

ALERIAN MLP ETF MONTHLY INSIGHTS

February 2018

Key Takeaways

- February MLP returns were weak across the MLP segments, specifically in the Petroleum Transportation segment
- Annual EBITDA growth is still impressive for the AMZI constituents
- MLPs continue to shift their structures to improve their balance sheets and cost of capital
- AMZI Valuation Update: Compelling valuations against their 3-year averages

February MLP returns were weak across all MLP segments, specifically in the Petroleum Transportation segment

The Alerian MLP Infrastructure Index (AMZI Index) dipped -9.96% in February 2018 as weakness was most glaring in the Petroleum Transportation segment. A confluence of events pressured the MLP space during the month, including WTI crude prices down -4.77%, the 10YR U.S. Treasury yield spiking +5.75% to 2.86%, a mixed bag of MLP earnings results, and a broader market sell-off (the S&P 500 Index off -3.69%).

February 2018 Performance

	Feb-18	YTD	1YR
AMZIX (MLP Infrastructure Index)	-9.96%	-4.60%	-17.60%
Gathering & Processing	-2.81%	-0.94%	-2.03%
Natural Gas Transportation	-2.66%	-0.76%	-4.33%
Petroleum Transportation	-4.49%	-2.90%	-11.24%
Energy Select Sector Index	-10.80%	-7.46%	-3.25%
S&P Oil & Gas E&P Select Index	-10.34%	-11.22%	-11.69%
S&P Oil & Gas Equip Select Index	-16.26%	-14.39%	-30.26%
Crude Oil (WTI)	-4.77%	2.02%	14.13%
10 YR Treasury Yield	5.75%	18.92%	19.69%

Source: Bloomberg, L.P., as of 2/28/2018

For the month of February, however, MLPs (AMZI) continued their YTD outperformance relative to the broader energy sector, despite their 1YR underperformance. This somewhat reinforces the decisive actions that many MLPs have taken with simplification plans, IDR eliminations, and balance sheet improvements via distribution cuts.

February was earnings season, and for MLPs it was a stock picker's month. The top contributor to the AMZI during the month was Plains All America (PAA, 7.6% weight in AMLP), adding 0.03% to the index with a return of 0.62%. PAA was one of the weakest performing MLPs in 2017 after it cut its distribution rate to shore up its balance sheet. Meanwhile, Magellan Midstream Partners (MMP; 9.5% weight in AMLP) was the largest detractor from the AMZI performance during the month, subtracting -1.1% from the index with a return of -11.33%. MMP announced that it anticipates lower rates on its Longhorn crude pipeline in the Permian basin, beginning in 4Q18. Competition and re-contracting fears in the Permian basin have contributed to the weakness in the AMZI petroleum transportation segment, recently. Crude

production, however, is still projected to be very strong in the Permian where most MLPs will be able to take advantage of incremental spot demand upon any tightness in capacity.

Annual EBITDA growth is still impressive for the AMZI constituents

On a full-year basis for 2017, the AMZI constituents grew EBITDA by an impressive +15.4% over 2016 figures. Street estimates for 2018 EBITDA growth on the AMZI are calling for +16.8% over 2017 figures. While they are only estimates, this represents a slight reacceleration of EBITDA growth for the AMZI, considering the drop-off in EBITDA growth for 2017 compared to 2016.

AMZI EBITDA vs. Total Return



Source: Bloomberg L.P., Company Reports as of 2/28/2018

Not many industries can boast of this sort of mid-teens EBITDA growth, which is why the AMZI price performance continues to frustrate MLP management teams. For this reason, some MLPs have chosen a more conservative distribution growth approach to allow for more self-funding and to avoid accessing the equity markets for capital. Others have reduced their cost of capital by simplifying their structures or eliminating IDRs.

MLPs continue to shift their structures to improve their balance sheets and cost of capital

During the month of February, two additional MLPs in the AMZI announced plans to simplify. Nustar Energy LP (NS) was down -31.85% in February after it announced a 45.2% cut to its quarterly distribution rate, along with a simplification plan with its GP (general partner) and IDR elimination.

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Tallgrass Energy Partners (TEP) was also down -12.84% after it surprisingly announced that its GP (TEGP) would receive dropdown assets, rather than the MLP (TEP). It made more sense to use the TEGP equity to finance the dropdown, rather than the TEP equity which has a higher cost of capital due to the punitive IDR structure. The Tallgrass complex announced its intent to evaluate a restructuring of the organization this year, a move that could improve the cost of capital and simplify the structure.

Of the 26 MLPs in the AMZI, 11 MLPs have eliminated their IDR structure, 6 MLPs have publicly mentioned their intent to eliminate the IDRs in the future or have restructured them, and 9 MLPs have stated that they are economically comfortable keeping their IDR structure in place at this time.

	# MLPs in AMZI
No IDRs (Eliminated)	11
Restructured or Intend to Eliminate IDRs	6
Comfortable with IDRs at this time	9

Source: Bloomberg L.P., Company Reports as of 2/28/2018

Those MLPs that are comfortable keeping their IDRs for now have either taken other actions to reduce their cost of capital, or they are not in the "high splits" and can more comfortably afford the percentage of incremental distributable cash flow paid to their general partner.

AMZI Valuation Update: Compelling valuations against their 3-year averages

Without question, the MLP industry is in a transition period as it adjusts to lower commodity price decks and competition for energy infrastructure projects. MLP valuations are well below their 3-year averages, while MLP equity yields are above their 3-year averages.

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%

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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.

AMZI Valuation Metrics			
	Current	3YR Avg	Delta
P/CF	7.45	8.81	-15.3%
Debt/EBITDA	4.74	5.23	-9.4%
EV/EBITDA	10.15	11.53	-12.0%
Yield	8.2%	7.3%	1.0%

Source: Bloomberg, L.P., as of 2/28/2018

Importantly, MLP management teams are listening to investors (and their depressed valuations) by simplifying their structures, eliminating IDRs, and recalibrating their balance sheets to rely less on the equity and debt capital markets going forward. Over the last 3 years, 7 MLPs in the AMZI (27%) have cut their distribution rates. Those decisive announcements of distribution cuts have tended to punish the entire MLP space. But given the number of MLPs within the AMZI that have now completed their simplification plans or IDR eliminations, we may be in the final innings of this painful MLP transition period.

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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.

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