

Key Takeaways

- MLPs prices gained 0.6% in the month of September, bringing their total return for the third quarter to -4.1%
- Despite a significant rise in crude oil prices during the quarter, MLPs were impacted by other factors including rising rates, increased equity issuance, and weak results for some larger MLPs
- Sentiment in crude was positive due to increased exports, an upward revision in global demand, and a backwardated Brent futures curve
- The combination of relatively stable fundamentals with falling prices has caused MLPs to trade at a discount on all valuation metrics

It was a relatively flat month for MLPs in September, despite crude oil posting a solid gain

MLPs were up slightly in the month of September (0.6%) and ended the third quarter down 4.1%. West Texas Intermediate Crude oil (WTI) officially entered a bull market in September, rising more than 20% from its June lows and finishing the quarter with a gain of 12.2%. While all three segments of the MLP market posted modest gains in September, the Petroleum Transportation (PT) segment was the primary driver of MLP weakness in Q3. The PT segment, now down nearly 17% in 2017, has been plagued by volatile crude prices and weak supply & logistics businesses (S&L) from some of its larger constituents.

Performance

	September	3Q	YTD
MLPs	0.6%	-4.1%	-7.1%
Gathering & Processing	0.5%	-1.2%	0.8%
Natural Gas Transportation	0.2%	-0.6%	2.6%
Petroleum Transportation	0.8%	-7.4%	-16.8%
Crude Oil (WTI)	9.4%	12.2%	-3.8%

Source: Bloomberg, L.P., as of Sept. 30, 2017. **Past Performance is not indicative of future results.**

MLPs still react favorably to crude price strength; other factors simply outweighed that correlation in Q3

Over the past year, we have seen the price of crude spike over the implied "break-even" level of \$50 on five different occasions – only for the rally to be short-lived. On average, a 16% spike in the price of crude over those same time periods has translated into a roughly 5% spike in the Alerian MLP Infrastructure Index (AMZI). We witnessed a similar price spike during the month of September; however, other idiosyncratic factors weighed on some MLPs. Those factors ranged from disappointing supply & logistics (S&L) results, re-contracting fears on long-haul pipelines, hurricanes, and overhang from both public and private equity issuances and weakness in yield oriented asset classes as rates rose in September.

Crude (WTI) Spikes

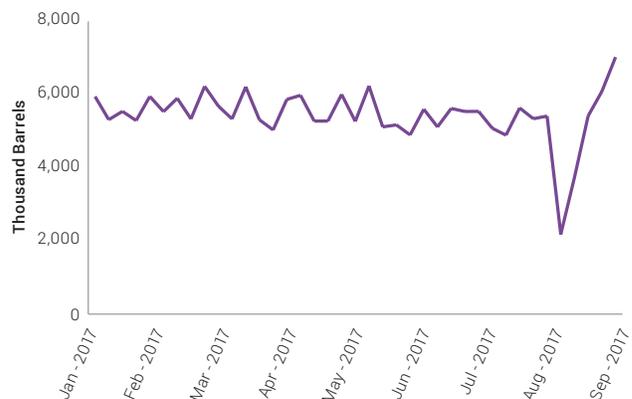
	Low	High	% Move	AMZI (% Move)
Nov-Dec '16	43.3	54.1	24.9%	5.7%
Mar-Apr '17	47.7	53.4	11.9%	2.8%
May '17	45.9	51.5	12.2%	2.5%
June-July '17	42.5	50.2	18.1%	9.3%
Sept '17	46.0	52.2	13.5%	3.8%
Average			16.1%	4.8%

Source: Bloomberg, L.P., as of Sept. 30, 2017.

Crude exports hit a weekly record in the last week of September, while global demand remains strong

After sluggish exports of crude and petroleum products in the first two weeks of September due to hurricanes, exports rebounded strongly during the rest of the month. In fact, the last week of September posted a record seven million barrels/day of crude and petroleum products exports. Export demand was fueled, in part, by the spread between Brent crude oil and WTI, which has now widened to over \$4 per barrel. This dynamic increases future demand for WTI as market participants supplant Brent production for the lower cost US option. The rise in exports was coupled with the news that during Q3 the U.S. had imported the lowest amount of crude and petroleum products from Saudi Arabia since 1987, signaling that the U.S. energy independence theme continues to be strong.

2017 U.S. Crude & Petroleum Weekly Exports



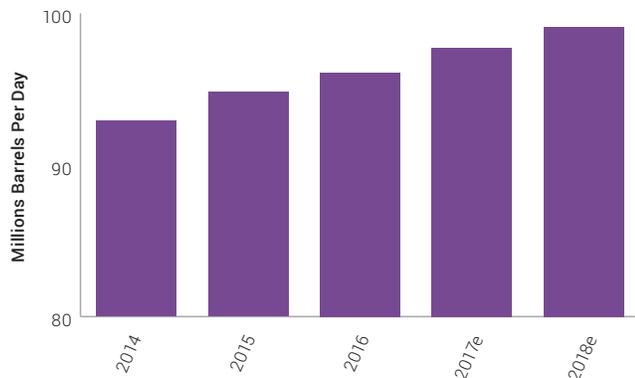
Source: Bloomberg, L.P., as of Sept. 30, 2017.

MLP INSIGHTS

October 2017

Underpinning the strong exports of U.S. crude and petroleum products is global demand. During the month of September, the IEA (International Energy Agency) revised up its 2017 global oil demand forecast up to 1.7%. For 2018, the IEA is predicting growth of 1.4% with the confidence that growing global demand is finally catching up with supply.

IEA Global Crude Demand Growth Estimates

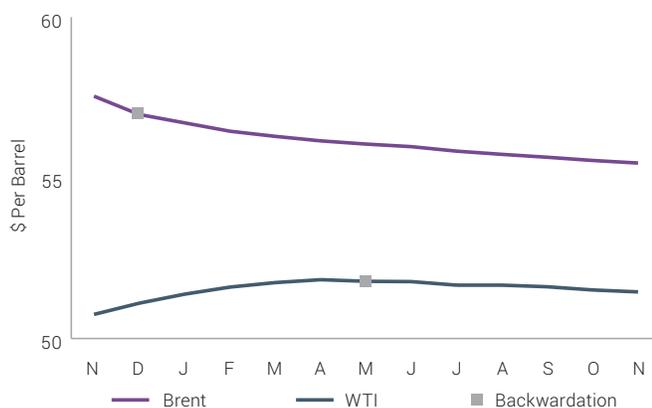


Source: Bloomberg, L.P., as of Sept. 30, 2017.

The crude futures curve is finally moving into backwardation, which tends to be bullish for prices

With continued OPEC supply cuts, Brent crude has moved into backwardation on the Dec 2017 contract – a bullish signal for prices. Alternatively, WTI crude has moved into backwardation on the May 2018 contract. This shape of the futures curve makes it less attractive for producers to hedge future production.

Crude Oil Futures Curve



Source: Bloomberg, L.P., as of Sept. 30, 2017.

Valuations indicate MLPs are currently trading at a discount on all metrics

Despite rising prices for crude oil and record exports, MLPs are still trading at a discount to historical averages on all metrics.

AMZI Valuation Table

	Current	5YR Avg	10YR Avg
P/CF	8.5	10.1	9.0
EV/EBITDA	9.6	10.5	10.2
Debt/EBITDA	4.4	4.6	4.4
Div Yield	7.5	6.6	7.1
10YR Yield Spread	5.2	4.4	4.5

Source: Bloomberg, L.P., as of Sept. 30, 2017.

As shown in the table, MLPs trade at a discount to their historical averages for price to cash flow (P/CF) and enterprise value to earnings before interest, taxes, depreciation, and amortization (EV/EBITDA). Although interest rates have crept higher over the last month, the AMZI's leverage ratio (debt/EBITDA) is below its historical average, while its yield spread to the 10 year Treasury note remains well above its 5YR and 10YR averages.

Important Disclosure & Definitions

All data sourced Bloomberg L.P., as of Sept. 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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