

MLP STRATEGY



DIVIDEND ASSETS CAPITAL - INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

MLP COMMENTARY

3rd Quarter 2018

During the quarter, we continued to see corporate simplifications impacting the MLPs. These changes include, but are not limited to, elimination of incentive distribution rights (IDR), rolls-up of the MLP into their general partner, and conversion to C corporations. These corporate actions impacted the performance of the specific MLPs beyond the quality of the business fundamentals. Thus, unfortunately, many of the strong performers for the quarter weren't MLPs with spectacular fundamentals, but instead those who undertook these simplifications, mostly in response to the FERC policy change announced earlier this year.

For the third quarter of 2018, the price of Brent, the international crude oil benchmark, increased by 5.9%, while WTI, the U.S. benchmark crude, increased by 4.4%. This marks the fifth consecutive quarterly gain for both measures. Fears of a global supply crunch due to U.S. sanctions against Iran and production losses from Venezuela helped push the commodity price higher despite strong production output from U.S. shale producers.

The positive macro environment also supported energy-related asset performance. The Alerian MLP Index (AMZ), the major MLP benchmark, returned 6.6% after an 11.8% return for the previous quarter. The newly established Alerian Midstream Energy Select Index (AMEI), which is a market cap-weighted composite of North American Energy Infrastructure companies that includes both MLPs and traditional C corporations, returned 0.6%. High-yield energy bonds finished the quarter with an average yield of 6.8%, trading below the 7.9% yield for the AMZ Index. This spread of 113 bps was above the 5-year average spread of -87 bps. The discrepancy between high-yield bonds and MLP equity yields present an attractive investment opportunity for MLPs in general.

We acknowledge our focus on high growth, high profitability, and earnings stability for midstream operators might not always yield outperformance when market participants are focused on other factors, such as high yield, high leverage, and special corporate actions. However, we continue to believe that our focus on MLPs with strong fundamentals and solid balance sheets will outperform the rest of the space in the long-term.

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.

The Alerian MLP Index (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.

The Alerian US Midstream Energy Index (AMEI) 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 (AMEI) and on a total return basis (AMEIX). 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 for oil pricing.

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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 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 fifteen.

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