

ALERIAN MLP ETF MONTHLY INSIGHTS

March 2018

Key Takeaways

- MLPs, particularly those in the natural gas transportation segment, languished in March following the Federal Energy Regulatory Commission's (FERC) ruling
- The impact of the FERC ruling on the Alerian MLP Infrastructure Index (AMZI) members is not expected to be material
- In the Permian Basin, West Texas Intermediate (WTI) Midland differentials blew-out, creating opportunities for spot volumes
- MLP cost of equity: Has it been better to address incentive distribution rights (IDRs) or the distribution rate?

MLPs, particularly those in the natural gas transportation segment, languished in March following the FERC ruling

The AMZI lost 7.31% last month following a mid-March decision by FERC that will prevent MLPs from recouping the income tax allowance (ITA) on cost-of-service pipeline rates. The natural gas transportation segment was adversely affected by the FERC ruling because cost-of-service rates are more common for natural gas pipelines, though the impact will be on a case-by-case basis.

March 2018 Performance			
	Mar-18	QTD	1YR
AMLP (NAV)	-7.31%	-11.64%	-20.54%
Gathering & Processing	-1.39%	-2.28%	-2.76%
Natural Gas Transportation	-3.25%	-3.93%	-6.09%
Petroleum Transportation	-2.67%	-5.43%	-12.69%
Energy Select Sector Index	1.66%	-5.88%	-0.53%
S&P Oil & Gas E&P Select Index	6.81%	-5.17%	-3.63%
S&P Oil & Gas Equip Select Index	-0.45%	-14.77%	-25.16%
Crude Oil (WTI)	5.35%	7.48%	28.98%
10 YR Treasury Yield	-4.25%	13.86%	13.19%

Source: ALPS, Bloomberg, L.P., as of 3/31/2018

Past performance is not indicative of future results.

For standardized performance, please see page 2.

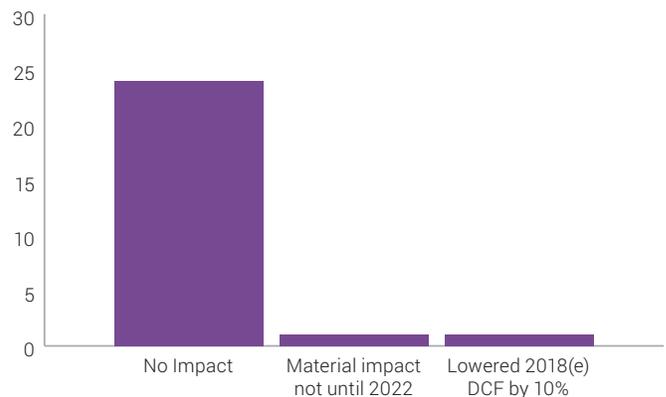
The impact of the FERC ruling on the Alerian MLP Infrastructure Index (AMZI) members is not expected to be material

While revising its policy on the ITA, the FERC also issued a Notice of Proposed Rulemaking, allowing FERC to determine what natural gas pipelines may be over-earning with the lowered corporate tax rate and the change in the ITA policy for MLPs. Each interstate natural gas pipeline will have to either 1) file a one-time report to reduce its rate based on the reduction in its cost of service, 2) file a rate settlement, 3) file a statement why it doesn't believe it should change rates or 4) file a new form for rates and let FERC decide if it wants to do an investigation. The final determination for each pipeline will take time, even years.

Beyond the ITA, there are other factors to consider when evaluating a pipeline operator's cost-of-service, such as inflationary costs like maintenance and operating expenses that may have increased. Furthermore, a cost-of-service pipeline will likely need to be "over-earning" its intended rate of return for the FERC ruling to have an impact, while those pipelines that are "under-earning" will likely not be impacted. Additionally, it

is important to note that there are different types of rates for interstate natural gas pipelines—cost of service is only one type of rate. Some natural gas pipelines use a negotiated rate and others charge market rates.

AMZI: Impact of the FERC Ruling



Source: Bloomberg, L.P., as of 3/31/2018

In the near-term, most MLPs in the AMZI said the FERC ruling is not expected to materially impact their results. Just one AMZI constituent, Enbridge Energy Partners (EEP), lowered its 2018 distributable cash flow (DCF) guidance by a material amount – approximately 10%. Another AMZI constituent, TC Pipelines LP (TCP), said that roughly 55% of its pipeline portfolio uses cost-of-service rates. However, TCP said that their cost-of-service pipelines are not up for rate case reviews until 2022 under existing settlements, and they believe any future impact would only occur with the completion of a rate case. No other AMZI member firms indicated material impacts to their bottom lines as a result of the FERC proposal.

In the Permian Basin, West Texas Intermediate (WTI) Midland differentials blew-out, creating opportunities for spot volumes

Oil production from seven U.S. shale plays is expected to climb by 131,000 barrels per day (bpd) in April to 6.954 million bpd, according to the Energy Information Administration (EIA). U.S. oil output remains high with the EIA estimating U.S. average production of 10.7 million bpd this year and 11.4 million bpd in 2019. Improved efficiencies have allowed producers to pump at a high level with fewer rigs. The Permian Basin (West Texas), the epicenter of the U.S. shale renaissance, is expected to see output climb by 80,000 bpd in April, representing 60% of the expected monthly increase in shale oil production.

ALERIAN MLP ETF MONTHLY INSIGHTS

March 2018

Many AMZI constituents and their general partners have Permian footprints and some are trying to bolster their presence there. For example, Energy Transfer Equity L.P. (ETE) recently made an acquisition offer for Nustar GP Holdings (NSH), which has coveted operations in the Permian. NSH rejected the offer, opting to continue its merger with NuStar Energy LP (NS; 1.5% weight in AMZI).

Soaring Permian production pressured WTI Midland prices in March, as pipeline takeaway capacity to the Texas coast has been constrained. With the widened crude differential, traders are willing to ship WTI Midland at a higher spot rate (pipeline tariff) to then sell at a premium on the Texas coast. This should benefit MLPs in the Permian that have any available spot capacity.

WTI Crude: Midland, TX Differential



Source: Bloomberg, L.P., as of 3/31/2018

MLP cost of equity: Has it been better to address incentive distribution rights (IDRs) or the distribution rate?

Every MLP has different circumstances and structures, but we wanted to examine how the market reacts to MLPs for negative distribution announcements and/or a dilutive IDR elimination. The purpose of a distribution (or growth rate) cut and/or a dilutive IDR elimination is to lower the MLP's cost of equity, better positioning the MLP to compete for future growth opportunities.

We looked at the average relative performance of MLPs (vs. the AMZI) after they have announced their intent to lower distribution (or growth) rates or eliminate their IDRs. Attractive yields relative to common stocks are among the primary reasons investors have historically embraced MLPs, so it may not be surprising that MLPs that have announced negative distribution actions have under-performed the AMZI after the announcement. Conversely, MLPs opting to eliminate their IDRs through a dilutive unit exchange have on average outperformed the AMZI after the announcement.

The key takeaway is that unitholders have tended to be (relatively) more forgiving for dilution as a result of IDR eliminations, but less forgiving for distribution (or growth rate) cuts. This has been the case before and after the FERC ruling destabilized the entire MLP space in mid-March, and something investors should keep in mind as MLPs continue to simplify and shore up their balance sheets.

	Distribution (or Growth Rate) Cut	IDR Elimination	
# MLPs in AMZI (Last 2 years)	7	6	
Avg Subsequent Return vs. AMZI	-2.45%	0.60%	** As of March 29th, 2018
Avg Subsequent Return vs. AMZI (Pre-FERC)	-4.51%	1.49%	** As of March 14th, 2018

Source: Bloomberg, L.P., as of 3/31/2018

Performance as of 3/31/18

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	-7.31%	-11.64%	-11.64%	-20.54%	-10.32%	-5.25%	0.67%
Alerian MLP ETF (Market Price) ³	-6.72%	-10.91%	-10.91%	-19.97%	-10.12%	-5.13%	0.76%
Alerian MLP Infrastructure Index	-7.25%	-11.52%	-11.52%	-22.50%	-11.66%	-5.37%	3.10%
S&P 500 [®] Total Return Index	-2.54%	-0.76%	-0.76%	13.99%	10.78%	13.31%	15.28%

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.

ALERIAN MLP ETF MONTHLY INSIGHTS

March 2018

ETF Stats

Ticker:	AMLP
Underlying Index:	AMZI
Listing Exchange:	NYSE Arca
CUSIP:	00162Q866
Fund Inception:	8/25/10
Net Assets:	\$8.456 billion
Net Asset Value:	\$9.38**
Last Quarterly Distribution:	\$0.207*
Last Payable Date:	2/15/18
Dividends Paid:	Quarterly
Total Expense Ratio:	0.85%
Deferred Income Tax Expense ² :	0.00%
Expense Ratio before Deferred Taxes:	0.85%

* Dividend paid on February 15, 2018

** As of March 31, 2018

Top 10 Holdings[^]

ENTERPRISE PRODUCTS PAR	10.4%
MAGELLAN MIDSTREAM PART	10.1%
ENERGY TRANSFER PARTNER	9.6%
MPLX LP	8.8%
PLAINS ALL AMER PIPELINE	8.6%
WILLIAMS PARTNERS LP	8.1%
BUCKEYE PARTNERS LP	5.1%
WESTERN GAS PARTNERS LP	4.0%
ANDEAVOR LOGISTICS LP	3.7%
EQT MIDSTREAM PARTNERS	3.2%

[^] As of March 31, 2018, 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.

AMZIX is the total return equivalent of the AMZI. We refer to the "AMZI" in the article as the index and its constituents. The AMZIX is used for return purposes as seen in the performance chart on the first page.

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

ALR000694 6/29/2018