

# Guide to Energy Infrastructure Investing

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GTE Wealth Forum  
Las Vegas, NV

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# About Alerian



Real-time MLP Index  
MLP ETN  
MLP ETF

**\$14** billion in index-linked products

**84%** market share for passive exchange traded products

17  
product  
partners



8

REAL-TIME MLP & ENERGY INFRASTRUCTURE INDICES  
AMZ / AMZI / AMEI / AMCS / AMZE / ANGI / AMNA / AMUS

# About Alerian // Alerian Index Series

## SECTOR // Midstream

### AMNA

Alerian Midstream Energy Index

..... Energy Infrastructure

### AMUS

Alerian US Midstream Energy Index

..... Energy Infrastructure

### AMEI

Alerian Midstream Energy Select Index

..... Energy Infrastructure

## SECTOR // MLP

### AMZ

Alerian MLP Index

..... Infrastructure MLPs

### AMZI

Alerian MLP Infrastructure Index

..... Infrastructure MLPs

## STRATEGY

### AMZE

Alerian MLP Equal Weight Index

..... Infrastructure MLPs

### ANGI

Alerian Natural Gas MLP Index

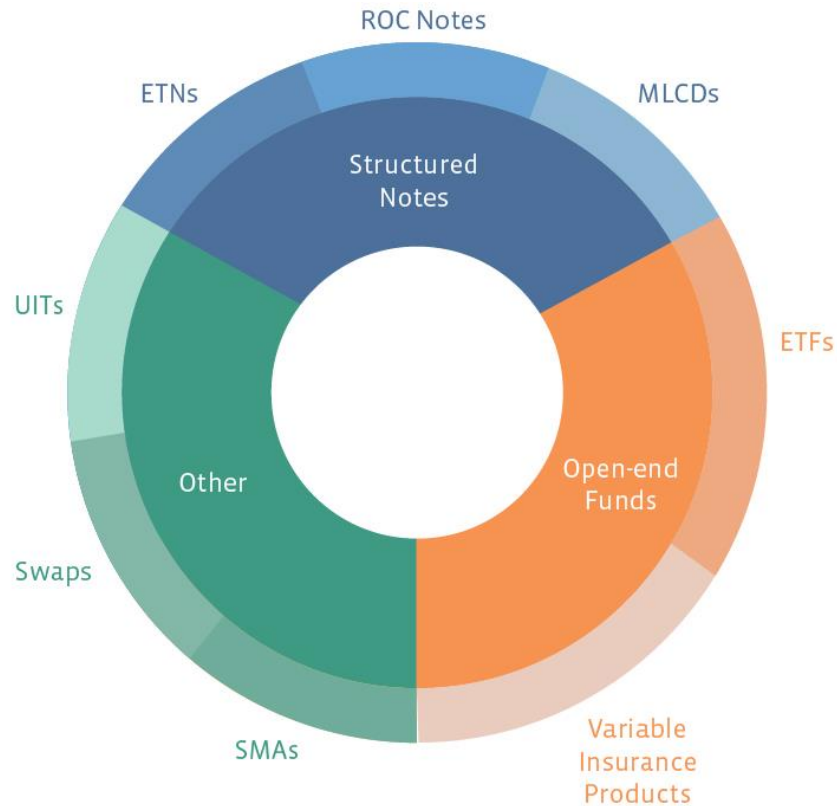
..... Natural Gas MLPs

### AMCS

Alerian Energy Infrastructure Capital Strength Select Index

..... Energy Infrastructure

## About Alerian // Facilitating energy infrastructure investing



# About Alerian // Facilitating energy infrastructure investing

## AMZ

**AMJ // \$1,947**  
JPMorgan Alerian MLP Index ETN

**Licensee:** JPMorgan  
**Annual Fee:** 0.85%

**AMU // \$315**  
ETRACS Alerian MLP Index ETN

**Licensee:** UBS  
**Annual Fee:** 0.80%

**AMJL // \$10**  
X-Links Monthly Pay 2X Leveraged  
Alerian MLP Index ETN

**Licensee:** Credit Suisse  
**Annual Fee:** 0.85%

## AMZI

**AMLP // \$8,260**  
Alerian MLP ETF

**Licensee:** ALPS  
**Annual Fee:** 0.85%

**MLPI // \$1,083**  
ETRACS Alerian MLP Infrastructure  
Index ETN

**Licensee:** UBS  
**Annual Fee:** 0.85%

**MLPQ // \$66**  
ETRACS 2x Leveraged Alerian MLP  
Infrastructure Index ETN

**Licensee:** UBS  
**Annual Fee:** 0.85%

## AMEI

**ENFR // \$64**  
Alerian Energy Infrastructure ETF

**Licensee:** ALPS  
**Annual Fee:** 0.65%

## ANGI

**MLPG // \$4**  
ETRACS Alerian Natural Gas MLP  
Index ETN

**Licensee:** UBS  
**Annual Fee:** 0.85%



**Overview  
of MLPs**



## Overview of MLPs // Why MLPs?



### Above-Average Yield

MLPs pay no taxes at the entity level, so they can pay out more of their cash flow to investors as distributions



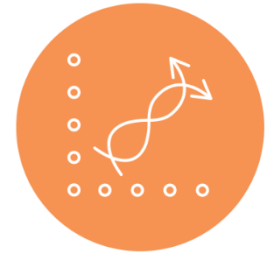
### Stable Cash Flows

Fee-based, volume-driven business models that benefit from growing US energy production and rising demand domestically and abroad



### Energy Infrastructure

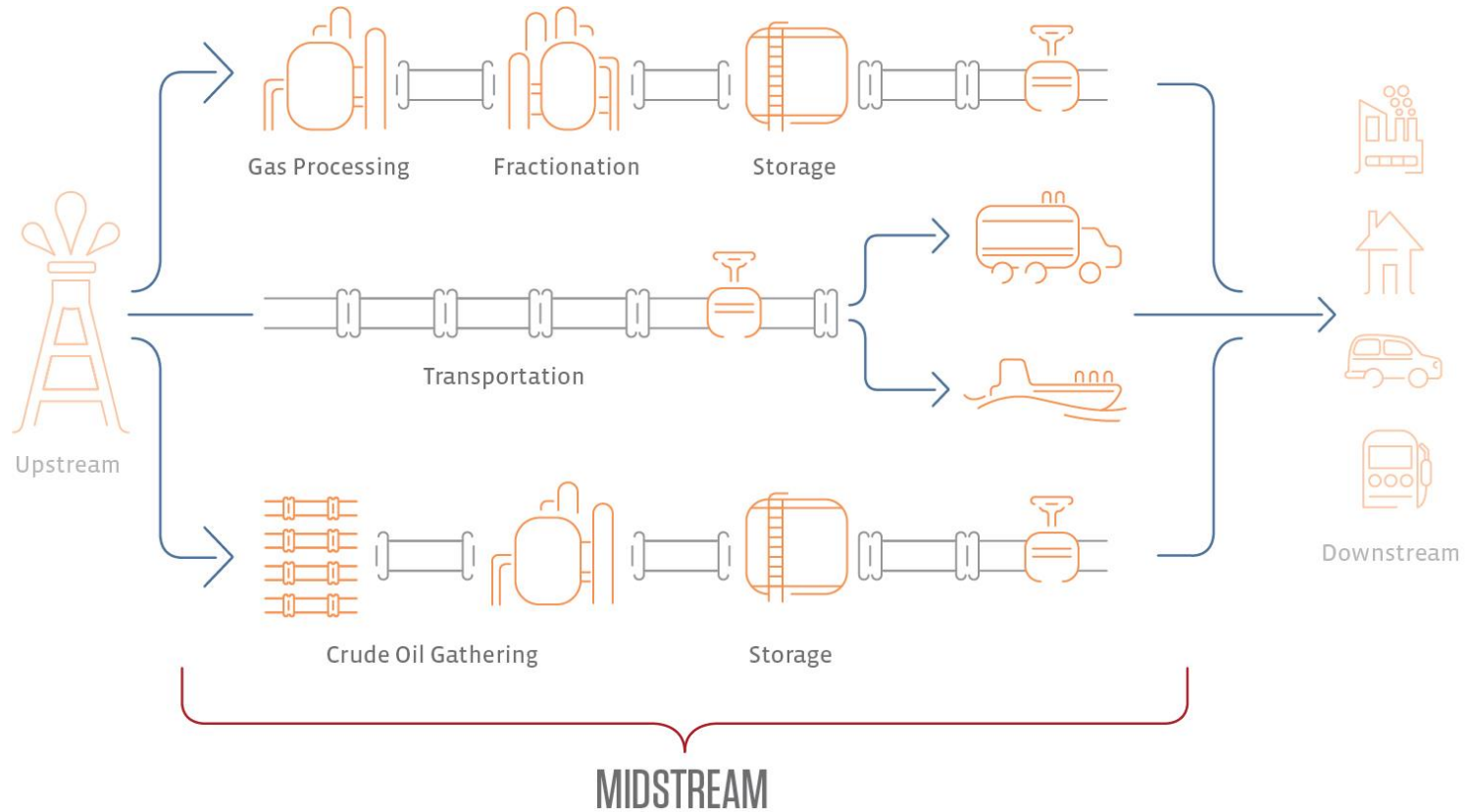
Exposure to long-lived real assets that generate inflation-protected cash flows; organic project development supports growing cash flows



### Diversification

Low correlation to other income-oriented investments, including REITs, utilities, and bonds; MLPs are not in broader market indices

# Overview of MLPs // What is an energy infrastructure asset?



## Overview of MLPs // Simple investment story, complex tax structure

### General Taxation

- Income/deductions are passed through to unitholders on a Schedule K-1
- Investors must file income taxes in each state in which the MLP operates
- 70%-100% of MLP distributions are tax-deferred return-of-capital
- Remaining 0%-30% of MLP distributions are taxed at ordinary income rates

### Treatment at Sale

- Gain from reduced basis is “recaptured” and taxed at ordinary income rates
- Any remaining taxable gain is taxed at capital gain rates

### Wealth Transfer

- No ordinary income “recapture” of cost basis
- Cost basis is “stepped-up” to current price on day of transfer

### Tax-Advantaged Accounts

- Subject to tax if unrelated business taxable income (UBTI) exceeds \$1,000
- UBTI based on partnership income, not cash distributions

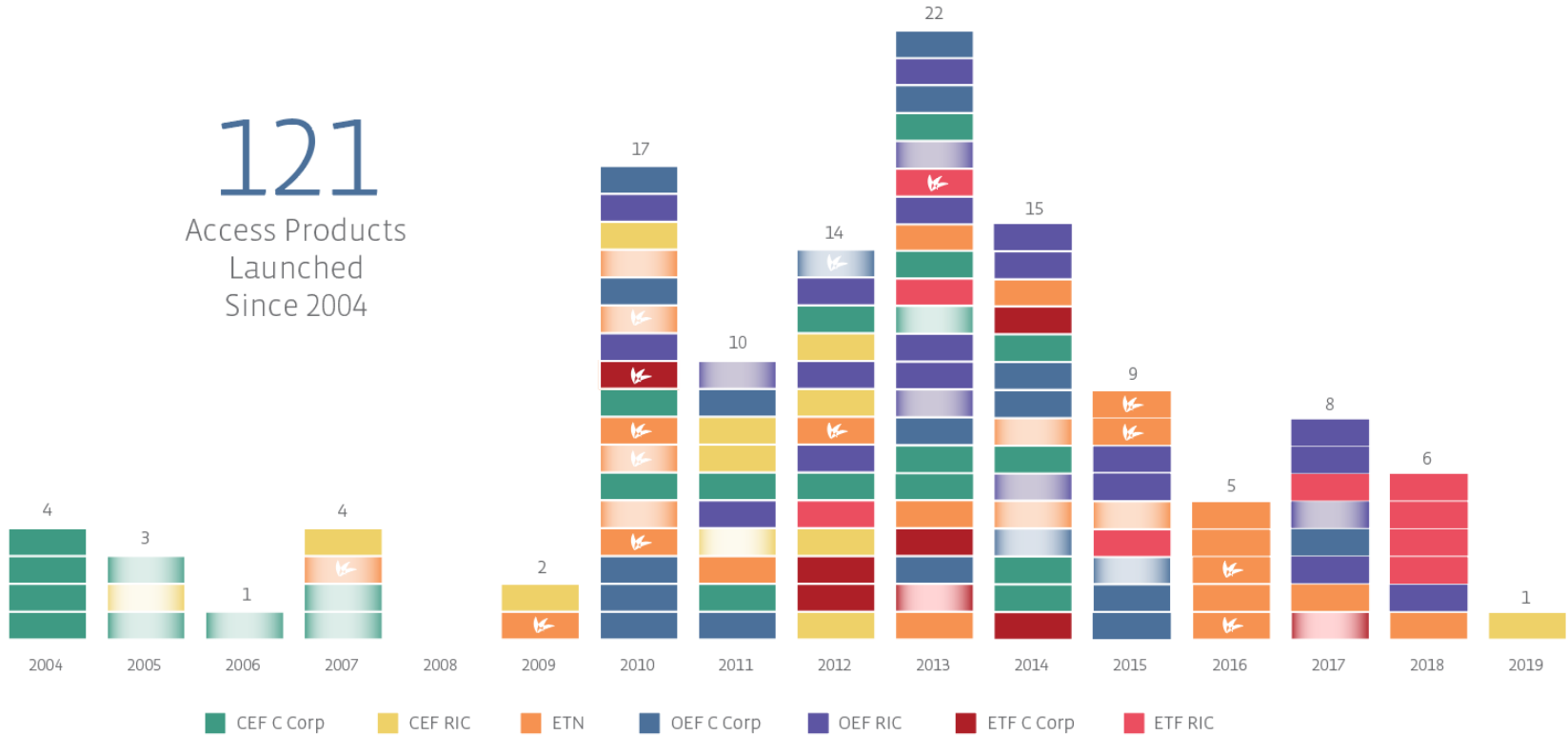


**Energy  
Infrastructure  
Investing**

# Energy Infrastructure Investing // Many access products available

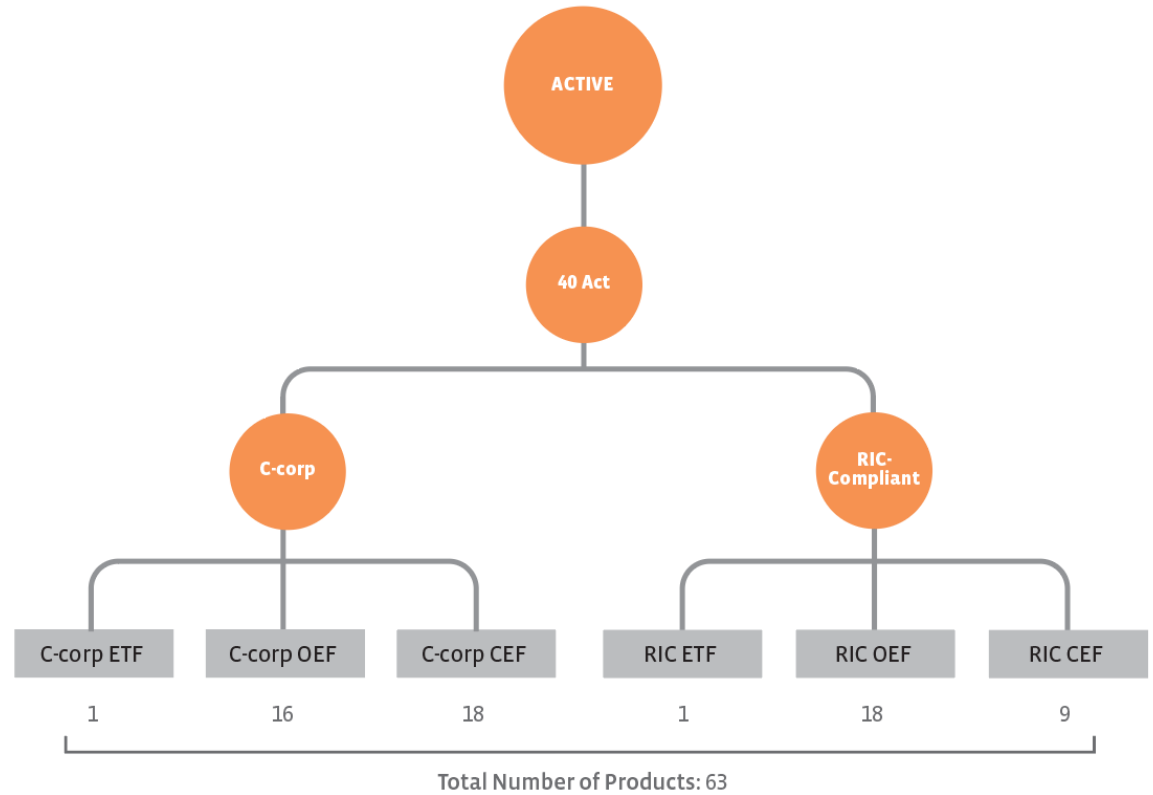
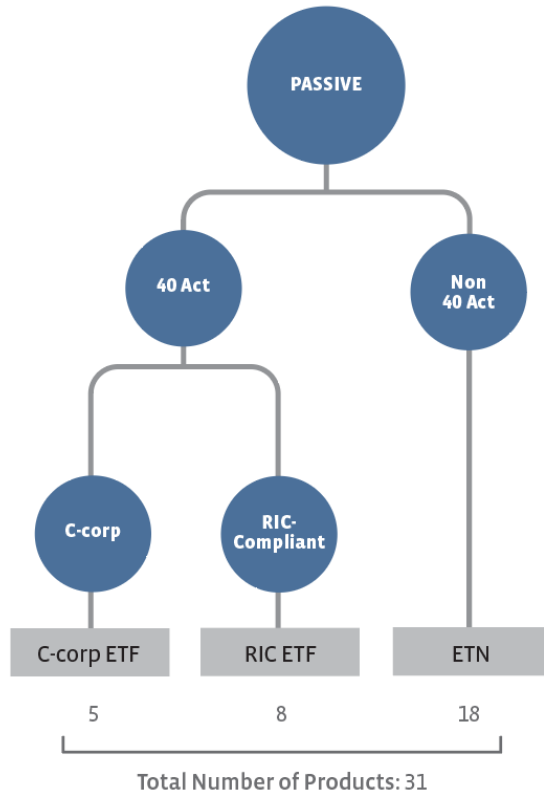
# 121

Access Products  
Launched  
Since 2004

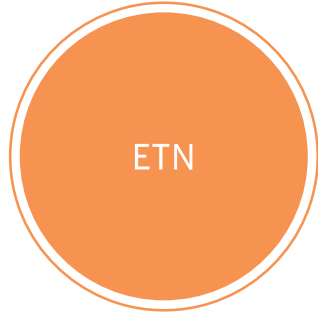


Note: Faded colors represent funds that are now delisted  
Source: Alerian as of September 30, 2019

# Energy Infrastructure Investing // Product decision tree



## Energy Infrastructure Investing // Different options to meet needs



### Advantages

Little/No Tracking Error  
100% MLP Exposure

Generally Higher After-Tax Income\*  
Ownership of Underlying Securities  
100% MLP Exposure

Little/No Tracking Error  
Ownership of Underlying Securities



### Disadvantages

Generally Lower After-Tax Income\*\*  
Credit Risk of Issuer

Deferred Tax Liability Mutes Gains

25% MLP Exposure  
Generally Lower Income\*\*\*



### Suitability

Tax-Advantaged Investors  
Total Return Investors  
Comfortable with Issuer  
Credit Risk

After-Tax Yield Investors

Tax-Advantaged Investors  
Total Return Investors  
Comfortable with Non-MLP Investments  
Prefer Broad Exposure

\*Due to expense ratio being taken from NAV, and income being treated as return of capital / qualified dividend

\*\*Due to expense ratio being taken from coupon, and coupon being taxed as ordinary income

\*\*\*Due to lower MLP exposure

# Energy Infrastructure Investing // Passive vs. active – high overlap

MLP ETF   AUM: \$8.2B		
Name	Ticker	% of Total Assets
MPLX LP	MPLX	9.9%
Enterprise Products Partners LP	EPD	9.9%
Magellan Midstream Partners	MMP	9.8%
Plains All American Pipeline LP	PAA	9.5%
Energy Transfer LP	ET	9.5%
Western Midstream Partners LP	WES	7.3%
Phillips 66 Partners LP	PSXP	4.6%
Tallgrass Energy LP	TGE	4.6%
NuStar Energy LP	NS	4.0%
EQM Midstream Partners LP	EQM	4.0%
<b>Total Overlap with MLP ETF</b>		<b>100%</b>

MLP OEF B   AUM: \$2.3B		
Name	Ticker	% of Total Assets
Enterprise Products Partners LP	EPD	9.8%
Energy Transfer LP	ET	9.7%
Plains All American Pipeline LP	PAA	9.5%
The Williams Cos., Inc	WMB	7.9%
EnLink Midstream LLC	PAA	7.2%
MPLX LP	MPLX	6.0%
NuStar Energy LP	NS	5.1%
Targa Resources Corp.	TRGP	4.9%
ONEOK Inc	OKE	4.7%
Magellan Midstream Partners LP	MMP	4.6%
<b>Total Overlap with MLP ETF</b>		<b>63.7%</b>

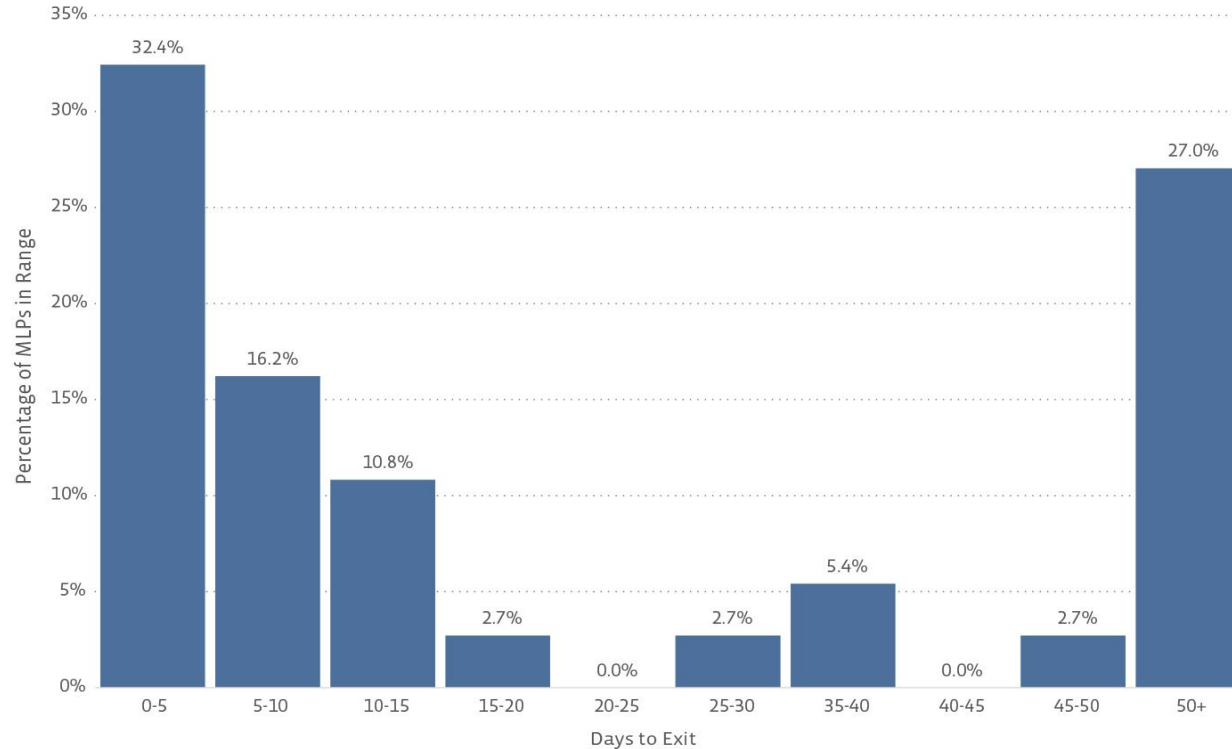
MLP OEF A   AUM: \$3.3B		
Name	Ticker	% of Total Assets
Energy Transfer LP	ET	6.5%
TC PipeLines LP	TCP	6.3%
Targa Resources Corp	TRGP	5.2%
Magellan Midstream Partners LP	MMP	5.0%
Western Midstream Partners LP	WES	5.0%
Sunoco LP	SUN	4.9%
Genesis Energy LP	GEL	4.9%
Enterprise Products Partners LP	EPD	4.6%
MPLX LP	MPLX	4.5%
Tallgrass Energy LP	TGE	4.4%
<b>Total Overlap with MLP ETF</b>		<b>54.3%</b>

MLP OEF C   AUM: \$2.0B		
Name	Ticker	% of Total Assets
Enterprise Products Partners LP	EPD	13.6%
Energy Transfer LP	ET	12.7%
MPLX LP	MPLX	10.7%
Magellan Midstream Partners LP	MMP	9.9%
Plains All American Pipeline LP	PAA	9.1%
Western Midstream Partners LP	WES	5.5%
Phillips 66 Partners LP	PSXP	3.4%
Cheniere Energy Inc	LNG	3.3%
Targa Resources Corp	TRGP	3.2%
EQM Midstream Partners LP	EQM	3.1%
<b>Total Overlap with MLP ETF</b>		<b>74.77%</b>



# Energy Infrastructure Investing // Liquidity constraints with MLPs

Liquidity Concentrated in Select MLPs  
Days to Exit \$10 Million Position in a Single Energy MLP



Source: Bloomberg as of September 30, 2019  
Assumes trader comprises 10% of daily trading volume



**Current  
Issues**

## Current Issues // The case for MLPs and energy infrastructure

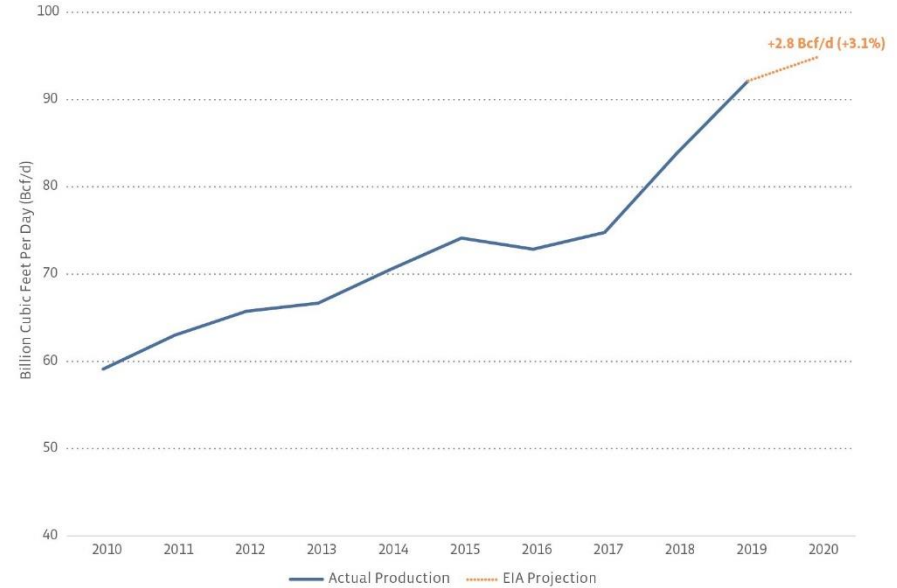
- Midstream MLPs and corporations facilitate movement of US energy to domestic and global demand centers, generating steady cash flows
- As US production growth moderates, the space can shift more toward free cash flow generation, supporting a total-return focus while still offering attractive income
- Midstream offers elevated yields from predominately investment grade companies better positioned to afford their payouts
- Midstream provides defensive energy exposure

# Current Issues // Moderating oil and gas production growth in the US

US Crude Production Since 2010

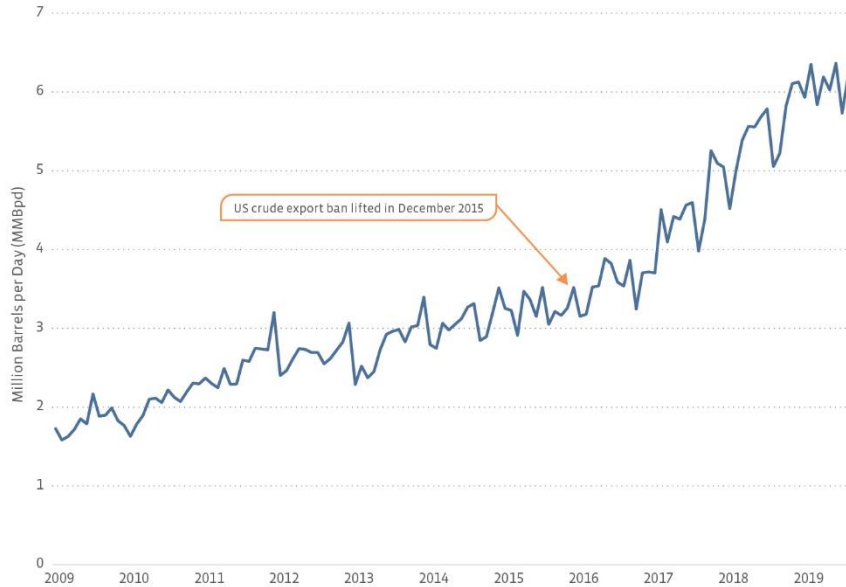


US Dry Natural Gas Production Since 2010



# Current Issues // US becoming major energy supplier to rest of world

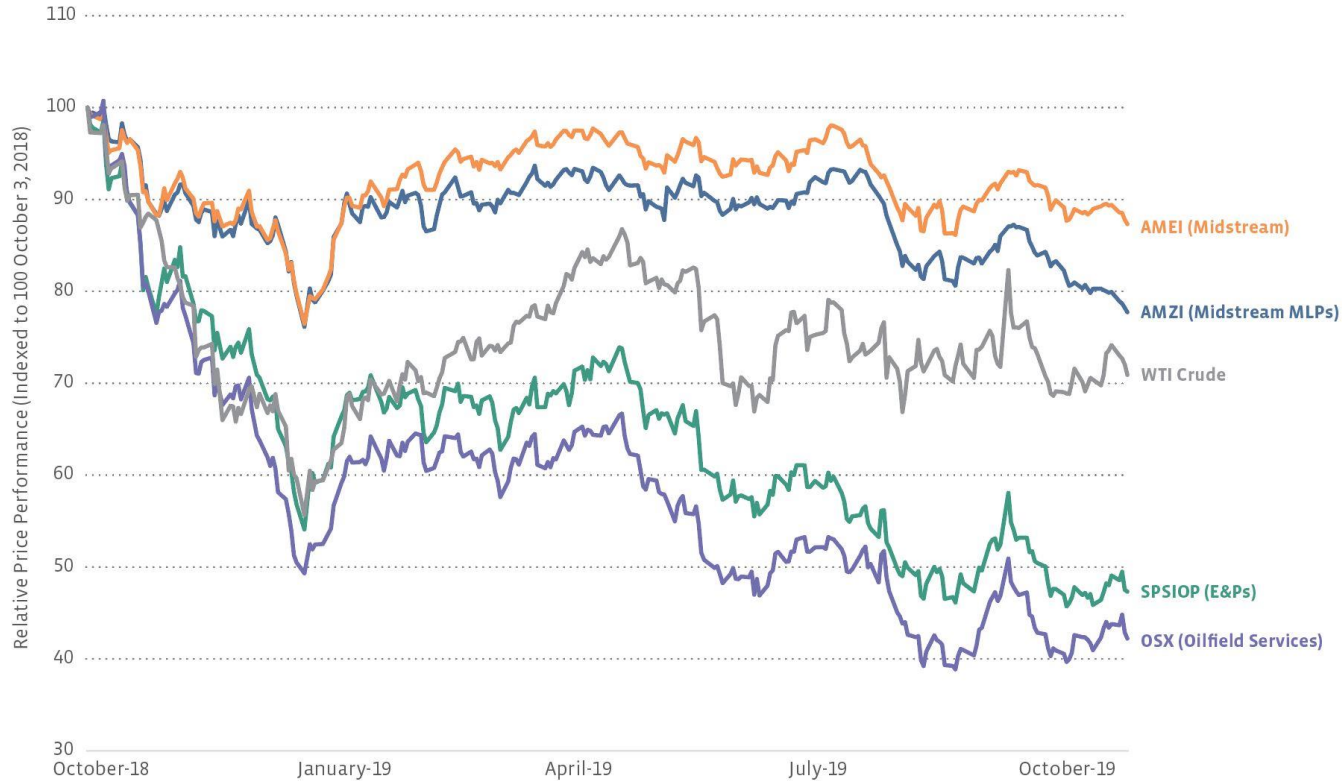
US Crude and Petroleum Product Exports Reaching New Highs



US LNG Exports Have Grown Exponentially Since 2016



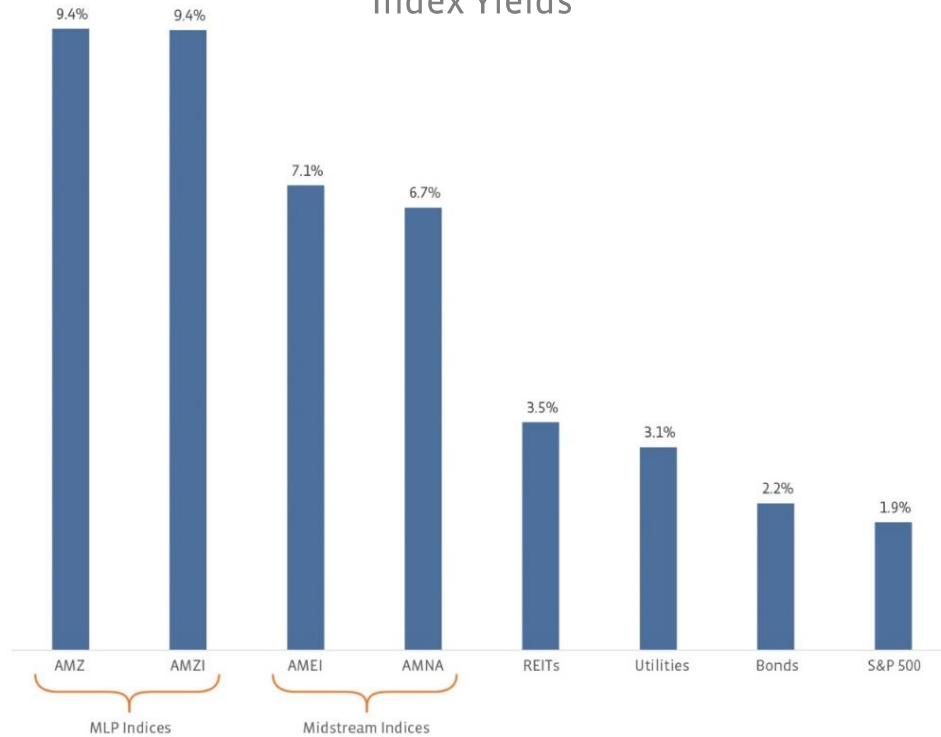
# Current Issues // Midstream has performed defensively versus other sectors of energy



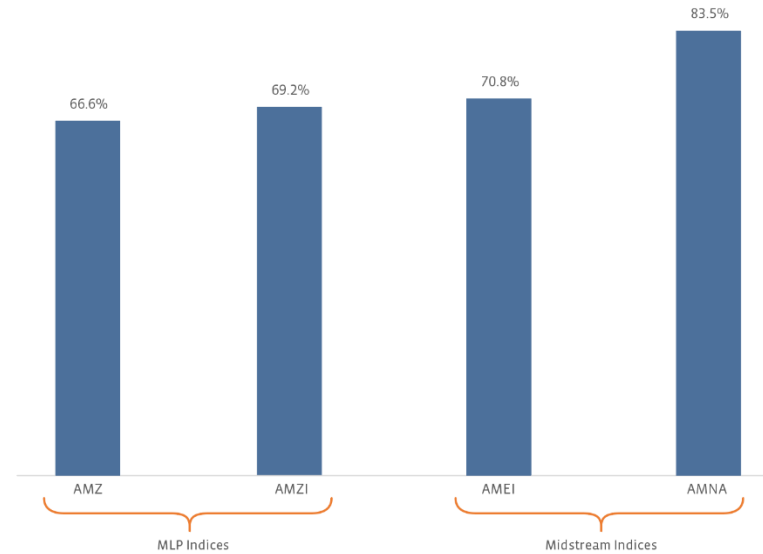
Note: Performance was indexed to 100 as of October 3, 2018, which represented a relative peak in the price of WTI crude.  
Source: Bloomberg as of October 31, 2019

# Energy Infrastructure Investing // Attractive relative yields

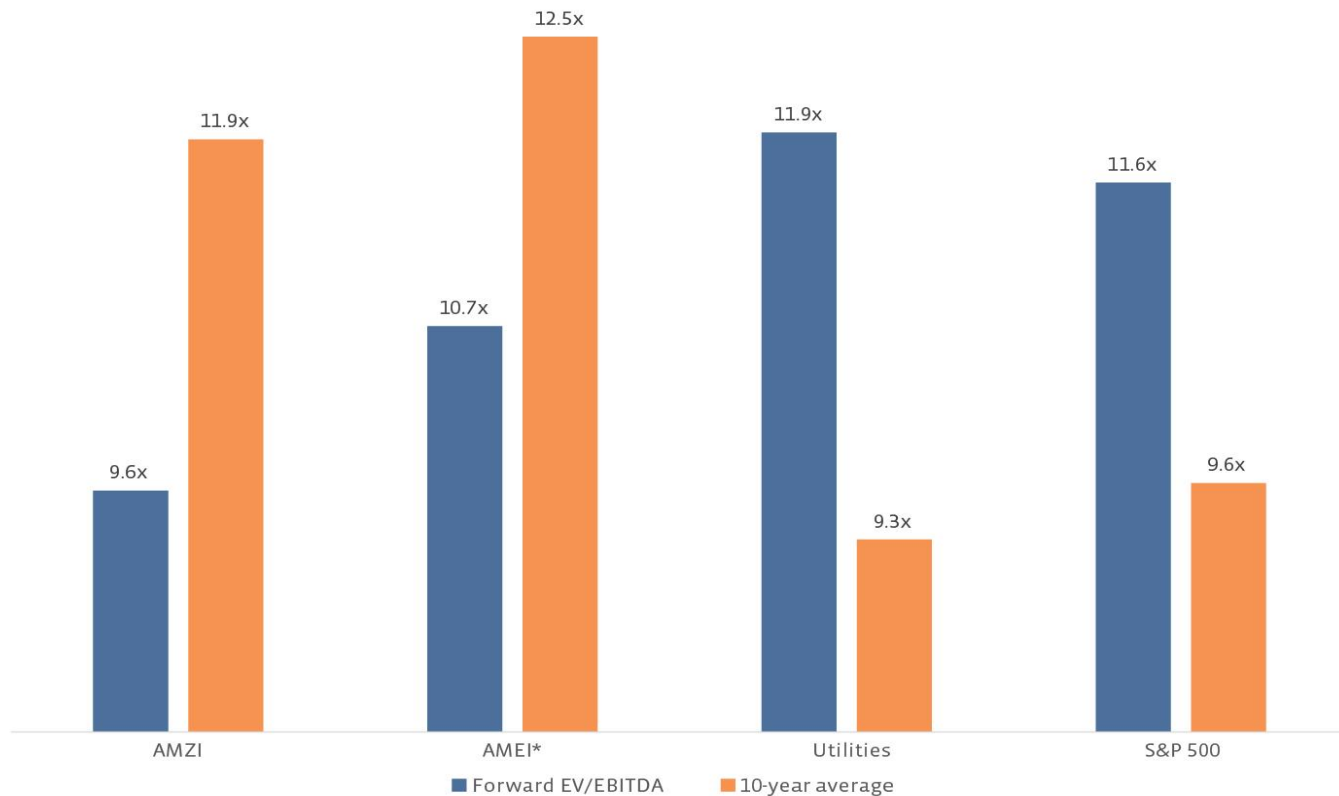
## Index Yields



## Investment-Grade Weighting



# Energy Infrastructure Investing // Compelling valuation based on EV/EBITDA



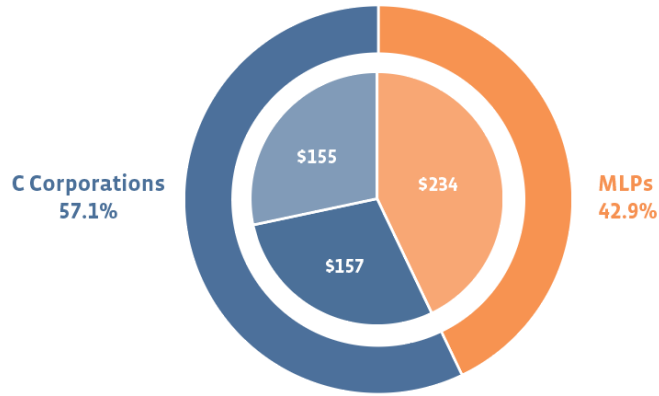
Forward EV/EBITDA based on Bloomberg 2020 EBITDA estimates

\* AMEI's historical average EV/EBITDA is since inception on April 1, 2013

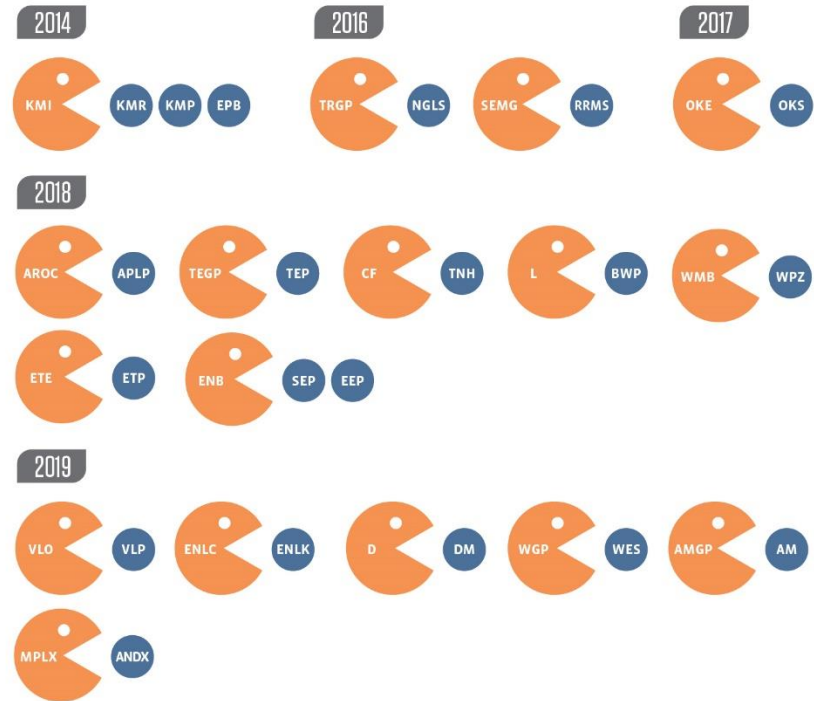
Source: Alerian, Bloomberg as of October 31, 2019



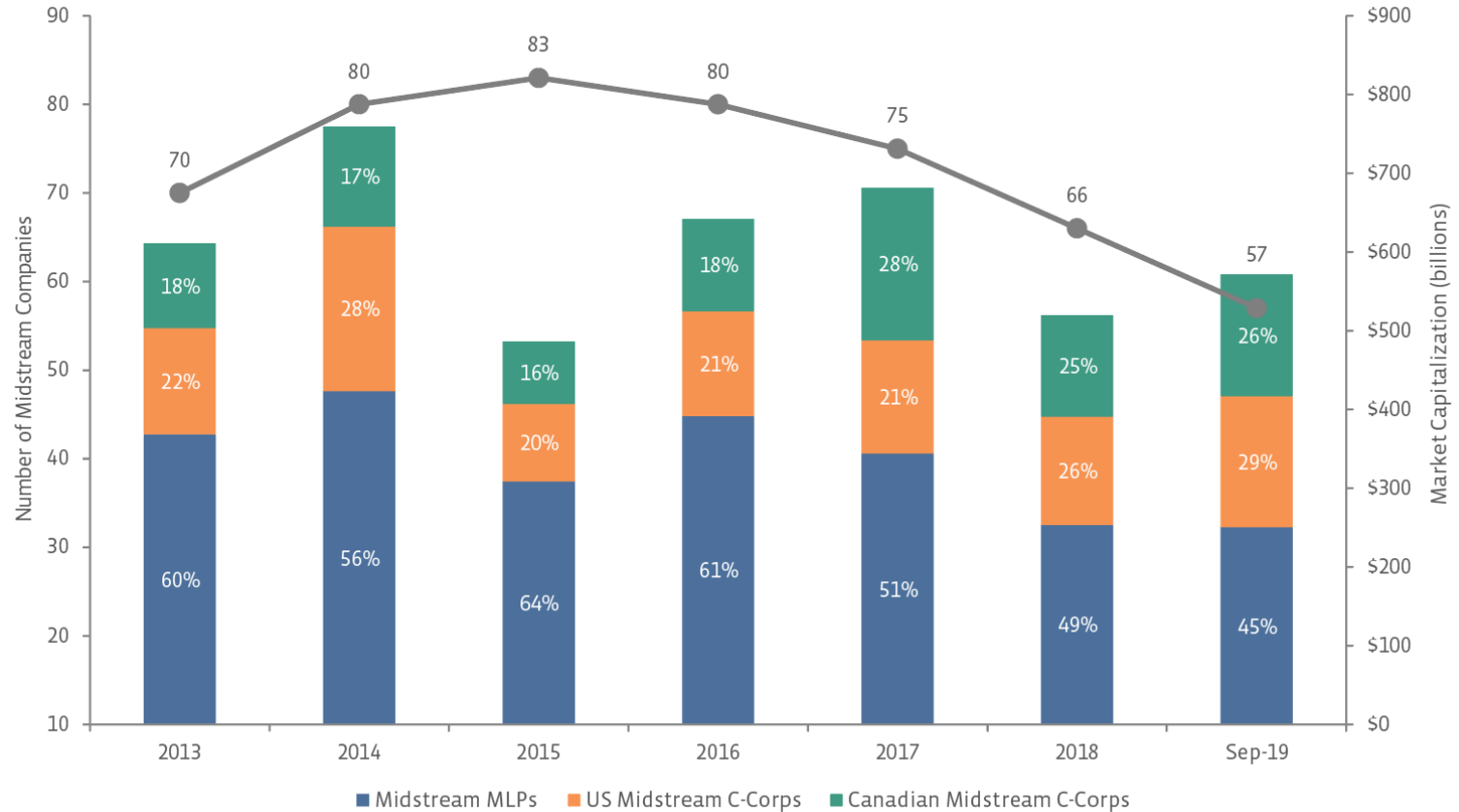
# Current Issues // Midstream universe has evolved with consolidations



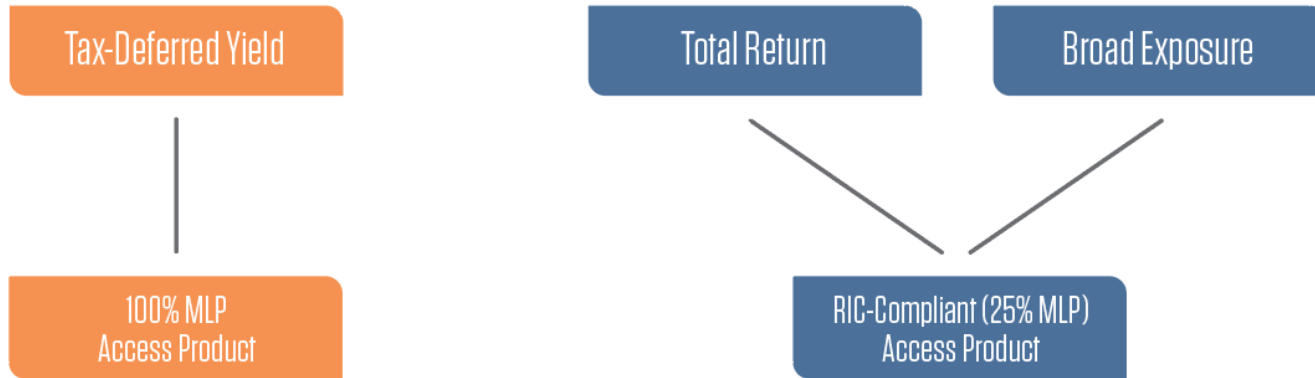
Company	Market Cap (billions)	Percentage of Market Cap	Examples
MLP	\$234	42.9%	EPD, MMP
US Energy Infrastructure Companies	\$157	28.8%	KMI, TRGP
Canadian Energy Infrastructure Companies	\$155	28.3%	TRP, ENB
<b>Total</b>	<b>\$546</b>		



# Energy Infrastructure Investing // Midstream universe



## Current Issues // Investors must choose what they want



## Current Issues // MLPs and midstream have become more investable



**Restructurings largely completed**



**Distribution profiles have improved**



**Shift to self-funding equity capital**



**Improved leverage metrics / stronger balance sheets**

## Current Issues // What are potential catalysts?



**Oil price stability or improvement**



**Generalist or new investors entering the space**



**Midstream unit/share buybacks**



**Continued private equity involvement**

## Current Issues // What are the risks?



Recontracting/counterparty distress



Labor/materials availability



Tax law changes



Demand destruction



Execution



Environmental law changes



Broad equity market decline



Sharp interest rate increase



Limited capital markets access



Perceived commodity price exposure



# Appendix

# Appendix // Alerian's midstream indices





## Appendix // AMZ and AMZI methodology

### AMZ – Alerian MLP Index

Constituents: 32\*

#### Structure

- Publicly traded partnership or LLC

#### Cash Flow

- Earn majority of cash flow from qualifying midstream activities involving energy commodities<sup>1</sup>

#### Size

- Have a market capitalization of at least \$75 million

### AMZI – Alerian MLP Infrastructure Index

Constituents: 20\*

#### Structure

- Publicly traded partnership or LLC
- Represent the LP interests of a publicly traded partnership or LLC that is an operating company

#### Cash Flow

- Earn majority of cash flow from qualifying midstream activities involving energy commodities<sup>1</sup>

#### Liquidity

- Median daily trading volume of at least \$5 million for the six months preceding the data analysis date

#### Distribution

- Declare a distribution for the trailing two quarters

<sup>1</sup> Qualifying midstream activities per the Energy MLP Classification Standard (EMCS SM)

\* As of September 30, 2019

Last AMZ methodology update: November 30, 2018

Last AMZI methodology update: February 28, 2019

## Appendix // AMNA, AMUS, and AMEI methodology

### AMNA – Alerian Midstream Energy Index

Constituents: 57\*

#### Location

- Have principal executive offices located in the US or Canada

#### Cash Flow

- Earn majority of cash flow from qualifying midstream activities involving energy commodities<sup>1</sup>

### AMUS – Alerian US Midstream Energy Index

Constituents: 48\*

#### Location

- Have principal executive offices located in the US

#### Cash Flow

- Earn majority of cash flow from qualifying midstream activities involving energy commodities<sup>1</sup>

### AMEI – Alerian Midstream Energy Select Index

Constituents: 36\*

#### Location

- Have principal executive offices located in the US or Canada

#### Cash Flow

- Earn majority of cash flow from qualifying midstream activities involving energy commodities<sup>1</sup>

#### Liquidity

- Median daily trading volume of at least \$2.5 million for the six months preceding the data analysis date

<sup>1</sup> Qualifying midstream activities per the Energy MLP Classification Standard (EMCS)

\* As of September 30, 2019

Last AMNA methodology update: May 31, 2018

Last AMUS methodology update: May 31, 2018

Last AMEI methodology update: August 31, 2018

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