MLP INSIGHTS
November 2017

Key Takeaways

- *Despite a strong finish to the month, Master Limited Partnership (MLP) prices declined 1.4% in November on continued negative sentiment in the sector and uncertainty over MLP tax policy*
- *Enbridge Energy Partners (EEP) and Spectra Energy Partners (SEP) provided a positive glimpse into 2018*
- *MLP dropdown multiples remain healthy despite depressed MLP valuations*

Despite a strong finish to the month, MLP prices declined 1.4% in November on continued negative sentiment in the sector

The Alerian MLP Infrastructure Index (AMZI) declined -1.4% in November, bringing its total return YTD to -12.7%. This continues a third straight month of MLP weakness in the face of strength in the WTI crude price, which rose 5.6% in November and neared the $60 level last seen in 2015. Weakness in the Petroleum Transportation segment continued to be a drag on the sector, while Natural Gas Transportation and Gathering & Processing remained fairly stable.

Segment Performance	November	QTD	YTD
AMZIX (MLP Infrastructure)	-1.4%	-6.0%	-12.7%
Gathering & Processing	0.5%	-0.7%	-0.7%
Natural Gas Transportation	-0.2%	-0.9%	0.2%
Petroleum Transportation	-1.7%	-4.3%	-12.2%
Crude Oil (WTI)	5.6%	11.1%	6.9%

Source: Bloomberg, L.P., as of 11/30/2017

MLPs were actually much weaker throughout the month of November, down 5.7% as of November 29th, 2017 on a litany of negative sentiment ranging from tax loss selling, uncertainty over MLP pass-through tax rates, recontracting fears, MLP distribution growth rates, and weaker ancillary business segments. On the last day of the month, however, the AMZI rebounded strongly up 4.5%. The rally was underpinned by a confluence of positive news, including two MLPs within the AMZI surprising the market with strong 2018 distributable cash flow (DCF) guidance above analyst estimates, and rumors of a last minute amendment to the Senate tax bill that would maintain a lower effective tax rate for MLP unitholders. Organization of Petroleum Exporting Countries (OPEC) and Russia also announced on the last day of November that they would extend their crude supply cuts until the end of 2018.

Enbridge Energy Partners (EEP) and Spectra Energy Partners (SEP) provided a positive glimpse into 2018

Enbridge Energy Partners (EEP) and Spectra Energy Partners (SEP), both MLPs housed within the Enbridge Inc. (ENB) complex, provided strong 2018-20 DCF guidance. This was especially important as EEP (2.7% in AMZI) was the first MLP in the AMZI to cut its distribution earlier this year, citing weaker natural gas gathering & processing. EEP has since divested that business to ENB and has more confidence in its remaining natural gas liquids (NGLs) transportation business with U.S. production and exports increasing.

U.S. NGL Production & Exports

U.S. NGL production has grown as exports have grown.

Source: US Energy Information Administration as of 11/30/2017

SEP (2.8% in AMZI) also provided strong 2018-20 guidance on expected strength in natural gas volumes to its core utilities customers, specifically in the Northeast and Gulf Coast regions of the U.S.

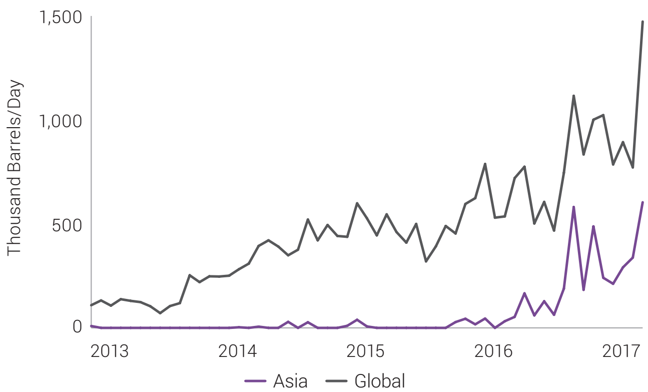
In addition, SEP agreed to a formal offer by ENB, its general partner (GP), to convert all of their IDR's into a fixed number of SEP units with a remaining non-economic GP interest in SEP. This is the 7th IDR elimination transaction in 2017, as MLPs try to lower their cost of capital to compete on major projects.

OPEC and Russia announced a further extension to their crude supply cuts

On November 29th, 2017 OPEC and Russia announced an agreement to extend their crude supply cuts until the end of 2018. OPEC also intimated that they will be slow and gradual to ratchet up crude production when the supply cuts conclude. While this had been well-choreographed to the market, the supply dynamic between OPEC and U.S. shale has shaken up the balance of crude exports to various consumer countries, especially to Asia

For example, at the Argus Shanghai Crude Forum on November 24th, 2017 Unipec President, Chen Bo, said that traditional top suppliers to Asia such as the Middle East and Africa are facing issues in supplying incremental demand amid rising domestic demand and limited supply growth. He said the U.S. will likely surpass Africa to be second-largest crude supplier to Asia behind the Middle East by 2020. He expects Unipec (i.e. China) to possibly double volumes of U.S. crude imports next year, and predicted the U.S. will become a net exporter of fossil fuels with its crude exports rising to 3 million barrels per day by 2025. Currently, Asia is the largest destination for U.S. crude exports, specifically to China.

U.S. Crude Exports



> With limited crude supply growth in Africa and the Middle East, US exports have increased dramatically to meet the incremental Asian demand.

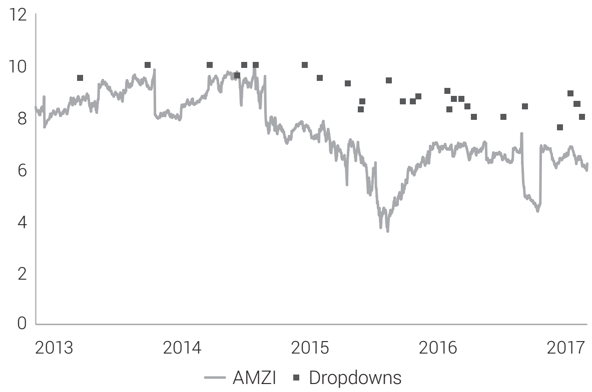
Source: US Energy and Information Administration as of 11/30/2017

MLP dropdown multiples remain healthy despite depressed MLP valuations

Over the past few months, five of the larger midstream MLPs have purchased dropdown assets from their GPs. Looking back at the peak price-to-earnings before interest, taxes, depreciation, and amortization (EBITDA) multiples on the AMZI during the 2013-14 period, the 10X multiple that those five midstream MLPs paid on dropdowns during that time period typically tracked fairly closely to where the AMZI had traded.

Beginning in 2015, when MLP valuations pulled back on the collapse in the price of crude, dropdown multiples shifted to a premium to the AMZI. Currently, the AMZI trades around a 6X multiple, while recent dropdowns have been executed around an 8X multiple. The spread between the multiples on dropdowns and the AMZI implies a disconnect between MLP management teams and investors. Most of the recent dropdown assets are fee-based with long-term contracts in place. Since earnings visibility and predictability drive multiples, MLP management teams are understandably frustrated with current MLP valuations. The market premiums they are willing to pay for stable dropdown assets may also lend itself to more M&A among the midstream MLP sector, given depressed valuations currently.

Price / EBITDA: AMZI vs. Dropdowns



> While the AMZI currently trades near a 6X Price/EBITDA multiple, recent dropdowns have been executed at an 8X multiple.

Source: Bloomberg L.P., as of 11/30/2017

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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.

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