

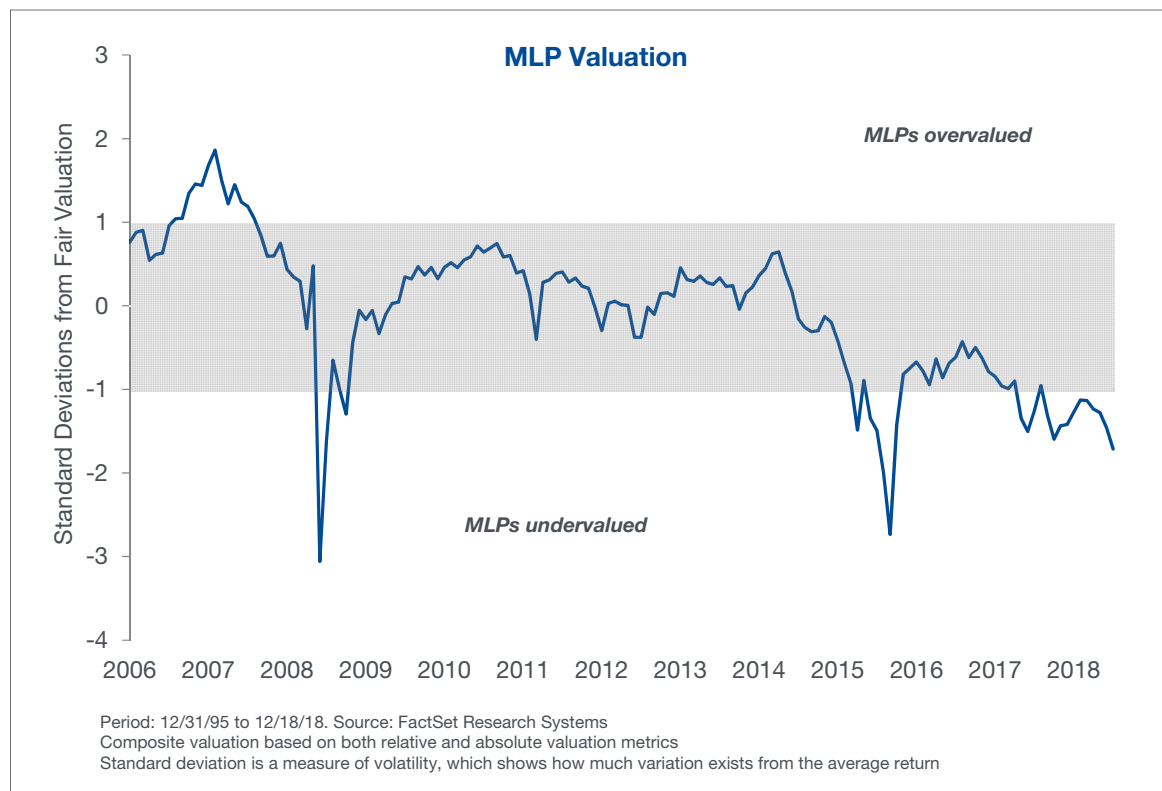
## Midstream Buying Opportunity, Recent Selling is Overdone

December 2018

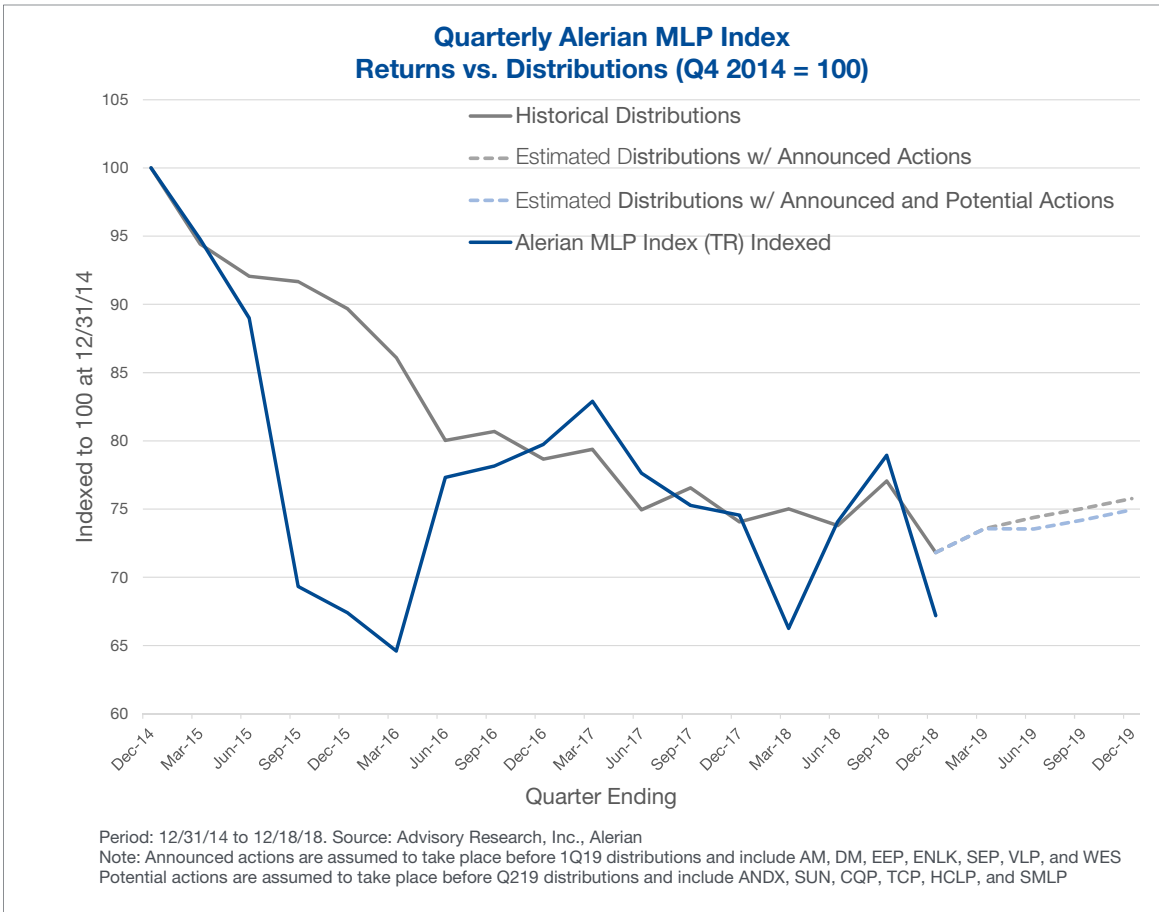
### MARKET INSIGHTS

Master Limited Partnerships (“MLPs”), as represented by the Alerian MLP Index (“Index”) ended December 19, 2018 near their lowest levels of 2018. As returns have turned negative, tax loss selling and liquidations have increased into year-end, an all too familiar story for investors. In our view, recent weakness has created an interesting entry point for investors. Williams Cos. Inc. President and CEO Alan Armstrong echoed this view in a December 19<sup>th</sup> S&P Global article saying “I don't recall a time in my years in executive management when the business has been this healthy but the equity markets so poorly reflecting that. I'm looking forward to those investors taking advantage of it being rewarded.”<sup>1</sup>

As of December 18th close, our valuation chart showed MLPs were -1.7 standard deviations below fair value. One underlying metric of our model, the EV/EBITDA sits at 9.0x, below the February 2016 9.4x low, and well below the historical average of 12.1x. This underscores how the market continues to ignore the record high earnings midstream companies have generated in 2018. Furthermore, private equity investors have been paying fair value multiples for these same assets.



Despite the current negativity, we see tangible reasons why returns should improve from here. Fundamentals are solid and for the first time in 5 years, we expect distributions to finally increase in 2019 as the chart below indicates. We believe distribution growth will serve as a catalyst to move MLPs higher near term. This forecast includes our most conservative estimates of potential actions (simplifications and distribution cuts) that could take place over the coming year.



As tax loss selling abates, MLPs are entering what has traditionally been a strong part of the calendar year. In 9 out of the last 10 years, the Index has had positive performance during the second half of December. Further, the Index has averaged a robust 4.0% return in January over its 23 year history. We feel strongly that 6 to 12 months from now investors will look back to today as a great buying opportunity.

1. Good, Allison. "Williams CEO angles for Permian gas, sees political opportunity in Amazon growth." *S&P Global Market Intelligence*, 19 Dec. 2018

*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 a leading gauge of energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, 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.*