ALERIAN ENERGY INFRASTRUCTURE ETF MONTHLY INSIGHTS

March 2018

Key Takeaways

- *The Alerian Energy Infrastructure ETF (ENFR) struggled in March with over half its negative return attributable to U.S. infrastructure master limited partnerships (MLPs).*
- *While MLPs struggled, U.S. energy infrastructure companies were the worst detractors to ENFR's portfolio last month with Kinder Morgan Inc (KMI) and Macquarie Infrastructure Corp (MIC) ranking as some of the worst-performing names.*
- *Canadian energy infrastructure companies outperformed their U.S. rivals and U.S. MLPs in March.*

What's Happening In The World Of MLPs?

ENFR slid 3.40% in March as MLPs and general partners (GPs) sagged. The group was plagued by a mid-March ruling from the Federal Energy Regulatory Commission (FERC) regarding the income tax allowance (ITA) previously enjoyed by MLPs. The March 15th FERC ruling will prevent MLPs from recouping ITA within their cost-of-service rates on interstate natural gas pipelines.

It is important to note that most MLP pipelines will not be affected by the decision. Cost-of-service rates are only used by interstate natural gas pipelines, and represent just a small percentage of the aggregate interstate natural gas pipeline footprint in the U.S. In addition, there will be other inflationary factors to consider when the FERC evaluates a pipeline operator's cost-of-service rate, possibly offsetting the ITA disallowance. While these variables are difficult for investors to gauge, the ruling will take time (even years) for the FERC to evaluate each cost-of-service pipeline on a case-by-case basis. The FERC will still allow a reasonable rate of return for a cost-of-service rate, so the pipeline will need to be overearning its intended ROE (return on equity) for the FERC to possibly enforce a rate change.

The FERC also noted that it will address the ITA for crude oil and liquids pipelines that use an indexed rate as part of their 5-year review beginning in 2020. The change would likely be implemented on a case-by-case basis thereafter but, again, this is not expected to be meaningful.

The FERC ruling is really only geared toward the MLPs in ENFR, and most are forecasting only a negligible impact to results. For example, Enterprise Products (EPD) said it expects no material impact to results as a result of the FERC decision. Additionally, ENFR holdings Andeavor Logistics (ANDX) said the FERC ruling could impact earnings and earnings before interest, taxes, depreciation and amortization (EBITDA) by just $10 million or less (not material)

Segment Performance	March	YTD	1Yr
ENFR (Total Return)	-3.40%	-13.28%	-15.47%
Canadian Energy Infrastructure Companies	-0.42%	-3.37%	-1.55%
US General Partners	-0.60%	-2.20%	-3.08%
US Energy Infrastructure Companies	-0.67%	-4.48%	-6.02%
US Energy Infrastructure MLPs	-1.71%	-3.23%	-4.82%
Crude Oil (WTI)	5.65%	7.75%	24.86%

March	Avg % Weight	CTR	Total Return
Common Stock	74.56%	-1.63%	-2.16%
Limited Partners	25.44%	-1.71%	-6.75%

Year to Date (YTD)	Avg % Weight	CTR	Total Return
Common Stock	73.92%	-9.97%	-13.50%
Limited Partners	26.08%	-3.23%	-12.51%

Past performance does not indicate future results

For standardized performance, please see page 2

Source: Bloomberg, L.P., as of 3/31/2018

The MLP and Energy Infrastructure Space Continues to Evolve

When holding ENFR, an investor is getting access to both corporations and master limited partnerships with a 25% cap on the MLP weighting. As the discussion of consolidations in the space continues, investors want to know what the viability of the MLP structure is and whether we will continue to see MLPs decide to re-incorporate. With the average yield of the MLPs currently around 7.5% while the average yield of C-Corps (general partners) around 6%, the MLPs higher cost of equity is a concern. In addition, the FERC ruling to disallow the use of the ITA for MLP's cost-of-service pipelines may also made the MLP structure less attractive for some entities, considering a C-Corp's ability to continue using the ITA since it is a tax-paying structure. The largest re-incorporation to date in the space happened in 2014 with Kinder Morgan (KMI) rolling up their different structures, but there have been 4 similar transactions to date. In addition, we have seen MLPs decide to eliminate their IDR's and lower their distributions. The use of these tools to lower the cost of equity within each specific partnership are strategic moves meant to position for future growth opportunities and, truthfully, make the MLP structure more viable.

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ENFR Sub Group performance:

U.S. Energy Infrastructure MLPs

Energy Transfer Equity LP (ETE), Buckeye Partners LP (BPL), and Magellan Midstream Partners (MMP) all detracted more than 30 basis points (bps) from ENFR's March returns. Buckeye said it expects no material impact to its business as a result of the FERC decision. Magellan Midstream made similar comments soon after the FERC ruling.

"Although Magellan is organized as an MLP, it does not have cost-of-service rates that would be directly impacted by this policy change," said Oklahoma-based Magellan in a statement. "Rather, the rates on approximately 40% of the shipments on Magellan's refined products pipeline system are regulated by the FERC primarily through an index methodology. As an alternative to cost-of-service or index-based rates, interstate pipeline companies may establish rates by obtaining authority to charge market-based rates in competitive markets or by negotiation with unaffiliated shippers."[1]

U.S. Energy Infrastructure Companies

U.S. energy infrastructure names were among the worst offenders in the ENFR portfolio in March. For example, Kinder Morgan (KMI) and Macquarie Infrastructure Corp (MIC) fell 7.04% and 5.41%, respectively. Macquarie said it expects no material impact from the FERC decision.

Last month, Bank of America/Merrill Lynch and Citigroup upgraded Kinder Morgan to Buy from Neutral. Kinder Morgan had the following to say regarding the FERC ruling: "Many of our current transactions are provided at discounted rates that are below maximum tariff rates, many of which would not be impacted by a change in the maximum tariff rate. Further, on many of our pipelines we are operating under rate settlements that limit changes to their terms during the life of the settlement."[2]

U.S. General Partners (GPs)

U.S. GPs were another rough area for ENFR in March. After losing more than 10% on March 15th, the day of the FERC decision, Williams Cos. (WMB) finished March down 9.33%, trimming 47 basis points from ENFR's monthly performance. Dominion Energy (D) slid 7.91% on the month.

Performance as of 3/31/2018

Total Returns	1 Month	3 Month	YTD	1 Year[1]	3 Year[1]	Since Inception[1]
Alerian Energy Infrastructure ETF (Net Asset Value)	-3.40%	-13.28%	-13.28%	-15.47%	-6.61%	-2.37%
Alerian Energy Infrastructure ETF (Market Price)[2]	-3.87%	-13.32%	-13.32%	-15.65%	-6.63%	-2.38%
Alerian Energy Infrastructure Index	-3.40%	-13.21%	-13.21%	-14.80%	-5.93%	-1.58%
S&P 500® Total Return Index	-2.54%	-0.76%	-0.76%	13.99%	10.78%	11.99%

Source: ALPS, Bloomberg, as of 3/31/2018. ***Performance data quoted represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the performance quoted. You can obtain performance data current to the most recent month end by calling (866)759-5679 or www.alpsfunds.com.***

[1] Annualized.

[2] Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

ENFR
Alerian Energy Infrastructure ETF

ALPS
A DST Company

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Important Disclosures & Definitions

This material must be preceded or accompanied by a prospectus. Please read it carefully before investing.

Shares are not individually redeemable. Investors buy and sell shares on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

Investments in securities of MLPs involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs.

A portion of the benefits you are expected to derive from the Fund's investment in MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the Fund's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment in the Fund.

The fund invests primarily in a particular sector and could experience greater volatility than a fund investing in a broader range of industries.

The Fund may be subject to risks relating to its investment in Canadian securities. Because the Fund will invest in securities denominated in foreign currencies and the income received by the Fund will generally be in foreign currency, changes in currency exchange rates may negatively impact the Fund's return.

Investments in the energy infrastructure sector are subject to: reduced volumes of natural gas or other energy commodities available for transporting, processing or storing; changes in the regulatory environment; extreme weather and; rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities.

Alerian Energy Infrastructure Index: Index comprised of 30 core North American energy infrastructure companies that engage in the transportation, storage, and processing of energy commodities.

The Alerian Energy Infrastructure ETF is not suitable for all investors. Subject to investment risks, including possible loss of the principal amount invested

S&P 500® Index is the Standard & Poor's composite index of 500 stocks, a widely recognized, unmanaged index of common stock prices. One cannot invest directly in an index. Index performance does not reflect fund performance.

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Not FDIC Insured • No Bank Guarantee • May Lose Value

[1] Source: Magellan corporate statement March 15, 2018 https://www.prnewswire.com/news-releases/magellan-midstream-does-not-expect-material-impact-from-recent-ferc-ruling-on-income-tax-allowance-300614944.html

[2] Source: Kinder Morgan corporate statement March 15, 2018 https://finance.yahoo.com/news/kinder-morgan-statement-federal-energy-185700465.html

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