PARKER GLOBAL STRATEGIES, LLC

PGS Energy Infrastructure UCITS Fund
MLP RECENT PERFORMANCE AND OUTLOOK
December, 2014

US SHALE GROWTH SHOWS YOU CAN HAVE TOO MUCH OF A GOOD THING

The Crux of the issue: The US shale boom has created an additional 1 million barrels per day growth in crude oil production with another 0.6 million barrels per day of additional global growth. Global growth of demand is 1 million barrels per day leaving a current surplus of 0.6 million barrels per day. OPEC has not cut production, and now there is a growing global glut. OPEC is a broken cartel. Saudi Arabia does not want to give up market share and is playing “chicken” with US shale producers.

Our Expected Outcome: US producers in the most expensive shale regions will cut E&P Capex starting in 2015. Cuts may be in the 15-30% range over the next two years. OPEC will probably not act before their June meeting. Achieving global supply/demand balance may take 2 years.

Highest Risk Issue: Energy companies represent 18% ($350 billion) of the US high yield market. Some companies are highly leveraged, invested late, paid high prices and bought in the more expensive to produce areas. Much of this capital was raised in recent years to fund fracing and fracing infrastructure. We expect to see continued weakness in energy high yield debt.

Where will prices go? We believe that the long term price of WTI will be in the $80-$85 range over the next couple of years, barring a major supply disruption. We will see continued downward pressure on WTI during Q1; thereafter, we expect to see a recovery to an average of $70-$75 range by year-end 2015. In the US, the Eagle Ford and Permian basins are more profitable for crude oil than the Bakken and mid-continent.

MIDSTREAM ENERGY MLPS ARE MOSTLY WELL POSITIONED

The Biggest Risk: As contracts turnover and E&P companies cut capex for crude oil drilling, the demand for new infrastructure growth and volume commitments will slow, ***but there will still be growth for MLPs.***

Why There Will Still Be Growth for Midstream Energy MLPs Over The Next Two Years:

- Most of the large, diversified MLPs have several years of backlog, contracted projects that will help drive distribution growth
- Most of the US shale basins with the most prolific production are still profitable at $60 crude oil
- Historically, producers have not shut-in wells so long as they are able to pay their debt service; the sensitivity spot is approximately $40 crude oil.
- Tremendous demand exists for additional natural gas and LNG infrastructure; 4 LNG export facilities have now been approved for construction in the US; there are 14 applications pending. Cheniere is set to start exporting in Q4 2015.
- We need a significant pipeline build out from the north east to the gulf coast to transport sufficient natural gas for the LNG export facilities in that region. The EIA

estimates that by 2017 approximately 32% of natural gas pipelines in Pennsylvania, Ohio and West Virginia will be bidirectional.

- INGAA Midstream Capital Expenditure Forecast Issued February 2014 for 2014-2035

− Crude Oil	$272 billion	42%
− Natural Gas	$313 billion	49%
− NGLs	$ 56.9 billion	9%

  58% of projected growth is for natural gas and NGL infrastructure. If crude oil demand for new infrastructure drops by 10% for the next two years as global crude oil supply/demand rebalances, that suggests a decrease of $2.7 billion for new crude oil projects. In all likelihood, these projects are delayed rather than cancelled. The INGAA low growth case suggests that annual average crude oil infrastructure build out decreases from $12.4 to $9.9 billion, a 20% decrease. While this may be possible for a couple of years, we believe the more likely scenario is that growth projections decelerate slightly beginning in 2H 2015 and continue decelerating through 2016 while the global crude oil market comes back into balance. As crude oil prices recover to the $80-85 range, where most US production is profitable, we expect to see acceleration in infrastructure demand.
- The US has a serious lack of takeaway capacity in the highest growth areas. MLP projects are often large and expensive. Planning and permitting often takes well over a year, or more.
- Should MLP growth slow, growth will probably return to the historic distribution growth rates of 6.5%. By the time growth actually slows, there will likely be tailwinds developing to "re" accelerate growth.

The Recent Selloff in MLPs Creates Value and Opportunity

- Selling has been indiscriminate. The best in class MLPs have sold off along with the less attractive MLPs. Diversified large caps, long haul natural gas pipelines, 100% fee based MLPs and LNG related MLPs have seen weakness.
- Several of the dropdown MLPs are down significantly from their 52 week highs, but managements' guidance for growth remains a robust 15 to 25% per annum for the next 3 to 5 years. These MLP sponsors have strong control over a strategically timed procession of dropdowns that generate growth for the MLPs.
- Timing MLP rebounds is challenging, but we have seen very large rebounds following each MLP selloff since the global financial crisis in 2008.
- As MLP prices have fallen, yields have gone up
- Midstream energy MLPs are protected by fee based, minimum volume contracts with approximately 5-10% turning over per annum.

ACTIVE PORTFOLIO MANAGEMENT

- We see opportunity during this period of high volatility and indiscriminate selling to add to the strong value names in our core portfolio
- We are currently allocated 67% to our core portfolio, 26% to our opportunistic portfolio and 7% to cash. Additionally, we have some market hedges to protect against downside risk.
- We removed E&P names and several MLPs with some exposure to commodity spreads during October and November.

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