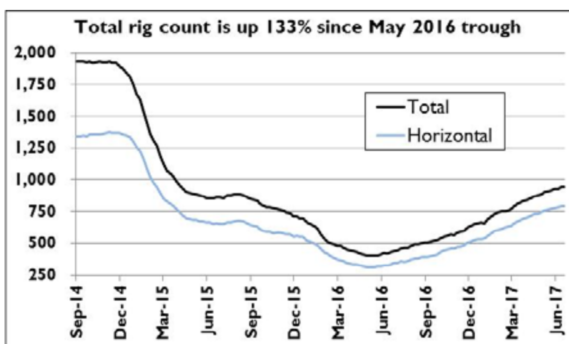
She Loves Me, She Loves Me Not, She Loves Me…

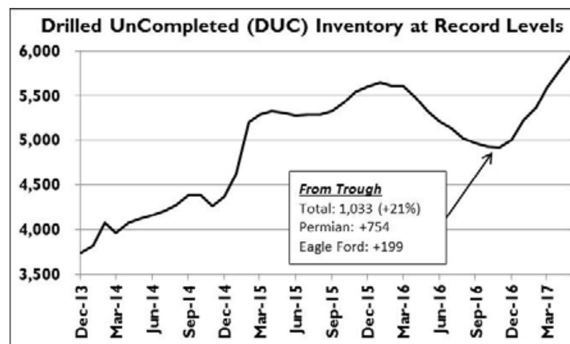
I know what you're thinking: "Here we go again". Oil prices are down 14% year-to-date, the Alerian MLP Index is down 6%, and investor sentiment is poor. The big ups and downs over the last few years have left investors fatigued, in search of a clear catalyst to break this pattern. For energy infrastructure investors, "She loves me, she loves me not" is wearisome, but improving fundamentals drive our optimistic outlook. Global oil demand is growing along with domestic production. At a company level, balance sheets and distribution coverage ratios are significantly better than they were in mid-2014 when oil first began to trend lower, and we forecast distribution growth to return in 2018. Midstream loves you, it just needs to do a better job communicating.

The Fundamental Case for Volume Recovery

In May 2016 the rig count troughed at 404, and oil production troughed at 8.57 million barrels per day (bpd) a few months later. Since then the rig count is up 133%, (to 940 as of June 30th), while oil production in April averaged 9.1 million bpd. Once a well is drilled there are several things that can occur: (1) the well is left uncompleted, which adds to the Drilled Uncompleted ("DUC") inventory, (2) the well is completed though held back from producing, or (3) the well is completed and hooked up to the supply chain.

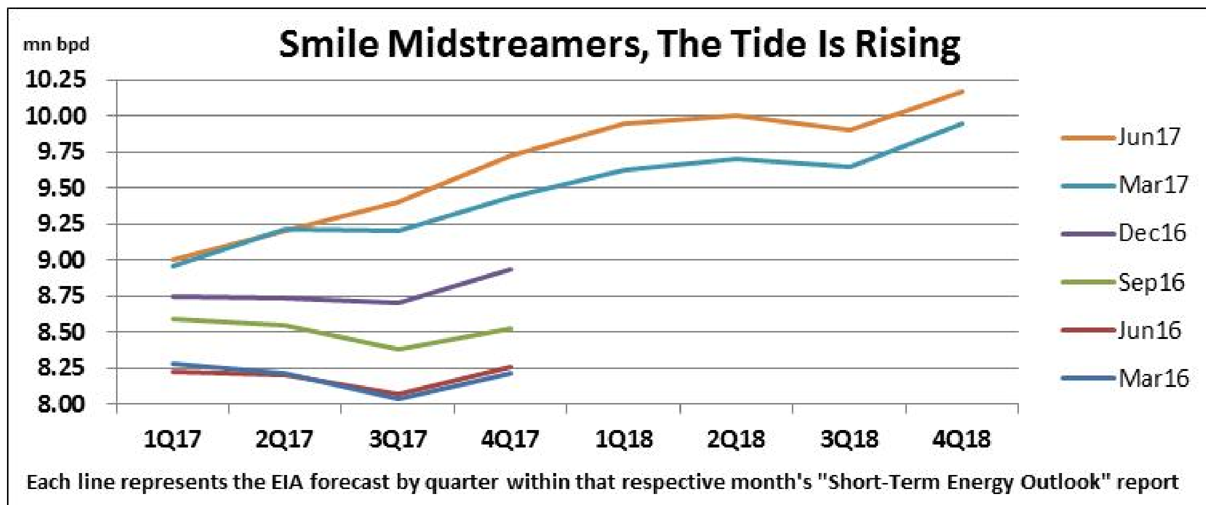


Source: Baker Hughes



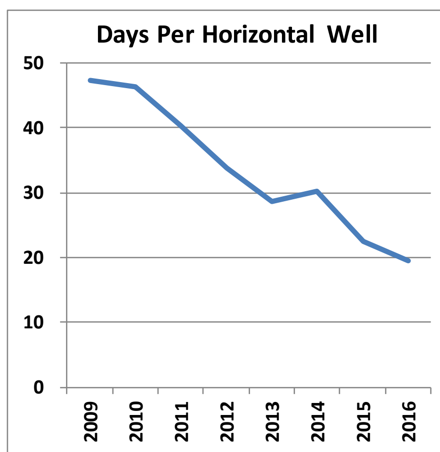
Source: EIA

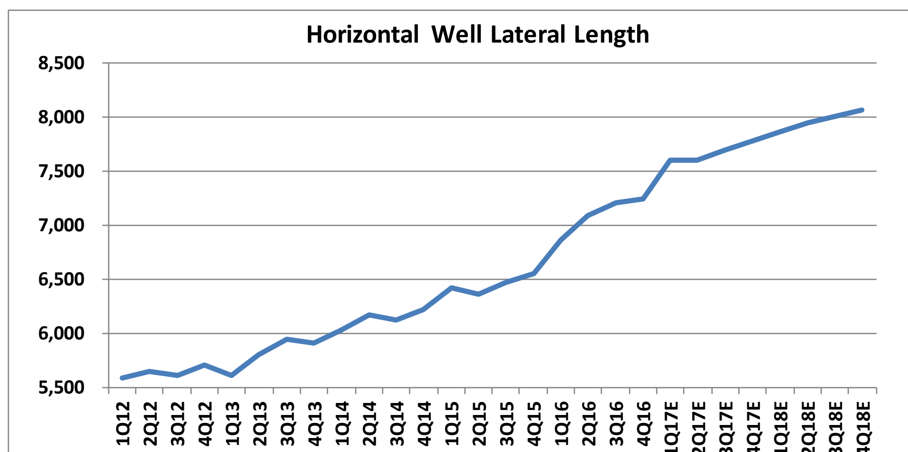
We believe most new wells are being tied into the supply chain, which is why the oil production growth rate is increasing. The Energy Information Administration (EIA) monthly energy outlook report includes a forecast for oil production. As shown below, the 2017 production forecast has steadily increased over time. In March 2016, the EIA forecasted domestic oil production to be 8.22 million bpd. Fast forward to the June 2017 report and the EIA forecasts production of 9.73 million bpd, an 18% increase. This meshes with the unexpectedly large surge in rig count activity, and underpins midstream management teams' confidence in a volume surge during the second half of the year.



Source: EIA

We believe that the EIA has consistently underestimated improving efficiency of the energy producer community, resulting in these upward revisions in oil production growth. The science behind this higher efficiency shows itself via days per horizontal well drilled trending lower while horizontal well lateral length gets longer, as shown in the exhibits below. The Wells Fargo energy research team forecasts further efficiency improvements, which should result in additional reductions to the cost curve. Ultimately the question becomes are producers drilling economic wells? If the cost curve gradually moves lower, we expect the average price of energy to gradually move lower too. And if the economics work for producers even at low prices, we expect the resulting higher volumes to be positive to the midstream sector.

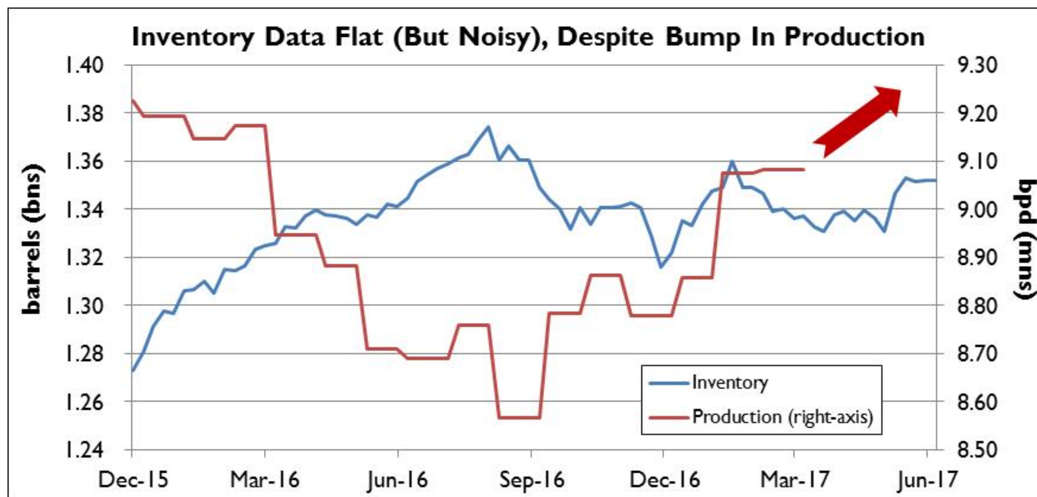




Source: Wells Fargo

OPEC Cuts Not the Catalyst Many were Expecting

The OPEC production cut was supposed to solve the global inventory issue and drive oil prices and investor enthusiasm higher. Unfortunately, U.S. oil production is rising faster than most expected, though we are encouraged that inventory levels have stayed essentially flat since late-2016. Keep in mind it's hard to be disappointed by the lack of an oil price recovery when the reason for it is because oil production has grown more than expected in the U.S. Rising volumes for midstream companies provides many benefits: it eliminates underutilized capacity and greatly enhances operating leverage, it helps reduce marketing competition, and it creates demand for more growth projects. Of course we'd like to see volumes and prices move higher at the same time, but with corporate discipline the midstream sector should move broadly higher in a market characterized by stagnant energy prices and rising volumes.



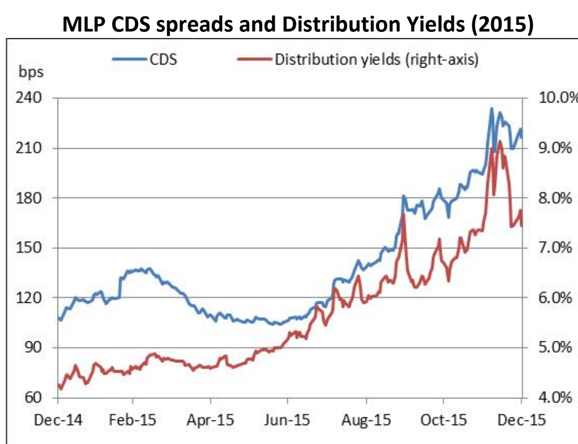
Source: EIA

Reminding Us Once Again of the Great Midstream Paradox

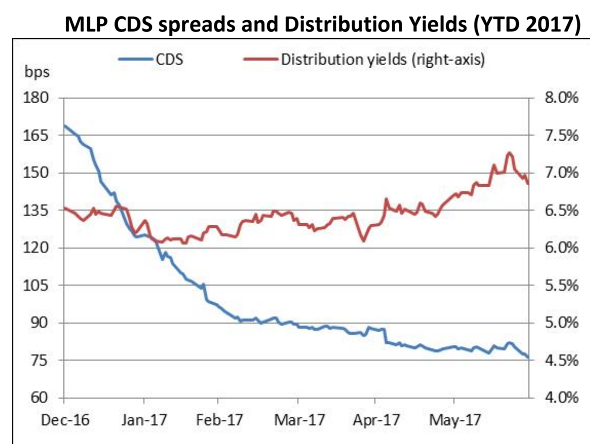
Midstream companies generate revenues based primarily on volumes, not energy prices. As long as energy prices are high enough to incentivize production, volumes should increase benefiting the midstream sector. Yet with U.S. oil production volumes near record levels, (and forecasted to increase further), the Alerian MLP Index sits 45% off its highs as: (1) investors remain shell-shocked from the rapid decline in oil prices from mid-2014 to early-2016 and remain unconvinced that it is different this time, and (2) uncertainty regarding the return of predictable distribution growth as management teams could remain over focused on balance sheet strength and high coverage ratios. We are forecasting the distribution growth rate starts increasing in the next 12-18 months.

A Conundrum: Can the Debt and Equity Markets Agree on Anything?

On April 17th, private equity firm Blackstone announced it would acquire EagleClaw Midstream, the largest privately held midstream operator in the Permian's Delaware Basin for $2 billion including assumption of $1.25 billion of debt. In addition, we've seen no slowdown of debt offerings and refinancings at attractive interest rates, implying the debt capital markets are wide open. Therefore, it isn't surprising that credit default swap (CDS) spreads have trended lower (meaning there is less concern of defaults in the market), though it is more than a little curious that equity distribution yields have moved meaningfully higher. Clearly being lower in the hierarchy leaves stock investors more skittish, but in both world's oil prices were moving lower though it seemed this risk was only being applied to the stock market. We see the glass half full and believe this divergence has to do with debt investors' confidence in MLPs ability to meet their credit obligations, supported by very solid fundamentals detailed above.



Source: Bloomberg

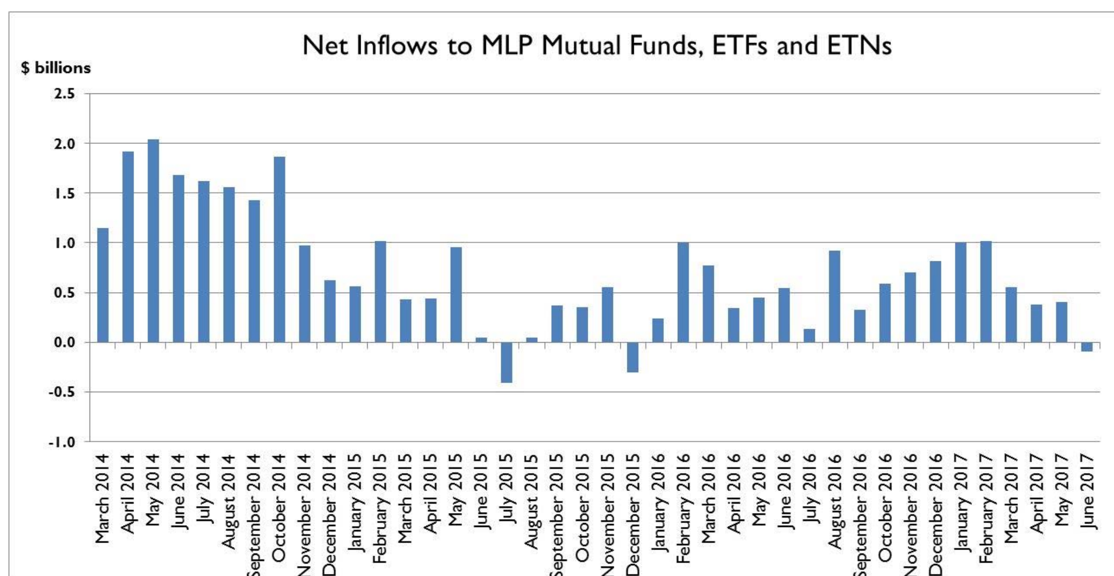


Source: Bloomberg

Capital Raises and Fund Flows

Access to capital took a small step backwards as well, following what had been several healthy quarters. On the positive side, Hess Midstream (HESM) successfully priced its initial public offering in the very beginning of the second quarter, while Targa Resources (TRGP) raised another slug of equity to help finance its NGL pipeline out of the Permian. We are particularly positive on the latter offering, as historically midstream companies have raised capital on an "as needed" basis. Pre-financing a project before construction reduces risk in our view, though the counterpoint would be that it unnecessarily strains the balance sheet earlier than needed. While true in the near-term, our view is that having the necessary cash on hand reduces overhang that offsets investor discontent with a temporarily burdened balance sheet. Beyond HESM and TRGP, equity capital raised via offerings and at-the-money (ATM) programs was materially below the rate collected in the first quarter. We believe part of this is a sign the midstream sector simply doesn't need that much capital, but believe there is a limit to that optimism since we see an absence of investor enthusiasm in midstream and capital is therefore being held back.

Finally, fund flows in June turned negative for the first time since December 2015, furthering a slowdown in fund flows that really began in March. Total inflows for the quarter of $696 million were down 73% from the prior quarter and down 48% from the prior year. We think the primary driver of this reversal has to do with the recent volatility in energy prices that obscures the positive fundamentals occurring in the midstream sector. The energy sector is clearly in "show me" mode. We believe that if the midstream sector can show evidence the strong fundamentals translate into earnings and distribution growth, then enthusiasm (and inflows) would return to healthier levels experienced as recently as February of this year.



As of 6/30. Source: US Capital Advisors
Past Performance is not indicative of future results.

Performance

This year has been characterized by a multitude of event risks, with an overly negative bias on short-term performance despite no change in the long-term outlook. For example, OKE's purchase of its underlying MLP (OKS), ENB's alteration of its historical relationship with its underlying MLP (EEP), and the questionable cancellation of a TOO contract by Brazilian national oil company Petrobras. Event risk is not going away, though we expect these events will return to a more normal level and result in fundamentals returning as the primary driver of performance. For the quarter, weakness came from positions in SEMG, TOO, and NGL. For SEMG, shares meaningfully dropped following its plan to acquire the Houston Fuel Oil Terminal Company. While we are positive on the deal, the market

negatively evaluated the impact the deal will have on potential equity raises and near-to-medium term leverage. TOO was impacted when Brazilian national oil company Petrobras notified the company it would be terminating the contract on the Arendal Spirit. NGL caught the market by surprise when it lowered guidance as a result of weaker refined product margins. On the positive side, Williams (WMB) and TransCanada Corp. (TRP) performed very well during the quarter as market rewarded operational improvements and longer-term growth projections. Over the past 1 year period, the Fund was up approximately 5.0% versus 0.4% for the Alerian MLP Index. *Portfolio weights of the above mentioned securities as of 4/30/2017 are as follows: OKE 5.5%, EEQ 3.0%, TOO 2.0%, SEMG 5.9%, NGL 1.5%, WMB 5.8%, TRP 2.3%.*

	Q2 2017	One Year	Three Year	Inception through 6/30/2017*
EGLIX Class I (NAV)	-9.47%	4.99%	-15.04%	-0.45%
EGLAX Class A (NAV)	-9.44%	4.86%	-15.25%	-0.70%
EGLAX Class A (Max Load)	-14.67%	-1.20%	-16.92%	-1.92%
EGLCX Class C (NAV)	-9.65%	3.95%	-15.90%	-3.67%

**Inception date for class I and A shares was September 14, 2012. Inception date for class C share was February 21, 2013. Inception data is annualized.*

The performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. Past performance is no guarantee of future results. The Fund's investment advisor has contractually agreed to reduce its fees and/or absorb expenses of the Fund, at least until August 31, 2017, to ensure that the net annual fund operating expenses will not exceed 1.65% for Class A, 2.40% for Class C and 1.40% for Class I, subject to possible recoupment from the Fund in future years. The total annual fund operating expenses are Class A 1.75%, Class C 2.50% and Class I 1.51%. Please review the Fund's Prospectus for more detail on the expense waiver. Results shown reflect the waiver, without which the results could have been lower. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month end, please call toll-free 1-888-868-9501.

The index shown is for informational purposes only and is not reflective of any investment. An investor cannot invest directly in an index. Indices do not include fees or operating expenses and are not available for actual investment. They are unmanaged and shown for illustrative purposes only. The Alerian MLP Index (NYSE: AMZ) is a composite index of the 50 most prominent energy master limited partnerships.

We Believe the Long-Term Prospects for MLPs Remain Attractive

Our outlook remains little changed from last quarter as we remain optimistic about the long-term investment opportunity for MLPs as we expect demand for midstream services will continue to expand. It appears oil volumes have bottomed as the number of oil drilling rigs in the U.S. has more than doubled since the bottom in May 2016. We also expect natural gas volumes produced to continue to increase. Although oil is currently in oversupply, strong demand growth is being spurred by lower prices. For natural gas, we continue to see many visible sources of new demand for U.S. natural gas including new chemical and industrial plants, new gas-fired electric generation facilities, and exports via pipeline and LNG in the years to come. The INGAA Foundation's latest North American infrastructure report estimates total hydrocarbon infrastructure spend in North America will total over $500 billion over the 2015-2035 time period with natural gas infrastructure spend estimated to be close to two-thirds of the total ($310 billion). With this type of growth potential, we believe there is significant long-term value in the asset class in terms of distribution yield, distribution growth and total return. We continue to expect distribution growth of 4%-6% in 2017, and from current levels, MLPs would have to rally approximately 40% to reach prior cycle highs.

Disclosures:

Investors should carefully consider the investment objectives, risks, charges and expenses of the Eagle MLP Strategy Fund. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-888-868-9501 or visiting www.eaglemlpfund.com. The prospectus should be read carefully before investing. The Eagle MLP Strategy Fund is distributed by Northern Lights Distributors, LLC member FINRA/SIPC. This is an actively managed dynamic portfolio. There is no guarantee that any investment (or this investment) will achieve its objectives, goals, generate positive returns, or avoid losses. The information provided should not be considered tax advice. Please consult your tax advisor for further information. Eagle Global Advisors, Princeton Fund Advisors, LLC and Northern Lights Distributors, LLC are not affiliated.

A master limited partnership (MLP) is a limited partnership that is publicly traded on a securities exchange. It combines the tax benefits of a limited partnership with the liquidity of publicly traded securities. To qualify for MLP status, a partnership must generate at least 90 percent of its income from what the Internal Revenue Service (IRS) deems "qualifying" sources, generally relating to the production, processing or transportation of natural resources, such as oil and natural gas.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology.

The S&P 500 Index is a capitalization-weighted index that measures the performance of 500 U.S. large-capitalization domestic stocks representing all major industries.

The Barclays Capital U.S. Aggregate Index provides a measure of the performance of the U.S. investment grades bonds market.

Enterprise Value-to-EBITDA is a multiple used to determine the value of a company. It shows the value of a company based on a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA).

Price-to-Distributable Cash Flow is a valuation ratio calculated by dividing a company's current stock price by its distributable cash flow per share.

Standard Deviation is a statistical measurement of volatility risk based on historical returns.

Risk Factors:

Credit Risk: There is a risk that note issuers will not make payments on securities held by the Fund, resulting in losses to the Fund. In addition, the credit quality of securities held by the Fund may be lowered if an issuer's financial condition changes.

Distribution Policy Risk: The Fund's distribution policy is not designed to guarantee distributions that equal a fixed percentage of the Fund's current net asset value per share. Shareholders receiving periodic payments from the Fund may be under the impression that they are receiving net profits. However, all or a portion of a distribution may consist of a return of capital (i.e. from your original investment). Shareholders should not assume that the source of a distribution from the Fund is net profit. Shareholders should note that return of capital will reduce the tax basis of their shares and potentially increase the taxable gain, if any, upon disposition of their shares.

ETN Risk: ETNs are subject to administrative and other expenses, which will be indirectly paid by the Fund. Each ETN is subject to specific risks, depending on the nature of the ETN. ETNs are subject to default risks. Foreign Investment Risk: Investing in notes of foreign issuers involves risks not typically associated with U.S. investments, including adverse political, social and economic developments, less liquidity, greater volatility, less developed or less efficient trading markets, political instability and differing auditing and legal standards.

Interest Rate Risk: Typically, a rise in interest rates can cause a decline in the value of notes and MLPs owned by the Fund.

Liquidity Risk: Liquidity risk exists when particular investments of the Fund would be difficult to purchase or sell, possibly preventing the Fund from selling such illiquid securities at an advantageous time or price, or possibly requiring the Fund to dispose of other investments at unfavorable times or prices in order to satisfy its obligations.

Management Risk: Eagle's judgments about the attractiveness, value and potential appreciation of particular asset classes and securities in which the Fund invests may prove to be incorrect and may not produce the desired results. Additionally, Princeton's judgments about the potential performance of the Fund's investment portfolio, within the Fund's investment policies and risk parameters, may prove incorrect and may not produce the desired results.

Market Risk: Overall securities market risks may affect the value of individual instruments in which the Fund invests. Factors such as domestic and foreign economic growth and market conditions, interest rate levels, and political events affect the securities markets.

MLP Risk: Investments in MLPs involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. Depending on the state of interest rates in general, the use of MLPs could enhance or harm the overall performance of the Fund.

MLP Tax Risk: MLPs, typically, do not pay U.S. federal income tax at the partnership level. Instead, each partner is allocated a share of the partnership's income, gains, losses, deductions and expenses. A change in current tax law or in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for U.S. federal income tax purposes, which would result in such MLP being required to pay U.S. federal income tax on its taxable income. The classification of an MLP as a corporation for U.S. federal income tax purposes would have the effect of reducing the amount of cash available for distribution by the MLP. Thus, if any of the MLPs owned by the Fund were treated as corporations for U.S. federal income tax purposes, it could result in a reduction of the value of your investment in the Fund and lower income, as compared to an MLP that is not taxed as a corporation.

Energy Related Risk: The Fund focuses its investments in the energy infrastructure sector, through MLP securities. Because of its focus in this sector, the performance of the Fund is tied closely to and affected by developments in the energy sector, such as the possibility that government regulation will negatively impact companies in this sector. Energy infrastructure entities are subject to the risks specific to the industry they serve including, but not limited to, the following: Fluctuations in commodity prices; Reduced volumes of natural gas or other energy commodities available for transporting, processing, storing or distributing; New construction risk and acquisition risk which can limit potential growth; A sustained reduced demand for crude oil, natural gas and refined petroleum products resulting from a recession or an increase in market price or higher taxes; Depletion of the natural gas reserves or other commodities if not replaced; Changes in the regulatory environment; Extreme weather; Rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities; and Threats of attack by terrorists.

Non-Diversification Risk: As a non-diversified fund, the Fund may invest more than 5% of its total assets in the securities of one or more issuers. Small and Medium Capitalization Company Risk: The value of a small or medium capitalization company securities may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. Structured Note Risk: MLP–related structured notes involve tracking risk, issuer default risk and may involve leverage risk. Mutual Funds involve risk including possible loss of principal. 3536-NLD-7/28/2017