

## Our View of Hurricane Harvey's Impact

September 1, 2017

Hurricane Harvey is a significant human tragedy and will have a lasting impact on southeast Texas. Please know that the team at Advisory Research and our parent company Piper Jaffray are contributing to the relief efforts.

As investors in energy infrastructure we also want to ensure our investors that we are closely monitoring the impacts of the storm on the energy sector and in particular to the energy infrastructure entities in which we invest. Until the water recedes we will not have a full assessment. Our initial assessment is that similar to other major hurricanes, such as Katrina, the direct impact to energy infrastructure will be short-lived and will not have a material long term impact on earnings or securities prices. Energy infrastructure facilities are built with the expectation of hurricanes and we think the recovery will be quicker for energy infrastructure than it will be for other assets such as housing. Early company reports align with our view. For example, Buckeye Partners reopened a facility in Corpus Christi early this week that had been closed over the weekend. A small cap MLP, American Midstream, announced midweek that their Gulf of Mexico assets, offshore gathering, received no damage at all.

There are some short-term impacts that may garner significant news coverage. First, many MLPs and energy infrastructure companies have significant operations in southeast Texas. We expect that there will be short term disruptions in business for many of these midstream-focused entities. Many of these impacts may be people-related, for example having employees in a position to come back to work and the ability to safely access the work site. As a result it is likely that MLPs concentrated on southeast Texas, such as Enterprise Products Partners and Magellan Midstream Partners, will have one-time earnings impacts this quarter. There will also be impacts to the upstream and downstream portions of the energy sector. For example, many companies are reporting well shut-ins in parts of Texas and there may be gasoline shortages in September. Rig counts and other energy-related metrics will likely be impacted over the short term.

We don't expect any of these items to materially impact our holdings. The most material long term effect of this storm to the energy business may be the positive stimulative effect of the post-storm spending. The recovery effort, and related spending on petroleum-based products, will be extensive. This bump in demand will be worth monitoring.

MLPs have moved up modestly over the past ten trading days. We expect that their cheap current valuations will be more impactful to future returns than the impacts from this destructive storm.

*Note: This commentary contains forward-looking statements about various economic trends. You are cautioned that such forward-looking statements are subject to significant business, economic and competitive uncertainties and actual results could be materially different. There are no guarantees associated with any forecast; the opinions stated here are subject to change at any time and are the opinion of Advisory Research, Inc. Investing in Master Limited Partnerships may require tax filings in multiple jurisdictions. This report is for informational purposes only and is not an offer to sell or a solicitation of an offer to buy any securities. Past performance does not equal future results.*