



In June 2019, Chevron Corp.(CVX) and Occidental Petroleum Corp. (OXY) battled to take over Anadarko Petroleum Corp. (APC). OXY won that battle and it was arguably a battle for control of the Permian Basin and dominance in the U.S. shale market.

Why all the interest in the Permian Basin?

Permian 101

The Permian Basin is a large oil and natural gas producing region in Texas and southeast New Mexico which covers an area of more than 75,000 square miles, according to the U.S. Energy Information Administration (EIA).¹ Since the inception of extraction at the site, the Permian Basin has yielded 33.4 billion barrels of oil and about 118 trillion cubic feet of natural gas as of September 2018, according to the EIA.

Implementation of new extraction technologies such as hydraulic fracturing (fracking) has reversed the production drop in the Permian, and the basin has exceeded its previous peak in the early 1970s. The EIA noted that the Permian Basin accounted for approximately 20% of the total U.S. crude oil production and about 9% of the total U.S. dry natural gas production during 2017.²

The EIA estimates that 5 billion barrels of oil and 19.1 trillion cubic feet of natural gas in remaining proven reserves exist in the Basin, making it one of the largest basins in the United States and the world.³

Can the Permian Overtake Saudi Arabia?

The world's largest producing oil field is Saudi Arabia's Ghawar oil field, which has yielded 5 million barrels of petroleum per day for decades, according to Forbes.⁴ The Permian Basin may soon give Ghawar a run for its money.

Production had dipped to just under 1 million barrels per day (BPD) at the Permian around the year 2000, according to Forbes. However, fracking has boosted that amount to 3.8 million BPD, vaulting the Permian into second place among the world's leading oil fields, according to Forbes. In less than two decades, oil production had increased by some 3 million BPD.

Getting Your DUCs In a Row

Drilled but uncompleted wells (DUCs) generally turn into completed wells. By the end of 2018, there were 4,039 DUCs in the Permian Basin, according to Forbes which also noted that around 4,600 wells per year, on average, are drilled in the basin.⁵ So, there is currently about a year's backlog of wells at the site.

DUCs, along with the large volume of remaining proven reserves highlight the tremendous potential output of the Permian Basin and the ability of its production to exceed that of Saudi Arabia's Ghawar field.

Dominance in the Permian

Anadarko, Chevron, and Occidental are currently among the Permian Basin's top producers, according to the Wall Street Journal,⁶ which noted that a win for Chevron would have boosted its Permian output to over 1.4 million BPD, while the win for Occidental could boost its Permian output to about 900,000 BPD.

Further Fights

The Wall Street Journal noted that the fight for Anadarko could spark further consolidation in the Permian Basin. With many of the best sites already claimed, companies seeking to expand their production in the basin may need to acquire rivals.

How May Investors Benefit from Expanding Production In the Permian Basin?

The Cushing Sector Plus ETFs

Cushing® ETFs aim to provide investors with sector exposure by seeking to replicate the performance of corresponding Cushing® Indices. The energy, utility, transportation, and energy supply chain indices are sector oriented with a custom yield weighing methodology and include master limited partnerships (MLPs), which is designed to add an income focus and diversification while maintaining the overall sector attributes.

The Cushing® Energy & MLP ETF (XLEY) and the Cushing® Energy Supply Chain & MLP (XLSY) currently hold stocks with direct exposure to drilling in the Permian Basin such as APC, CVX, and OXY.

Each Cushing ETF, including the Cushing® Transportation & MLP ETF (XLTY) and the Cushing® Utility & MLP ETF (XLUY), hold MLPs, which provide for the transportation and storage of crude oil and natural gas. MLPs may be beneficiaries of the higher volume of oil and natural gas produced from the Permian Basin and elsewhere.

Top 10 Holdings as of 6/30/2019

XLEY

Top 10 Holdings as of 6/30/2019

XLSY

| | | | |
|------------------------|-------|---------------------------|-------|
| OCCIDENTAL PETE CORP | 5.35% | DOW INC | 3.55% |
| SCHLUMBERGER LTD | 5.03% | WESTROCK CO | 3.32% |
| HELMERICH & PAYNE INC | 4.95% | LYONDELLBASELL INDUSTRIES | 3.25% |
| WILLIAMS COS INC DEL | 4.80% | INTL PAPER CO | 3.10% |
| ONEOK INC NEW | 4.73% | OCCIDENTAL PETE CORP | 3.08% |
| VALERO ENERGY CORP NEW | 4.36% | SCHLUMBERGER LTD | 2.89% |
| MARATHON PETE CORP | 4.25% | HELMERICH & PAYNE INC | 2.84% |
| KINDER MORGAN INC DEL | 4.14% | WILLIAMS COS INC DEL | 2.80% |
| EXXON MOBIL CORP | 4.00% | ONEOK INC NEW | 2.73% |
| PHILLIPS 66 | 3.86% | VALERO ENERGY CORP NEW | 2.52% |

| <u>Top 10 Holdings as of 6/30/2019</u> | <u>XLTY</u> | <u>Top 10 Holdings as of 6/30/2019</u> | <u>XLUY</u> |
|--|-------------|--|-------------|
| RYDER SYS INC | 6.07% | PPL CORP | 4.59% |
| UNION PACIFIC CORP | 6.03% | DOMINION ENERGY INC | 4.28% |
| ALASKA AIR GROUP INC | 5.99% | EDISON INTL | 3.96% |
| MATSON INC | 5.97% | SOUTHERN CO | 3.92% |
| UNITED PARCEL SERVICE INC | 5.95% | DUKE ENERGY CORP NEW | 3.77% |
| DELTA AIR LINES INC DEL | 5.95% | CENTERPOINT ENERGY INC | 3.29% |
| C H ROBINSON WORLDWIDE INC | 5.94% | ENTERGY CORP NEW | 3.18% |
| NORFOLK SOUTHERN CORP | 5.19% | FIRSTENERGY CORP | 2.99% |
| FEDEX CORP | 4.54% | CONSOLIDATED EDISON INC | 2.91% |
| EXPEDITORS INTL WASH INC | 3.98% | AES CORP | 2.81% |

¹ Permian Basin, United States Energy Information Administration, October 2018

² Permian Basin, United States Energy Information Administration, October 2018

³ Permian Basin, United States Energy Information Administration, October 2018

⁴ Rapier, Robert, Why The Permian Basin May Become The World's Most Productive Oil Field, Forbes, 12/27/18

⁵ Rapier, Robert, Why The Permian Basin May Become The World's Most Productive Oil Field, Forbes, 12/27/18

⁶ Elliot, Rebecca; Matthews, Christopher M.; and Rigdon, Renee, Rivals Vie for Mastery Over America's Hottest Oil Field, The Wall Street Journal, 5/6/19

Disclosure

Fund holdings and sector allocations are subject to change and are not a recommendation to buy or sell any security

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Investing involves risk. Principal loss is possible. Fund shares are bought and sold at market price (not NAV) and are not individually redeemable and will be issued and redeemed at their NAV only through certain authorized broker-dealers in large, specified blocks of shares called creation units and otherwise can be bought and sold only through exchange trading. Creation units are issued and redeemed principally in kind. Shares may trade at a premium or discount to their NAV in the

secondary market. Brokerage commissions will reduce returns. The Funds are non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Funds are more exposed to individual stock volatility than a diversified fund. As with all index funds, the performance of each Fund and its Index may differ from each other for a variety of reasons. For example, each Fund incurs operating expenses and portfolio transaction costs not incurred by the Index. In addition, each Fund may not be fully invested in the securities of the Index at all times or may hold securities not included in the Index.

Each Fund's assets will be concentrated in the energy sector, so it will be more effected by the energy sector's performance. Master Limited Partnerships (MLPs) concentrate investments in the natural resource sector and are subject to the risks of energy prices and demand and the volatility of commodity investments. MLPs are subject certain risks inherent in the structure of MLPs, including complex tax structure risks, the limited ability for election or removal of management, limited voting rights, potential dependence on parent companies or sponsors for revenues to satisfy obligations, and potential conflicts of interest between partners, members and affiliates. The potential tax benefits from investing in MLPs depend on them being treated as partnerships for federal income tax purposes. If the MLP is deemed to be a corporation then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the Fund which could result in a reduction of the Fund's value.

Any tax or legal information provided is merely a summary of our understanding and interpretation of some of the current income tax regulations and is not exhaustive. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. Neither the Funds nor any of their representatives may give legal or tax advice.

Cushing[®] Energy Index (CENI) tracks the performance of large cap energy companies selected from the S&P 500 Energy Index and master limited partnerships (MLPs) selected from the Cushing[®] 30 MLP Index.

Cushing[®] Energy Supply Chain Index (CSCI) selects its constituents from the S&P 500 Energy Index, the S&P 500 Materials Index, and MLPs in the Cushing 30 MLP Index.

The Cushing[®] Utility Index (CUTI) selects its constituents from companies within the S&P 500 Utility Index and MLPs within the Cushing 30 MLP Index.

Cushing[®] Transportation Index (CTRI) selects its constituents from companies within the Dow Jones Transportation Average and MLPs within the Cushing 30 MLP Index.

The S&P 500 Index is an index of 500 stocks used industry wide as a macro level indicator of the overall U.S. equity market. The S&P 500 Energy Index (SPN) comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector. The S&P 500 Materials Index (S5MATR) comprises those companies included in the S&P 500 that are classified as members of the GICS materials sector. The S&P 500 Utilities Index (S5UTIL) comprises those companies included in the S&P 500 that are classified as members of the GICS utility sector. The Dow Jones Transportation

Average (TRAN) represents the stock performance of large, well-known U.S. companies within the transportation industry. Cushing 30 MLP Index (MLPX) tracks the performance of midstream energy companies who typically are involved in the transportation and storage of natural gas, crude oil, and refined products.

It is not possible to invest directly in an index.

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