November 11, 2016

To Our Clients and Friends,

The unexpected Trump victory, coupled with the Republicans maintaining their majorities in the Senate and the House, has the potential to provide a boost for increased exploration for American crude oil and natural gas production. One of the focus areas of Trump's campaign was America's energy independence, including an increase in infrastructure projects and reduced regulation. These policies could create a favorable and proactive environment for both upstream energy producers as well as the midstream energy transportation companies.

The "short list" of possible appointees to the Department of the Interior and the Energy Department are mostly energy insiders. At a speech in September, Trump stated he would lift restrictions on America's "untapped energy – some $50 trillion in shale energy, oil reserves and natural gas on federal lands."[1] It seems likely that new permits for drilling and exploration will face lower regulatory hurdles, which could provide for additional domestic production and the higher utilization of midstream infrastructure.

Additionally, a cornerstone of Mr. Trump's comments on economic stimulation is a substantial increase in infrastructure spending, including *energy* infrastructure spending. In the same speech referenced above, Trump cited an estimated $33 billion in energy infrastructure projects that have been derailed by regulations, grass-roots opposition and falling energy prices.

This week's market response to the Trump victory and expectations for less regulation was reflected in the unit price increases of both Energy Transfer Partners, LP (NYSE: ETP) and Sunoco Logistics Partners LP (NYSE: SXL), each of which have been negatively impacted by the current Administration's actions to impede the completion of the Dakota Access Pipeline. Remember that ETP and its partners had already met all the existing regulatory requirements to build this pipeline. In addition, some market analysts believe that a resubmitted request to approve the Keystone XL pipeline project will happen early in the new Trump Administration's tenure, particularly if the Canadian government requests it. We expect future projects, notably interstate projects, will likely have fewer federal regulatory impediments placed before them.

We believe the combination of the election results, the solid third quarter earnings season, and the expected rebalancing of crude oil supply and demand creates a very positive environment for the midstream energy sector. Yet today, midstream companies in general remain at a discount to their long-term average valuations. Post election, we believe investment returns from the midstream asset class could be even more attractive for the foreseeable future.

In addition to midstream infrastructure, we believe other beneficiaries of President Trump's early days in the Oval Office will be energy, industrial, manufacturing and construction "Renaissance" companies. One of the major tenets of President Trump's first 100 days in office is a $1 trillion infrastructure spending plan.[2] This plan is anticipated to provide multi-year growth opportunities for domestic Renaissance companies. This expected growth would be in addition to the growth of traditional energy sector companies in the areas of exploration & production, oil services, and refining. Mr. Trump's stated longer term plan to revitalize the Rust Belt and the American manufacturing sector is an acceleration of our belief that manufacturing cost advantages are shifting back to North America. Thus, we believe that Renaissance companies stand to further benefit from the Trump Administration's focus on the energy, industrial, manufacturing and construction value chain.

We welcome the opportunity to discuss these developments in more detail with you. Please contact us with your questions and comments.

Regards,
Cushing Investment Team

[1] Source: https://www.donaldjtrump.com/press-releases/trump-outlines-plan-for-american-energy-renaissance, Pittsburgh, PA, September 22, 2016
[2] Source: https://assets.donaldjtrump.com/_landings/contract/O-TRU-102316-Contractv02.pdf

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