

Weekly Midstream & Market Pulse

MAY 31, 2020

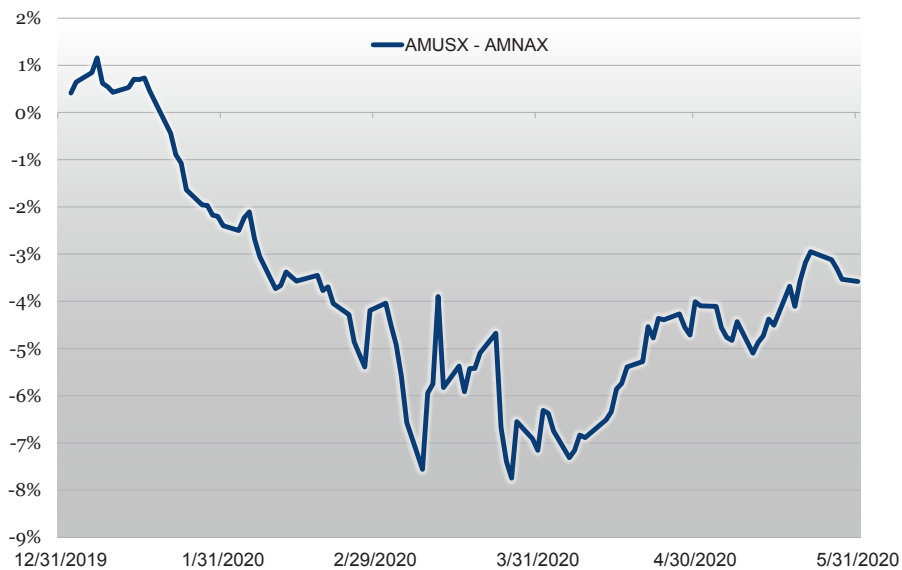
Hindsight is Always 2020

2020 has been a strenuous year in Midstream Energy. And, we have just barely completed the first 5 months...However, with unprecedented times, such as these, also come unprecedented opportunities to reflect and learn from the recent events.

Canadian vs. U.S

The graph below illustrates the relative performance of the Alerian US Midstream Energy Total Return Index (AMUSX), compared to the Alerian Midstream Energy Total Return Index (AMNAX). By subtracting the performance of the AMNAX from the AMUSX, we can isolate the relative performance of Canadian vs U.S. securities.

AMUSX Out/Under Performance to AMNAX



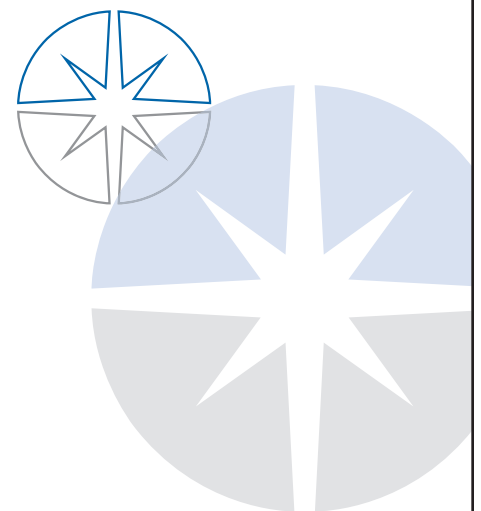
Source: Bloomberg, LP

While U.S. domiciled securities started out strongly, they lagged their Canadian counterparts in February and March, but have rebounded nicely during April & May. Within our Model Portfolio, we hold allocations to U.S. and Canadian domiciled securities.

INVESTMENT TEAM

Geoffrey P. Mavar – Principal
 Matthew G. Mead – Principal
 Robert M.T. Walker – Principal
 Bryan F. Bulawa – Principal

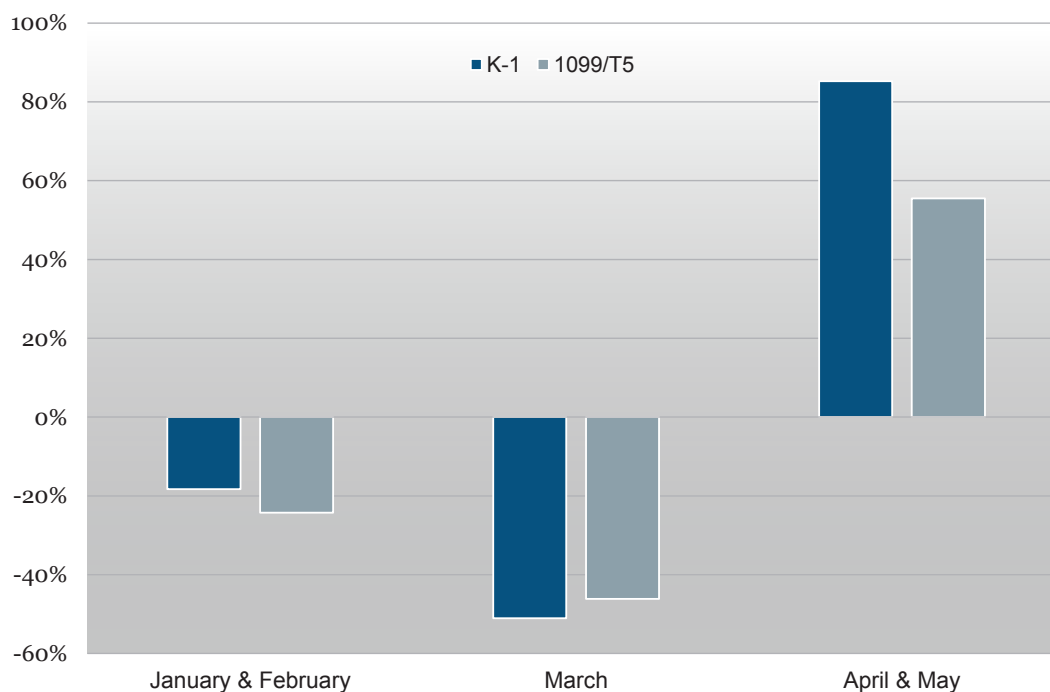
Paul R. Jacob – Vice President
 Scott B. Warren, CFA – Senior Analyst
 Luke B. Davis, CFA – Senior Analyst
 Rahil Jiwan – Senior Analyst
 Walter P. Frank – Associate Analyst



Partnerships vs. C-Corps

We are often asked about the relative value, or performance expectations, for Midstream C-Corps vs. partnerships. While we have long allocated capital to both C-Corps and Partnerships, we are also rather agnostic in the tax filing status and pay much more attention to the cash flow profiles, among other factors, of portfolio companies.

Performance by Tax Filing



Source: Bloomberg, LP

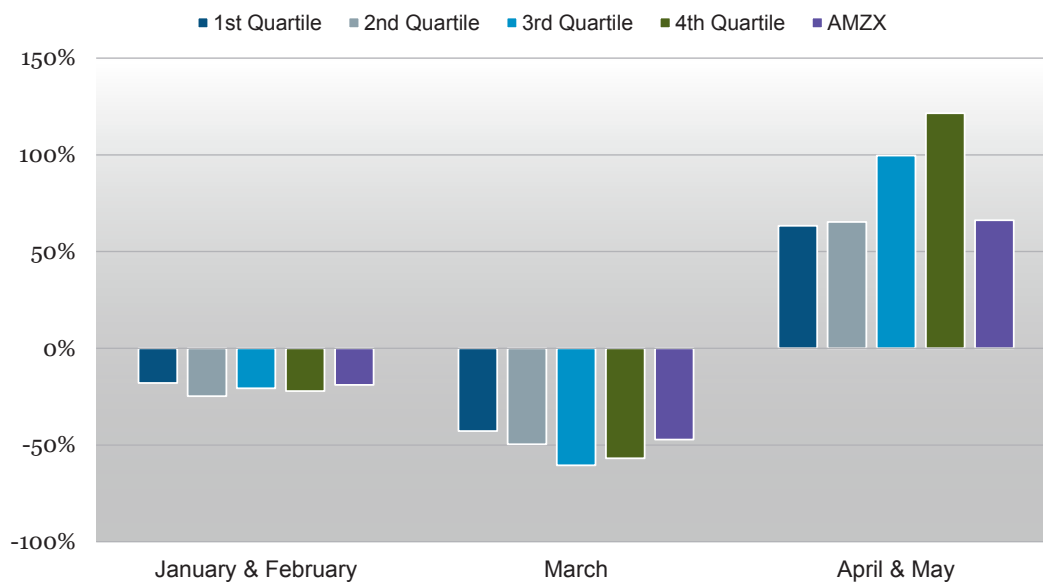
Partnerships outperformed earlier in the year, then underperformed during March, and now have also rebounded nicely in April & May. Within our Model Portfolio, we hold allocations to K-1 generating partnerships and 1099/T5 issuing Corporations.

Factor Performance

We have also taken this opportunity to reflect on factors driving the performance of the Alerian MLP Total Return Index, which is still by far and away the leading index used for benchmarking actively managed Midstream energy allocations. In order to do so, we constructed a factor-based analysis of the AMZX to illustrate how different groupings of securities have performed year-to-date, including: Market Capitalization, Yield, Distribution Coverage Ratio, Price-to-Distributable Cash Flow (DCF), and Enterprise Value-to-EBITDA (EV/EBITDA). Additionally, we have segregated the constituents of the AMZX into quartiles within each of these categories (full reference table included in the appendix). Given the turmoil in the marketplace, we have dissected the year into three periods:

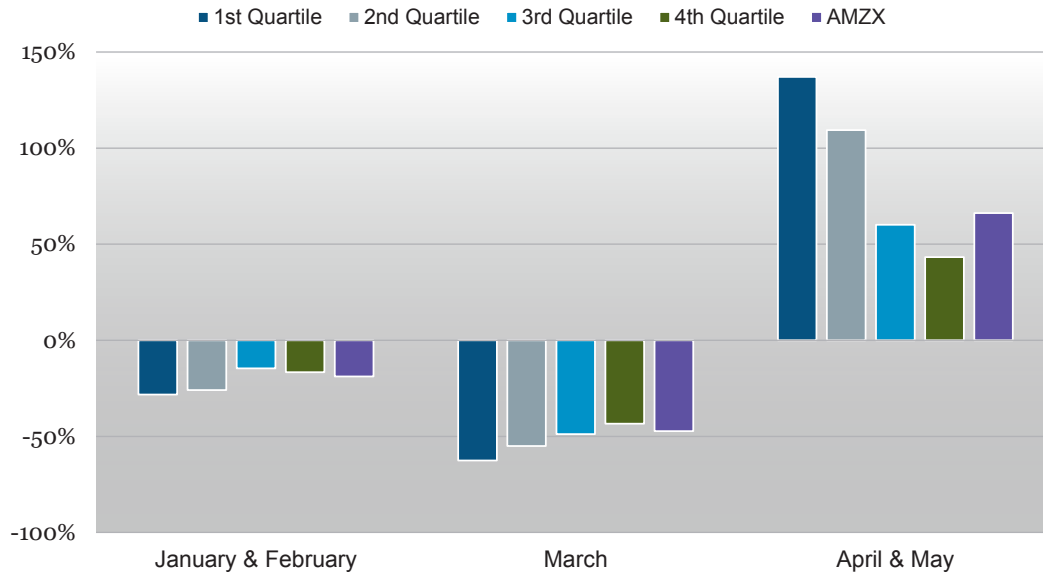
- January and February, which represent performance characteristics before the supply and demand shocks.
- March's performance is indicative of the height of uncertainty.
- April & May reflects quarterly results and updates from company management, as well as stabilization efforts on the monetary and fiscal fronts.

Market Cap (Avg. Performance by Quartile)



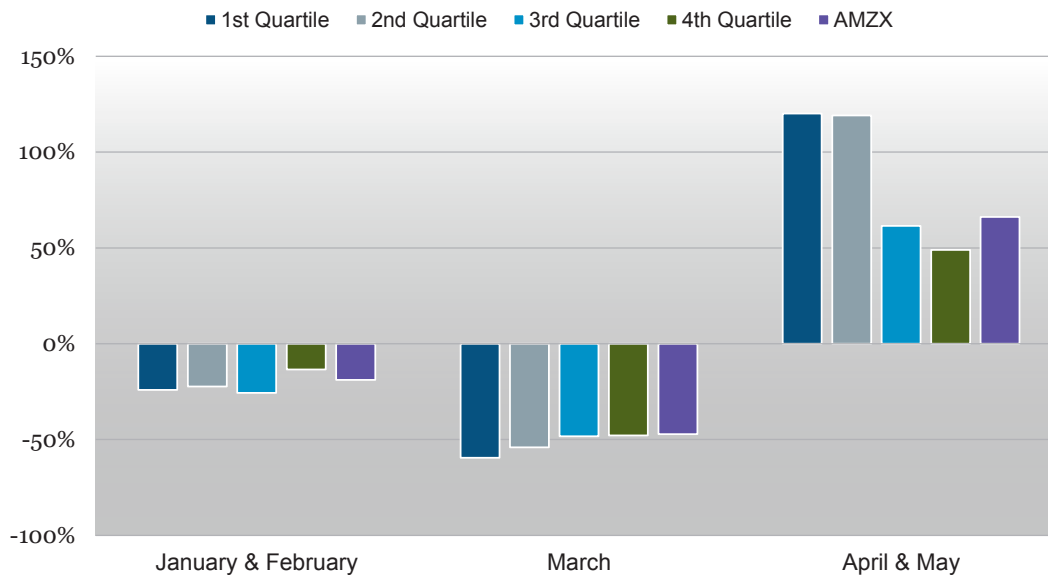
Source: Bloomberg, LP and company announcements

Yield (Avg. Performance by Quartile)



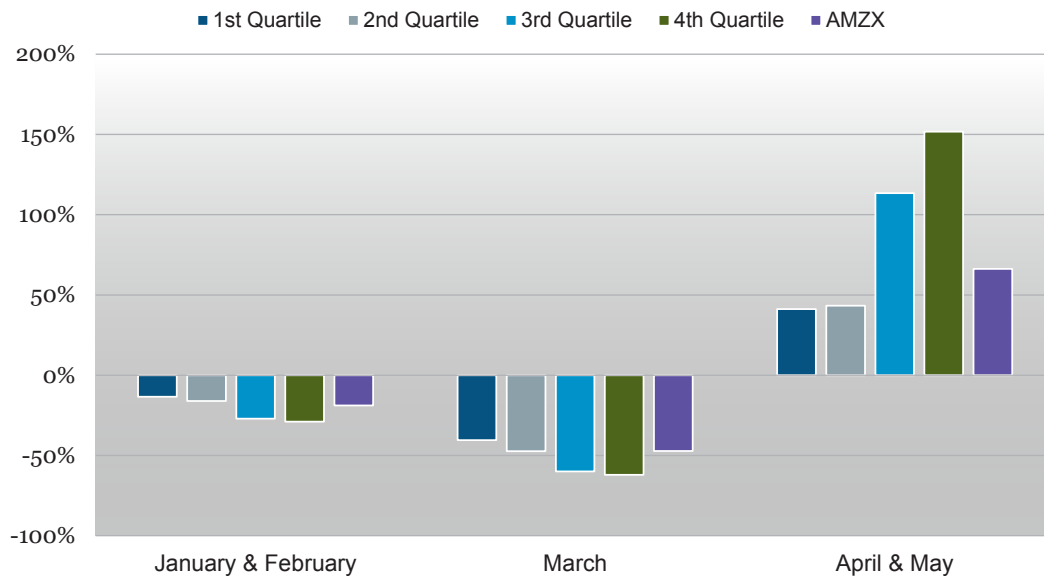
Source: Bloomberg, LP and company announcements

Coverage Ratio (Avg. Performance by Quartile)



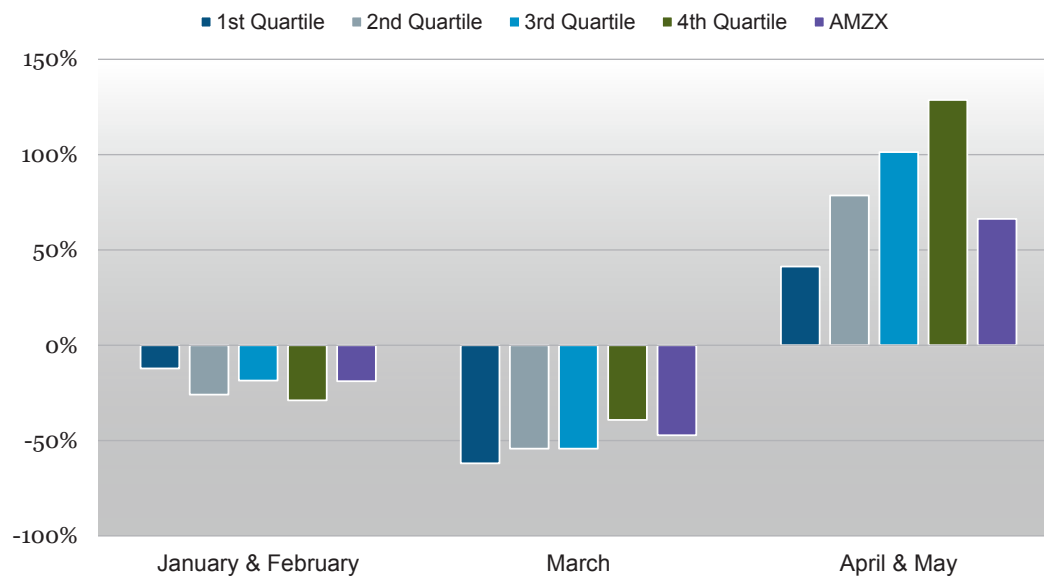
Source: Bloomberg, LP and company announcements

Price-to-DCF (Avg. Performance by Quartile)



Source: Bloomberg, LP and company announcements

EV-to-EBITDA (Avg. Performance by Quartile)



Source: Bloomberg, LP and company announcements

Balance...

We find, in examining the graphs above, there is not one single factor that assured investors of relative out- or under-performance. Moreover, the range of returns between the quartiles and across the time periods analyzed is, frankly, astounding. We are reminded regularly, and especially in the dynamic markets we have experienced over the last 12+ weeks and continue to experience today, of the importance of a flexible and balanced approach to allocating capital in Midstream.

Geoffrey Mavar

Matt Mead

Robert Walker

Bryan Bulawa

Appendix

		January & February				March				April & May			
		# Securities	Max.	Min.	Avg. Total Return	# Securities	Max.	Min.	Avg. Total Return	# Securities	Max.	Min.	Avg. Total Return
Market Capitalization	1st Quartile	8	\$61,647	\$12,223	-17.9%	8	\$51,095	\$9,952	-42.8%	8	\$31,306	\$3,844	63.3%
	2nd Quartile	8	\$8,920	\$3,000	-24.8%	8	\$5,916	\$2,235	-49.6%	8	\$2,965	\$976	65.3%
	3rd Quartile	8	\$2,786	\$1,265	-20.7%	8	\$2,187	\$928	-60.4%	8	\$932	\$334	99.6%
	4th Quartile	8	\$1,243	\$225	-22.1%	8	\$868	\$168	-56.9%	8	\$324	\$57	121.5%
Yield	1st Quartile	8	28.7%	12.9%	-28.2%	8	38.6%	19.4%	-62.5%	8	75.7%	45.3%	137.0%
	2nd Quartile	8	12.7%	10.7%	-26.0%	8	18.6%	12.0%	-55.0%	8	39.9%	27.7%	109.4%
	3rd Quartile	8	9.9%	8.1%	-14.7%	8	11.1%	9.7%	-48.8%	8	26.6%	15.4%	60.1%
	4th Quartile	8	6.8%	0.0%	-16.6%	8	9.2%	0.0%	-43.4%	8	12.6%	0.0%	43.3%
Coverage Ratio	1st Quartile	8	2.0x	1.6x	-24.1%	8	2.4x	1.6x	-59.5%	8	3.0x	1.7x	120.2%
	2nd Quartile	8	1.6x	1.3x	-22.3%	8	1.6x	1.3x	-54.1%	8	1.6x	1.3x	119.1%
	3rd Quartile	8	1.3x	1.2x	-25.6%	8	1.3x	1.2x	-48.3%	8	1.3x	1.2x	61.5%
	4th Quartile	8	1.1x	1.0x	-13.5%	8	1.1x	1.0x	-47.8%	8	1.1x	1.0x	49.0%
Price-to-DCF	1st Quartile	8	13.0x	9.8x	-28.9%	8	11.5x	8.8x	-62.0%	8	8.8x	5.4x	151.8%
	2nd Quartile	8	9.6x	7.6x	-27.0%	8	8.5x	5.8x	-60.0%	8	5.3x	2.8x	113.4%
	3rd Quartile	8	7.4x	6.3x	-16.1%	8	5.8x	4.2x	-47.3%	8	2.6x	1.6x	43.3%
	4th Quartile	8	6.2x	1.8x	-13.4%	8	4.0x	1.1x	-40.4%	8	1.4x	0.4x	41.2%
Enterprise Value-to-EBITDA	1st Quartile	8	13.0x	10.9x	-28.9%	8	11.9x	10.4x	-62.0%	8	10.7x	8.7x	128.6%
	2nd Quartile	8	10.8x	9.2x	-18.5%	8	9.9x	8.3x	-54.2%	8	8.3x	6.7x	101.3%
	3rd Quartile	8	9.2x	8.7x	-25.9%	8	8.2x	7.0x	-54.3%	8	6.7x	5.8x	78.6%
	4th Quartile	8	8.7x	6.4x	-12.2%	8	6.9x	5.9x	-39.2%	8	5.5x	3.0x	41.2%

Source: Bloomberg, LP as of the close of trading on the final day of the month preceding each period noted.

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The Alerian MLP Index is a composite of the most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis (NYSE: AMZ), and the corresponding total-return index is disseminated daily (NYSE: AMZX). Relevant data points such as dividend yield are also published daily. For index values, constituents, and announcements regarding constituent changes, please visit www.alerian.com.

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The Alerian US Midstream Energy Index is a broad-based composite of US energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMUS) and on a total-return basis (AMUSX).

The Alerian Midstream Energy Index is a broad-based composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return (AMNA), total-return (AMNAX), and net total-return (AMNAN) basis.

Distributable Cash Flow (DCF) is calculated as net income plus depreciation and other noncash items, less maintenance capital expenditure requirements. Distributable Cash Flow (DCF) data is CCM-calculated consensus of Wall Street estimates. DCF/u growth is not a forecast of the portfolio's future performance. DCF growth rate for the portfolio's holdings does not guarantee a corresponding increase in the market value of the holding or the portfolio.

Distribution Coverage Ratio is calculated as cash available to limited partners divided by cash distributed to limited partners. It gives an indication of an MLP's ability to make dividend payments to limited partner investors from operating cash flows. MLPs with a coverage ratio of in excess of 1.0 times are able to meet their dividend payments without external financing.

Enterprise Value (EV) is a measure of a company's total value that includes in its calculation the market capitalization of a company but also short-term and long-term debt as well as any cash on the company's balance sheet.

EV/EBITDA is a ratio used to determine the value of a company. The enterprise multiple looks at a firm as a potential acquirer would, because it takes debt into account – an item which other multiples like the P/E ratio do not include. Enterprise multiple is calculated as: Enterprise multiple = EV/EBITDA.

Market capitalization refers to the total dollar market value of a company's outstanding shares of stock. Commonly referred to as "market cap," it is calculated by multiplying the total number of a company's outstanding shares by the current market price of one share.

Yield refers to the cash dividend or distribution divided by the unit price at a particular point in time.

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