>		21.71%	20.58%	5.34%

**Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data shown for the Retail Class does not reflect the sales charge of up to 5.00%.**

## Disclosures

**Investing involves risk. Principal loss is possible. The strategy will be primarily invested in the energy sector and its performance may be more volatile than if it were broadly diversified over industries and sectors. Companies in the energy industry are subject to many risks including, but not limited to, risks associated with owning and/or operating energy infrastructure assets, as well as capital markets, terrorism, natural disasters, climate change, operating, regulatory, environmental, supply and demand, and price volatility risks. The strategy invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. Such investments may be subject to liquidity risk adversely impacting the strategy's ability to sell particular securities at advantageous prices or in a timely manner. Equity securities may fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions, and include the possibility of sudden or prolonged market declines. Variations in the exchange rates between the base currency of the strategy's underlying investments and the currencies of the Share classes may adversely affect the strategy's performance. The strategy may experience material losses as a result of human error, system and/or process failures, inadequate procedures or controls. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The fund is only offered to non-U.S. investors. The fund's investment objective, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the fund.**

**Any investment in the Tortoise North American Energy Infrastructure Fund is subject to the terms of the prospectus and the articles. Read those along with the annual and semi-annual report and the key investor information document before investing.**

The S&P Energy Select Sector<sup>®</sup> Index is a capitalization-weighted index of S&P 500<sup>®</sup> Index companies in the energy sector involved in the development or production of energy products. The S&P 500<sup>®</sup> Index is a market-value weighted index of equity securities. The Tortoise North American Pipeline Index<sup>SM</sup> 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). Returns include reinvested distributions and dividends. The Tortoise MLP Index<sup>®</sup> is float-adjusted, capitalization-weighted index of energy MLPs.

The Tortoise North American Pipeline Index<sup>SM</sup> and The Tortoise MLP Index<sup>®</sup> (the "Indices") is the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices) to calculate and maintain the Index. The Index is not sponsored by S&P Dow Jones Indices or its affiliates or its third party licensors (collectively, "S&P Dow Jones Indices LLC"). S&P Dow Jones Indices will not be liable for any errors or omission in calculating the Index. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) are service marks of S&P Dow Jones Indices and have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. S&P<sup>®</sup> is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"), and Dow Jones<sup>®</sup> is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"). It is not possible to invest directly in an index.

EBITDA (earnings before interest, taxes, depreciation and amortization) is an indicator of a company's financial performance.

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Price-to-cash flow is a stock valuation that measures the value of a stock's price relative to its operating cash flow per share.

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