

North American Midstream Energy Strategy

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

COMMENTARY 4th Quarter 2019

The fourth quarter presented good performance for midstream energy and energy-related stocks. The favorable U.S-China “phase one” deal development and more clarity on Brexit improved investor sentiment.

Commodities reacted well, anticipating stronger energy demand and more robust global GDP growth in 2020. Brent crude oil increased 14.7%, while WTI crude oil prices gained a similar amount. The Alerian MLP Index, broadly used to measure Midstream Master Limited Partnership performance, rallied 8.53% in December, partially offsetting the tax-loss selling in October and November, to end the year with a positive return.

As fears of a looming recession abated, investors are expecting positive GDP growth in the U.S. and worldwide, supporting energy demand.

We believe the midstream energy space will do well in 2020.

- Many midstream companies/MLPs continue to improve their credit profile by reducing balance sheet leverage, improving governance, focusing on business sustainability and improving profitability; this has yet to reflect in current valuations.
- At the end of 2019, the Alerian MLP Index had an 8.8% yield and 67.5% of its constituents had an Investment Grade Credit profile. The Alerian Midstream Energy Index, which is a broad-based composite of North American Energy infrastructure companies, had a yield of 6.4% and 83.9% of its constituents had an Investment Grade Credit profile. As a comparison, the High-Yield or Junk Bond Yield was 5.19% and the Investment Grade Bond Yield was 2.84%. We believe the balance between credit quality and a higher yield for Midstream companies provides an attractive investment opportunity.
- The continued growth in U.S. exports also requires new infrastructure or optimizing the existing infrastructure to handle VLCC (Very Large Crude Carriers) to enhance competitiveness, thus providing long-term economic value for Midstream companies.
- Lastly, the EIA is projecting global liquid fuel demand to grow by 1.4mm bpd in 2020, while production only increases 0.9mm, over the estimated average for 2019. Supply and demand deficit could push the oil price higher, thus improving investor sentiment toward energy-related stocks.

During 2019, the market felt very volatile but provided opportunities for active managers like us. We believe that trend will continue to favor active managers in 2020.

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 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. DAC-20-17

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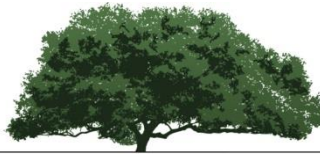
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