ELCO Management Company, LLC

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2018 MLP Outlook

The MLP/Midstream space outperformed the overall market in December closing out an unremarkable year for the asset class. We believe the strength in December foreshadows what could be a banner year in 2018 as the tailwinds are abundant, tangible, and should translate into real cash flow/EBITDA growth. Importantly, MLP investors should also benefit from the recent passage of the Tax Bill which could be an active catalyst for consolidation and restructurings.

MLPs were among the market darlings following the 2008 financial crisis, offering high yields, abundant growth, and tax advantages. However, the group's performance from mid-2014 through 2017 experienced volatility, frustrating investors that viewed this asset class as a steady income producing investment. The recent underperformance can be attributable to many factors but mostly to the amount of leverage and what we are calling a "capital markets transition." MLPs by definition distribute the majority of their earnings to investors. They historically have funded growth through a healthy issuance of debt and equity. As their leverage ratios increased and capital markets appetite to digest equity deals faded, MLPs were forced to change. We believe this change, call it a "maturity process," is significant and has potential to dramatically change market sentiment towards MLPs. In our view, this maturity process will allow the midstream industry to continue paying out above average income to investors, while retaining cash flow to help fund growth projects. Several management teams are even considering stock buy backs as well, a laughable concept a few years ago.

As this transition materializes, the macro environment is the strongest it's been in years. Oil and gas production in the U.S. is at record highs; the rig count has stabilized and producers are able to hedge their oil and gas production at profitable levels. This means volumes flowing through pipelines, gathering systems, processing centers, treatment facilities are all increasing. It also means the U.S. is exporting record amounts of fuels, including refined petroleum products and liquefied natural gas (LNG). We believe the export story is under-appreciated and benefits our largest position in our separately managed account program. Also, the "Petrochemical Renaissance" we've been anticipating for years is finally commencing. After years of front end engineering design, companies like Chevron-Phillips, Exxon, and Dow Chemical are operating world class petrochemical crackers which rely on ethane and propane, (components of the natural gas liquid stream) as their feedstocks. Companies like Energy Transfer, Williams, Targa Resources, and Enterprise Products Partners are the biggest beneficiaries of the increased demand for ethane and propane.

In summary, our expectations are high for 2018 and we believe MLP cash flow and EBITDA growth will exceed those expectations. The good news is the transition is in place, the uncertainty has abated, and the market has better transparency towards the direction of financial stability. Valuations are very compelling; i.e. spread to 10-year

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Treasury remains high (~5.00% vs the long term average of 3.78%) and ~11x EV/EBITDA. We believe the space offers tremendous value to income and growth investors who can benefit from tax efficient income with potential above average returns. The ELCO separately managed account currently yields ~7% and we project the growth in distributions (dividends) to average 4-6%.

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