RAYMOND JAMES

Investment Strategy
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Investment Strategy

"Master Limited Partnerships"

Readers of these missives know that we have been favorable on the midstream Master Limited Partnership (MLP) space for a number of months. The reasons for that strategy have often been mentioned in these letters. First, the midstream MLPs sold off when the upstream MLPs blew up with most of them going bankrupt. The midstreams were sold because of guilt by association. Quite frankly, the upstream MLPs had way too much sensitivity to the price of crude oil, but the midstreams do not. You can think of them as a transportation company without wheels since they own pipelines and storage facilities. Second, most of them have reduced their dividend distributions, not because they had to, but to get their "leverage ratios" down. Third, in March 2018, the Federal Energy Regulatory Committee (FERC) dropped a bombshell on the MLPs when it wrote, "The Commission today acted in response both to the court remand and comments filed in response to an inquiry issued after the court ruling. FERC will now revise its 2005 Policy Statement for Recovery of Income Tax Costs so that it no longer will allow MLPs to recover an income tax allowance in the cost of service."

The resulting MLP sell off accelerated, and many of the hedge funds actually sold the MLPs short. Indeed, from its peak price in September 2014, the Alerian MLP Index (AMZ/$270.94) declined some 63% into it's the February 2016 low and now resides about 50% below those September 2014 highs. Fourth, that sell off has left the MLP group in aggregate trading at some of the most inexpensive valuation metrics in a long time. According to one Wall Street MLP fundamental analyst, "The aggregate EBITDA for the MLP/midstream names we cover has grown by 70% while [the] aggregate industry leverage has declined from 6.2x in 2015 to our 2018E of 4.6x."

Fifth, last week, FERC modified its March 2018 statement that removed several concerns and uncertainties for the MLP space. As our MLP analyst, Darren Horowitz, wrote on July 19, 2018:

> Overnight, the Federal Energy Regulatory Commission posted a final rule on several components of the revised policy statement (RPS) and notice of proposed rulemaking from March 2018 - we commented in this report. *MLPs with corporate parents are essentially excluded from the proposed changes, and accumulated deferred income tax (ADIT) reimbursement concerns have been eliminated for impacted MLPs.*
>
> Although FERC determined in the RPS that permitting MLP pipelines to include a tax allowance in their cost of service results in a double recovery of the MLP pipeline's tax costs, FERC will not require MLP pipelines to eliminate their tax allowances in this rulemaking proceeding (i.e., no material change to ratemaking for MLPs with C-Corp. GPs).
>
> **MLPs are considered subject to the federal corporate income tax if all of their income or losses are consolidated on the federal income tax return of their corporate parent.** This means that a pass-through entity is eligible for a tax allowance.
>
> An MLP that will no longer recover an income tax allowance (ITA) may also eliminate its ADIT from cost of service rates, rather than flowing these back to ratepayers. This was a major question mark before this announcement as it was unclear if ADIT would be reimbursed, and over what time frame. As we stated when the news first broke in March 2018, these items are very difficult to quantify - we cannot quantify prior upside or newly perceived upside for all the stocks in our coverage. In the months between then and now, most midstream/MLP management teams had successfully explained the various mitigating factors that could be in play if the full FERC changes were introduced. Most of the stocks in our coverage universe have since recovered to reflect a much lower cash flow exposure than most investors initially feared

Obviously, some big clouds have been lifted from the MLP space, and that was reflected last week when many of the MLP stocks leaped on the FERC revised statement. Using our fundamental MLP analysts' Strong Buy rated names, and screening them with our proprietary models, favors these names: Antero (AM/$31.64/Strong Buy) and Enterprise Products (EPD/$28.71/Strong Buy). For additional investment ideas, we suggest pursuing our energy analysts' MLP research coverage list.

Please read domestic and foreign disclosure/risk information beginning on page 4 and Analyst Certification on page 5.

Moving on to the stock market, after breaking above its 2792-2795 resistance level, and then doing the same at the 2800-2805 level, the S&P 500 (SPX2801.83) limped into last Friday's closing bell. This is not all that unusual in that it is normal for an index to loiter around a previous peak, and retest the point of breakout, which in this case is the 2800-2805 zone. We also noted in last Friday's report, "Yesterday we stated that the stock market's 'internal energy' was pretty much used up on a short-term basis, although we thought the market's forereach would carry prices higher into next week. Obviously that was wrong on a trading basis." No sooner had we made that statement early last Friday when the D-J Industrials promptly fell almost 100 points. But, a funny thing happened. The decline was arrested and the senior index clawed its way back to the flat line. For the week, stocks were little changed as presidential tweets and comments took center stage. Our president's comments about not being happy with the Fed's raising interest rates had the media in a rant. However, while such comments have not been present in recent history, in an era gone by, those kind of comments were used by a number of presidents. Also worth mention is that there have been three politically novice presidents in the last 90 years. They were Herbert Hoover, Dwight Eisenhower, and now Donald Trump. Novices tend to make mistakes, but as Tom Lee points out, "The market can overreact, treating missteps as serious policy errors. Hence we are buying the negative headlines." And that has been Andrew's and my strategy ever since identifying THE low that occurred on February 9, 2018. So far that strategy has been working, as earnings and the economy have trumped the Trump tweets and missteps.

Speaking to earnings, of the companies that have reported 2Q earnings, 73.6% of them have beaten the consensus estimates (chart 1 below), while 68.6% have beaten revenue estimates (chart 2 on page 3). Using the smaller sampling of the S&P 500 shows that, of the 87 companies that have reported, 83.9% beat earnings estimates and 73.6% bettered revenue expectations. This week earnings season is in full swing with 175 of the S&P 500 companies slated to report. Looking at the estimates for the next four quarters leaves the S&P 500's price earnings ratio at 16.7x.

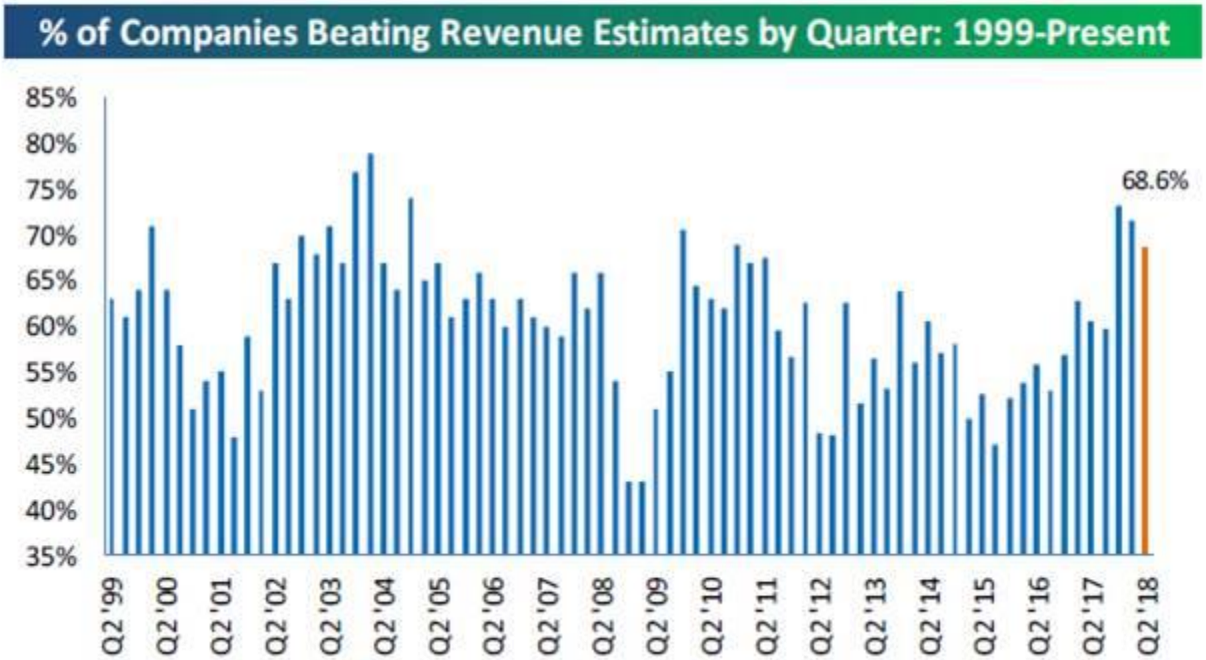
The call for this week: So we recommended raising some cash in January and then put most of that back to work in February. Ever since then, we have been adamant the equity markets were going to trade to new all-time highs. Many of the indices have done just that, yet the S&P 500 and the D-J Industrials have not. However, we continue to think those two indexes will do the same as the Advance-Decline lines continue to point the way higher. As Sam Stovall (CFRA), son of legendary strategist Bob Stovall who was the keeper of the GM indicator, wrote last week, "History, encouragingly says, but doesn't guarantee, that the S&P 500 could advance more than 10% beyond the prior high before slipping into another decline of 5% or more."

Expiration stocks have a tendency to rally during the first hour of trading on position squaring. Friday was an Inside Day in the charts for the S&P 500 Index. Traders will be sensitive to Friday's S&P 500 Index high (2809.70) and its low (2800.01). Plainly, 2800-2805 is a very important support level. This morning, the preopening S&P 500 futures are flat as we write at 5:07.

Chart 1

Source: Bespoke Investment Group

Chart 2



Source: Bespoke Investment Group

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

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Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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	Coverage Universe Rating Distribution*			Investment Banking Distribution		
	RJA	**RJL**	**RJEE/RJFI**	**RJA**	**RJL**	**RJEE/RJFI**
Strong Buy and Outperform (Buy)	57%	70%	53%	22%	35%	0%
Market Perform (Hold)	39%	26%	33%	10%	15%	0%
Underperform (Sell)	5%	4%	15%	5%	22%	0%

* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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	Raymond James & Associates has acted within the past 12 months or may be acting as an agent in an at-the-market offering of EPD shares.
	Raymond James & Associates makes a market in shares of EPD.
	Raymond James & Associates received non-investment banking securities-related compensation from EPD within the past 12 months.
	Raymond James & Associates received non-securities-related compensation from EPD within the past 12 months.

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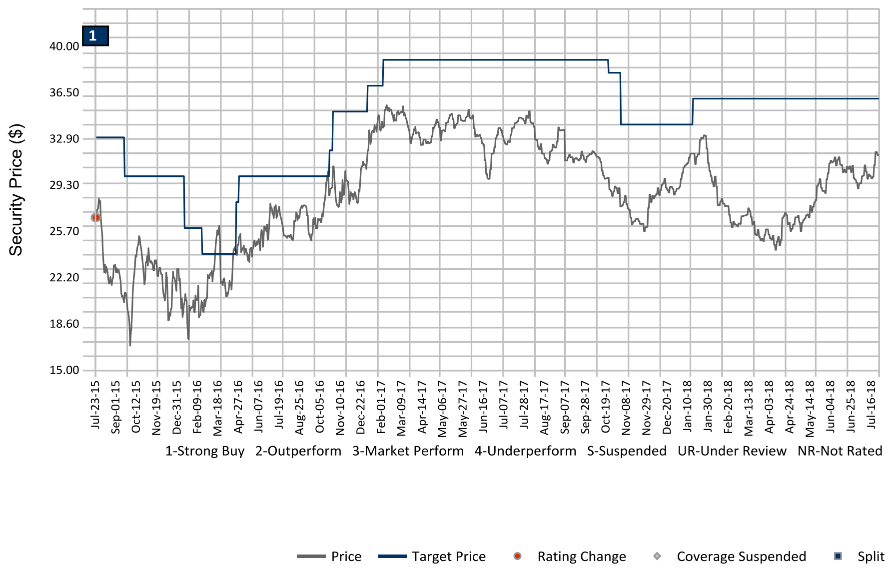
Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

Target Prices: The information below indicates target price and rating changes for the subject companies included in this research.

Antero Midstream Partners L.P. (AM:NYSE) Date: July 21 2018

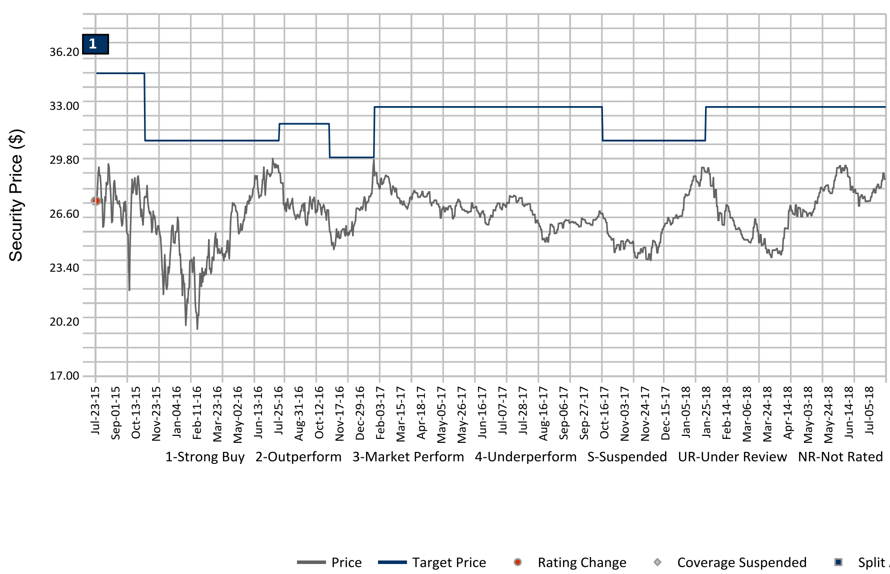


Rating & Target changes

Date	Curr.	Price	Target	Rating
Jan-16-18	$	31.75	36.00	1
Nov-02-17	$	27.67	34.00	1
Oct-23-17	$	29.88	38.00	1
Feb-06-17	$	33.76	39.00	1
Jan-05-17	$	32.00	37.00	1
Oct-27-16	$	30.76	35.00	1
Oct-24-16	$	28.55	32.00	1
Apr-28-16	$	25.32	30.00	1
Apr-26-16	$	24.15	28.00	1
Feb-18-16	$	20.16	24.00	1
Jan-14-16	$	20.29	26.00	1
Sep-18-15	$	21.00	30.00	1
Jul-23-15	$	26.81	33.00	1

Valuation Methodology: Our valuation methodology is based on a blended valuation comprising 1) a 10-year, three-stage distribution/dividend discount model (DDM), 2) forward price-to-distributable cash flow (P/DCF) multiples relative to comparable industry peers, and 3) forward enterprise value-to-EBITDA (EV/EBITDA) multiples relative to comparable industry peers. Our DDM assumes 1) cash distributions/dividends based on our forward-looking assumptions of the asset base, 2) a general cost of equity/discount rate/required rate of return for LP holders approximating either the capital asset pricing model (CAPM), the distribution/dividend discount model (forward yield plus growth), or the bond yield plus equity risk premium approach, and 3) a perpetual growth rate/terminal growth rate based on the growth profile of the partnership/company.

Enterprise Products Partners L.P. (EPD:NYSE) Date: July 21 2018



Rating & Target changes

Date	Curr.	Price	Target	Rating
Jan-25-18	$	29.11	33.00	1
Oct-13-17	$	26.66	31.00	1
Jan-27-17	$	28.91	33.00	1
Oct-28-16	$	25.57	30.00	1
Jul-25-16	$	29.10	32.00	1
Oct-30-15	$	27.68	31.00	1
Jul-23-15	$	27.41	35.00	1

Valuation Methodology: Our valuation methodology is based on a blended valuation comprising 1) a 10-year, three-stage distribution/dividend discount model (DDM), 2) forward price-to-distributable cash flow (P/DCF) multiples relative to comparable industry peers, and 3) forward enterprise value-to-EBITDA (EV/EBITDA) multiples relative to comparable industry peers. Our DDM assumes 1) cash distributions/dividends based on our forward-looking assumptions of the asset base, 2) a general cost of equity/discount rate/required rate of return for LP holders approximating either the capital asset pricing model (CAPM), the distribution/dividend discount model (forward yield plus growth), or the bond yield plus equity risk premium approach, and 3) a perpetual growth rate/terminal growth rate based on the growth profile of the partnership/company.

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General Risk Factors: Following are some general risk factors that pertain to the businesses of the subject companies and the projected target prices and recommendations included on Raymond James research: (1) Industry fundamentals with respect to customer demand or product / service pricing could change and adversely impact expected revenues and earnings; (2) Issues relating to major competitors or market shares or new product expectations could change investor attitudes toward the sector or this stock; (3) Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation; or (4) External factors that affect the U.S. economy, interest rates, the U.S. dollar or major segments of the economy could alter investor confidence and investment prospects. International investments involve additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability.

Specific Investment Risks Related to the Industry or Issuer

Company-Specific Risks for Antero Midstream Partners L.P.

Inability to Remove the General Partner
Consistent with the MLP structure, common unitholders are not entitled to elect the partnership's general partner or the general partner's directors. Even if unitholders are dissatisfied, they cannot remove the general partner except by a vote of the holders of at least 66 2/3% of the outstanding units. Antero Resources Corporation owns the general partner of Antero Midstream Partners L.P. and, as a result, unitholders will have a very limited voice in corporate governance and a limited ability to influence management's decisions.

Distributions Are Not Guaranteed
The amount of cash Antero Midstream Partners L.P. distributes to its unitholders depends principally upon the cash generated from operations, which includes activities within its affiliates. Since the cash generated from operations will fluctuate from quarter to quarter, Antero Midstream Partners L.P. may not be able to maintain future quarterly distributions at the current level. Antero Midstream Partners L.P.'s ability to pay quarterly distributions depends primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by noncash items. As a result, Antero Midstream Partners L.P. may pay cash distributions during periods when it records net losses and may be unable to pay cash distributions during periods when it records net income.

Counterparty Risk
Antero Midstream Partners L.P. is subject to risks associated with nonpayment or nonperformance by customers to which Antero Midstream Partners L.P. provides services and sells commodities. With one predominant customer upon its IPO, Antero Midstream Partners L.P. operates at a substantial customer concentration risk. Further, some of Antero Midstream Partners L.P.'s future customers may be highly leveraged or under-capitalized and subject to their own operating and regulatory risk; these customers could have increased risk that could result in default on their obligations to Antero Midstream Partners L.P.

Acquisition/Integration Risk
While acquisitions are not a primary component of the partnership's growth strategy, Antero Midstream Partners L.P. may be unable to make such acquisitions under accretive terms and/or obtain the necessary financing to fund these acquisitions. Even if such an acquisition is completed, the risk that it will be unsuccessful still exists due to integration risk, overpayment risk, environmental liabilities, and the risk of asset underperformance following the acquisition. These risks could impair Antero Midstream Partners L.P.'s ability to make cash distributions. Management attempts to minimize these risks by performing extensive due diligence.

Asset Integrity/Maintenance Risk
The recently enacted Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011 could result in the adoption of additional regulatory requirements that will apply to Antero Midstream Partners L.P. Although many of the partnership's natural gas facilities fall within a class that is currently not subject to these requirements, Antero Midstream Partners L.P. may incur significant costs and liabilities associated with repair, remediation, preventative, or mitigation measures associated with the non-exempt pipelines.

Rising Interest Rates Can Negatively Impact Unit Prices
Interest rate movements can affect yield-based investments, such as Antero Midstream. Increasing interest rates could have an adverse effect on Antero Midstream's unit price as alternative yield investments, such as U.S. Treasuries, become more attractive. In addition, increased debt service cost and interest expense might negatively affect the partnership's distributable cash flow.

Dependence on Capital Markets
MLPs pay out a significant portion of available cash in the form of distributions to unitholders. When growth projects/acquisitions become available, partnerships typically tap the capital markets for the necessary financing to fund such projects. Market conditions may or may not be attractive for Antero Midstream at the time it needs external funding.

Company-Specific Risks for Enterprise Products Partners L.P.

Distributions Are Not Guaranteed
The actual amount of cash distributed to unitholders may fluctuate and will depend on Enterprise Products' future operating performance. Cash distributions are dependent primarily on margins and throughput volumes. Should Enterprise Products experience significantly lower margins or throughput volumes, cash distributions could be decreased or terminated.

Volumes Could Decline
Gathering and transmission pipelines generally do not carry commodity price risk but are exposed to supply risk. If supplies decrease and the related throughput in the pipeline decreases, then Enterprise Products Partners' revenues will decrease accordingly. Supply decreases result from normal declines in production, a failure to secure new supply agreements, and competition from other pipelines.

Interest Rates Could Rise
Interest rate movements can affect yield-based investments, such as MLPs. Increasing interest rates could have an adverse effect on Enterprise Products' unit price as alternative yield investments, such as U.S. Treasuries, become more attractive. In addition, increased debt service costs and interest expense might negatively affect the partnership's distributable cash flow.

Commodity Price Risk
Although limited, Enterprise Products' operations or margins could be exposed to volatility in commodity prices. While an MLP's revenues are typically generated primarily by tolling fees, margin-based businesses, such as Natural Gas Processing, can be directly and/or indirectly impacted by increases or decreases in commodity prices.

Acquisition Risk
The risk of a dilutive or unsuccessful acquisition by Enterprise Products Partners exists. There are inherent risks involved (integration risk, limited operating history, competition, etc.) when making acquisitions that could impair a partnership's ability to make cash distributions. Management teams typically attempt to minimize these risks by doing extensive due diligence work.

Dependence on Capital Markets
Midstream and MLP entities pay out a significant portion of available cash in the form of dividends or distributions to shareholders or unitholders. When growth projects/acquisitions become available, companies and partnerships typically tap the capital markets for the necessary financing to fund such projects. Market conditions may or may not be attractive for Enterprise Products Partners L.P. at the time it needs external funding.

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Simple Moving Average (SMA) - A simple, or arithmetic, moving average is calculated by adding the closing price of the security for a number of time periods and then dividing this total by the number of time periods.
Exponential Moving Average (EMA) - A type of moving average that is similar to a simple moving average, except that more weight is given to the latest data.
Relative Strength Index (RSI) - The Relative Strength Index is a technical momentum indicator that compares the magnitude of recent gains to recent losses in an attempt to determine overbought and oversold conditions of an asset.

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