ELCO Management Company, LLC

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MLP SMAP June 2017 Update

Although the month of June reflected a rebound, we were also disappointed with the group's performance in the first half of 2017 following a 20%+ gain last year. Over the past few years, in contrast to most of the asset class's history, crude oil prices have been the key factor influencing the group. The unexpected decision by OPEC in November 2014 to dramatically raise production and drive down the price hurt all energy sectors including the MLPs. However, we foresee a gradual narrowing of the MLP and commodity relationship as new large projects become operational beginning in the second half of 2017 and 2018. We believe this will be the type of "game changing" catalyst that should help reduce the impact on investor perception that MLPs are directly tied to the volatility associated with the exploration and production oil service sectors.

As noted in a recent note, "we continue to believe that the midstream group (MLPs) is very well positioned as we enter the second half of 2017. Currently, there are over 950 rigs drilling for oil and gas in the United States, up from the bottom of 404 in May 2016. This impressive expansion will result in increased volumes of hydrocarbons which we believe should translate into investor confidence in the space given the forecasted acceleration of pipeline completion and increasing volumes before year-end." Importantly, oil and gas pipeline assets are called the industry's "toll-takers" that bare similarities to defensive regulated utilities. As such, as throughput accelerates, and investors become more aware of the differences, lower risks and reduced volatility of this segment of the asset class group, we anticipate a change on how these stocks are perceived. Specifically, Energy Transfer, Enterprise Products Partners, and Williams are among the major "toll-takers" in the United States with significant new pipeline capacity being added starting in second half of 2017.

We also view MLPs as among the major beneficiaries of LNG (liquefied natural gas), and oil exports. At the same time, U.S. and chemical companies are close to completion of infrastructure tied to a major expansion of petrochemical production that will need natural gas related feedstocks.

In summary, we reiterate that the challenges MLPs have been experiencing should lessen over the next 12-18 months. This asset class offers an average total return in the mid-teens. Our model portfolio currently yields approximately 7% and we look for 5-10% growth. The dividend yield alone is significantly higher that what is available with bonds, preferred stocks, utilities and REITS.

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