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October MLP Market Update & News

Energy Transfer makes an acquisition and a look at MLPs' performance relative to other asset classes

Portfolio Managers
Stuart Cartner
(Since 3/10)

Brian Watson, CFA
(Since 3/10)

Funds Under Management
SteelPath MLP Alpha
SteelPath MLP Income
SteelPath MLP Select 40
SteelPath MLP Alpha Plus

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MLP Market Overview

Midstream master limited partnerships (MLPs), as measured by the Alerian MLP Index (AMZ), ended September up 0.7% on a price basis and once distributions are considered. The AMZ results underperformed the S&P 500 Index's 1.9% total return for the month. The best-performing midstream subsector for September was the Propane group, while the Gathering and Processing subsector underperformed, on average.

For the year through September, the AMZ is up 4.6% on a price basis, resulting in a 10.9% total return. This compares to the S&P 500 Index's 18.7% and 20.6% price gain and total return, respectively. The Propane group has produced the best average total return year-to-date, while the Gathering and Processing subsector has lagged.

MLP yield spreads, as measured by the AMZ yield relative to the 10-Year U.S. Treasury Bond, narrowed by eight basis points (bps) over the month, exiting the period at 698 bps. This compares to the trailing five-year average spread of 535 bps and the average spread since 2000 of approximately 378 bps. The AMZ indicated distribution yield at month-end was 8.7%.

Midstream MLPs and affiliates raised no new marketed equity (common or preferred, excluding at-the-market programs) but did issue $5.5 billion of marketed debt over the month. MLPs and affiliates announced $5.6 billion of new asset acquisitions in September.

Spot West Texas Intermediate (WTI) crude oil exited the month at $54.07 per barrel, down 1.9% over the period and 26.2% lower year-over-year. Spot natural gas prices ended September at $2.37 per million British thermal units (MMbtu), up 1.3% over the month and 21.5% lower than September 2018. Natural gas liquids (NGL) pricing at Mont Belvieu exited the month at $19.77 per barrel, 10.2% higher than the end of August and 53.3% lower than the year-ago period.

News

Energy Transfer to Acquire SemGroup. Energy Transfer (NYSE: ET) announced the 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 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 that connect the DJ Basin and Anadarko Basin with crude oil terminals in Cushing, Oklahoma.

Enterprise Moving Forward with PDH 2. Enterprise Products Partners (NYSE: EPD) announced plans to build its second propane dehydrogenation (PDH) plant, with capacity to consume up to 35,000 barrels per day (BPD) of propane and produce up to 1.65 billion pounds per year of polymer grade propylene (PGP). PDH 2 will be located at Enterprise's complex in the Mont Belvieu, Texas area. The facility is scheduled to begin service in the first half of 2023. The project is supported by long-term contracts with LyondellBasell Industries (NYSE: LYB), one of the largest plastics, chemicals, and refining companies in the world.

Several LNG Contracts Signed. Multiple significant liquified natural gas (LNG) deals were announced during September:

- Tellurian (NYSE: TELL) and Petronet LNG Limited INDIA announced an agreement wherein Petronet intends to negotiate the purchase of up to 5 million tonnes per annum of LNG from Driftwood, concurrent with Petronet's previously announced equity investment in the Driftwood facility.

- Reuters reported that BP has signed a 15-year LNG supply deal with South Korea's state-run natural gas company, Korea Gas Corporation (KOGAS). Under the deal, BP will supply 1.58 million tons of LNG per annum, beginning in 2025, from either the Freeport LNG terminal located in Texas or the proposed Venture Global LNG Calcasieu Pass terminal in Louisiana.
- Cheniere Energy (NYSE: LNG) entered into long-term gas supply agreements with EOG Resources (NYSE: EOG) in which EOG agreed to sell natural gas to Cheniere over a period of approximately 15 years beginning in early 2020, with the quantity starting at 140,000 MMBtu per day and increasing to 440,000 MMBtu per day. The LNG associated with 140,000 MMBtu per day of this gas supply, or approximately 0.85 million tonnes per annum will be owned and marketed by Cheniere and EOG will receive a price based on the Platts Japan Korea Marker (JKM) for this gas. The remaining 300,000 MMBtu per day will be sold by EOG to Cheniere at a price indexed to Henry Hub.

Chart of the Month

While energy infrastructure equity pricing remains depressed, the broad equity markets are near all-time highs, as are other yield-oriented equity sectors such as REITs and Utilities. Accordingly, valuations of general equities, REITs, and Utilities are presently meaningfully higher than recent and long-term average valuations, while midstream equities continue to look cheap relative to history.

Exhibit 1: Midstream EV/EBITDA multiples compared to REITS, Utilities, Energy stocks and the S&P 500

EV-to-EBITDA multiples		Current	5 Year average	Premium (Discount)	10 Year average	Premium (Discount)
Midstream	MLPs	8.9x	12.2x	(27%)	12.5x	(29%)
	Midstream C-corps	10.0x	14.8x	(32%)	13.3x	(24%)
Energy	Exploration and Production	4.7x	6.8x	(31%)	5.9x	(20%)
	Refiners	5.1x	5.7x	(11%)	5.3x	(4%)
	Integrated Exploration and Production	5.2x	6.3x	(17%)	5.2x	0%
	Oilfield Services	5.6x	10.5x	(47%)	8.4x	(33%)
Yield	Utilities	11.6x	10.2x	14%	9.3x	25%
	REITS	17.3x	18.2x	(5%)	17.0x	2%
Market	S&P 500	11.6x	10.4x	11%	9.0x	28%

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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