



January MLP Market Update & News

Private equity continues to buy midstream, Energy Transfer acquisition of SemGroup closes

MLP Market Overview

Midstream MLPs, as measured by the Alerian MLP Index (AMZ), ended December up 8.5% on a price basis and total return basis. The AMZ results outperformed the S&P 500 Index's 3.0% total return for the month. The best performing midstream subsector for December was the Gathering and Processing group, while the Propane subsector underperformed, on average.

For the year, the AMZ was down 2.0% on a price basis, resulting in a 6.3% total return gain once distributions are considered. This compares to the S&P 500 Index's 28.9% and 31.5% price and total returns, respectively. The Compression group produced the best average total return for 2019, while the Gathering and Processing subsector was the weakest.

MLP yield spreads, as measured by the AMZ yield relative to the 10-Year U.S. Treasury Bond, narrowed by 101 basis points (bps) over the month, exiting the period at 726 bps. This compares to the trailing five-year average spread of 556 bps and the average spread since 2000 of approximately 383 bps. The AMZ indicated distribution yield at month-end was 9.2%.

Midstream MLPs and affiliates raised no new marketed equity (common or preferred, excluding at-the-market programs) and \$0.5 billion of marketed debt during the month. MLPs and affiliates announced no asset acquisitions over the month.

Spot West Texas Intermediate (WTI) crude oil exited the month at \$61.06 per barrel, up 10.7% over the period and 34.5% higher year-over-year. Spot natural gas prices ended December at \$2.09 per million British thermal units (MMbtu), down 15.0% over the month and 34.4% lower than December 2018. Natural gas liquids (NGL) pricing at Mont Belvieu exited the month at \$20.76 per barrel, 13.0% lower than the end of November and 13.8% lower than the year-ago period.

News

Private Equity Keeps Buying Midstream. Tallgrass Energy (NYSE: TGE) and Blackstone reached a formal agreement for Blackstone to acquire the remaining portion of TGE that it did not already own, taking the company private at \$22.45/unit, a 15% premium to the initial offer and a 22.75% premium to the closing price the day before the announcement. Additionally, private equity firms KKR and AIMCo announced the acquisition of 65% of the Coastal GasLink Pipeline Project from TC Energy (NYSE: TRP) in exchange for reimbursement of a proportionate share of project costs already incurred as well as additional payments through remainder of the project's construction and operation.

Antero Buys Shares from Antero. Antero Midstream (NYSE: AM) announced an arrangement with its producer affiliate, Antero Resources (NYSE: AR), in which AM repurchased and retired \$100MM of AM shares that were held by AR, an arrangement that is expected to reduce AM's dividend burden in 2020 by close to \$25MM. Additionally, AM and AR entered into an incentive program whereby AM will provide AR rebates of certain midstream fees provided specified volume growth targets are achieved through 2023. And finally, AM announced a reduced 2020 capital expenditure budget of \$300 million from \$325 million, benefiting from a more efficient drilling plan at AR.

Energy Transfer Closes SemGroup Acquisition. Energy Transfer (NYSE: ET) closed the previously acquisition of SemGroup (NYSE: SEMG) for total consideration, including the assumption of debt, of approximately \$5 billion. The acquisition is expected to significantly strengthen ET's crude oil transportation, terminalling, and export capabilities with the addition of the Houston Fuel Oil Terminal (HFOTCO), a crude oil terminal on the Houston Ship Channel with

Portfolio Managers

Stuart Cartner
(Since 3/10)

Brian Watson, CFA
(Since 3/10)

Funds Under Management

Invesco Oppenheimer SteelPath
MLP Alpha
Invesco Oppenheimer SteelPath
MLP Income
Invesco Oppenheimer SteelPath
MLP Select 40
Invesco Oppenheimer SteelPath
MLP Alpha Plus

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18.2 million barrels of crude oil storage capacity, five deep-water ship docks, and seven barge docks. HFOTCO is supported by stable take-or-pay cash flows from diverse, primarily investment grade customers. To enhance this optionality, ET also announced plans to construct a new crude oil pipeline, the Ted Collins Pipeline, to connect HFOTCO to Energy Transfer's Nederland Terminal. This acquisition also expands ET's crude oil and NGL infrastructure by adding crude oil gathering assets in the DJ Basin in Colorado and the Anadarko Basin in Oklahoma and Kansas, as well as crude oil and natural gas liquids pipelines connecting the DJ Basin and Anadarko Basin with crude oil terminals in Cushing, Oklahoma.

Chart of the Month

Over the last year, midstream management insiders invested approximately \$283 million to acquire additional equity stakes in their companies. As midstream public market prices continued declining during the fourth quarter of 2019, insider buying accelerated with insiders purchasing approximately \$133 million of company stock over the last three months of the year, or 47% of the total monies invested over the year. Insider buying is often interpreted by investors as a meaningfully positive signal as management insiders have the best views and insights into that company's business and financial prospects.

Exhibit 1: Midstream insider buying (\$MM)

| | 1 Year | 3 Month |
|--------------|----------------|----------------|
| KMI | \$157.9 | \$29.2 |
| EPD | 52.3 | 51.9 |
| ET | 46.7 | 46.6 |
| ETRN | 9.2 | 0.1 |
| WES | 3.5 | 1.5 |
| MPLX | 3.2 | - |
| PAGP | 2.4 | 2.4 |
| TRGP | 2.0 | - |
| WMB | 1.5 | - |
| ENLC | 1.5 | 0.0 |
| PSXP | 0.6 | - |
| ALTM | 0.6 | 0.1 |
| LNG | 0.5 | 0.5 |
| OKE | 0.5 | 0.5 |
| MMP | 0.3 | - |
| DCP | 0.1 | - |
| BKEP | 0.1 | 0.1 |
| SHLX | 0.1 | - |
| Total | \$282.9 | \$132.8 |

DISCLOSURES

Source: Bloomberg LP, for all historical data.

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The Alerian MLP Index is a float-adjusted, capitalization-weighted index measuring master limited partnerships, whose constituents represent approximately 85% of total float-adjusted market capitalization. The S&P 500 Index is a broad-based measure of domestic stock market performance. Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Past performance does not guarantee future results.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. Each fund's investments are concentrated in the energy infrastructure industry with an emphasis on securities issued by MLPs, which may increase volatility. Energy infrastructure companies are subject to risks specific to the industry such as fluctuations in commodity prices, reduced volumes of natural gas or other energy commodities, environmental hazards, changes in the macroeconomic or the regulatory environment or extreme weather. MLPs may trade less frequently than larger companies due to their smaller capitalizations which may result in erratic price movement or difficulty in buying or selling. Additional management fees and other expenses are associated with investing in MLP funds. Diversification does not guarantee profit or protect against loss.

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