

Steady Wins™



TORTOISE TALK

January 2012



Tortoise
Capital Advisors

from



Montage Investments

2011 Year in Review



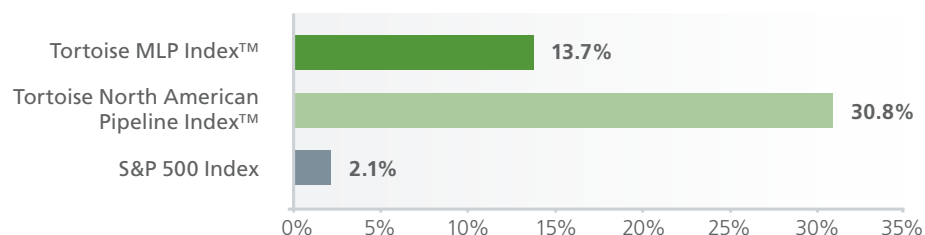
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Headlines in 2011 were dominated by one macroeconomic event after another as Eurozone debt concerns, the U.S. sovereign debt downgrade and slower than anticipated economic growth all contributed to broad-based market uncertainty. While energy was no exception to short-term volatility, the market recognized quality as evidenced by the performance of energy infrastructure pipeline companies. As we enter 2012, we believe the key fundamental drivers for the energy infrastructure sector remain intact, with accelerated growth potential on the horizon as a result of game-changing activity taking place in North American oil and gas shales.

Defensive energy infrastructure equities outperformed

Despite a strong start in 2011, economic uncertainty weighed on the broad-based market (using the S&P 500 as a proxy), which ended the year with meager results. In contrast, the defensive equity nature of energy infrastructure, characterized by its stable, fee-based cash flows, posted strong absolute and relative returns in 2011.



Source: Bloomberg. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

Tortoise MLP Index is a float-adjusted, capitalization weighted index of energy MLPs. The Tortoise North American Pipeline Index is a float adjusted, capitalization weighted index of pipeline companies (MLPs, corporations, LLCs) domiciled in the U.S. or Canada. The S&P 500 Index is a market-value weighted index of equities.

We attribute the outperformance of energy infrastructure companies to a number of factors:

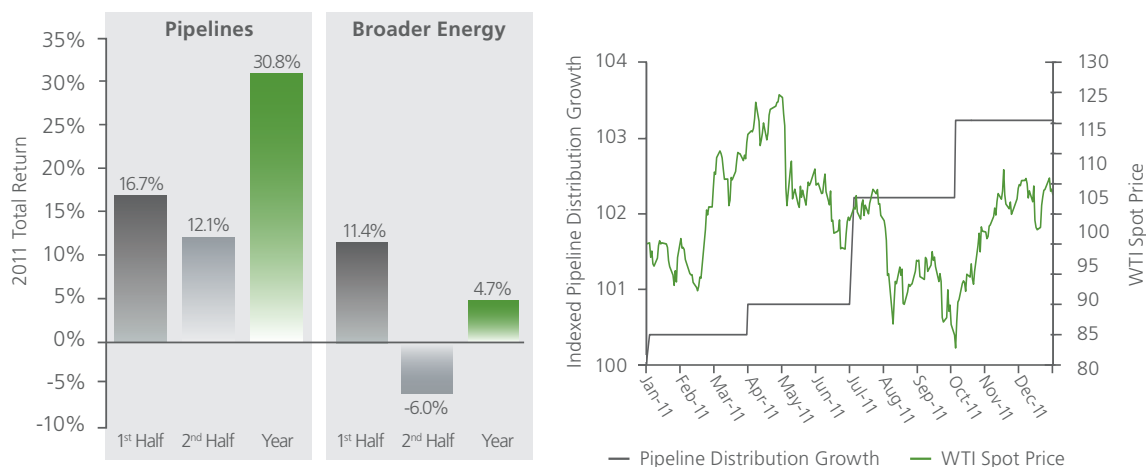
- The underlying business fundamentals of energy infrastructure remained intact, with companies well-positioned by strong balance sheets;
- The supply and demand for energy hydrocarbons, including crude oil, natural gas and natural gas liquids grew throughout the year;
- The Fed's Operation Twist guided long-term Treasury yields ever lower, boosting performance of dividend-paying equities;
- North American pipeline companies (particularly pipeline corporations) benefited from heightened actual and anticipated acquisition activity; and
- A proliferation of newly announced energy infrastructure internal growth projects are accelerating growth potential.

A fickle commodity backdrop

We saw a year of fairly dramatic commodity price volatility in the broad-based energy sector, with the price of oil swinging by nearly \$50. The year began with rising commodity prices, which translated to strong returns for upstream companies. However, the second half of 2011 brought lower and vacillating commodity prices, resulting in negative performance for upstream companies.

In contrast, pipeline companies posted relatively steady returns in the first and second half of the year. One of the key tenets of Tortoise's strategy is our focus on companies that offer fee-based cash flows - pipeline companies that serve more as toll-roads, collecting a fee based on the volume shipped. These companies demonstrated steady distribution growth across the commodity price environment.

...but pipelines remained steady



Source: : Bloomberg. Pipeline = Tortoise North American Pipeline Index, a float adjusted, capitalization weighted index of pipeline companies (MLPs, corporations, LLCs) domiciled in the U.S. or Canada. Broader Energy = S&P 500 Energy Index, a capitalization weighted index comprised of all constituents within the energy sector of the S&P 500. It is not possible to invest directly in an index. **Past performance is no guarantee of future results.**

A global interest in North American energy

As a result of widely distributed new supply sources and optimized technologies, we are experiencing what we believe to be a new chapter in North American energy infrastructure. During the year, large global energy companies continued to make significant investments in North American oil and gas shales. Approximately \$32 billion was invested in shale-related acquisitions in 2011 focused on the Marcellus, Eagle Ford, Fayetteville and Niobrara shales, as well as the Canadian oil sands. In addition to the more than \$80 billion invested in 2009 and 2010, we believe these recent transactions continue to validate the long-term value being assigned to North American energy production and transportation.

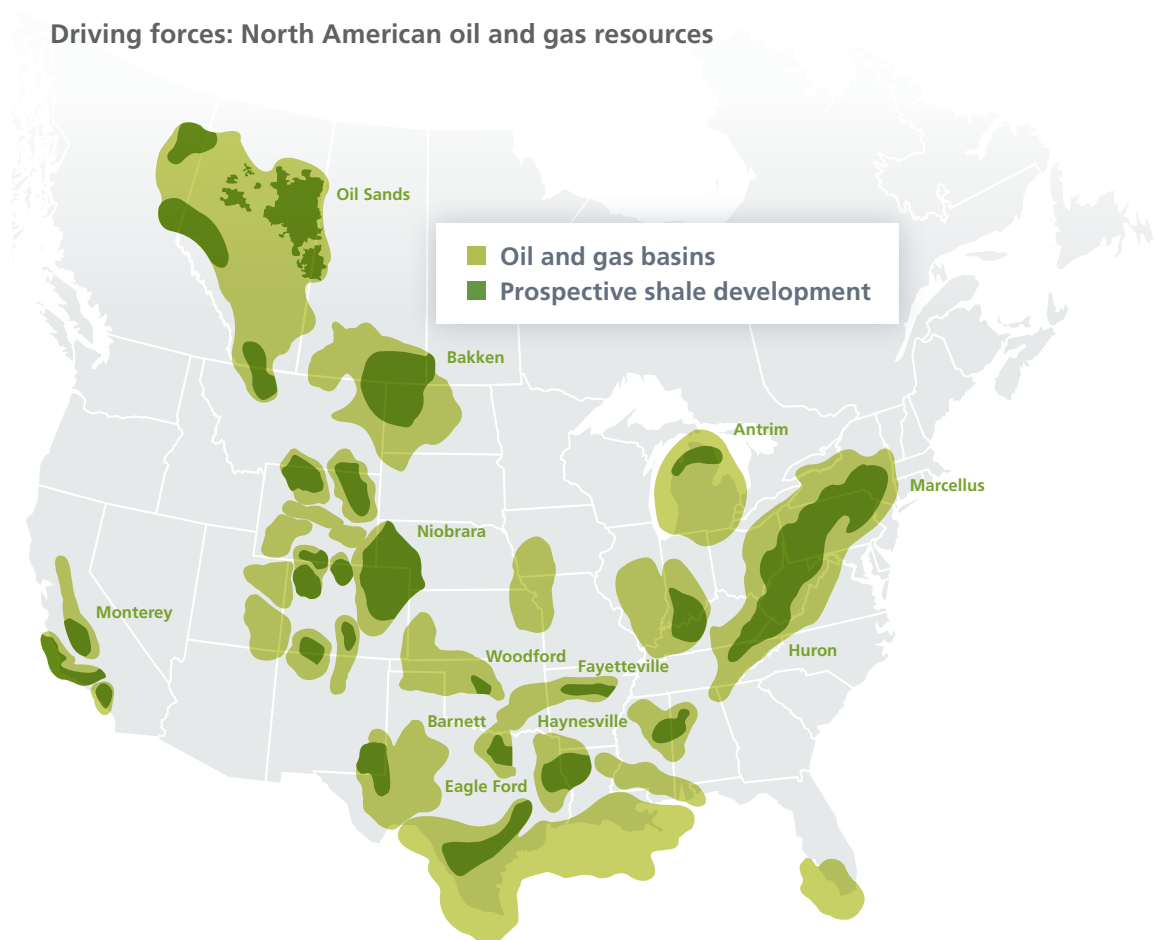
2011 North American shale investors



Pipeline build-out continues

From this growing investment in our domestic resources, stems unprecedented growth opportunities for midstream energy transportation companies. Substantial pipeline infrastructure is needed to take energy from new areas of expanding supply to growing areas of demand. Tortoise estimates more than \$23 billion was invested in 2011 and an additional \$42 billion will be invested through 2014 on major pipeline infrastructure projects. These are not “build it and they will come” type endeavors, but are generally identified and committed projects, with long-term contracts in place. We believe pipeline infrastructure represents a particularly attractive investment opportunity as the production of both crude oil and natural gas expands domestically.

Driving forces: North American oil and gas resources

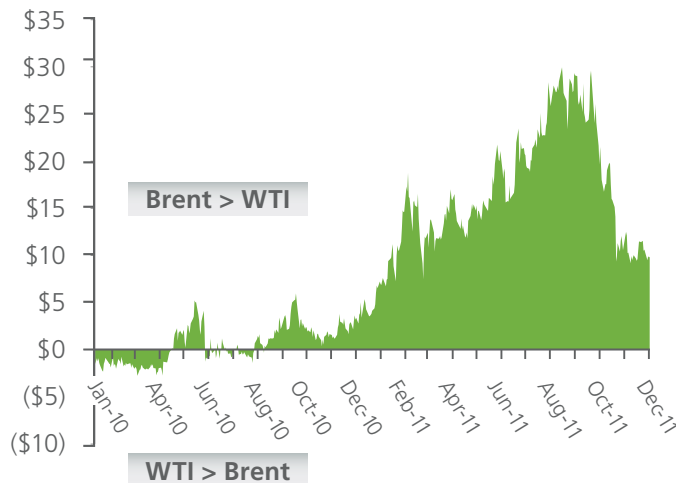


Example in Cushing

One example that illustrates how growing North American production requires new pipeline infrastructure investment is the crude oil supply glut in Cushing, Oklahoma, a major hub for petroleum. Additional pipeline infrastructure is needed to alleviate the growing volume of crude oil flowing into Cushing from the Permian Basin, the Bakken Shale and the Canadian oil sands. Transportation alternatives such as truck, rail or barge are logistically challenging and expensive, resulting in dislocation between West Texas Intermediate (WTI) and Brent crude oil pricing.

The ultimate resolution will likely take many forms and will depend on the outcome of the Keystone XL project, which would serve to move crude oil out of Cushing to Texas refineries. Some relief is expected to come from a planned flow reversal of the Seaway pipeline between Cushing and Houston, as evidenced by the recent decrease in WTI to Brent pricing spread.

West Texas Intermediate (WTI) vs Brent Prices



Source: Bloomberg. **Note:** Brent crude oil (sourced from the North Sea) serves as the basis for pricing the majority of international crude oil supplies. Cushing serves as the delivery point for NY Mercantile light, sweet crude (WTI) futures.

Cushing crude oil flow dynamics

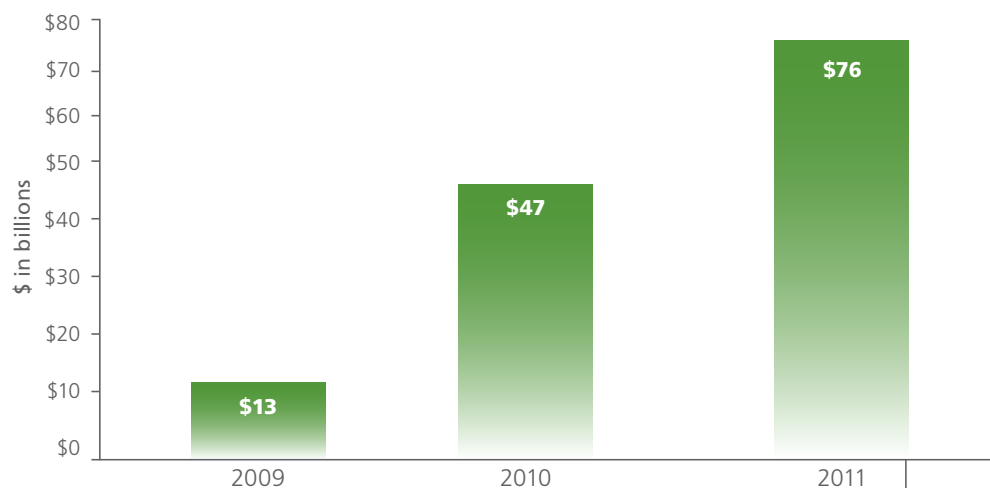


Source: Wells Fargo research. Before pending expansions.

A year of headline M&A

Merger and acquisition activity in 2011 totaled more than \$75 billion, substantially outpacing the previously record-breaking \$47 billion invested during 2010. Natural gas pipeline transactions played a central role in both years. The biggest announced deal of the year, Kinder Morgan Inc.'s pending acquisition of El Paso Corp., would create the largest midstream company and the fourth largest energy company in North America. The announcement further reflects the essential role of natural gas in America's future. Similarly, the second largest announced deal this year, Energy Transfer Equity's pending bid for Southern Union, confirmed the value in linking increased supply with demand centers.

MLP and pipeline acquisitions



Largest 2011 announced transactions:

Size	Acquirer	Seller
\$38 billion		
\$9 billion		

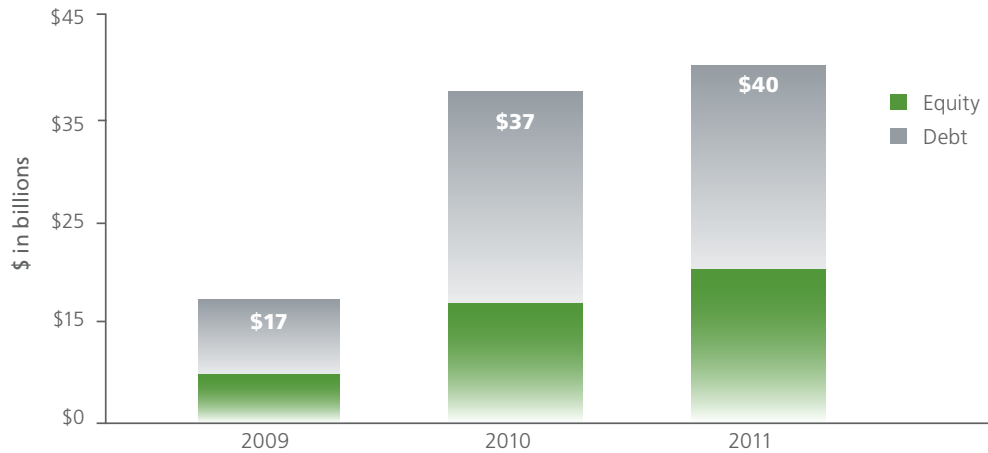
Source: Company filings and Barclays research

Note: \$38 bn of the 2011 activity is attributable to the pending Kinder Morgan Inc. / El Paso Corp. transaction.

Capital markets remain supportive

Strong capital markets provided the positive backdrop that supported 2011 performance and cash flow growth of energy infrastructure companies. MLPs alone issued nearly \$20 billion of equity and \$21 billion of debt, consistent with 2010 levels. Aggregated pipeline issuance of \$25 billion was by far the largest, yet other sectors also successfully raised capital. Balance sheets remain strong, poised to support the significant uptick in announced growth projects we witnessed this year. The pace of IPOs picked up as well, with 14 IPOs raising \$5.4 billion, over half of which were for midstream companies. Debt capital markets continue to offer attractive yields and remain open for all the sectors, particularly investment grade.

MLP debt & equity offerings



Source: Company filings and Barclays

Regulatory corner

Regulation provided some interesting headlines in 2011 and continue to be a relevant part of our research. A few items of note:

- The Federal Regulatory Commission increased the PPI (or Producer Price Index) escalator to the change in the PPI + 2.65 percent for the 5 year period beginning July 1, 2011, resulting in a current tariff escalator of 6.8 percent for certain oil pipelines. This is above the previous formula of the change in the PPI +1.3 percent, indicating strong support for energy infrastructure. Based on current PPI levels, we estimate the tariff could rise to over 8 percent in July of 2012.
- Policymakers continue to focus on pipeline safety, which we believe will result in pipeline companies taking steps to improve the integrity of their pipeline systems. This will lead to marginally increased costs for pipeline companies, but should not have a significant impact on their profitability as it will also likely be passed through to their customers.
- The Environmental Protection Agency (EPA) continues to press for stronger environmental controls, advocating moving to gas fired power generation from coal. While the timing of implementation of these various EPA rules is uncertain, we believe the end result will be increased usage of natural gas, which means increased flows through pipelines.
- The EPA is set to release a condensed version of their report on hydraulic fracturing and its impacts in late 2012, with the full report scheduled for early 2014. We anticipate a standardization of best practices as it relates to fracturing and increased disclosure requirements. While these steps are expected to somewhat increase upstream well completion costs, we do not anticipate it will hinder development activity.
- We believe that the delay in the approval decision for the Keystone pipeline that will bring Canadian crude to the U.S. Gulf Coast is a relatively isolated event. Regardless of the outcome, we expect numerous other energy infrastructure projects will be built to support the evolving North American energy landscape.
- Despite some speculation earlier in the year, in our view the potential for taxing MLPs remains remote.



A peek at 2012

In our view, pipeline companies are well-positioned to perform in what may be a slow-growth economic environment, supported by several tailwinds. First and foremost, pipeline companies are anchored in providing an essential service that impacts our daily lives. The relatively inelastic demand for energy should continue to generate long-term stability across various economic conditions for midstream energy transporters.

Petroleum pipelines should continue to see the benefits of the increased tariff escalator. Refined product demand is trending slightly lower, primarily led by lower gasoline demand and partially offset by a slight bump in diesel volumes. Overall, a small decline in volumes should be more than offset by the tariff escalators in 2012. Crude oil volumes have been stronger due to increased domestic production as shifting supply sources are driving pipeline infrastructure projects, particularly in the Eagle Ford and Bakken shales.

Liquids storage, primarily crude oil storage, remains in our sights as we evaluate the potential for overbuilding, but currently new build rates remain attractive and returns are consistent with past projects. In addition, contracts continue to be executed for 3-5 years, likely pushing out any issues to 2013 and beyond.

We expect natural gas pipeline companies anchored in long-term contracts to offer stable cash flows in 2012, with upside from increased volumes. We continue to see natural gas as an attractive, domestic, abundant and cleaner energy alternative to coal. This view was supported by the EPA's recent passage of emission rules promoting increased natural gas usage. Regulatory focus on cleaner energy sources and additional uses of natural gas liquids (NGL), such as in the petrochemical industry, should continue to drive demand and pipeline build-out.

We believe the gathering & processing sub-sector remains a key growth area as the emergence of the shale plays present numerous growth opportunities. NGL prices remain strong as well, providing a favorable processing environment due to the wide crude-to-natural gas spread. While we are watching for any softness in NGL pricing, the world-wide competitiveness of U.S. based chemical companies, specifically ethylene producers, and the ability to export propane, should allow for solid NGL pricing barring a collapse in crude oil prices. And while the NGL supply/demand market is an area we are evaluating, it currently remains in balance.

We will continue to monitor natural gas storage, which is experiencing weak economics stemming from low absolute prices for natural gas. Additionally, the propane sub-sector remains challenged, with high input costs and customer conservation pressuring margins.

Capital markets remain open for energy infrastructure companies, with several companies currently in registration to launch IPOs in the coming months. Furthermore, we believe significant growth opportunities remain on the horizon and are accelerating. Midstream energy companies appear well-positioned to support the extraordinary build-out taking place in domestic shales. We expect propelled growth in 2012, resulting in our anticipated 6 to 8 percent distribution / dividend growth for MLPs and pipeline companies, anchoring their attractive total return potential.

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Contact us

As always, we look forward to hearing from you. For additional information, please call 888.870.3088 or visit www.tortoiseadvisors.com

About Tortoise Capital Advisors

Tortoise Capital Advisors, L.L.C. is an investment manager specializing in listed energy infrastructure investments. Tortoise has the longest tenure of managing registered MLP funds and pioneered the first MLP listed fund in 2004. As of Dec. 31, 2011, Tortoise had approximately \$7.6 billion of assets under management in NYSE-listed closed-end investment companies, an open-end fund and other accounts.

www.tortoiseadvisors.com

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