

**From:** Katha Kissman  
**Sent:** Wednesday, March 28, 2018 11:55 AM  
**To:** John A. Papa; Marjorie Raines; Michael O'Reilly; Michael Toner  
**Cc:** Debbie Dutton  
**Subject:** From Ed: MLP Update Calls - Recap

Dear Finance Committee Members,

Sharing the following from Ed and his team. We will plan to discuss this at our April 20 Finance Committee meeting:

We had two update calls yesterday with Advisory Research and Tortoise. The two calls were pretty similar with both MLP managers essentially making the same points about the asset class. Some notes are below;

#### **Advisory Research**

- MLPs are dislocated from fundamentals
- They seemed to be recovering after tax loss selling in Q4
- FERC ruling was a bad headline, but some had started to roll over before FERC ruling
  - Valuations now are uniquely attractive
    - Similar only to 2008 and 2015 oil rout
  - Really more of a “confidence crisis” as the asset class has not made money in 5 years
- Distribution growth still positive for the asset class
- Interest rates rising is bad from a supply/demand perspective of the asset class, but MLPs are actually well positioned to pass on inflation
- FERC Ruling
  - Inserted more uncertainty into an already uncertain back drop for the asset class
  - Range of impact – 0 – 10% of EBITDA
  - Average across the industry 0-5%
  - Advisory Research portfolio 2.5% one-time impact
  - Likely to be revised down (less impact) as many of the FERC cases move to negotiated rates that are not as drastic as the FERC ruling
  - Reminder, C-corps not impacted at all
- Fund flows
  - Have been positive
  - Positive YTD too
  - Institutional money flowing in vs. retail flat to net outflows
- How much effect will new pipeline regulations have?
  - CA laws and regulations example
  - Demand for hydrocarbons expected to increase
  - Even if you make a pro “green argument” and say they stay flat, still tons of demand
  - The fund can own up to 10% renewables if they become a bigger piece of the picture
- INFIX Fund currently yields 9% with 3% expected distribution growth of underlying companies
- Tall grass news – company simplified corporate structure and market reacted positively

- Good sign and potential for positive catalyst for asset class

### Tortoise

- Market has been disrupted since tax loss selling in the fall
- Seemed to end in November, which was consistent with past patterns
- Market has been uneasy around “simplification” transactions lately
  - This is where MLP and C-corps combine
- Earnings season in Q1 was actually good for pipelines
- FERC ruling
  - 1.1% expected impact to the holdings within TORIX fund
  - Market has been off 7-8% since ruling
    - 2% of the is actual EBITDA impact estimate
    - 5-6% appears to be market overreaction
  - Tortoise has talked to many FERC lawyers – business plans of MLPs will be OK
    - Many of the contracts will be renegotiated vs. rulings
  - Cost of service pipelines are actually a small % of the MLKP universe
- TORIX fund currently has 5.5% yield with 9% expected growth
  - Lower yield and higher growth vs. INFIX for two reasons
    - 1) INFIX will own up to 25% debt (HY) of the pipeline related securities vs. TORIX which owns none
    - 2) less of a focus on current income vs. INFIX
- Outlook
  - TORIX looking for relative values
- Flows
  - Fund has \$3.5 billion in AUM and flows have been positive last 6 months and YTD
- Rumors of Hedge funds shorting MLP indexes
  - Would explain MLPs (two examples with totally different exposure to FERC ruling for example) going down same % across the board
- Public vs. private discount
  - Could be a catalyst as private players step in to purchase public assets at a large current discount

### Katha

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