NBW CAPITAL LLC

MLP INVESTMENT REVIEW & OUTLOOK
(March 31, 2018)

	Three Months Ended 3/31/18 Total Returns
Alerian Total Return Index	-11.12%
Ten Year US Treasury Yield*	2.74%
Alerian Total Return Index Yield*	8.80%
Spread versus Ten Year Treasury*	6.06%

*Quarter end point in time data

Master Limited Partnerships ("MLPs") had disappointing performance in the first quarter of 2018 as the Alerian Total Return Index suffered a total return of -11.1%. The MLP sector continues to suffer from poor investor sentiment and anemic new fund inflows. Ironically, this disappointing performance has occurred during a period of improving business fundamentals as evidenced by solid cash flow and distribution growth. We have seen disconnections between business fundamentals and MLP price performance before, and expect the former to trump the latter at some point. Attracting new capital to the MLPs will play a large role in this. We are encouraged by the investment interest from new and large institutional investors that we both hear about anecdotally and witness first hand from inquiries to NBW Capital.

MLPs are "pass through" investment vehicles that pay out to their investors almost all of the cash flow generated from their businesses. These businesses, with real assets, include pipelines, processing plants, storage facilities and export facilities to name a few. For midstream MLPs (the type NBW Capital invests in), corporate cash flow is derived from fee-based, long-term contracted revenues with little direct commodity price exposure. These stable revenue models allow MLPs to pay their investors almost all of the cash flow generated by the business. Another advantage is that MLPs pay no taxes at the corporate level and pay cash flow unimpeded by taxes to their investors. Unlike corporations where dividends are subject to double taxation (i.e. at the corporate level and at the individual level), MLPs are taxed only once at the individual level.

MLPs have historically grown their businesses over time transporting, processing and storing natural resources such as oil, natural gas and their many byproducts. Historically, the demand for midstream infrastructure has been strong and is expected to remain strong in the future. In order to grow, MLPs need to externally finance new capital projects.

Historically, MLPs have issued equity and debt in equal proportion to finance new projects. Contractual commitments typically precede financing and construction with new project returns above an individual MLPs cost of capital. Cash flow growth occurs in this manner.

We feel that a big part of the disappointing performance of MLP equities during the first three months of 2018 is attributable to concerns about future growth of MLP cash flows and distributions to investors. At the present time, it is difficult for MLPs to access equity capital markets. This, in turn, makes it hard to finance and build new projects. Said differently, we have an excess of supply (new stock) over demand (new investor capital), and as a result stock prices have declined. We have experienced this dynamic before and believe it will be resolved soon.

The resolution of this imbalance will involve three elements that while currently underappreciated are already developing. First, MLPs are moving to more of a self-funding approach to capital expenditures. This approach will combine slowing of distribution growth, slowing capital expenditure growth and less equity issuances to finance growth projects. The second element is a movement within the sector towards structure simplification wherein the cost of equity capital is lowered. The primary means being used is the elimination of General Partner incentive distribution rights (i.e. IDRs), and to a lesser degree conversion to "C" Corp status. Lowering the cost of equity capital will allow for more potential distribution growth. The third element being employed is to attract new equity investors to MLPs. Private equity capital and new institutional investors are being attracted to MLPs for a number of reasons. MLPs' steep valuation discount combined with the favorable current MLP business environment top the list. Poor investor sentiment actually is a positive for these long-term investors as it gives confidence that selling pressure has already occurred.

THE MIDSTREAM CYCLE

The industry's cash flows and distributions to investors have both grown significantly since 2014 when oil prices exceeded $100 per barrel. The fee-based, long-term contracted revenue model held up well, and performed admirably during the energy downturn that ended in February 2016 with oil prices per barrel in the high $20s. Now with oil at $65 per barrel, the midstream MLP environment is strong. The United States is producing over 10 million barrels of oil per day up from 8.5 million barrels per day 18 months ago. Natural gas and natural gas liquids production are up strongly as well. All of this production requires new midstream infrastructure. Two other additional drivers of future energy infrastructure demand are Petchem and Liquidfied Natural Gas ("LNG"). We are now witnessing large-scale investment by the global petrochemical industry along the United States gulf coast. The United States has become a global leader in petrochemical production for export. Why? These Petchem companies can source their feedstock (ethane) very inexpensively in the United States. No other country is viewed as secure and business friendly than the United States. Ethane is plentiful here and will remain so for several years going forward. LNG exports are growing rapidly for similar reasons. The United States has a huge natural gas resource that is inexpensive versus world prices.

From our vantage point, we are still early in the energy infrastructure business cycle. The growth in volumes transported, processed, stored and exported is driving revenue and cash flow growth. Infrastructure utilization is tightening and new projects need to be undertaken.

MLP VALUATION

MLPs offer a rare combination of both value and growth for investors in 2018. The group is steeply undervalued versus historical norms and versus other asset classes. Rarely do we see undervaluation like this paired with improving business fundamentals. The following table points this out.

	3/29/18	5 Year Average	10 Year Average
Price to Distribution Cash Flow	8.9x	12.5x	11.7x
Distribution Yield	8.8%	7.0%	7.2%
Spread to 10-Year Treasury Yields**	606	475	422

**Spread equals MLP yield less 10-year treasury yield. Source: Wells Fargo Securities.

OUTLOOK FOR BALANCE OF 2018

We continue to believe the MLP benchmark index, as represented by the Alerian Total Return Index, will have good and positive total returns in calendar year 2018. Despite 2018's first quarter sell off, the index has had a cumulative return of 36.8% since its low 26 months ago in February 2016. Over that time period, NBW Capital's MLPs have outperformed with a net of fee cumulative return of 50.6%. Coincidentally, the S&P 500's cumulative total return over the same time period was 50.8%. The combination of an income yield of 8.80%, 2018 distribution growth, which we believe will be 4% for the index and some uptick from its current deep undervaluation, should provide strong MLP index returns going forward. Why do we remain bullish and patient with the midstream sector?

- United States hydrocarbon production growth continues at an impressive rate. Our country is producing natural gas, crude oil and natural gas liquids at the historically highest levels.

- Balanced sheets have improved. Leverage ratios have continued to decline during the first quarter building on what occurred in 2017.

- Private equity groups are taking advantage of the market dislocations with alternative financings and acquisitions that signify long-term confidence in the entire sector. These groups are not limiting their investments to midstream assets. Blackstone also purchased an MLP manager, Harvest Fund Advisors, and a group of private equity firms purchased Tortoise Capital Advisors, another very large MLP manager.

- Aside from the controversy over the political environment, the current Administration has been generally constructive on supporting the oil & gas industry including midstream.

- Many large-scale midstream and downstream projects are coming on-line in 2018. These project completions will result in cash flows to midstream companies that have been carrying the cost of these projects on their balance sheets during construction.

At NBW Capital, we closely monitor our MLP portfolio's distribution growth rate. For the most recently reported quarter, the median distribution growth rate was a 3.55% from the previous three-month period and 17.70% from one year ago. The NBW Capital MLP Composite portfolio's strong distribution growth should favorably impact NBW Capital's performance versus the MLP benchmark as we proceed through 2018 and beyond.

KEY RISKS TO OUR OUTLOOK

With MLPs so steeply undervalued there must be investment risk that overwhelms the value and growth investment case. Like any investment, there are and always will be risks to bear as an investor in MLPs. In our opinion, four risks dominate MLP investor thinking today.

1) Federal Energy Regulatory Commission ("FERC"): FERC ruled in mid-March that interstate pipelines operating with "cost of service contracts" must lower pipeline tariffs, as taxes cannot be part of the "costs" used to determine the rate base. This ruling was unexpected and caused a kneejerk selling reaction in MLPs. With the benefit of time, it appears that the impact of this ruling will be quite limited for several reasons. Cost of service contracts apply to very specific subset of MLP assets. Pipelines with negotiated or market rates (between customer and pipeline) are much more common. These negotiated rates are not regulated by FERC. Further, the FERC ruling applies to "interstate" assets and not to "intrastate" assets. These two qualifiers "cost of service contracts" and "interstate" narrowed significantly the impact of the FERC ruling. We estimate that industry cash flows may be impacted 5%, and that impact will be concentrated within four or five partnerships. NBW Capital's portfolios are significantly less affected as we

predominantly invest in assets that do not fall under FERC's purview. This risk to MLPs has been exaggerated in our opinion.

2) Commodity price risk is an ongoing concern that is frequently exaggerated in our view as we believe the supply/demand dynamic for crude oil has continued to improve to the point where oil markets are showing signs of tightening. This tightening has led to oil prices stabilizing at higher levels. Furthermore, midstream MLPs have very little direct commodity exposure. Their revenues are driven by fees on volume of energy moved, processed and stored. Yes, some "customers" of MLPs have direct commodity risk, but even these tend to price hedge their production. A significant part of the MLP customer base are companies on the demand side, including utilities and the aforementioned Petchem industry.

3) Interest rate risk is another ever present risk that is largely exaggerated in our view. MLPs historically have been negatively correlated to interest rates. We believe this is because of their history of growing distributions at an annual rate that has historically exceeded inflation. Further, a rise in interest rates is often coincident with stronger economic growth, which boosts volumes on MLP systems.

4) Lastly, we are always aware of the risk of disruptive technology. Lots of capital and innovative might is being allocated to an energy solution that obsolesces carbon based energy production. This is a risk that we monitor closely. We do not see any imminent threat to hydrocarbon based energy production, and believe that alternative sources such as hydro, wind and solar are critical to avoiding energy shortages. Furthermore, there is true synergy between natural gas and renewables. In the absence of wind or sunshine, natural gas is available on demand, immediately serving as a necessary backstop to those fuels.

In summary, we believe there is risk to investing in MLPs, but also believe the risks have been largely exaggerated. Potential future MLP returns outweigh these risks in our judgement.

ATTRIBUTION

We invest in midstream MLPs as we are attracted to their fee-based, long-term contracted revenues, and what we believe are lower risk business models. Midstream MLPs dominate the weightings of the benchmark. During the first quarter of 2018, non-midstream names outperformed the benchmark. Specifically, upstream commodity sensitive MLPs, compression, marine and other non-traditional MLPs outperformed. Generally speaking, we do not invest in these groups. NBW Capital's results were negatively affected by this phenomenon. We don't believe the first quarter's outperformance by these MLPs will persist very long into the future.

During the first quarter of 2018, NBW Capital's results were hurt by underperformance in four individual holdings: Tallgrass Energy GP, Semgroup, Shell Midstream, and Dominion Energy. First quarter results were aided by the outperformance of four holdings: Oasis Midstream, Crestwood, Hess Midstream, and Noble Midstream Partners.

Regarding the underperformers, and with the possible exception of Dominion Energy, we anticipate the underperformance to be transitory. Dominion Energy has been affected by the FERC ruling. We are hopeful that they will be able to navigate around the risk this presents to them, and are heartened by their announcement to raise their distribution by over 5% next quarter.

FEATURED INVESTMENT HOLDING

Every quarter, we feature a short write up of an existing MLP holding. This quarter, we highlight Valero Energy Partners ("VLP"). We have owned this refining logistic MLP for several years. Valero has and continues to grow its distribution at an above average rate. Its current distribution yield is 5.7%. We think there is very good future visibility given the strong 1.5 times cash flow coverage of the distribution. Valero's balance sheet is superior with below average leverage. The sponsor, Valero Energy, is a leader in the refining industry, and has a large amount of assets to drop into the MLP over time. This provides above average visibility to future growth. Valero's assets are unregulated by FERC, and FERC's recent pronouncement should have no impact on cash flow.

ADMINISTRATIVE NEWS

In addition to your quarterly report, enclosed please find our Annual Privacy Notice and Form ADV Part 2A. SEC regulation requires NBW Capital to provide its clients with a copy of its Annual Privacy Notice and Form ADV Part 2A ("disclosure brochure") on an annual basis.