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Equity Research

Shipping's Corporate Governance War

Introducing The Wells Fargo Shipping Scorecard

Shipping, Equipment Leasing, & Marine MLPs

- **Fighting Back On Corporate Governance.** Over the past decade the public shipping sector has faced continual pressure from pockets of conflicted interests, via related-party fee structures, transactions, or misaligned management interests, with that small group of actors creating a sector-wide drag on valuations and market standing. **We believe there is no longer a place in the public Shipping markets for companies that do not prioritize corporate governance and capital stewardship.** Ultimately, we believe the risk premiums associated with poor governance/capital stewardship can (and should) continue to widen, eventually pricing-out conflicted players or antiquated structures from the public markets.

- **Moving In The Right Direction.** Despite a handful of very visible (and outspoken) exceptions, we think the quality of new entrants into the shipping space has improved, due primarily to shareholder pushback, but also to a number of principled management teams (EURN, ASC, GLOG, etc). We also think limited sources of new capital, the lack of a sustainable inflationary tailwind, and a more discerning market bid should simply make it more difficult for smaller, less developed asset plays to enter the public markets. We believe those factors should continue to push the public market's focus towards *solid companies*, as opposed to *strategies*, which we think should benefit the space in the long run.

- **Introducing The Wells Fargo Shipping Scorecard.** Our new scorecard ranks the shipping universe on a number of Corporate Governance metrics (detailed below), with the ultimate goal of identifying high quality names based on those underlying factors – crystallizing a framework that has been core to our investment strategy and coverage, while also keeping conflicted companies/interests from relying on anonymity or indifference to perpetuate what's become a consistent headwind for the entire group.

- **Framework:** For the past 9 months we've set up (and tweaked...and tweaked) a multi-factor model that measures Corporate Governance within the Shipping space, including factors like Commercial Management (17%), Technical Management (17%), Sale & Purchase fees (17%), Related Party Transactions (17%), and Independent Board Membership (17%), which we detail later in the piece. In addition to those quantitative metrics (which make up +80% of the total score),we also include a subjective factor (17%) that attempts to capture the scale, scope, and context of risks that extend beyond the binary nature of the other data points. We arrive at a weighted score for each company based on those factors, and break the results into quartiles (Page 2).

- **Superior Corporate Governance Translates To Equity Outperformance:**
  - Companies with the ***best corporate governance*** scores **(ASC, EURN, NVGS, KEX, AVANCE, DHT, OSG, GLNG, MATX, and NAT)** ***outperformed*** the group by 64% over the past 3-years, up 59.1% over the past 3-years (vs. the S&P500, up 31%).
  - Companies with the ***worst corporate governance*** scores **(SBLK, DSX, DCIX, ESEA, CPLP, SB, TNP, STNG, SALT, GASS, and DRYS)** have ***underperformed*** the group, by 28% over the past 3-years.

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Please see page 9 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 04/19/16 unless otherwise stated.

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Figure 1. Shipping Corporate Governance Scorecard Rankings

Corporate Governance					
ASC	1	Quartile 1	SDLP	22	Quartile 3
EURN	2		NAP	23	
NVGS	3		NMM	24	
KEX	4		CAI	25	
AVANCE	5		FRO	26	
DHT	6		GNRT	27	
OSG	7		NNA	28	
GLNG	8		CMRE	29	
MATX	9		KNOP	30	
NAT	10		SSW	31	
GLOG	11	Quartile 2	SBLK	32	Quartile 4
TGH	12		DSX	33	
TK	13		DCIX	34	
LPG	14		ESEA	35	
TNK	15		CPLP	36	
BWLPG	16		SB	37	
GLOP	17		TNP	38	
GMLP	18		STNG	39	
RIGP	19		SALT	40	
TGP	20		GASS	41	
TOO	21		DRYS	42	

Source: Wells Fargo Securities, LLC

Notes & Outliers

- The companies that had the **best** corporate governance scores within our model were **ASC, EURN, NVGS, KEX, AVANCE, DHT, OSG, GLNG, MATX,** and **NAT** as noted above.
- The companies that had the **lowest** corporate governance scores within our model were **SBLK, DSX, DCIX, ESEA, CPLP, SB, TNP, STNG, SALT, GASS,** and **DRYS** as noted above.
- Our subjective input factor reflects history, frequency, and context that is inherently limited by the other data points. Interestingly, even excluding our subject factor (which carried an equal 17% weighting), the results would have been largely the same. In fact:
  - Excluding our subjective factor, 9 out of the 10 top quartile (best ranked) names would have been the same.
  - Excluding our subjective factor, 9 out of the 11 bottom quartile (worst ranked) names would have been the same.
- CPLP's score was hindered by the fact its C-Corp GP is private, which weighed on its overall ranking. While we believe its track record is mixed – it reset its IDRs, which we didn't like, and it converted its subordinated units early in February 2009, however the sponsor has also stepped up to support the MLP distribution (effectively giving it a charter subsidy at times) which is a positive, in our view.

- CMRE's score was hindered by the existence of related party operating agreements (although it still maintains the highest score within the Containership group). We generally view CMRE as a solid operator, and have not seen anything to indicate its related party agreements have resulted in any loss of shareholder value. However, the simple fact that they exist weighed on its ranking relative to where we would have placed them subjectively.
- NNA has frequently been in the news over the past 2 months regarding a $50MM loan to its parent entity NM. While we downgraded NNA from an Outperform to an Underperform after the loan filing, NNA has since withdrawn the loan, in reaction to a shareholder lawsuit and market feedback. While we believe the ordeal was a black eye for the Navios group – and it's certainly reflected in our initial scorecard rankings (NNA ranked towards the bottom of the 3rd Quartile), they previously enjoyed a better track record. We think pulling back the loan was a step in the right direction. NNA's scores, like other subsidiaries or daughter companies, suffers from having related party management via Navios Corp, which we believe, technically, presents the opportunity for conflict (although one that's more minor than a relationship with a private entity). To that end – we think NNA's cost controls actually benefit from that Navios relationship (with Opex, G&A, and ancillary costs well below its peer group). Many companies with those relationships use a similar argument, often simply as cover – and we do not put NNA in that camp.
- SSW's score was weighted down by the S&P agreements in place at the management level, as well as other related party agreements.
- There was a very significant gap between the rest of Quartile 4 and the bottom 4 (STNG, SALT, GASS, and DRYS). DRYS and GASS's scores were so weak that we had to change the way our model ran (narrowing max/min for each factor) to keep them from skewing the results.

Scorecard Rationale

The purpose of the scorecard is to provide a baseline, comparable quantitative and qualitative corporate governance ranking across the Marine universe. We use a proprietary factor model built on six quantitative and qualitative inputs that places Marine names into quartile rankings (Quartile 1 being our highest ranking in the model). Our model is centered around measuring corporate governance controls, with related-party technical and commercial management fees, S&P fees, related-party transactions, and the level of independent board membership are scrutinized. We also add a subjective factor (subjective on our part) to capture dynamics, context, or risks that are missed by the inherently binary aspect of some of our metrics. Our model creates a cumulative value, or ranking for each company in each category, and, for example, if a Marine stock ranks poorly (Quartile 4), we believe the corporate governance profile of that name should probably receive extra scrutiny. Thus, an investor would need to price this lower degree of corporate governance (and associated risk) appropriately (i.e., pay a lower price/valuation). In contrast, we believe Quartile 1 Marine names are more likely to fetch a relative valuation premium based on higher underlying quality indicated by our scorecard.

How Should The Scorecard Be Used?

We believe our scorecard can be used as a tool to help evaluate degrees of corporate governance across shipping sectors and individual companies. While there are obviously dozens of risk factors and fundamentals on both a company and an industry basis that go into making an investment decision, we believe corporate governance is too often either overlooked or mispriced. All else equal, we believe companies in Quartile 1 generally screen more favorably than the lower quartiles, presenting better governance than many of its peers. Our primary goal for this scorecard is to help clients better understand the varying degrees of governance risk across the shipping space, enabling investors to differentiate among investment alternatives. We believe our ranking helps add value to that process, and in that light, we are also open to feedback on ways to improve it.

What It Is Not?

Our corporate governance scorecard **is not** an indication that an investor should only invest in Quartile 1 Shipping companies, as we believe governance is one factor among several risks or fundamentals to be considered, along with a specific investor's risk appetite and investment goals. We note that industry dynamics (be it Tankers, LNG, Containers, etc) play a very large role in our formal, cumulative ratings and investment process, and are not necessarily captured within the narrower scope of this scorecard.

Does Corporate Governance Quality Translate To Equity Performance? Yes.

Better Corporate Governance Has Led To Better Performance. As noted in Figure 2, companies in **Quartile 1 have significantly outperformed** Quartiles 2-4, **with an average total return of 55% over the past 3-years**, compared to a **negative average 3-year total return of 35% for Quartiles 2-4** (vs. the 3-year total return for the S&P 500 of 29%), which we believe reflects the general idea that higher degrees of corporate governance can be an influential aspect of a more favorable relative risk/reward profile relative to that of companies with lower degrees of governance.

Figure 2. Price, Performance, And Rating By Quartile Rank

April 2016 Shipping Corporate Governance Rankings						
			Price	% Total Return		
	Ticker	Rating	(4/18/16)	3 Month	1 Year	3 Year
Quartile 1	ASC	Outperform	$9.62	6%	-12%	N/A
	EURN	Outperform	$10.82	13%	-11%	200%
	NVGS	Market Perform	$15.50	41%	-27%	8%
	KEX	Market Perform	$62.15	32%	-24%	-16%
	AVANCE	Market Perform	$7.32	-30%	-23%	N/A
	DHT	Not Rated	$5.99	9%	-15%	58%
	OSG	Not Rated	$2.23	-21%	-36%	N/A
	GLNG	Outperform	$19.45	57%	-41%	-29%
	MATX	Market Perform	$37.92	2%	-9%	63%
	NAT	Not Rated	$14.60	13%	24%	102%
	Average			***12%***	***-18%***	***55%***
Quartile 2	GLOG	Market Perform	$11.57	93%	-47%	1%
	TGH	Market Perform	$15.00	62%	-48%	-48%
	TK	Market Perform	$10.36	93%	-76%	-59%
	LPG	Market Perform	$10.34	6%	-26%	N/A
	TNK	Market Perform	$3.74	-13%	-41%	72%
	BWLPG	Market Perform	$6.45	2%	-9%	N/A
	GLOP	Market Perform	$18.07	76%	-30%	N/A
	GMLP	Market Perform	$15.91	69%	-35%	-32%
	RIGP	Market Perform	$10.24	52%	-21%	N/A
	TGP	Market Perform	$13.18	40%	-62%	-51%
	TOO	Market Perform	$6.28	102%	-66%	-60%
	Average			***53%***	***-42%***	***-25%***
Quartile 3	SDLP	Market Perform	$4.07	93%	-51%	-66%
	NAP	Market Perform	$11.17	43%	-21%	N/A
	NMM	Market Perform	$1.68	-8%	-79%	-58%
	CAI	Market Perform	$9.44	65%	-62%	-64%
	FRO	Market Perform	$7.84	-22%	N/A	N/A
	GNRT	Not Rated	$7.48	18%	N/A	N/A
	NNA	Underperform	$1.93	-7%	-46%	-24%
	CMRE	Market Perform	$10.29	57%	-41%	-18%
	KNOP	Market Perform	$17.90	71%	-24%	1%
	SSW	Market Perform	$17.75	21%	-2%	-3%
	Average			***33%***	***-41%***	***-33%***
Quartile 4	SBLK	Not Rated	$0.97	151%	-75%	N/A
	DSX	Market Perform	$3.13	22%	-50%	-67%
	DCIX	Market Perform	$0.64	28%	-75%	-74%
	ESEA	Market Perform	$2.20	-7%	-70%	-77%
	CPLP	Market Perform	$3.46	4%	-54%	-31%
	SB	Not Rated	$1.15	226%	-69%	-68%
	TNP	Outperform	$6.21	7%	-32%	86%
	STNG	Not Rated	$6.12	7%	-34%	-19%
	SALT	Not Rated	$4.03	10%	-86%	N/A
	GASS	Market Perform	$3.81	37%	-45%	-64%
	DRYS	Market Perform	$2.10	-12%	-89%	-96%
	Average			***43%***	***-62%***	***-45%***
	S&P 500		**$2,094.34**	**11%**	**-1%**	**30%**

Marine companies with top-tier corporate governance have Outperformed on a 1-year and 3-year basis

Source: Capital IQ, Wells Fargo Securities, LLC

Corporate Governance Overview

Within our Corporate Governance rankings, we have included several binary factors, which capture whether or not each company has **Related Party Commercial Management, Related Party Technical Management, Sale and Purchase (S&P) Fees,** and whether there's a history of **Related Party Transactions**. While the presence of any of these binary factors alone does not *necessarily* indicate a shareholder disadvantage, we believe they do represent a potential conflict of interest. While the frequent argument by those with related party fees has been that a high level of equity ownership within management or the company's sponsor counterbalances that risk (aligning them with other common shareholders on cost controls), we believe that argument is factually untrue, and often disingenuous. We believe some of these fee structures simply act as secondary dividends for ownership groups, and *even* if they are not (ie. the fees are inline with comparable, third party fees) **it is simply not a risk equity holders should have to take**.

Related party agreements are generally inherent within the GP/MLP structure as well, and those relationships are also penalized (albeit to a lesser degree) simply due to the fact that a semi-conflicted relationship exists. We think of it as capturing the lack of ultimate control that LP or subsidiary unitholders face. We generally penalize any related-party MLP arrangements that include a *privately* owned entity (GP or otherwise) more significantly – given limited visibility into both ends of a transaction.

We have also included **Independent Board Membership** as a fifth factor, with a higher degree of independence amid a company's board of directors indicative of a higher overall level of corporate governance quality, in our opinion. We adjust those aggregate scores by a 6th **Subjective** factor where we attempt to incorporate additional company specific aspects not represented in our 5 primary corporate governance factors. We've given each of these factors equal weightings (as indicated below), with the cumulative Corporate Governance rankings summarized in Figure 3. Within our scorecard the higher ranked companies (ASC, EURN, etc.) indicative of higher quality corporate governance, while the lower ranked companies (GASS, DRYS, etc.) have lower quality corporate governance, in our view.

Corporate Governance Factor #1: Related Party Commercial Managers. Commercial management covers the marketing, chartering, operations, and trading of vessels in the spot or time-charter market. While commercial management can be provided by wholly owned subsidiaries; it is common place in the industry for companies to outsource commercial management to third-party managers who charge a daily fee on a per vessel basis (with those fees ranging widely from ~$300 - $2,000/day across our Shipping universe). These management agreements can be with either public or private managers, which may be either related or unrelated parties, potentially creating conflicts of interest given the difficulty of comping the value of services within these arrangements. Commercial relationships with wholly owned subsidiaries or to unrelated third parties generally provide the least degree of potential conflicts of interest, while related party management presents higher potential risk for shareholders given those conflicts. Within related party commercial management structures, we believe the degree of the risks from conflicting interests are partially offset via public-to-public relationships given the greater degree of visibility on both ends of the agreement, while we view public-to-private related party arrangements as the least desirable. Additionally, given the presence of related party management relationships as an inherent aspect of the GP/MLP structure, our related party commercial management factor rankings are less punitive across the GP/MLP group so far as the arrangements are within the bounds of the typical GP/MLP relationship, and both entities are public.

Corporate Governance Factor #2: Related Party Technical Managers. Technical management includes providing vessel maintenance, arranging and supervising newbuilding construction, dry-docking, repairs, capital improvements, and maintaining vessel safety management systems. While technical management can be provided internally by wholly owned subsidiaries; it is common place in the industry for companies to outsource technical management to either related or unrelated third-party managers who charge a daily fee on a per vessel basis (with those fees ranging widely from ~$250 - $1,000/day across our Shipping universe). Relationships with wholly owned subsidiaries or to unrelated third parties generally provide the least degree of potential conflicts of interest, while related party management presents a higher degree of potential risk for shareholders. We believe the degree of the risks from conflicting interests are partially offset via public-to-public relationships given the greater degree of visibility on both ends of the agreement, while we view public-to-private related party arrangements as the least desirable. As with commercial management, the presence of related party management relationships is an inherent aspect of the GP/MLP structure, our related party factor rankings are less punitive across the GP/MLP group, and both entities are public.

Corporate Governance Factor #3: Sale And Purchase Fees. Shipping companies often have Sale & Purchase fee arrangements, whereby management directly (or indirectly via a related third-party) receives a fee for any newbuild orders, asset sales, or purchases at the company level, with these S&P fees typically ranging from 1-1.25% of the total transaction value. We view the presence of these S&P fee arrangements as a major red flag, and a reflection of lower quality corporate governance given weaker alignment of shareholder and management interests. We believe S&P arrangements between related parties often incentivize investment decisions based on deal size and frequency, rather than returns.

Corporate Governance Factor #4: Related Party Transactions. We also scrutinize related party transactions, as we believe they create similar (very significant) conflicts of interest for management, with the potential for transaction values to deviate from market prices given the incentives for premium valuations charged between the two parties (and higher risk). This most readily presents itself via acquisitions from private fleets or related entities, with a number of Dry Bulk, Tanker, and Containership owners acquiring or selling assets to their personal fleets. DRYS comes to mind, with DSX, TNP, and others all recently transacting with a private arm. This also includes real estate and other assets.

Corporate Governance Factor #5: Independent Board Membership. We view board independence as a factor that is highly reflective of strong corporate governance controls. As such we believe it is important to differentiate between the varying levels of independent board membership across the shipping space. On average our universe had ~70% independent board membership, although those figures are lumpy.

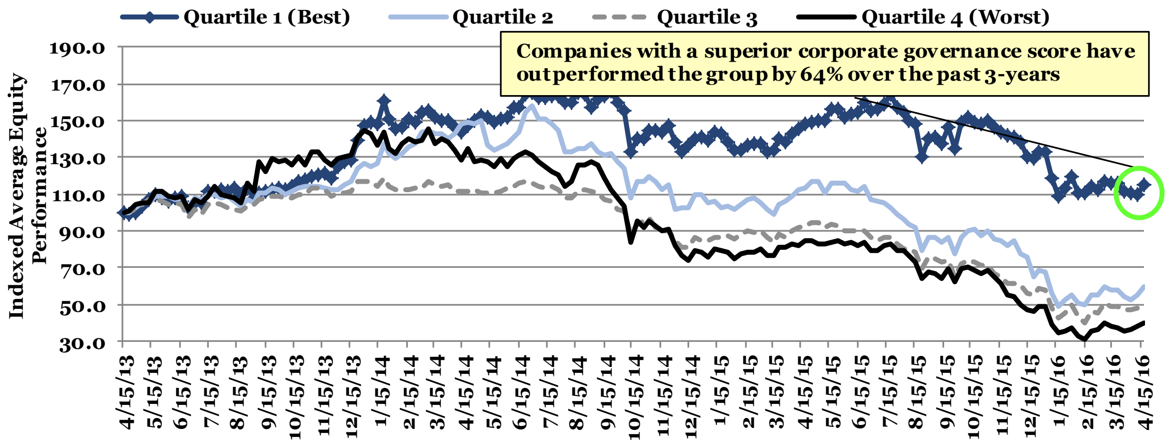
Figure 3. Shipping-Corp Corporate Governance Scorecard Rankings

Corporate Governance					
ASC	1		SDLP	22	
EURN	2		NAP	23	
NVGS	3		NMM	24	
KEX	4		CAI	25	
AVANCE	5	Quartile 1	FRO	26	Quartile 3
DHT	6		GNRT	27	
OSG	7		NNA	28	
GLNG	8		CMRE	29	
MATX	9		KNOP	30	
NAT	10		SSW	31	
GLOG	11		SBLK	32	
TGH	12		DSX	33	
TK	13		DCIX	34	
LPG	14		ESEA	35	
TNK	15		CPLP	36	
BWLPG	16	Quartile 2	SB	37	Quartile 4
GLOP	17		TNP	38	
GMLP	18		STNG	39	
RIGP	19		SALT	40	
TGP	20		GASS	41	
TOO	21		DRYS	42	

Source: Wells Fargo Securities, LLC

Our Corporate Governance Rankings In Reality. In Figure 4, we have graphed the relative equity performance for our various **Corporate Governance** scorecard ranking quartiles, with our **Quartile 1 companies** (ASC, EURN, NVGS, KEX, AVANCE, DHT, OSG, GLNG, MATX, and NAT), **generally outperforming our other quartile groupings** (up 40%), while our **Quartile 4 grouping** (SBLK, DSX, DCIX, ESEA, SB, CPLP, TNP, STNG, SALT, GASS, and DRYS), which represents companies with the lowest degree of corporate governance amid our universe, **generally underperforming the other groups** (down 53%).

Figure 4. Average Equity Performance By Corporate Governance Quartile Ranking



Source: Capital IQ, Wells Fargo Securities, LLC

Subjective

Shipping-Corp Factor #6: Subjective. For our final corporate governance scorecard factor, we assess factors that may be difficult to quantify amid our primary inputs, including history, context, and scale. This factor is given an equal relative weighting (17%) to our other 5 factors as we believe the binary nature of some of the data does not fully capture the risk.

Ranking Methodology

Scorecard Step No.1: Rank Each Company According To The Fundamental Scorecard Factors

First, we calculate a fundamental score for each shipping company based on our six-factor model, comparing relative degrees of corporate governance based on company data. The factors and weights are outlined in Figure 5 below.

Figure 5. Corporate Governance Scorecard Factors

	Corporate Governance Factor	Weight
Factor #1	Related Party Commercial Management	17%
Factor #2	Related Party Technical Management	17%
Factor #3	Sale And Purchase Fees	17%
Factor #4	Related Party Transactions	17%
Factor #5	Independent Board Membership	17%
Factor #6	Subjective	17%

Source: Wells Fargo Securities, LLC

Scorecard Step No. 2: Compile the Factor Score and Ranking

With each company scored or ranked according to the corporate governance factors mentioned in Step No. 1, we then proceed to compile an overall corporate governance score, based on the associated weights noted in Figure 5 above. First, we rank each shipping company based on the overall corporate governance score (compiled based on our 6 factors.). Second, we separate the group into quartiles based the overall scorecard ranking.

Appendix

To further supplement our Corporate Governance rankings, we have provided a detailed summary of our factor inputs (Commercial/Technical Management, S&P fees, Related Party Transactions, Independent Board Membership and our Subjective factor) to an individual company level. We have also included a detailed description of company specific corporate governance controls/issues in the pages that follow.

Figure 6. Company Specific Corporate Governance Overview

			Related Party				
Ticker	Sector	Quartile	Commercial Management Fees	Technical Management Fees	S&P Fees / Commissions	Asset Transactions	% Indep. Board Membership
TGH	Container	2	No	No	No	No	40%
CAI	Container	3	No	No	No	Yes	43%
CMRE	Container	3	Yes	Yes	No	No	40%
SSW	Container	3	No	No	Yes	Yes	63%
DCIX	Container	4	Yes	Yes	Yes	No	57%
SBLK	Dry Bulk	4	Yes	No	Yes	Yes	75%
DSX	Dry Bulk	4	No	No	Yes	Yes	67%
ESEA	Dry Bulk	4	Yes	Yes	Yes	No	75%
SB	Dry Bulk	4	Yes	Yes	Yes	No	43%
SALT	Dry Bulk	4	Yes	Yes	Yes	yes	71%
DRYS	Dry Bulk	4	Yes	Yes	Yes	Yes	67%
GLNG	GP	1	No	No	No	No	86%
GLOG	GP	2	No	No	No	No	50%
TK	GP	2	No	No	No	No	80%
AVANCE	LPG	1	No	No	No	No	100%
NVGS	LPG	1	No	No	No	No	86%
LPG	LPG	2	No	No	No	No	71%
BWLPG	LPG	2	Yes	Yes	No	Yes	100%
GASS	LPG	4	Yes	Yes	Yes	Yes	60%
GLOP	MLP	2	Yes	Yes	No	Yes	71%
GMLP	MLP	2	Yes	Yes	No	Yes	71%
TGP	MLP	2	Yes	Yes	No	Yes	71%
TOO	MLP	2	Yes	Yes	No	Yes	67%
RIGP	MLP	2	Yes	Yes	No	Yes	71%
NAP	MLP	3	Yes	Yes	No	Yes	57%
NMM	MLP	3	Yes	Yes	No	Yes	57%
SDLP	MLP	3	Yes	Yes	No	Yes	86%
KNOP	MLP	3	Yes	Yes	No	Yes	86%
CPLP	MLP	4	Yes	Yes	Yes	Yes	50%
EURN	Tankers	1	No	No	No	No	90%
ASC	Tankers	1	No	No	No	No	88%
DHT	Tankers	1	No	No	No	No	100%
OSG	Tankers	1	No	No	No	No	90%
NAT	Tankers	1	No	No	No	No	67%
TNK	Tankers	2	No	No	No	Yes	67%
FRO	Tankers	3	No	No	No	Yes	67%
GNRT	Tankers	3	Yes	No	No	No	71%
NNA	Tankers	3	Yes	Yes	No	No	56%
TNP	Tankers	4	Yes	Yes	Yes	Yes	63%
STNG	Tankers	4	Yes	Yes	Yes	yes	63%
KEX	US Marine	1	No	No	No	No	83%
MATX	US Marine	1	No	No	No	No	86%

Source: company filings, Wells Fargo Securities, LLC estimates

Required Disclosures

This is a compendium report, to view current important disclosures and other certain content related to the securities recommended in this publication, please go to https://www.wellsfargoresearch.com/Disclosures or send an email to: equityresearch1@wellsfargo.com or a written request to Wells Fargo Securities Research Publications, 7 St. Paul Street, Baltimore, MD 21202.

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ASC: Risks include limited trading liquidity, volatile tanker rates, and overcapacity
AVANCE: Risks include increasing fleet growth, slowing macro growth, and energy market volatilty.
BWLPG: Risks include increasing competition, counterparty risk, accelerating fleet growth, access to capital, and slowing macro growth.
CAI: Risks include increasing competition, counterparty risk, access to capital and slowing macro growth.
CMRE: Risks include exposure to volatile shipping rates, counterparty risk, increasing capacity, and marine disasters.

CPLP: Risks include volatile shipping rates and asset values, and dilution from incentive shares.
DCIX: Risks include exposure to volatile shipping rates, counterparty risk, increasing capacity, and marine disasters.
DSX: Risks include exposure to volatile asset values and day rates, increasing capacity, and marine disasters.
ESEA: Risks include exposure to volatile shipping rates and asset values, employment discrimination due to the age of its vessels, increasing capacity, and marine disasters.
EURN: Risks include volatile tanker rates and accelerating fleet growth.
FRO: Risks include FRO's market leverage, exposure to volatile shipping rates and asset values, increasing capacity, and marine disasters.
GASS: Risks include increasing competition, counterparty risk, access to capital and slowing macro growth.
GLNG: Risks include project/construction risk, volatile rates/asset values, and marine disasters.
GLOG: Risks include delivery delays, weaker LNG demand and high leverage.
GLOP: Risks include LNG carrier supply, concentration risk, dependency on capital markets, global delays in liquefaction and governmental regulations.
GMLP: Risks to GMLP trading include competition in the FSRU market, dependency on acquisitions, global delays in liquefaction and environmental/governmental regulations.
KEX: Risks include continued geopolitical, regulatory risk, and the potential for marine accidents.
KNOP: Risks include access to capital markets, rising interest rates, and a volatile crude pricing backdrop.
LPG: Risks include increasing competition, counterparty risk, access to capital and slowing macro growth.
MATX: Risks include macroeconomic weakness, significantly concentrated Hawaiian exposure, and marine disasters.
NAP: Risks include access to capital markets, volatile tanker rates, and rising interest rates.
NMM: Risks include volatile day rates and asset values, increasing capacity, and marine disasters.
NNA: Risks include counterparty risk, and exposure to volatile shipping rates and asset values.
NVGS: Risks include increasing competition, counterparty risk, access to capital, and macro volatility.
OSG: Risks include the bankruptcy process and significant market leverage.
RIGP: Risks include rig operating and recharter risks and global economic weakness.
SDLP: Risks include a lack of direct MLP comparables, global economic weakness, and rig operating risk.
SSW: Risks: significant financial leverage, increasing global capacity, and marine disasters.
STNG: We view STNG's risk/reward profile as balanced given its industry leading product tanker scale, firm tanker fundamentals, and dividend potential; against growing tanker fleet growth and checkered management track record.
TGH: Risks include increasing competition, counterparty risk, potentially slowing macro growth, and increased trade barriers.
TGP: Risks include newbuild delivery delays, lower-than-expected LNG demand, and high financial leverage.
TK: Risks include macro weakness, volatile energy markets, and significant financial leverage.
TNK: Risks include TNK's exposure to volatile shipping rates and asset values, and increasing capacity.
TNP: Risks include increasing competition, counterparty risk, access to capital, and slowing macro growth.
TOO: Primary risks include a potential deceleration demand for offshore vessels, dependence on Teekay Corporation to provide future financing, growth through acquisitions, regulatory issues, and vessel operational risks.

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1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY
2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.
M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.
U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: April 19, 2016

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