MLP COMMENTARY
3rd Quarter 2017

Here at DAC, we have written at length about crude and natural supply and demand dynamics, geopolitical risks, and energy valuations that I imagine many of you have memorized our commentary. It will likely not come as a surprise, but most of these trends are still just as relevant today in our MLP investment thesis. Volumes for both crude oil and natural gas have continued to accelerate in the U.S.; Saudi Arabia has fallen back into a recession, Iran has deployed tanks to the boarder of Iraq and Kurdistan, and the war of words continues between the U.S. and North Korea; and lastly, yes, MLP valuations remain cheap.

Let's start with valuations. Not only are traditional yield spread measures attractive, but there are also other fundamental metrics that are very compelling. When we look at the Alerian MLP index on a trailing 5-year basis, the average price to book value is 2.2x with a standard deviation of 0.4. We are currently trading at 1.7x; slightly more than 1 standard deviation below the average. Using the same time horizon, the average price to cash flow value is 9.8x with a standard deviation of 1.6. We are currently trading at 8.5x; slightly less than 1 standard deviation below the average. We believe it's difficult to find another sector in the marketplace with a better relative opportunity.

Sticking with the numbers, performance during the 3rd quarter for the AMZ was -3.05%, while WTI returned a positive 12.23% and Natural Gas was relatively flat at -0.9%. YTD the AMZ is trading -5.62%. Crude correlations continue to trend lower for a second quarter in a row with 3Q17 WTI to AMZ correlation at 0.47, down from 0.63 in 2Q17. As we've discussed, volumes, not crude prices, should be the primary driver of returns in the midstream space and energy production in the U.S. continues to climb at $50 WTI as it did at $45. We've seen no shortage of analysts' price predictions ranging from sub $40 to $100, but regardless, with the U.S. as the global marginal producer and our hydrocarbons exports competing for a larger stake across the world, it is our opinion that midstream MLPs should continue to benefit through a lower price environment.

Speaking of exports, the U.S. had the highest daily crude exports on record in September at 1.49M barrels per day. Hurricanes Harvey and Irma slowed things down a bit at the end of August and early September while refiners worked hard to restart and ports repaired damaged docks, but all the ports along the Gulf Coast are now back in operation and to the best of our knowledge all of our holdings with Gulf exposure are back at full operation as well. Although the storms were disruptive in the short-term, we expect to see very limited impact to Q3 earnings. These delays contributed to the Brent and WTI spread reaching almost $7 before our exports rebounded. In addition, just a few days ago on Monday, October 2, the Indian Oil Corp received their very first shipment of U.S. crude that left our Gulf Coast, thanks to the Panama Canal expansion, on August 19. Over-all, orders from India so far have totaled 5.85M barrels of oil, and we anticipate opportunities to expand the role of LNG in the region as well.

Natural gas exports have also steadily increased as the U.S. remains the world's lowest cost producer. The EIA reported that the U.S. exported 248Bcf in the month of July, up from just 188Bcf one year ago. The rapid expansion of global LNG demand and the abundance of natural gas in the U.S. is leading to a globally integrated market anchored by the U.S. LNG cargoes can be redirected to different ports around the world as supply/demand changes or if prices move in such a way that does not warrant transportation costs. Because of this, U.S. prices remain rangebound around $3. The IEA projects natural gas to continue taking share from both oil and coal, and we've positioned our portfolio to take full advantage.

On the regulatory front, FERC took action against the NY Department of Environmental Conservation a couple weeks by stripping their approval authority for water quality permits. Previously, FERC had given state and local authorities one year to consider permit approvals for energy infrastructure projects. This new bar for local agencies means that FERC will no longer tolerate open-ended delays; any objections must be clearly justified in court. On the administrative front, the AMZ announced changes in methodology to index constituents before their rebalance on Sept. 29. Along with C-corporations remaining ineligible, they also capped constituent weights at 10%. This had a number of sizeable impacts as roughly 40% of the index had previously been weighted in just three constituents leading to significant trading volume among much of the space.

As always, we appreciate your comments and questions.

Past performance is not indicative of future results. You should not assume the future performance of any specific investment or strategy will be profitable or equal to past performance levels. No stock trading system or strategy can guarantee profits. The risk of substantial loss exists in equity and MLP trading and equity and MLP investments are not suitable for all investors.

You should carefully assess your objectives and risk tolerance before investing. Certain information and statistical data contained herein have been obtained from third party sources that we believe are reliable but have not been independently verified. DAC assumes no liability for errors and omissions in the information contained herein. Information provided is as of the date of this report and subject to change at any time.

The Alerian MLP Index (NYSE: AMZ) is a widely recognized, unmanaged index that includes a composite of the 50 most prominent energy MLPs. The Index returns do not reflect the deduction of expenses, which have been deducted from the net returns. The Index return assumes reinvestment of all distributions and does not reflect the deduction of taxes and fees. Individuals cannot invest directly in the Index.

WTI (West Texas Intermediate) is used as a benchmark in oil pricing.

Brent (Brent Crude) is a trading classification of sweet light crude that serves as a benchmark in oil pricing.

DAC does not provide professional tax or accounting services or advice. You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses before investing. The Firm's Investment Adviser Brochure, Form ADV Part 2, contains this and other information about the Firm, and should be read carefully before investing.

DIVIDEND ASSETS CAPITAL, LLC is a privately held registered investment advisor located in the Low Country of coastal South Carolina. We were founded in 2003 by several successful investment professionals each sharing the desire to provide clients with a sound investment philosophy using energy related Master Limited Partnerships (MLPs) and dividend growth equities. From its humble beginnings of five employees, the firm now includes a staff of more than twenty.

To contact us
http://www.DACapitalSC.com
(866) 348-4769 Toll Free
(843) 645-9700 Local
(843-645-9701 Fax

For more information
contact our management team
(866) 348-4769
Edward P. Taylor
etaylor@dacapitalsc.com
Michael W. Nix, CFA®
mnix@dacapitalsc.com
C. Troy Shaver, Jr.
tshaver@dacapitalsc.com

To receive a current ADV Part 2
free of charge, please visit
http://www.DACapitalSC.com or
Contact Jennifer Ottosen
at (866) 348-4769 or email
jottosen@dacapitalsc.com

DIVIDEND ASSETS CAPITAL, LLC
INVESTMENT ADVISORS
58 RIVERWALK BOULEVARD
RIDGELAND SC 29936-8126