MLPs VERSION 2.0

THE PATH FORWARD FOR MIDSTREAM MLPs

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"MLP version 2.0 is the business model that allows MLPs to continue to grow their distributions with limited access to traditional sources of capital or elevated oil prices."

As the sector awaits a more balanced global commodity supply and demand backdrop, MLPs will spend 2016 tactically positioning their businesses to thrive in the next development cycle. Many midstream MLPs have the tools to outperform in this market environment. "Version 2.0" is the business model that allows MLPs to continue to grow their distributions regardless of access to traditional sources of capital or elevated oil prices.

MLP Sustainability Toolbox

MLPs have tools at their disposal to manage through the current challenging environment.

- Sponsor support
- Alternative sources of capital
- Asset sales

The primary drivers of weakness in MLP performance since late 2014 have been the ongoing decline of commodity prices impacting growth outlook for MLPs and the rising cost of capital due to declining MLP valuations, MLP fund outflows and a deteriorating high yield debt market. Those conditions remain in force today, which provide conditions to test the ability for MLPs to sustain their business models until conditions improve.

MLP sentiment has been weak, but fundamentals have deteriorated as well, particularly for MLPs that had to adjust their businesses and distributions to reflect the cash flow impact of the lower commodity price reality. In fact, more MLPs cut distributions (21) in 2015 than in any other year in the sector's history. It is important to note that most of those distribution cuts were either the result of wrapping a volatile cash flow business in the MLP structure, or the result of overly aggressive leverage or payout decisions by management. Almost all distribution cuts came from MLPs operating assets on the fringe of the MLP sector (Shipping, E&P, Coal, Oilfield Services). Most were smaller MLPs with limited potential sponsor support. In summary, the combined market cap of all MLPs that have cut distributions represent less than 2% of the MLP universe and less than 1% of the AMZ.

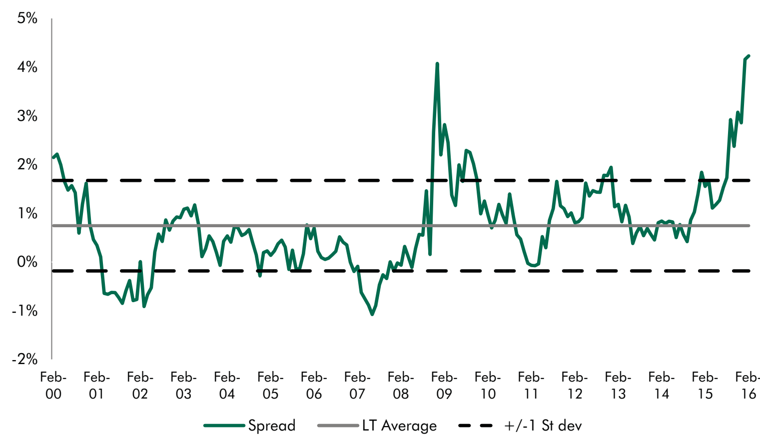
INCREASING MLP DIFFERENTIATION AND OPPORTUNITY

Already, MLPs have employed a number of measures this year to position themselves for an improved operating environment. MLPs with high-quality assets, diversification and scale, a management team with a track record of making prudent capital allocation decisions, and access to capital outside of the public markets will differentiate themselves from other MLPs. We are confident that the MLP business model will survive. However, we expect an increasing differentiation of the performance of MLPs to continue over the next few years.

We believe the MLP sector will have positive distribution growth in 2016 of 3-5%. When distribution growth is combined with a 9.5% current yield and the potential for MLP valuations to improve, we believe the outlook for MLP returns over the next 12 months is greater than 20%. We recognize the risks to this outlook, but believe those risks are well known and captured in the current valuations.

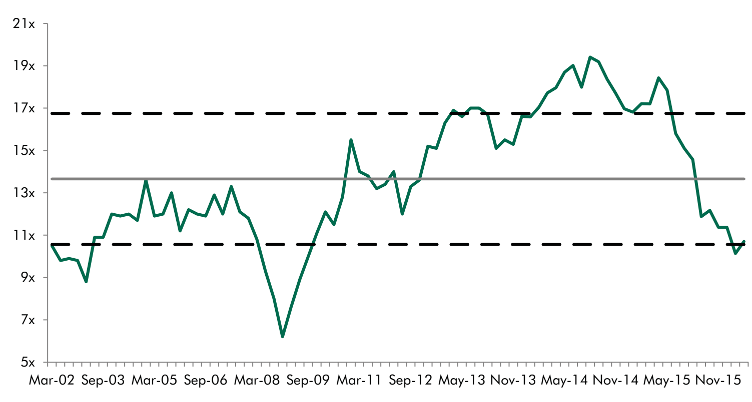
"MLPs are currently trading outside historic valuations which we expect to improve in the short term providing a positive growth outlook for the sector."

MLP Distribution Yield Spread to Baa Bonds is Well Above its Long-term Average



Source: CBRE Clarion, as of 2/29/2016

MLPs are Trading at a Discount to its Long-term Average



Source: CBRE Clarion, as of 2/29/2016

KEY MLP RISKS

Risks facing the MLP sector in 2016 can be summarized as the "Four Cs":

1. Commodity prices
2. Counterparty risk
3. Capital markets risk
4. Competition in areas of excess capacity

MLPs have varying degrees of exposure to these risks and are taking steps to mitigate them where possible, but they remain headwinds to overall sector performance.

Commodity Prices

Depressed oil and natural gas prices impact expectations for volumes on existing MLP assets and the outlook for opportunities to build new infrastructure. Both of these areas are related to the E&P businesses which are expected to drill less and remain hesitant to make long-term commitments to pipeline projects in low commodity environments. The market has differentiated risk within the MLP sector to a certain degree over the last year, attributing lower valuations to MLPs with higher exposure to commodity prices.

"By employing a combination of tools at their disposal, we believe the majority of midstream MLPs are well equipped to manage current market risks."

Counterparty Risk

Counterparty risk for MLPs relates to the ability of producers to continue to operate and to satisfy obligations to MLPs for midstream services provided. If customers file for bankruptcy or are otherwise not be able to honor existing contracts, it poses a risk to cash flows of MLPs. This risk is very specific to the location of the assets, the amount of infrastructure in the area of the production, and the rates being charged.

In general, an MLP offers the only viable path for a producer to realize value from its existing production. Therefore, even after a producer files for bankruptcy, the midstream provider generally continues to get paid based on its original contract terms, because getting the production to market is critical to generating any cash to satisfy debtors.

Location matters because obtaining a blessing from the bankruptcy court for an existing contract depends to some degree on what alternative options exist. If the MLP has the only gathering lines or the only processing capacity in the area, the contract is more likely to be upheld.

The rates being charged are also important. If the midstream provider struck a deal prior to the collapse at rates considered very high by today's standards, the risk is higher.

We have been pleased to see additional disclosure from midstream MLPs to help the investment community better understand individual MLP counterparty profiles. MLPs with assets in attractive basins, with scale, limited reliance on a single customer, and less exposure to producers are better positioned.

Capital Markets Risk

The traditional method of raising equity via marketed public offerings is currently off the table due to lack of demand. Also, there is limited visibility as to when the capital markets will open again, as retail fund flows into MLPs have been limited since mid-2015. MLPs have alternative means of raising capital beyond the traditional methods including issuing equity directly to sponsors or to major equity holders via private placements. Alternatively, MLPs can sell assets to other MLPs or to private equity firms that may have a better commercial use for those assets. MLPs can also sell portions of a project to private equity groups eager to participate in the U.S. energy infrastructure market on the private side, but have until recently been unable to compete with the low cost of capital afforded to MLPs.

Competition in Areas of Excess Capacity

There are regions around the U.S. where too much infrastructure has been developed over the last few years when capital was easy and when the number of MLPs developing assets multiplied. The result is an increased level of competition for the volumes that do exist in those regions, which may lead to reduced fees and volumes to the owners of midstream assets.

Contracts with minimum volume commitments can mitigate this risk. Also, having the ability to offer additional services can attract volumes. For example, an MLP may be able to attract volumes to its pipeline if at the end of the pipeline it offers storage and processing solutions that others cannot provide. We expect MLPs with integrated footprints to gain market share in this environment.

MLP SUSTAINABILITY TOOLBOX

What do MLPs need to do to adapt to the changing model? In addition to slowing distribution growth, we believe MLPs have tools at their disposal to manage through the new environment. These tools include:

"In the new era that follows, the highest quality MLPs will thrive in an environment that rewards vertical integration, scale and geographical diversification".

Sponsor support

- Issuing equity to the sponsor to facilitate an attractive acquisition
- Acquiring assets for below market prices from a sponsor to support MLP cash flow
- Receiving waivers on incentive distribution rights (IDRs) from the general partner to increase available cash flow

Alternative sources of capital

- Private investments in public equity (PIPE) offerings
- Preferred equity or convertible preferred equity
- Joint ventures with private equity firms to fund development

Asset sales

- Selling underutilized assets to a third party with a more strategic use for those assets
- Selling large scale assets to infrastructure private equity funds

By employing a combination of the above self-help measures, we believe the majority of midstream MLPs should be able to sustain distributions through the downturn and that the sector will grow distributions in 2016, on a cap-weighted average basis.

The options available to MLPs will help them transition to a healthier business model that can survive in the absence of the extreme positive retail fund flows that existed from 2009 through 2014. In the new era that follows, the highest quality MLPs will thrive in an environment that rewards vertical integration, scale and geographical diversification. High-quality MLPs will be those with strong balance sheets, high retained cash flow, sponsor support, and demand-pull growth opportunities.

IMPORTANT DISCLOSURES

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