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Discussion Topics

Equities

Fixed Income

Currency & Commodities

Mergers & Acquisitions

Master Limited Partnerships

Second Quarter 2015 Review

Stocks

Blue chips were relatively flat for the quarter as a "tug of war" played out with worries over the ongoing Greek debt crisis pulling against resilient corporate earnings and enthusiasm about a reaccelerating US economy. The Nasdaq Composite pulled ahead, helped by merger and acquisition (M&A) activity, and made a new record high before pulling back a bit. Smaller caps outperformed while mid-caps lagged the major benchmarks. Among sectors, utility shares and industrials were weak as health care and consumer discretionary shares outperformed.

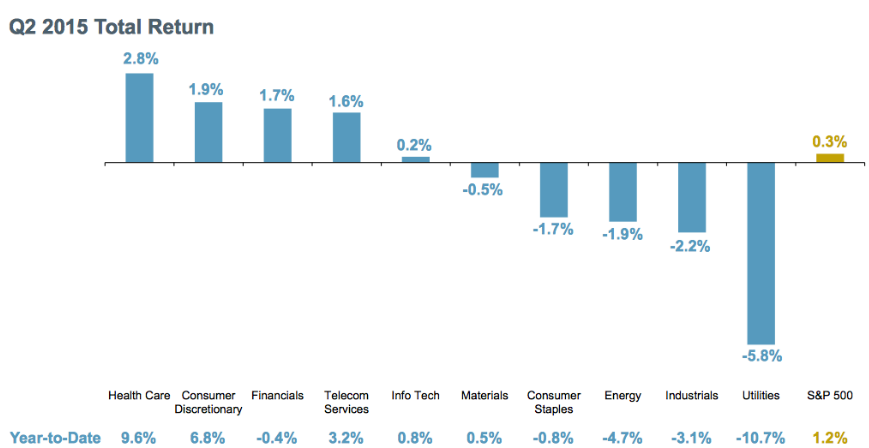
The S&P 500 fell 0.2% during the quarter, ending nine consecutive quarters of gains. The Dow fell 0.9%, its largest one-quarter loss since the fourth quarter of 2012. The Nasdaq pulled ahead of the pack, highlighting investors' penchant for faster growing, albeit riskier parts of the market, gaining 1.8% for its 10th quarterly rise in a row.

U.S. Stocks

	Total Returns	
Index	**Second Quarter 2015**	**Year-to-Date**
DJIA	-0.29%	0.03%
S&P 500	0.28	1.23
Nasdaq Composite	1.75	5.30
S&P MidCap 400	-1.06	4.20
Russell 2000	0.42	4.75

At the start of the quarter, markets rose as many companies reported that profits had not declined as much as analysts had expected. As the quarter opened, data and analytics firm FactSet reported that analysts expected overall profits for S&P companies to decline 4.7% over the previous year; in fact, earnings had grown by 0.8%. While this was the slowest rate of growth in more than two years, earnings would have grown by 8.5% if not for the plunge in energy sector profits.

The winter economic slowdown proved to be temporary, with much of the labor hiring weakness concentrated in construction and other weather-related industries. The west coast ports strike also pressured economic activity. As job growth accelerated in April and May, the weekly jobless claims reached their lowest levels in 15 years, with the tighter labor market reflected in healthy wage gains and consumer spending. The housing sector improved with single-family housing sales reaching their best level in eight years.

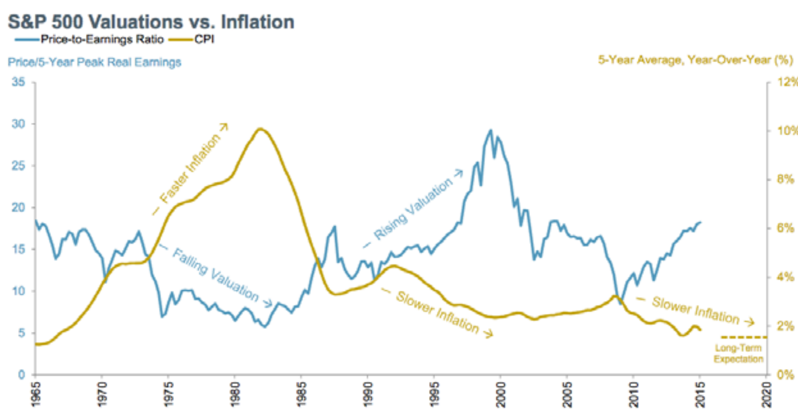


One positive role for the markets played by the winter chill was in pushing back expectations for the first Fed increase in short-term interest rates in nearly a decade. The shift in Fed positioning in their notes raised the likelihood of a scenario in which the Fed will raise interest rates slightly and then pause to see what the effect will be on financial markets and the economy.

The quarter ended on a down note as the Greek debt situation worsened. On June 29, US stocks endured their largest daily decline since last October due to news that Greece had shut down its stock market and banks and instituted capital controls in preparation for a default.

The outlook for US stocks remains generally positive, with the mature economic cycle implying that companies will have a harder time expanding margins by cutting costs and that only companies that are executing well will be able to see solid profit growth. Finding the fundamental standouts in each industry will be important in coming months with equities appearing quite attractive when measured against very low Treasury yields.

Lower inflation implies that equity valuations could remain strong as lower inflation rates have historically been conducive to higher equity-market multiples. The current general consensus is for long-term inflation of 2% compared to the historical 3% average. So while equity valuations remain somewhat elevated relative to historical levels, they may only prove to be a modest detractor from total return potential over the long term.



Fixed Income

Fears of an imminent Federal Reserve rate increase outweighed demand for safe-haven assets as Greece moved toward default, with Treasuries posting their first quarterly loss since 2013. (Bond prices and yields move in opposite directions). Between early April and June, the yield on the 10-year Treasury note increased from under 1.85% to nearly 2.5%, before retreating somewhat prior to the end of the quarter. The Treasury yield curve steepened as longer-term yields climbed more than shorter – term rates, with the 30-year Treasury's yield increasing more than 50 basis points.

In general, rising rates and wider spreads caused most fixed-income categories to experience negative returns for the quarter, with long duration bonds having the largest decline (and rise in rates). Lower-credit quality categories outperformed since their higher coupons helped offset rising rates, while the investment-grade aggregate turned negative on a year-to-date basis.

Total Returns

Index	Second Quarter 2015	Year-to-Date
Barclays U.S. Aggregate Bond Index	-1.68%	-0.10%
Credit Suisse High Yield Index	0.30	2.90
Barclays Municipal Bond Index	-0.89	0.11
Barclays Global Aggregate Ex-U.S. Dollar Government Bond Index	-0.83	-5.43
J.P. Morgan Emerging Markets Bond Index Global Diversified	-0.34	1.67
Barclays U.S. Mortgage Backed Securities Index	-0.74	0.31

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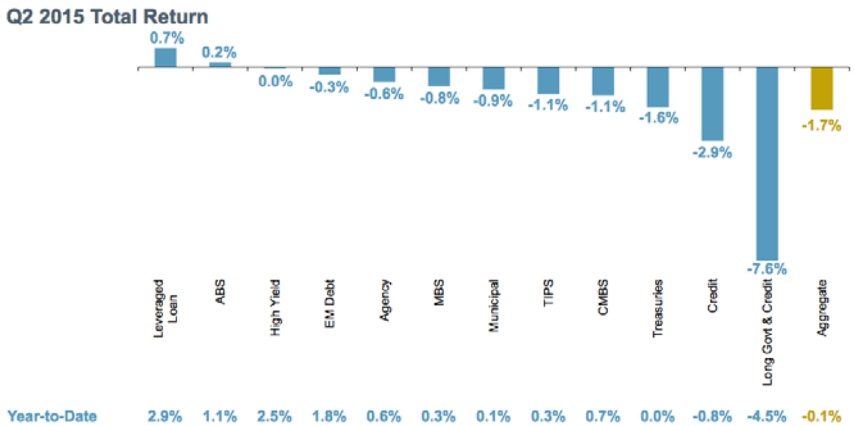


Foreign Stocks

Foreign markets reversed and softened in June amid renewed concerns over the fate of Greece and uneven economic data. Developed markets ended the quarter with small gains. The euro and British pound strengthened against the US dollar while the yen declined. US dollar strength, extraordinary as a significant factor in the past several quarters, moderated in Q2. An appreciating dollar detracts from the returns for dollar-based investors that own nondollar-denominated securities.

In the EAFE (Europe, Australia and the Far East Index), small caps handily outperformed large caps, while growth stocks outperformed value shares. From a sector perspective, energy, telecommunication services and utilities performed best. Weakest performing sectors in the index were materials, health care, and information technology.

Emerging market stocks in Latin America, Europe, the Middle East, and Africa recorded solid gains. Asian emerging markets posted a modest loss. Brazil, Russia and China advanced more than 6%, with India retreating 4%.

International Indexes

	Total Return	
MSCI Index	**Second Quarter 2015**	**Year-to-Date**
EAFE (Europe, Australasia, Far East)	0.84%	5.88%
All Country World ex-U.S.A	0.72	4.35
Europe	0.68	4.28
Japan	3.12	13.79
All Country Asia ex-Japan	0.65	5.59
EM (Emerging Markets)	0.82	3.12

China's restricted A-shares market gained nearly 13% in the second quarter and is up more than 100% in the past twelve months. Mainland A-shares are generally only available to Chinese citizens and qualified institutional investors. The market has been extremely volatile, falling 20% from its June 12 peak in two weeks, prompting the Chinese central bank to cut its benchmark interest rate to a record low and reduce reserve-requirement rations for some lenders.

Mergers and Acquisitions

Mergers and acquisitions worldwide in the second quarter almost matched the record set in the second quarter of 2007, as large companies turned to deals to boost their market share. Low interest rates and stronger confidence among chief executives have led to a steady rise in M&A activity in the last two years, approaching pre-2008 financial crisis levels. The second quarter of 2015 stands out for the number of mega deals that closed or were attempted.

These include Royal Dutch Shell's $70 billion dollar acquisition of British rival BG Group, Charter Communication's $78.7 billion merger with Time Warner Cable, and chip maker Avago Technologies' $37 billion acquisition of peer Broadcom.

These large deals drove global M&A volumes to $1.33 trillion as of June 26, a 34.6% year-on-year increase, just shy of the $1.41 trillion seen in the second quarter of 2007. Companies focused on transactions that could position themselves as industry leaders.

Consolidation was often sparked by one company exploring a sale, and spurring other industry rivals into action. Health insurer Humana's decision to put itself on the block prompted peers Aetna, Cigna, Anthem, and United Health to also explore other deals. Several takeover approaches in the quarter were rebuffed. Cigna has so far snubbed Anthem's $53.8 billion take-over proposal while natural gas pipeline company Williams Companies rejected a $53.1 billion offer from Energy Transfer Equity.

A major difference between the current M&A boom and that seen in 2007 is that the latter was largely fueled by private equity-backed leveraged buyouts, as opposed to this year's strategic corporate deals. Private equity investors have found it hard to compete against industry players during the first half of 2015. Despite the near-record M&A volumes, and the frothy valuations that have accompanied them, dealmakers say companies that see a strong strategic rationale remain committed to acquisitions.

The discussion is about fundamentals and how much a business is worth, not on whether this M&A trend will continue. More companies showed appetite for cross-border deal making with US agrochemicals company Monsanto launching a bid for Switzerland's Sygenta and Potash Corp of Saskatchewan going after German peer K+S.

Commodities

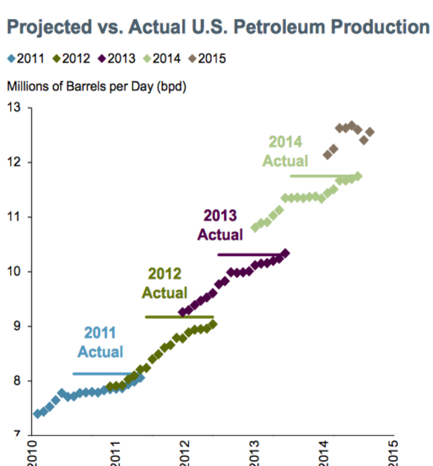
Most commodity sectors gained during Q2, with the notable exception of precious and base metals. A composite of precious metals was off 5.3%, while base metals declined by 6.74% on the London Metal Exchange.

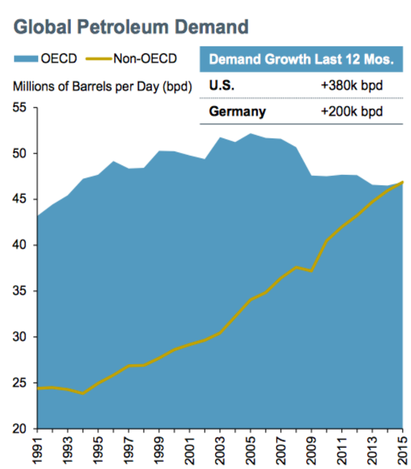
Energy led the commodity sector in Q2 with a 13.8% gain. Grains were up by 8.33%, with the largest gains occurring on the final day of the quarter's trading when the USDA surprised grain markets reporting that inventories and acreage planted are below analyst expectations. Soft and luxury commodities added 5.52% while meats advanced 3.24% for the quarter.

Although overall commodity prices had a positive quarter, they are still lower by 3.72% so far in 2015 with the dollar up by 5.53%. Effectively, commodity prices in general outperformed the dollar, which means that raw material price inflation has increased a bit so far in 2015.

The geopolitical landscape continues to be volatile and will certainly affect commodity prices in the months ahead. The formation of a strong "El Nino" from warming ocean waters in the Pacific could have an outsized impact on agricultural markets. Previous El Niño's have caused weather extremes around the world; hallmarks have included droughts, floods, heat waves, and frigid winters, as well as major storm patterns.

Lower oil prices are slowly causing supply – demand fundamentals to tighten. US oil production is still on track to rise from 2014, but cap-ex plans and supply additions have slowed after years of exceeding expectations. US and German demand has risen for the first time in years, though emerging markets demand growth has slowed materially after years of gains.





Master Limited Partnerships (MLPs)

In spite of substantial pressure on unit prices, underlying business fundamentals remain healthy for MLPs. Distributions continue to be increased while the capital markets remain open to growth. Three multi-billion dollar distribution-enhancing M&A deals have occurred or are in late-stage discussion. A higher than historical correlation to commodity prices has weighed on investor sentiment, but earnings continue to be solid.

There has been substantial equity issuance activity as MLPs sell stock to finance accretive growth projects, exacerbating the pressure on individual unit prices. Many analysts expect M&A activity to increase in the MLP space as the strongest firms use the current downturn to purchase assets affordably, while consolidating their positions.

MLP Capital Markets:

Sunoco LP (SUN) priced public offering of 5.5mm units at $40.10/unit, raising $220.6mm in gross proceeds

- One day marketed offering, with a file-to-price decline of 7.9%, but SUN did outperform in the next session, falling just 0.5% vs. the MLP Index down 1.2%
- Proceeds to be used to partially fund acquisition of retail assets from ETP (see below)
- SUN also priced $600mm offering of 5.5% senior notes due 2020

Genesis Energy (GEL) priced public offering of 9.0mm units at $43.77/unit, raising $393.9mm in gross proceeds

- One day marketed offering, with a file-to-price decline of 5.85%
- Proceeds to be used to partially fund the acquisition of offshore oil pipeline assets from EPD (see below)
- GEL also priced $750mm offering of 6.75% senior notes due 2022MLP M&A / Growth Projects

MPLX (MPLX) and MarkWest Energy (MWE) announce $20bn merger

- MWE will become a subsidiary of MPLX via a unit-for-unit transaction, plus a one-time cash payment to MWE unitholders
- MWE unitholders will receive 1.09 MPLX units for each MWE plus a one-time cash payment of $3.37/unit
- Purchase price (prior to price movements) represented 32% premium for MWE
- Agreement includes a $675mm breakup fee, which should limit potential topping bids, despite the lower implied premium after MPLX units sold off after the announcement
- MPLX reiterated 29% 2015 distribution growth, announced 25% annual distribution growth through 2017 and "peer-leading growth profile thereafter"
- Transaction is expected to close in 4Q2015

Genesis Energy (GEL) announced acquisition of offshore oil business from Enterprise Products (EPD) for $1.5bn

- Acquired assets include 36% interest in the Poseidon Oil Pipeline System, a 50% interest in Southeast Keathley Canyon Oil Pipeline System (SEKCO) and a 50% interest in Cameron Highway Oil Pipeline System (CHOPS)
- The acquisition consolidated ownership of the pipelines, as prior to the acquisition, GEL owns 28% of Poseidon, 50% of SEKCO and 50% of CHOPS
- GEL management indicated the assets will produce $200mm in EBITDA, implying a 7.5x forward multiple
- Acquisition is expected to close in July 2015

Sunoco LP (SUN) announced the acquisition of 100% of Susser Holdings Corp for $1.94bn from sponsor Energy Transfer Partners (ETP)

- SUN will pay $970mm in cash and will issue approximately 22mm units to ETP
- The acquired assets consist primarily of retail operations of convenience stores in Texas, New Mexico and Oklahoma under the Stripes brand name
- All income from the acquired assets is non-qualifying and therefore the assets will be contributed to SUN's corporate subsidiary PropCo.
- According to management, the acquisition is breakeven to distributable cash flow for SUN in 2015 and significantly accretive thereafter

Energy Transfer Equity (ETE) and Energy Transfer (ETP) announced $1.2bn exchange of Sunoco LP (SUN) IDRs

- ETE will acquire 100% of the IDRs of SUN in exchange for retiring 21mm ETP common units and an extension of $35mm annual IDR subsidiary for an additional 2 years (through 2017)

- ETP to realize cash flow accretion of more than $0.30/unit, while ETE acquires IDRs at an attractive multiple relative

Arc Logistics (ARCX) announced the acquisition of UET Midstream, LLC from two private companies for $76.6mm
- To be funded with $44.3mm in cash, $32.3mm in units issued to sellers at $18.50/unit
- Assets include the Pawnee crude oil terminal (200,000 bbls of storage capacity) and nearby development property in Weld County, Colorado
- The terminal produces contracted annual EBITDA of $9.0-9.5mm, implying an 9.5x multiple including $11mm in capex

Kinder Morgan (KMI) announced acquisition of remaining 49% interest in Elba Liquefaction Company from Shell for $630mm
- Shell subscribes to 100% of the LNG off take capacity (planned at 2.5 million tons) of the facility, which is yet to be constructed and awaits non-FTA approval for LNG exports
- Overall project cost expected to be $2.1bn, with initial production expected in late 2017
- Also announced plans to move forward with Northeast Energy Direct pipeline project
- KMI announced board approval to proceed with $3.3bn pipeline investment to supply natural gas to natural gas and electric utilities in New England
- KMI has contracted for roughly half of the expected 1.3bcf/d capacity on the pipeline and expects to continue to sign up customers as the project progresses

Energy Transfer Equity (ETE) disclosed that it has indeed signed a confidentiality agreement to join the WMB sale process

	Value				% Change		
	7/2/15	6/26/15	12/31/14	7/2/14	WoW	YTD	YoY
Alerian MLP Index							
Price Change	397.0	406.7	459.4	523.8	(2.4%)	(13.6%)	(24.2%)
Total Return	1,457.7	1,493.1	1,637.3	1,815.9	(2.4%)	(11.0%)	(19.7%)
Other Indices - Price Change							
Cushing 30 MLP	400.2	412.1	453.1	506.7	(2.9%)	(11.7%)	(21.0%)
Alerian MLP Infrastructure	675.8	693.7	780.7	859.7	(2.6%)	(13.4%)	(21.4%)
Alerian MLP Equal Weight	468.3	482.3	537.1	690.6	(2.9%)	(12.8%)	(32.2%)
Phil. Utility Index (UTY)	539.8	532.3	606.6	546.8	1.4%	(11.0%)	(1.3%)
S&P 500 - Price Change	2,078.0	2,101.5	2,058.9	1,974.6	(1.1%)	0.9%	5.2%
10-Year US Treasury Rate	2.38%	2.47%	2.17%	2.63%	(9)	21	(24)
WTI Oil Futures ($/bbl)	$56.56	$59.63	$53.27	$104.48	(5.1%)	6.2%	(45.9%)
Natural Gas Futures ($/mcf)	$2.83	$2.77	$2.89	$4.36	1.9%	(2.2%)	(35.1%)
Mt. Belvieu Spot ($/Gallon)							
Ethane	$0.183	$0.190	$0.188	$0.273	(3.9%)	(2.7%)	(33.0%)
Propane	$0.43	$0.41	$0.49	$1.05	4.3%	(12.8%)	(59.2%)

Source: Bloomberg.

Investors often ask about the effect of rising interest rates on MLPs. MLPs in general have little variable debt, and existing assets have long since been financed through low-cost, long-term, fixed-rate borrowing. Effectively, there is minimal direct impact to existing operational cash flow. For future projects, rising rates would raise the capital cost structure across the entire industry, raising the cost of building new critical infrastructure. Ultimately, these increased costs are absorbed by the consumer in the form of higher prices, not by the MLP. MLPs continue to increase their distribution rates by approximately 7% per year.

As always, we welcome your comments and questions and appreciate the opportunity to be of service.

Very truly yours,

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In accordance with Rule 204-3 of the Investment Advisor Act of 1940, we are required to promptly notify you of any material changes in the operations and policies which have occurred since our prior ADV Part 2 Brochure filing and also to provide you with a summary of specific material changes. We do not have any material changes to report at this time. Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent ADV Part 2 Brochures within 120 days of the close of our business' fiscal year, if any do arise in the future. Currently, our ADV Part 2 Brochure may be requested without charge by contacting us at 631-331-1400. Additional information about TimeCapital Investor Advisory Services is also available via the SEC's web site www.adviserinfo.sec.gov.