The spread, or difference in price, between West Texas Intermediate (WTI) and Brent North Sea Crude (Brent), two widely-quoted grades of crude oil, has reached historically wide levels.[1] As we will explain, this variance may benefit U.S. refiners and, subsequently, their investors. Refiners are one of the sectors held by certain Cushing® Sector Plus ETFs.

What is the significance behind this pricing spread? How may it translate to benefits for refiners and, ultimately, investors, including holders of certain Cushing® Sector Plus ETFs?

What's the Price of Oil?

Sounds like an easy question. Turn on the financial news and its quoted every day. But the reality is more complicated. As a corollary, consider gold. There are different grades of gold based on characteristics like purity. The price of gold depends on the purity; lower prices for 14-carat and higher prices for 24-carat. Such is the case for crude oil.

There are different grades of crude oil. Characteristics such as the amount of sulfur present in the oil, its acidity, levels of trace metals, and thickness go into determining its grade. As certain grades of crude oil are more desirable for refiners, the price of crude oil will vary by its grade.

WTI vs. Brent

Two of the more frequently quoted prices of crude oil refer to the grades known as West Texas Intermediate (WTI) and Brent North Sea Crude (Brent).

Brent refers to crude oil that is produced in the Brent oil fields and other sites in the North Sea. Brent pricing is the benchmark for crude oil produced in Africa, Europe, and Middle Eastern countries. The pricing mechanism for Brent dictates the value for roughly two-thirds of the world's crude oil production.[2]

WTI, the other major traded crude oil, is the benchmark for crude oil produced in North America. WTI has a lower sulfur content than Brent (which means it is "sweeter"). WTI is a better grade of crude oil for the production of gasoline while Brent favors the production of diesel fuels.

Since the grade of WTI and Brent differs, there is also a pricing difference between the two grades of crude oil. Additionally, differences in the supply and demand of the primary markets of the two grades of oil may affect the spread.

Wide Spread May Benefit Refiners

As the chart below highlights, the spread between WTI and Brent prices as of June 24, 2019, was high by historical standards. As of that date, the price of Brent was $7.43 higher (nearly 13%) than the price of WTI . The average spread over the 1987 through 2019 time-period was 7.25%. Note that the chart details the absolute value of the WTI/Brent spread because although Brent has recently traded at a higher price than WTI, that has not always been the case. Prior to 2009, WTI traded at the higher price. However, the increase of U.S. production, particularly shale oil, reversed that relationship. However, the point to note is that the spread is at a historically wide level.

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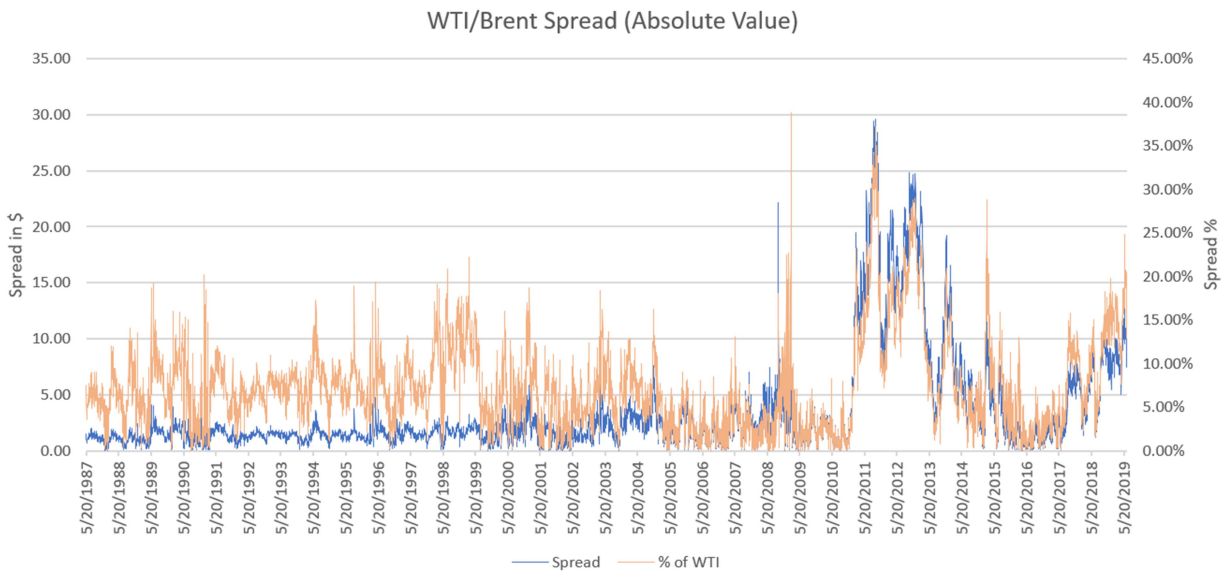
[1] *Source: US Energy Information Administration, Daily Prices of WTI and Brent 5/20/1987 – 6/24/19*

[2] Hecht, Andrew, Understanding the Crude Oil Market, thebalance, 1/14/19



Source: US Energy Information Administration, Daily Prices of WRI and Brent 5/20/1987 – 6/24/19
Past performance does not guarantee future results. Prices do not represent the fund.

<u>How Wide Spreads May Benefit Refiners</u>

U.S. refiners are able to buy crude oil at prices that are close to the WTI price, as WTI is the benchmark for U.S. production. However, they are able to sell their products at prices that are benchmarked to Brent prices. Thus, as the spread widens, the profit margins on refined products also increase (price minus cost).

Additionally, much of the crude oil purchased and refined by U.S. companies is of a lower grade than WTI and, consequently, trades at a lower price. But, refiners can still sell their products at prices benchmarked to the much higher Brent price. Thus, the widening of the spread may have a doubly beneficial impact on U.S. refiners by allowing them to purchase crude oil at lower than WTI prices and selling products at higher Brent-benchmarked prices.

The point to remember is that a widening spread between WTI and Brent prices may benefit U.S. refiners as their profit margins increase.

<u>How May Investors Gain Potential Exposure to This Favorable Pricing Scenario?</u>

Investors may purchase the stocks of companies with U.S. refining operations.

<u>The Cushing® Sector Plus ETFs</u>

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) hold stocks with refining operations in the US. These stocks may benefit from the wide WTI/Brent spread.

Top 10 Holdings as of 6/30/2019	XLEY
OCCIDENTAL PETE CORP	5.35%
SCHLUMBERGER LTD	5.03%
HELMERICH & PAYNE INC	4.95%
WILLIAMS COS INC DEL	4.80%
ONEOK INC NEW	4.73%
VALERO ENERGY CORP NEW	4.36%
MARATHON PETE CORP	4.25%
KINDER MORGAN INC DEL	4.14%
EXXON MOBIL CORP	4.00%
PHILLIPS 66	3.86%

Top 10 Holdings as of 6/30/2019	XLSY
DOW INC	3.55%
WESTROCK CO	3.32%
LYONDELLBASELL INDUSTRIES	3.25%
INTL PAPER CO	3.10%
OCCIDENTAL PETE CORP	3.08%
SCHLUMBERGER LTD	2.89%
HELMERICH & PAYNE INC	2.84%
WILLIAMS COS INC DEL	2.80%
ONEOK INC NEW	2.73%
VALERO ENERGY CORP NEW	2.52%

Top 10 Holdings as of 6/30/2019	XLTY
RYDER SYS INC	6.07%
UNION PACIFIC CORP	6.03%
ALASKA AIR GROUP INC	5.99%
MATSON INC	5.97%
UNITED PARCEL SERVICE INC	5.95%
DELTA AIR LINES INC DEL	5.95%
C H ROBINSON WORLDWIDE INC	5.94%
NORFOLK SOUTHERN CORP	5.19%
FEDEX CORP	4.54%
EXPEDITORS INTL WASH INC	3.98%

Top 10 Holdings as of 6/30/2019	XLUY
PPL CORP	4.59%
DOMINION ENERGY INC	4.28%
EDISON INTL	3.96%
SOUTHERN CO	3.92%
DUKE ENERGY CORP NEW	3.77%
CENTERPOINT ENERGY INC	3.29%
ENTERGY CORP NEW	3.18%
FIRSTENERGY CORP	2.99%
CONSOLIDATED EDISON INC	2.91%
AES CORP	2.81%

Disclosure

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

An investor should consider the investment objective, risks, charges and expenses of a Fund carefully before investing. To obtain a prospectus and summary prospectus, which contain this and other information, call (800) 617-0004 or visit cushingetfs.com. Please read the prospectus and summary prospectus carefully before investing.

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.

Diversification does not assure a profit nor protect against principal loss in a declining market.

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.

A spread can have several meanings in finance. Basically, however, they all refer to the difference between two prices, rates or yields. In one of the most common definitions, the spread is the gap between the bid and the ask prices of a security or asset, like a stock, bond or commodity. It is also often used to describe the price difference between two similar items, particularly commodities.

It is not possible to invest directly in an index.

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