NBW CAPITAL
LLC

MLP INVESTMENT REVIEW & OUTLOOK
(March 31, 2022)

	Three Months Ended 3/31/2022	Twelve Months Ended 3/31/2022
Alerian Total Return Index*	18.81%	36.56%
Ten-Year U.S. Treasury Yield*	2.34%	2.34%
Alerian Total Return Index Yield*	7.54%	7.54%
Yield Spread versus Ten-Year Treasury*	5.20%	5.20%

*March 31, 2022 quarter end point in time data. The above returns are industry index benchmark returns, your actual portfolio return can be located on the "Performance Overview" page of your reporting package.

Master Limited Partnerships ("MLPs"), as measured by the Alerian Total Return Index ("MLP Index"), had a total return of 18.81% during the first quarter of 2022. The total return for the MLP Index, trailing 12 months ending March 31, 2022, was a strong 36.56%. NBW Capital's MLP total returns compare favorably to the MLP Index over both time frames.

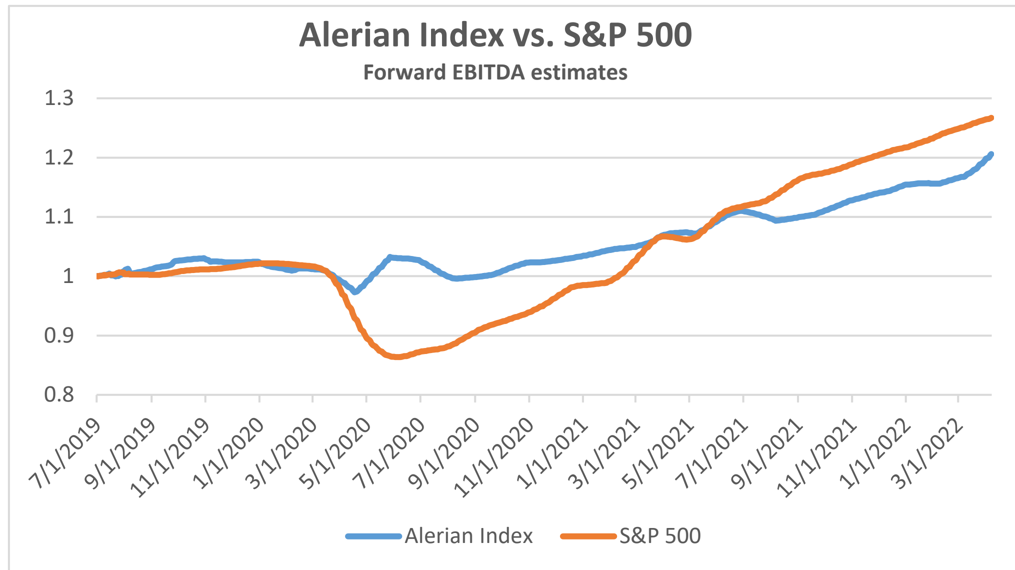
In the first quarter of 2022, MLP returns are a continuation of the historic two-year "bull" market, whereby the MLP Index total returns have advanced 177%. NBW Capital MLPs have outperformed over this period. Over this same period, the bond market, as represented by the Bloomberg Barclays U.S. Aggregate Bond Index, has suffered a negative total return of 3.5%. Inflationary pressures have caused interest rates to rise and bond prices to fall. We will discuss the interplay between inflation, FED (Federal Reserve Board) monetary policy and MLP performance later in this IR&O.

The MLP Index generated a total return of 0.55 during the fourth quarter of 2021. As we said then, "we are hopeful this pause in performance ended with December's solid monthly return." The first quarter of 2022 results validated this hope. We continue to have a very favorable view towards future MLP returns, yet also know the pace of 2022 first quarter returns is unlikely to be sustained.

An interesting fact about first quarter 2022 is that most of the returns occurred before the outbreak of the Ukraine invasion by Russia. Much has been written about the conflict's impact on the global energy supply, and we will weigh in with more on that impact later in this IR&O. The point to be made now is that the global energy supply-demand balance was already "tight" before the invasion and the war has exacerbated the situation. Crude oil prices ("WTI") and domestic natural gas prices as of April 1, 2022 were $100 per barrel and $5.60 per MCF, respectively. Crude oil is up 33% so far in 2022 and 63% over the last twelve months, and natural gas prices have climbed 51% and 114% over the same time periods. Inventories are low, demand is growing and the war has constrained global supplies. These elements all point to higher energy prices and short of an economic recession, there is unlikely to be any near term price relief for energy consumers.

Why does the price of energy matter to MLPs? After all, their fee for service, long-term, contracted revenue models have minimal direct commodity risk. The two-fold answer is that higher prices signal an undersupplied market in need of more volume and MLP revenues are partially volume driven. Fees are charged on volumes that are transported, processed, stored and exported. The second point is that high commodity prices strengthen a subset of MLP customers, the oil and gas producers. Healthy customers produce more energy and engage MLPs for more services. Below is a chart comparing MLP cash flow (i.e. EBITDA) in blue to that of the S&P 500. The above discussion is borne out by the graph. Over time, MLP

cash flows grow steadily and with very little cyclicality. Notice how well these cash flows held up during the steep COVID related economic downturn.



Source: Bloomberg

Before the Ukraine hostilities, the world faced a shortage environment for conventional energy that was likely to become very evident in 2023. The Russian invasion has accelerated the timing. With Russia supplying 40% of the European Union's natural gas needs, energy security has become a paramount concern to the European Union nations. A major alternative to Russian gas will be U.S. natural gas, which is plentiful; however in the short-term land locked. U.S. gas is transformed into liquefied natural gas ("LNG") through a process called liquefaction. Facilities to perform this process are expensive and time consuming to build; typically requiring four years to complete. Due to the cost and construction time, new facilities are usually built under contracted offtake agreements with the future customer. As such, very little LNG capacity exists to meet the new European demand. We can only conclude that global energy price pressures, and especially natural gas price pressure, will be with us for quite some time.

Besides energy inflation pressure, another serious source of inflation is food. Ukraine is a large global supplier of grain. The conflict has put additional and significant upside price pressure on wheat and other grain commodities. As a result of these inflation pressures, we are in the early stages of a FED tightening cycle with a series of FED rate increases looming on the horizon. It's a classic monetary response to unacceptable levels of inflation. The latest monthly U.S. consumer price report showed a year over year gain in consumer prices of over 7.5%, a level not experienced in over 40 years. This data was for February, before Russia invaded Ukraine.

The Biden Administration has recently announced a coordinated release of oil from a number of countries' strategic petroleum reserves. It amounts to a release of one million barrels per day over 180 days and equates to about one percent of daily global demand. We welcome this and hope it will prevent prices from climbing so high as to destroy demand. Spot oil prices, which impact the gasoline pump price, declined approximately 10% on this announcement. Longer dated oil prices (i.e. those that drive investment decisions by oil producers) barely budged at approximately $80 per barrel.

MLPs are well positioned for the current global environment. Almost forgotten by investors due to years of low inflation are the inflation adjustments built into most MLP contracts. This feature actually originated with energy regulators as a safeguard against pipeline price gouging. In the early 2000s, two key attributes attracted investors to MLPs; stable dividend yields with built in price escalators. A substantial portion of the FERC ("Federal Energy Regulatory Commission")

regulated interstate pipeline system sets its tariffs based upon the PPI ("producer price index"). Last month, FERC set pricing for the next five years at PPI less 0.21%. The PPI index used by FERC in 2022 was the 13.6% level of last year.

The seeds of global energy supply constraints stem from seven years of global energy underinvestment. Global energy capital investment declined from a $4.7 trillion annual level to only $0.8 trillion last year. It's understandable in light of the poor returns generated by the investments and the revolt by investors demanding less growth and more return of capital. Then too, climate change, political activism and more stringent regulatory regimes have discouraged projects with multi decade time horizons. The Ukraine invasion has sparked a 180 degree change in this political mindset. Energy scarcity, affordable energy and energy security have become equally important. Europe and the world need "all" sources of energy.

Energy capital expenditures are going to significantly expand. Energy prices have risen and should continue to rise. This will create sufficient returns on investment to incentivize new capital deployment. The U.S. is flush with natural gas, but as mentioned, logistics will slow the ramp in exports. The U.S. also has a large oil resource. We produce about 11.7 million barrels per day, which is below the pre-COVID peak of 13.0 million barrels per day. Production should rise by 800,000 barrels per day in both 2022 and 2023. With over 90% utilization of existing drilling capacity at work, there are constraints to additional growth. Hiring and training new crews and building equipment will take time. Shortages of pipe is a current issue for natural gas pipelines. While MLP midstream capacity is adequate, we do expect existing capacity for gas to be fully utilized next year and for oil in the 2024/2025 time frame. Not widely appreciated is that the midstream industry derives only 21% of its cash flow from oil and 67% from natural gas and natural gas liquids. Gas will likely become an even more dominant part of the mix in future years.

OUTLOOK

We remain constructive in our outlook for MLPs. Our investment thesis remains solidly intact. Good progress is being made in the industry's capital discipline as the group continues to delever and strengthen balance sheets. Dividend growth, share buybacks, and self-funded capital expenditures have been widely embraced by management teams across the industry. Three year annual expected dividend growth expectations have quietly been raised by leading Wall Street analysts to just under 4% per annum versus a no growth expectation two years ago. Balance sheet deleveraging is largely complete as EBITDA growth and debt repayments have reduced debt to EBITDA ratio to 3.8x for the industry as a whole. Finally, distribution coverage by cash flow is a whopping 2.0x. Up until five years ago, the standard for good quality dividend coverage was 1.25x. Dividends have never been this well protected by cash flow.

Today, midstream companies trade at EV to EBITDA[1] ratios of 8.5x for MLPs and 11.3x for "C Corp" MLPs. This compares to ten year averages of 12.5x for MLPs, and 12.9x for "C Corp" MLPs. We believe the group is undervalued based on our future total return expectations, which are a combination of dividend yield, growth and valuation expansion, as appropriate. Suffice to say that given the level and trend of interest rates, and returns from other investments, MLPs compare very favorably on both an absolute and relative valuation basis.

[1] EV to EBITDA is enterprise value to earnings before interest, taxes, depreciation and amortization. Enterprise value is the sum of equity and debt. EBITDA is based on Wells Fargo 2022 estimates.