

Guide to MLP Investing

GTE Wealth Forum
Miami, Florida



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About Alerian



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

\$16 billion in index-linked products

93% market share for passive exchange traded products

12

product
partners



8

REAL-TIME MLP & ENERGY INFRASTRUCTURE INDICES

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



About Alerian // Alerian index series

Ticker	Name	Tracking	Methodology	Launch
AMZ	Alerian MLP Index	Energy MLPs	Float-adjusted, Capitalization-weighted	June 2006
AMZI	Alerian MLP Infrastructure Index	Infrastructure MLPs	Capped, Float-adjusted, Capitalization-weighted	November 2009
AMEI	Alerian Energy Infrastructure Index	Energy Infrastructure MLPs and Corporations	Tier-weighted	April 2013
AMZE	Alerian MLP Equal Weight Index	Energy MLPs	Equal-weighted	April 2013
AMCI	Alerian MLP Closed End Fund Index	MLP Closed End Funds	Equal-weighted	March 2016
ANGI	Alerian Natural Gas MLP Index	Natural Gas MLPs	Equal-weighted	January 2010
AMLI	Alerian Large Cap MLP Index	Energy MLPs	Capitalization-weighted	April 2015
AMMI	Alerian Mid Cap MLP Index	Energy MLPs	Capitalization-weighted	April 2015
AMSI	Alerian Small Cap MLP Index	Energy MLPs	Capitalization-weighted	April 2015



About Alerian // Leveling the playing field for MLP investing





About Alerian // Diversified suite of index-linked products

Ticker	Product Type	Product Name	Licensee	Inception Date	Underlying Index	Annual Fee	Total Assets (mil)
AMLP	ETF	Alerian MLP ETF	ALPS	August 24, 2010	AMZI	0.85%	\$9,414
ENFR	ETF	Alerian Energy Infrastructure ETF	ALPS	November 1, 2013	AMEI	0.65%	\$18
AMJ	ETN	JPMorgan Alerian MLP Index ETN	JPMorgan	April 1, 2009	AMZ	0.85%	\$3,145
AMU*	ETN	ETRACS Alerian MLP Index ETN	UBS	July 17, 2012	AMZ	0.80%	\$408
MLPI*	ETN	ETRACS Alerian MLP Infrastructure Index ETN	UBS	March 31, 2010	AMZI	0.85%	\$2,268
MLPQ	ETN	ETRACS 2x Leveraged Alerian MLP Infrastructure Index ETN	UBS	February 9, 2016	AMZI	0.85%	\$50
MLPG	ETN	ETRACS Alerian Natural Gas MLP Index ETN	UBS	July 13, 2010	ANGI	0.85%	\$22
MLPS	ETN	ETRACS 1x Monthly Short Alerian MLP Infrastructure Index ETN	UBS	September 28, 2010	AMZI	0.85%	\$5
Series 5-38	ROC Note	CIBC Alerian MLP Infrastructure Index-Linked ROC Notes	CIBC	October 7, 2010	AMZI	1.25%	\$513
ALERX	Mutual Fund	ALPS Alerian MLP Infrastructure Index Fund	ALPS	December 31, 2012	AMZI	1.25%	\$41
ALEFX	VIT	ALPS Alerian Energy Infrastructure Portfolio	ALPS	April 30, 2013	AMEI	0.80%	\$83
AMJL	ETN	X-Links Monthly Pay 2X Leveraged Alerian MLP Index ETN	Credit Suisse	May 16, 2016	AMZ	0.85%	\$0.2

*AMUB has \$0.1 mil and MLPB has \$0.1 mil
Source: Alerian as of September 30, 2016

Total Alerian-linked fund and note AUM

\$15,967 mm



Overview of MLPs



Overview of MLPs // Why MLPs?



Stable Cash Flows

Fee-based toll-road (Price x Volume) business models that benefit from inelastic energy demand



Growing Distributions

Interstate liquid tariffs have built-in PPI “plus” revenue indexing



Energy Infrastructure

Increasing need for pipeline, storage, and processing assets to serve growing domestic production

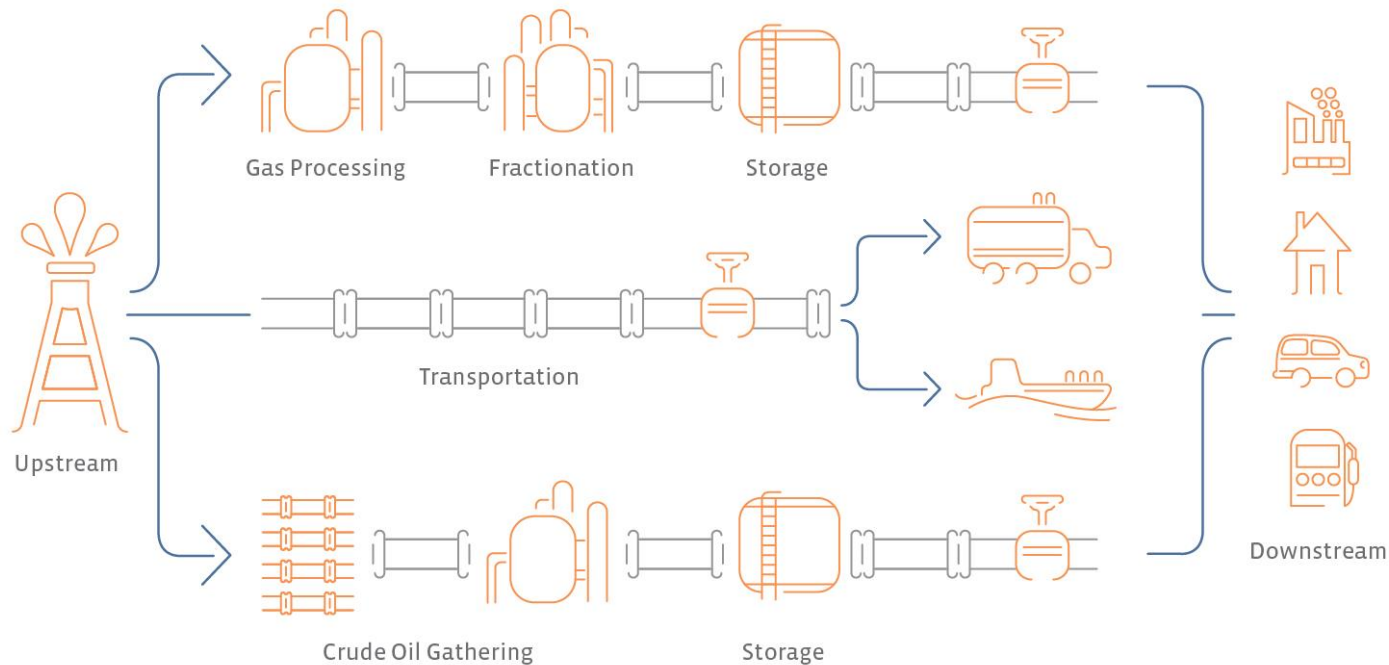


Diversification

Low correlation to broader markets, commodity prices, and interest rates over the long-term



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





The Dolphin Tollway charges the same toll for an Aston Martin as it does for a Honda Civic



Pipeline and storage businesses charge the same price to move or store a \$30 barrel as they do a \$150 barrel of oil



▶ 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

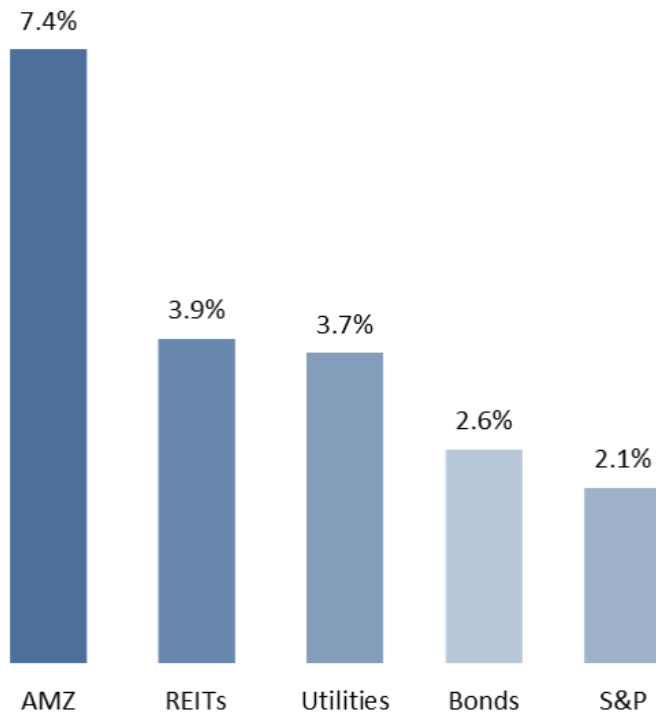
- Subject to tax if unrelated business taxable income (UBTI) exceeds \$1,000
- UBTI based on partnership income, not cash distributions



**MLP
Performance**

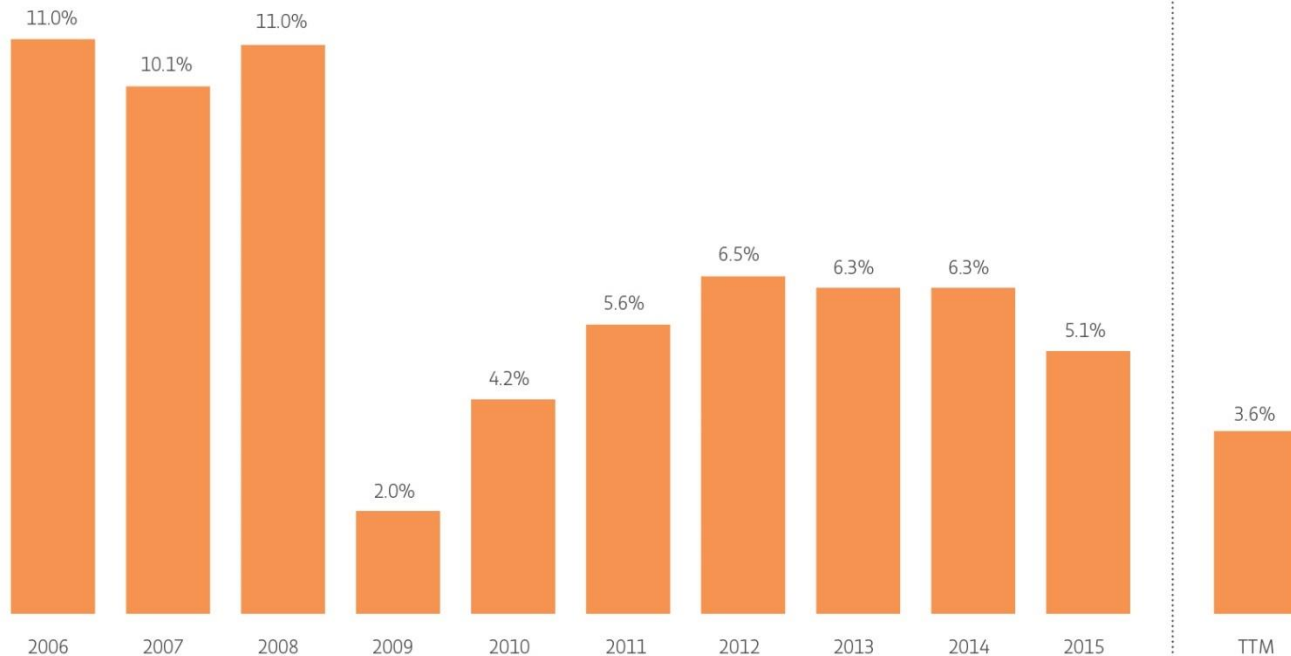


MLP Performance // MLPs offer an attractive relative yield





MLP Performance // Distribution growth drives returns



+6.8%

10-year
Average
Annual
Distribution
Growth



MLP Performance // The periodic table of performance

2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 YTD	Annualized
REITs 35.6%	Commodities 32.7%	Bonds 5.2%	MLPs 76.4%	MLPs 35.9%	Utilities 19.9%	REITs 18.0%	Small Cap 38.8%	Utilities 29.0%	REITs 4.4%	Small Cap 18.0%	MLPs 7.8%
Non-US 26.3%	Utilities 19.4%	Utilities -29.0%	Non-US 31.8%	Small Cap 26.9%	MLPs 13.9%	Non-US 17.3%	S&P 500 32.4%	REITs 28.7%	S&P 500 1.4%	MLPs 13.3%	S&P 500 6.9%
MLPs 26.1%	MLPs 12.7%	Small Cap -33.8%	REITs 27.6%	REITs 26.7%	REITs 9.4%	Small Cap 16.3%	MLPs 27.6%	S&P 500 13.7%	Bonds 0.5%	Utilities 10.8%	Small Cap 6.8%
Utilities 21%	Non-US 11.2%	MLPs -36.9%	Small Cap 27.2%	S&P 500 15.1%	Bonds 7.8%	S&P 500 16.0%	Non-US 22.8%	Bonds 6.0%	Non-US -0.8%	S&P 500 9.8%	Utilities 6.6%
Small Cap 18.4%	Bonds 7.0%	S&P 500 -37.0%	S&P 500 26.5%	Commodities 9.0%	S&P 500 2.1%	MLPs 4.8%	Utilities 13.2%	Small Cap 4.9%	Small Cap -4.4%	Commodities 6.4%	Bonds 4.3%
S&P 500 15.8%	S&P 500 5.5%	REITs -37.3%	Commodities 13.5%	Non-US 7.8%	Commodities -1.2%	Bonds 4.2%	REITs -0.5%	MLPs 4.8%	Utilities -4.8%	Bonds 2.5%	REITs 3.9%
Bonds 4.3%	Small Cap -1.6%	Non-US -43.4%	Utilities 11.9%	Bonds 6.5%	Small Cap -4.2%	Utilities 1.3%	Commodities -1.2%	Non-US -4.9%	MLPs -32.5%	REITs 1.4%	Non-US 0.7%
Commodities -15.1%	REITs -16.3%	Commodities -46.5%	Bonds 5.9%	Utilities 5.5%	Non-US -12.1%	Commodities 0.1%	Bonds -2.0%	Commodities -33.0%	Commodities -32.8%	Non-US -2.3%	Commodities -9.1%

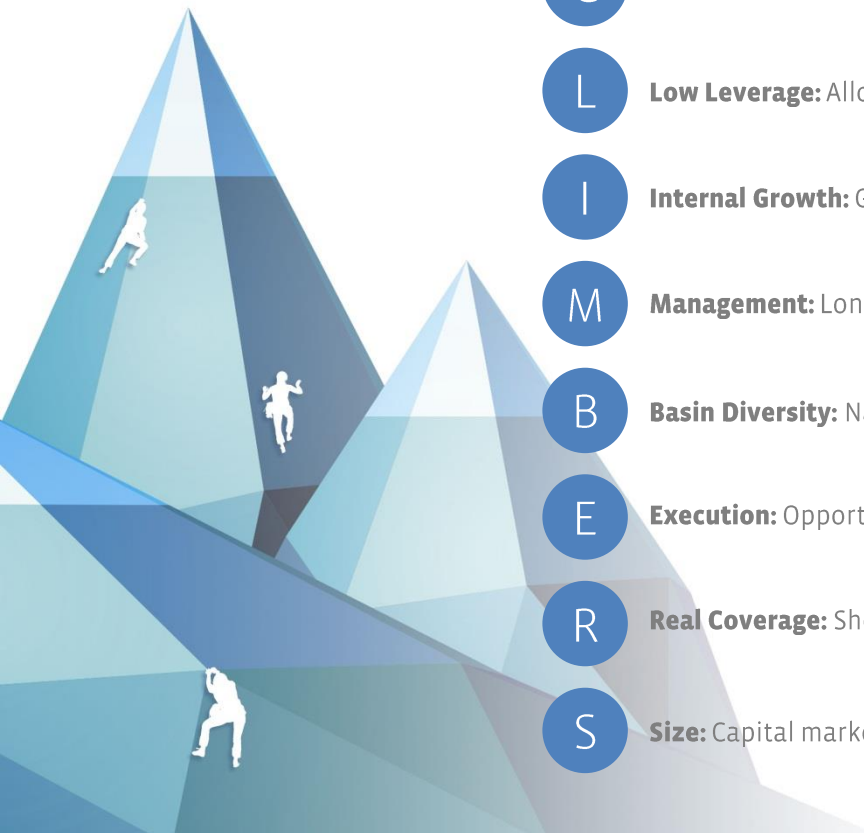
Source: Bloomberg as of November 30, 2016
Annualized over the trailing 10-year period as of November 30, 2016



**MLP
Investment
Options**



MLP Investing // Choosing an individual MLP

- 
- C** **Cost of Capital:** No incentive distribution rights (IDRs) removes acquisition conflict of interest
 - L** **Low Leverage:** Allows for margin of error
 - I** **Internal Growth:** Generally higher internal rate of return (IRR) than acquisitions
 - M** **Management:** Long-term macro opinions, admits when wrong, deep bench
 - B** **Basin Diversity:** Natural hedge to ever-changing supply/demand flows
 - E** **Execution:** Opportunities are only as good as the ability to take advantage of them
 - R** **Real Coverage:** Should stay above 1.0x for one standard deviation movements in risk factors
 - S** **Size:** Capital markets access, investment grade, trading liquidity, broader investor group



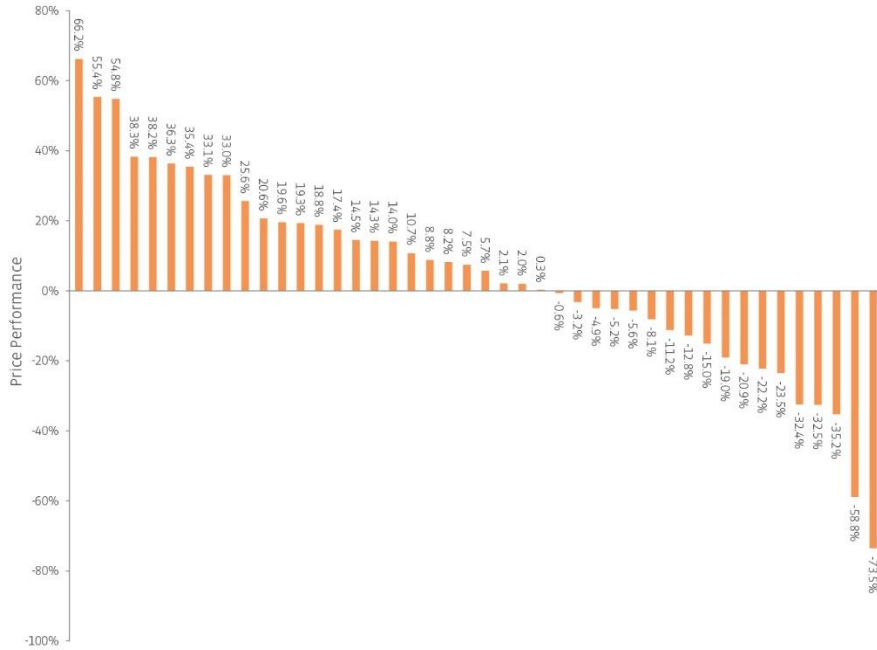
MLP Investing // Who should invest directly in MLPs?



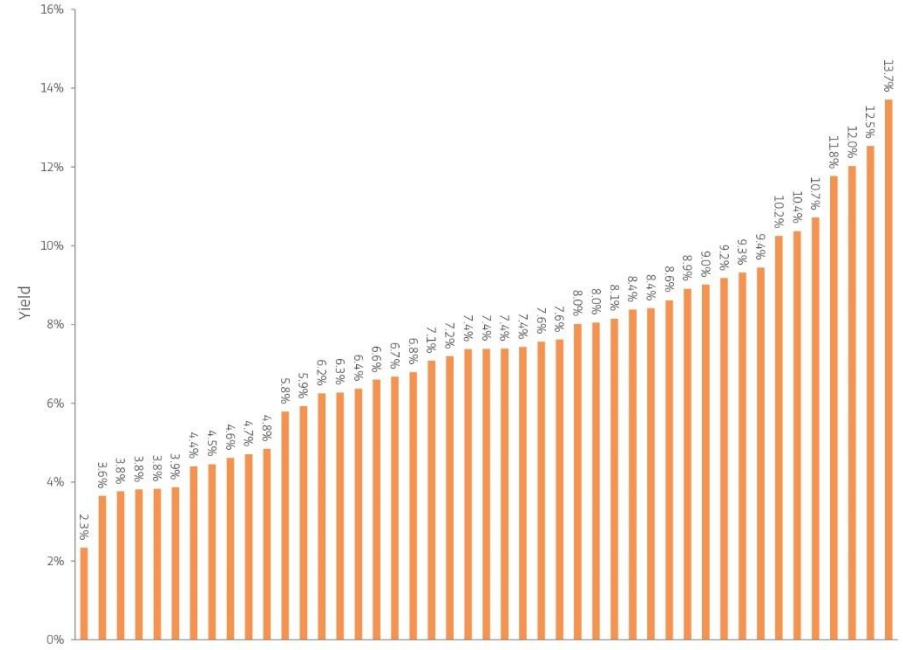
- P** Portfolio Selection
- U** United States
- T** Taxable
- S** State Filings & K-1s



Trailing 12-month Performance of AMZ Constituents



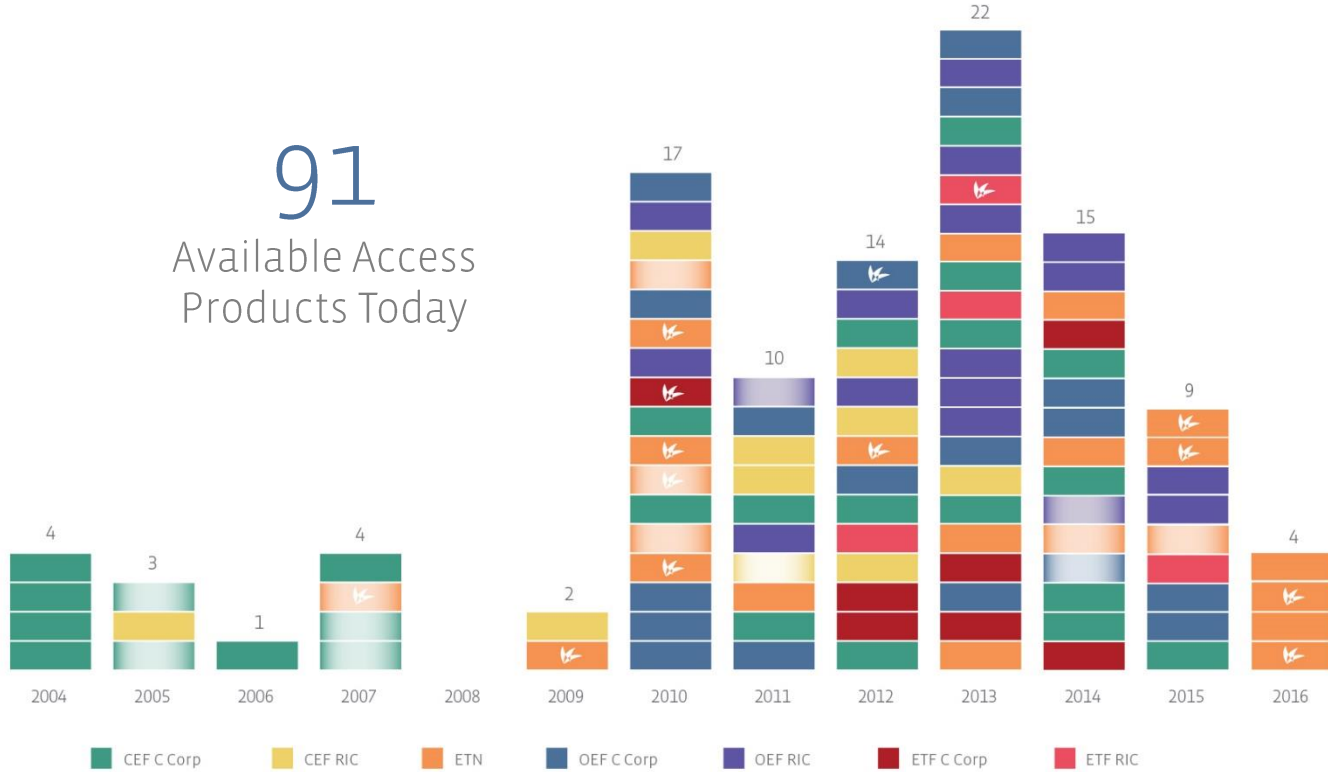
Yield Dispersion of AMZ Constituents





MLP Investing // Continued demand for access products

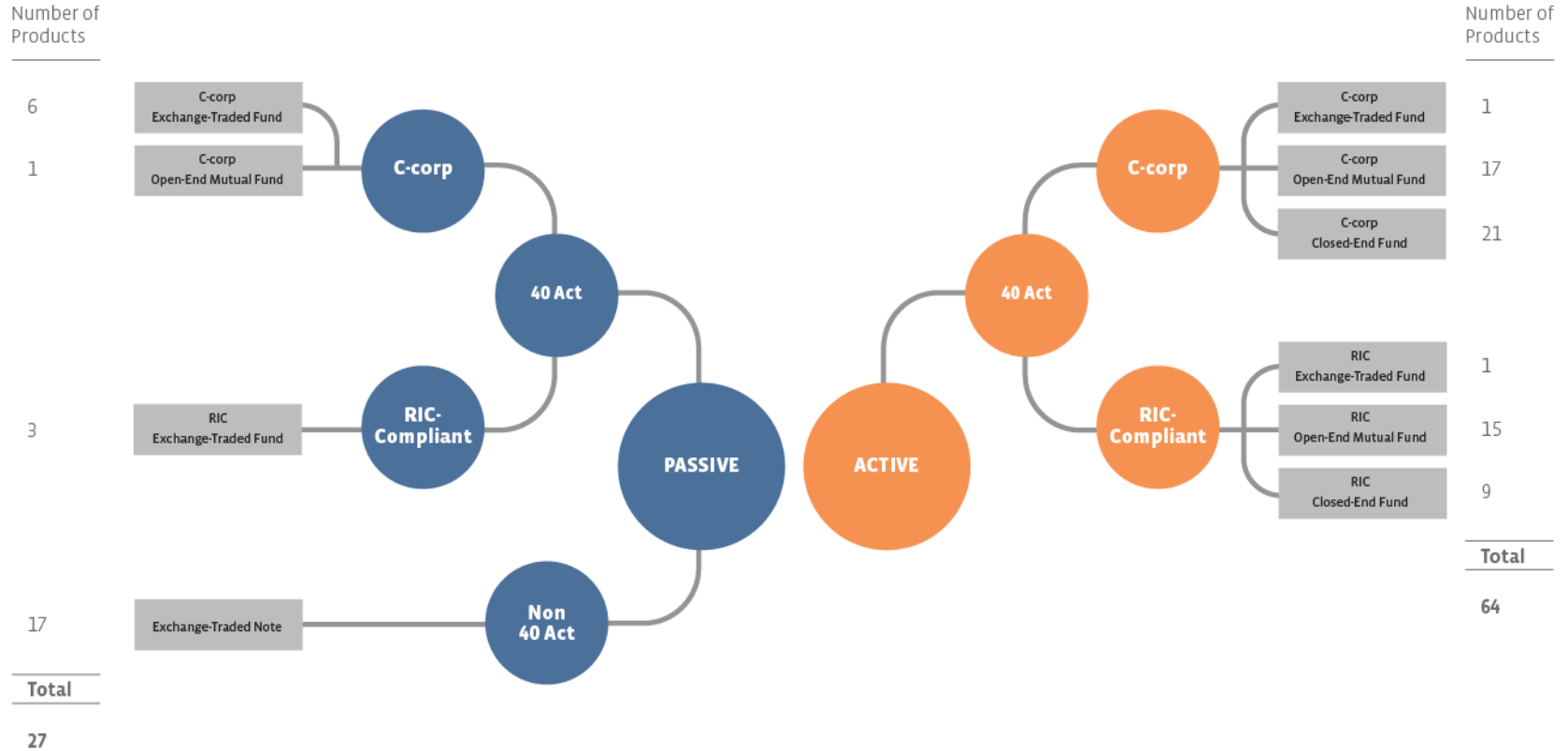
91
Available Access
Products Today



Note: 105 access products launched since 2004; faded colors represent funds that are now delisted
Source: Alerian as of November 30, 2016

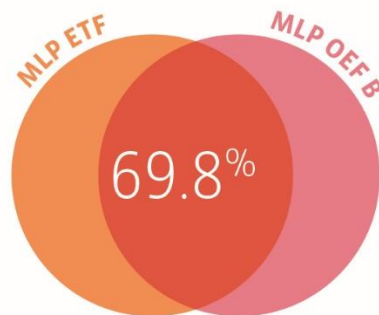
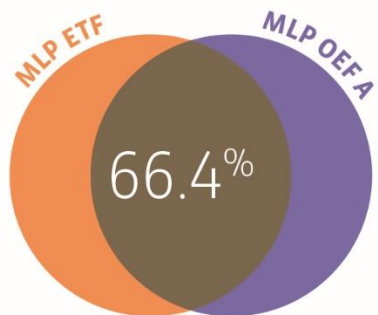
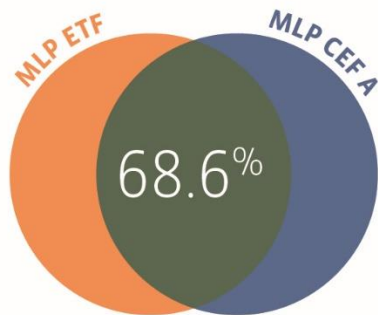


MLP Investing // MLP investment product decision tree





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





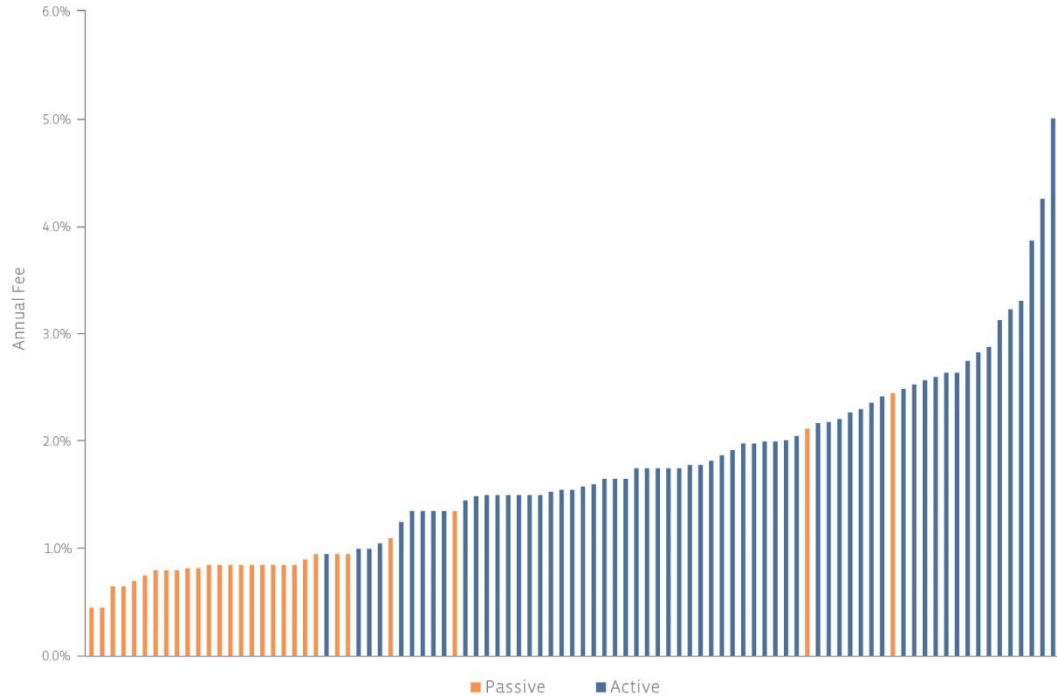
Liquidity concentrated in select MLPs

Days to Exit \$10 million Position in Single MLP





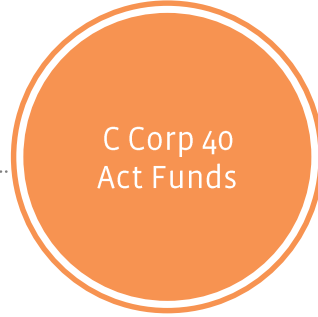
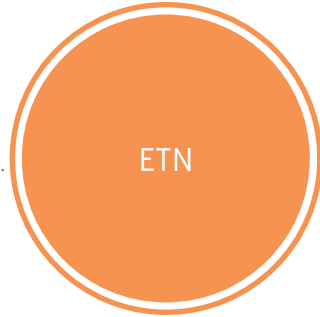
MLP Investing // Passive vs. active – worth the fees?



Each bar represents a currently available MLP investment product, and the length of the bar represents its annual fee. Expenses include management fees, borrowing costs, 12b-1 fees, other expenses as defined in the prospectus (including, but not limited to, shareholder service fees and fund acquisitions costs), fee waivers, and expense reimbursements. Current and deferred income tax expenses, trading costs, and commissions, among other costs, are excluded. Annual fees calculated from prospectus at fund launch.



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



**Current
Issues &
Risks**



▶ Smoother Permitting Process

- Energy Transfer Partners (ETP), which is building the Dakota Access Pipeline, rose 11.1% on November 9th
- Stated intention to invite TransCanada (TRP) to reapply for Keystone XL permits
- Eminent domain conflicts may remain
- Regulations, like law and order, benefit everyone when done well

▶ Vital Energy Infrastructure

- Trump’s stated intention is to build vital energy infrastructure, and midstream MLPs play a critical role in building, maintaining, and operating these assets
- Construction and maintenance of midstream assets creates jobs

▶ Revamped Tax Code

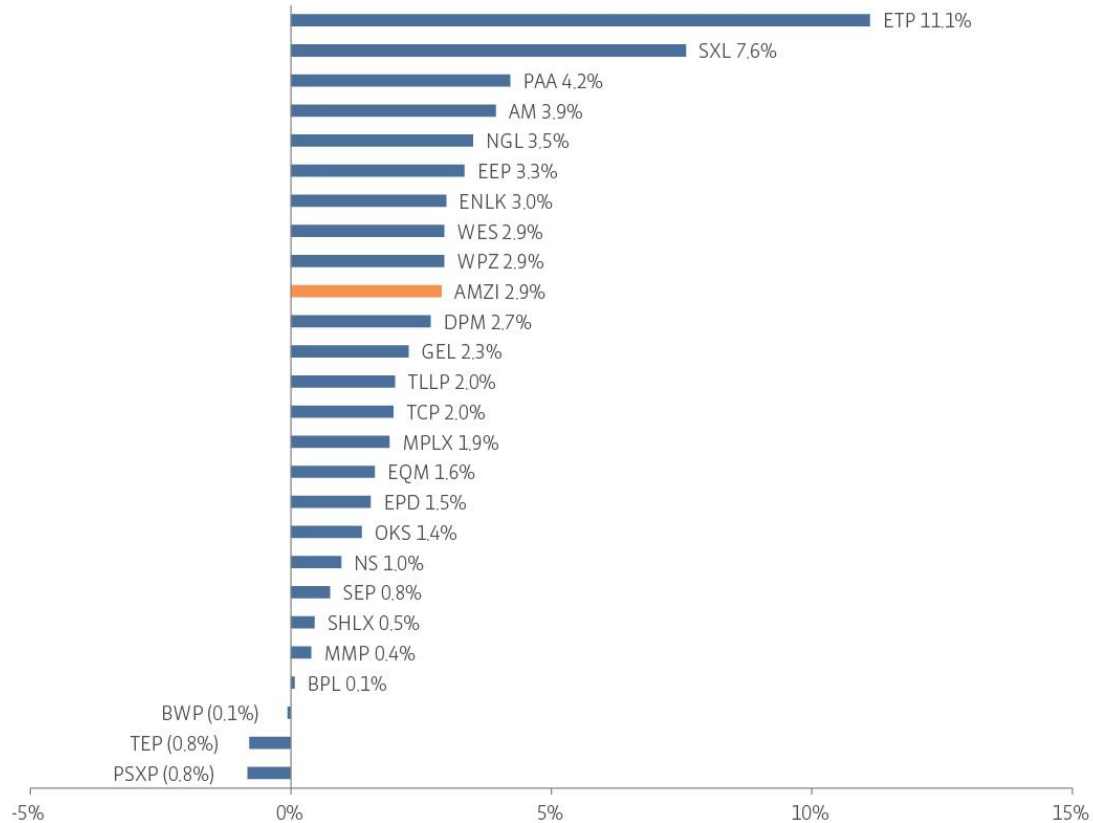
- Small potential that all partnerships would be taxed. While this would remove a significant investment incentive, the 2015 JCT study indicates these partnerships cost only \$1.2B in tax revenues, limiting the downside impact
- Lower corporate and individual tax rates would not provide a direct benefit as MLPs are pass-through entities

▶ Open Federal Lands

- Trump promised to lift restrictions on American energy reserves to create jobs
- For oil and gas, current limiting factor is low commodity prices, not reserves. Coal may modestly revive.

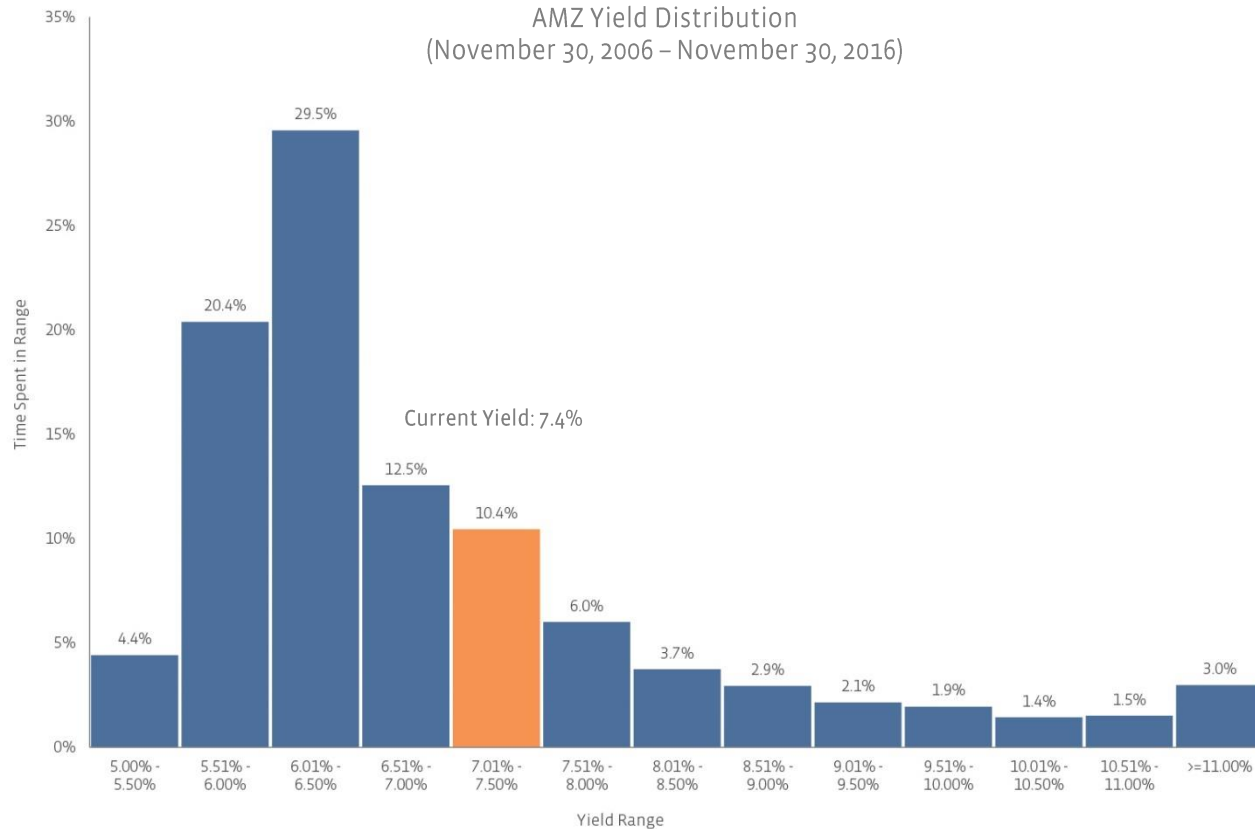


MLP Performance // November 9, 2016 Election Results





Current Issues & Risks // Historical distribution of MLP yields



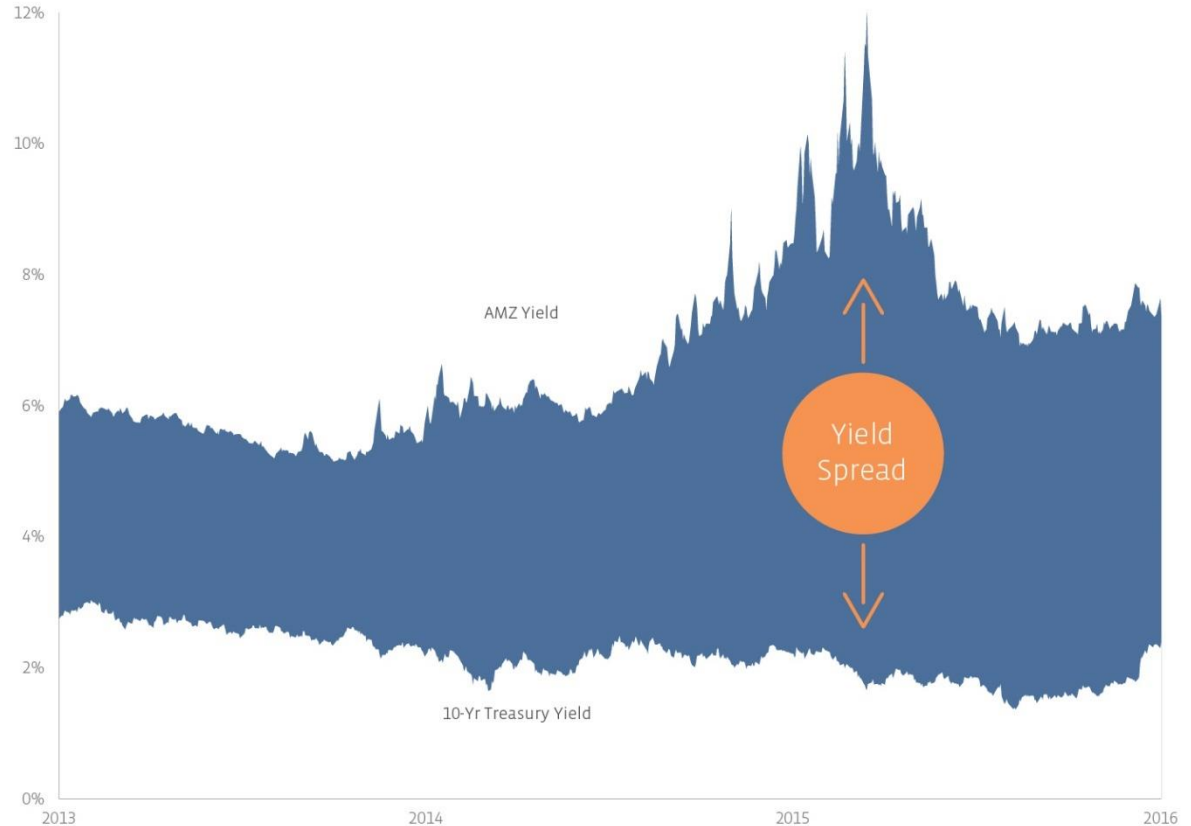


499 bps

Current AMZ
Spread to
Treasuries

392 bps

10-Yr Median
AMZ Spread to
Treasuries





Distribution Profile of AMZ Constituents

	Increase	Maintain	Cut
1Q14	31	18	1
2Q14	35	15	0
3Q14	30	20	0
4Q14	28	19	3
1Q15	28	19	3
2Q15	34	14	2
3Q15	31	19	0
4Q15	18	27	5
1Q16	20	18	5
2Q16	21	22	1
3Q16	18	24	2

Distribution Profile of AMZI Constituents

	Increase	Maintain	Cut
1Q14	18	7	0
2Q14	22	3	0
3Q14	21	4	0
4Q14	18	7	0
1Q15	15	8	0
2Q15	17	6	0
3Q15	15	7	0
4Q15	11	11	0
1Q16	13	11	0
2Q16	15	10	1
3Q16	14	11	0



Current Issues & Risks // 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



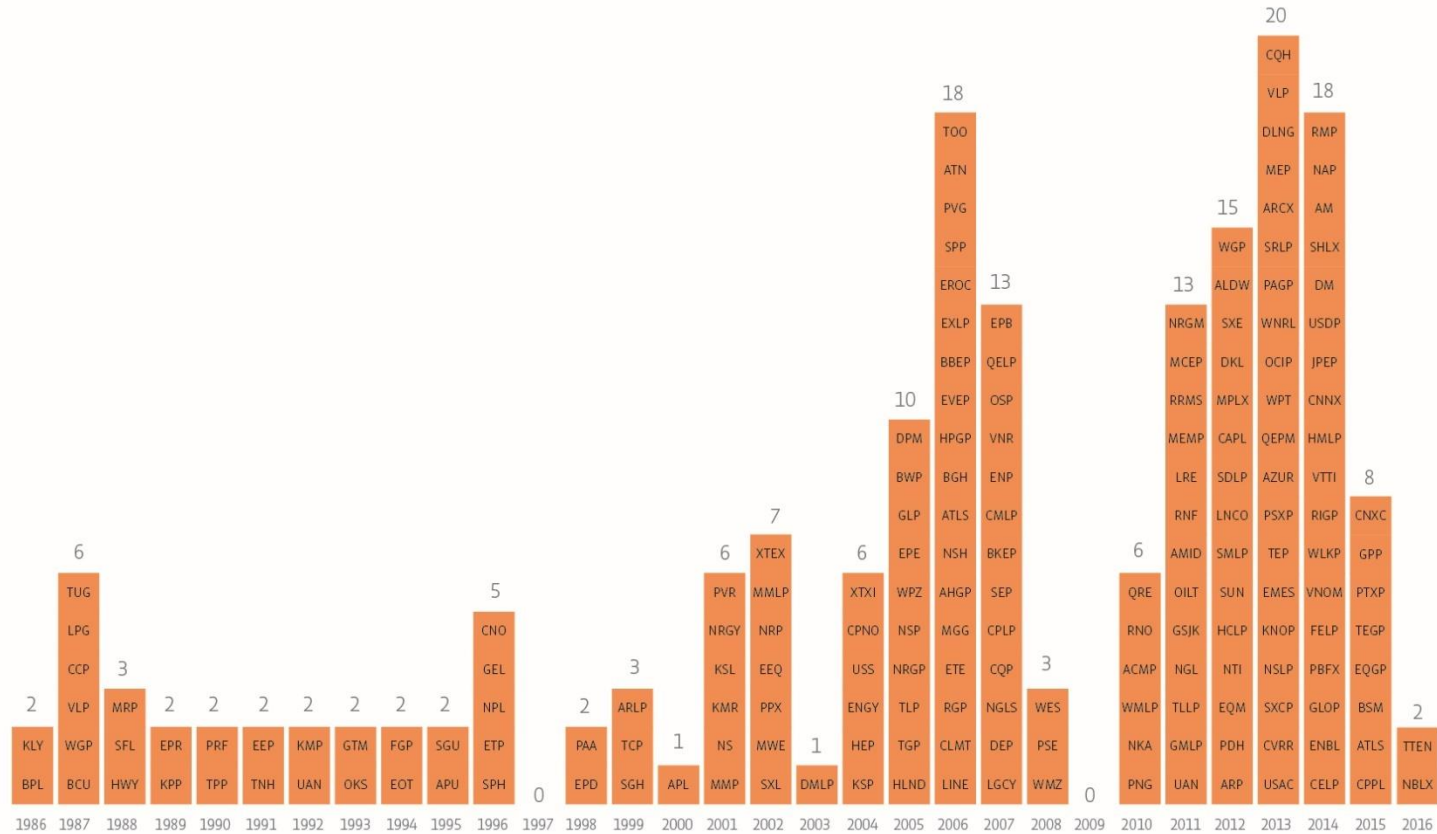
Perceived commodity price exposure



**Appendix:
Asset Class
Growth**



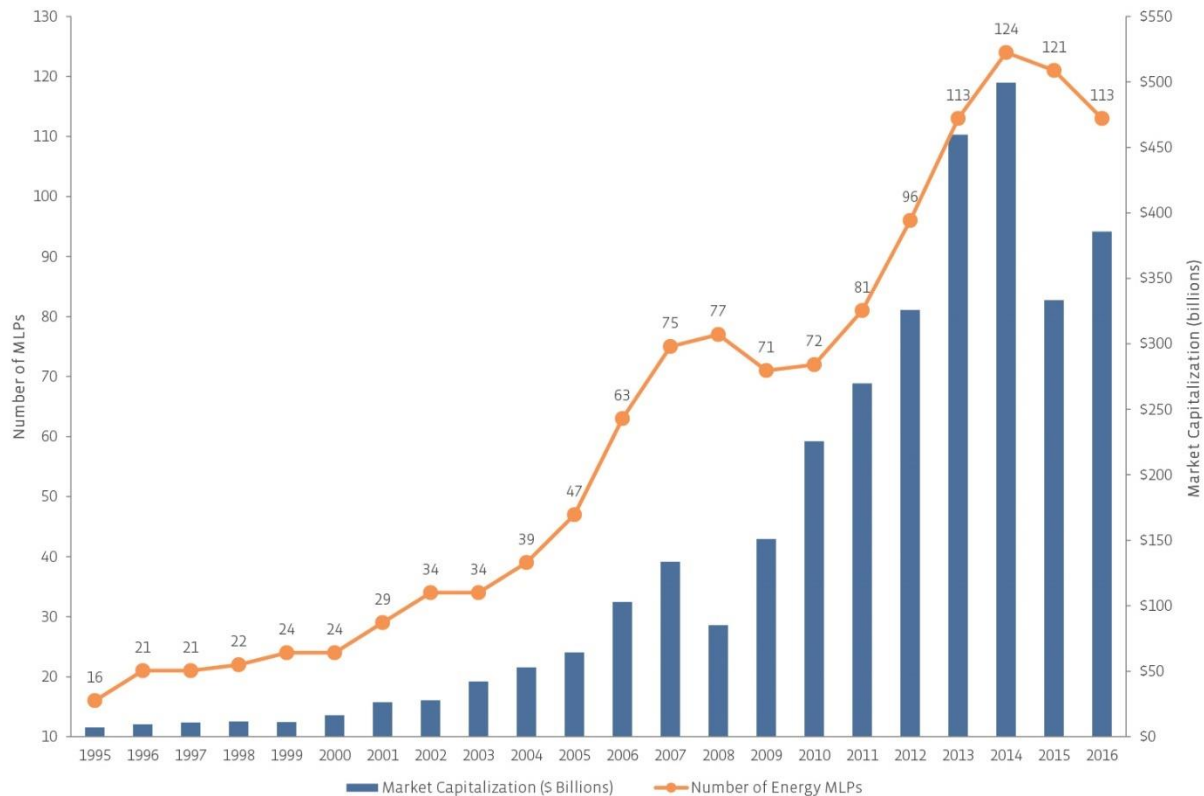
Appendix // History of MLP IPOs



Source: Alerian as of November 30, 2016



Appendix // No longer an emerging asset class



Excludes cross-cross ownership
Source: Alerian as of November 30, 2016



Appendix // Foreign and institutional investment has grown

MLP Unit Ownership Breakdown





Other



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 flow¹



Distribution

- Declared distribution for trailing two quarters



Liquidity

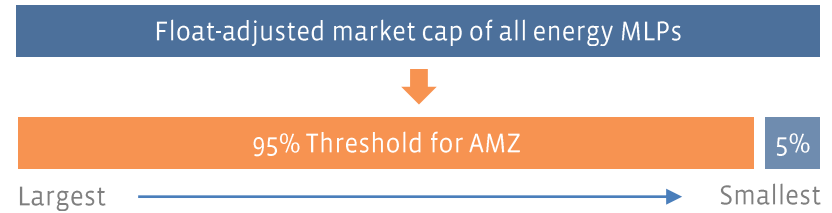
- Median dollar trading volume threshold²



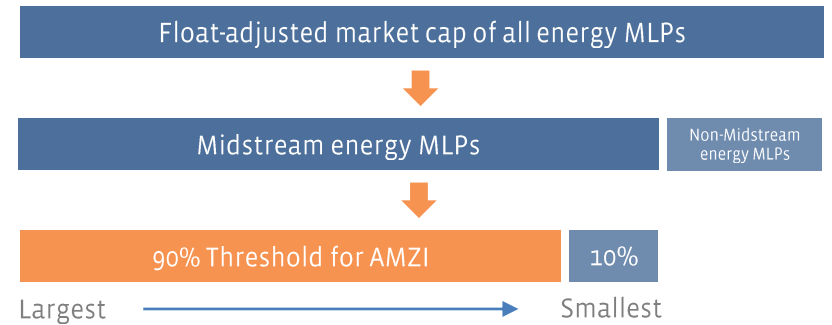
Beta

- Float-adjusted market cap threshold

AMZ



AMZI



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

² 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: January 26, 2016