

North American Midstream Energy Strategy

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

QUARTERLY COMMENTARY 3rd Quarter 2019

The third quarter was an interesting one for energy. September saw the U.S. hit a new record in weekly crude production, hitting 12.5 million barrels per day (mm bpd). Additionally, the U.S. Energy Information Administration (EIA) forecasts that U.S. production will average 12.2mm bpd for 2019, which is an increase of 1.2mm bpd over 2018, and then rising an additional 1mm bpd in 2020, to 13.2mm bpd. The EIA also forecasts global demand to increase by 1.4mm bpd in 2020, driven by economic growth in the emerging markets. Beyond these supply and demand estimates, the quarter also saw an attack on key crude oil infrastructure in Saudi Arabia, which caused a major, if brief, disruption to global supplies. While prices for crude spiked as a result, they quickly returned to near their previous levels. The attack, though, highlights the reliance of one of the world's major oil exporters on a few key infrastructure assets to maintain its production and export capacity.

On the other side of the coin, there are some worrying signs. Active U.S. drilling rigs ended September at 713, down from 877 at the start of the year. This reduction seems to be linked to U.S. E&P companies outspending their 2019 capital budgets before entering the fourth quarter, thus leading to the curtailment of new drilling activities. Additionally, there are fears that a global slowdown may lead to recession, which would curtail demand growth from around the world.

While the quarter was mixed for energy outlook, we continue to have confidence in North American Energy Infrastructure. The attack on Saudi infrastructure serves as a reminder of the risks posed to global energy supplies from conflicts in the Middle East. Likewise, growing U.S. production underscores the importance of the U.S., not only as a major producer of oil, but the continued need for a large, diversified network of midstream energy assets.

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The Alerian U.S. 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 fourteen.

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