Midstream energy infrastructure during periods of inflation and rising rates

While the current inflationary environment may cloud the outlook for many industries, we do not believe inflation threatens the positive outlook that energy infrastructure companies are projecting. In fact, we believe the heightened inflationary environment may serve as a secular tailwind for the midstream sector.

Historically, midstream equities have outperformed other yielding equity sectors during periods of rising interest rates.

Over the past fifteen years, there have now been six periods in which interest rates have increased by at least 100 basis points (bps). Midstream companies have historically performed well during these periods.

Period	10 Year yield	AMZ	Utilities[2]	REITs[3]
Dec 2008 – June 2009	+190 bps	28.5%	-5.3%	-3.4%
Oct 2010 – Feb 2011	+134 bps	7.5%	3.0%	8.2%
July 2012 – Sept 2013	+154 bps	10.3%	-2.4%	-2.2%
July 2016 – Dec 2016	+123 bps	-3.3%	-8.3%	-8.6%
Sept 2017 – Oct 2018	+118 bps	-0.5%	-1.4%	-5.1%
Aug 2020 – Mar 2021	+122 bps	26.5%	5.7%	15.2%

We find that over long-term periods, midstream equities, specifically MLPs, have not demonstrated meaningful correlation to interest-rate changes.

Midstream assets can benefit from regulatory or contractual mechanisms that may provide an offset to inflation.

Inflation protection is commonplace in the energy infrastructure sector where nearly all projects are underwritten with long-term contracts. In March 2022, Wells Fargo Securities estimated that 60% of midstream EBITDA, or earnings before interest, taxes, depreciation, and amortization, is exposed to inflation escalators, which may be the lower boundary.

Interstate liquids pipelines	Pipelines regulated by FERC[4], adhere to an indexed rate which is adjusted annually based on the prior year's average Producer Price Index for Finished Goods (PPI-FG) plus or minus an adjustor.
Interstate natural gas pipelines	Pipelines regulated by The Natural Gas Act operate under the requirement that rates charged for services be "just and reasonable". Similarly, operators are allowed to earn a pre-determined reasonable rate of return on their investment of around 10% and can raise fees over time if needed.
Gathering and processing pipelines	These contracts are typically for the life of the producing asset and therefore can last for decades. It's common in such long duration contracts, to incorporate inflation protection either at a fixed annual percentage or pegged to an inflation measure, such as the Consumer Price Index (CPI).
Intrastate pipelines	Similar to gathering and processing contracts, these contracts also typically pass along fuel costs to customers and have annual escalators tied to either a fixed rate or pegged to an inflation measure like CPI or PPI.

1. Source: Bloomberg, United States Treasury and Invesco SteelPath as of 12/31/2021. 2. Utilities are represented by the Dow Jones Utilities Index which keeps track of the performance of 15 prominent utility companies. 3. Real Estate Investment Trusts (REITs) are represented by the FTSE Nareit Equity REITS Index and are securities that sell like a stock on the major exchanges. 4. Federal Energy Regulatory Commission as of March 2022. An investment cannot be made into an index. Past performance does not guarantee future results.

The Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.
The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

SteelPath mutual fund product suite

Quick Facts

The United States is now the top producer of oil and natural gas.[1] As production volumes continue to increase, midstream energy infrastructure can continue to be vital for transporting, processing, and storing these commodities. We believe many midstream master limited partnerships (MLPs) are undervalued and may continue to be strong investment options for the next decade. SteelPath offers a myriad of product structures to meet investors' investment objectives, risk level, sophistication, and preferred tax experience.

Fund	Overview	Structure	# of Holdings	Product Details and Suitability	Taxation	Portfolio Managers
Invesco SteelPath MLP Select 40 Fund	Seeks to invest in a diversified portfolio of growth and income-oriented MLP investments	Open-end c-corp mutual fund	Minimum 40	SteelPath MLP Select 40 Fund is best suited for clients seeking broad exposure to the midstream MLP sector. This fund is the most diversified and has the lowest volatility of our product offerings. Select 40 may be a suitable alternative to any midstream energy ETF.	Form 1099	Stuart Cartner Brian Watson, CFA
Invesco SteelPath MLP Income Fund	Seeks to invest in higher yielding MLP investments	Open-end c-corp mutual fund	35-45	SteelPath MLP Income Fund is best suited for clients seeking to maximize monthly income. To attain high distribution rates, the fund invests primarily in small- to mid-cap names and tends to overweight the gathering and processing and petroleum transportation sub-sectors.	Form 1099	Stuart Cartner Brian Watson, CFA
Invesco SteelPath MLP Alpha Fund	Seeks to invest in MLP investments with the best total return potential	Open-end c-corp mutual fund	20-25	SteelPath MLP Alpha Fund invests in MLP investments with the best potential for long-term distribution growth. This fund invests in companies with healthy balance sheets, high distribution coverage, strategically located asset base, and strong management teams. These companies tend to be the larger-cap MLP names focusing on petroleum transportation and natural gas pipelines.	Form 1099	Stuart Cartner Brian Watson, CFA
Invesco SteelPath MLP Alpha Plus Fund	Seeks total return with strategic leverage of ~25%	Open-end c-corp mutual fund	20-25	SteelPath MLP Alpha Plus's portfolio is very similar to SteelPath MLP Alpha Fund but utilizes approximately 25% of strategic leverage, monitored on a daily basis. Because of this leverage, SteelPath MLP Alpha Plus is best suited for clients comfortable with a little more downside risk but over the long term may see higher returns. The leverage used also may help offset variances between the portfolio and fund-level return due to deferred tax accrual.	Form 1099	Stuart Cartner Brian Watson, CFA

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.

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 to 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.

Derivatives may be more volatile and less liquid than traditional investments and are subject to market, interest rate, credit, leverage, counterparty and management risks. An investment in a derivative could lose more than the cash amount invested.

Stock and other equity securities values fluctuate in response to activities specific to the company as well as general market, economic and political conditions. 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. The fund is considered non-diversified and may experience greater volatility than a more diversified investment.

The fund may use leverage to seek to enhance income, which creates the likelihood of greater volatility of the fund's shares and may also impair the ability to maintain its qualification for federal income tax purposes as a regulated investment company.

The funds are subject to certain other risks. Please see the current prospectus for more information regarding the risks associated with an investment in the fund.

The opinions expressed are those of SteelPath, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals. Invesco does not provide legal or tax advice.

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 professional(s) for a prospectus/summary prospectus or visit invesco.com/fundprospectus.