

North American Midstream Energy Strategy



DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH

NAME Quarterly Commentary
March 31, 2020

As new cases of COVID-19 accelerated worldwide during the quarter, the world economy came to a halt. Sudden demand-shock hit the oil market hard as countries put a restriction on travel and pushed for social distancing to combat the deadly disease. The two largest oil and gas producers, Saudi Arabia and Russia, instead of cutting production to balance the supply and demand dynamics, decided to fight for the market share in the process to squeeze out vulnerable producers in this price war. As a result, Brent oil futures contract price collapsed 59% while WTI oil futures contract price lost 66%.

The Alerian MLP Index's yield spread over comparable asset classes ranged from 845 basis points to 2,060 basis points above compared to the long-term average ranges of 49 basis points to 495 basis points above. Valuation contraction was so extreme in such a very short time and may be very troublesome for the group in the near term, but it also presents valuable opportunities for companies that survive this unforeseeable humanitarian crisis.

We believe there may be tough times ahead as energy companies try to figure out how to survive in a \$20/bbl crude oil environment with no significant coordination from major producers. We have, thus far, witnessed massive capital expenditure pull backs, dividend cuts, stock buyback suspensions, and even some companies enacting Poison Pill rights to prevent hostile takeovers. While we have positioned our portfolios with large diversified midstream assets operators, we are still not immune to the massive sell-off. As the majority of our holdings have an investment-grade credit rating, we believe they can weather this storm better than their peers, and eventually survive and emerge as the stronger players. In the long-term, we believe \$20/bbl is not feasible for any producers to have positive economic value through a full cycle; thus, current capital investment cuts will eventually lead to supply shortages when demand returns. This presents a great opportunity for those companies that can weather this near-term storm.

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-20-40

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