MLP INVESTMENT REVIEW & OUTLOOK
(June 30, 2017)

	Three Months Ended 6/30/17 Total Returns	Six Months Ended 6/30/17 Total Returns
Alerian Total Return Index	-6.35%	-2.66%
Ten Year US Treasury Yield*	2.30%	2.30%
Alerian TR Index Yield*	7.13%	7.13%
Spread versus Ten Year Treasury*	4.83%	4.83%

*Quarter end point in time data

Master Limited Partnerships (MLPs), as represented by the Alerian Total Return Index, experienced their first down quarter since the MLP bull market began over 16 months ago. MLPs declined 7.6% from the end of February 2017 through June 30, 2017. We view this pull back as a mild, and for context note that MLPs still have generated total returns of 61.5% since the low point in February of 2016 when the current bull market began. Intermittent pull backs are expected and can be healthy in extending the length of bull markets. Corrections help to keep speculation in check and sentiment muted. We were encouraged by how the second quarter ended as MLPs generated strong returns of 7.6% in the quarter's final seven trading days.

An important event for MLPs occurs every June as the industry association (MLPA) sponsors a three-day conference featuring many MLP management teams and scores of institutional and individual investors. Present too, are prominent "sell side" brokerage firms along with accounting and law firms that count MLPs as clients. Over many years of attendance, we usually leave with an overriding theme and several investment ideas. This year's conference did not disappoint. We attended a number of MLP presentations and one-on-one company meetings. We participated in hours of Q&A sessions, as well as informal discussions with MLP management teams and other investors. A constant throughout the conference was the very depressed state of investor sentiment. It was as though all risks were magnified and all positive potential was minimized. More than once we heard the following paraphrased statement, "Our current business, growth prospects, and balance sheet strength are being ignored." Another refrain (again paraphrased), "We don't understand the disconnect between the health of our business and the market price performance of our equity." Near the end of the conference, a presentation by several large institutional MLP investors emphasized (and again paraphrasing) "the importance of being an investor and in having a long-term investment horizon."

In discussions with management teams, we pro-offered the view that their focus should remain on managing their business and let the underlying equity price take care of itself. We even invoked Warren Buffet's dictum to the effect that in the short-term the stock market is a voting machine ruled by emotion, sentiment, and popularity, but in the long run it is a weighing machine ruled by objective and measurable information.

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 summarizes the degree of MLP undervaluation.

	MLPs	S&P 500	Dow Jones Utilities	10 Year U.S. Treasury
Yield	7.13%	2.02%	3.31%	2.30%
P/E	19.8x*	25.6x	38.4x	43.5x**

*Based upon estimated tax effected cash flow. **Multiple of annual yield. Sources: Barron's and Wells Fargo Research.

From a longevity or stage of cycle standpoint, in our opinion MLPs are early in their 16-month old bull market. Equities, as represented by the S&P 500, are far along in their historic 99-month bull market, and bonds are near ancient in terms of their 36-year bull market run. Fourteen percent, long-term treasuries were in retrospect irresistible in 1981, and the decline in interest rates to current day levels were an enormous support to equity prices over this time period.

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 breaking down and should return to lower historical correlations norms. The table below summarizes:

	NBW Capital MLP Total Returns	Percentage Change Crude Oil
2016	25.1%	22.2%
2017 YTD	-0.3%	-14.7%

Source: Bloomberg

OUTLOOK

MLPs are benefitting from the strong rebound in U.S. oil production. While this pickup in volume has kept oil prices from rising as fast as some had hoped, it is very beneficial to MLPs. MLPs have revenue models that are fee-based, and the fees apply to volume of liquids that are produced, transported, processed, and stored. Energy demand continues to grow worldwide and the U.S. is becoming a large exporter of crude oil, propane, ethane, and liquefied natural gas (LNG). Coal is being displaced, and nuclear to a lesser degree, by natural gas fired electrical generating plants. Over five large world class petro chemical plants are nearing completion on the gulf coast over the next few years. They will use ethane (derived from natural gas) as a feed stock and will spur the need for incremental MLP infrastructure.

It is important to note here that throughout the energy downturn, MLPs did grow their distributions to investors. The pace of growth slowed but growth did occur. MLP distribution growth is likely to accelerate over the next few years. Coverage ratios, balance sheets, and access to capital markets are much improved from where they were sixteen months ago. We feel that estimated annual returns over the next several years are compelling. The combination of yield (7.13%), annual growth in distributions (5.0%), and reversion upward to "normal" valuations should allow for annual percent 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.

ATTRIBUTION

NBW Capital's MLP performance during the first six 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. No meaningful thematic conclusions are drawn from these lagging individual security price movement. The largest four individual MLPs, representing slightly over 45% of the index, are not currently owned by NBW Capital. During the first half of 2017, these exclusions had average total returns of -4.9% and significantly underperformed NBW's MLP performance. NBW Capital's MLP portfolios significantly outperformed their benchmark, the Alerian Total Return Index, during the first half of 2017.

FEATURED INVESTMENT HOLDING

Every quarter we highlight a holding that we find particularly attractive. This quarter our selection is Hess Midstream Partners (HESM). Hess Midstream is a recent addition to our portfolios having come public in April, 2017. We believe Hess will generate excellent returns over the next several years. The rationale for the investment is that the company is likely to grow its distribution at a 15% rate over the next few years. The shares are undervalued and are trading at a 5.9% distribution yield. Our confidence in Hess Midstream is supported by its debt-free balance sheet and low risk 100% fee-based revenue model.