ADVISORY RESEARCH®
INVESTMENT MANAGEMENT

MLP & Energy Infrastructure Market

First Quarter 2019 Commentary

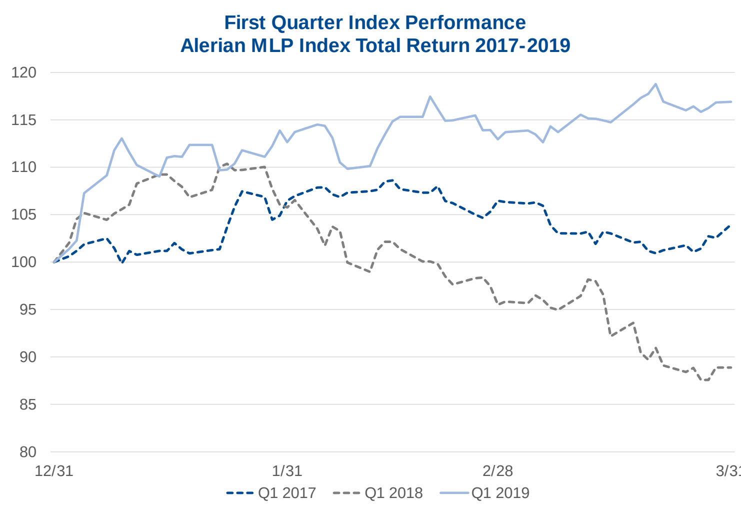
OVERVIEW

Master Limited Partnerships ("MLPs"), as represented by the Alerian MLP Index ("Index") returned 16.8% during the quarter ended March 31, 2019. The Index's one year return ended March 31, 2019, was 15.1%. These returns compare to returns for the S&P 500 of 13.7% and 9.5% for the quarter and year, respectively.

OUTLOOK

Since the bottoming of energy commodity prices and energy security prices in the first quarter of 2016, the energy industry has taken many steps towards building a more sustainable business model. The approach by many of these companies was methodical: asset sales to fund debt pay down, joint venturing of capital projects to reduce the balance sheet stresses required by these necessary projects, reduction of payouts to shareholders in the form of dividends, distributions, and share buybacks. The result has been a healthier industry asserting its dominance on world markets, which presents an opportunity for investors who have overlooked the industry for the past three years.

Companies, especially in the midstream space, have invested in their businesses, right-sized their balance sheets and cash management strategies, simplified their corporate structures, and posted record cash flow. While all of this is positive, in our view, it has come at a cost. Management teams alienated their yield-oriented investors by reducing distributions. Tax-aware investors, very prominent in the MLP market, were handed big tax bills due to consolidations often with little premium paid to the target. The chart to the right illustrates first quarter performance in each of the past three years. Early moves higher in the first quarter 2017 and 2018 tended to fade through the period or into the remainder of the year frustrating investors.



Source: FactSet Research Systems. Past performance does not guarantee future returns.

Of note, the first quarter of 2019 stands out from these recent comparable periods. As we had anticipated in our prior quarter commentary, the year began with a January bounce after a steep decline in the fourth quarter which triggered tax loss selling. Positive flows resumed in January lifting MLP prices higher. Unlike the two previous periods, there was no material "noise" from management nor regulatory or rating agencies as the quarter progressed. This lack of noise allowed investors to begin focusing more on relatively attractive MLP prices and fundamentals.

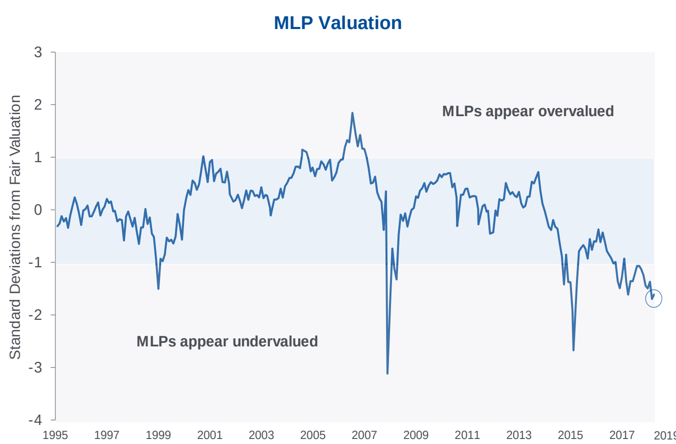
Our key issues table is below.

KEY ISSUES	Positive	Neutral	Negative	Comment
VALUATIONS	☑			We believe MLPs remain undervalued on an absolute and relative basis versus comparable asset classes
POLITICAL AND REGULATORY			☑	Infrastructure regulation is increasingly local, making for a more complicated operating environment
COMMODITY PRICES		☑		Commodity prices are in the middle of our expected range
INTEREST RATES		☑		Interest rates remain low and the path of future rates remains unclear
DISTRIBUTION GROWTH	☑			After 4 years of decline, distributions are inflecting and showing potential signs of growth
ENERGY INFRASTRUCTURE BUILD-OUT		☑		Growing oil and gas production requires new infrastructure spending but lower capital spending by E&Ps (exploration & production) may delay demand for new infrastructure for midstream companies

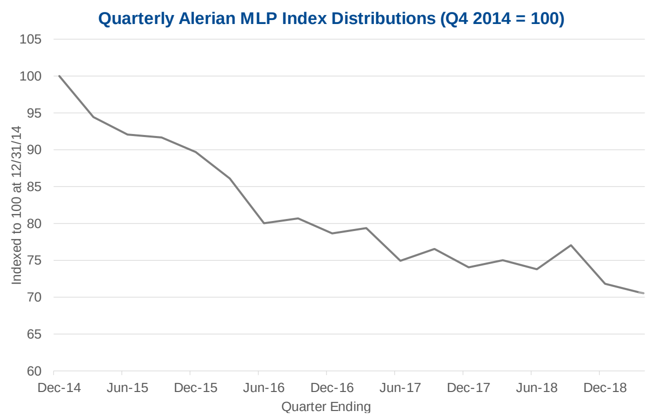
Strong earnings reports, improving distributions announcements, and few negative surprises allowed MLP prices to maintain their gains and post the fifth best quarter in Index history. With record cash flow expected in the coming years and valuations at very attractive levels, we believe the set-up could be a good one for the remainder of the year.

The recent improvement in price performance has been part of a larger move up across all asset classes. We continue to think that an inflection point in midstream distributions, from decline to growth, will serve as the catalyst going forward. We have seen the beginning of this realization in our portfolio holdings where companies are maintaining or growing their shareholder payouts. Distribution growth will be driven by good execution on the base business and new capital projects coming on line. As illustrated in the Quarterly Alerian MLP Index Distributions chart directly to the right, we believe growth will be muted but the inflection point will be this year. We also expect midstream entities not in the Index to demonstrate higher growth and have likely already inflected.

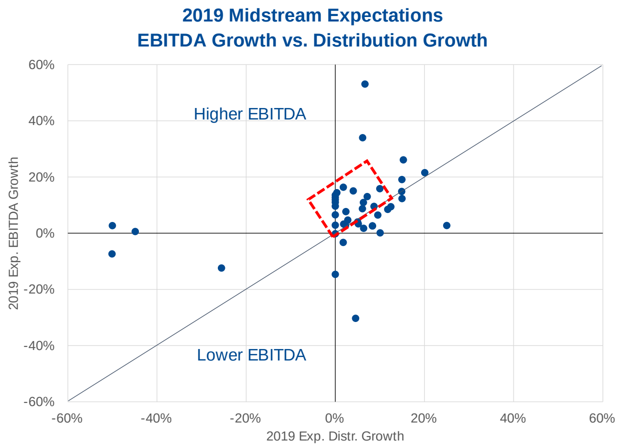
The chart on the following page, illustrates that the majority of midstream companies are growing EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization), which provides them the opportunity to grow distributions as well. Interestingly, in most cases companies are not increasing their distribution, consistent with our earlier comments about a focus on sustainability of distributions. Thus, many midstream companies are as conservatively positioned as they have been in at least a decade.



Period: 12/31/95 to 3/31/19. Source: Advisory Research, FactSet Research Systems. Composite valuation based on both relative and absolute valuation metrics. Standard deviation is a measure of volatility, which shows how much variation exists from the average return. Past performance does not guarantee future returns.



Period: 12/31/14 to 3/31/19. Source: Advisory Research, Alerian. Past performance does not guarantee future returns.



Data as of 3/31/19 Source: FactSet Research Systems
Note: 2019 expected distribution growth and expected EBITDA growth are consensus numbers for midstream entities only. Outliers were excluded for presentation purposes.

The current environment of strong business fundamentals and identifiable growth is juxtaposed against a very conservative mindset from management teams. In such an environment, we have positioned the portfolio to take advantage of these trends. High quality Gathering & Processing MLPs have not benefited as much from the recent rebound in security prices, but should benefit from continuing production growth and, are therefore, positioned to execute and potentially experience multiple expansion. Certain oil and gas basins are well suited to take advantage of growing demand for crude oil, natural gas and natural gas liquids from the petrochemical industry and the export market. We think midstream exposure to this trend in the Permian basin is attractive. Finally, the broader call on infrastructure from the wellhead to the export market creates opportunity for integrated midstream companies across their entire value chain. Natural gas-heavy players are especially well-suited to take advantage of huge additions to LNG (liquefied natural gas) export capacity coming online over the next few years.

Thank you for your continued trust and support. As always, we welcome any questions you may have.

Sincerely,

Advisory Research MLP & Energy Infrastructure Team

Note: This commentary contains forward-looking statements about various economic trends and strategies. You are cautioned that such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast; the opinions stated here are subject to change at any time and are the opinion of Advisory Research, Inc. The data is obtained from sources we deem reliable; it is not guaranteed as to its accuracy. Past performance does not guarantee future results. Valuations and long-term return expectations do not represent or predict the performance of any particular investment. Investing in Master Limited Partnerships may require tax filings in multiple jurisdictions. This report is for informational purposes only and is not an offer to sell or a solicitation of an offer to buy any securities. The Alerian MLP Index is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX). It is not possible to invest directly in an index.

This reprint has been provided by Guggenheim Investments which represents the following affiliated investment management businesses of Guggenheim Partners, LLC ("Guggenheim"): Security Investors, LLC, Guggenheim Funds Investment Advisors, LLC, Guggenheim Funds Distributors, LLC, GS GAMMA Advisors, LLC, Guggenheim Partners Europe Limited and Guggenheim Partners India Management.

Advisory Research, Inc. serves as Investment Sub Advisor for the Fiduciary/Claymore MLP Opportunity Fund (FMO). Guggenheim Funds Investment Advisors, LLC serves as Investment Adviser. Advisory Research Inc. is not affiliated with Guggenheim.

This material is distributed or presented for informational or educational purposes only and should not be considered a recommendation of any particular security, strategy or investment product, or as investing advice of any kind. This material is not provided in a fiduciary capacity, may not be relied upon for or in connection with the making of investment decisions, and does not constitute a solicitation of an offer to buy or sell securities. The content contained herein is not intended to be and should not be construed as legal or tax advice and/or a legal opinion. Always consult a financial, tax and/or legal professional regarding your specific situation.

This material contains opinions of Advisory Research, Inc., but not necessarily those of Guggenheim Partners, LLC or its subsidiaries. The opinions contained herein are subject to change without notice. Forward looking statements, estimates, and certain information contained herein are based upon proprietary and non-proprietary research and other sources. Information contained herein has been obtained from sources believed to be reliable, but are not assured as to accuracy. Past performance is not indicative of future results. There is neither representation nor warranty as to the current accuracy of, nor liability for, decisions based on such information. No part of this material may be reproduced or referred to in any form, without express written permission of Advisory Research Inc. or Guggenheim Partners, LLC.

Investing involves risk, including the possible loss of principal. Past performance is not indicative of future results. An investment in MLP units involves risks that differ from a similar investment in equity securities, such as common stock, of a corporation. Holders of MLP units have the rights typically afforded to limited partners in a limited partnership. As compared to common shareholders of a corporation, holders of MLP units have more limited control and limited rights to vote on matters affecting the partnership. There are certain tax risks associated with an investment in MLP units. Additionally, conflicts of interest may exist between common unit holders, subordinated unit holders and the general partner of an MLP; for example a conflict may arise as a result of incentive distribution payments.

#38681