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# The MLP Newsletter for Advisors • Summer 2017

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**As an investment advisor, you have been subscribed to the MLP Newsletter so that you and your clients can stay abreast of this powerful income-generating sector. Published quarterly, the MLP Newsletter includes valuable information and expert opinion about MLPs that you cannot get anywhere else.**

**The Master Limited Partnership Association (MLPA) is a trade association representing the publicly traded limited partnerships (PTPs) that are commonly known as master limited partnerships (MLPs), and those who work with them.**

NEUBERGER BERMAN

**Founded in 1939, Neuberger Berman is a private, independent, employee-owned investment manager dedicated to delivering compelling investment results for their clients over the long term. Portfolio managers are driven by a culture rooted in deep fundamental research, the pursuit of investment insight and continuous innovation on behalf of clients, and facilitated by the free exchange of ideas across the organization. Advisor Access spoke with portfolio manager Yves Siegel.**

**Advisor Access:** ***How did MLPs perform for investors in the first quarter of 2017, following a bumpy ride in 2015?***

**Yves Siegel:** MLPs, the stock market, energy stocks, and crude oil prices bottomed in February 2016 after a very tough 2015 following the collapse in crude oil prices. In 2015, MLPs (as measured by the Alerian Benchmark Index) generated a negative total return of 32.6% versus a negative return of 21.1% for the S&P Energy Sector and a positive return of 1.4% for the S&P 500. The rebound was robust and MLPs provided a total return of 64.7% off the bottom through year-end 2016, relative to 40.0% for the S&P Energy Index and 24.8% for the broader S&P 500 over the same period. However, performance has stalled thus far in 2017 as there has been a market rotation away from energy stocks and into technology stocks. This coincides with the leveling off of crude prices that appear range bound between $45 and $55 per barrel. Year to date (as of May 31), MLPs have generated a negative total return of 5.8% compared to the positive 6.8% total return of the S&P 500. Oil prices have fallen 13.2% to $48.22 per barrel.

**AA:** ***Please discuss the ramping-up of U.S. shale oil production as an offset to OPEC production cuts. How does this relate to world crude pricing?***

**YS:** At its May 25th meeting, OPEC, in concert with 11 non-members, extended its production curtailment agreement of 1.8 million barrels per day (bpd) another 9 months to March 2018. The intent is to strengthen pricing by reducing bloated global crude oil inventories. The move was widely anticipated and oil prices actually declined following the announcement. The old Wall Street adage of "buy on the rumor and sell on the news" was certainly apropos. Evidently the market was hoping for an even bolder cut in production.

Concern regarding growing US shale production is trumping the OPEC move and is creating headwinds for crude oil prices. US oil production troughed at around 8.6 million bpd in September 2016, down about 1 million barrels from its peak in April 2015. This was the result of the rapid decline in drilling activity following the collapse in oil prices. However, US shale production has proven to be more resilient than many thought, as US industry know-how has significantly reduced breakeven costs to well below $50 per barrel (depending on the area being drilled). The resurgence in drilling activity has led to the resumption in US shale production growth. The US Energy Information Administration (EIA) estimates that current production approximates 9.1 million bpd and is expected to exceed 10 million bpd in 2018.

| MLPs in the News | |
|---|---|
| TC PipeLines, LP | TC Pipelines, LP (NYSE: TCP) Announces 2017 First Quarter Financial Results and Agreement to Acquire Interests in Iroquois and PNGTS |
| Spectra Energy Partners | Spectra Energy Partners (NYSE: SEP) Reports First Quarter 2017 Results |
| PBF Logistics | PBF Logistics (NYSE: PBFX) Announces Acquisition of Toledo Terminal from Sunoco Logistics |
| NuStar | NuStar Energy (NYSE: NS) Closes on Acquisition of Navigator Energy Services, LLC |
| NRP | Natural Resource Partners (NYSE: NRP) Announces First Quarter 2017 Results |
| MAGELLAN MIDSTREAM PARTNERS, L.P. | Magellan Midstream Partners (NYSE: MMP) Reports Higher First-Quarter Financial Results |
| HOLLY ENERGY PARTNERS | Holly Energy Partners (NYSE: HEP) Reports First Quarter Results |
| Green Plains PARTNERS LP | Green Plains Partners (NYSE: GPP) Reports First Quarter 2017 Financial Results |
| Enterprise Products Enterprise Products Partners L.P. | Enterprise Products Partners (NYSE: EPD) Reports Results for First Quarter 2017 |

**AA:** ***How agnostic are midstream MLP companies' stock prices to crude prices?***

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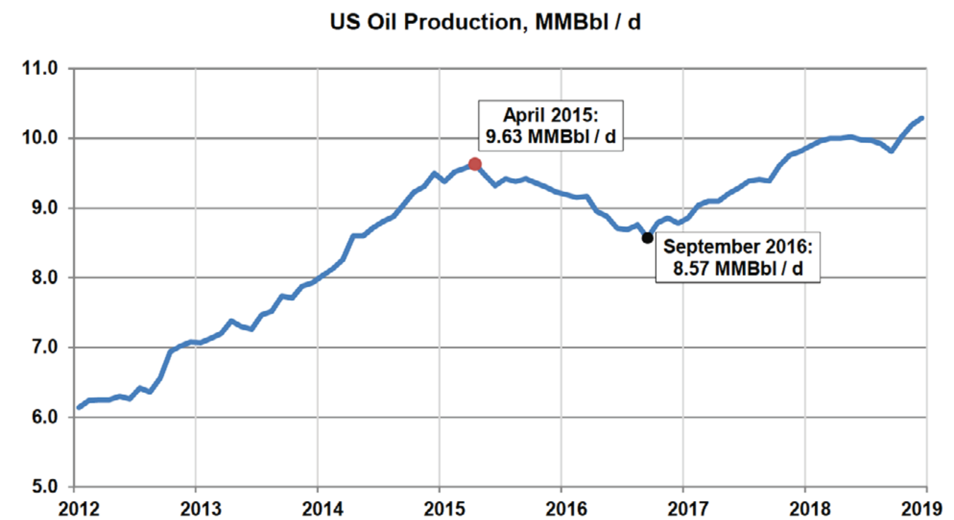
**YS:** Historically the price of MLPs has not been highly correlated with crude prices. However, as dramatically evidenced in 2015, midstream MLPs are not immune to extreme movements in the price of crude oil. The West Texas Intermediate (WTI) oil price dropped from a high of $107 per barrel in June 2014 to $26 per barrel in February 2016. Currently, MLP stock prices continue to move with fluctuations in crude oil prices, but the correlation has loosened.

I would add a caveat: It's dangerous to offer broad generalizations and it's important to separate perception from reality. The perception is that declining oil prices are bad for midstream MLPs. This is not necessarily the case. Midstream MLPs can benefit in several ways. One is from the increase in production volumes that are gathered and flowing through midstream pipelines. A second way is from the increase in volumes resulting from higher demand for refined products such as gasoline and diesel fuel. Finally, it should be noted that the abundance of not only oil reserves, but also natural gas reserves, is driving a vibrant export market for US fossil fuels and byproducts. Especially noteworthy is the anticipated growth in natural gas exports via pipeline to Mexico and Canada and via water to global markets.

**AA:** ***Is any specific class of MLP benefiting more than another as oil prices have recovered from the lows of early 2016? Are operators in any specific region—for example, in the Permian Basin—expected to do better than others?***




Source: EIA Short Term Energy Outlook, May 2017

**YS:** The focus had been on oil prices and oil production. However, the best-kept secret is the natural gas story. The US shale revolution started with natural gas and natural gas production has grown rapidly since 2010. Natural gas prices have been depressed since 2010 because of the rapid growth in production, but technology has reduced costs and drilling for natural gas still remains very economic in certain basins, such as the Marcellus and Utica in Pennsylvania, West Virginia and Ohio. Demand for natural gas is expected to continue to grow at a compound annual rate of 3.8% through 2021 according to research from Wood Mackenzie. The growth will be driven by power generators, industrial uses, and exports.

In our view, midstream MLPs that are best positioned for growth have the following characteristics. First, they have access to prolific basins. These are the Permian Basin in West Texas, the Scoop/Stack in Oklahoma and the Marcellus/Utica. Second, they can connect supply to end-use markets. For example, a major export market has developed along the Gulf Coast for crude oil, refined products, LPGs (liquified petroleum gases such as propane) and liquefied natural gas (LNG). Third, they have strong balance sheets. MLPs with attractive growth opportunities need to spend significant capital on infrastructure such as pipelines. Those that have a cost of capital advantage to finance these projects are poised to outperform.

**AA:** ***How do you think the first 100 days of the Trump Administration have impacted the MLP market?***

**YS:** The Trump Presidency has been a positive for the energy industry and midstream companies. Via executive order President Trump facilitated the approval and ultimate completion of the $3.8 billion Dakota Access Pipeline, which transports crude oil from the Bakken Basin in North Dakota to the Midwest and ultimately the Gulf Coast. He has set in motion the streamlining of regulations that should result in more expedited permitting of pipeline projects. If the Administration is successful in promoting economic growth, MLPs should benefit from higher energy consumption.

**AA:** ***What are your thoughts on where the MLP market is headed through summer and into the fall? What should investors expect?***

**YS:** We are optimistic that MLPs can perform better in the second half of the year. Stable to higher oil prices should be supportive of higher stock prices. Importantly, major pipeline projects are expected to be completed during the second half of 2017 and into 2018. These will generate incremental cash flow that can be used to pay down debt and/or grow distributions. Also contributing to higher cash flow should be continued growth in shale production and pipeline throughput volumes. Ultimately, we expect that investors will once again be attracted to the MLP value proposition—income plus growth. Today MLPs yield about 7% and we expect average distributions to grow by about 3-5% annually.

***"Today MLPs yield about 7% and we expect average distributions to grow by about 3-5% annually."***

**AA:** ***Thank you, Yves.***

Yves Siegel is a Portfolio Manager for the Rachlin Group within the firm's Private Asset Management group. Prior to joining the firm in 2012, he was a Managing Director and Senior Equity Analyst at Credit Suisse. Before that, he was a senior portfolio manager at a New York hedge fund focused on MLPs and was also a Managing Director and Senior Analyst with Wachovia Securities, where he worked for ten years. Yves also had successful sell-side engagements in senior analyst positions with Smith Barney and Lehman Brothers. He has appeared on CNBC and in front of several energy and MLP-related regulatory and industry panels. Yves received both a BA and MBA from New York University and has been awarded the Chartered Financial Analyst designation.

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## ABOUT ADVISOR ACCESS

Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.