SteelPath MLP Market Update & News

June 2024

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

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Midstream equities underperformed the S&P 500 Index over the month of May as first quarter earnings season wrapped-up and merger and acquisition (M&A) activity surged. Midstream companies continued to benefit from robust demand growth for natural gas liquids, the often overlooked, but key demand driver, for U.S. hydrocarbons.

MLP market overview

Midstream MLPs, as measured by the Alerian MLP Index (AMZ), ended May down 0.8% on a price basis and up 0.1% after distributions are considered. The AMZ underperformed the S&P 500 Index's 5.0% total return for the month. The best performing midstream subsector for May was the Marine group, while the Petroleum Pipeline subsector underperformed, on average.

For the year through May, the AMZ is up 8.7% on a price basis, resulting in a 12.6% total return. This compares to the S&P 500 Index's 10.6% and 11.3% price and total returns, respectively. The Propane group has produced the best average total return year-to-date, while the Other subsector has lagged.

MLP yield spreads, as measured by the AMZ yield relative to the 10-Year U.S. Treasury Bond, widened by three basis points (bps) over the month, exiting the period at 288 bps. This compares to the trailing five-year average spread of 649 bps and the average spread since 2000 of approximately 441 bps. The AMZ's distribution yield at month-end was 7.38%.

West Texas Intermediate (WTI) crude oil exited the month at $76.99 per barrel, down 6.0% over the period and up 13.1% higher year-over-year. Natural gas prices ended May at $2.59 per million British thermal units (MMbtu), up 29.9% over the month and 14.2% higher than May 2023. Natural gas liquids (NGL) priced at Mont Belvieu exited the month at $27.88 per barrel, 6.4% lower than the end of April and 21.8% higher than the year-ago period.

News

First quarter earnings season concludes. First quarter reporting season wound down in May. Through month-end, 32 midstream entities had announced distributions for the quarter, including 15 distribution increases, one reduction (by an operator with a variable distribution policy), and 16 distributions that were unchanged from the previous quarter. Through the end of May, 33 sector participants had reported first quarter financial results. Operating performance was, on average, better than expectations with EBITDA, or Earnings Before Interest, Taxes, Depreciation and Amortization, coming in 3.0% higher than consensus estimates and 2.5% higher than the preceding quarter.

M&A activity takes center stage. Several deals were announced in May. Energy Transfer, LP (NYSE: ET) announced the acquisition of WTG Midstream (private) for $3.3 billion. Additionally, Kinetik Holdings, Inc. (NYSE: KNTK) announced the acquisition of Durango Permian, LLC (private) for an aggregate $765 million. KNTK also announced the sale of its 16% interest in the Gulf Coast Express Pipeline for $540 million. ONEOK, Inc. (NYSE: OKE) announced the acquisition of a system of natural gas liquids (NGL) pipelines from Easton Energy for approximately $280 million. Antero Midstream (NYSE: AM) acquired gathering and compression assets in the Marcellus Shale from Summit Midstream Partners, LP (NYSE: SMLP) for $70 million. And finally, OKE and Plains All American Pipeline, LP (NYSE: PAA) announced the acquisition of additional interests in the Saddlehorn Pipeline from Western Midstream (NYSE: WES) for approximately $180 million and, concurrently, PAA announced the $20 million acquisition of a crude terminal near Cushing, OK.

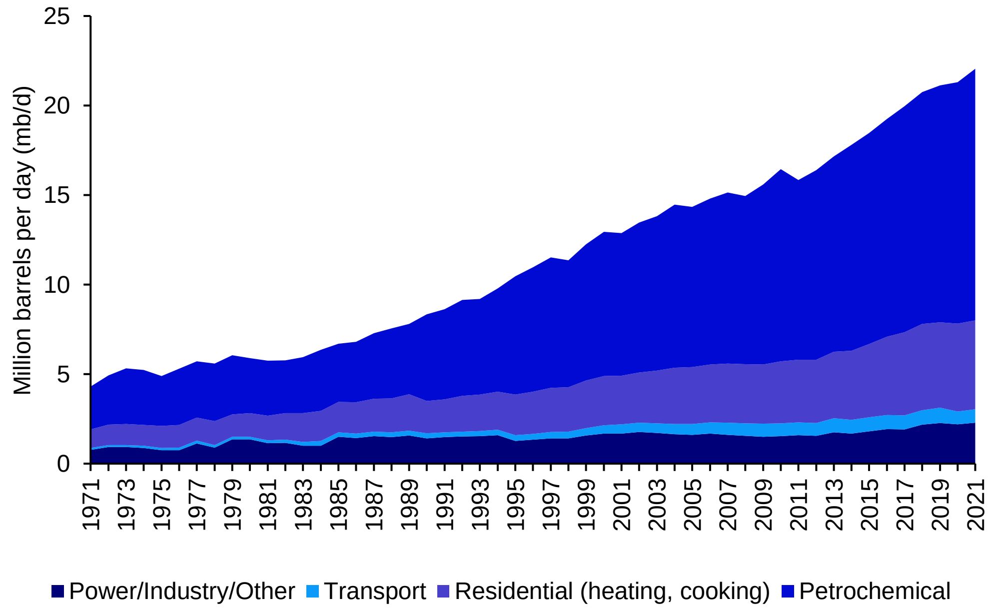
<u>Chart of the Month: Natural gas liquids, often overlooked, but key demand driver of U.S. hydrocarbons</u>

Natural gas liquids, or "NGLs", are those other hydrocarbons that are produced coincident with the production of crude oil and natural gas such as ethane, propane, butane, isobutane, and natural gasoline. NGLs that are produced with natural gas are extracted through processing and must then be further separated through fractionation and then transported to refineries, chemical manufacturers, and other consumers of NGLs. Demand, and thus production, of NGLs has been increasing. As recently noted by Goldman Sachs:

> *"…the significant increase in light US shale oil and gas supply over the last 15 years has caused NGL supply to grow far faster than crude oil supply over this period, leading to an abundance of light hydrocarbon supply, and lower relative prices. Fortunately, the fastest growing component of oil demand is also the key consumer of these lighter molecules, turning ethane, LPGs, and naphtha into the petrochemical building blocks of ethylene and propylene (olefin monomers). This has led to burgeoning international trade flows and maturing markets in terms of price transparency, liquidity, and global connectivity."*[1]

Midstream companies are the primary providers of transportation, processing, fractionation, and storage of NGLs produced in the U.S. and are key facilitators in the export and shipping of NGLs, often to growing demand centers in Asia.

NGL demand by end use



Source: "Natural Gas Liquids: A Primer On Oil's Burgeoning Barrel", Goldman Sachs Global Investment Research, June 3, 2024. Reproduced with permission from Goldman Sachs.

Important information

1. “Natural Gas Liquids: A Primer On Oil's Burgeoning Barrel”, Goldman Sachs Global Investment Research, June 3, 2024.

All data sourced from Bloomberg L.P. as of 5/31/2024 unless otherwise stated.

This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions.

The opinions referenced above are those of the author as of June 5, 2024. These comments should not be construed as recommendations, but as an illustration of broader themes. Forward-looking statements are not guarantees of future results. They involve risks, uncertainties and assumptions; there can be no assurance that actual results will not differ materially from expectations. The opinions are based on current market conditions and are subject to change. They may differ from these of other Invesco investment professionals.

Midstream companies are engaged in the transportation, storage, processing, refining, marketing, exploration, and production of natural gas, natural gas liquids, crude oil, refined products or other hydrocarbons.

Propane companies specialize in transporting and delivering propane to customers.
Marine companies are dedicated to marine transportation of oil and natural gas.
Petroleum pipeline companies focus on transporting petroleum products through a system of pipelines.
Other midstream companies include companies that do not fit into the core midstream subsector categories (natural gas transportation, petroleum transportation, gathering and processing etc) and include, but are not limited to, companies that focus on compression and shipping.

The mention of specific companies, industries, sectors, or issuers does not constitute a recommendation by Invesco Distributors, Inc.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 2.19%, 2.14%, 0.40% and 0.45% position respectively in Kinetik Holdings.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 13.31%, 13.28%, 13.68% and 7.41% position respectively in Energy Transfer LP.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 6.22%, 6.08%, 0.00% and 4.55% position respectively in ONEOK Inc.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 0.00%, 0.00%, 7.76% and 4.74% position respectively in Antero Midstream.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 0.00%, 0.00%, 0.51% and 0.29% position respectively in Summit Midstream Partners.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 6.55%, 6.53%, 8.90% and 4.95% position respectively in Plains All American Partners.

As of 3/31/2024, Invesco SteelPath MLP Alpha Fund, Invesco SteelPath MLP Alpha Plus Fund, Invesco SteelPath MLP Income Fund and Invesco SteelPath MLP Select 40 Fund had a 11.88%, 11.85%, 13.81% and 5.37% position respectively in Western Midstream Partners.

Holdings are subject to change and are not buy/sell recommendations.

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. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. An investment cannot be made into an index. Past performance does not guarantee future results.

A yield spread is the difference between yields on differing debt instruments of varying maturities, credit ratings, issuer, or risk level, calculated by deducting the yield of one instrument from the other.

A basis point is one hundredth of a percentage point.

Most MLPs operate in the energy sector and are subject to the risks generally applicable to companies in that sector, including commodity pricing risk, supply and demand risk, depletion risk and exploration risk. MLPs are also subject the risk that regulatory or legislative changes could eliminate the tax benefits enjoyed by MLPs which could have a negative impact on the after-tax income available for distribution by the MLPs and/or the value of the portfolio’s investments. Although the characteristics of MLPs closely resemble a traditional limited partnership, a major difference is that MLPs may trade on a public exchange or in the over-the-counter market. Although this provides a certain amount of liquidity, MLP interests may be less liquid and subject to more abrupt or erratic price movements than conventional publicly traded securities. The risks of investing in an MLP are similar to those of investing in a partnership and include more flexible governance structures, which could result in less protection for investors than investments in a corporation. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns.

Energy infrastructure MLPs are subject to a variety of industry specific risk factors that may adversely affect their business or operations, including those due to commodity production, volumes, commodity prices, weather conditions, terrorist attacks, etc. They are also subject to significant federal, state and local government regulation.

Before investing, investors should carefully read the prospectus and/or summary prospectus and carefully consider the investment objectives, risks, charges and expenses. For this and more complete information about the fund(s), investors should ask their financial professionals for a prospectus/summary prospectus or visit invesco.com.