Chickasaw Capital Management

APRIL 12, 2018

MLP UPDATE

FIRST QUARTER 2018

Dementors have seemingly been circling over Midstream Energy companies for most of the past 3 ½ years and investors feel as if there will never be hope or happiness again (apologies to J.K. Rowling). Fundamentals are the Patronus Charm and triumph in the end in the stock market. Both valuation and fundamentals are particularly attractive for most Midstream Energy companies, and particularly so for many. We are bullish.

Many Midstream Energy companies are near or below their lowest share prices since the February 2016 plunge, when the oil price collapsed to $26, and many questioned whether oil production in the United States could be sustained. This weakness is despite extremely attractive valuations and strong fundamentals we will shortly address. Oil prices are in the low $60's and production volumes of oil, ethane, propane and natural gas are all significantly rising because of U.S. producer worldwide cost competitiveness, thereby boosting throughput for Midstream companies. The yield of the Alerian MLP Index (AMZ) approaches 9%, with a strong distribution coverage ratio of 1.25x, and the 2-year estimated growth rate of cash flows is in the high single digits.

The Alerian MLP Total Return Index (AMZX) produced an 11.1% negative return in the first quarter, and this was the fifth worst quarterly return ever for the group. The index trades at a 7.3x price-to-distributable cash flow (DCF) multiple, approximately 33% below the long-term average of 10.9x. This implies nearly 50% upside for the AMZ if the index were to reach its current long-term average multiple. This mean reversion analysis excludes any returns from the yield and expected cash flow growth. We continue to believe the Midstream Energy universe also has better growth prospects prospectively, and for the long-term, than historically, implying greater potential long-term appeal and valuation opportunity than in the past.

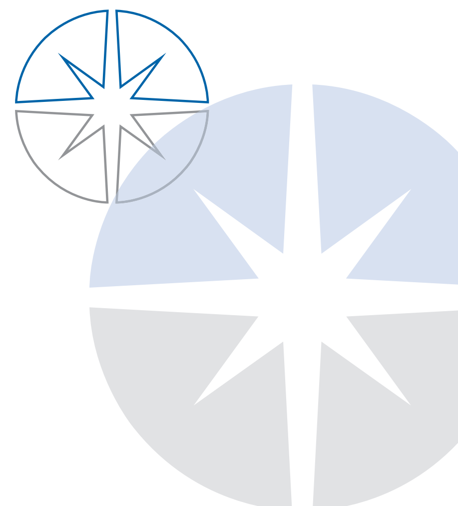
Despite the extremely weak performance of the Midstream group, and in part because of it, the total return expectations for the sector point to an attractive risk/reward ratio. We would remind investors that nearly 90% of the cash flow by our estimates for the companies in the AMZ is fee-based. Of equal importance, we estimate the debt-to-EBITDA leverage of the AMZ is 3.9x, with most companies requiring limited equity issuances going forward. Management teams are working hard to find ways to be more or completely self-sufficient in equity generation, given the high current cost of equity and the desire to no longer be exposed to the whims of the equity markets. It is also important to note that exploration and production (E&P) customers have

MLP COMPOSITE

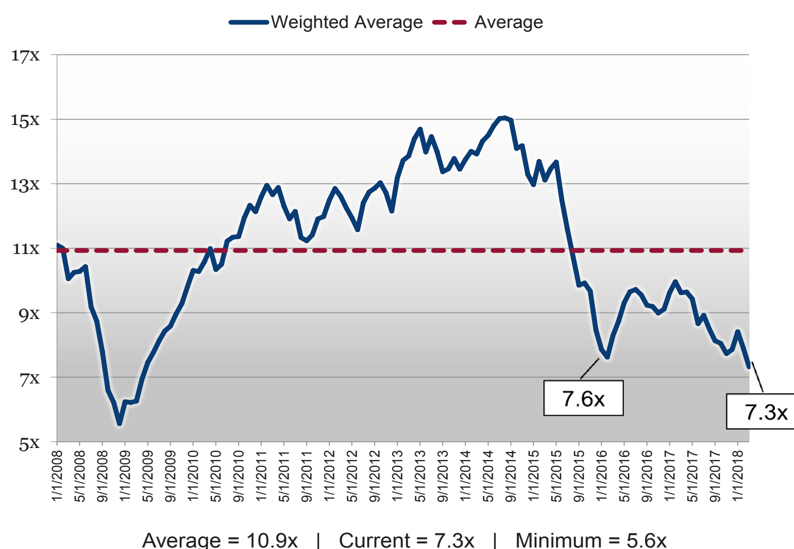
Annualized Return

Trailing as of 3/31/18	Net	Alerian MLP Total Return	S&P 500 Total Return
Month-to-Date	-5.85%	-6.94%	-2.54%
Quarter-to-Date	-13.73%	-11.12%	-0.76%
1 Year	-22.77%	-20.07%	13.99%
3 Year	-11.55%	-11.24%	10.78%
5 Year	-0.53%	-5.85%	13.31%
10 Year	8.99%	5.60%	9.49%
Inception	7.72%	5.84%	8.15%

Please note *Additional Information* on final page.



Alerian Weighted Price to Distributable Cash Flow



Average = 10.9x | Current = 7.3x | Minimum = 5.6x

Bloomberg, Chickasaw, 3/31/18

significantly improved their balance sheets over the past two years, implying more stable, but growing production volumes flowing to Midstream Energy companies, even if, or when, energy prices again show volatility, providing a better cushion than during 2016 in the event of this occurring. We recognize the potential that the current balance sheet and capital expenditure discipline by E&P companies could only last for a short period of time, as memories of past challenges always fade; however, they remain well-positioned for now.

The topic du jour remains the ability of Midstream Energy companies to access affordable equity capital. We believe Midstream management teams are making good strides to internally solve a good portion of the challenge. A combination of greater retained capital, cash flow growth that will also be in part retained, more joint ventures, some with helpful promotes, asset sales and eliminations of IDR's will close much of the funding gap. The implication of Murphy's Law is once enough of these actions are recognized by investors, share prices will rebound and affordable equity capital will again be available in the market, though we believe Midstream management teams are committed to solving their equity issues going forward outside of equity capital markets issuance. None of the "drop-down" names, which have been among the most voracious issuers of equity, appear to require equity at least in 2018.

On the macro energy side, AMZX to crude correlation in Q1 was 36%, below the long-term range of 40%-50%. However, oil prices in the low-to-mid $60 range and current prices of ethane, propane and natural gas are nicely in the increasingly wide Goldilocks range, where producers can make strong returns and customers find the cost of product attractive. This is, of course, because of the strong use of technology by U.S. producers combined with a deeply imbedded midstream infrastructure network, which has created cost advantages for domestic producers. All of this implies continued strong volume outlook for Midstream energy companies, fueling their potential long-term growth.

Investors can appreciate complexity and the investment opportunities that can be identified with thoughtful analysis; however, the steady stream of uncertainty in Energy Companies over the past several years, while technology shares and the broad market have surged, has proved to be too much for many investors to bear, even though the great bulk of uncertainty has been, or is, mostly resolved. Negative fund flows in Midstream Energy have led to continued price weakness despite excellent fundamentals and valuation.

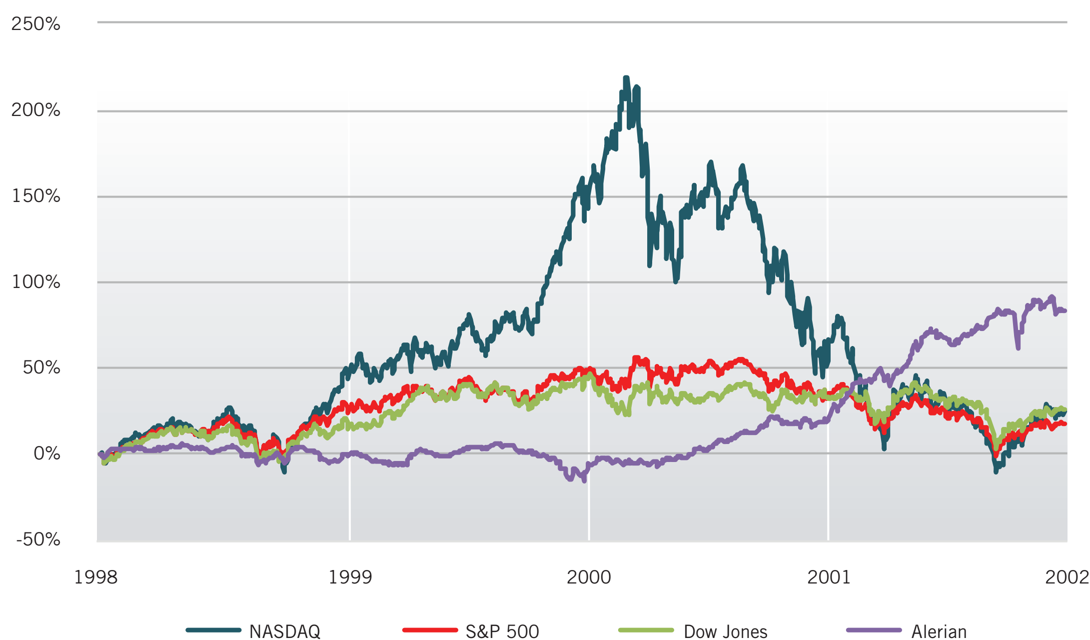
In our previous Investor Letter, we wrote about the eight major issues that appear to have impacted MLPs and investor perceptions toward them. We made our case that all or virtually all of

those issues were resolved or disappearing as negatives, even as fundamentals and prospects continue to improve. We stand behind those comments.

Following the last letter, we were asked numerous times the 'when' question, which, of course, is a loaded question, as we do not know when investors will become positive and decide to inject capital into Midstream Energy companies. Then, on 3/15/18, the Federal Energy Regulatory Commission (FERC) issued an initial ruling, which battered the entire Midstream group, even though its impact was only on a small subset of FERC-regulated natural gas pipelines. Nevertheless, the damage was again done and many wondered again if this is a group that can't get out of its own way. We address the impact of the FERC ruling in a later section of this letter.

The price recovery for the AMZX from its lows has been by far, the slowest ever. That said, strong fundamentals do historically get reflected in share prices. We well remember the period from 1997 to March 2000 when MLPs declined each year while technology shares and the broader market were surging. There are significant similarities to the current period, and we reproduce this graphic from our Second Quarter 2017 MLP Update to help illustrate how fickle the market can be.

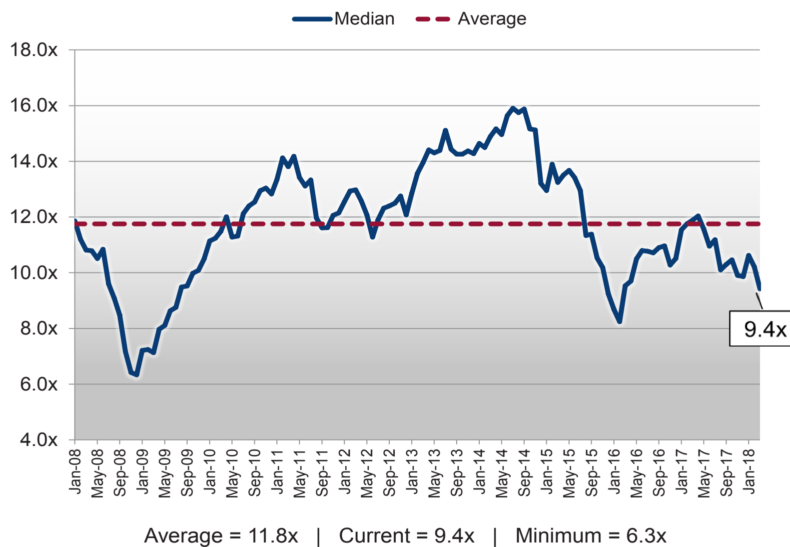
Investors like to buy and own what is popular in the market and don't like to buy or own what isn't working, seemingly to the exclusion or partial exclusion of consideration of valuation. It appears to be as simple as stating that the broad market has continued to 'work' while Energy and Midstream Energy companies have not; counterintuitively this should continue regardless of fundamentals and valuation. We know this isn't the case and something always changes the dynamic. A best answer to the 'why' and 'when' questions from investors seem to be as simple as fund flows. Investors, primarily individual investors, have been extracting and not investing funds in Midstream Energy companies seemingly because they are underperforming and, in the process, preclude them from outperforming, even though the supply of corporate equity issuance has plunged. We and others believed that a rebound, and relative stabilization in the oil price, such as has been experienced since the second half of 2017 through March of 2018, would encourage investors to return to the space, even though a higher oil price has only a moderate impact to a small number of companies. Instead, when the correlation of Midstream Energy shares to oil prices broke down in mid-2017, Midstream Energy share prices continued to languish.



As our clients know well, we are disciplined investors, focusing on strong balance sheets, fundamental prospects and total return expectations. We remain extremely optimistic as to the multi-year opportunity in owning Midstream Energy companies. At this point, we will include our most recent valuation slides, which we trust will give all a mid-Letter confidence boost.

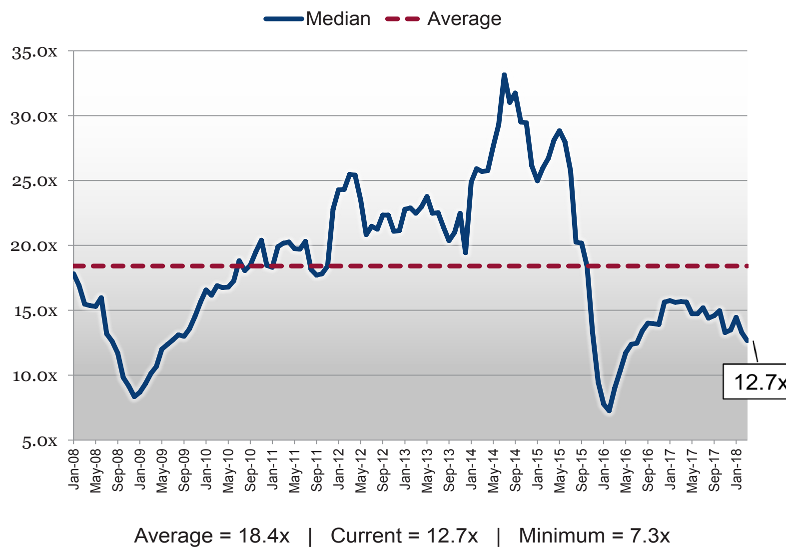
As to why the AMZX generated a negative 11.1% total return in the first quarter, we can only conclude that this performance has little to do with fundamentals and much more is because of the regular calls we receive from investors in general saying they can't take the share price disconnect to the broad market anymore. This apparent selling by certain investors has likely been partially offset

Price to Distributable Cash Flow, Limited Partnerships



Bloomberg, Chickasaw, 3/31/18

Price to Distributable Cash Flow, General Partnerships*



*Includes both MLP and C-Corp general partners.

Bloomberg, Chickasaw, 3/31/18

by institutional buying but has still been a headwind for the sector. The Alerian MLP ETF (AMLP) suffered its worst quarterly outflow ever at a massive $566 million in the first quarter, which was 5x the previous worst outflow. This helps to explain the share/unit price weakness in the first quarter.

The United States has become the most cost-competitive incremental producer of significant quantities of oil, ethane and propane in the world. Natural gas produced in the U.S. is also very price-competitive on a worldwide basis, although it is currently predominantly produced as a domestic commodity. All this growth in production is what will drive future Midstream projects and growth.

All of the oil, natural gas, ethane and propane that is produced in the United States must be gathered, processed, transported, sometimes blended or fractionated, stored and delivered to customers. The Energy Information Agency (EIA) estimates the 9.3 mm bbls/d of 2017 average oil production in the U.S. will rise to a new record high of 10.7 mm bbls/d in 2018 and then to 11.3 mm bbls/d in 2019. Dry U.S. natural gas production is estimated to have equaled 73.6 BCF/d in 2017 and is forecast by the EIA to reach 81.7 BCF/d in 2018, or an 11% increase in production. All of these volumes, plus the significant incremental volumes of ethane and propane, which are produced mostly in conjunction with natural gas production but are dependent on the timing of ethylene cracker and other chemical plant completions, must be handled by Midstream companies. These sharp rises in production will go far in raising utilization rates, and profits, of existing midstream assets and then filling a number of new pipelines and other systems that are currently being built. These volume increments, and the contracts which backstop them, are the profit drivers for most Midstream energy companies.

Oil pipelines from the Permian Basin to the Gulf Coast are largely full; this is a recent phenomenon from sharp, rising oil and gas production in the Permian Basin. The basis differential (price difference) from Midland, Texas (in the Permian) to the Cushing, Oklahoma hub expanded to almost $6 per barrel, a figure far above transportation cost, as Permian producers struggle to move their substantial incremental production to markets. The recent rise of oil in storage at Cushing is explained by this increasing tightness in pipeline capacity and a redirection of incremental oil production to Cushing. Clearly, incremental oil, natural gas and natural gas liquids pipelines are required, as production volumes continue to rise. A number of natural gas and liquids pipelines are currently under construction from the major Marcellus Shale play to feed the seemingly insatiable demand for natural gas in the Northeast, Middle Atlantic States and Southeast. Finally, it wouldn't be a Chickasaw Investor Letter if we didn't cite the American Chemistry Council's (ACC) increased estimate that there is $185 billion being spent on approximately 300 chemical plants and projects in the U.S., requiring massive amounts of ethane, along with increased quantities of propane and natural gas.

As of March 30th the widely watched crude oil inventories have fallen by 110.2 million barrels over the past year in the United States, even as the U.S. Strategic Petroleum Reserve (SPR) has seen its oil volumes decline by 26.6 million barrels, due to the U.S. choosing to monetize a portion of the SPR. The EIA has estimated that oil and other liquids in storage in the world have fallen by 600,000 bbls/d in 2017 or approximately 220 million barrels. The global data set points to the oil markets as 'essentially' in balance at this time. Others question whether strong U.S. production might push the world back into a surplus position and again depress prices. There are many variables, including the growth rate of GNP and oil consumption in the world, plunging Venezuelan production and Saudi/Russian resolve as to balancing supply versus demand. It appears to us that these factors continue to place the world and oil prices somewhere in a range that can continue to work for U.S. producers and customers, and therefore for Midstream Energy companies as well.

The Federal Energy Regulatory Commission (FERC) ruled negatively on a tax allowance collection issue for FERC regulated natural gas pipelines. We see the ruling as a modest negative for Midstream Companies. Otherwise, the regulatory environment appears to be improving.

After a number of years of an increasingly difficult regulatory environment, including but not limited to environmental challenges, regulations and particularly duplication of regulations by numerous government agencies, the regulatory burden is finally being lessened under the current administration. A great example of a strong benefit to the industry is that of the $5 billion Dakota Access Pipeline (DAPL) that was held up as it neared completion, and for want of a fairly routine permit being issued by the Army

Corps of Engineering to complete a final tunneled river crossing. This permit, quickly obtained following the change of administrations in early 2017, set a new tone from Washington and allowed nearly 500,000 bbls/d of oil to flow from North Dakota through the pipeline instead of at much greater cost and risk by train. Similarly, the Keystone XL Pipeline was approved by the current administration to potentially move heavy Canadian crude to U.S. markets for export.

However, on 3/15/18 the FERC proposed the elimination of the income tax allowance in the cost of service contracts for gas pipeline assets held by Master Limited Partnerships. This has been a longstanding issue that has been discussed for many years, but the announcement was unexpected. It's important to note that while this only affects a small subset of gas pipeline cashflows—we estimate a minimal impact to the AMZ's overall cash flow profile—it introduced uncertainty into a skittish market. The issue may resolve itself more favorably than the initial proposal, but even if it does the uncertainty has helped to create the extreme valuation discount we currently see. If you would like to further understand the impact of this potential change please reach out to your Chickasaw representative and we can send you information as well as possibly set up a call.

As strict fundamentalists, we have consistently written about the improving fundamentals and compelling valuations in past investor letters; however, many remain focused on the continued negative investor sentiment. Although more than a bit out of our comfort zone, we will attempt to address this sentiment issue, which clearly weighs heavily on investors and Midstream Energy shares.

From 12/31/2012 through 3/31/18 the S&P 500 Total Return Index rose 106.6%, while the AMZX declined 11.4%, and investors are puzzled and disappointed at a minimum. We cannot blame them. It is a fact that the five largest technology companies in the S&P 500 have rallied sharply, accounting for a disproportionate amount of this rise in the Index and currently represent nearly 14% of the S&P 500 Index. However, most other groups, excluding energy, have also performed strongly or reasonably well. Value investors attempt to purchase attractively-priced securities. Midstream shares have failed to attract significant such attention because of some of the peculiarities of the MLP structure, although we currently are seeing strong interest and investment by institutional investors, while individual investors remain on the sidelines. Wall Street analysts for the group appear unwilling to be aggressive with sector and stock calls, and will more likely wait to be more aggressive when they see the space turn upward.

After a long drought of positive attention toward energy, we've noticed several Wall Street strategists recently pointing to the potential appeal of energy shares. Most strategists continue to see appeal in the broader market, given expected rising earnings in 2019, but strategists usually view the markets as having appeal. A recent survey of institutional investors (271 responses) by Royal Bank of Canada's (RBC's) Head of U.S. Equity Strategy showed much less confidence in the market going forward, with less than half of responders bullish on the market and with only 16% saying market valuations are attractive. We found it interesting that 27% indicated that they were looking to buy energy shares in 2018. We are not at all certain what this might imply about future investor actions. However, it is telling about the herd instinct when so few find market valuations attractive, but they remain invested in that market. It is equally interesting that so many indicate they may this year buy energy shares, a group that currently represents only 5% of the S&P 500, far lower than in past years. It would not take much buying or swapping from other groups in the broader market to have major impact

Could rising interest rates be a pothole for the broader market? Perhaps. For Midstream Energy? We doubt it.

Rising interest rates have historically been a negative for the stock market and particularly for high multiple shares, as the discount rate for those shares is raised. That said, we have no special insight as to whether interest rates will, in fact, significantly rise from current levels. MLPs have historically been thought of as an income sector, however the statistical relationship with the 10 year Treasury yield over time would indicate otherwise. Looking at the 3, 5 and 10-year data MLPs have exhibited a (0.05), (0.05), and (0.09) relationship*. We believe investors have treated MLPs more as growth equities over these periods and should continue to do so given the robust demand for energy infrastructure investments. Lastly, given the nearly 9% current yield of the AMZ it is logical to think MLPs would more likely be a recipient of fund flows from lower yielding investments rather than a source.

*Wells Fargo, "MLP Monthly", 2/7/18

Chickasaw Capital Management

Thank you to ALL our investors.

We appreciate the collegial conversations and mutual exchanges we have with you, our highly valued customers, as we continue to wait for the share price recovery and growth we are convinced are ahead of us.

We have been humbled by recent market action, and we know that you have expected better performance from the group and us. We believe for the reasons we discussed in this letter that better days lie ahead.

David Fleischer, CFA   Geoffrey Mavar   Matt Mead   Robert Walker

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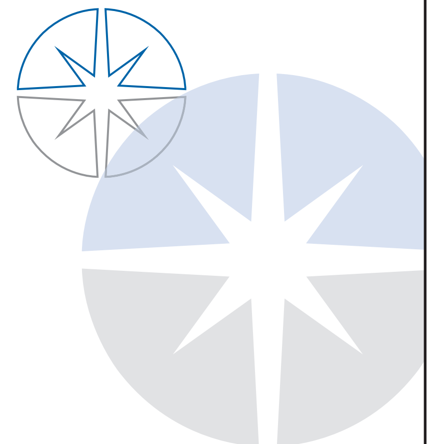

Chickasaw MLP SMA Composite | October 31, 2006 –March 31, 2018

3/31/18	ANNUALIZED RETURN (%)			CUMULATIVE RETURN (%)		
	Net-of-Fees Return	Alerian MLP Total Return*	S&P 500 Total Return*	Net-of-Fees Return	Alerian MLP Total Return*	S&P 500 Total Return*
Month-to-Date	-5.85	-6.94	-2.54	-5.85	-6.94	-2.54
Quarter-to-Date	-13.73	-11.12	-0.76	-13.73	-11.12	-0.76
Year-to-Date	-13.73	-11.12	-0.76	-13.73	-11.12	-0.76
1 Year	-22.77	-20.07	13.99	-22.77	-20.07	13.99
3 Year	-11.55	-11.24	10.78	-30.81	-30.08	35.95
5 Year	-0.53	-5.85	13.31	-2.61	-26.01	86.75
10 Year	8.99	5.60	9.49	136.48	72.52	147.71
Inception	7.72	5.84	8.15	133.56	91.06	144.52

Year	Net-of-Fees Return (%)	Alerian MLP Total Return* (%)	S&P 500 Total Return* (%)	Number of Portfolios	Annual Composite Dispersion (%)	Composite 3-Year Ex-Post Standard Deviation (%)	Alerian MLP 3-Year Ex-Post Standard Deviation (%)	S&P 500 3-Year Ex-Post Standard Deviation (%)	Total Composite Assets (USD mil)	Total Firm Assets (USD mil)	Bundled Fee Assets as a % of Total Composite Assets
2018 YTD	-13.73	-11.12	-0.76	947	NA	NA	NA	NA	2352	4369	20.23
2017	-8.40	-6.52	21.83	817	0.72	21.93	19.06	9.92	2272	4915	20.55
2016	25.61	18.31	11.96	891	2.02	23.37	19.95	10.59	2490	5015	19.53
2015	-31.46	-32.59	1.38	421	1.57	20.39	18.50	10.47	1187	3108	9.14
2014	21.71	4.80	13.69	251	1.38	14.91	13.54	8.97	1292	3054	4.74
2013	46.64	27.58	32.39	166	3.23	13.04	13.43	11.94	988	1933	2.86
2012	15.87	4.80	16.00	118	2.17	13.17	13.37	15.09	563	949	NA
2011	22.30	13.88	2.11	98	2.05	18.82	17.19	18.71	406	690	NA
2010	43.59	35.85	15.06	76	4.45	NA	NA	NA	170	393	NA
2009	111.65	76.41	26.46	18	NA	NA	NA	NA	37	289	NA
2008	-59.75	-36.92	-37.00	3	NA	NA	NA	NA	0.7	224	NA
2007	4.83	12.72	5.49	1	NA	NA	NA	NA	0.5	346	NA
2006	5.84	6.03	3.33	1	NA	NA	NA	NA	0.4	334	NA

Firm and Composite Information: Chickasaw Capital Management, LLC ("CCM") is an independent investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. CCM manages a variety of equity, fixed income, and balanced assets for wealthy families and institutions with a focus on master limited partnerships ("MLPs"). The Chickasaw MLP SMA Composite (the "Composite") consists of fee-based, discretionary accounts that invest in MLPs and MLP affiliates that trade on U.S. stock exchanges. The Composite was created in August 2009 and prior results contain historical data. All historical performance was constructed in accordance with the composite construction policies set forth within the firm's policies and procedures. All underlying accounts were treated on a consistent basis with respect to composite inclusion. As of 5/31/2015, the minimum account size for inclusion into the Composite is $75,000. Accounts will not be removed from the Composite if they fall below the minimum due to market fluctuations or client withdrawals.

***Benchmark:** The benchmark is the return of the Alerian MLP Total Return Index ("Alerian") and the S&P 500 Total Return Index ("S&P 500"). The Alerian is a market-capitalization weighted index composed of the most prominent energy Master Limited Partnerships. The S&P 500 is a market-capitalization weighted, broad-based securities market index containing the 500 most widely held companies chosen with respect to market size, liquidity, and industry. As of 6/30/15, the Alerian was added as a primary benchmark to provide additional information and was applied retroactively. As of 12/31/2011, the benchmark changed to the S&P 500 Total Return Index from the S&P 500 Principal Only Index and was applied retroactively. The index information is included merely to show the general trend in the markets for the periods indicated and is not intended to imply that a client's investment portfolio will be similar to the index either in composition or risk. The volatility of the S&P 500 and the Alerian may be materially different from that of the strategy depicted, and the holdings in the strategy may differ significantly from the securities that comprise the S&P 500 and the Alerian. The S&P 500 and the Alerian are unmanaged and are not assessed a management fee and other expenses typically associated with a managed account or an investment fund. Investments cannot be made directly in a broad-based securities index.

Performance Calculations: Valuations and returns are computed and stated in U.S. Dollars. The performance shown is for the stated time period only; due to market volatility, each account's current performance may be different. Returns are calculated using a time-weighted rate of return ("TWR") calculation methodology. TWR is computed by calculating a simple rate of return between each period, and linking them. Results reflect the reinvestment of dividends and other earnings. As of 6/30/13, the Composite contains portfolios with "bundled" and "non-bundled" fees. "Bundled" fees include investment management fees as well as other sponsor platform fees that include but are not limited to transaction costs, custodial fees, advisory, and other administrative fees. Pure gross returns are presented as supplemental information to the net-of-fee returns due to certain portfolios not paying a transaction cost in a "bundled" fee structure. Pure gross performance is also presented gross of all investment management fees; gross of custodial fees in "non-bundled" portfolios; gross of all "bundled" fees charged by the platform sponsor; net of transaction costs on "non-bundled" portfolios; and net of withholding taxes. Net-of-fee returns are presented net of actual investment management fees; net of trading expenses; net of actual "bundled" fees; net of withholding taxes; and gross of custodial fees for "non-bundled" portfolios. The standard management fee for the MLP strategy is 1.50% per annum. Additional information regarding CCM's fees is included in its Part II of Form ADV. The Gross-of-fees return and Net-of-fees return for 2006 are the same since the return is measured from 10/31/2006 to 12/31/2006 and no fees were charged during that two month period. Dispersion is calculated using the asset-weighted standard deviation of all accounts included in the Composite for the entire year. Dispersion is not presented for periods less than one year or when there were five or fewer portfolios in the Composite for the entire year. Three -year ex-post standard deviation is not presented prior to 2011 as this was not required. Differences in account size, timing of funding or transactions in securities and other market conditions may cause the performance of any account to differ from that of other accounts managed by CCM and/or that of the Composite. Differences in the methodology used to calculate performance might also lead to different performance results than those shown. Additional information regarding CCM's policies and procedures for valuing portfolios, calculating performance, and reporting performance results is available upon request.

GIPS Compliance Statement: Chickasaw Capital Management, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Chickasaw Capital Management, LLC has been independently verified for the periods 01/01/06 – 12/31/16. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. A complete list and description of composites is available upon request.

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.