NBW CAPITAL LLC

INVESTMENT REVIEW & OUTLOOK
(March 31, 2018)

This edition of the INVESTMENT REVIEW & OUTLOOK includes a summary of returns for the financial markets for the first quarter of 2018.

	Three Months Ended 3/31/18 Total Returns
S&P 500	-0.76%
Barclays Aggregate Bond Index (Bonds)	-1.46%
Alerian Total Return Index (MLPs)	-11.12%
Russell 2000 (Small Cap Stocks)	-0.08%
MSCI EAFE (Foreign Stocks)	-1.41%
60/40 Blend (60% S&P 500, 40% Alerian)	-4.97%

As the table above attests, the markets suffered negative returns during the first quarter of 2018. The year began with January results being especially strong as investor sentiment was buoyed by the prospect of the accelerating growth arising from the tax cut legislation that had been recently enacted. The reduction in corporate rates was a further boost to 2018 earnings estimates, and all but assured a strong earnings growth year in 2018. During February and March, the markets were buffeted first by technical selling pressure generated by the blow up of a large overcrowded trade to exploit low stock market volatility (i.e. "shorting the VIX"). The markets were pressured further by Trump tariff initiatives and the resulting fears about a global trade war. Controversies involving two leading stocks, Facebook and Amazon, added to the negativity. Finally, a FED tightening cycle is in progress with interest rates likely to rise more this year.

In contrast to this litany of negatives, the economy is quite strong and first quarter Gross Domestic Product ("GDP") growth should be the best in three years. Earnings per share for the S&P 500 should be up over 15% in 2018, with consensus earnings estimates clustered around $151. At quarter's end, this brought the S&P 500 price earnings ratio to 17.5 times 2018 estimated earnings, a level we consider to be reasonable given the current interest rate environment.

Having said that, recent market volatility, including the brief breakdown through the 200 day moving average of the S&P 500, is not to be lightly dismissed. The nine-year-old bull market has enjoyed a thematic constancy that may be undergoing change. The overarching paradigm of low economic growth, low interest rates, low inflation and no alternative to stocks is being questioned.

Over the last nine years, we have often written about inflation being a primary risk to stocks. We monitor price behavior closely, and we are not alarmed by current conditions. What bothers us is leading inflation indicators suggest caution. A simple aggregate demand model of the economy for GDP tells us that economic conditions are very strong. The consumer (70% of GDP) is fully employed with rising wages and increased wealth (housing prices and stocks), government spending (17% of GDP) is growing and fiscal policy is very simulative (tax cuts, deficits, increased military budgets). Investment (17% of GDP) is likely to be strong as well (bonus depreciation and proposed infrastructure initiatives). The final part of GDP is net exports which actually have a negative 4% impact on GDP due to our trade deficit. A weaker dollar that cheapens our exports and makes imported goods more expensive may cause the drag of net exports to be less and further add to GDP growth. In sum, 2018 GDP growth should be very good.

How does this impinge on inflation? It all depends upon the degree of resource utilization. When unemployment is high, incremental new job growth has little impact on wages. When unemployment is low, upward pressure on wage rates can ensue from modest job growth. Today, we appear to be near full economic utilization. Incremental economic growth may coincide with heightened inflationary pressure, which would in turn, exert upward pressure on interest rates and would eventually be a problem for stocks.

An additional "issue" for the market to deal with this year is the congressional midterm elections. Since 1962 and including 14 mid-term elections, the S&P 500 has experienced a correction averaging 18% during midterm election years. Historically, these corrections have led to excellent buying opportunities that resulted in stock market rallies in each instance and averaging a 36% return over the ensuing 12 months from the low point. Typically, midterm election years underperform from March through November and experience strong end of the year performance.

In response to the above crosscurrents, NBW Capital reduced equity exposure in March. It wasn't a dramatic reduction but an attempt to take profits and incrementally reduce portfolio risk. We are flexible about reinvesting the cash should opportunity present itself, but also open to selling more should market conditions deteriorate.

Master Limited Partnerships ("MLPs") had disappointing performance in the first quarter as the sector continues to suffer through poor investor sentiment and anemic new fund inflows. Ironically, this underperformance has coincided with a pronounced improvement in underlying business conditions. Production volume of both natural gas and oil is up strongly over the last two years, and this benefits MLP revenues that are derived from long-term contracted fees based upon "volume" of petroleum products moved, processed and stored. In our opinion, recent regulatory actions from the Federal Energy Regulatory

Commission ("FERC") have caused exaggerated and unwarranted volatility. The FERC ruling that mandates the exclusion of imputed taxes from the rate base of certain interstate pipelines has a very narrow impact on perhaps five MLPs, and represents an estimated 5% of industry cash flows. Most of the industry's assets fall outside FERC's purview and are unaffected by this directive.

It's important to remember that MLPs, as represented by the Alerian Total Return Index, have generated returns of 36.8% since their low point 26 months ago. NBW Capital's MLPs, as represented by our MLP composite's net of fee performance, have exceeded that with a cumulative net of fee return of 50.6%. Coincidentally, the S&P 500's cumulative total return over the same time period was 50.8%. Today, MLPs are deeply undervalued (i.e. over 25% under historical norms). Almost all asset classes including the S&P 500, Real Estate Investment Trusts, and Electric Utilities trade well above their historic valuation norms.

We believe that MLP investor patience will be rewarded. History is cyclical not linear, and we vividly recall a comparable moment in market history 18 years ago during the years 1998 through 2002.

The investment environment then was favorable and the stock market had done very well. We were seven years into a bull market that began in the early 1990's. The S&P 500 had a premium valuation and was being led by technology stocks. MLPs languished until they didn't. The table below summarizes:

Cumulative Total Returns (Gross of Fees)			
	2 Years 1998 & 1999	3 Years 2000, 2001, & 2002	5 Years Combined
S&P 500	55.6%	-37.6%	-2.90%
S&P Technology	219.5%	-73.5%	-15.33%
Alerian MLPs	-10.6%	102.4%	80.94%

History does not repeat exactly. Cycles may resemble each other, but are never identical. Nonetheless, we strongly believe that MLPs fulfill an important role in a diversified portfolio today. They provide above average income (i.e. yields approaching 9% for the Alerian Total Return Index) and are likely to muffle risk considerably as they have in previous times of stock market turbulence.

ATTRIBUTION

During the first quarter of 2018, MLPs held back overall portfolio performance. Performance did exceed our 60% S&P 500/40% Alerian Total Return benchmark as excellent stock selection countered the MLP performance drag. Standout individual contribution to performance came from performers which include: Zillow, Health Equity, Tyler Technologies and Roper Technologies. Dominion Energy, Shell Midstream Partners and Semgroup lagged during the quarter.

FEATURED INVESTMENT HOLDING

This quarter we are going to highlight a new holding, McDonald's Corp (MCD), the world's largest restaurant company, with a system that includes 37,241 locations in 120 countries. The brand is well known across the globe for its Golden Arches logo, signature offerings (Big Mac, Quarter Pounder with Cheese and French Fries), attractive price points and relatively flexible menu that caters to local tastes while supporting multiple dayparts (breakfast, lunch, snack, dinner and late-night). The revenue mix consists of contributions from company restaurants (47%) and franchise fees (53%; includes royalties plus rents). The company is headquartered in Oak Brook, Illinois.

The management team at McDonald's has outlined a vision to create a "modern, progressive burger company" by increasing the pace of change to bring the brand more up-to-date with current consumer preferences. Some of the key platform initiatives are centered around store remodels, value, product and innovation, quality and digital. We believe that as these initiatives take hold McDonald's shares should see multiple expansion as they drive sustainable market share gains and improvements in return on invested capital.

NBW CAPITAL STRATEGY REVIEW

In an effort to serve our clients and their varied investment needs, NBW Capital offers five distinct investment strategies. Attached we provide a description of each strategy. They span a wide range of risk and return profiles, and share in common NBW Capital's time tested investment process.

ADMINISTRATIVE NEWS

In addition to your quarterly report, enclosed please find our Annual Privacy Notice and Form ADV Part 2A. SEC regulation requires NBW Capital to provide its clients with a copy of its Annual Privacy Notice and Form ADV Part 2A ("disclosure brochure") on an annual basis.