MLP INVESTMENT REVIEW AND OUTLOOK

September 30, 2024

Index Total Returns

Source: NBW Capital

	Three Months Ended 9/30/2024	Nine Months Ended 9/30/2024
Alerian Total Return	0.72%	18.56%
S&P 500	5.89%	22.08%
Russell 2000	9.27%	11.17%
Bloomberg U.S. Aggregate Bond	5.20%	4.45%
Alerian U.S. Midstream Energy	6.52%	30.42%

*September 30, 2024 quarter end point in time data. The above returns are industry index benchmark returns, your actual portfolio return can be located on the "Performance Overview" page of your reporting package.

Yields

Source: Bloomberg

	Ended 9/30/2024
Alerian Total Return	7.46%
Ten-Year U.S. Treasury	3.78%
One-Year U.S. Treasury	4.01%
Bloomberg U.S. Aggregate Bond	4.23%
S&P 500	1.39%
Dow Jones REIT	3.78%

Third Quarter Review

MLPs, as represented by the Alerian Total Return Index, had a modestly positive quarter in contrast with their much stronger year-to-date returns. We are happy to report that NBW's after fee MLP composite returns comfortably exceeded the benchmark in both periods. We believe the sideways price action for the MLP index during the quarter was a healthy pause and has removed most of the over exuberant investor sentiment that was present earlier in 2024. We believe that seeing many holdings trade close to their long term and rising price moving averages that the stage is set for continued strong performance going forward.

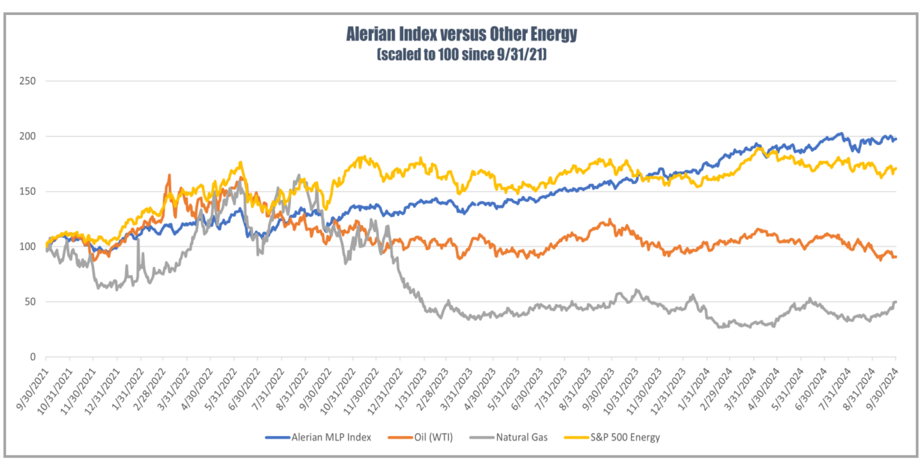
Alerian vs. Energy Returns

	3rd Quarter	Year-to-Date
Alerian Total Return (MLPs)	0.72%	18.56%
Oil Prices	-16.40%	-4.86%
Natural Gas Prices	12.38%	16.27%
S&P 500 Energy	-2.32%	8.36%

Source: Bloomberg

The third quarter was distinguished by a continuation of the ongoing decline in the group's correlation with energy prices as shown in the table to the right.

The drop in correlation is a return to normalcy. After all, the MLP revenue model is a volume-based, fee for service construct with no direct commodity exposure. Because of this, MLPs have cash flows that are far less cyclical than most industries, especially in comparison to oil and gas producers. As mentioned in previous writings, MLP cash flows declined modestly and held up better than the S&P 500 early in the pandemic, a time of extreme oil and gas price weakness. As seen in the chart to the right, the past three years have been a period of low volatility and stable attractive returns, especially in comparison to commodity prices and the S&P 500 Energy sector. We expect this trend to continue as the market appreciates this aspect of the business model.



Another Quarter of Mergers and Acquisitions

One highlight during the third quarter was the partial takeover of EnLink Midstream (ENLC) by ONEOK, Inc. (OKE) at a 13% premium to the previous night's close. ONEOK bought a controlling interest in EnLink and is expected to buy the remainder within the next few months. The company was motivated by two factors. First, EnLink transports significant volumes over existing ONEOK pipes and the contracts governing these volumes are near expiration. Without a transaction, the volumes could be shipped through a competitor at lower rates. To retain these volumes, ONEOK decided to buy EnLink. The second reason was to enhance the depreciable asset base at ONEOK. As a "C Corp," ONEOK, unlike an MLP, is taxable at the corporate level. Using the depreciation expense effectively lowers the company's corporate tax burden and provides more flexibility to pay larger dividends.

Outlook

As mentioned last quarter, strong demand in data center growth is creating an urgent need for electricity. In conversations with utility companies, who are large customers of midstream companies, the hyperscalers (Amazon, Google, Microsoft) are more concerned about time to power than price. While still early in the build out of this infrastructure, midstream companies are suggesting they can sign long-term gas contracts to supply this demand at low double digit return on invested capital versus the high single digit they would typically achieve. This demand not only creates an opportunity for growth, more importantly it locks in an attractive return on incremental capital expenditure with very strong counterparties on the other side.

Additionally, as we listened to conference calls and met with management teams this past quarter, the message of capital discipline remains intact. Growth opportunities are reemerging with increased demand for gas and oil production in the United States. However, MLPs are being very selective with new projects and prioritizing high return opportunities.

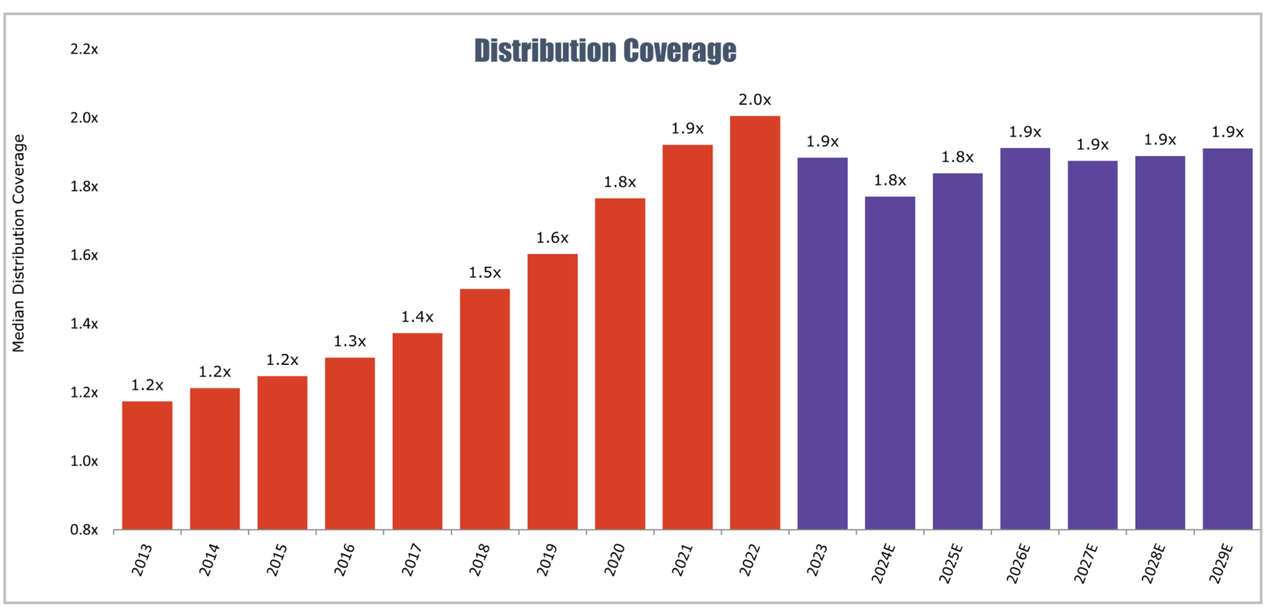
This dynamic further buttresses our already constructive outlook for MLPs and we believe long-term annual returns of 15% are achievable. The table below highlights the sources of returns that drive our thoughts on this topic.

Sources of MLP Total Return Assumption

Dividend Yield	6.5%
Annual Distribution growth	4.5%
20% Undervalued (normalizing over 5 years)	4.0%
Total Potential Return	15.0%

Sources
Dividend Yield based on Bloomberg estimates
Distribution growth based on NBW Capital estimates
Undervaluation based on current EV/EBITDA vs 10 year average

We would highlight that we believe the annual distribution growth of 4.5% may be understated. As depicted in the chart below, cash flow coverage of distributions has grown dramatically over the past decade. Should distribution coverage recede over time, distribution growth would accelerate. In our opinion, the market is not paying enough attention to this bloated distribution coverage.



Source: Company reports and Wells Fargo Securities, LLC estimates

Macroeconomic and Geopolitical Considerations

As November approaches, a brief comment about the elections is in order. Importantly, we see no material political threats stemming from the elections. We anticipate a continuation of the same environment that has been so rewarding to investors over the last four years. Both candidates have been supportive of natural gas and even Kamala Harris has rescinded her call for a ban on hydraulic fracturing ("fracking"). Besides the overt support of both presidential candidates, it is likely that we have a divided government with a separate party controlling at least one of the legislative branches. Any major energy policy initiatives will face the checks and balances of interparty collaboration.

On the global front, at the end of September 2024, vague comments about Saudi Arabia defending their market share in oil rattled the energy markets. It will be difficult for Saudi Arabia to finance their fiscal budget with a meaningfully lower oil price. Additionally, their attempt to regain market share in 2014 proved futile and the lower oil price resulted in a significant decline in their currency reserves. While headlines like these are unsettling, we believe it is unlikely there will be significant increase in OPEC oil production.

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