

**Energy  
Infrastructure  
Allocation for the  
Next Several  
Decades**

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Maria Halmo



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# About Alerian



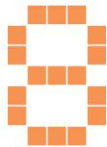
- ▶ Real-time MLP Index
- ▶ MLP ETN
- ▶ MLP ETF

**\$15** billion in index-linked products

**85%** market share for package exchange traded products

11

product  
partners



REAL-TIME MLP & ENERGY INFRASTRUCTURE INDICES

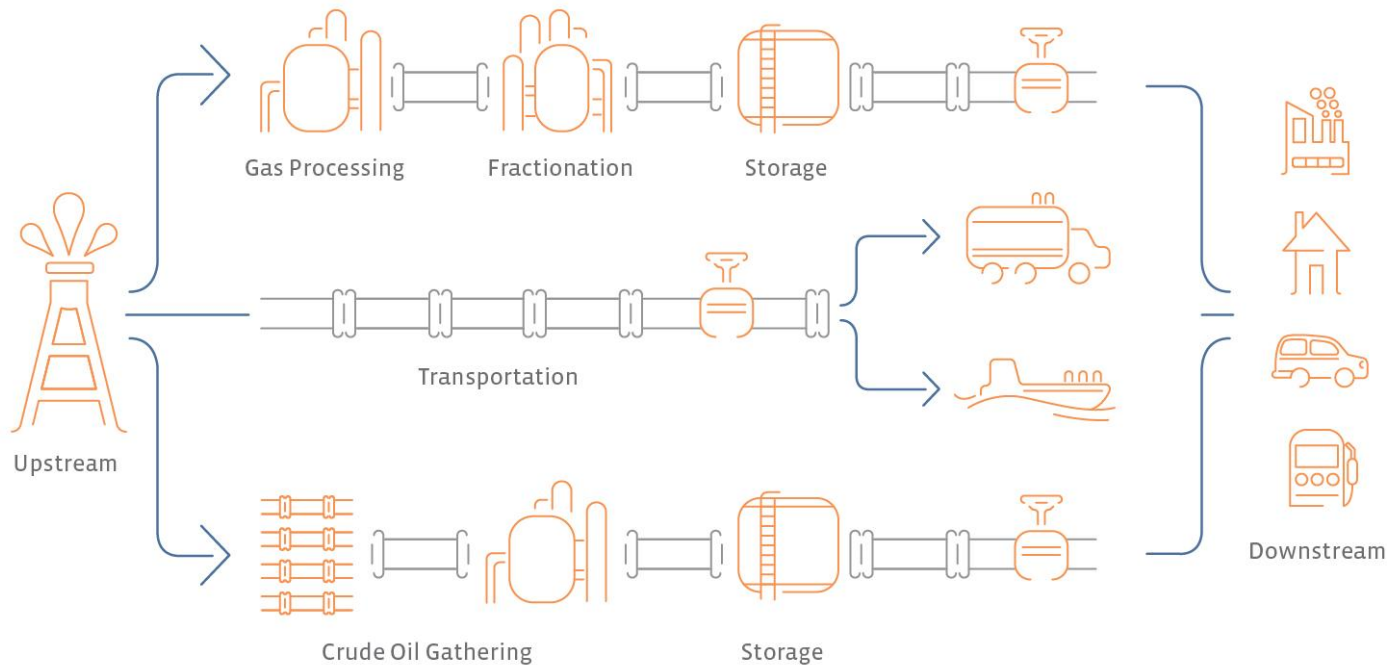
AMZ / AMZI / AMEI / ANGI / AMZE / AMLI / AMMI / AMSI



# Introduction to MLPs and Energy Infrastructure



# Introduction // What is an energy infrastructure asset?





The Suncoast Parkway 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

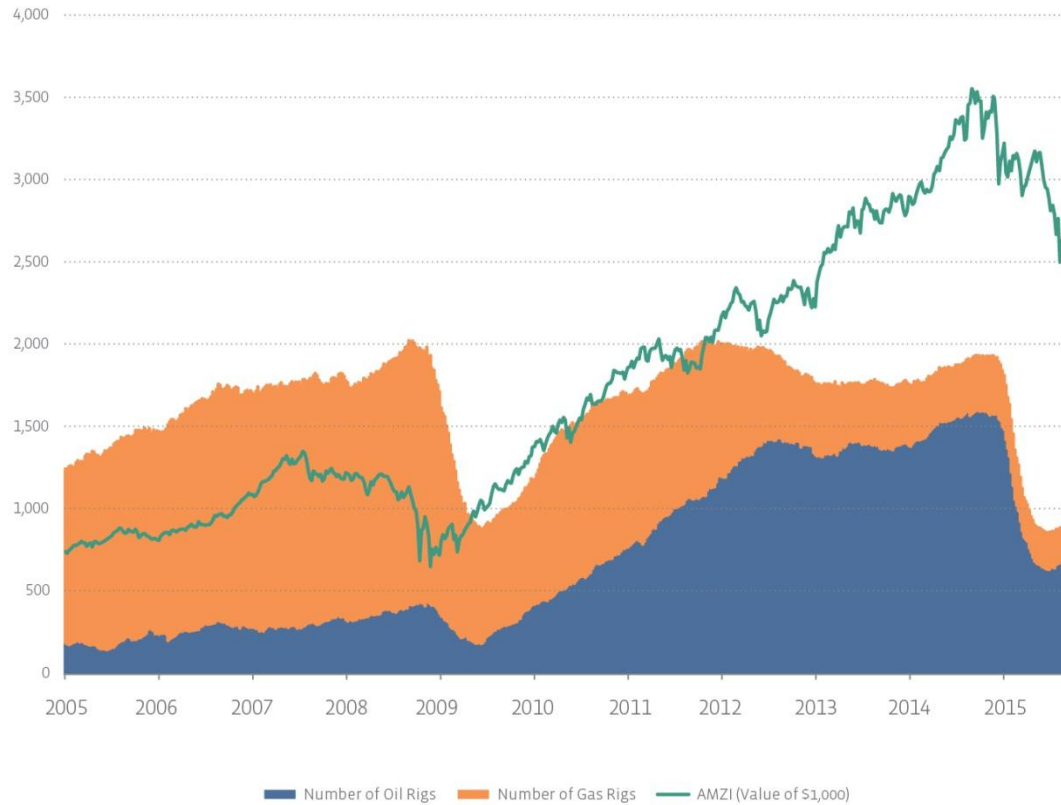




**Current  
Challenges  
Risks**



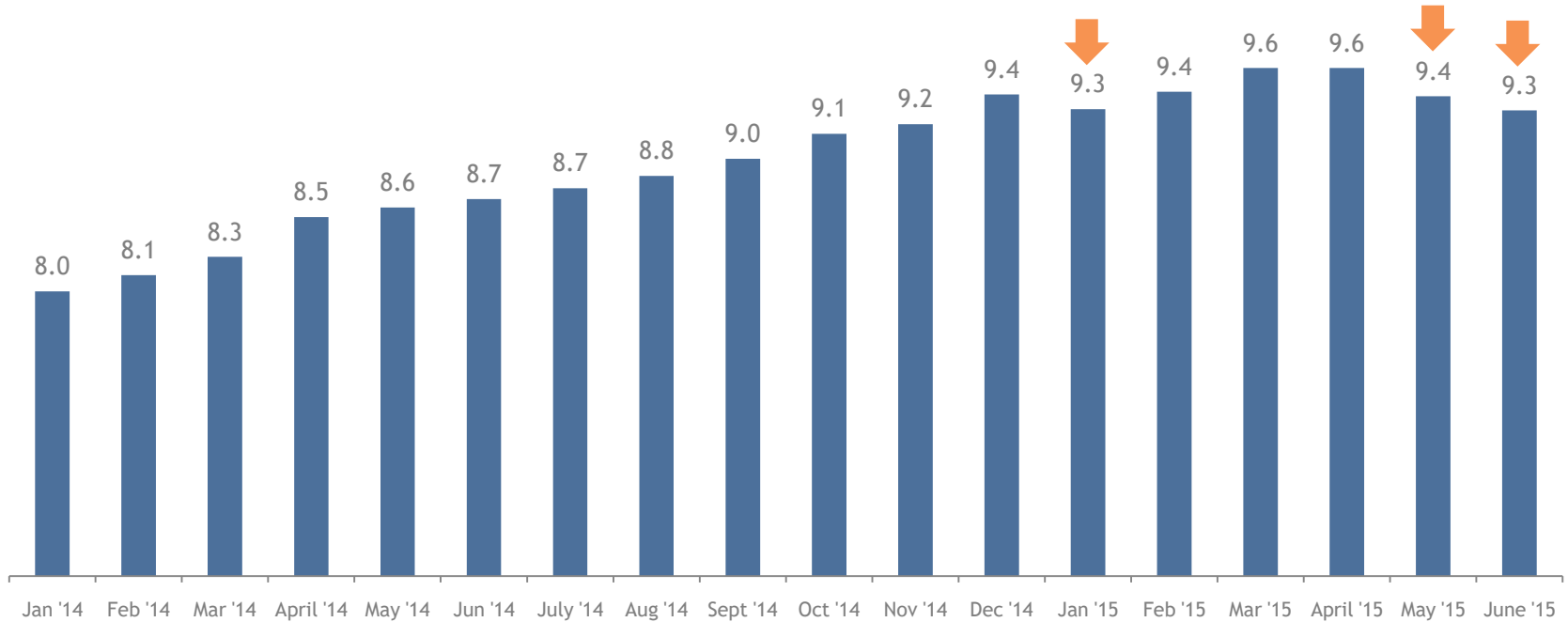
## Challenges // Rig counts gauge the health of the energy industry





## Challenges // Sustained period of production pullback necessary

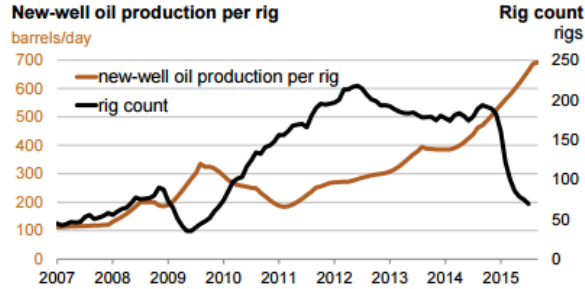
Crude Oil Production (MMbbls/d)



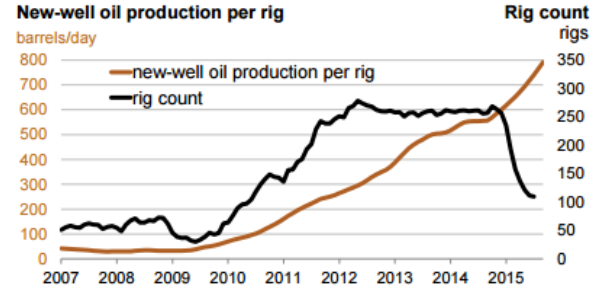


# Challenges // Drilling efficiencies continue to improve

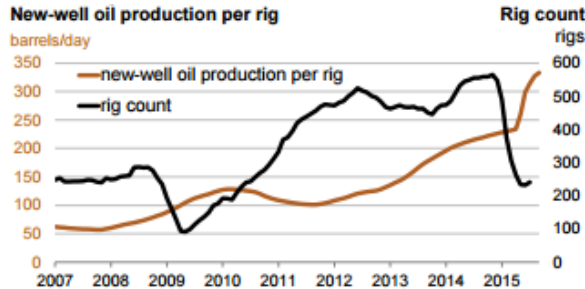
## Bakken



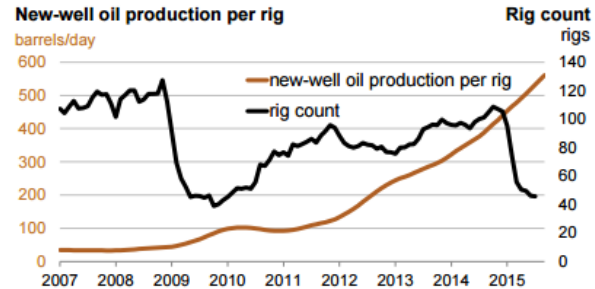
## Eagle Ford



## Permian



## Niobrara





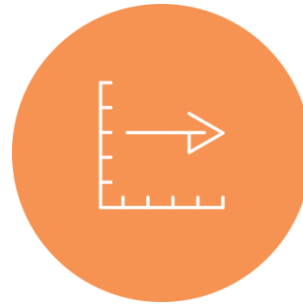
## Challenges // Debunking MLP and interest rate fears



Inflation-indexed  
contracts



No significant  
correlation over the  
long-term



Majority debt is  
long-term and fixed



MLP distribution  
growth historically  
outpaces inflation



## Challenges // Tax law changes unlikely

### Income Source Narrowed

Unlike Canadian royalty trusts, the scope of qualifying income has been limited

### Counterintuitive to Achieving Energy Independence

Tax structure removal would signal diminished support for energy infrastructure build-out

### Proposed Expansion of Income Source

Bipartisan-supported MLP Parity Act would grant same tax status to certain renewable fuels

### Minimal Tax Impact

March 2015 study estimates forgone revenue of \$1.2 billion over five years



## Challenges // 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



**Reasons to  
Invest and  
Stay Invested**





## Reasons to Invest // 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



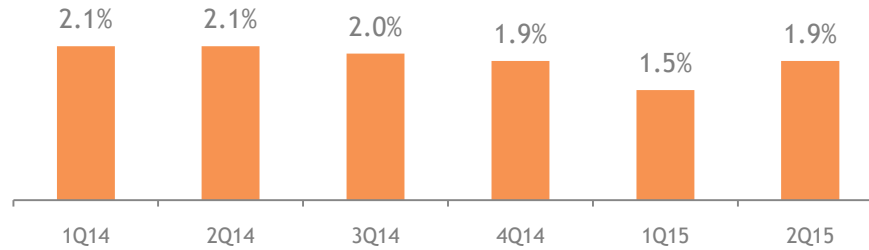
### Diversification

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



## Reasons to Invest // Midstream MLPs continue to grow distributions

### AMZI Quarterly Distribution Growth

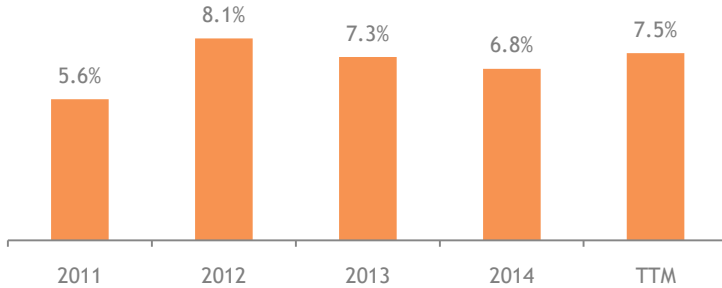


	Increase	Maintain	Cut
1Q14	18	7	0
2Q14	22	3	0
3Q14	21	4	0
4Q14	18	7	0
1Q15	15	8	0
2Q15	17	6	0

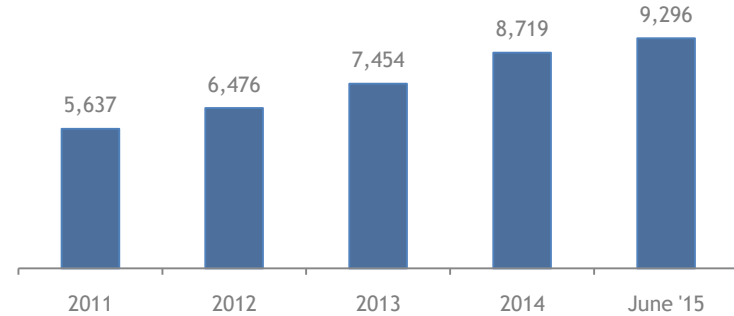


# Reasons to Invest // Distribution growth despite changing environment

### AMZI Annual Distribution Growth



### Crude Production (MMbbls/d)



### US Onshore Rig Count



### Crude Oil Prices (\$/bbl)





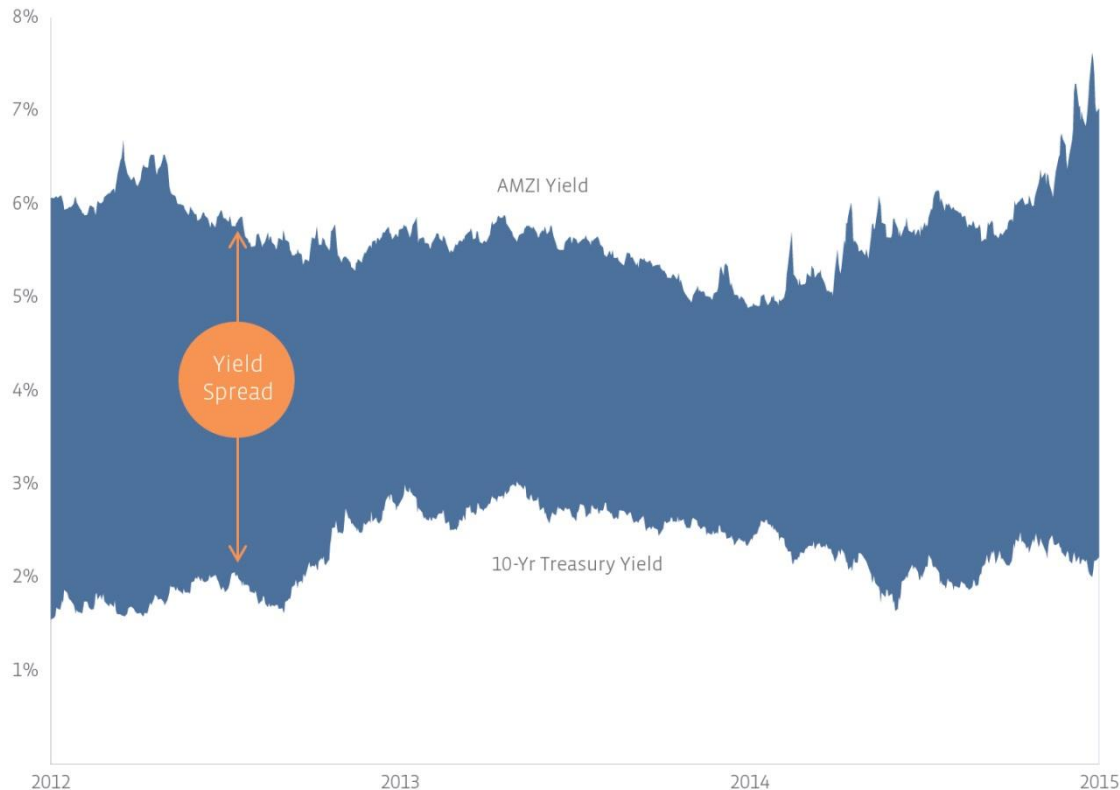
## Reasons to Invest // MLP yield spreads are above historical trends

# 481 bps

Current AMZI  
Spread to  
Treasuries

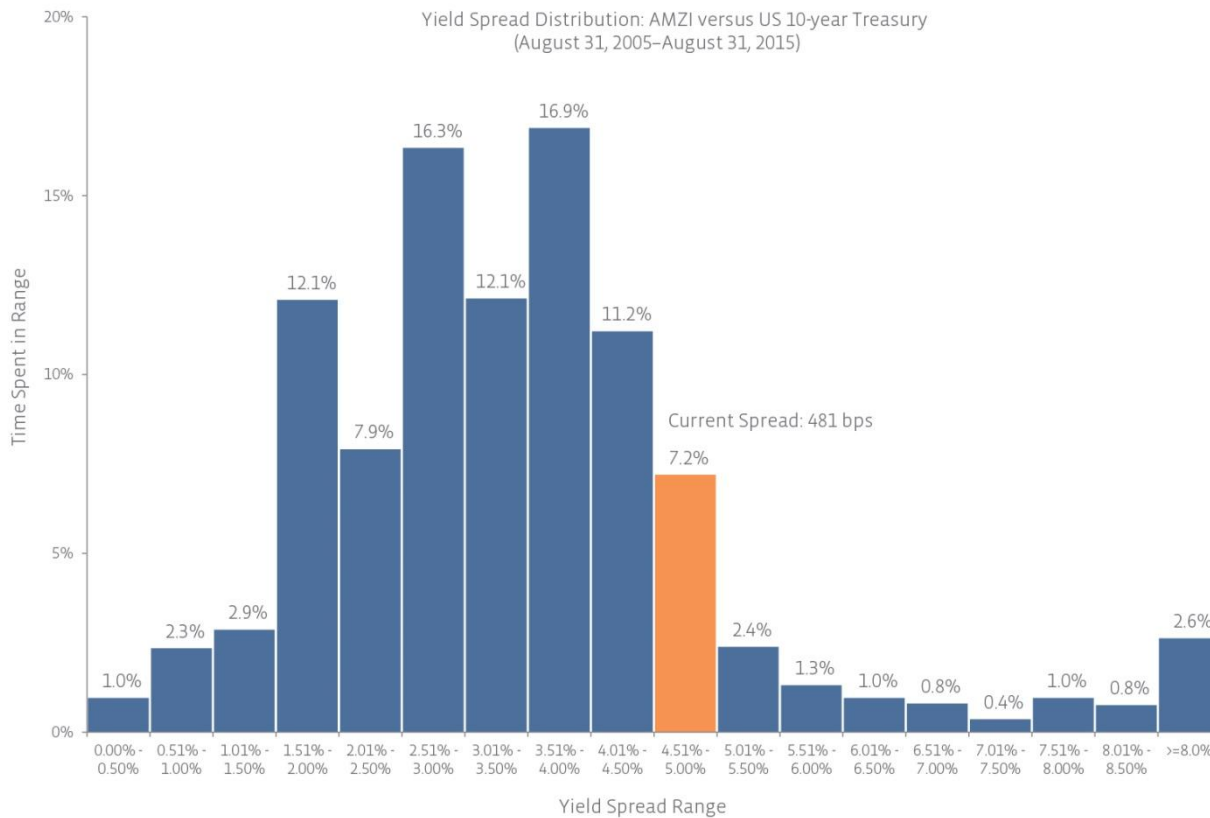
# 330 bps

10-Yr Median  
AMZI Spread to  
Treasuries



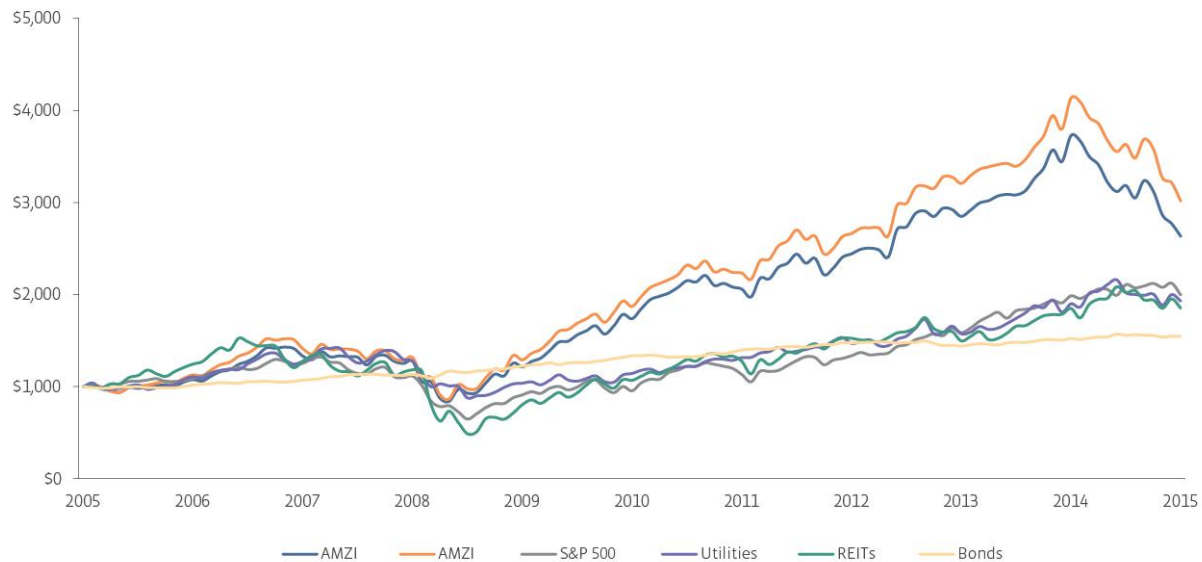


## Reasons to Invest // Historical yield spread distribution



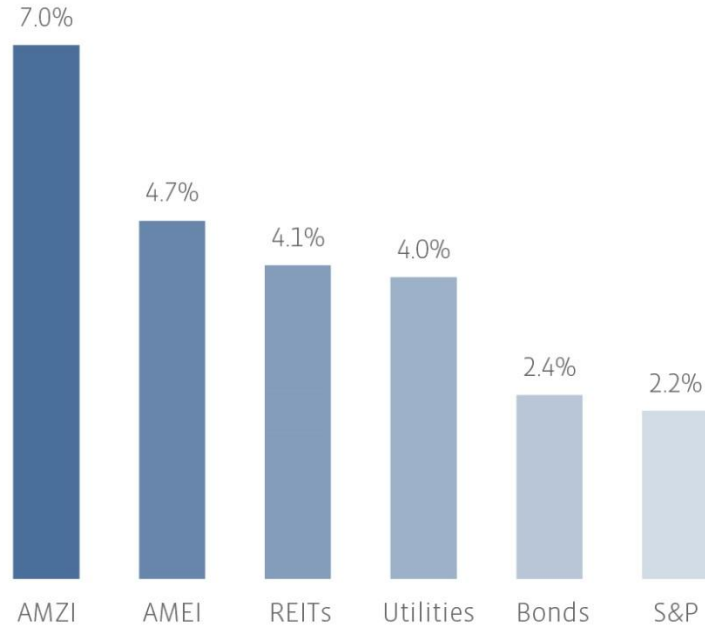


## Reasons to Invest // MLPs historically outperform other asset classes





## Reasons to Invest // MLPs offer an attractive relative yield





**MLP  
Investment  
Options**





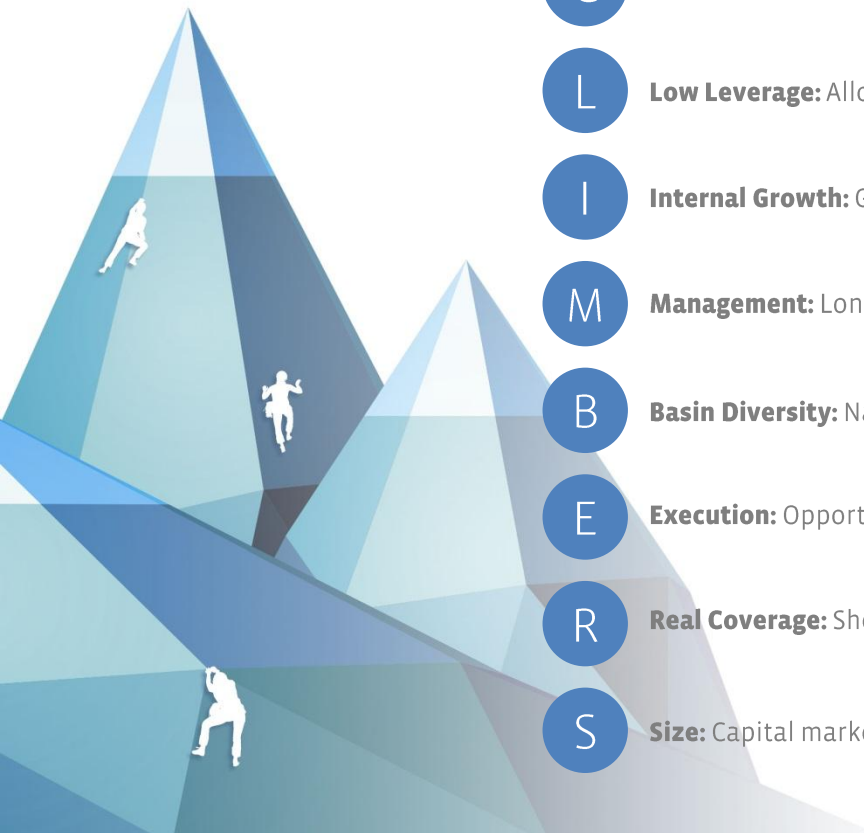
## MLP Investing // Who should invest directly in MLPs?



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

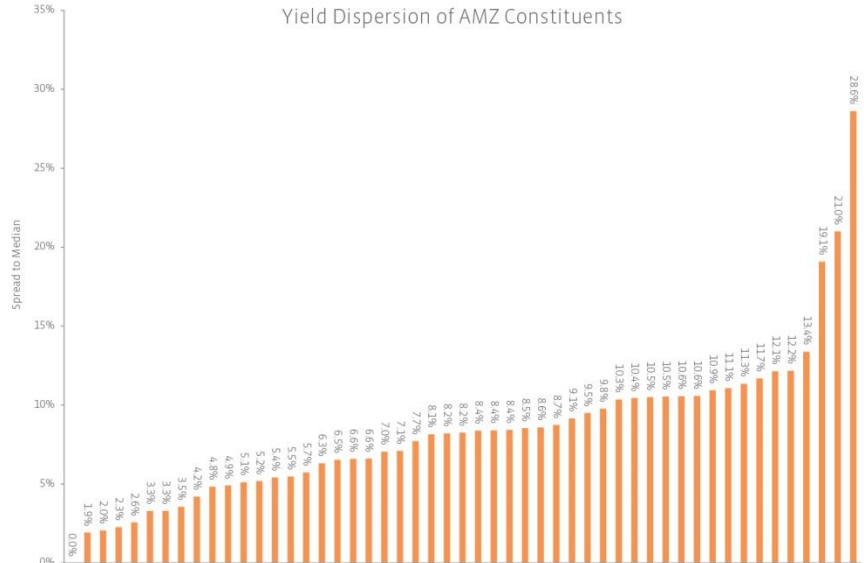
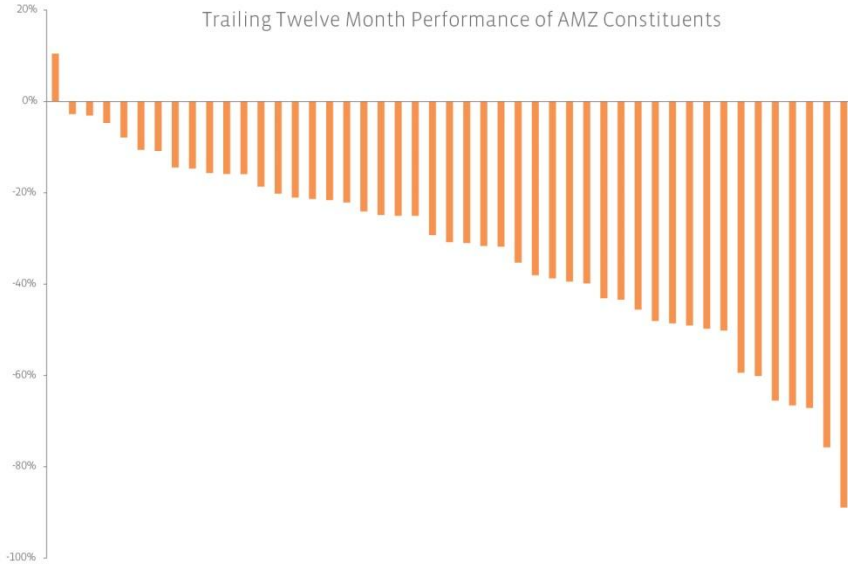


## MLP Investing // Choosing an individual MLP

- 
- 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 // Why diversify?

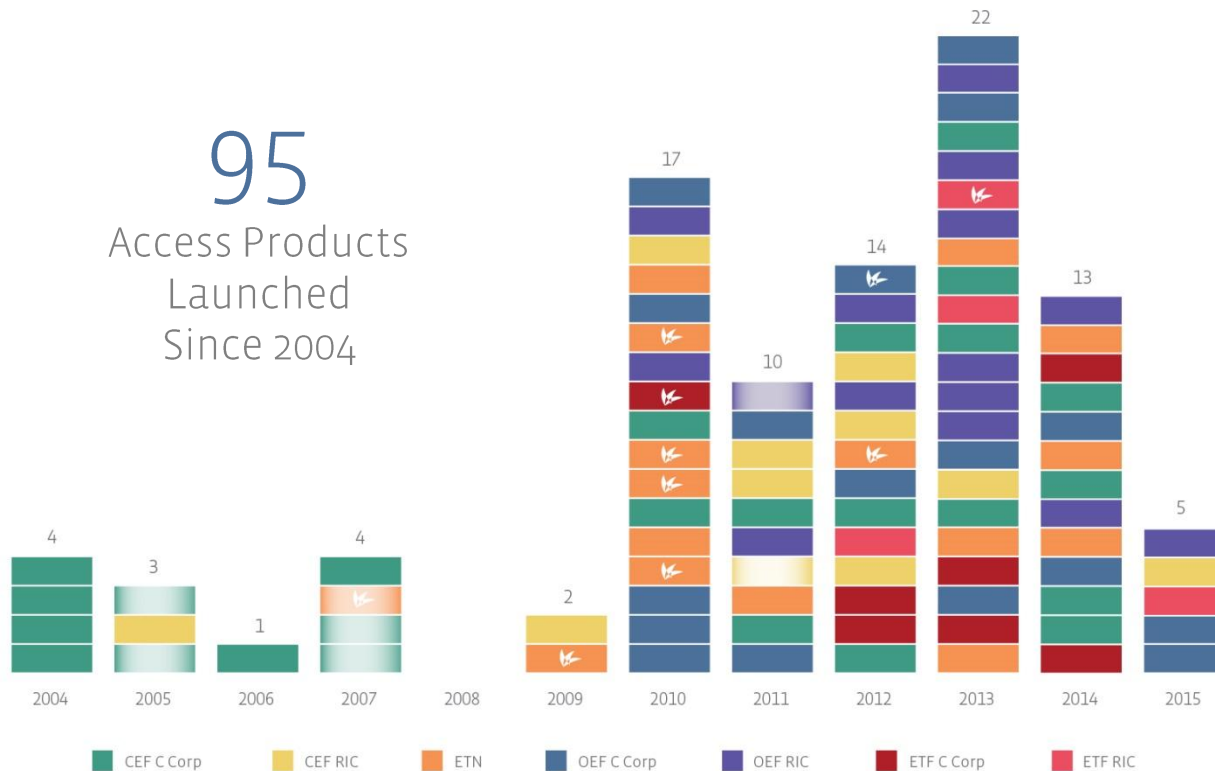


Source: Alerian as of August 31, 2015



# MLP Investing // Continued demand for access products

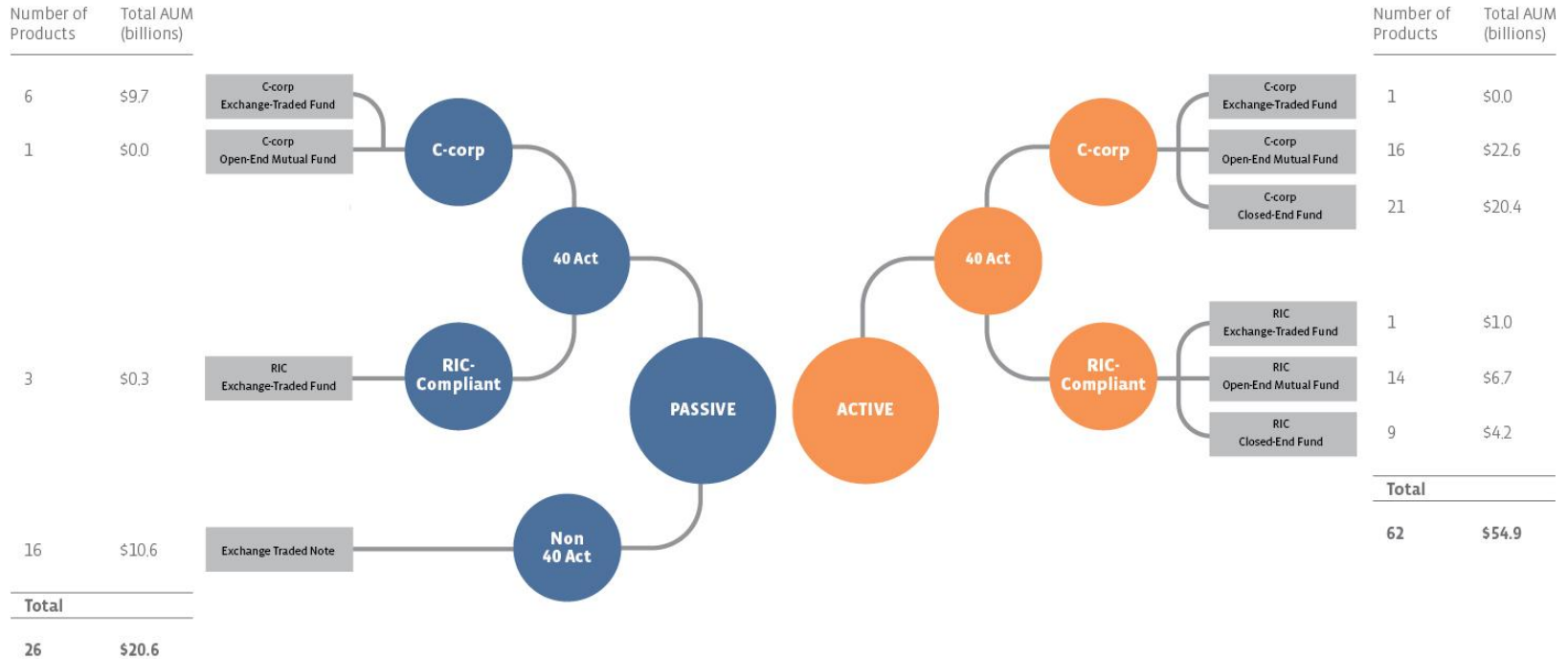
95  
Access Products  
Launched  
Since 2004



Note: Faded colors represent funds that are now delisted  
Source: Alerian as of August 31, 2015



# MLP Investing // MLP investment product decision tree







## MLP Investing // Different strokes for different folks

### ETN

Little/No Tracking Error  
100% MLP Exposure

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

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

### C Corp 40 Act Funds

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

Deferred Tax Liability Mutes Gains

After-Tax Yield Investors  
Low Volatility Investors

### RIC-Compliant 40 Act Funds

Little/No Tracking Error  
Ownership of Underlying Securities

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

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

#### Advantages

#### Disadvantages

#### Suitability

\*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



# Questions

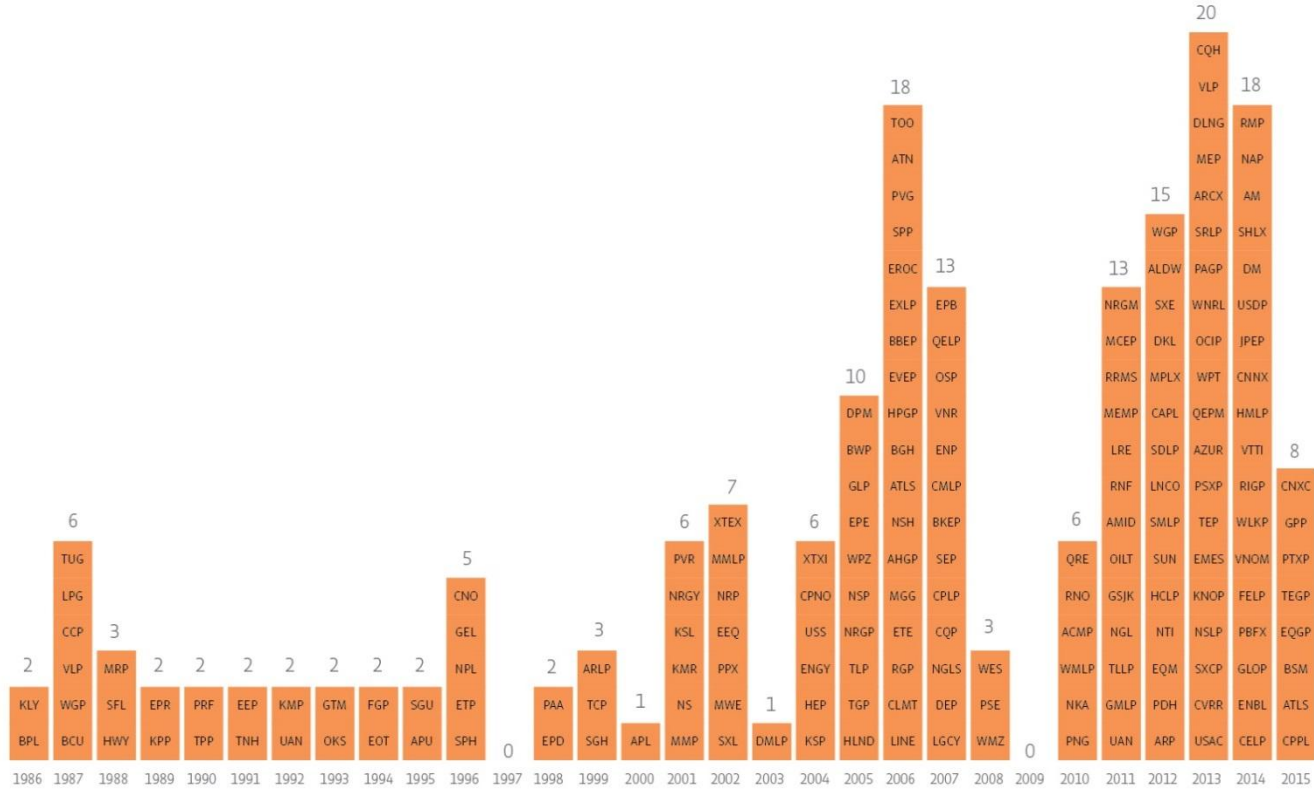




# Appendix I: Asset Class Growth

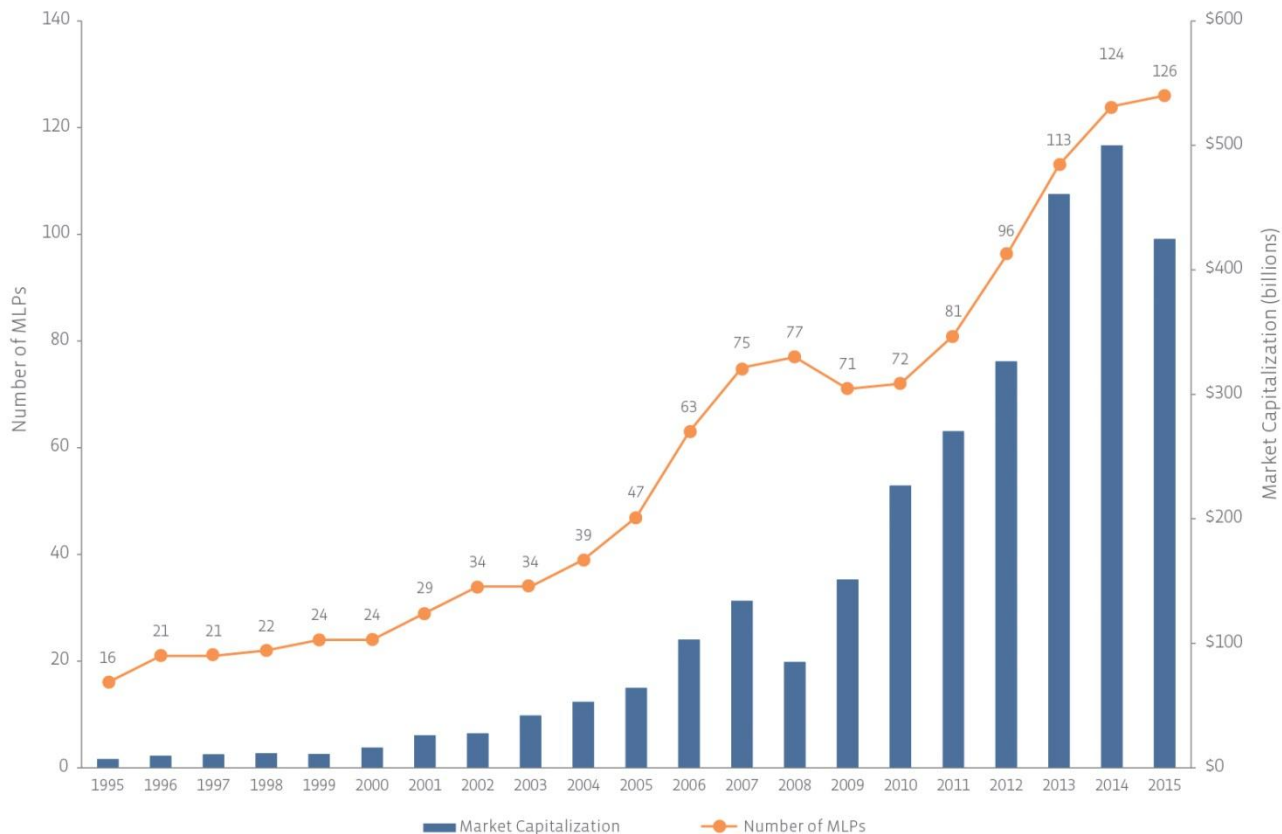


# Asset Class Growth // History of MLP IPOs





## Asset Class Growth // No longer an emerging asset class





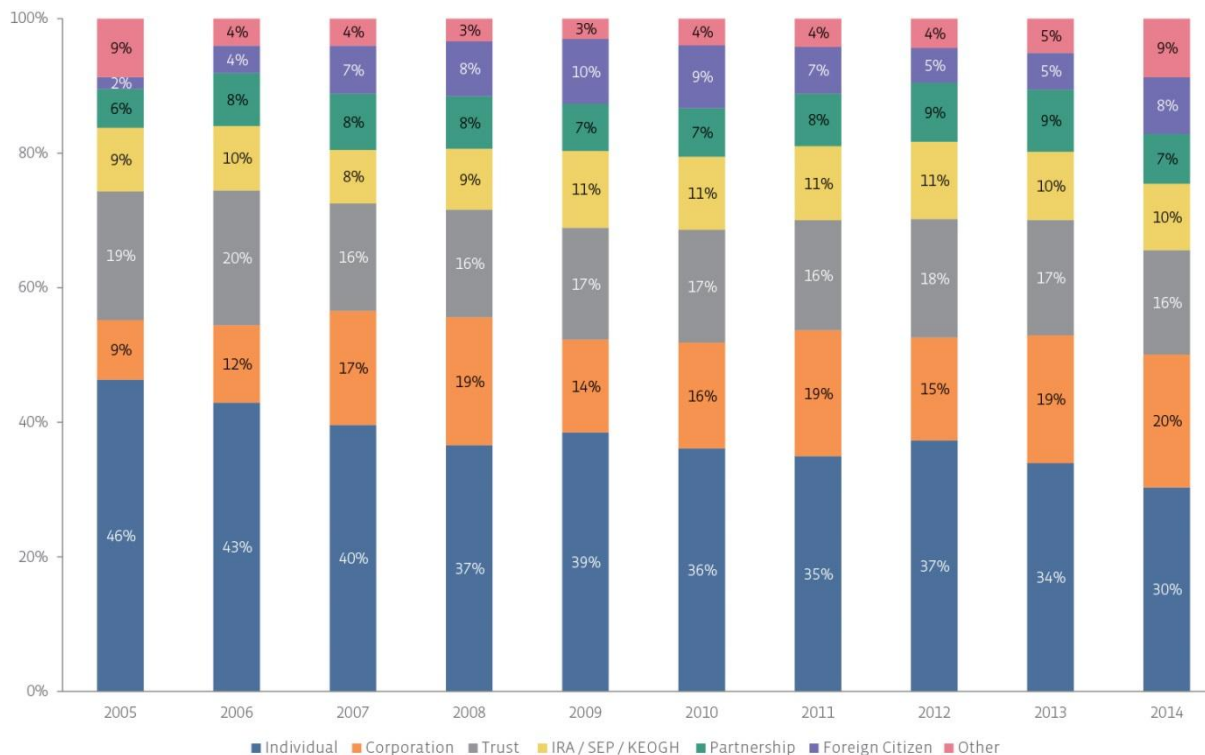
# Asset Class Growth // Growth trajectory familiar to REIT investors





## Asset Class Growth // Foreign and institutional investment has grown

MLP Unit Ownership Breakdown



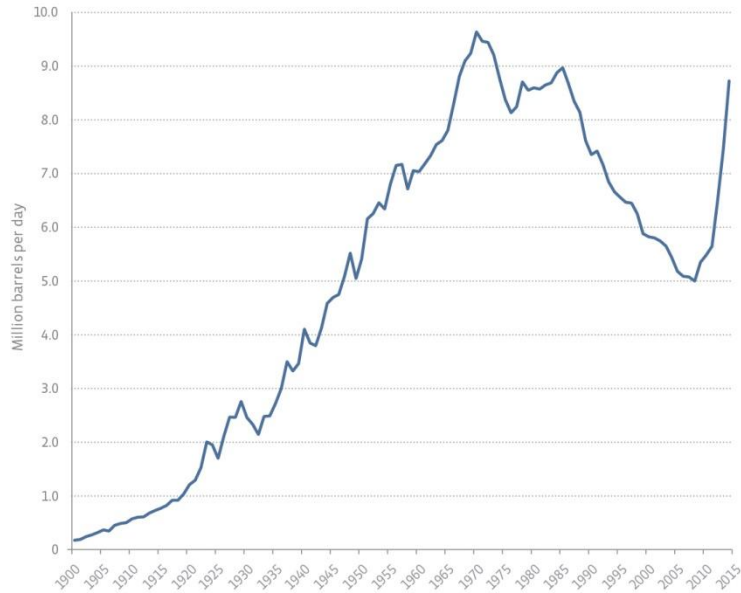


**Appendix II:  
Energy  
Renaissance**

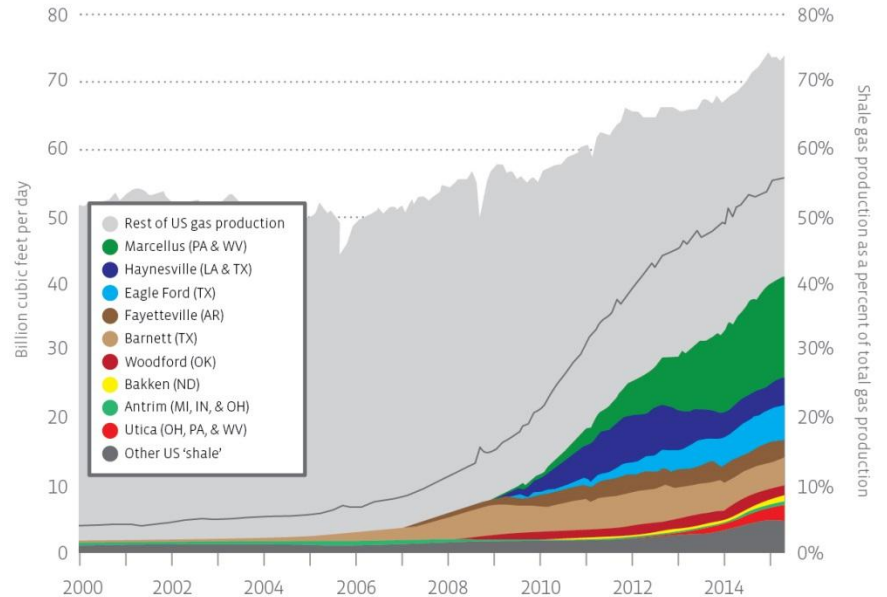


# Energy Renaissance // Resurgence in oil and gas production

### U.S. Field Production of Crude Oil



### U.S. Production of Natural Gas





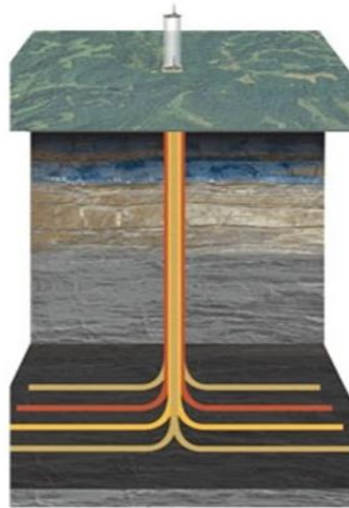
## Energy Renaissance // Technology drives well productivity

Then

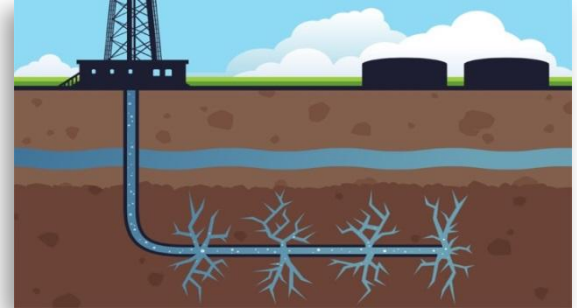


Vertical Drilling

Now



Horizontal Drilling



Hydraulic Fracturing





# Energy Renaissance // Shift in energy uses drive opportunities



The 19th century was powered by wood.

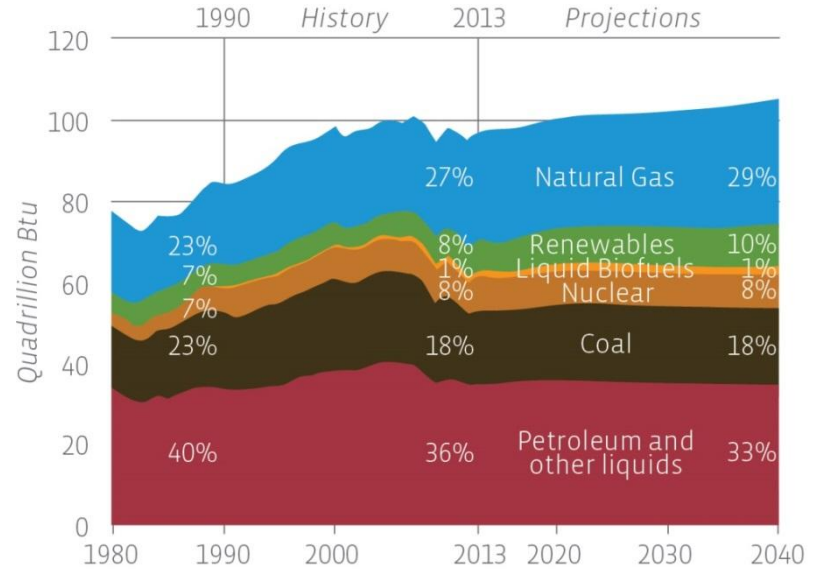


The 20th century was powered by coal.



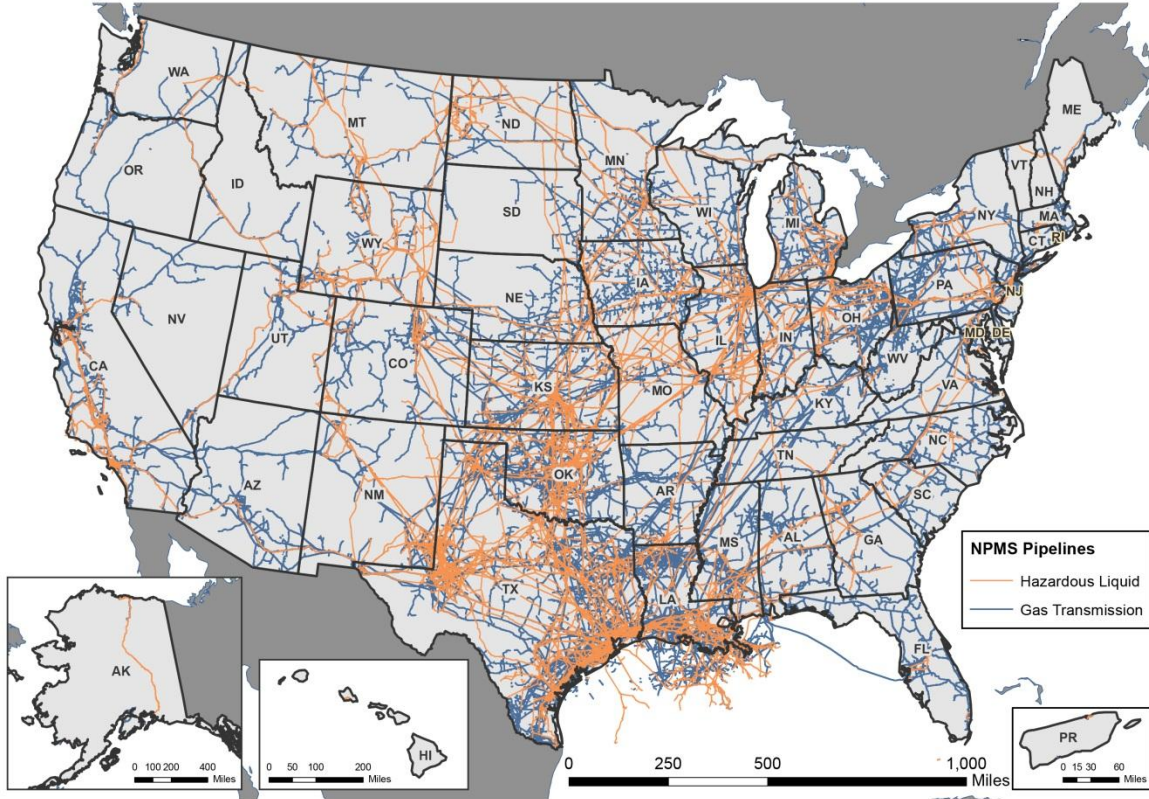
The 21st century will be powered by natural gas.

### Primary Energy Consumption by Fuel



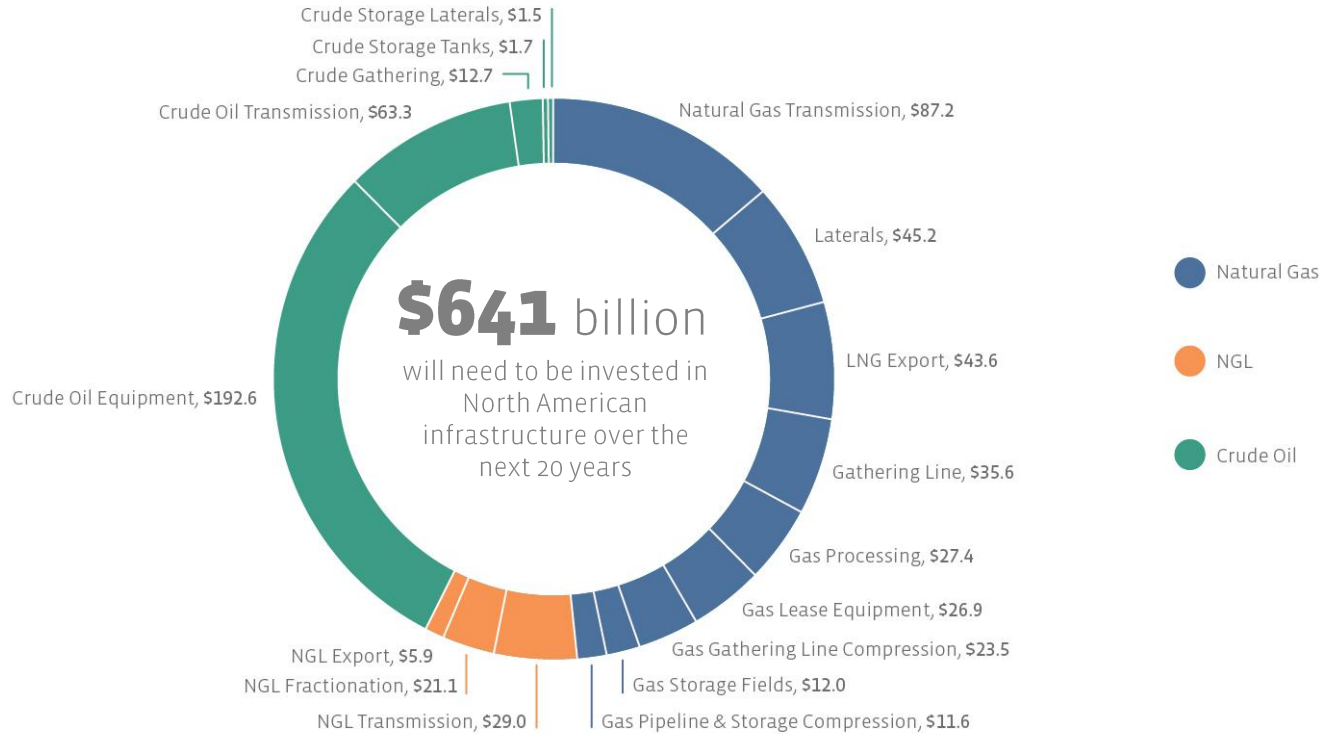


# Energy Renaissance // Spaghetti bowl of pipelines





## Energy Renaissance // Investment vital to energy independence



Note: All values are in billions  
Source: INGAA as of June 28, 2014



**Appendix III:  
More About  
Alerian**



## About Alerian // Alerian index series

Ticker	Name	Constituents	Tracking	Methodology	Launch
<b>AMZ</b>	Alerian MLP Index	50 MLPs	Energy MLPs	Float-adjusted, Capitalization-weighted	June 2006
<b>AMZI</b>	Alerian MLP Infrastructure Index	MLPs	Infrastructure MLPs	Capped, Float-adjusted, Capitalization-weighted	March 2008
<b>ANGI</b>	Alerian Natural Gas MLP Index	20 MLPs	Natural Gas MLPs	Equal-weighted	January 2010
<b>ALCI</b>	Alerian Large Cap MLP Index	15 MLPs	Large Cap MLPs	Equal-weighted	March 2010
<b>AMZE</b>	Alerian MLP Equal Weight Index	50 MLPs	Energy MLPs	Equal-weighted	April 2013
<b>AMEI</b>	Alerian Energy Infrastructure Index	MLPs and Corporations	Energy Infrastructure	Tier-weighted	April 2013



## About Alerian // Diversified suite of index-linked products

Ticker	Product Type	Product Name	Licensee	Inception Date	Underlying Index	Annual Fee	Total Assets (mil)
<b>AMPL</b>	ETF	Alerian MLP ETF	ALPS	August 24, 2010	AMZI	0.85%	\$7,860
<b>ENFR</b>	ETF	Alerian Energy Infrastructure ETF	ALPS	November 1, 2013	AMEI	0.65%	\$15
<b>AMJ</b>	ETN	JPMorgan Alerian MLP Index ETN	JPMorgan	April 1, 2009	AMZ	0.85%	\$3,433
<b>AMU</b>	ETN	ETRACS Alerian MLP Index ETN	UBS	July 17, 2012	AMZ	0.80%	\$392
<b>MLPI</b>	ETN	ETRACS Alerian MLP Infrastructure Index ETN	UBS	March 31, 2010	AMZI	0.85%	\$2,152
<b>MLPL</b>	ETN	ETRACS 2x Leveraged Long Alerian MLP Infrastructure Index ETN	UBS	July 6, 2010	AMZI	0.85%	\$259
<b>MLPG</b>	ETN	ETRACS Alerian Natural Gas MLP Index ETN	UBS	July 13, 2010	ANGI	0.85%	\$25
<b>MLPS</b>	ETN	ETRACS 1x Monthly Short Alerian MLP Infrastructure Index ETN	UBS	September 28, 2010	AMZI	0.85%	\$5
<b>Series 1-29F</b>	ROC Note	CIBC Alerian MLP Infrastructure Index-Linked ROC Notes	CIBC	October 7, 2010	AMZI	1.25%	\$856
<b>ALERX</b>	Mutual Fund	ALPS Alerian MLP Infrastructure Index Fund	ALPS	December 31, 2012	AMZI	1.25%	\$33
<b>ALEFX</b>	VIT	ALPS Alerian Energy Infrastructure Portfolio	ALPS	April 30, 2013	AMEI	0.80%	\$74

Total Alerian-linked fund and note AUM

**\$15,104 mil**



## About Alerian // Management team



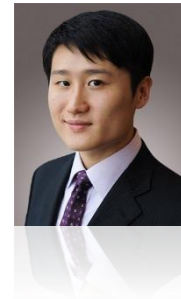
**Kenny Feng, CFA** is the President and CEO at Alerian. Mr. Feng is a former Managing Director and Portfolio Manager at SteelPath Capital Management LLC, a Dallas-based MLP investment manager. Prior to his experience at SteelPath, Mr. Feng covered MLPs, Electric and Gas Utilities, and Diversified Gas Companies at Goldman Sachs & Co in the firm's Global Investment Research Division. Mr. Feng graduated summa cum laude with a Bachelor of Science in Economics from the Wharton School and a Bachelor of Arts in International Studies from the University of Pennsylvania.



**Maria Halmo** is the Director of Research at Alerian. Ms. Halmo leads the firm's research efforts, which include examining MLP regulatory filings, monitoring legislative activity, and investigating industry developments. She also oversees Alerian's public communications strategy through investor outreach. Ms. Halmo is a former Associate at SteelPath Capital Management LLC, a Dallas-based MLP investment manager, where she conducted valuation analyses of petroleum transportation partnerships and researched macro-level energy issues. Ms. Halmo graduated with a Bachelor of Arts in Astrophysics from Barnard College at Columbia University. She is also a contributing author to *Midstream Business*, a monthly publication addressing the need for business market intelligence on North American energy infrastructure.



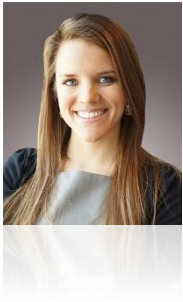
**Emily Hsieh, CPA** is the Director of Global Operations at Alerian. Ms. Hsieh manages the firm's relationships with MLPs and licensees and develops business strategies for the Alerian Index Series. Ms. Hsieh was previously with Raymond James & Associates Inc as a Senior Associate in the firm's Equity Research Division, covering the midstream energy MLP space. She developed differentiated investment calls and worked closely with the firm's financial advisors and institutional investors. Ms. Hsieh graduated with a Masters of Professional Accounting and a Bachelor of Business Administration from the McCombs School of Business at The University of Texas at Austin.



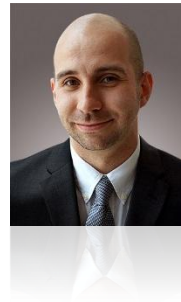
**James Wang** is the Director of Data Analytics at Alerian. Mr. Wang conducts quantitative and statistical analyses in order to bring to light historical and emerging trends in the asset class. He also oversees the firm's efforts to efficiently integrate and utilize technology in its brand management activities. Prior to Alerian, Mr. Wang was an Associate in the Equity Research Division of Raymond James & Associates Inc, where he constructed financial models for energy infrastructure MLPs and published comprehensive research reports to discuss his findings. Mr. Wang graduated with a Bachelor of Science in Biomedical Engineering and a minor in Management from the Johns Hopkins University Whiting School of Engineering.



## About Alerian // Management team



**Karyl Patredis** is the Logistics Coordinator at Alerian. Ms. Patredis leads the firm's ongoing efforts toward greater organizational efficiency. She also oversees Alerian's feedback process for creative output. Ms. Patredis graduated with a Master of Science in Accounting and a Master of Business Administration from the University of Dallas, as well as a Bachelor of Arts in Communication and a minor in Psychology from Texas A&M University.



**Jon Kraynak** is the Graphic Designer at Alerian. Mr. Kraynak designs, maintains, and oversees the firm's visual communication materials including presentations, fact sheets, infographics, whitepapers, and advertisements. In addition, He is also responsible for developing and maintaining Alerian's brand image, ensuring visual consistency and distinguishability within the industry. Mr. Kraynak graduated from Ivy Tech Community College of Indiana with an Associate of Applied Science in Visual Communications.





## About Alerian // Independent advisory board



**Glenn E. Dance**  
Partner, Ernst & Young LLP

Glenn Dance is a Washington, D.C.-based partner of Ernst & Young LLP's Joint Venture and Partnership Tax group. He advises on the taxation of partnerships, joint ventures, limited liability companies, and publicly traded partnerships.



**W. Randall (Randy) Fowler**  
Chief Administrative Officer, Enterprise Products Partners LP

Randy Fowler is the Chief Administrative Officer of the general partner of Houston-based Enterprise Products Partners LP (NYSE: EPD), the largest publicly traded partnership and a leading North American provider of midstream energy services.



**Roy I. Lamoreaux**  
Director of Pipeline Commercial Operations and Business Development, Plains All American Pipeline LP

Roy I. Lamoreaux is Director of Pipeline Commercial Operations and Business Development for Plains All American Pipeline. Previously Mr. Lamoreaux served as Director of Investor Relations for Plains All American Pipeline and Plains GP Holdings (NYSE: PAA & PAGP).



**C. Timothy Fenn**  
Partner, Latham & Watkins LLP

Tim Fenn is a Houston-based partner of Latham & Watkins LLP with a particular focus in business taxation as it applies to partnerships. His tax practice focuses on early stage structuring and advice with respect to market-related issues and tax issues.



**Michael R. Jamieson**  
Managing Director and Co-Head of North America Energy Investment Banking, Citigroup Inc

Michael Jamieson is a Houston-based Managing Director and Co-Head of North America Energy Investment Banking at Citigroup Inc. He provides strategic, mergers and acquisitions (M&A), and financing advice to the energy industry.