

Key Takeaways

- Despite a strong finish to the month, MLP prices declined 4.6% in October on continued negative sentiment in the sector
- MLP distribution growth rates are beginning to recover, but are not being met by an increase in valuation
- Third quarter earnings season showed MLPs posting strong revenue and EBITDA growth, a sign of continued fundamental strength

Despite a strong finish to the month, MLP prices declined 4.6% in October on continued negative sentiment in the sector

The Alerian MLP Infrastructure Index (AMZI) declined -4.6% in October, bringing its total return YTD to -11.5%. The decline in MLP prices contrasts the sustained strength in WTI crude prices, which rose over 5% in October and is at its highest level since 2015. Weakness in the Petroleum Transportation segment continued to be a drag on the sector, while Natural Gas Transportation and Gathering & Processing remain fairly stable.

Segment Performance		
	October	YTD
AMZIX (MLP Infrastructure)	-4.6%	-11.5%
Gathering & Processing	-1.2%	-1.1%
Natural Gas Transportation	-0.7%	0.4%
Petroleum Transportation	-2.7%	-10.6%
Crude Oil (WTI)	5.2%	1.2%

Source: Bloomberg, L.P., as of Oct. 31, 2017

Adding to MLP weakness in October was the anticipated \$1B IPO by BP Midstream (BPMP). The deal was announced on September 11th and priced below its targeted range when it began trading on October 25th. AMZI fell -9.5% in the two weeks prior to the IPO, perhaps a result of investors freeing up cash for listing. From the IPO through month end, AMZI rallied +3.9%, continuing a pattern that has occurred around MLP IPOs since the market peaked in late 2014. As shown in the following chart, recent IPOs by midstream MLPs have pressured the AMZI index in the two weeks prior to launch. After each IPO, prices have tended to revert, averaging 4.9% in the two weeks following the launch.

MLP IPO	IPO Size (Mil)	Pricing Date	AMZI 2 wks prior	AMZI 2 wks after
BPMP	\$765	10/25/17	-9.5%	5.0%
NBLX	\$323	9/14/16	-3.8%	6.3%
RMP	\$474	12/16/14	-6.8%	2.1%
AM	\$1,150	11/4/14	-2.2%	4.7%
SHLX	\$1,060	10/28/14	12.2%	-1.1%
DM	\$422	10/14/14	-12.3%	12.2%
Average			-3.7%	4.9%

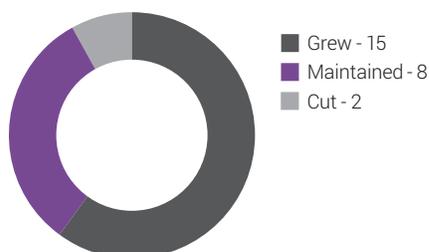
Source: Bloomberg, L.P., as of Oct. 31, 2017

The decision by Enterprise Products Partners (EPD) to adopt a self-funding model surprised investors

In addition to the BP Midstream IPO, MLPs were negatively impacted this month when EPD announced on October 12th that it would cut its distribution growth rate in half, effective immediately for the Q3 distribution. EPD cited a desire to strengthen its distribution coverage, as well as reduce unitholder dilution by progressing towards self-funding the equity portion of their \$2.5B capital investments per year. The decision caught the market by surprise, and sent EPD as well as AMZI down 1% the following day, despite crude posting a 1.7% gain. The EPD announcement followed the news earlier that day that Genesis Energy LP (GEL) would cut its distribution by 31% to enhance its financial flexibility.

MLP Distribution Update

The notion that MLP management teams are not seeing a payoff in their equity prices in line with their payouts is certainly a valid discussion, but a majority of the MLPs within AMZI are still growing their quarterly distributions.



Source: Bloomberg, L.P., as of Oct. 31, 2017

Sixty percent of the MLPs in AMZI index increased their distributions for the third quarter, while 8% cut and 32% maintained their distributions. The primary detractor to third quarter distribution growth was the cut by Plains All American (PAA), while the index additions of Holly Energy Partners LP (HEP) and Dominion Energy (DM) in the September rebalancing somewhat offset the decline. Both MLPs increased their quarterly distributions.

Average MLP distribution growth rates are slowly recovering, while valuations are not

Distribution growth rates by AMZI constituents have been waning since 2013, but the industry looks to be at an inflection point based on historical trends. Most of the larger MLPs within AMZI have either recently cut their distributions/growth rates and/or have enacted a simplification plan to put them in a position to grow their distributions going

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forward. When Energy Transfer Partners (ETP) implicitly cut its distribution in Q2 by approximately 30% via its merger with Sunoco Logistics, the AMZI distribution growth rate dropped nearly 8%, as ETP represented 10% of the index with a 12% yield. Since the merger, ETP has subsequently announced an increase in its Q3 distribution. We are beginning to see a gradual recovery in the AMZI distribution growth rate now that some constituents have rebased lower, even with the distribution actions by PAA, EPD, and GEL in Q3.

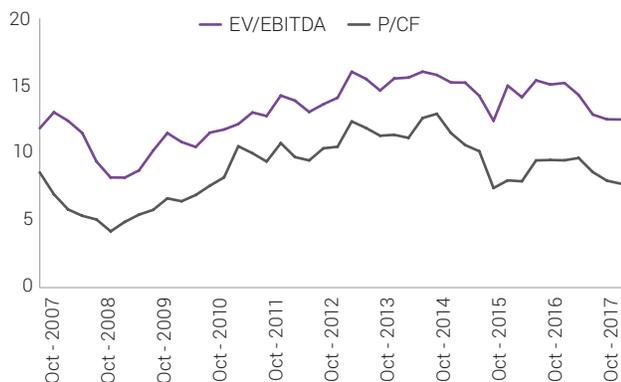
AMZI Distribution Growth Rate (Trailing 12 Months)



Source: Alerian, as of Oct. 31, 2017

Despite a number of MLPs in AMZI still committed to growing their distributions, valuations continue to track at multi-year lows on both Price/cash-flow and Enterprise Value to EBITDA.

AMZI Valuation Metrics



Source: Bloomberg, L.P., as of Oct. 31, 2017

MLP fundamentals still exhibiting strong growth

With the third quarter earnings season wrapping up, MLPs posted strong annual and sequential revenue growth, as well as strong annual and sequential EBITDA growth. This strong growth occurred in spite of the impact of hurricanes on some MLP segments during the quarter. Analysts expect continued strong growth in revenue and EBITDA for the fourth quarter, based on current estimates. The continued export boom in petroleum and natural gas liquids (NGLs) supports this growth, with crude exports hitting a record above 2 MMBpd in October. Exports have also supported prices for NGLs like propane and butane leading to the recent improvement in economics for natural gas processing. The continued

\$5+ /bbl discount in crude prices in Cushing, Oklahoma and in the Permian relative to crude prices on the Gulf Coast highlights the opportunity to build more pipelines and other midstream assets to alleviate bottlenecks to the Gulf Coast.

AMZI Third Quarter 2017 Earnings

	Beat/Miss	Q/Q Growth	Y/Y Growth	Estimated Q4 Q/Q Growth
Revenue				
AMZI	-0.9%	3.0%	17.5%	6.3%
MLP Avg.	4.1%	4.3%	22.8%	7.7%
EBITDA				
AMZI	1.4%	4.3%	11.1%	6.1%
MLP Avg.	3.1%	8.6%	29.1%	6.4%

Source: Bloomberg, L.P., as of Oct. 31, 2017.

Important Disclosure & Definitions

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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.

The AMZI Index is a composite of energy infrastructure Master Limited Partnerships. The capped, float-adjusted, capitalization weighted index constituents earn the majority of their cash flow from midstream activities involving energy commodities.

One may not invest directly in an index.

MLPs represented by the Alerian MLP Infrastructure Index (AMZI)

Performance data quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quotes. An investor cannot invest directly in an index.

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.

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