ELCO
Management Company, LLC

January 5, 2017

MLP SMAP's 2016 Fourth Quarter Update- Improving Investor Sentiment

Our Master Limited Partnerships (MLPs) Separately Managed Account Program (SMAP) was up for 2016 and compared favorably to the Alerian MLP Index and S&P 500 Index. It was a year characterized by volatility in the underlying price of commodities that MLPs transport, process, and handle.

The group struggled to find its footing throughout the first three quarters of the year. However, during the fourth quarter investors apparently began to appreciate the strategic moves many MLP management teams had made to shore up their balance sheets and position their businesses for future growth. Two major catalysts helped propel MLPs higher in the fourth quarter, OPEC's decision to reduce oil production and Donald Trump winning the election. OPEC's production cuts should set a floor for oil prices and ignite an increase in U.S. shale drilling. The incoming Trump Administration should remove the red tape from the industry making pipelines easier to build. Coupled with his focus on infrastructure spending, these should help overall sentiment towards MLPs.

We believe MLPs are in a sweet spot as we enter the New Year. There is a significant amount of operational leverage in this space. The infrastructure has been built and paid for, and, as volumes ramp up so does cash flow. In our opinion, this utilization increase is something MLPs are not currently getting credit for and in many cases can significantly increase distributable cash flow.

Importantly, organic growth remains but we believe MLPs with strategically located assets should benefit i.e. pipelines near new natural gas power generation, exports to Mexico, LNG exports, and Permian Basin infrastructure. We also view 2017 to be characterized by increased M&A as some MLPs might combine as equals to gain scale or tactically buy other MLPs to gain access to increased drilling activity or demand-pull opportunities.

In conclusion, we believe the tailwinds are quite strong and should strengthen throughout 2017. We believe this space offers an above average total return profile in the mid-teens. Our model portfolio currently yields ~7.5% and we anticipate 7-10% growth. (Noteworthy, is that the average dividend yield alone, is substantially higher than returns available from bonds, preferred stocks, utilities, and REITs.) We are quite excited, as we believe investor sentiment is improving rapidly.

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