



# Guide to Energy Infrastructure Investing



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# About Alerian



- ▶ Real-time MLP Index
- ▶ MLP ETN
- ▶ MLP ETF

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

**89%** market share for passive exchange traded products

**13**  
product  
partners



**10**

REAL-TIME MLP & ENERGY INFRASTRUCTURE INDICES

AMZ / AMZI / AMEI / AMCS / AMZE / ANGI / AMLI / AMMI / AMSI / AMCI



## About Alerian // Alerian index series

### SIZE

**AMZ**

Alerian MLP Index

..... Energy MLPs

**AMLI**

Alerian Large Cap MLP Index

..... Energy MLPs

**AMMI**

Alerian Mid Cap MLP Index

..... Energy MLPs

**AMSI**

Alerian Small Cap MLP Index

..... Energy MLPs

### SECTOR

**AMZI**

Alerian MLP Infrastructure Index

..... Infrastructure MLPs

**AMEI**

Alerian Energy  
Infrastructure Index

..... Energy Infrastructure

### STRATEGY

**AMZE**

Alerian MLP Equal Weight Index

..... Energy MLPs

**AMCI**

Alerian MLP Closed End  
Fund Index

..... MLP Closed End Funds

**ANGI**

Alerian Natural Gas MLP Index

..... Natural Gas MLPs

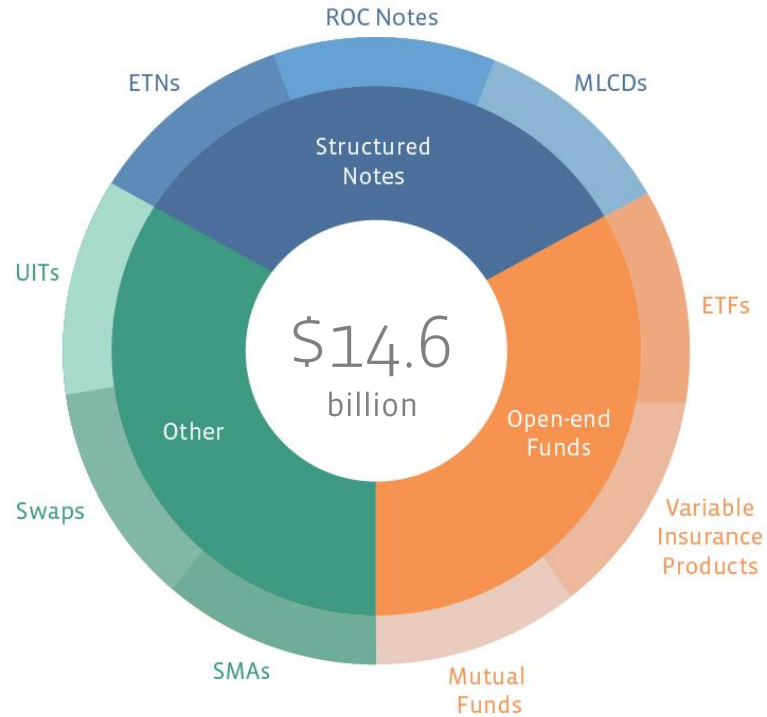
**AMCS**

Alerian Energy Infrastructure  
Capital Strength Select Index

..... Energy Infrastructure



## About Alerian // Leveling the playing field for MLP investing





# About Alerian // Leveling the playing field for MLP investing

## AMZ

**AMJ // \$2,748.4**  
JPMorgan Alerian MLP Index ETN

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

**AMU // \$309.1**  
ETRACS Alerian MLP Index ETN

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

**AMJL // \$14.5**  
X-Links Monthly Pay 2X Leveraged  
Alerian MLP Index ETN

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

## AMZI

**AMPLP // \$9,509.8**  
Alerian MLP ETF

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

**MLPI // \$1,569.5**  
ETRACS Alerian MLP Infrastructure  
Index ETN

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

**MLPQ // \$50.6**  
ETRACS 2x Leveraged Alerian MLP  
Infrastructure Index ETN

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

**MLPS // \$2.0**  
ETRACS 1x Monthly Short Alerian  
MLP Infrastructure Index ETN

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

## AMEI

**ENFR // \$37.6**  
Alerian Energy Infrastructure ETF

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

## ANGI

**MLPG // \$8.8**  
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 distribute more of their cash flow to investors as distributions



### Stable Cash Flows

Fee-based, volume-driven business models that benefit from growing energy 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, allowing for increased distributions

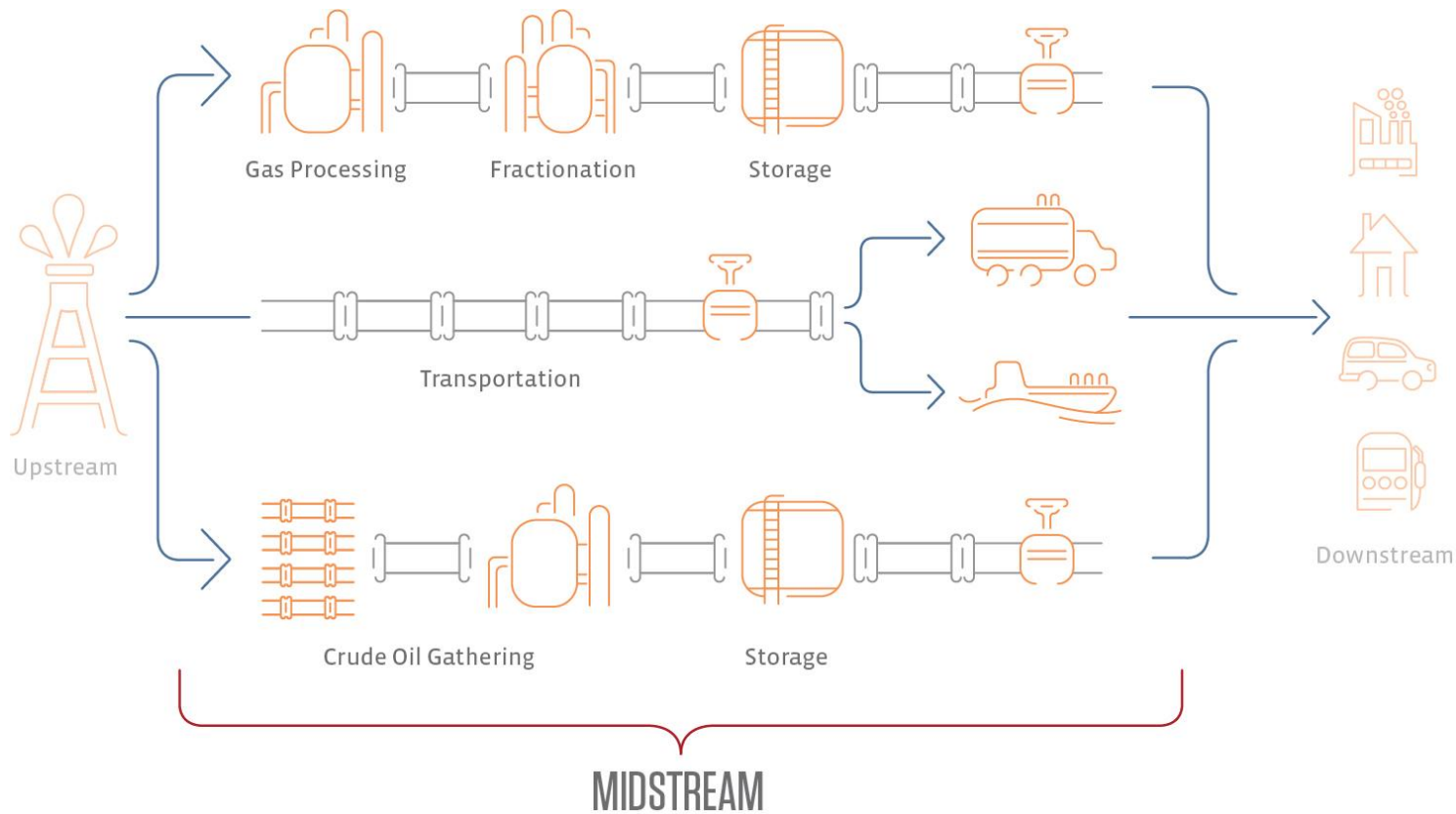


### Diversification

Low correlation to other income-oriented investments, including REITs, utilities and bonds; MLPs are not in the S&P 500



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





### ▶ 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

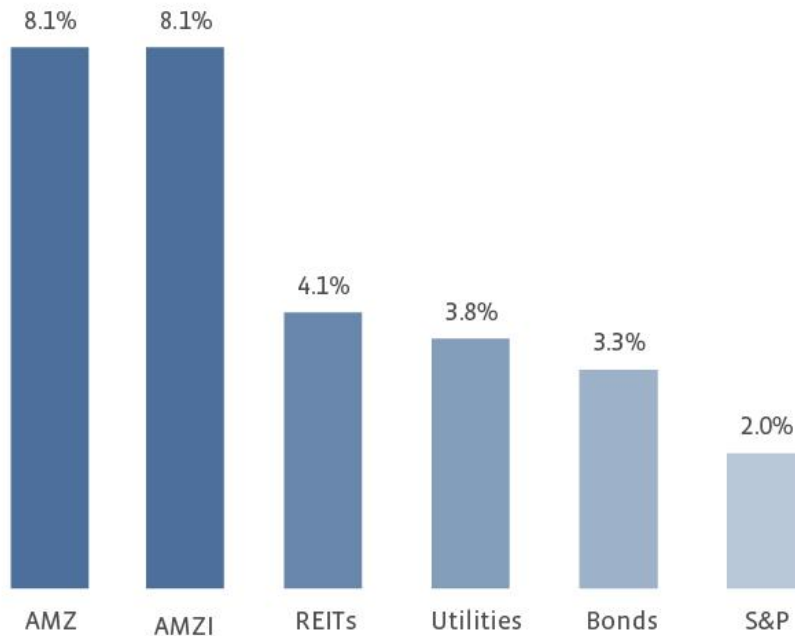
- No ordinary income “recapture” of cost basis
- Cost basis is “stepped-up” to current price on day of transfer

### ▶ Tax-Advantaged Accounts

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



## Overview of MLPs // MLPs offer an attractive relative yield





# Overview of MLPs // The periodic table of performance



| 2008                  | 2009                 | 2010                | 2011                 | 2012                | 2013                 | 2014                  | 2015                  | 2016                 | 2017                | 2018 YTD            | Annualized            |
|-----------------------|----------------------|---------------------|----------------------|---------------------|----------------------|-----------------------|-----------------------|----------------------|---------------------|---------------------|-----------------------|
| Bonds<br>5.2%         | MLPs<br>76.4%        | MLPs<br>35.9%       | Utilities<br>19.9%   | REITs<br>18.0%      | Small Cap<br>38.8%   | Utilities<br>29.0%    | REITs<br>4.4%         | Small Cap<br>21.3%   | Non-US<br>25.0%     | Commodities<br>7.3% | Small Cap<br>9.4%     |
| Utilities<br>-29.0%   | Non-US<br>31.8%      | Small Cap<br>26.9%  | MLPs<br>13.9%        | Non-US<br>17.3%     | S&P 500<br>32.4%     | REITs<br>28.7%        | S&P 500<br>1.4%       | MLPs<br>18.3%        | S&P 500<br>21.8%    | Small Cap<br>0.8%   | S&P 500<br>9.1%       |
| Small Cap<br>-33.8%   | REITs<br>27.6%       | REITs<br>26.7%      | REITs<br>9.4%        | Small Cap<br>16.3%  | MLPs<br>27.6%        | S&P 500<br>13.7%      | Bonds<br>0.5%         | Utilities<br>16.3%   | Small Cap<br>14.6%  | Non-US<br>0.7%      | Utilities<br>6.9%     |
| MLPs<br>-36.9%        | Small Cap<br>27.2%   | S&P 500<br>15.1%    | Bonds<br>7.8%        | S&P 500<br>16.0%    | Non-US<br>22.8%      | Bonds<br>6.0%         | Non-US<br>-0.8%       | S&P 500<br>12.0%     | Utilities<br>12.1%  | S&P 500<br>-0.3%    | REITs<br>6.6%         |
| S&P 500<br>-37.0%     | S&P 500<br>26.5%     | Commodities<br>9.0% | S&P 500<br>2.1%      | MLPs<br>4.8%        | Utilities<br>13.2%   | Small Cap<br>4.9%     | Small Cap<br>-4.4%    | Commodities<br>11.4% | REITs<br>9.2%       | Utilities<br>-1.2%  | MLPs<br>6.1%          |
| REITs<br>-37.3%       | Commodities<br>13.5% | Non-US<br>7.8%      | Commodities<br>-1.2% | Bonds<br>4.2%       | REITs<br>-0.5%       | MLPs<br>4.8%          | Utilities<br>-4.8%    | REITs<br>5.5%        | Commodities<br>5.8% | Bonds<br>-2.1%      | Bonds<br>3.8%         |
| Non-US<br>-43.4%      | Utilities<br>11.9%   | Bonds<br>6.5%       | Small Cap<br>-4.2%   | Utilities<br>1.3%   | Commodities<br>-1.2% | Non-US<br>-4.9%       | MLPs<br>-32.5%        | Bonds<br>2.6%        | Bonds<br>3.5%       | MLPs<br>-3.9%       | Non-US<br>2.4%        |
| Commodities<br>-46.5% | Bonds<br>5.9%        | Utilities<br>5.5%   | Non-US<br>-12.1%     | Commodities<br>0.1% | Bonds<br>-2.0%       | Commodities<br>-33.0% | Commodities<br>-32.8% | Non-US<br>1.0%       | MLPs<br>-6.5%       | REITs<br>-6.0%      | Commodities<br>-11.6% |

Source: Bloomberg as of April 30, 2018  
Annualized over the trialing 10-year period as of April 30, 2018



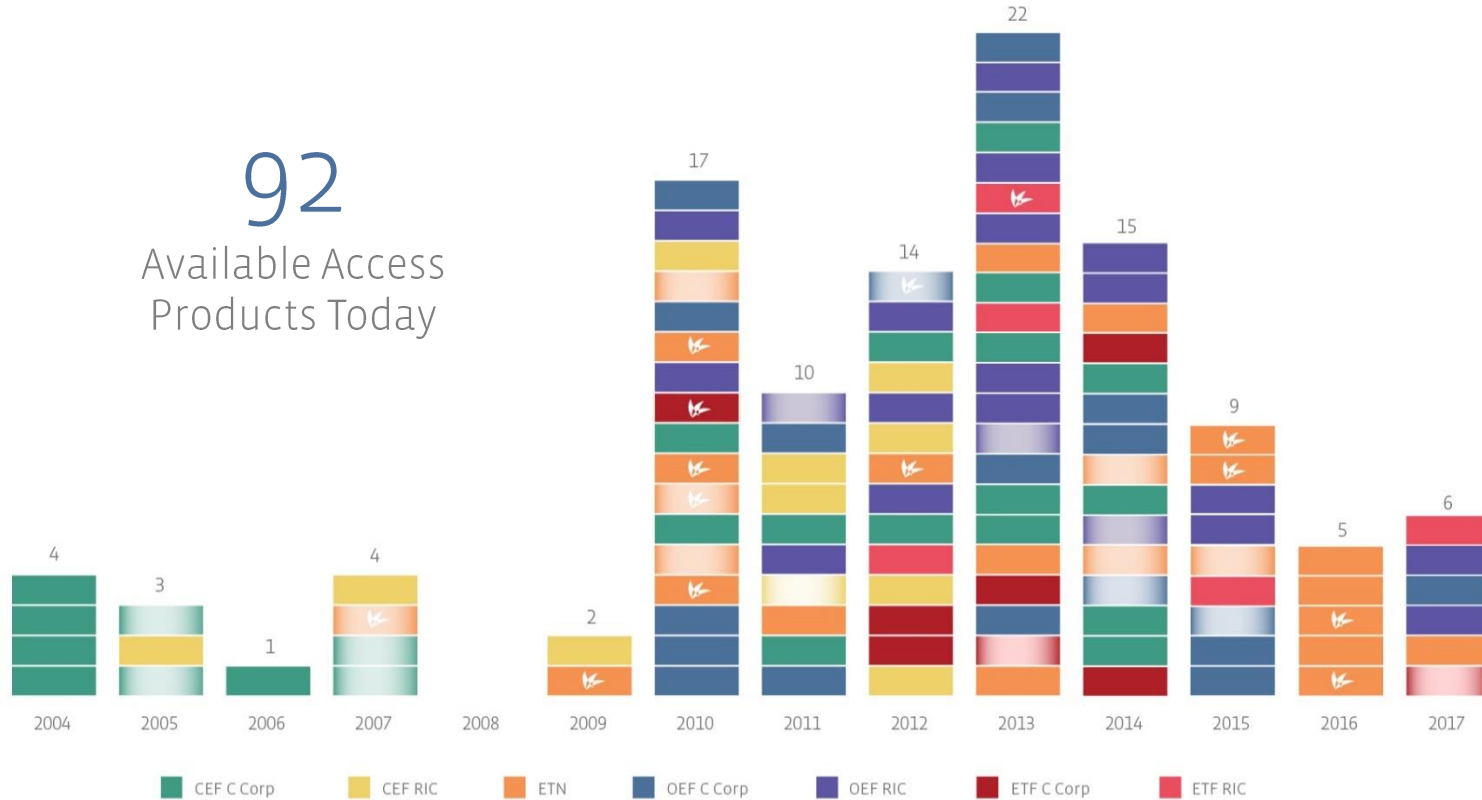
**MLP  
Investment  
Options**



# MLP Investing // Continued demand for access products

# 92

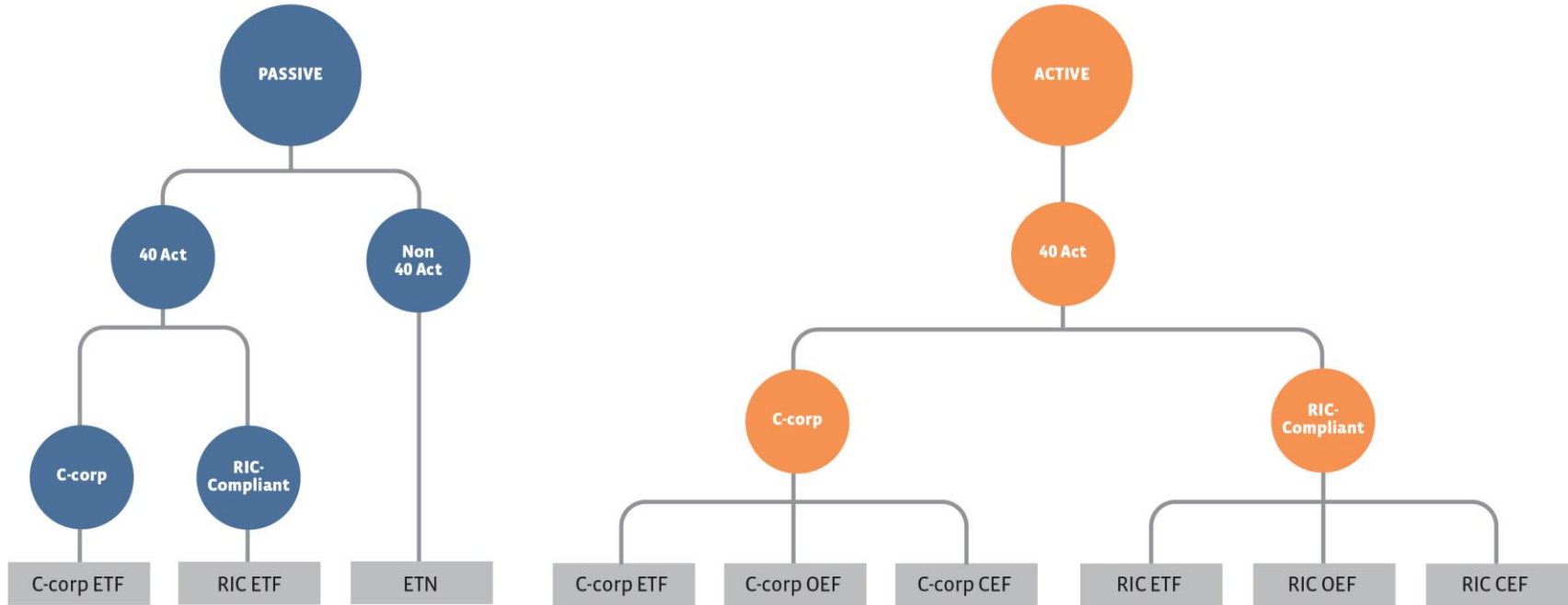
## Available Access Products Today



Note: 112 US access products launched since 2004; faded colors represent funds that are now delisted  
Source: Alerian as of April 30, 2018



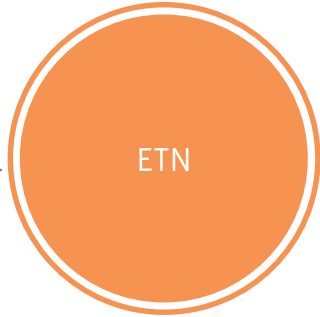
# MLP Investing // MLP investment product decision tree







## MLP Investing // Different strokes for different folks



### 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  
Low Volatility Investors

Tax-Advantaged Investors  
Total Return Investors  
Comfortable with Non-MLP Investments

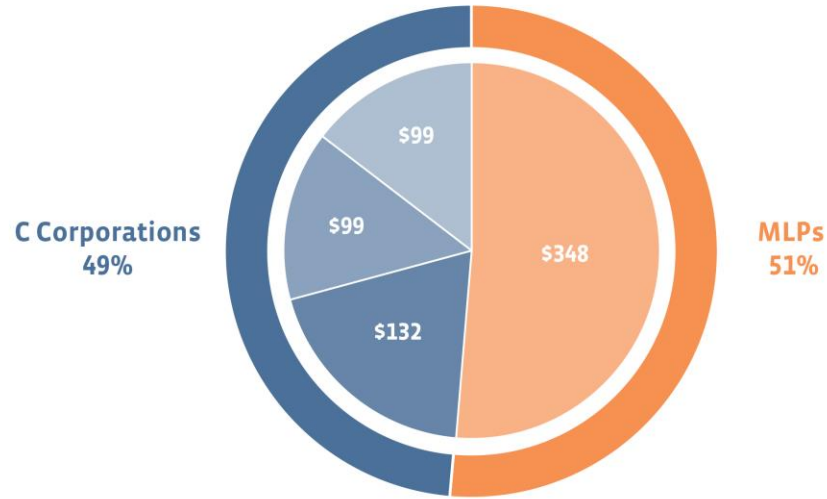
\*Due to expense ratio being taken from NAV, and income being treated as return of capital / qualified dividend

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

\*\*\*Due to lower MLP exposure



## MLP Investing // Midstream energy infrastructure universe



| Company                                  | Market Cap (billions) | Percentage of Market Cap | Examples  |
|--|-----------------------|--------------------------|-----------|
| US Energy Infrastructure MLPs            | \$348                 | 51%                      | EPD, MMP  |
| Canadian Energy Infrastructure Companies | \$132                 | 19%                      | TRP, ENB  |
| US Energy Infrastructure Companies       | \$99                  | 15%                      | KMI, TRGP |
| US General Partners                      | \$99                  | 15%                      | PAGP, WMB |
| <b>Total</b>                             | <b>\$678</b>          |                          |           |



## MLP Investing // Passive vs. active – high holdings overlap

| MLP ETF   AUM: \$9.1B             |        |                   |
|-----------------------------------|--------|-------------------|
| Name                              | Ticker | % of Total Assets |
| Energy Transfer Partners LP       | ETP    | 11.2%             |
| Enterprise Product Partners LP    | EPD    | 10.5%             |
| Magellan Midstream Partners       | MMP    | 9.5%              |
| MPLX LP                           | MPLX   | 8.5%              |
| Williams Partners LP              | WPZ    | 7.9%              |
| Plains All American Pipeline LP   | PAA    | 7.6%              |
| Buckeye Partners LP               | BPL    | 5.6%              |
| Western Gas Partners LP           | WES    | 4.0%              |
| Andeavor Logistics LP             | ANDX   | 3.5%              |
| EQT Midstream Partners LP         | EQM    | 3.1%              |
| <b>Total Overlap with MLP ETF</b> |        | <b>100%</b>       |

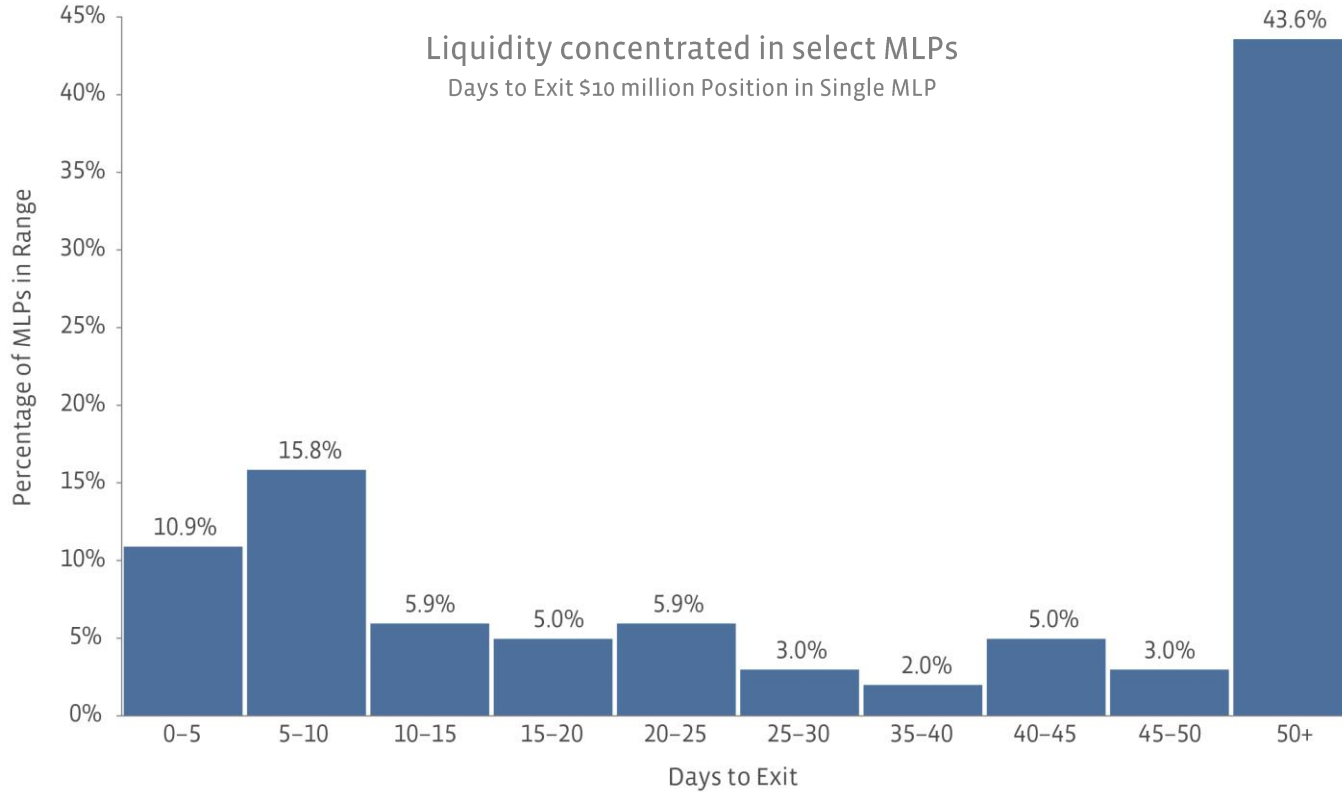
| MLP OEF B   AUM: \$2.3B           |        |                   |
|-----------------------------------|--------|-------------------|
| Name                              | Ticker | % of Total Assets |
| MPLX LP                           | MPLX   | 8.3%              |
| Andeavor Logistics LP             | ANDX   | 7.6%              |
| Enterprise Products Partners LP   | EPD    | 7.5%              |
| Energy Transfer Partners LP       | ETP    | 7.4%              |
| EnLink Midstream Partners LP      | ENLK   | 6.6%              |
| Williams Partners LP              | WPZ    | 6.4%              |
| Targa Resources Corp.             | TRGP   | 6.1%              |
| Western Gas Partners LP           | WES    | 5.8%              |
| TC Pipelines LP                   | TCP    | 5.2%              |
| Spectra Energy Partners LP        | SEP    | 5.0%              |
| <b>Total Overlap with MLP ETF</b> |        | <b>63.3%</b>      |

| MLP OEF A   AUM: \$3.2B           |        |                   |
|-----------------------------------|--------|-------------------|
| Name                              | Ticker | % of Total Assets |
| Energy Transfer Partners LP       | ETP    | 6.1%              |
| Enterprise Products Partners LP   | EPD    | 5.3%              |
| MPLX LP                           | MPLX   | 5.1%              |
| Energy Transfer Equity LP         | ETE    | 5.1%              |
| Buckeye Partners LP               | BPL    | 4.9%              |
| TC Pipelines LP                   | TCP    | 4.7%              |
| Holly Energy Partners LP          | HEP    | 4.5%              |
| Targa Resources Corp.             | TRGP   | 4.3%              |
| Magellan Midstream Partners LP    | MMP    | 4.1%              |
| Tallgrass Energy GP LP 1          | TEP    | 4.0%              |
| <b>Total Overlap with MLP ETF</b> |        | <b>61.8%</b>      |

| MLP OEF C   AUM: \$2.2B           |        |                   |
|-----------------------------------|--------|-------------------|
| Name                              | Ticker | % of Total Assets |
| Enterprise Products Partners LP   | EPD    | 9.2%              |
| Energy Transfer Partners LP       | ETP    | 8.8%              |
| Magellan Midstream Partners LP    | MMP    | 7.9%              |
| MPLX LP                           | MPLX   | 6.7%              |
| Plains All American Pipeline LP   | PAA    | 6.4%              |
| Targa Resources Corp.             | TRGP   | 5.7%              |
| The Williams Cos., Inc.           | WMB    | 5.6%              |
| Williams Partners LP              | WPZ    | 5.0%              |
| Energy Transfer Equity LP         | ETE    | 4.0%              |
| Antero Midstream Partners LP      | AM     | 3.0%              |
| <b>Total Overlap with MLP ETF</b> |        | <b>65.8%</b>      |



## MLP Investing // Passive vs. active – liquidity constraints



Source: Bloomberg as of April 30, 2018  
Assumes trader comprises 10% of daily trading volume



# Current Issues



### US Crude Production Since 2010

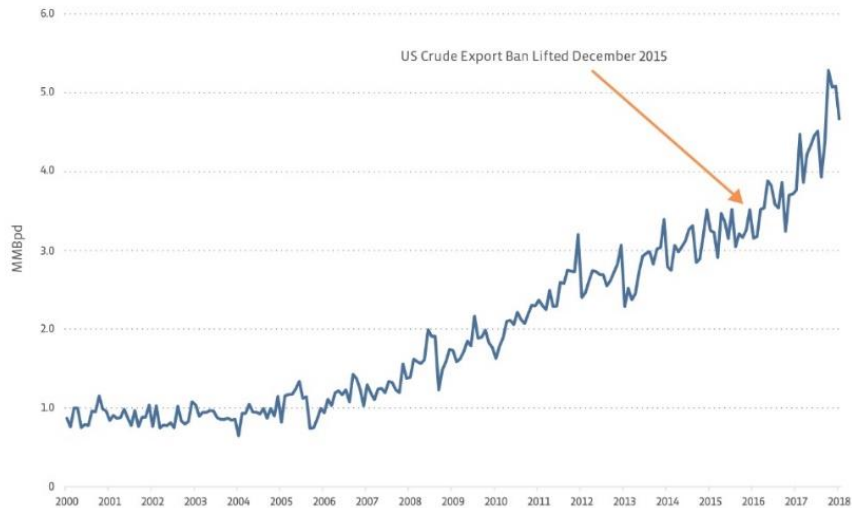


### US Natural Gas Production Since 2010

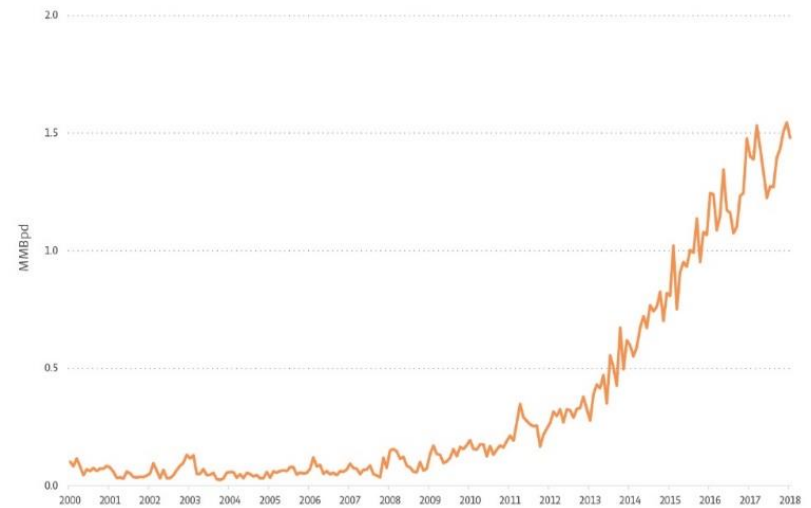




### US Crude and Petroleum Product Exports Reaching New Highs



### US Exports of Natural Gas Liquids Steeply Rising



**MYTH**

Recent MLP restructurings to C Corporations have been driven by tax reform

**TRUTH**

The aim of restructurings is to lower the cost of equity. Restructurings were already occurring prior to tax reform.

---

**MYTH**

Tax reform has made the MLP structure less attractive

**TRUTH**

MLPs maintained their advantage over C Corporations in the recent tax reform

---

**MYTH**

The FERC could dissolve the MLP structure

**TRUTH**

The FERC regulates pipelines and only Congress has this power



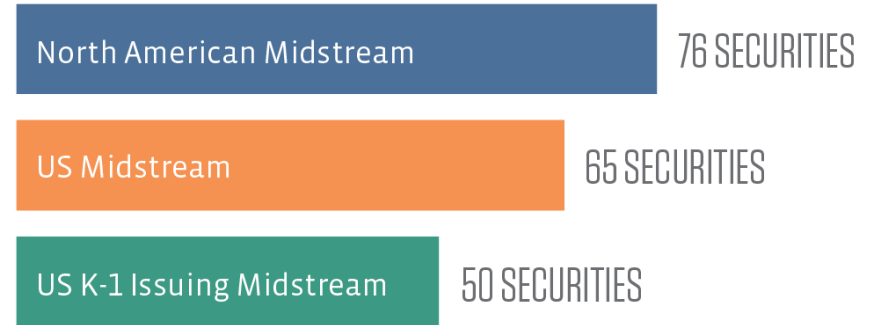


## Current Issues // Most energy infrastructure names structured as MLPs

US Midstream Float-Adjusted Market Capitalization is Majority K-1 Issuers



K-1 Issuers Represent a Significant Portion of the Midstream Space



Source: Alerian as of February 28, 2018

Explanatory note: Alerian excludes compression from midstream. Data also excludes preferreds. K-1 issuers include SXE, which is being acquired. K-1 issuers include EQM and RMP, which are expected to merge into one entity based on EQT's plans. K-1 issuers include NSH, which is merging with its MLP NS, with NS the surviving entity. K-1 issuers also include TEP, which is being acquired by its parent TEGP, with the combined entity to be taxed as a corporation.

Note: Midstream companies are those entities involved in storage, transportation, and processing. Midstream excludes compression companies.



## Current Issues // What's happening with MLPs, besides the FERC news?



**Restructurings**



**Distributions evolving**



**Shift to self-funding**



## Current Issues // Distribution growth moderating

|                                       |      | 2018 vs. 2017<br>Annual Distribution<br>Growth (Decline) | Weight<br>in AMZI* | Weighted Average<br>2018 Growth<br>(Decline) |
|---------------------------------------|------|--|--------------------|--|
| Antero Midstream Partners LP          | AM   | 29.0%  | 2.04%              | 0.6%   |
| Andeavor Logistics                    | ANDX | 6.0%   | 3.54%              | 0.2%   |
| Dominion Energy Midstream Partners LP | DM   | 21.7%  | 0.93%              | 0.2%   |
| Enterprise Products Partners LP       | EPD  | 2.5%   | 10.21%             | 0.3%   |
| EQT Midstream Partners LP             | EQM  | 17.5%  | 3.17%              | 0.6%   |
| Genesis Energy LP                     | GEL  | -12.7%   | 1.98%              | -0.3%  |
| Holly Energy Partners LP              | HEP  | 4.0%   | 1.08%              | 0.0%   |
| Magellan Midstream Partners LP        | MMP  | 8.0%   | 10.22%             | 0.8%   |
| MPLX LP                               | MPLX | 10.0%  | 8.67%              | 0.9%   |
| NuStar Energy LP                      | NS   | -45.2%   | 1.52%              | -0.7%  |
| Plains All American                   | PAA  | -29.4%   | 8.16%              | -2.4%  |
| Phillips 66 Partners LP**             | PSXP | 20.0%  | 2.31%              | 0.5%   |
| Spectra Energy Partners LP            | SEP  | 6.9%   | 2.60%              | 0.2%   |
| Shell Midstream Partners LP           | SHLX | 20.0%  | 2.65%              | 0.5%   |
| TC PipeLines LP                       | TCP  | -34.0%   | 1.70%              | -0.6%  |
| Western Gas Partners LP               | WES  | 6.7%   | 4.11%              | 0.3%   |
| Williams Partners LP                  | WPZ  | 6.0%   | 8.10%              | 0.5%   |
| <b>Sum</b>                            |      |  | <b>73.0%</b>       | <b>1.6%</b>                                  |

\*Weight is as of the March 16, 2018 rebalancing.

\*\* PSXP has guided to a 30% compound annual growth rate for 2013-18. We conservatively use 20% given steeper growth in prior years.

Mid-point of guidance shown in cases where a range was given.

Source: Company reports as of May 8, 2018.



## Current Issues // What needs to happen for MLPs to improve?



**Operational execution**



**Continued oil stability**



**Inflows into the space**

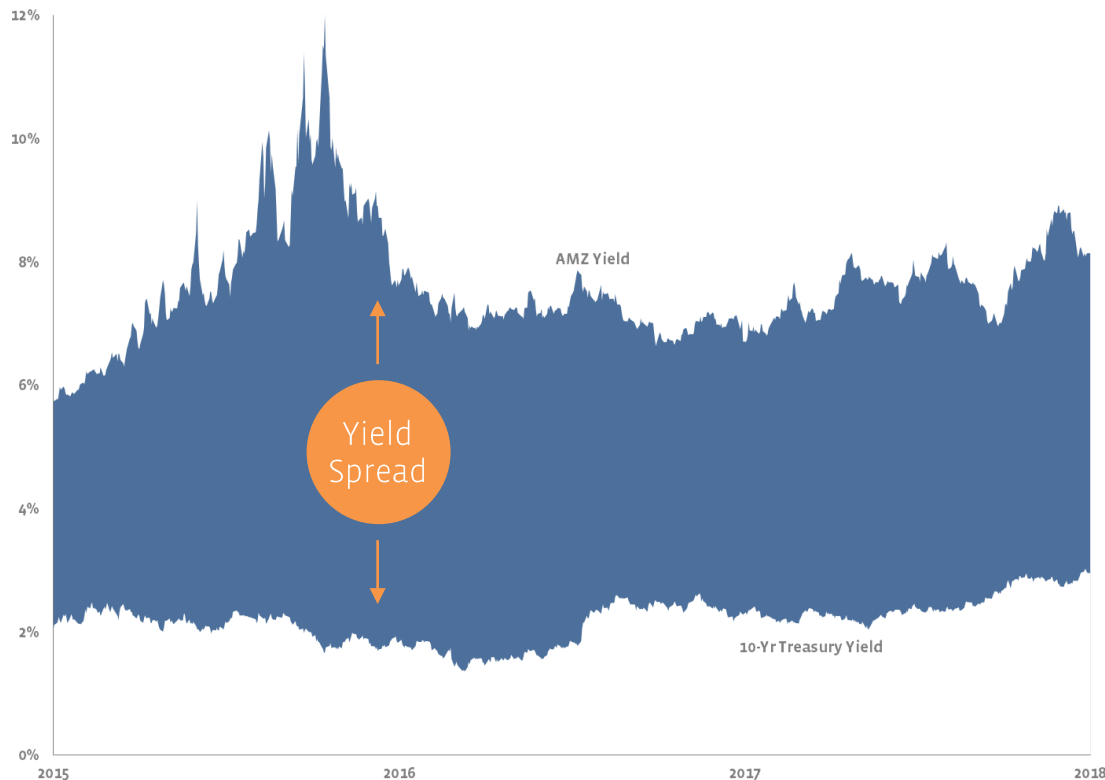


519 bps

Current AMZ  
Spread to  
Treasuries

434 bps

10-Yr Median  
AMZ Spread to  
Treasuries





## Current Issues // What are the risks?



Sharp interest rate increase



Labor/materials availability



Tax law changes



Demand destruction



Execution



Environmental law changes



Broad equity market decline



Recontracting



Limited capital markets access



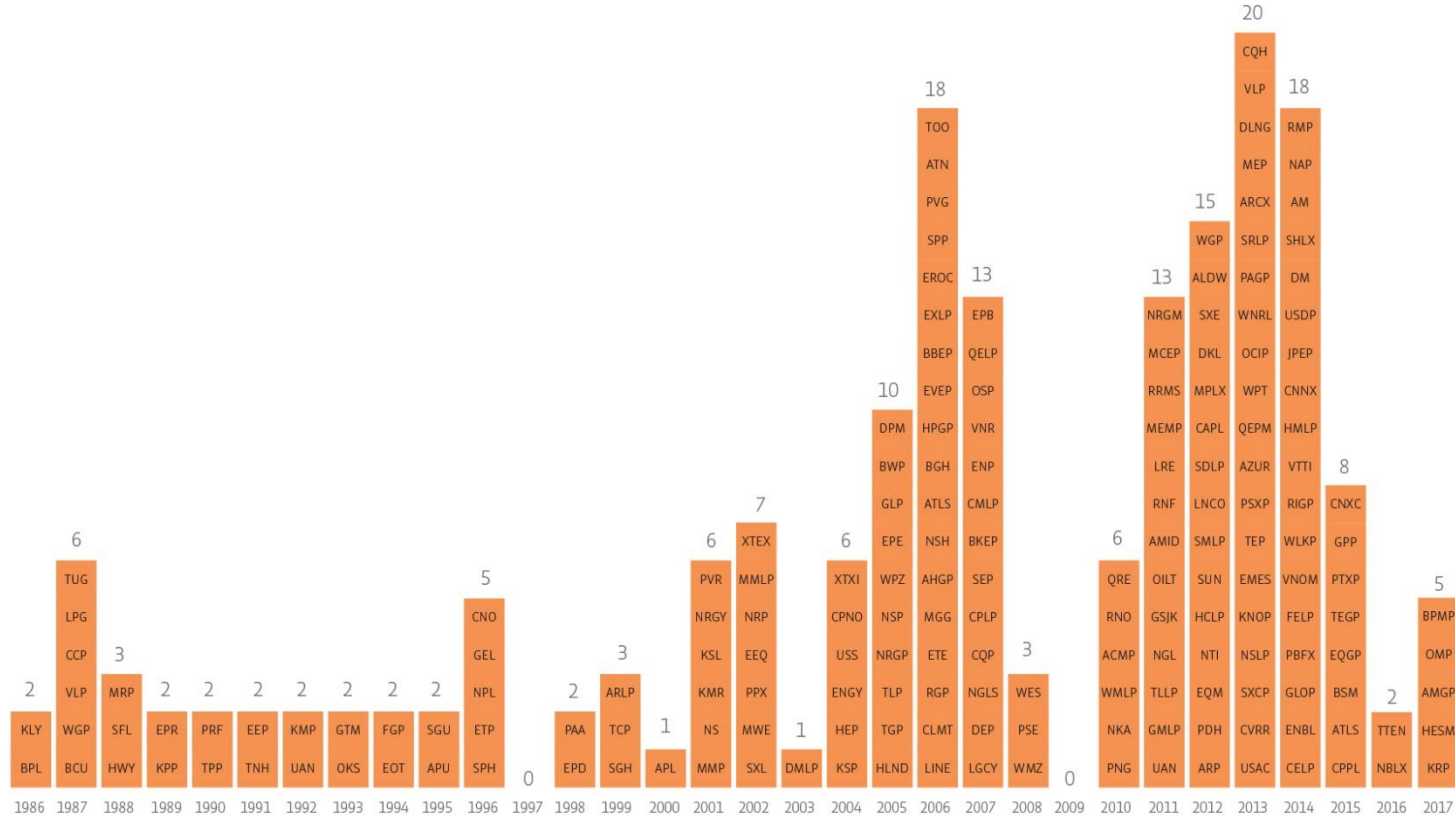
Perceived commodity price exposure



# Appendix



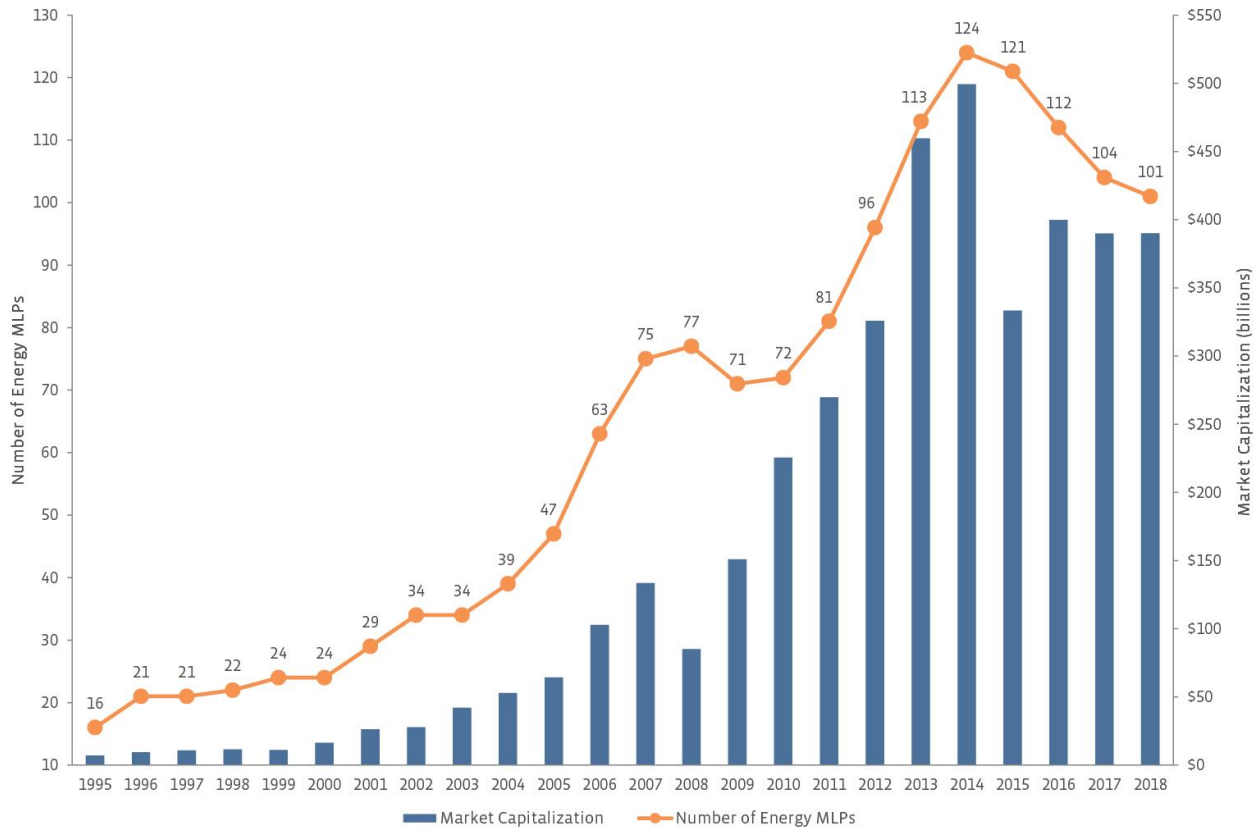
## Appendix // History of MLP IPOs







## Appendix // MLPs and total market capitalization



Excludes cross-cross ownership  
Source: Alerian as of April 30, 2018



## Appendix // AMZ and AMZI methodology



### Structure

- Publicly traded partnership or LLC
- Only the entity that operates the assets



### Cash Flow

- Generate energy-related (qualifying income) cash flow<sup>1</sup>



### Distribution

- Declared distribution for trailing two quarters



### Liquidity

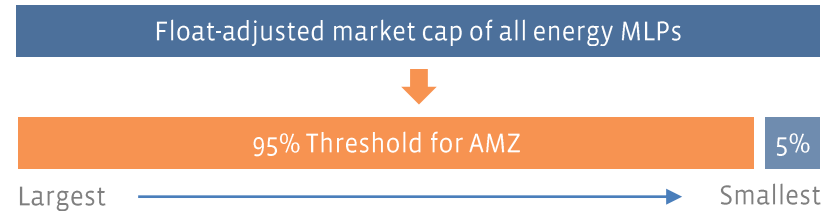
- Median dollar trading volume threshold<sup>2</sup>



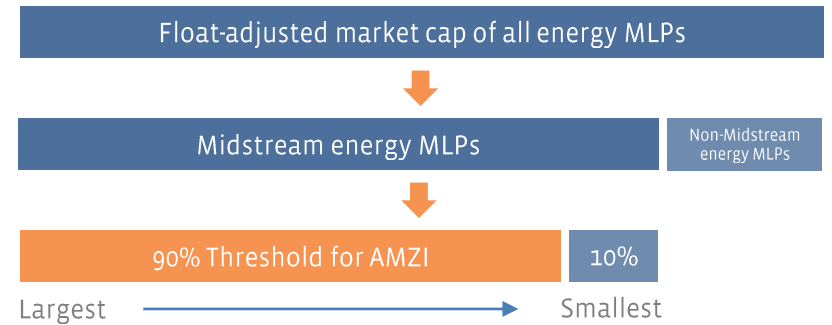
### Beta

- Float-adjusted market cap threshold

## AMZ



## AMZI



<sup>1</sup> For AMZI: qualifying midstream activities, per Energy MLP Classification Standard (EMCS SM)

<sup>2</sup> For AMZ and AMZI: median daily trading volume of at least \$2.5 million for the six-month period preceding the data analysis date

Last methodology update: September 29, 2017



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