PARKER GLOBAL STRATEGIES

UPDATE ON MLPs AND GLOBAL OIL MARKET

February 2016

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Assessing Risk of MLP Distribution Cuts

Dropdowns		Debt-to EBITDA	Coverage
CPPL	Natural Gas Midstream	2.2x	1.54x
DM	Natural Gas Midstream	4.8x	1.00x
EQM	Natural Gas Midstream	1.8x	1.66x
SEP	Natural Gas Midstream	4.4x	1.08x
AM	Natural Gas G&P	3.1x	1.48x
ENLK	Natural Gas G&P	3.7x	1.31x
WES	Natural Gas G&P	4.6x	0.96x
HEP	Liquids Midstream	3.8x	1.08x
MPLX	Liquids Midstream	2.1x	1.50x
PBFX	Liquids Midstream	5.5x	1.42x
PSXP	Liquids Midstream	4.0x	1.23x
SHLX	Liquids Midstream	1.0x	1.31x
TLLP	Liquids Midstream	4.3x	1.20x
VLP	Liquids Midstream	2.6x	1.81x
WNRL	Liquids Midstream	2.7x	1.23x
Average		3.4x	1.32x

General Partners		Debt-to EBITDA	Coverage
EQGP	General Partners	0.0x	1.0x
ETE	General Partners	5.5x	1.1x
SEMG	General Partners	4.1x	3.3x
TEGP	General Partners	0.0x	1.0x
WGP	General Partners	4.4x	1.0x
Average		2.8x	1.49x

- MLPs have traditionally financed organic growth via public debt and equity issuance (a 50/50 split is the conventional approach).
- Recent turbulence in the equity markets has reduced investor demand for MLP equity offerings and management teams are reticent to issue equity at low prices (and high yields).
- As a result, many MLPs will need to rely on public debt markets and other non-traditional channels (convertible preferred equity, PIPEs, revolvers, and equity issuances to sponsors) if they elect to proceed with outlined growth plans.
- Alternatively, MLPs with relatively strong distribution coverage ratios (>1.2x) may elect to partly fund growth with organic cash flow.

Large Cap Diversified		Debt-to EBITDA	Coverage
EEP	Diversified Large Cap	3.9x	1.27x
EPD	Diversified Large Cap	4.0x	1.28x
MMP	Diversified Large Cap	3.5x	1.24x
OKS	Diversified Large Cap	2.1x	1.04x
PAA	Diversified Large Cap	4.2x	1.00x
Average		3.5x	1.17x

Energy Transfer Family		Debt-to EBITDA	Coverage
ETP	Diversified Large Cap	5.0x	1.11x
SUN	Refined Products Midstream	3.5x	1.43x
SXL	Liquids Midstream	4.8x	1.42x
WPZ	Diversified Large Cap	4.6x	1.20x
Average		4.5x	1.29x

Other		Debt-to EBITDA	Coverage
BPL	Liquids Midstream	3.6x	1.11x
CLMT	Refinery	3.8x	1.25x
CQP	LNG	4.9x	1.31x
GEL	Liquids Midstream	5.0x	1.45x
GLP	Refined Products Midstream	4.2x	1.45x
VTTI	Liquids Midstream	3.4x	1.15x
Average		3.6x	1.29x
Portfolio Simple Average		**3.5x**	**1.31x**

Note: Debt-to-EBITDA and Coverage represent 2016 PGS estimates; blue text denotes names with coverage >1.2x. Source: Bloomberg, PGS estimates

- MLPs with low coverage ratios (<1.1x) and high debt positions (debt-to-EBITDA >5.0x) may elect to reduce distribution growth or cut their distributions until equity market conditions improve.
- PGS concentrates investments in MLPs with relatively low or manageable debt levels (debt-to-EBITDA <5.0x) and strong coverage ratios (>1.1x).
- We believe there is low risk of distribution cuts for names currently held in our portfolio.

Sensitivity Analysis: Changes to Coverage with Sustained Low Oil Prices

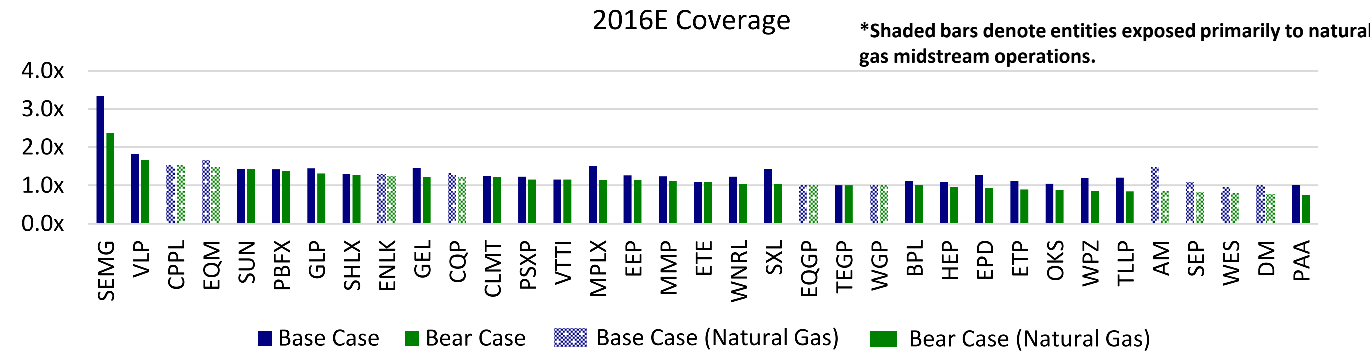
<u>Bear Case assumes:</u>

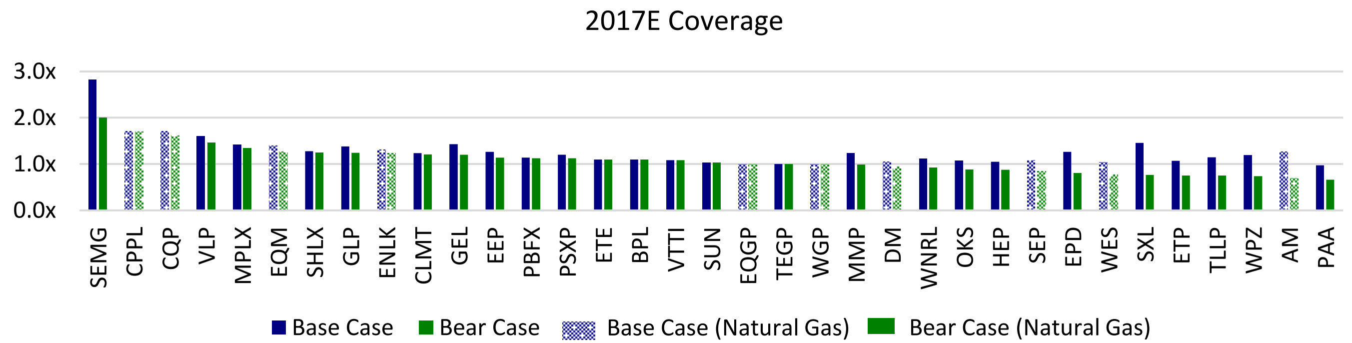
- 6% decline in volumes in 2016, held flat thereafter (roughly equivalent to the EIA's 2016 oil production forecast)
- 5% decline in tariffs in 2016; held flat thereafter.

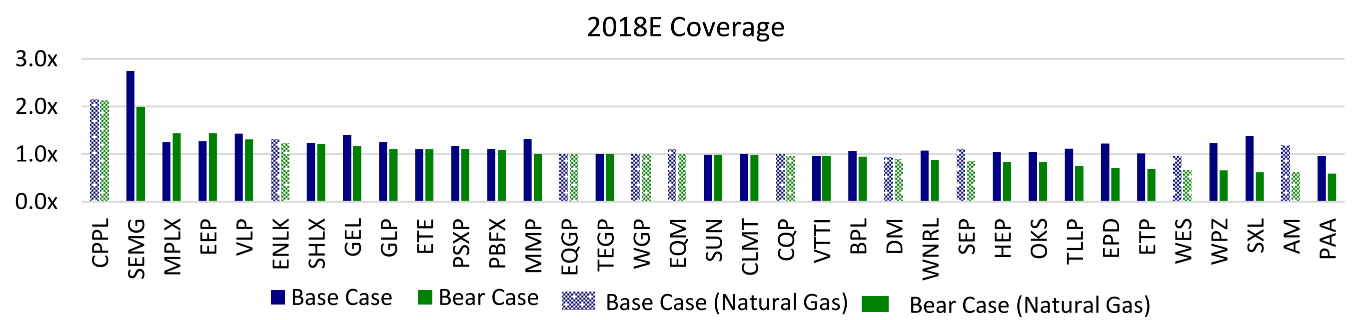
MLPs with coverage >1.0x are <u>best positioned</u> to weather a prolonged period of low commodity prices (WTI <$45/Bbl). Nearly all of our holdings have >1.0x coverage in base case.

MLPs with coverage well below 1.0x are at <u>greater risk</u> of seeing reduction in distribution growth and/or distribution cut.

PGS has positioned its portfolio around names that can survive a "lower for longer" commodity price environment.







Source: Bloomberg, PGS estimates

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2016 Coverage

Ticker	Base Case	Bear Case
SEMG	3.34x	2.38x
VLP	1.81x	1.65x
CPPL*	1.54x	1.54x
EQM*	1.66x	1.49x
SUN	1.43x	1.43x
PBFX	1.42x	1.37x
GLP	1.45x	1.32x
SHLX	1.31x	1.27x
ENLK*	1.31x	1.23x
GEL	1.45x	1.22x
CQP*	1.31x	1.22x
CLMT	1.25x	1.22x
PSXP	1.23x	1.16x
VTTI	1.15x	1.15x
MPLX	1.50x	1.14x
EEP	1.27x	1.14x
MMP	1.24x	1.11x
ETE	1.10x	1.10x
WNRL	1.23x	1.04x
SXL	1.42x	1.03x
EQGP*	1.00x	1.00x
TEGP	1.00x	1.00x
WGP*	1.00x	1.00x
BPL	1.11x	0.99x
HEP	1.08x	0.95x
EPD	1.28x	0.93x
ETP	1.11x	0.89x
OKS	1.04x	0.89x
WPZ	1.20x	0.86x
TLLP	1.20x	0.84x
AM*	1.48x	0.83x
SEP*	1.08x	0.83x
WES*	0.96x	0.79x
DM*	1.00x	0.76x
PAA	1.00x	0.74x
Average	**1.31x**	**1.13x**

2017 Coverage

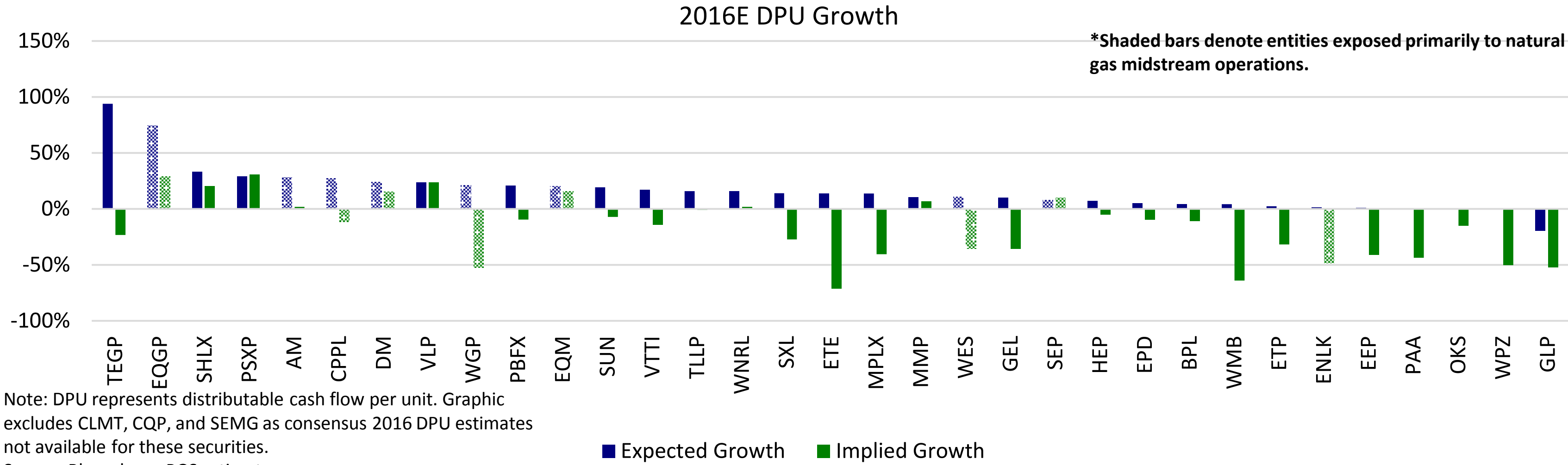
Ticker	Base Case	Bear Case
SEMG	2.83x	2.00x
CPPL*	1.71x	1.70x
CQP*	1.70x	1.62x
VLP	1.60x	1.46x
MPLX	1.42x	1.34x
EQM*	1.39x	1.26x
SHLX	1.28x	1.25x
GLP	1.38x	1.24x
ENLK*	1.31x	1.24x
CLMT	1.24x	1.21x
GEL	1.43x	1.20x
EEP	1.27x	1.14x
PBFX	1.14x	1.13x
PSXP	1.20x	1.12x
ETE	1.10x	1.10x
BPL	1.10x	1.10x
VTTI	1.09x	1.09x
SUN	1.04x	1.04x
EQGP*	1.00x	1.00x
TEGP	1.00x	1.00x
WGP*	1.00x	1.00x
MMP	1.23x	0.99x
DM*	1.05x	0.94x
WNRL	1.12x	0.92x
OKS	1.08x	0.88x
HEP	1.05x	0.88x
SEP*	1.08x	0.84x
EPD	1.26x	0.81x
WES*	1.05x	0.78x
SXL	1.46x	0.76x
ETP	1.07x	0.76x
TLLP	1.15x	0.75x
WPZ	1.20x	0.74x
AM*	1.27x	0.69x
PAA	0.98x	0.66x
Average	**1.26x**	**1.07x**

2018 Coverage

Ticker	Base Case	Bear Case
CPPL*	2.14x	2.13x
SEMG	2.74x	1.99x
MPLX	1.25x	1.44x
EEP	1.27x	1.44x
VLP	1.43x	1.31x
ENLK*	1.31x	1.22x
SHLX	1.23x	1.21x
GEL	1.40x	1.17x
GLP	1.25x	1.11x
ETE	1.10x	1.10x
PSXP	1.17x	1.10x
PBFX	1.09x	1.08x
MMP	1.32x	1.01x
EQGP*	1.00x	1.00x
TEGP	1.00x	1.00x
WGP*	1.00x	1.00x
EQM*	1.10x	1.00x
SUN	0.99x	0.99x
CLMT	1.01x	0.98x
CQP*	1.00x	0.96x
VTTI	0.95x	0.95x
BPL	1.06x	0.95x
DM*	0.94x	0.89x
WNRL	1.07x	0.87x
SEP*	1.09x	0.85x
HEP	1.04x	0.84x
OKS	1.04x	0.83x
TLLP	1.11x	0.74x
EPD	1.22x	0.70x
ETP	1.02x	0.68x
WES*	0.95x	0.67x
WPZ	1.23x	0.65x
SXL	1.38x	0.62x
AM*	1.19x	0.61x
PAA	0.96x	0.59x
Average	**1.20x**	**1.02x**

*denotes entities exposed primarily to natural gas midstream operations.
Source: PGS estimates

How Much Risk of Distribution Cuts is Priced into MLPs?



Note: DPU represents distributable cash flow per unit. Graphic excludes CLMT, CQP, and SEMG as consensus 2016 DPU estimates not available for these securities.
Source: Bloomberg, PGS estimates.

- On its Q2 earnings call (8/5/15) Plains All American Pipeline LP (PAA) indicated that 2016 could be “transition year with much lower distribution growth or as a year to defer any distribution growth until 2017 when coverage increases as a result of meaningfully higher EBITDA levels”. PAA was the first midstream MLP bellwether to warn of potential downward revisions to distribution growth guidance.

- As MLP prices have continued to plunge during Q4 2015 and Q1 2016—and the cost of MLP equity capital has increased to levels not seen since 2008—the market has begun to question whether some MLPs may cut distributions to fund their growth through internal cash flows. KMI (no longer an MLP) announced a dividend cut of 75% in Q4. KMI has a high level of debt/EBITDA and was facing a potential downgrade of its credit rating.

- We estimate current equity valuations in the securities shown above imply a 16.5% decline from 2015’s DPU run-rate. To arrive at this projection, we take 2016E MLP yields on 8/4/15 (before concerns of distribution cuts became more prominent), then multiply this yield by current stock prices (at 2/22/16) to arrive at implied 2016 DPU. We then calculate the percentage difference between implied DPU and consensus 2016E DPU back on 8/4/15. This exercise provides an approximation of how large of a distribution decline is priced into stocks.

- Given the strong coverage and debt metrics of the securities shown above, and conversations with management teams, we believe distribution cuts amongst PGS holdings are a low probability event. If MLPs deliver on their expected growth, we see material upside. Meanwhile, the MLPs shown above are already pricing in a ~16.5% distribution cut. We expect an eventual recovery in oil prices over the next 12 months to alleviate concerns over distribution growth and allow for material yield compression and upside to MLP equity prices.

- We are monitoring securities in our portfolio closely and will likely pare any position should the situation change and as the probability of a distribution cut increases.

What Happens to Midstream Contracts in the E&P Bankruptcy Process?

- Midstream contracts are typically senior to most debt; bankruptcy proceedings review seniority of debt on case by case basis.

- Pipeline vendor is critical to the delivery of free cash flow to the E&P; courts typically understand this and accommodate midstream operator by honoring existing contracts in place.

- However, some renegotiation of midstream contracts is possible—especially when existing contracts may have been set well above current market rates (i.e., potential economic downside risk to midstream operator).

- Main determinant of contract restructuring is usually which side (upstream or midstream) has more leverage over the other. For example, if an E&P is wholly dependent on one pipe for takeaway capacity, and this asset can attract other volumes, the midstream operator would have more leverage over the producers in any contract redetermination.

- Undoubtedly, some midstream operators will have the wrong pipes in the wrong basins (i.e., gathering and processing systems in basins with declining production, such as the Bakken, Rockies, and Canadian Oil Sands). MLPs with operations in these regions will have less leverage over E&P counterparts (MLPs affected by this include TRGP/NGLS, OKE/OKS, DPM).

- However, PGS selects MLPs with diversified asset footprints (not too much leverage to a single basin), exposure to growth basins (Marcellus/Utica or Permian), supportive sponsors, and volumes that are tied to “demand-pull” (refineries or retail/wholesale fuel distribution).

Source: Deutsche Bank

PGS Preference for "Demand-Pull" and "Long-Haul" Midstream Themes

		2016 Operating Income (%)						
		Crude Oil			Natural Gas/NGLs			
Ticker	**Sub-sector**	**Supply-push**	**Demand-pull**	**Middle**	**Supply-push**	**Demand-pull**	**Middle**	**Total**
AM	Natural Gas G&P				100%			100%
BPL	Liquids Midstream		82%	18%				100%
CLMT	Refinery	10%	90%					100%
CPPL	Natural Gas Midstream				39%		61%	100%
CQP	LNG					100%		100%
DM	Natural Gas Midstream				46%		54%	100%
EEP	Diversified Large Cap			41%	59%			100%
ENLK	Natural Gas G&P			28%	68%	4%		100%
EPD	Diversified Large Cap		8%	18%	40%	8%	27%	100%
EQGP	General Partners				50%	50%		100%
EQM	Natural Gas Midstream				50%	50%		100%
ETP	Diversified Large Cap			58%	21%	9%	13%	100%
GEL	Liquids Midstream	6%	13%	79%			2%	100%
GLP	Refined Products Midstream	10%	90%					100%
HEP	Liquids Midstream	19%	73%	8%				100%
MMP	Liquids Midstream	18%	41%	41%				100%
MPLX	Liquids Midstream		48%		52%			100%
OKS	Diversified Large Cap				59%	37%	4%	100%
PAA	Diversified Large Cap	3%	3%	48%			46%	100%
PBFX	Liquids Midstream		100%					100%
PSXP	Liquids Midstream		50%	13%	25%	13%		100%
SEMG	C-Corp	1%	14%	42%	44%			100%
SEP	Natural Gas Midstream			15%			85%	100%
SHLX	Liquids Midstream		11%	89%				100%
SUN	Refined Products Midstream		100%					100%
SXL	Liquids Midstream		2%	92%			5%	100%
TEGP	General Partners				41%	26%	33%	100%
TLLP	Liquids Midstream	15%			39%	45%		100%
VLP	Liquids Midstream		100%					100%
VTTI	Liquids Midstream		50%	50%				100%
WES	Natural Gas G&P				100%			100%
WGP	General Partners				100%			100%
WNRL	Liquids Midstream		100%					100%
WPZ	Diversified Large Cap		7%		36%		56%	100%
Avg		**2%**	**15%**	**25%**	**31%**	**10%**	**18%**	**100%**

Source: Company documents and PGS estimates

MLP Valuations at Historically Attractive Levels

Current Yields
January 1, 2008 - February 22, 2016

EV/EBITDA
January 1, 2008 - February 22, 2016

Note: Current yield represents most recently announced distribution, annualized, then divided by market price. EV/EBITDA represents current enterprise value dividend by trailing 12 month EBITDA.
Source: Bloomberg

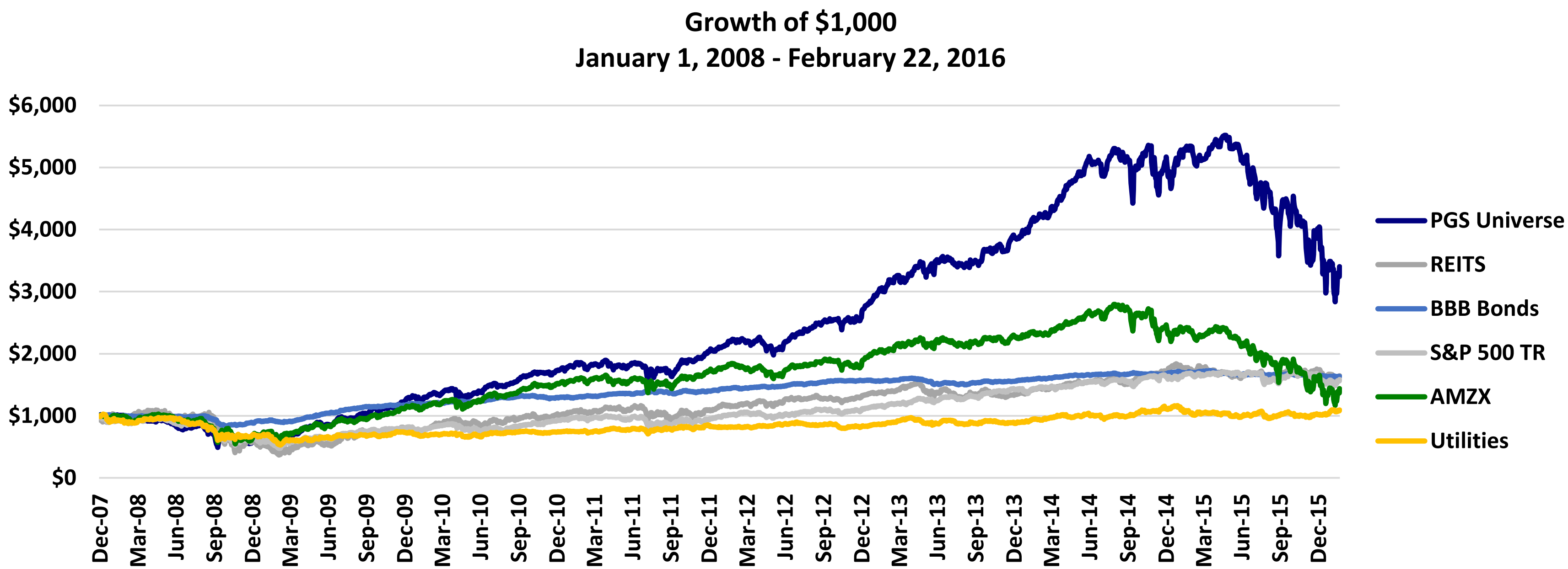
- MLP universe under coverage by PGS trades at a current yield of 8.7% and has traded at a yield as high as 10.4% in early Feb, 2016. MLPs last traded at this level in June, 2010. This compares to the 2008-present average of 8.7% (7.4% since the end of the Great Recession in 2Q09).

- EV/EBITDA for this comparison group sits at 15.9x and has traded as low as 14.5x in December, 2015. MLPs last traded at this level in August, 2011. This compares to the 2008 to December 16, 2015 average of 15.7x (16.6x since the end of the Great Recession in 2Q09).

- The PGS investment process screens for high quality MLPs with low direct commodity price exposure, high distribution growth profiles, and low risk profiles. For this reason, the valuation metrics shown above will not mirror the extreme dislocations observed in the broader MLP sector, which includes riskier sub-sectors, like E&Ps, services, and G&Ps.

- Additionally, many constituents in our investable universe, such as sponsor-supported MLPs, became public companies in the last three years. These names trade at lower yields and higher EV/EBITDA multiples due to their strong, more secure distribution growth profiles.

Owning Higher Quality MLPs Pays off Over The Long-Term



Note: chart reflects daily historical performance.
Source: Bloomberg

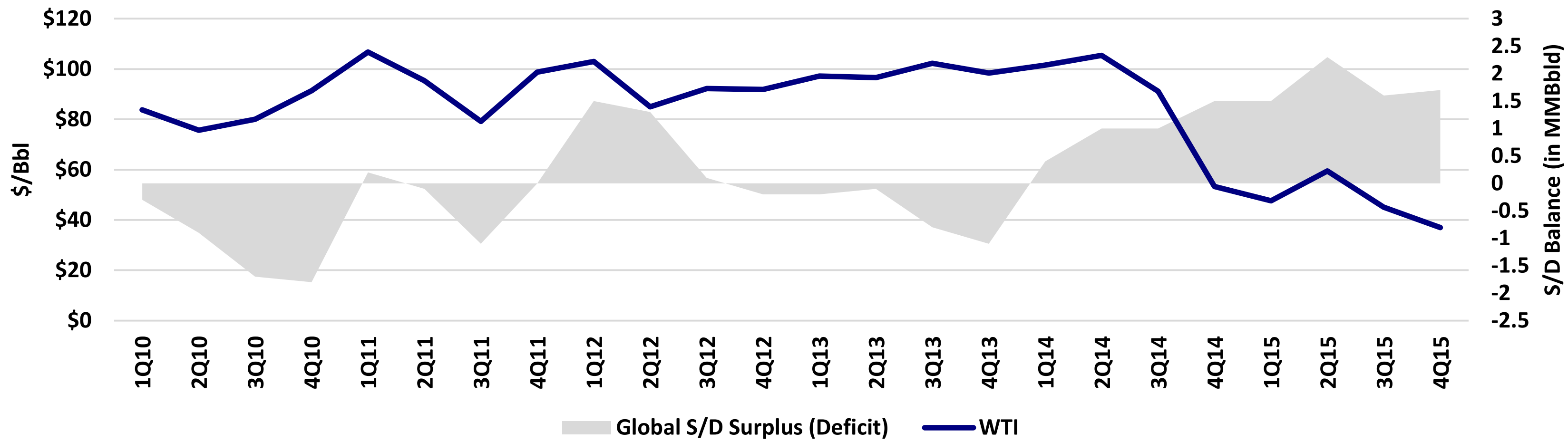
- High quality MLPs in the PGS investable universe generated a total return of 240.4% over 2008 to February 22, 2016, outperforming REITS (+64.5%), BBB Bonds (+63.7%), the S&P 500 (+58.3%), the Alerian (+43.8%), and Utilities (+9.4%).

Historical Returns by Asset Class

% Return By Year										
Asset Strategy	2008	2009	2010	2011	2012	2013	2014	2015	2016	Compound Return
PGS Universe	-41.2%	108.9%	40.5%	18.0%	26.9%	51.3%	29.9%	-20.9%	-15.2%	240.4%
REITS	-37.8%	27.8%	27.6%	7.3%	19.7%	2.3%	27.2%	2.1%	-4.9%	64.5%
BBB Bonds	-11.5%	31.4%	10.9%	8.1%	12.0%	-1.0%	7.7%	-2.2%	0.0%	63.7%
S&P 500 TR	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	-4.5%	58.3%
AMZX	-36.9%	76.4%	35.8%	13.9%	4.8%	27.6%	4.8%	-32.6%	-11.6%	43.8%
Utilities	-31.5%	6.8%	0.9%	14.8%	-2.9%	8.7%	24.3%	-8.4%	7.5%	9.4%

Source: Bloomberg
Data through February 22, 2016

Global Oil Market: Where Are We Now?



Source: IEA, Bloomberg

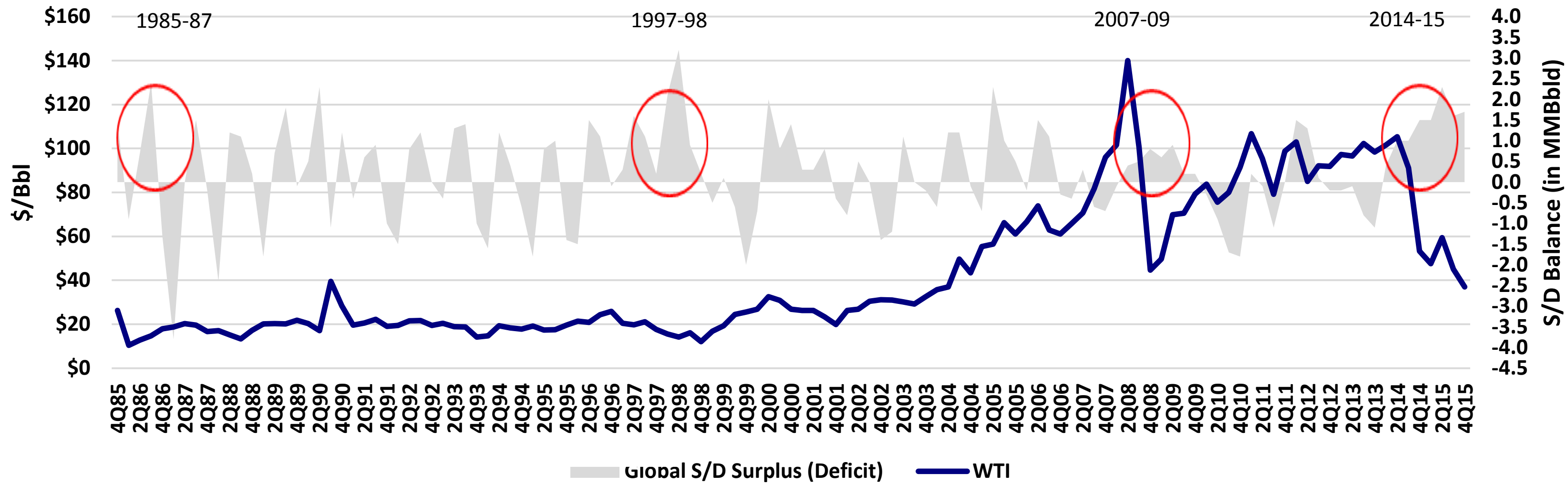
Snapshot of the current global oil supply-surplus

- Global oil market was 1.7 MMBbld oversupplied in 4Q15, down from a cyclical peak of 2.3 MMBbld in 2Q15, according to the IEA.
- This has been a supply-led imbalance: global production is up 1.4 MMBbld over 4Q14-4Q15, driven by US shale oil production growth and OPEC's decision to maintain its production quotas in order to hold market share.
- The 2.3 MMBbld peak supply surplus represented just 2.4% of global oil demand.
- Demand increased 1.2 MMBbld over 4Q14-4Q15, reflecting economic growth in developed markets, such as the US and Europe, and continued growth in China.

Oil supply-surplus = adverse impact to oil and MLP equities

- Too much oil has depressed oil prices: WTI touched a cyclical low of $26.21/Bbl on Feb 11th (down 62% from the Jun, 2014 peak) and presently sits at $31.48/Bbl (as of Feb 22nd).
- Lower oil prices have raised concerns with MLPs: 1) E&P capex cuts will lead to a reduction in drilling, less volume on pipelines, & reduced demand for new infrastructure; 2) higher NGL output has pressured NGL prices, impacting G&P ops; 3) MLPs may face recontracting risk (as fee-based midstream contracts expire or are renegotiated, MLPs may be forced to accept less favorable terms); 4) potential E&P bankruptcies present counterparty risk.
- MLPs touched a cyclical low on Feb 11th (down 62% from the Aug, 2014 peak); presently down 54% from the peak.

We've Been Here Before: Four Major "Oil" Recessions in Last 30 Years



1985-87:
- Primarily a supply induced decline in oil prices.
- Oversupply peaked in 3Q86 at 2.4 MMBbld (4% of global demand).
- Saudi Arabia bore a major portion of the cuts as its production fell from ~10 MMBbld to 2 MMBbld by mid-1985.
- By end-1985 Saudi Arabia aggressively increased production to raise market share. Other OPEC producers also raised production to maintain share, inducing crash in oil prices.
- The price recovery was complete by 1990 with the Iraq invasion of Iran.

1997-98:
- Driven by a combination of falling demand and rising supply.
- Global demand fell -0.6 MMBbld over 4Q96-2Q98, driven by Asian financial crisis. Global production fell 2.7 MMBbld over 4Q96-2Q98, driven by OPEC's lack of agreement on sufficient production cuts and a renewal of the UN/Iraq "oil for food" deal.
- Oversupply peaked at 3.2 MMBbld in 2Q98 (4.4% of global demand).
- Oil market reached a more balanced state in 1Q99, with the S/D at -0.5 MMBbld. This was achieved by a gradual strengthening in Asian economies and an orchestrated cut in OPEC production.

2007-09:
- Driven primarily by falling demand.
- Global demand fell -2.8 MMBbld over 4Q07-2Q09, stemming from the global financial crisis and ensuing "Great Recession" which began in 4Q07 and lasted until 2Q09.
- Production fell -1.2 MMBbld over 4Q07 to 2Q09, almost entirely due to OPEC's -1.8 MMBbld cut (meanwhile, non-OPEC collectively increased production by 0.6 MMBbld during this span).
- Oversupply peaked at 0.9 MMBbld in 2Q09 (1.1% of global demand).

2014-15:
- Primarily a supply-led decline in oil prices.
- Driven by US shale output and OPEC's Nov 27, 2014 surprising decision to maintain production output in order to hold market share.
- Global supply increased by 1.4 MMBbld from 4Q14-4Q15.
- Global demand improved by 1.2 MMBbld over 4Q14-4Q15.
- Peak oversupply reached 2.3 MMBbld in 2Q15 (just 2.4% of global demand).

The Commodity and Energy Equity Price Cycle

PEAK OF CYCLE (MID-2014):

- **Oil S/D:** approximately balanced allowing for relatively stable trading range in prices (2011 to mid-2014)
- **Oil price:** range bound, but trending toward cyclical high ($80-$100/Bbl)
- **Upstream capex:** targets projects on high end of cost curve (N. Sea, Arctic, oil sands, higher cost US shale)
- **Upstream costs:** higher upstream costs translate to peak project/service costs
- **M&A:** wide bid-ask spreads; perception of EBITDA growth justifies peak deal multiples (>12x EV/EBITDA)
- **Valuation:** MLPs yields at 5-6%, EV/EBITDA (11.7-13.4x), and P/B (2.5-2.8x)
- **IPO market peaks:** premium valuations prompt spin-outs of GP, variable rate, and non-traditional MLPs (chemicals, frack sands)

CYCLICAL DOWNTURN BEGINS (2H14-2015):

- **Oil S/D:** US shale growth & unrestrained OPEC output tip global balance towards supply surplus (1.5-2.3MMBbld or 1.6-2.4% of global demand)
- **Oil price:** OPEC abandonment of output quota in Nov, ’14 leaves world with no clear swing producer; oil prices see sharp declines; theoretical price floor = cash costs ($10-20/Bbl)
- **Capex:** Upstream investment in projects at high end of global cost curve dramatically cut; midstream spend continues on identified, contracted projects.
- **MLP equities decline:** stocks begin to price in lower earnings profiles, potential counterparty risk posed by E&Ps
- **Valuation:** equity yields at 6-7% as markets price in higher risk premium.; EV/EBITDA (10.7-13.5x); P/B (1.5-2.8x)

DOWNTURN APPROACHES NADIR (1H16):

- **Oil S/D:** Lower commodity prices stimulate positive demand response (US gasoline demand +3% in 2015)
- **Oil price:** WTI/Brent falls -76%/-73% from 2014 peak to $26/$31 per Bbl in Jan-Feb, ’16—a level beneath that observed during the Great Financial Crisis (GFC)
- **Capex:** upstream capex falls 35% in 2015 and is projected to fall another 35% in 2016; midstream growth capex rises a modest 5% in 2015, projected to fall 15% in ’16
- **Valuation:** MLP yields reach ~10-11% in Feb ’16; EV/EBITDA (8.6-9.5x) and P/B (1.3-1.6x)
- **Capital markets:** access to debt and equity markets only available to highest quality issuers

TROUGH OF CYCLE (mid-2016):

- **Oil S/D:** new Iran volumes reach market; demand adversely impacted by decline in global refining util rates on back of Mar/Apr seasonal maintenance
- **Oil price:** sub $30/Bbl price translates to negative returns on nearly all global production
- **MLP equities range-bound:** E&P bankruptcies rise; while this carries negative implications for select MLPs’ volumes, over-hang on sector becomes diminished as counterparty/volumetric risk becomes more clearly defined
- **M&A:** private equity pursues assets owned by distressed E&Ps; MLPs with strong balance sheets pursue asset/corp deals.
- **Valuation:** peak equity yields (10-11%); trough EV/EBITDA (~8.5x) and P/B (~1.3x)

RECOVERY PHASE BEGINS (2H16-2017):

- **Oil S/D:** US production begins to decline sharply (~750-1,000 MBbld decline from 2015 peak); global S/D becomes balanced and inventory overhang begins to erode.
- **Oil price:** Commodity prices trend sharply off trough levels (exit 2016 at $45-55/Bbl)
- **Capex:** E&P capex growth slow to materialize, as producers gauge sustainability of price recovery; midstream growth spending declines to reflect lagged effect of lower upstream development
- **Valuation:** MLP yields tighten as consensus view emerges that market trough is in rear-view mirror.

RECOVERY IN FULL SWING (2018-onwards):

- **Oil S/D:** Global demand growth of 1.0-1.2MMBbld fully erodes inventory overhang; impact of reduced investment at high end of upstream cost curve results supply *shortfall*
- **Oil price:** prices rise rapidly (>$80/Bbl) on *demand* imbalance
- **Capex:** upstream and midstream capex resume growth rates required to right-size supply with demand

Oil Market Up-cycles

Start	End	Years
1987	1997	10
1998	2007	9
2009	2014	5
Avg		**8.0**

Oil Market Down-cycles

Start	End	Years
1985	1987	2
1997	1998	1
2007	2009	2
2014	1H17	2.5
Avg		**1.7**

On the Road to a Rebalanced Oil Market and MLP Bull Market

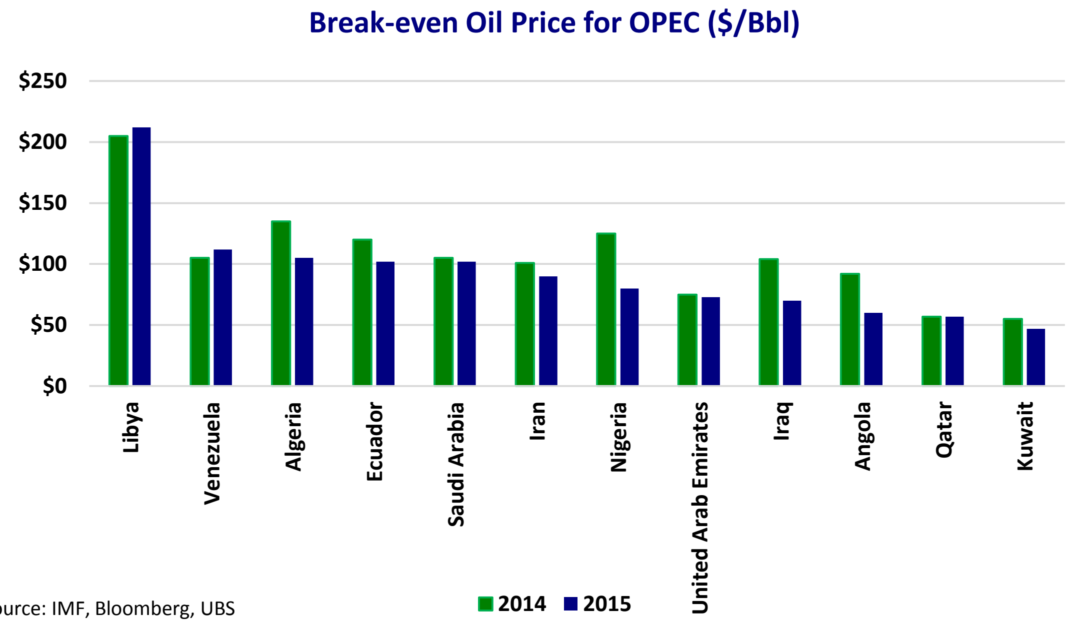
Corrective Measures By North American Producers…

- North American upstream capex fell 35% in 2015 and is expected to decline a further ~35% in 2016, according to UBS.
- US oil rig count sits at 413 (as of Feb 19), down 74% from the Oct, 2014 peak of 1,609.
- US production has fallen 469 MBbld (-4.9%, as of Feb 12) from the Jul, 2015 peak of 9.6 MMBbld and is expected to fall ~500 MBbld YoY (~6%) in 2016 vs 2015's full year average.
- Rest of world (ex-OPEC) has been stubbornly resilient: total non-OPEC production actually reached a modern record of 57.9 MMBbld in 3Q15.
- A price-induced global oil demand increase of 1.7 MMBbld (1.9%) in 2015 vs 2014. Major oil agencies expect growth of 1.2 MMBbld (1.3%) in 2016.

What More is Needed?

- Continued global demand growth. Demand has continued to surprise to the upside in 2015 (IEA upwardly revised their 2015 global demand forecast 6 times in 2015).
- Continued volume declines in the US and non-OPEC producing nations.
- OPEC action: a coordinated production cut would cause a fairly rapid rebalance in global oil supply/demand and prompt a sharp bounce in oil prices and energy equities.

Support for Higher Oil Prices Comes from OPEC Budget Needs



Source: IMF, Bloomberg, UBS

- While OPEC nations have relatively low finding and development costs for oil ($10-30/Bbl), they require a much higher price to fund social needs (infrastructure, social programs, etc).
- S&P estimated Saudi Arabia's general government fiscal deficit will increase to 16% of GDP in 2015, from 1.5% in 2014.
- In 4Q15 S&P downgraded Saudi Arabia's debt to A+ from AA- with a negative outlook.
- Saudi Arabia announced it is delaying payments to government contractors as lower oil prices have pushed the country into a deficit for the first time since 2009.

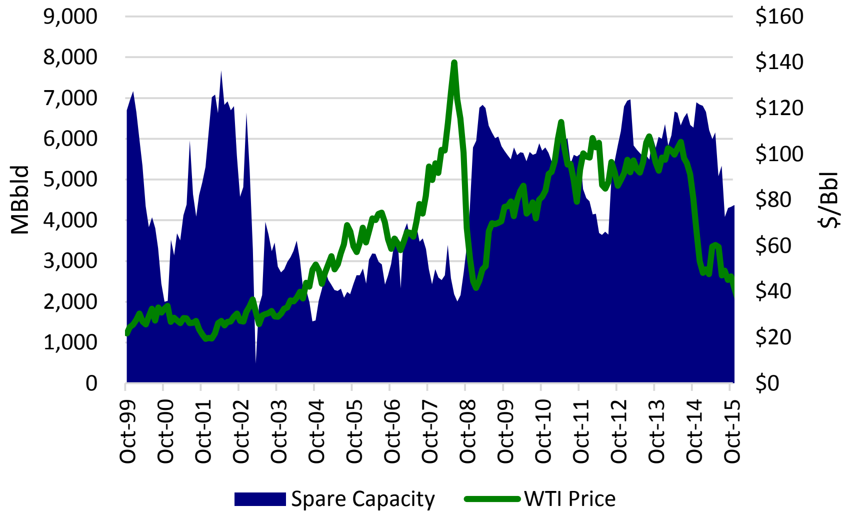
OPEC Spare Capacity Remains Near Record Low Levels

OPEC Spare Capacity

OPEC Countries	Jan-15 Production	Current Capacity	Current % Utilization	Spare OPEC Capacity	Current OPEC Output Target
Saudi Arabia	10,200	12,500	81.6%	2,300	
Iran	2,860	2,900	98.6%	40	
Kuwait	3,000	3,000	100.0%	0	
UAE	2,970	3,150	94.3%	180	
Angola	1,751	1,870	93.6%	119	
Algeria	1,100	1,150	95.7%	50	
Qatar	650	780	83.3%	130	
Ecuador	533	535	99.6%	2	
Sub-Total	**23,064**	**25,885**	**89.1%**	**2,821**	
Iraq	4,370	4,450	98.2%	80	
Nigeria	2,028	2,200	92.2%	172	
Venezuela	2,466	2,500	98.6%	34	
Libya	370	780	47.4%	410	
Total	**32,298**	**35,815**	**90.2%**	**3,517**	**NM**

Source: Bloomberg, UBS

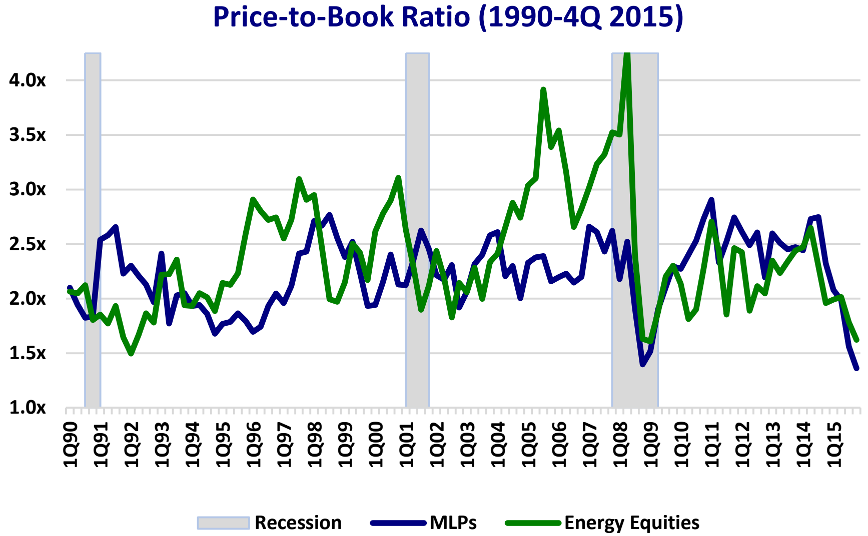
Effective Spare Capacity vs WTI

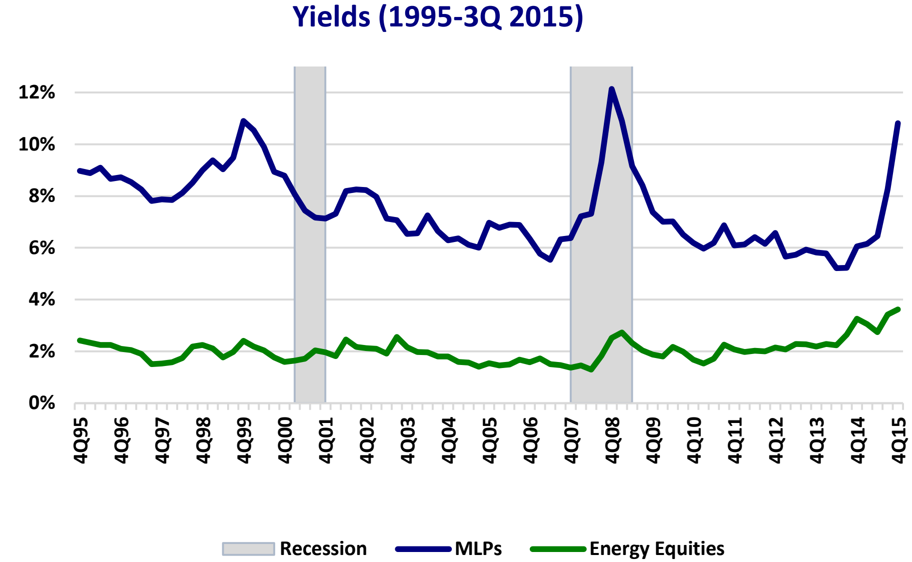


Source: Bloomberg, UBS

- OPEC’s spare capacity is 3.5 MMBbld, near the lower end of the range since 2008; this implies a current utilization of 90.2%.
- Excluding Iraq, Nigeria, Venezuela, and Libya, spare capacity is 2.8 MMBbld.
- Lower spare capacity = less ability to increase production to respond to global supply outages; this presents upside risk to oil prices in the event of a meaningful outage.

MLP Stocks at Historical Lows





Source: Bloomberg, Alerian

Note: MLPs represented by Alerian constituents; Energy Stocks represented by Energy Sector Total Return Index (IXETR); price-to-book data available beginning in 1990; yield data available beginning in 1995.

- Current price-to-book ratio of the Alerian is ~1.4x vs 20 year average of 2.3x.
- This represents the lowest valuation since the Great Recession.

- Current yield of the Alerian is ~10.8% vs 20 year average of 7.5%. This represents the highest yield since the Great Recession.
- Current Alerian Index contains “drop-down” MLPs (~30% of Index) with much lower yields due to their visible growth trajectory.
- Current drawdown for broad energy sector (IXETR) ranks as the longest, at 398 days (56.0% decline) over 6/23/14 to 1/20/16. Second largest drawdown occurred over 10/97 to 3/2/99 (352 days; 45.3% decline).
- Longest drawdown for the Alerian is 430 days (29.3% decline) over 4/24/98 to 12/30/99. Current drawdown ranks as the 2nd longest and has lasted 366 days over 8/29/14 to 2/11/16 (-62.3%).

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