

ALERIAN MLP ETF MONTHLY INSIGHTS

January 2018

Key Takeaways

- Resurgent oil prices bolstered Master Limited Partnerships (MLPs) in January with the Alerian Energy Infrastructure Index (AMZI Index) returning 5.94%.
- Wide Brent / West Texas Intermediate (WTI) Spreads Continue to Support WTI Production and Exports
- Large-Cap MLPs Have More Flexibility to Address Leverage Issues via Asset Sales
- AMZI Q4 Distribution announcements reflect continued balance sheet improvements

Resurgent oil prices bolstered MLPs in January with the Alerian Energy Infrastructure Index (AMZI Index) returning 5.94%.

The Alerian Energy Infrastructure Index (AMZI Index) soared 5.94% in January 2018 with returns across all MLP segments broadly stronger. WTI crude prices rallied 7.13% last month as weekly drawdowns in inventories continued.

2018 Energy Segment Performance

	January	1YR
AMZIX (MLP Infrastructure Index)	5.94%	-7.60%
Gathering & Processing	2.05%	0.91%
Natural Gas Transportation	2.07%	-0.77%
Petroleum Transportation	1.82%	-7.61%
Energy Select Sector Index	3.75%	6.28%
S&P Oil & Gas E&P Select Index	-0.99%	-6.91%
S&P Oil & Gas Equip Select Index	2.24%	-20.58%
Crude Oil (WTI)	7.13%	22.57%

Source: Bloomberg, L.P., as of 1/31/2018

While MLPs in the AMZI Index are considered part of the midstream value chain, Andeavor Logistics LP (ANDX), Holly Energy Partners LP (HEP), Magellan Midstream Partners LP (MPLX) and Phillips 66 Partners LP (PSXP) are infrastructure MLPs with oil refiner general partners (GPs) that are benefiting from improving downstream fundamentals. That quartet currently combines for 14.42% of AMLP's roster. The downstream (marketing and refining) space has provided the best returns in the energy sector over the past year.

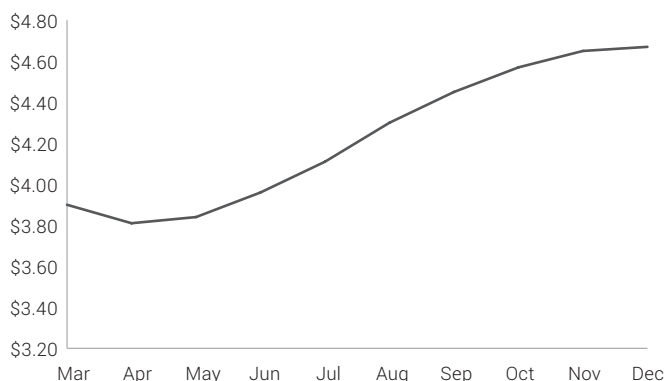
Crack spreads, the key profitability metric used by refiners, improved in the back half of 2017 as refined product inventories tightened due in part to rising U.S. exports of gasoline and diesel. As supplies of refined products are replenished, MLPs that transport those refined products should continue to see strong transport volumes. Improving fundamentals in the refining arena could also spark increased GP investments in lucrative midstream infrastructure that could eventually be dropped down to the MLP.

Brent/WTI Spreads Continue to Support WTI Production and Exports

Led in large part by surging foreign demand for cheaper WTI, U.S. oil production is on a torrid pace as the U.S. pushes towards becoming a net oil exporter. After topping 10 million

barrels per day (bpd) in the fourth quarter, the highest level since 1970, U.S. crude output could exceed 10.3 million bpd later this year before climbing to 11 million bpd in fourth quarter of 2019, according to the Energy Information Administration (EIA). Mentioned in previous MLP Insights, current Brent to WTI crude oil futures prices are supportive of U.S. producers pumping, exporting, and capturing the price spread between the two crudes as long as shipping costs to foreign nations remain at or under \$3.00 per barrel.

2018 Brent-WTI Crude Futures Spread



Source: Bloomberg, US Energy Information Administration as of 1/31/2018

With shipping costs typically at or below \$3.00 per barrel, the wider Brent-WTI crude futures spread makes it advantageous for U.S. producers to pump and export WTI at the expense of Brent crude.

Per the International Energy Association (IEA), U.S. oil output is on track to surpass that of Saudi Arabia, the largest producer in the Organization of Petroleum Exporting Countries (OPEC), and Russia. While OPEC members largely remain in line with the output reduction accord set forth in 2016 (renewed in 2017), years of neglect in energy infrastructure and worsening public finances are sending Venezuela's output tumbling. Venezuela, an OPEC member, is home to the world's largest oil reserves but is currently pumping at its lowest rates in three decades. Increased production by the U.S., Canada, and Brazil could, however, offset potentially dramatic output declines in Venezuela and Mexico this year, according to the IEA. MLPs stand to benefit from that incremental U.S. and Canada crude production.

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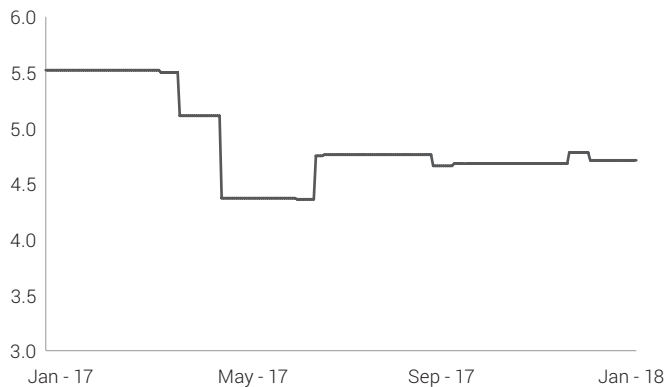
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Large-Cap MLPs Have More Flexibility to Address Leverage Issues via Asset Sales

Large-cap MLPs looking to shore up their balance sheets have increased flexibility thanks to the impressive diversity in their respective asset bases. With the AMZI (AMLP) more geared toward large cap MLPs than its competitor MLP (c-corp) funds, reduced leverage ratios will provide more opportunity to compete for projects. The leverage ratio among AMZI Index member firms is steadily declining, recently touching 4.8X, down from 5.5X a year earlier.

One Year Trailing AMZI Leverage Ratio



Source: Bloomberg, L.P., as of 1/31/2018

Bellwether MLPs continue to shore up their balance sheets and lower leverage ratios

For example, Energy Transfer Partners (ETP) said in January that it had sold its compression business to USA Compression Partners (USAC) for \$1.8 billion, of which \$1.225

billion will be cash consideration used to reduce ETP's debt. USAC will also be rolled up into the Energy Transfer complex.

That news follows a plan unveiled by Plains All American (PAA), who previously announced their intention to reduce debt by \$1.4 billion by March 2019 via \$1.2 billion of targeted non-core asset sales. PAA has already completed over half of those sales. Last year, deal-making among MLPs, both in terms of number of transactions and total value, climbed to a five-year high per Bloomberg.

AMZI Q4 Distribution announcements reflect continued balance sheet improvements

Distributions are perhaps one of the biggest reasons why investors embrace MLPs. At the end of January, the AMZI Index yielded 6.91%, well above what investors get with the S&P 500, 10-year Treasuries or even other high-yielding sectors, such as real estate (REITs) and utilities.

MLPs' recent deleveraging efforts are paying off for income investors. In the fourth quarter, 16 of the 26 AMZI member firms increased distributions while the other 10 were unchanged. For the fourth quarter distribution declarations, the weighted average distribution increase for the AMZI was +1.6%. Amid improving balance sheets to help potentially self-fund their capital investment programs, MLP management teams can now renew their focus on boosting shareholder rewards going forward.

	4Q 2017 Qtr-Over-Qtr Distributions		
	Increase	Decrease	Unchanged
AMZI	16	0	10

Source: Bloomberg, L.P., as of 1/31/2018

Performance as of 12/31/17

Total Returns	1 Mo.	3 Mo.	YTD	1 Yr. ¹	3 Yr. ¹	5 Yr. ¹	S.I. ¹
Alerian MLP ETF (Net Asset Value) ²	4.34%	-1.98%	-7.80%	-7.80%	-7.68%	-0.53%	2.41%
Alerian MLP ETF (Market Price) ³	4.15%	-1.99%	-7.83%	-7.83%	-7.79%	-0.56%	2.38%
Alerian MLP Infrastructure Index	4.48%	-1.77%	-8.81%	-8.81%	-9.59%	0.59%	4.93%
S&P 500® Total Return Index	1.11%	6.64%	21.83%	21.83%	11.41%	15.79%	15.95%

Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. Call 1.877.398.8461 or visit www.alerianmlp.com for current month end performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The ETF accrues deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investment. This deferred tax liability is reflected in the daily NAV and as a result the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

¹ Annualized.

² Under current law, the Fund is not eligible to elect treatment as a regulated investment company due to its investments primarily in MLPs. The Fund must be taxed as a regular corporation for federal income purposes. Whereas the NAV of Fund Shares is reduced by the accrual of any deferred tax liabilities, the Alerian MLP Infrastructure Index is calculated without any tax deductions.

³ 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.

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ETF Stats

Ticker:	AMLP
Underlying Index:	AMZI
Listing Exchange:	NYSE Arca
CUSIP:	00162Q866
Fund Inception:	8/25/10
Net Assets:	\$10.312 billion
Net Asset Value:	\$10.82**
Last Quarterly Distribution:	\$0.205*
Last Payable Date:	11/15/17
Dividends Paid:	Quarterly
Total Expense Ratio:	1.42%
Deferred Income Tax Expense ² :	4.58%
Expense Ratio before Deferred Taxes:	0.85%

* Dividend paid on November 15, 2017

** As of December 31, 2017

Top 10 Holdings[^]

Energy Transfer Partners LP	10.3%
Enterprise Products Partners LP	10.3%
Magellan Midstream Partners LP	10.1%
MPLX LP	8.2%
Williams Partners LP	7.9%
Plains All American Pipeline LP	7.0%
Buckeye Partners LP	5.8%
Western Gas Partners LP	3.9%
EQT Midstream Partners LP	3.4%
Andeavor Logistics LP	3.3%

[^] As of December 31, 2017, Holdings subject to change."

Important Disclosure & Definitions

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information, call 1.877.398.8461 or visit www.alpsfunds.com. Read the prospectus 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.

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.

The benefit 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 of 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.

Not FDIC Insured • No Bank Guarantee • May Lose Value

ALPS Portfolio Solutions, Inc. is the distributor for the Alerian MLP ETF

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