NBW CAPITAL
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INVESTMENT REVIEW & OUTLOOK
(September 30, 2017)

This edition of the INVESTMENT REVIEW & OUTLOOK includes a summary of returns for the financial markets for the third quarter of 2017.

	Three Months Ended 9/30/17 Total Returns	Year-To-Date Ended 9/30/17 Total Returns
S&P 500	4.48%	14.24%
Barclays Aggregate Bond Index (Bonds)	0.85%	3.14%
Alerian Total Return Index (MLPs)	-3.05%	-5.62%
Russell 2000 (Small Cap Stocks)	5.67%	10.94%
MSCI EAFE (Foreign Stocks)	5.47%	20.47%
60/40 Blend (60% S&P 500, 40% Alerian)	1.44%	5.96%

The first nine months of 2017 witnessed solid returns overall for the financial markets, and NBW Capital's performance compared favorably to its respective benchmarks. Investment returns for our client's through the third quarter ending 9/30/2017 are tracking at a strong double digit rate, which is above our 2017 full year high single digit return expectations expressed at the beginning of the year. We are constructive about the last three months of 2017's performance and feel the markets should be given the benefit of doubt until we are able to anticipate time tested precursors to problems. Looking back over the last 102-months of this historic bull market, one of the more difficult actions was to stay invested and not get overly defensive. Corrections have and will continue to occur, and we will continue to take a long-term perspective and not attempt to sidestep short-term turbulence with the hope of buying back in at lower levels. This operation requires two great decisions and is almost impossible to execute consistently well. What is more possible to do well is to get defensive at an appropriate stage of a multi-year investment cycle. We intend to do this and have a disciplined and unemotional plan, but it is simply not yet time. When will it be time? We really won't know until measurable preconditions alert us to a probable bear market. What are the preconditions we are looking for? We have a number of proprietary models and disciplines that have served us well over the years across market environments. The characteristic of all of them is that they are unemotional and measurable. They include measures pertaining to valuation, sentiment, inflation, monetary policy and equity market price trends. At present, the majority of these factors are confirming a continued bull market.

ATTRIBUTION

NBW Capital's 2017 year-to-date performance was driven by a strong equity environment in combination with excellent stock selection. Specifically, the S&P 500 was up over 14% during the first nine months of 2017. Notably, the sectors with the strongest performance included: technology, financials and healthcare. Individual stocks that stood out included Apple, Facebook, Roper Technologies, Blueprint Medicines, Malibu Boats, Chegg and Fox Factory Holdings.

Master Limited Partnerships (MLPs), as represented by the Alerian Total Return Index, experienced a down quarter, yet the MLP bull market which began over 19 months ago still remains in place in our judgement. The MLP index declined 3.05% during 2017's third quarter. Conversely, NBW Capital's MLPs had a positive return of over 2% during the same three-month period. For context sake, since mid-February 2016 when the new bull market for MLPs began, MLPs have generated total returns of 66.7%. We were encouraged by the recently reported distribution growth of NBW Capital's MLPs wherein distribution growth averaged an annual growth rate of over 14% versus the Alerian Total Return Index annual growth of slightly under 5%.

NBW Capital's MLP performance during the first nine months of 2017 was enhanced by its holdings of Noble Midstream, Western Refining Logistics and EQT GP Holdings. Performance was held back by the lagging year-to-date returns for SemGroup and NGL Partners. NBW Capital's MLP portfolios outperformed the MLP benchmark, the Alerian Total Return Index, and generated positive returns for the first nine months of 2017.

MASTER LIMITED PARTNERSHIPS

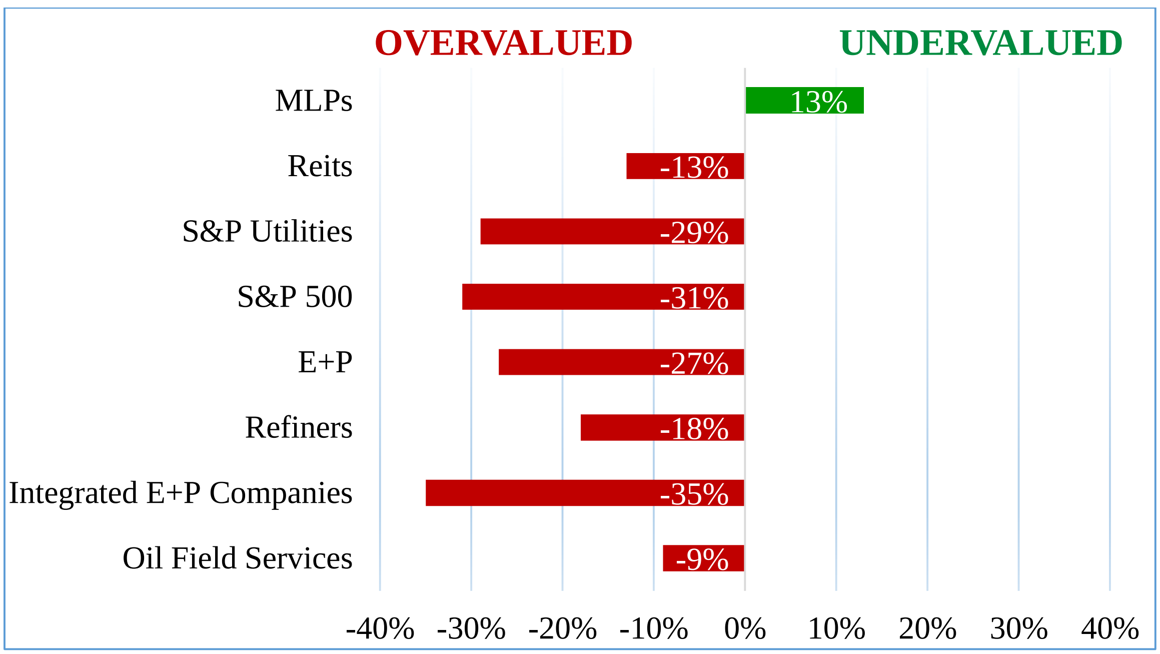
We remain committed to the ownership of Master Limited Partnerships as a superior generator of total returns over market cycles. We acknowledge that for the first nine months of 2017, MLP performance has trailed that of the S&P 500. However, in our opinion, we are experiencing a healthy "rest and refresh" portion of a market cycle for MLPs. This follows an excellent 2016 where NBW Capital's MLP gross return of 25.1% was more than double that of the S&P 500's 12% total return.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NBW Capital	30.6%	35.6%	-3.6%	40.8%	26.8%	12.7%	36.4%	13.2%	-52.4%	84.6%	35.1%	15.0%	20.4%	48.4%	11.7%	-32.8%	25.1%
S&P 500	9.1%	-11.9%	-22.1%	28.7%	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%

As you can see from the table above, since the year 2000, there have only been three full calendar years that NBW Capital's MLP investments have generated total returns below that of the S&P 500.

We cannot tell you with any specificity when MLP price performance will again outperform; however, we do believe that corrections in financial markets are normal and healthy events. They help to keep speculation in check and sentiment muted.

At quarter end, where are the measurables that we consider so important to long-term investment success? We think that we are at an "appealing" juncture for MLP investors. We say this because we currently sit at what we consider to be one of the best entry points for MLPs in over a year. Recall that MLPs bottomed in February of 2016 and appreciated so quickly and so dramatically (i.e. 19.4% in the first five trading days) that many investors could not participate. Today, there exists a confluence of low investor sentiment and significant undervaluation versus historical norms, similar to conditions in February 2016. The table below summarizes the degree of MLP undervaluation.



*In comparison to each group's 10 year to average EV/EBITDA. Source: Wells Fargo Securities, LLC. Data as of 9/7/17.

Today, MLPs are benefiting from the resurgence in U.S. energy production. While this production upswing has created a drag to the price of oil, MLP revenues have been favorably affected by the increased volumes. Recall that MLPs have fee-based, long-term contracted revenue. These fees apply to volumes and not the prices of the energy commodity being transported, processed or stored. This dynamic helps explain the dichotomy in MLP revenue and cash flow growth and lower energy prices. The frustrating "hand in glove" correlation of MLPs to oil prices is finally starting to break down and should return to lower historical correlation norms. The table below summarizes:

	NBW Capital MLP Total Returns	Percentage Change Crude Oil
2016	25.1%	22.2%
2017 YTD (9/30/2017)	2.2%	-3.9%

Source: Bloomberg

It is important to note that throughout the energy downturn, MLPs did grow their distributions to investors. Coverage ratios, balance sheets and access to capital markets are much improved from where they were 19 months ago. We feel that estimated annual returns over the next several years are compelling. The combination of yield (7.7%), annual growth in distributions (5%) and reversion upward to "normal" valuations should allow for annual percentage returns in the low to mid-teens. Two important valuation measures both allude to undervaluation versus historical norms. On a price to distributable cash flow basis, and using Wells Fargo's research inputs, MLPs at quarter end are trading at a 16% discount to their five-year historical average valuation. Similarly, MLPs in comparison to Ten Year U.S. Treasuries are trading at a substantial discount to where they have historically traded.

OUTLOOK

The S&P 500 is currently priced at 17.3 times estimated 2018 earnings estimates, and in historical absolute terms, this is an overvalued level. More importantly, the S&P 500 is currently inexpensive compared to interest rates. Ten Year U.S. Treasuries yielded 2.3% at quarter end, and pale in comparison to the S&P 500s "earnings yield" (inverse of the P/E ratio) of 5.78%. The S&P 500 is fairly valued compared to inflation. Over the last 65 years, valuations during low inflation periods have tended towards 18 times earnings. In sum, we conclude that valuation, while important, is not a threat at present to future return prospects for the S&P 500. One footnote is that 2018 estimated earnings and growth could be boosted considerably by a cut in corporate taxes as envisioned by the Trump administration. This would lower valuations and enhance the attractiveness of stocks.

Turning to inflation and FEDERAL RESERVE policy, our monetary authorities are engaged in a multi-year normalization of interest rates. The great monetary infusion cycle spawned by the 2008 financial crisis has ended. Over the next several years, our FEDERAL RESERVE will systematically raise interest rates to normal levels. Simultaneously, they will soon embark on an unwind of a substantial amount of the securities they purchased during, and subsequent to, the great financial crisis. This will be done methodically and we hope gingerly as the FEDERAL RESERVE simply lets these securities mature and does not reinvest the proceeds. It is estimated that the entire operation will be completed by 2025. At NBW Capital, we will be keen observers of this process. We think it is critical for the FEDERAL RESERVE to use the level of "real" interest rates to pace this unwind. So long as real rates (i.e. federal funds rate less inflation rate), currently at -0.87%, stay under 1.5%, we feel the FEDERAL RESERVE can accomplish their goals without damaging the economy or financial markets. If inflation were to slip further, we would hope the FEDERAL RESERVE would temporarily halt this process until reengagement has less potential to do harm.

A final closing comment on the continuing economic backdrop is that we have a slow growth economy characterized by good job creation, sluggish wage growth, low inflation and low interest rates. It is a supportive environment for financial assets. Liquidity flows to financial investments because the economy is not growing fast enough to draw capital away from financial markets. Very strong growth and invigorated inflation would change this dynamic, and paradoxically be a negative influence on equity and bond prices.

FEATURED INVESTMENT HOLDING

To continue with our quarterly tradition of highlighting a broadly held stock, we would like to review Zillow Group. Zillow Group (symbol: Z or ZG) is a leading operator of real estate and home information market places on the web. Through their mobile app, Zillow connects home buyers and renters with real estate agents and landlords. At the end of the second quarter of 2017, their database consisted of over 178 million homes for sale, for rent and homes on the market. Zillow generated approximately 17 million leads for real estate agents in 2016, which contributed to an estimated 5% of total home sales. Zillow also offers valuations and rent estimates through their proprietary algorithms they have developed and continuously refine with technological development.

We like Zillow because it is a play on the "millennial generation" finally moving out of their parent's basements. Millennials are the children of the baby boomers, which were born between 1980 and 2000, and are characterized by their increased use and familiarity with communications, media and digital technologies. Zillow's primary revenue source comes from selling advertising to real estate professionals and, therefore, should benefit as agent, mortgage, and rental ad dollars increasingly shift online to the leading portals. Each of these markets represents a multi-billion dollar opportunity of which Zillow's current market share is tiny, but growing rapidly. If you have not been on Zillow's website, www.zillow.com, we recommend you check it out. Looking forward, we are forecasting Zillow to grow their earnings greater than 20% over the next three years.