

# Tortoise North American Energy Infrastructure Fund

A sub-fund of Tortoise SICAV

## 3Q 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 broader energy sector, as represented by the S&P Energy Select Sector<sup>®</sup> Index, fell during the third quarter, returning -6.2%, bringing year-to-date performance to 6.1%. Energy demand is at an all-time high and a global energy transition is taking place reducing global carbon emissions while meeting that demand. We are witnessing the next phase of U.S. energy independence emerge as the U.S. becomes a net exporter of low-cost energy to the rest of the world. Against that backdrop, approximately \$15 trillion<sup>1</sup> of investment in global energy infrastructure is required to support this energy transition, making it a compelling opportunity for midstream energy investors.**

### North American pipeline sector update

Midstream sector performance fared slightly better than broader energy for the third quarter with the Tortoise North American Pipeline Index<sup>SM</sup> return of -0.8% and the Tortoise MLP Index<sup>®</sup> return of -4.3%, bringing year to date performance to 22.2% and 14.2%, respectively. Phillips 66 Partners LP (PSXP) announced the elimination of its Incentive Distribution Rights (IDRs) in the third quarter. As the era of simplification comes to a close, the results have advanced the midstream sector and accomplished widespread cost of capital and corporate governance improvements.

Interest in publicly-traded midstream companies and assets, from both public and private entities, remains elevated, highlighting their strategic value and attractive valuations. In addition to the previously announced acquisition of Buckeye Partners by an Australian global institutional funds manager, current bids or announced transactions include ownership stakes in Tallgrass Energy (TGE) and SemGroup Corp (SEMG).

### Capital markets

Capital markets activity remained slow during the third quarter with MLPs and other pipeline companies raising approximately \$9.0 billion in total capital, all of which was in debt. Merger and acquisition activity among MLPs and other pipeline companies remained light at \$9.5 billion for the quarter, almost entirely comprised of Energy Transfer LP's (ET) purchase of SemGroup Corp (SEMG) and Pembina Pipeline Corp's (PBA) purchase of certain businesses and assets from Kinder Morgan (KMI). Our outlook for capital investments remains at approximately \$132 billion for 2019 to 2021 in MLPs, pipelines and related organic projects.

### Regulatory updates

The Financing Our Energy Future Act (formally known as the MLP Parity Act) was reintroduced to congress in June, with the goal of allowing clean energy resources access to the tax advantaged structure of the MLP that combines the tax benefits of a limited partnership with the liquidity of publicly traded securities. Specifically, wind, solar, biomass, fuel cells, energy storage and other clean transportation related fuels would qualify for the MLP structure if the bill passes the legislative process and is signed into law. We believe this would greatly expand the potential MLP universe and would be positive for the sector.

The Environmental Protection Agency (EPA) allowed 31 refineries to be exempt from their biofuel volume obligations under the Renewable Fuel Standard. An average of 28 petitions for exemption were approved over the past three years versus an average of eight approvals over the three years prior, diminishing the value of credits generated by those in compliance. The EPA has said it will increase ethanol blending requirements in 2020 to offset the negative impact that elevated exemption levels have had on the biofuel industry, though no details have been provided.

<sup>1</sup> Bank of America Merrill Lynch, June 2018  
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   |
|-----------------------|--|--|
| Semgroup Corp.        | Midstream crude oil pipeline company                       | Announced being acquired by Energy Transfer at premium                 |
| ONEOK, Inc.           | Midstream natural gas/natural gas liquids pipeline company | Announced natural gas liquids (NGL) and natural gas expansion projects |
| Nextera Energy Inc.   | Downstream power company                                   | Regulated business model with renewable growth                         |
| Inter Pipeline Ltd.   | Midstream crude oil pipeline company                       | Bid to acquire the company in corporate transaction                    |
| Targa Resources Corp. | Midstream gathering and processing company                 | Constructing new pipelines at attractive returns                       |

| Bottom five contributors        | Company type   | Performance driver  |
|---------------------------------|--|---|
| Antero Midstream Corporation    | Natural gas pipeline company                               | Concern around parent (AR) financial health   |
| Williams Companies, Inc.        | Midstream crude oil pipeline company                       | Expectation for slowing production volume growth in Northeast                           |
| Plains GP Holdings, L.P.        | Midstream crude oil pipeline company                       | Uncertain crude oil production growth from Permian in 2020                              |
| Equitrans Midstream Corporation | Midstream natural gas/natural gas liquids pipeline company | Uncertainty around Mountain Valley Pipeline project                                     |
| Cheniere Energy Inc.            | Midstream crude oil pipeline company                       | Trade tensions with China pausing new liquefied natural gas (LNG) contract negotiations |

### Portfolio as of 30/9/2019 (unaudited)

#### By asset type

|   |     |
|---|-----|
| Natural gas/natural gas liquids pipelines | 41% |
| Crude oil pipelines                       | 21% |
| Gathering and processing                  | 19% |
| Power                                     | 19% |

#### By ownership structure

|                             |     |
|-----------------------------|-----|
| Other pipeline C-corps/LLCs | 78% |
| Related MLP companies       | 22% |

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

### Top 10 holdings (as of 30/9/2019)

|                                 |      |                             |      |
|---------------------------------|------|-----------------------------|------|
| 1. Kinder Morgan, Inc.          | 8.7% | 6. NextEra Energy, Inc.     | 5.0% |
| 2. The Williams Companies, Inc. | 8.2% | 7. Enbridge Inc.            | 4.7% |
| 3. ONEOK, Inc.                  | 8.1% | 8. Plains GP Holdings, L.P. | 4.6% |
| 4. Cheniere Energy, Inc.        | 7.3% | 9. Targa Resources Corp.    | 4.5% |
| 5. TC Energy Corporation        | 6.9% | 10. Inter Pipeline Ltd.     | 4.2% |

## Performance (as of 30/9/2019)

|  | ISIN         | Quarter to date | 1 year | Since inception |
|--|--------------|-----------------|--------|-----------------|
| Tortoise North American Energy Infrastructure Fund - USD Institutional Class (Inception date: 9/12/2016) | LU1345296799 | 0.53%           | 2.42%  | 3.03%           |
| Tortoise North American Pipeline Index <sup>SM</sup>   |              | -1.04%          | 5.61%  | 5.01%           |

**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. This communication is intended for informational purposes only and does not constitute an offer to buy or sell securities in any jurisdiction. Tortoise North American Energy Infrastructure Fund is a sub-fund of Tortoise SICAV, a Luxembourg investment company which is registered with Commission de Surveillance du Secteur Financier and which qualifies as an undertaking for collective investment in transferrable securities ("UCITS"). The fund is only offered to non-U.S. investors and may not be licensed in all jurisdictions.**

**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

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