

The Fundamentals vs. The Panic

Alerian MLP ETF (AMLP)

For owners of AMLP, the last two weeks have been sobering. Shares are down almost two-thirds over the past month alone, and each successive day seems to bring more weakness. Furthermore, the relative performance of AMLP against the broader energy sector has many investors questioning the defensiveness of MLPs as an energy investment. With that in mind, let's dig in.

What is driving recent performance?

- **Market Structure:** The negative momentum in MLPs has led to forced sales of MLP positions from leveraged closed-end funds unwinding their debt, while retail selling pressure has been added from tripped stop-loss orders. MLPs are not widely traded securities, so one-sided market momentum has an outsized effect on prices in the absence of incremental buyers.
- **Counterparty Concerns:** The market is sending a clear message that while many MLPs have long-term contracts with protections in place—either in the form of take-or-pay provisions or minimum volume commitments—there are concerns around the financial futures of some of those counterparties.
- **Recontracting Risk:** Whereas the market is punishing MLPs for the possibility of customer bankruptcies, it is also asking questions about the safety of current tariff rates in an environment of declining production.
- **Distribution Concerns:** Given the fall in oil prices and the expectation that producing customers will seek to renegotiate contracts or potentially enter bankruptcy, the market is pricing AMLP for significantly lower distributions.

Positives beneath the surface:

- **Insider buying has been robust:** Insiders from 13 of 21 AMLP holdings¹ have bought roughly \$75 million in units since mid-February. In the broader portfolio of ENFR, 19 of 35 companies have registered insider buys since mid-February.² Clearly, many management teams are viewing today's weakness as a buying opportunity.
- **Companies maintaining stable outlooks:** Since the collapse of oil prices, MLPs that have provided updated guidance have largely maintained outlooks. ET reiterated 2020 EBITDA guidance, and EPD already declared its 1Q20 distribution at the same level as its 4Q19 payout. Additionally, HEP reiterated guidance to maintain its distribution at current levels through 2020.
- **Past improvements beneficial for volatility:** The MLP industry has rarely been as well positioned fundamentally as it was coming into the current crisis. Company-level improvements, including lower leverage, higher distribution coverage, and self-funding equity capital expenditures, leave the space better able to manage a volatile energy market.
- **Debt profiles for AMLP constituents do not point to significant near-term funding issues:** Just 12.2% of total debt is coming due over the next two years, and less than 40% is scheduled to mature over the next five years.³ Further, 68% of AMLP's underlying index by weighting currently carries an investment grade rating.

Performance data quoted represent past performance. Past performance is no guarantee of future results so that shares, when redeemed may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. For the most current month-and performance data please call 877.398.8461. Performance includes reinvested distributions and capital gains. Click here for standardized performance.

AMLP Holdings

¹ Numbers are proforma for the announced constituent changes related to the underlying index's quarterly rebalancing.

² Source: Alerian as of March 18, 2020 (link - <https://www.alerian.com/insights-at-a-glance-robust-midstream-insider-buying-amid-market-volatility/>)

³ Source: Alerian as of March 17, 2020 (Link for compliance - <https://www.alerian.com/midstream-mlps-examining-amzi-constituent-debt-profiles-and-index-yield-scenario-analyses/>)

Disclosures

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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 or 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.

The Fund invests primarily in energy infrastructure companies which may be adversely affected by changes in worldwide energy prices, exploration and production spending, government regulation, changes in exchange rates, depletion of natural resources and risks that arise from extreme weather conditions. All K-1s are received and processed by the Alerian MLP ETF. The Alerian MLP ETF distributes a single Form 1099 to its shareholders. This notice is provided to you for informational purposes only and should not be considered tax advice. Please consult your tax advisor for further assistance.

There are risks involved with investing in ETFs including the loss of money. An investment in the Fund is subject to investment risk including the possible loss of the entire principal amount that you invest. If, due to tax law changes, an MLP in the portfolio is deemed a corporation rather than a partnership for federal income purposes, then income would be subject to federal taxation at the MLP level. This would reduce the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. The Fund is taxed as a regular corporation for federal income purposes, which reduces the Net Asset Value of fund shares by the accrual of any deferred tax liabilities. Depending on the taxes paid by the fund as a result of income and/or gains from investments and/or the sale of MLP interests, the return on an investment in the Fund will be reduced. This differs from most investment companies, which elect to be treated as “regulated investment companies” to avoid paying entity level income taxes. The ETF is taxed as a regular corporation and is subject to U.S. federal income tax on taxable income at the corporate tax rate (currently as high as 21%) as well as state and local taxes.

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