MLPs AND THE ELEPHANTS IN THE ROOM

Rapid consolidation, capacity constraints, and increased portfolio risk.

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MLPs appear to be on the road to a sustainable recovery in 2018. With higher commodity prices, production growth returning to basins beyond the Permian, and exports reaching record levels, the fundamental outlook is very strong for operators of midstream assets.

Despite our positive view, there are elephants in the room for MLPs. The investment universe is shrinking at an alarming rate. This consolidation is creating a growing concern that large managers of MLPs may struggle to outperform because they are unable to maintain meaningful active positions without taking on unnecessary risk.

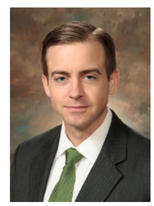
In this paper, we explore the following:

1. Capacity constraints and concentration risk that large-scale MLP managers face
2. The evolution of the MLP sector and the downsizing of the investment universe
3. Recommended investment strategies and investment manager attributes

The evolution and downsizing of the MLP sector calls into question the capacity and ability of large-scale MLP managers to construct actively-managed portfolios. Large MLP asset managers are forced to own sub-par MLPs, or multiple MLPs within the same family, at large weights simply because those MLPs have high trading volume. The result is unnecessary concentration risk and limited active share potential.

We expect to see higher utilization of existing midstream assets and development of new infrastructure to drive cash flow growth per share over the next several years. Differentiated performance within the midstream and MLP sector will continue, providing opportunities for truly active managers. The recent rally is an excellent opportunity to reduce exposure to MLP-focused strategies that offer little more than market exposure, or beta.

Investors today should view MLPs as a tax structure and the midstream energy universe as the sector. The broader midstream energy sector includes both corporations and MLPs in the U.S. and Canada. In our view, the best way to benefit from the secular growth in demand for midstream energy assets is achieved within a broader North American energy infrastructure strategy or within a global listed infrastructure strategy. CBRE Clarion is well-positioned to manage midstream exposure in this new era where MLPs no longer qualify as a standalone sector.



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FRESH CHALLENGES FACING LARGE MLP ASSET MANAGERS

Capacity in a Downsized Universe

Alpha generation potential for large asset managers within the MLP sector has been reduced meaningfully over the last 3 years, due to:

1. Exodus of MLPs from the structure into the corporate structure
2. Ongoing consolidation among MLPs that reduces opportunities for active management
3. Reduced fund flows into the sector limiting daily trading volume across MLP universe

As a result, large asset managers are forced to own certain MLPs with subpar assets, strategies, or capital structures simply because those MLPs have large floats and high daily trading volume. Large asset managers with MLP strategies inevitably own the top 10 most heavily traded MLPs in size, creating unnecessary concentration risk in addition to little potential for differentiated performance.

A $10bn MLP manager has a very limited universe from which to choose. Only 5 MLPs have the float and liquidity to build a 3%+ position over the course of 25 trading days at 20% of volume (see Exhibit 1). The implications are that MLP managers with large AUM may struggle to be active and justify their fees.

EXHIBIT 1: LIMITED NUMBER OF INVESTABLE MLPs

MLP Manager AUM (BN)	Portfolio Position Size 3.0%	2.5%	2.0%	1.5%	1.0%
$10.0	5	6	6	8	12
$7.5	6	6	8	11	15
$5.0	8	10	12	15	23

Source: FactSet and CBRE Clarion Research as of 06/30/2018. Based on average daily trading volume (ADTV) for a 90-day period.

Only 5 MLPs have the float and liquidity to build a 3%+ position over the course of 25 trading days at 20% of volume.

All in the Family Concentration Risk

Scarce liquidity leads to increased concentration risk. There are instances in the MLP sector where a single entity controls several MLPs. These MLP "families" represent concentration risk to the extent they are owned as individual positions that can add up to large exposure to a single MLP family. There are managers in the MLP sector with portfolios of 20%+ allocated to a single MLP family. This is concentration risk we recommend avoiding.

Why do managers have such elevated exposure to single families? Because the components of those families are among the most actively traded MLPs and are among the few that a large manager can allocate to and still liquidate the position if necessary.

The top 5 MLP families represent more than 50% of the dollar value traded in the MLP sector every day (see Exhibit 2). This compares with the top 5 stocks in the S&P 500 that represent approximately 13% of the daily value traded.

EXHIBIT 2: TRADING VOLUME BY MLP FAMILY

Rank	MLPs	ADTV ($)	% of Total MLP Universe
1	**Energy Transfer**		
	ETE	63,545,754	
	ETP	102,311,783	
	SUN	9,234,515	
	USA C	4,900,223	
	Total Energy Transfer	**179,992,274**	**18.7%**
2	EPD	145,719,074	15.2%
3	PAA	62,523,339	6.5%
4	MMP	63,619,537	6.6%
5	MPLX	53,798,522	5.6%
	Grand Total	**505,652,747**	**52.6%**

Source: FactSet and CBRE Clarion Research as of 06/30/2018. Based on average daily trading volume (ADTV) for a 90-day period.

EVOLUTION OF THE UNIVERSE

The Broader Midstream Universe is the Way We View the Sector

The concentration of liquid MLPs has developed due to the exodus of several larger MLPs from the investment universe. The chart below compares the October 2014 MLP universe with the universe of MLPs, U.S. Midstream and Canadian Midstream at the end of June 2018 (recognizing that the universe continues to undergo rapid change with ongoing transaction announcements). The number of companies with more than $2bn in market cap has declined from 58 in 2014 to 28 today. The total dollar value traded in MLPs has also fallen by more than 50% (see Exhibit 3).

The broader midstream universe, including Canada, is the way we view the sector. It offers midstream managers ample liquidity to actively manage at scale, targeting midstream corporations along with MLPs that have the optimal asset positioning to benefit from fundamental tailwinds while avoiding those that are poorly managed or have lower quality assets.

EXHIBIT 3: MLP vs. MIDSTREAM ENERGY UNIVERSE COMPARISON

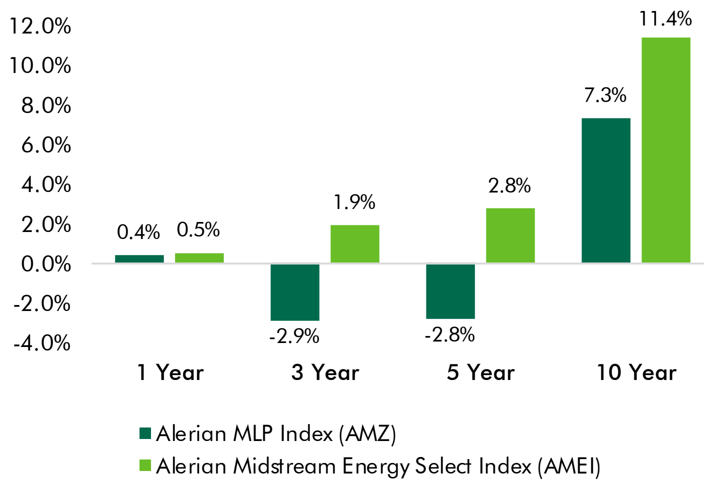
	10/31/2014	6/30/2018	
	MLPs	MLPs Only	U.S. Midstream, MLPs & Canadian Midstream
Number of MLPs/Companies	120	69	97
Number with >$2Bn Market Cap.	58	28	44
Market Capitalization (BN)	$596.4	$305.7	$614.1
Top 5 Market Capitalization	$201.1	$142.3	$251.5
Average Daily Trading Volume (MM)	$52.8	$39.2	$86.1
Average Daily Trading Value (MM)	$2,146	$961	$2,530
Top 5 ADTV (MM)	$804	$438	$1,016

Source: FactSet and CBRE Clarion Research as of 06/30/2018.

Broader Midstream Outperforms MLPs

The increase in volatility in the MLP market since 2014 has led to differentiated performance across the broader midstream universe. An index of MLPs and midstream corporations, including Canadian midstream corporations, has outperformed an index of MLPs on their own, as shown by the performance of the Alerian Midstream Energy Select Index (AMEI) vs. Alerian MLP Index (AMZ) (see Exhibit 4). The AMZ is 100% MLPs and the AMEI includes midstream corporations in both U.S. and Canada and limits MLPs to 25%.

EXHIBIT 4: MLP VS MIDSTREAM ENERGY HISTORICAL RETURNS



Source: Morningstar as of 07/31/2018.

RECOMMENDED INVESTMENT APPROACH

We believe the greatest opportunity to benefit from fundamental themes driving the midstream energy sector is through an allocation to the broader universe including midstream corporations and MLPs with assets in the U.S. and Canadian markets. Given the increased differentiation of returns within the opportunity set, we recommend an active investment approach and the selection of a manager with the capacity to construct a truly active portfolio. An allocation to a North American midstream strategy or a global listed infrastructure strategy with midstream exposure are both good ways to capture the investment opportunity.

ABOUT CBRE CLARION SECURITIES

CBRE Clarion Securities is an industry-leading global investment management firm specializing in the management of listed real asset securities including real estate, infrastructure, and master limited partnerships (MLPs). CBRE Clarion manages client portfolios with a focus on generating attractive risk-adjusted returns through a total return, income focused, and absolute return-oriented strategies. Headquartered near Philadelphia, Pennsylvania, the firm has 88 employees located in offices in the United States, United Kingdom, Hong Kong, Japan, and Australia.

The global transfer of ideas, in-depth local market research, and market intelligence distinguishes CBRE Clarion. Our team of 40 dedicated listed real asset investment professionals draws upon the research and resources of CBRE's global organization. Our global perspective and local infrastructure and real estate market insight combined with our disciplined investment approach enhance our teams' ability to underwrite risks and capitalize on potential opportunities.

CBRE Clarion Securities is the listed equity management arm of CBRE Global Investors, an industry-leading global real asset investment firm sponsoring investment programs across real estate, infrastructure, and private equity.

IMPORTANT DISCLOSURES

Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs) that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated real-time on a price-return basis (NYSE: AMZ) and on a total-return basis (NYSE: AMZX).

Alerian Midstream Energy Select Index is is a composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents are engaged in midstream activities involving energy commodities, is disseminated real-time on a price-return basis (NYSE: AMEI) and on a total-return basis (NYSE: AMEIX).

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