January 23, 2018

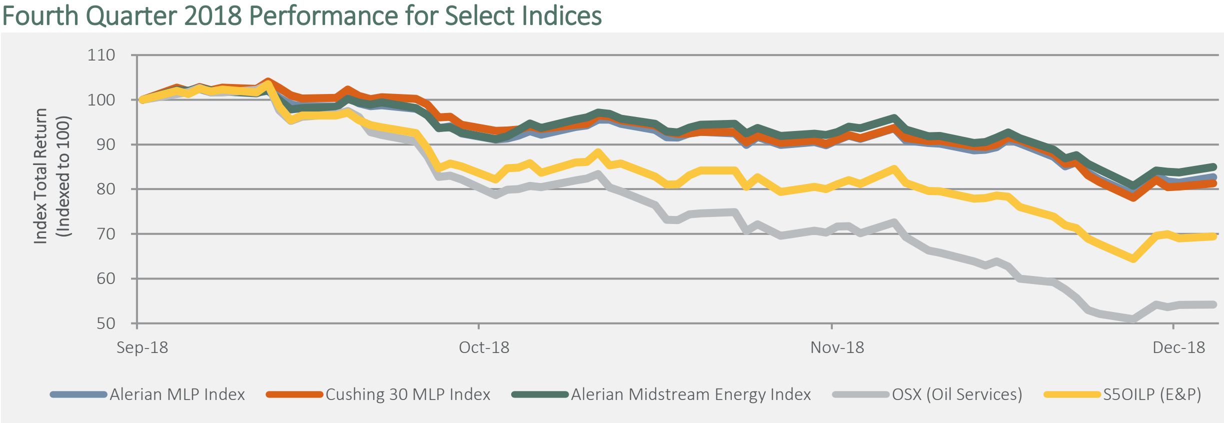
2018 Fourth Quarter Midstream Energy Market Review

Dear Investors,

Reminiscent of the great financial crisis of 2008, fourth quarter market pressure was broadly devastating with most asset classes experiencing a dramatic sell off in an extremely volatile backdrop that has not been experienced for some time. For the period, companies tracked by the market cap-weighted Alerian MLP Index (AMZ) produced a -17.3% total return, while those in the equal-weighted Cushing® 30 MLP Index (MLPX) produced a -18.7% total return. Companies tracked by the Alerian Midstream Energy Index (AMNA), which is a capitalization-weighted index inclusive of both C-Corp. and master limited partnership (MLP)-structured midstream companies, produced a -15.0% total return for the period.

One silver lining is that the midstream equity sector significantly outperformed the broader energy complex, albeit, in a severely beaten down market. For the fourth quarter, West Texas Intermediate crude oil prices decreased by -38.0%. Following the downward move in crude oil prices, the S&P 500 Oil & Gas Exploration and Production Index (S5OILP) decreased by -30.6%, while the Philadelphia Oil Service Sector Index (OSX) decreased by -45.8%.

Fourth Quarter 2018 Performance for Select Indices



Note: Represents relative total return performance from September 30, 2018 through December 31, 2018. Indexed to 100.
Source: Bloomberg. PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

Entering 2018, we were optimistic. Throughout the year, we continually highlighted the increasingly positive fundamental and structural drivers for which investors seemed to be giving little credit or simply ignoring outright. Fundamentally, we believed that the midstream sector would continue to benefit from the critical link between the rising supply of U.S. hydrocarbons (crude oil, natural gas and natural gas liquids production) and rising demand for U.S.-sourced hydrocarbons (both domestic and international demand). Further, we believed the "structural evolution" of the midstream sector would result in the fortification of the asset class

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with simplified structures, improved governance, reduced leverage, minimal equity requirements and a renewed focus on returns-based metrics. In review of the year, we believe we were fundamentally correct with our view of the industry; however, given the late-year market selloff, we were undoubtedly incorrect about midstream company equity price performance. Despite the numerous improvements throughout 2018, the midstream energy sector ended the year at valuation levels not seen since late 2008 / early 2009.[1]

Looking ahead to 2019, we believe the midstream energy sector is nearing the end of structural simplifications, shifting capital allocation and funding strategies, and dividend/distribution resets. While there may be a few outstanding transactions yet to come, management teams have spent the last two years diligently addressing these concerns and significant advancements have been made. With the structural evolution of the asset class progressing, we are hopeful that a wider group of investors (both institutional and retail) may take a renewed look at the sector. We believe they will find a simpler, healthier asset class that is supported by compelling valuations and underlying drivers that are generally strong. We think the midstream group is simply too hard to ignore given where valuations sit today.

2018: Midstream Year in Review

Following a tumultuous end to 2017, the past year began on a positive note with a strong January rally fueled by the reporting of very strong 4th quarter 2017 earnings results and constructive 2018 guidance commentary from midstream company management teams.

In March, the sector was dealt a surprise blow with an announcement by the Federal Energy Regulatory Commission ("FERC") that eliminated the income tax allowance in determining pipeline tariffs under a cost of service mechanism. While the ultimate impacts of the FERC decision would be later both clarified and reduced, regulatory headwinds continued all year. Numerous project permits were revoked and/or delayed, which led to multiple material pipeline construction interruptions and cost overruns.

In October, the entire Colorado energy sector (including both E&P and midstream) found itself in the crosshairs of proposed legislation designed to severely limit the future of drilling in Colorado's DJ Basin. Fortunately for the energy companies, this legislation (Prop 112) was not approved by voters.

Despite regulatory and political noise, the shift in the midstream company structure itself (which we have detailed countless times in our past several quarterly letters) accelerated with 20 simplification transactions announced during the year. These simplifications were of all varieties: GPs buying LPs, LPs buying GPs, C-Corp conversions, dividend/distribution cuts, and so on. While we believe these transactions were a clear positive for the space overall, we also think the numerous dividend/distribution reductions were an impediment to retail sentiment / fund flows, which likely had a negative impact on performance.

December was the worst outflow month we have ever seen on a consolidated basis for open end midstream-focused mutual funds. During the month of December, there were seven days of outflows that exceeded $100 million across all tracked midstream open-end funds. To put that statistic into perspective: since April 2010 there have only been two other days when outflows of that magnitude having been experienced.[2] We believe that the wholesale panic and general loss of confidence in the market caused excess "tax loss" selling which only added to the downward pressure in December, particularly on the midstream space.

[1] Source: Wells Fargo. "Midstream: Positive Outlook for 2019." January 4, 2019. As measured by Large -Cap EV/EBITDA multiples.

[2] Source: U.S. Capital Advisors. "USCA: December MLP Product Fund Flows Update and Charts." January 8, 2019.

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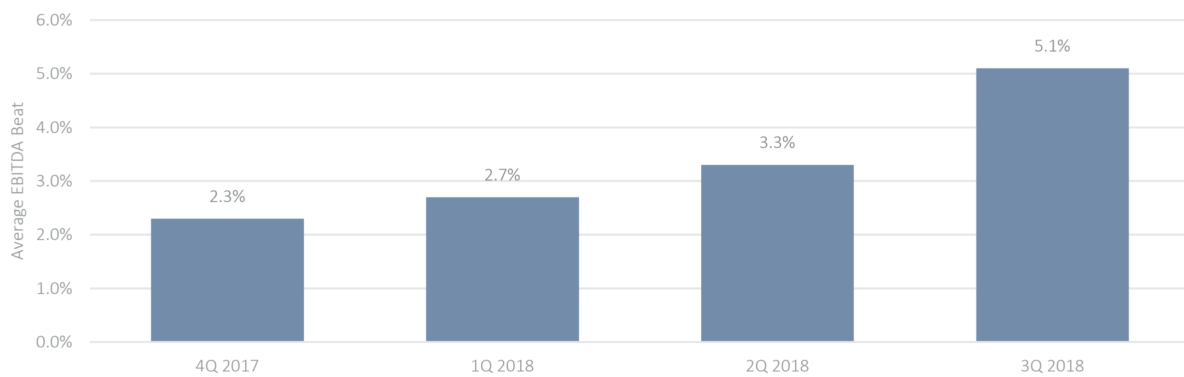
Additionally, midstream company structural simplifications caused commotion with the indices, which subsequently caused chaos for the passive flows tracking them. Approximately 17% of the AMZ Index constituents as of January 1, 2018 were no longer included in the index as of December 31, 2018. [3]

Despite the market gyrations, sector fundamentals continued to improve throughout the year. A surge in U.S. production volumes drove it to become the leading oil producer in the world, [4] locational basis differentials widened out to multi-year highs, and numerous infrastructure projects received the go-ahead.

Heading into 2018, we were optimistic that positive sector fundamentals would result in operational leverage of midstream systems, driving significant cash flow and earnings growth. We were correct on this point, and as shown below, quarterly earnings continued to beat consensus estimates by successively wider margins throughout the year.

Midstream Consensus EBITDA Beat by 2018 Quarter



Source: "Midstream & Refining: Hey Nineteen, That's Real Opportunity." Jefferies. December 20, 2018.

Exiting 2018, we believe the market is offering a significant opportunity to long-term investors. Midstream equities are approaching multi-year lows with higher earnings and a sharp contraction in valuation multiples, which now stand ~25% below longer-term averages.[5]

2019 Outlook

We find the sector extremely attractive, despite continued lackluster sentiment. Strong U.S. energy fundamentals (with growing supply and demand), simplified structures, reduced leverage, minimal equity needs and continued cash flow growth underpin this outlook. Multiple projects are reaching completion in 2019, thus improving leverage and free cash flow metrics even more. Additionally, we believe this sector is significantly better positioned compared to the last time crude oil prices collapsed in 2015/16.

The era of structural simplifications is nearing an end. According to our estimates, the sector is now ~80% IDR-free as shown in the following chart. We project that there will be no "pure-play" publicly-traded MLP GPs following the close of announced transactions. With these transactions behind us, we believe investors can focus on the fundamentals of the space and no longer be concerned with how cash flows will be split or how a simplification will be structured.

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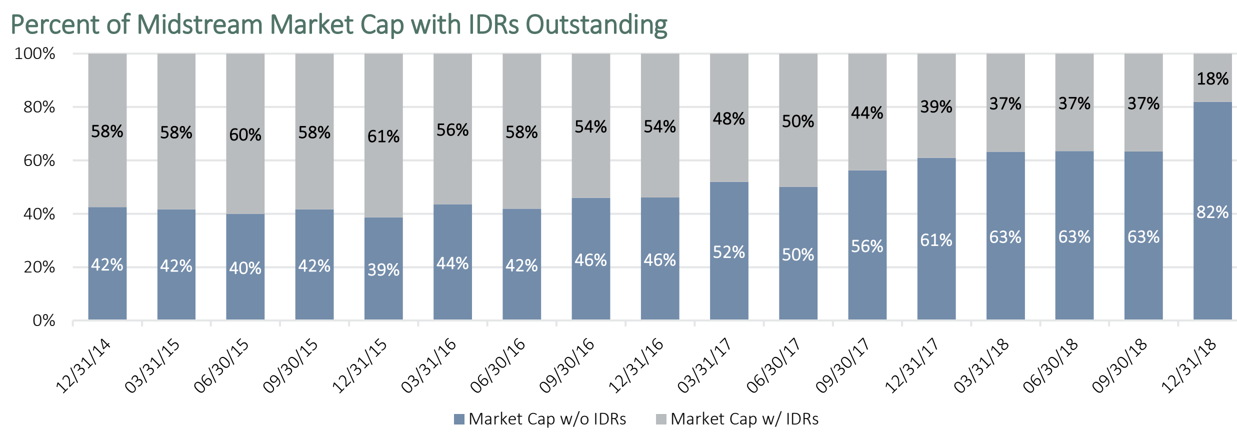
[3] Source: Cushing Asset Management and Alerian.

[4] Source: U.S. Energy Information Administration. "Short-Term Energy Outlook." January 2019.

[5] Source: Wells Fargo. "Midstream: Positive Outlook for 2019." January 4, 2019. As measured by Large -Cap EV/EBITDA multiples.



Source: Cushing Asset Management based upon Bloomberg data for publicly traded Midstream C-Corps. and MLPs as of December 31, 2018.

We believe the table is set for a bullish 2019 as we project and, in some cases have seen the beginnings of:

- Return of midstream sector distribution growth
- Insider buying (e.g. Enterprise Product Partners, LP (NYSE: EPD) and Energy Transfer (NYSE:ET))
- Share buybacks (a tool rarely employed by midstream companies historically)
- Private equity continuing to invest at multiples higher than public valuations, both on asset level transactions as well as company-level (e.g. rumored transaction of an investor group that includes Stonepeak Infrastructure Partners and Brookfield Asset Management for Tallgrass Energy, LP (NYSE: TGE))
- Conclusion of technical extremes impairing valuations (fund flow pressure, index rebalancing and massive tax-loss selling appears to have peaked in December 2018)
- OPEC appears determined to eliminate excess storage inventory and stabilize oil prices
- A proactive Federal Reserve that appears willing to be more “data dependent”

Conclusion

The valuation proposition in the midstream sector is as good as we have seen it for some time, which makes it all the more appealing as we continue to believe the fundamental environment is very favorable. The tailwinds we mentioned in our prior quarterly letters remain and, in some cases, are growing even stronger.

To summarize:

- The U.S. is a global leader in hydrocarbon production and export.
- Regional basis differentials remain elevated, creating opportunities for marketing profits and/or new infrastructure.
- Midstream companies have posted strong financial results for four consecutive quarters, solidifying the trend.
- Structural simplification appears to be all but finished.
- Self-funding and per share earnings growth will likely be a key driver of value creation.
- Private equity remains interested in the space.
- However, regulatory and environmental concerns remain.

We believe we are turning the page on the structural and balance sheet repair chapters of midstream energy. With the conclusion of 2018 tax-loss selling, we are hopeful to be embarking on a new chapter of sentiment repair, especially as companies continue to deliver on the earnings side and are on more sound structural footing. We continue to believe long-term investors will be rewarded for their patience and discipline.

Please let us know if you'd like to have an in-depth conversation of these topics. As always, we appreciate your support and continued confidence in us.

Best regards,

Cushing Investment Team

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Investments in MLPs are subject to price changes in crude oil and natural gas, as well as regulatory and interest rate risks, among others.

Glossary of Indices: The Alerian MLP Index (AMZ) is a composite of the most prominent energy master limited partnerships. The Cushing® 30 MLP Index (MLPX) is an equal weighted index that tracks the performance of 30 publicly traded MLP securities that hold midstream energy infrastructure assets in North America. The S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The S&P 500 Oil & Gas E&P Sub Industry Index (S5OILP) is a capitalization-weighted index of oil & gas exploration & production companies within the S&P 500 Index. The Philadelphia Stock Exchange Oil Service Sector Index (OSX) is a price-weighted index composed of 15 companies that provide oil drilling and production services, oil field equipment, support services and geophysical / reservoir services. Indices are included for comparative purposes only.

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