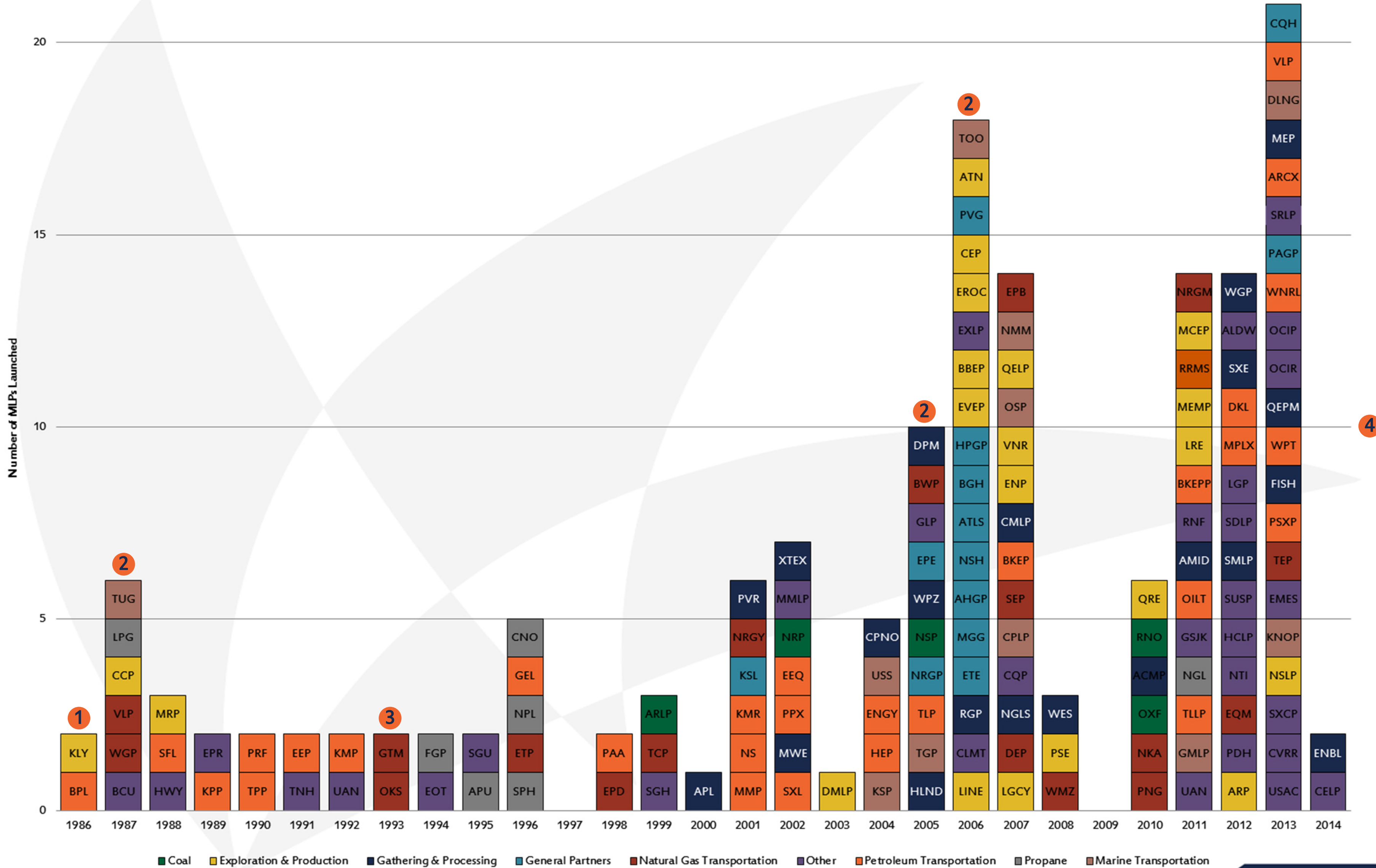
# MLPs: No Longer an Emerging Asset Class

# History of MLP IPOs

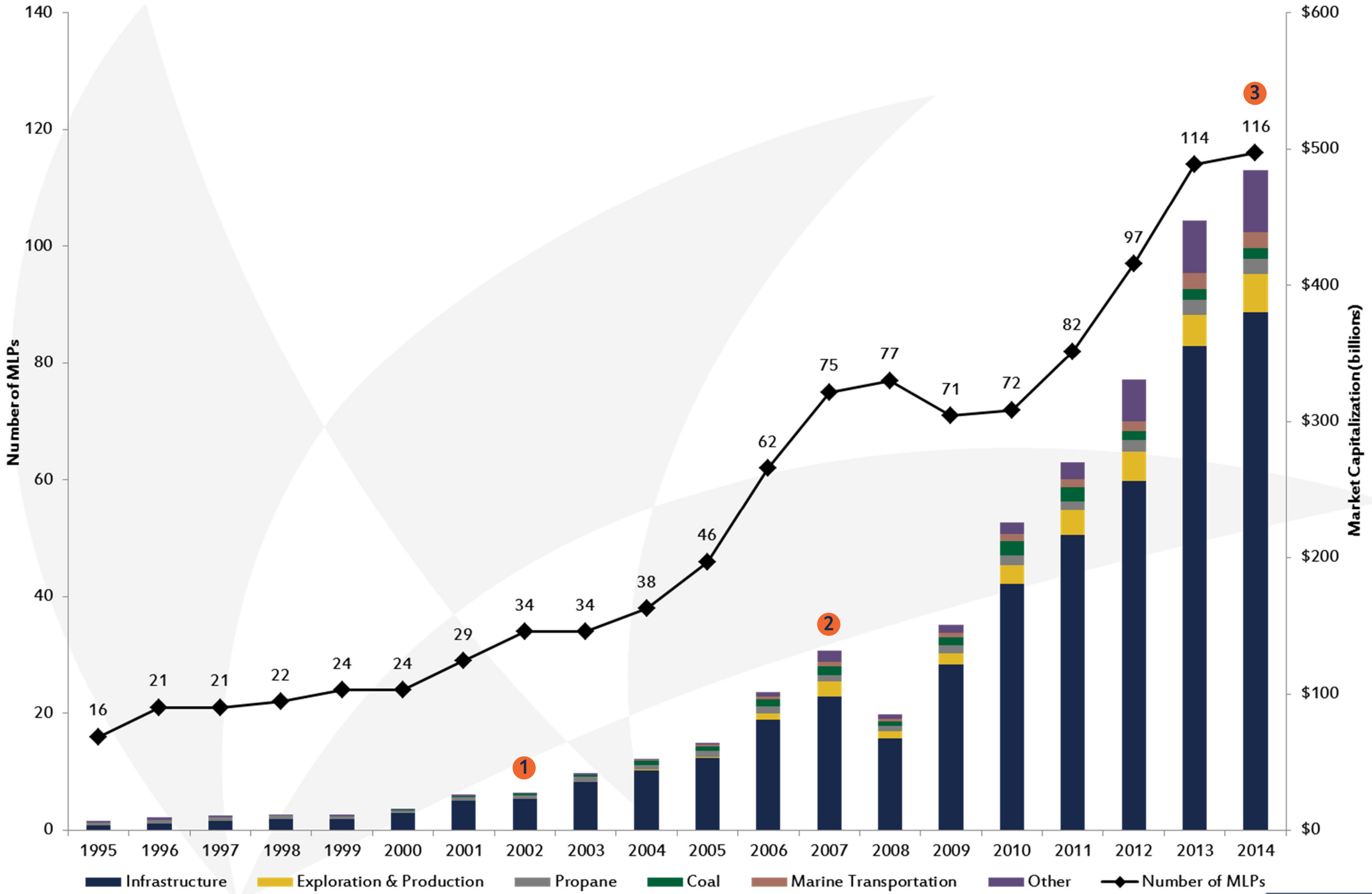



Source: Alerian as of 30 April 2014

1. Buckeye Partners (BPL), which completed its IPO on December 16, 1986, is the oldest MLP still in existence today.
2. Callon Consolidated Partners (CCP), Hiland Partners (HLND), and Hiland Holdings GP (HPGP) were the only MLPs to ever go private.
3. GulfTerra Energy Partners (GTM) wins the award for most name changes. It was launched at IPO as Leviathan Gas Pipeline (LEV) when its preferred unit was the primary listed security, later becoming El Paso Energy Partners (EPN) until August 5, 1998 when it became GulfTerra Energy Partners. It was finally acquired by Enterprise Products Partners (EPD) on September 30, 2004.
4. 40 MLPs have the word Energy in their name. 13 MLPs have the word Midstream in their name.

In any given year, the number of MLP IPOs launched depends on the broader market, investor sentiment, and new businesses eligible for the MLP structure. Of particular note is the lack of IPOs in 1997 and 2009, as well as the resurgence of general partner MLPs in 2006. Variable distribution partnerships reemerged in mid-2011 and still remain a trend. When comparing then and now, the average IPO size was roughly $115 million in 2004, as compared to ten years later when the average IPO size was about $370 million in 2013. In addition, 2013 marked a record year for both number of IPOs and total capital raised with 21 IPOs raising $8 billion.

# No Longer an Emerging Asset Class




Source: Alerian as of 30 April 2014

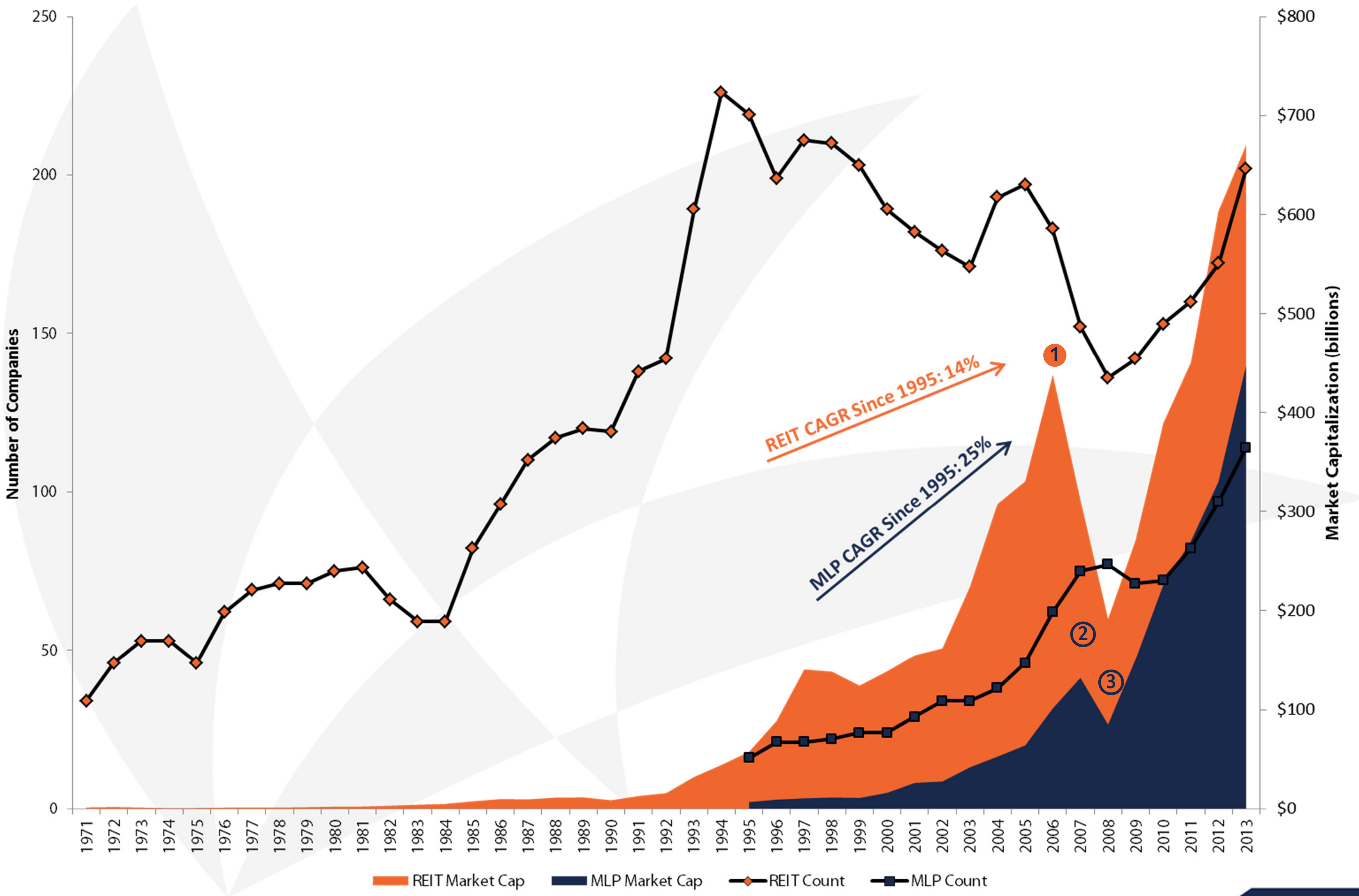
1 With the exception of 2007, every year since 2002, the energy infrastructure subsector (as categorized as pipeline transportation, storage, and processing) has maintained an 80%+ weighting of total MLP market capitalization.

2 At the peak of oil and gas prices, E&P MLPs comprised 9% of the energy MLP market cap.

3 57 of the 116 energy MLPs, or 80% of total MLP market cap, are considered energy infrastructure MLPs.

Since 1995, the sector has seen a compound annual growth rate of 25% in market capitalization. In 1995, there were 16 MLPs with a total market cap of $7 billion. The two largest MLPs—propane distributors Ferrellgas Partners (FGP) and AmeriGas Partners (APU)—together comprised 30% of total MLP market cap. During the late 1990s and early 2000s, names that are now large-cap core midstream holdings in most MLP investors' portfolios went public. These names paved the way for MLP market cap to grow fivefold to $50 billion in 2004. When commodity prices improved in the early/mid-2000s, several E&P and marine transportation MLPs went public. In recent years, with the passage of the JOBS Act and expanded private letter ruling (PLR) interpretations of qualifying income from the IRS, many non-traditional businesses have monetized their assets into the MLP structure, including frac sand, frac water disposal, fertilizer, and refining companies. As of April 30, 2014, there were 116 energy MLPs totaling $485 billion in market cap.

# A Growth Trajectory Familiar to REIT Investors




Source: Alerian as of 31 December 2013

1. MSCI upgrades REITs from a sub-industry to an industry group.
2. Collapse in housing prices. REITs lose 29% of their market capitalization in 2007, while MLPs end the year with 30% growth in market cap.
3. Financial crisis. Total REIT market cap falls by 39%, while MLP market cap falls by 36%.

Both MLPs and REITs are asset classes that grew to prominence after decades of obscurity, but MLPs are about 20 years younger than REITs. REITs were legislated into existence in 1960, and the modern MLP was created by Congress in 1986. Both represent investable asset classes that own tangible, long-lived assets. Both are known for producing relatively higher income; however, REITs must distribute a certain percentage of cash flow, while MLPs have no such requirements. REITs reached $100 billion in market capitalization 35 years after inception. MLPs crossed this threshold only 20 years after inception. In 2013, there were 17 REITs in the S&P 500. MLPs are still prohibited from inclusion.

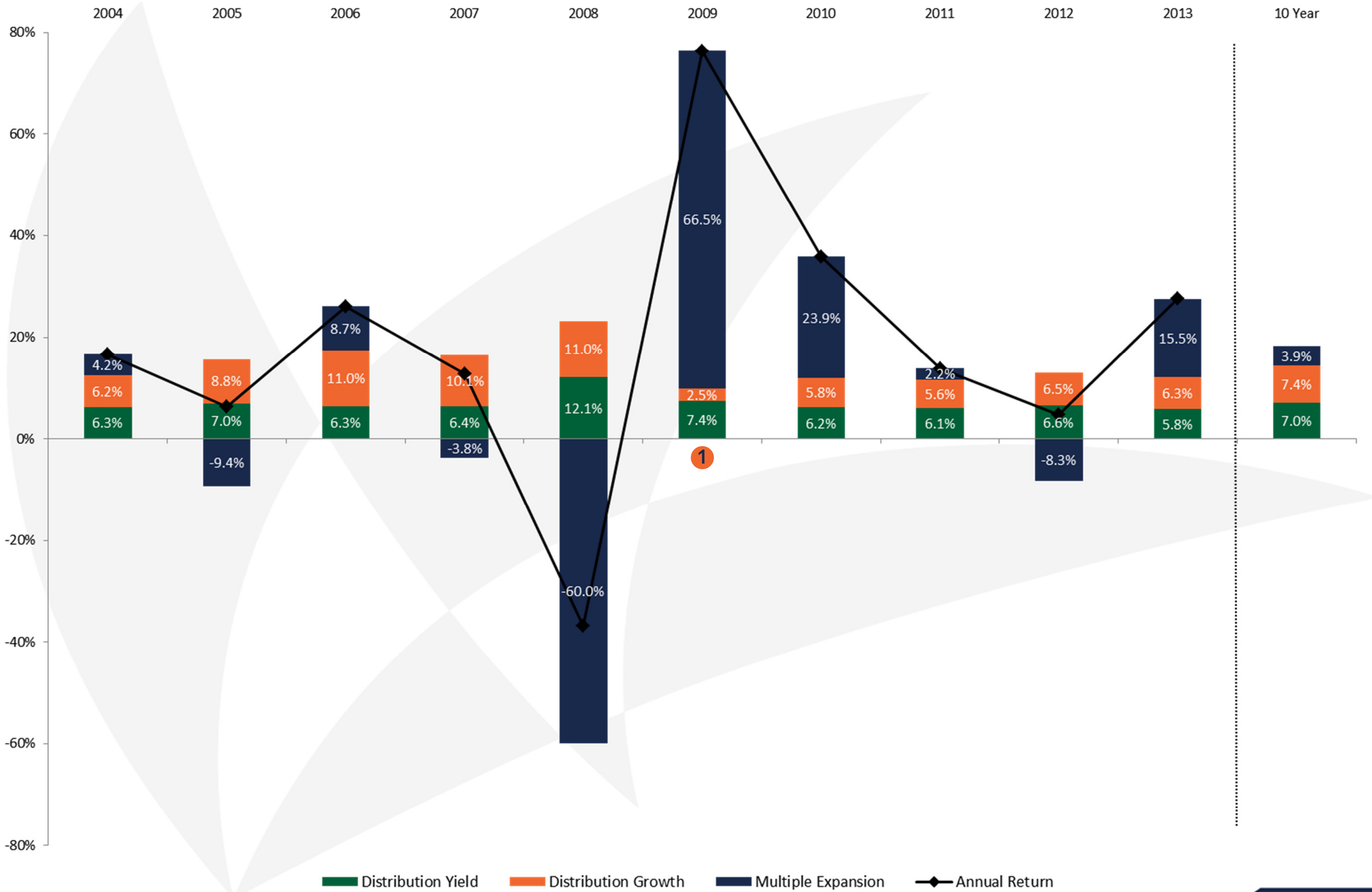
# MLPs Outperform Other Sectors Historically


Source: Alerian as of 30 April 2014

1. On July 13, 2007, the Alerian MLP Total Return Index (AMZX) reached a then all-time high of 750.14.
2. On November 21, 2008, the AMZX hit a bottom of 370.65, a level not seen since November 2002.
3. By December 23, 2009, the AMZX hit a new all-time high of 754.66, recouping the losses incurred during the financial crisis.
4. The 350%+ return of the AMZX during the past 10 years is equivalent to owning Apple stock since mid-May 2009.

Over the past 10 years since April 30, 2004, MLPs have generated 357.7% on a total return basis, as compared to 173.9% for Utilities, 164.3% for REITs, 109.3% for the S&P 500, and 60.2% for Bonds. On an annual basis, this translates to 16.4% for MLPs, 10.6% for Utilities, 10.2% for REITs, 7.7% for the S&P 500, and 4.8% for Bonds. During the financial crisis, each index gave back gains; however, coming out of the crisis, MLPs exhibited the steepest V-shaped recovery as investors searched for yield and safety.

# Yield and Distribution Growth Drive Return



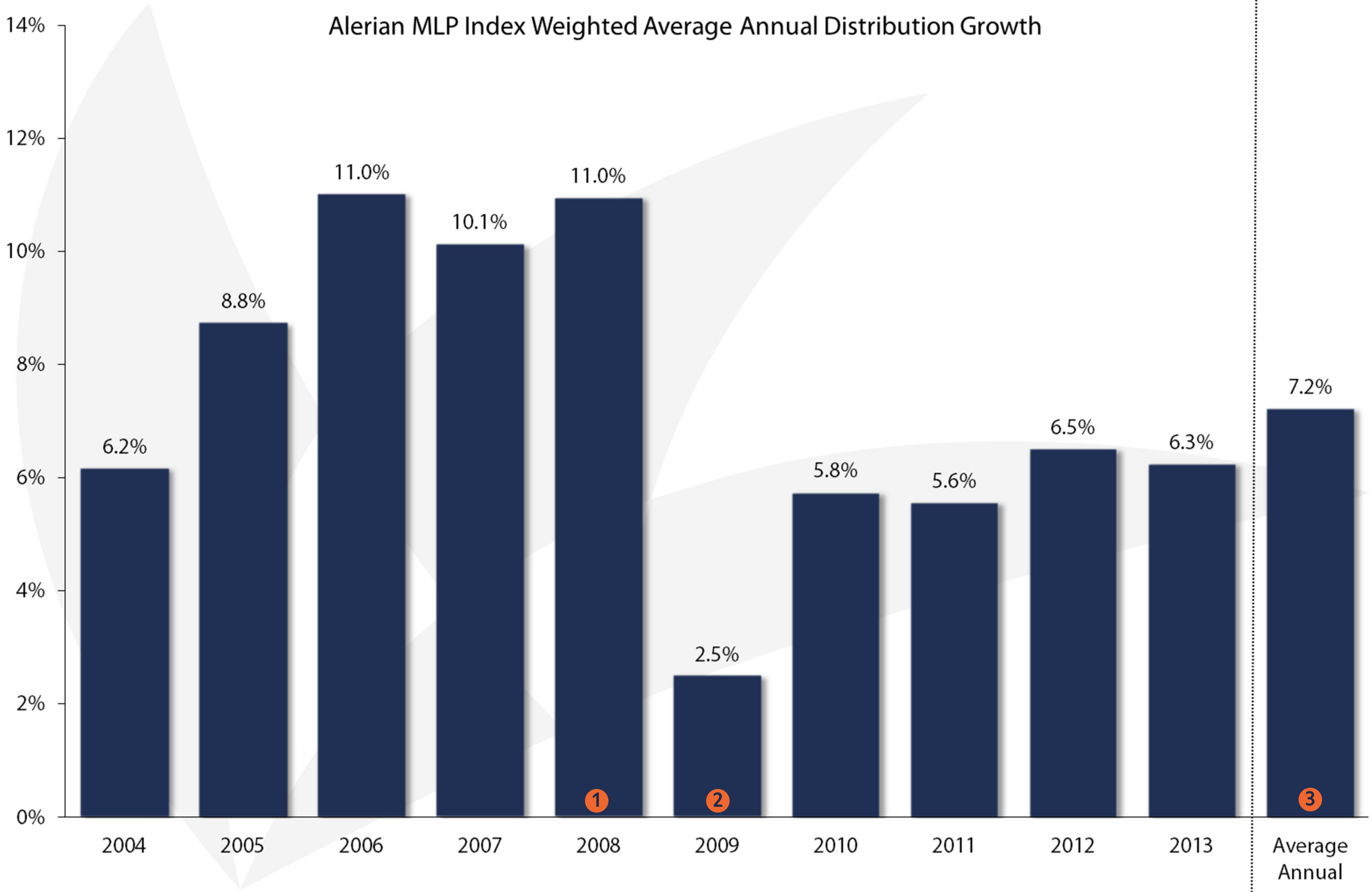

Source: Alerian as of 31 December 2013

1 Most MLPs continued to raise their distributions throughout the financial crisis.

| | Distribution Yield | Distribution Growth | Multiple Expansion |
|---|---|---|---|
| 3 Year | 6.2% | 6.1% | 3.1% |
| 5 Year | 6.4% | 5.3% | 20.0% |
| 10 Year | 7.0% | 7.4% | 3.9% |

MLPs averaged annualized returns of 18.3% for the past 10 years; yield has comprised 7% of the return, distribution growth represented just north of 7%, and multiple expansion was just roughly 4% of the total return. In the past five years, the majority of the 31.7% return has been comprised of multiple expansion (19.4%), primarily as a function of the economic recovery since 2009, investors seeking yield, and improved access to MLPs through investment products such as ETFs and ETNs. Still, average yields remain around 6% today and weighted average distribution growth is still nearly 6%. Going forward, industry expectations for MLPs are yields around 5%-6% and distribution growth of 4%-8%.

# Distribution Growth Despite Environment




Source: Alerian as of 31 December 2013

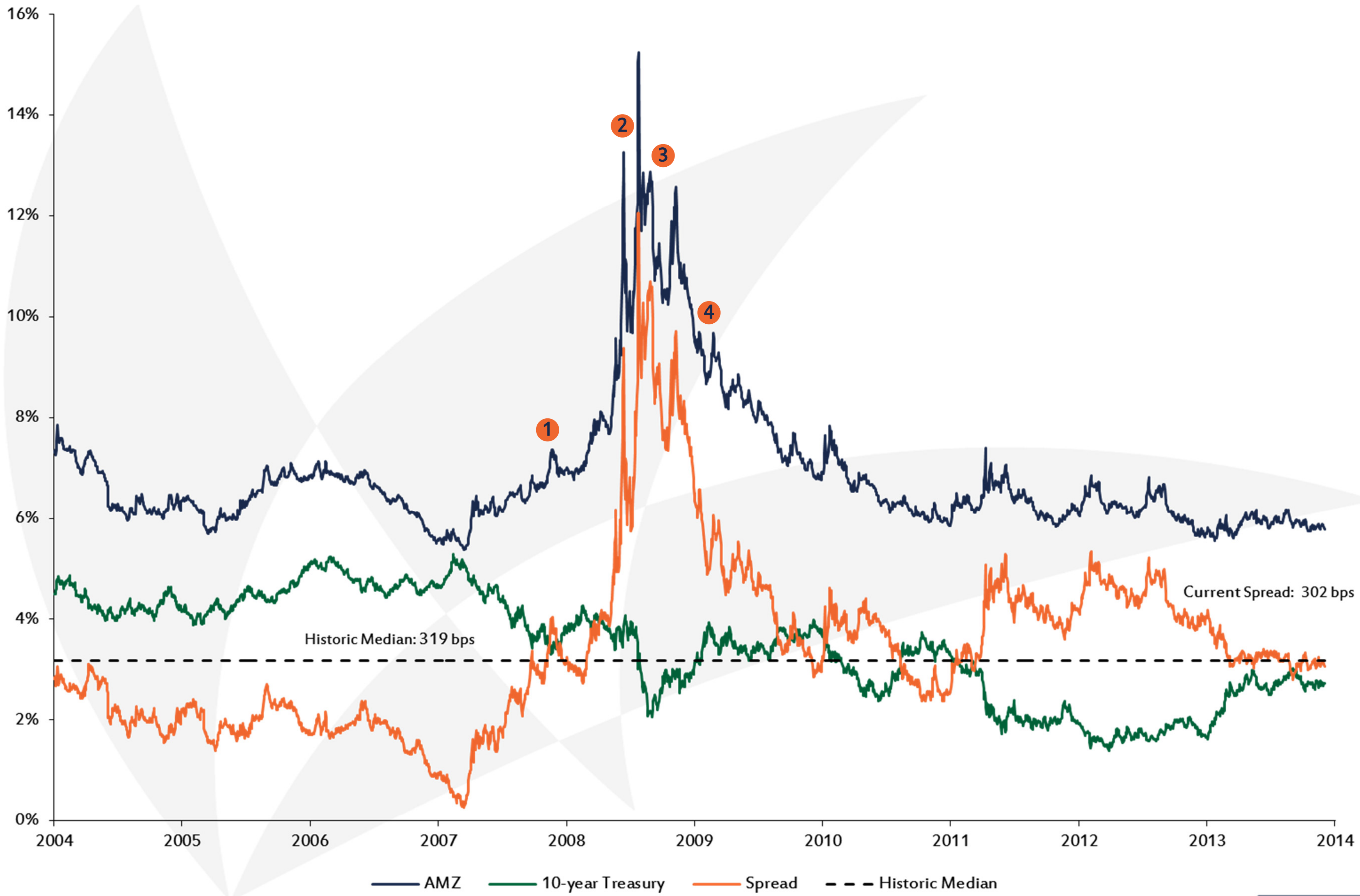
1 In 2008, the top distribution growers in the AMZ were Targa Resource Partners (+53% y/y) and Alliance Holdings GP (+47% y/y).

2 Despite the financial crisis in 2009, several MLPs continued to grow their distributions. Top growers in the AMZ in 2009 were Buckeye GP Holdings (+21.9% y/y), El Paso Pipeline Partners (+16.7% y/y), and Spectra Energy Partners (+14.3% y/y).

3 Distribution growth for the AMZ has averaged 7.2% annually for the past 10 years (2004-2013).

Distribution growth contributes nearly as much to MLP total returns as the frequently cited MLP yield. Successful MLPs are able to grow their distributions consistently regardless of the macro environment for broader equity markets, energy, or commodities. Even during the financial crisis, through conservative stewardship of capital, most MLPs were able to maintain or grow their distributions. During the 2005-2008 time period, average distribution growth rates of 9%-11% were driven by the number of MLPs which had their IPOs in that period. Smaller companies have a relatively easier time achieving double-digit growth. Since both individual MLPs and the space have grown significantly in the past ten years, expectations going forward should be tempered.

# MLP-Treasury Yield Spread Near Historical Median




Source: Alerian as of 30 April 2014

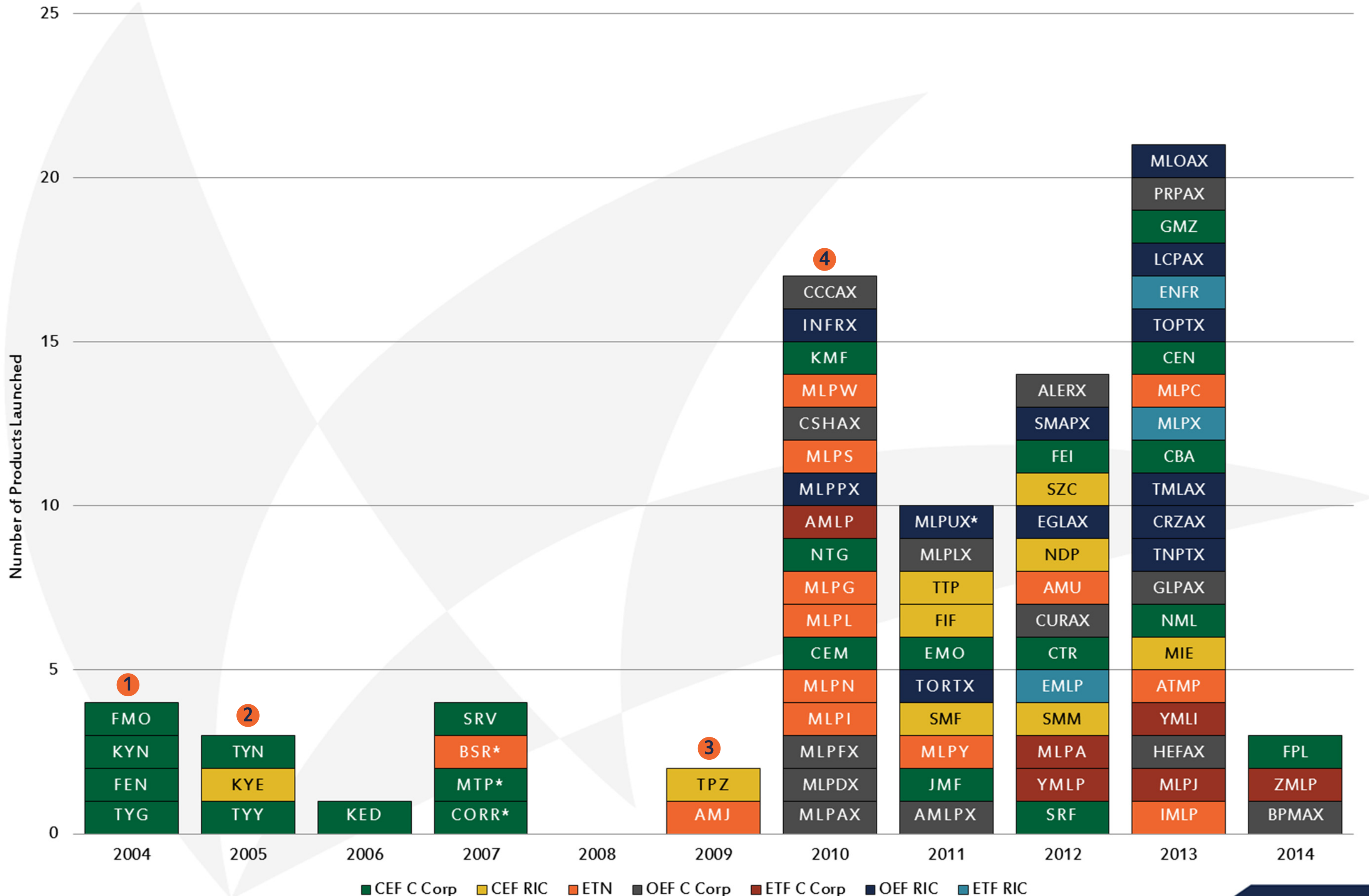


Alerian

1. March 16, 2008. Bear Stearns collapses.
2. September 15, 2008. Lehman Brothers files for bankruptcy.
3. December 16, 2008. QE1: Fed cuts rates to near zero.
4. MLPs were among the first companies to reopen credit markets, with Kinder Morgan Energy Partners (KMP) raising $1 billion in May 2009.

Historically, the median yield spread between MLPs and the 10-year Treasury has been 319 bps, but it has been as high as 1205 bps and as low as 27 bps. However, as the MLP space moves from an emerging to an established asset class, the factors affecting the yield spread continue to evolve. In the years before the financial crisis, MLP distribution growth was at all-time highs and risk premiums decreased across the broader economy, causing the spread to compress to a historical low. During the financial crisis, yield spreads spiked to their highest levels, exacerbated further as levered funds sold positions to meet margin calls. As the economy recovered, additional MLP access products were launched into the marketplace, allowing for greater institutional participation in the space.

# Continued Demand for Access Products




Source: Alerian as of 30 April 2014

1 February 24, 2004. Tortoise launches the first MLP closed-end fund, the Tortoise Energy Infrastructure Corp (TYG).

2 In 2005, the Kayne Anderson Energy Total Return Fund (KYE) was the first MLP "RIC-compliant fund" launched. RIC-compliant funds are regulated investment companies that limit their MLP exposure to 25%; staying below the 25% threshold excludes the fund from paying corporate taxes, as is the case with the vast majority of closed-end funds, mutual funds, and ETFs.

3 The JPMorgan Alerian MLP Index ETN (AMJ) is the world's largest ETN with $6.1 billion in assets as of April 30, 2014.

4 The Alerian MLP ETF (AMLP) is the largest MLP ETF with $8.3 billion in assets as of April 30, 2014.

Prior to 2007, the only available way to invest in MLPs on an exchange (other than directly) was through a closed-end fund. These funds were the first pooled products to compile K-1s and return a Form 1099 to investors. Since then, mutual funds, ETNs, and ETFs have launched, offering investors different objectives and preferences.

Launched in July 2007, the BearLinx Alerian MLP Select ETN (BSR) was the first MLP ETN. Since then, 11 other ETNs have come to market. Launched in March 2010, the SteelPath series of Select 40, Income, and Alpha Funds were the first MLP mutual funds. Since then, 21 other mutual funds have come to market. Launched in August 2010, the Alerian MLP ETF (AMLP) was the first MLP ETF. Since then, eight other ETFs have come to market.

Currently, there are 116 MLPs and 75 different MLP pooled products—the running joke is we'll soon have more MLP products than MLPs!

# Different Strokes for Different Folks

| Investment Type | Direct | Separately Managed Account | Exchange-Traded Note | Exchange-Traded Fund 1 | | Open-End Mutual Fund 2 | | Closed-End Fund 3 | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 100% MLP | <25% MLP | 100% MLP | <25% MLP | 100% MLP | <25% MLP |
| **Tax Classification** | Partnership | Partnership | Forward Contract | Taxable "C" Corp | Non-Taxable "M" Corp | Taxable "C" Corp | Non-Taxable "M" Corp | Taxable "C" Corp | Non-Taxable "M" Corp |
| **Return of Capital Flow-Through**[1] | 70%-100% | 70%-100% | No | 70%-100% | Varies[2] | 70%-100% | Varies[2] | 70%-100% | Varies[2] |
| **Tax Treatment** | 0%-30% Ordinary Income | 0%-30% Ordinary Income | 100% Ordinary Income | 0%-30% Qualified Dividend | Varies[2] | 0%-30% Qualified Dividend | Varies[2] | 0%-30% Qualified Dividend | Varies[2] |
| **Tax Form** | Form K-1 | Form K-1 | Form 1099 | Form 1099 | Form 1099 | Form 1099 | Form 1099 | Form 1099 | Form 1099 |
| **IRA/401k Eligible** | Taxable Beyond $1,000 in UBTI[3] | Taxable Beyond $1,000 in UBTI[3] | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| **Leverage** | No | No | No[4] | No | No | No[5] | No | Up to 33% | Up to 33% |
| **Liquidity** | Intraday | Varies | Intraday | Intraday | Intraday | Daily | Daily | Intraday | Intraday |
| **First Fund Launched** | N/A | N/A | Jul 2007 | Aug 2010 | Jun 2012 | Mar 2010 | Sep 2010 | Feb 2004 | Jun 2005 |
| **Total Funds** | N/A | N/A | 12 | 6 | 3 | 13 | 11 | 20 | 10 |
| **AUM ($ MM)** | N/A | N/A | $9.3B | $8.2B | $0.6B | $16.0B | $4.7B | $17.9B | $4.4B |

Exchange-Traded Notes: AMJ, AMU, ATMP, IMLP, MLPC, MLPG, MLPI, MLPL, MLPN, MLPS, MLPW, MLPY
C Corp Exchange-Traded Funds: AMLP, MLPA, MLPJ, YMLI, YMLP, ZMLP
RIC Exchange-Traded Funds: EMLP, MLPX, ENFR
C Corp Open-End Mutual Funds: ALERX, AMLPX, BPMAX, CCCAX, CSHAX, CURAX, GLPAX, HEFAX, MLPAX, MLPDX, MLPFX, MLPLX, PRPAX
RIC Open-End Mutual Funds: CRZAX, EGLAX, INFRX, LCPAX, MLOAX, MLPPX, SMAPX, TMLAX, TNPTX, TOPTX, TORTX
C Corp Closed-End Funds: CBA, CEM, CEN, CTR, EMO, FEI, FEN, FMO, FPL, GMZ, JMF, KED, KYN, NML, NTG, SRF, SRV, TYG, TYN, TYY
RIC Closed-End Funds: FIF, KMF, KYE, MIE, NDP, SMF, SMM, SZC, TPZ, TTP

[1] Return of Capital Flow-Through: Historical range for most midstream-focused MLPs.

[2] RIC-compliant funds hold a diverse group of investments and the tax treatment of income paid to investors may vary dramatically between funds.

[3] Unrelated Business Taxable Income is the gross income from any unrelated trade or business regularly conducted by an exempt organization, less the deductions connected with carrying on the trade or business. An investment in MLPs directly or through a separately managed account may generate UBTI.

[4] Except MLPL, which is 2x leveraged with monthly reset

[5] Except MLPLX, which may use up to 33% of leverage

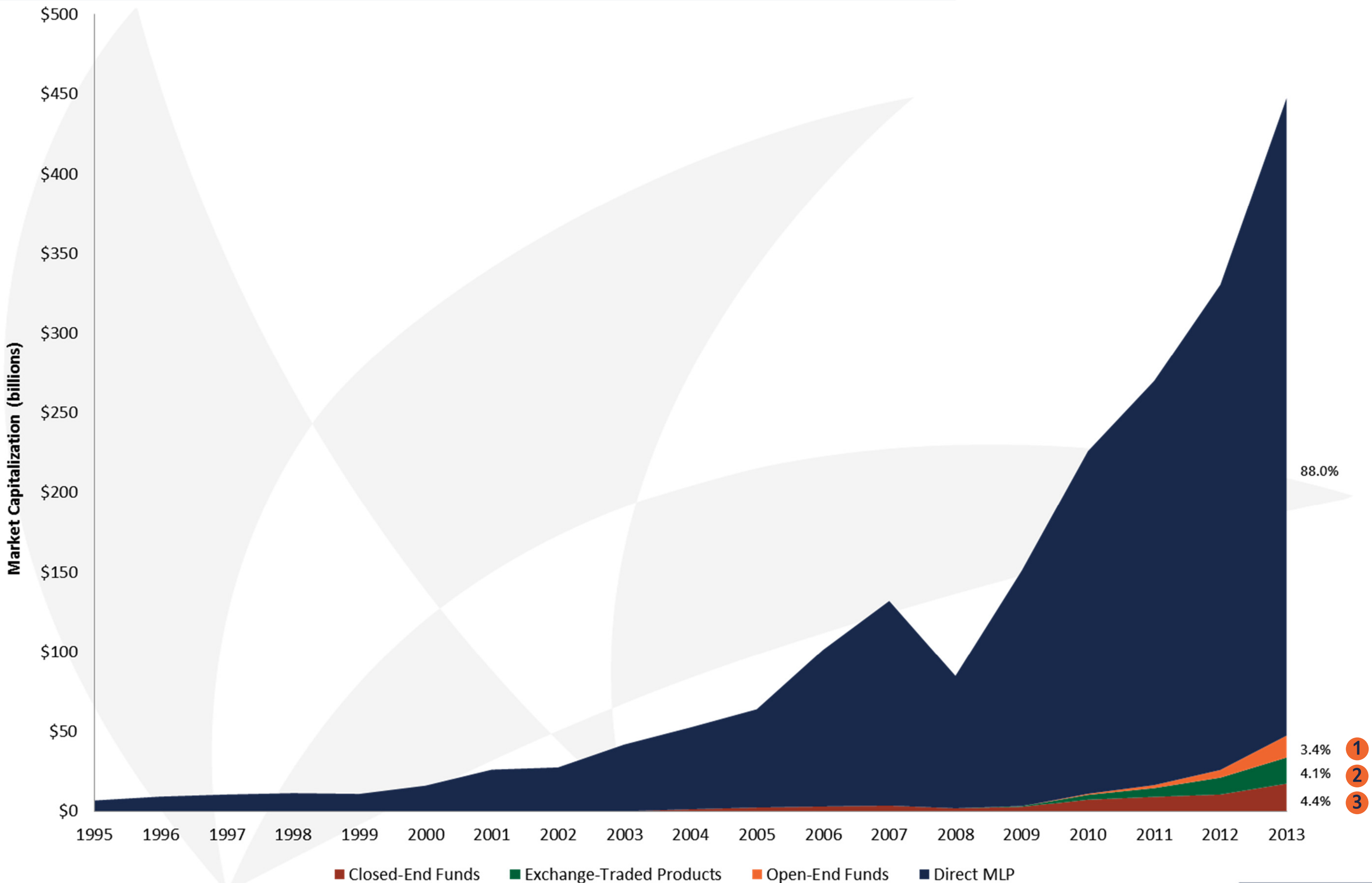
Source: Alerian as of 30 April 2014

1. In 2013, exchange-traded fund fees ranged from 0.45% to 0.95%, with an AUM-weighted average fee of 0.85%.
2. In 2013, open-end mutual fund management fees ranged from 0.70% to 1.35%, with an AUM-weighted average fee of 1.03%.
3. In 2013, closed-end fund management fees ranged from 1.19% to 2.5%, with an AUM-weighted average fee of 1.63%.

There are 116 publicly trading energy MLPs and 75 MLP access products, which speaks to the variety of MLP investor needs. As Alerian continually reiterates, for a US taxable investor who is comfortable building a portfolio as well as filing K-1s and state taxes, a direct investment in individual MLPs will always be the most tax efficient way to access the space. When considering an access product, investors are urged to consider fees, tracking, liquidity, leverage, credit risk of the issuer, and tax treatment, among other issues.

Open-end mutual fund and closed-end fund fees may also include leverage, shareholder service, 12b-1, and acquired fund fees, among other fees, which are not included in the management fee.

# Too Much Fund Flow?




Source: Alerian as of 31 December 2013

1. At 2013 year end, 11 MLP mutual funds (100% MLPs) represented 3.4% of the total MLP space, or $13.7 billion.
2. 18 MLP exchange-traded products such as ETNs and ETFs (100% MLPs) represented 4.1% of the total MLP space, or $16.4 billion.
3. 19 MLP closed-end funds (100% MLPs) represented 4.4 % of the total MLP space, or $17.5 billion.
4. The Vanguard REIT ETF (VNQ) has nearly $22 billion of AUM, representing 3.3% of the total REIT space.

Over the past four years, there has been a sharp increase in the number of MLP access product launches. Some investors—particularly ones that have been familiar with the space for over 15 years—have voiced concerns about the number, pace, and asset raise of MLP products launched in recent years. To put the numbers in perspective though, at 2013 year end, there were almost 180 REITs trading on the New York Stock Exchange and nearly 200 REIT mutual funds and ETFs. Currently, there are 48 dedicated MLP pooled products (100%). The total AUM of such products is only $48 billion, or 12% of the total MLP space.

# Disclaimers

**Copyright. No Unauthorized Redistribution.**
Alerian © 2014. All rights reserved. This document, in whole or in part, may not be redistributed, reproduced, and/or photocopied without prior written permission.

**This Document Is Impersonal and Not a Solicitation.**
In jurisdictions where Alerian or its affiliates do not have the necessary licenses, this document does not constitute an offering of any security, product, or service. Alerian receives compensation in connection with licensing its indices to third parties. All information provided by Alerian in this document is impersonal and not customized to the specific needs of any entity, person, or group of persons. Alerian and its affiliates do not endorse, manage, promote, sell, or sponsor any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return linked to or based on the returns of any Alerian index.

**No Advisory Relationship.**
Alerian is not an investment advisor, and Alerian and its affiliates make no representation regarding the advisability of investing in any investment fund or other vehicle. This document should not be construed to provide advice of any kind, including, but not limited to, tax and legal.

**You Must Make Your Own Investment Decision.**
It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future returns. You should not make a decision to invest in any investment fund or other vehicle based on the statements set forth in this document, and are advised to make an investment in any investment fund or other vehicle only after carefully evaluating the risks associated with investment in the investment fund or other vehicle, as detailed in the offering memorandum or similar document prepared by or on behalf of the issuer. This document does not contain, and does not purport to contain, the level of detail necessary to give sufficient basis to an investment decision. The addition, removal, or inclusion of a security in any Alerian index is not a recommendation to buy, sell, or hold that security, nor is it investment advice.

**No Warranties.**
The accuracy and/or completeness of any Alerian index, any data included therein, or any data from which it is based is not guaranteed by Alerian, and it shall have no liability for any errors, omissions, or interruptions therein. Alerian makes no warranties, express or implied, as to results to be obtained from use of information provided by Alerian and used in this service, and Alerian expressly disclaims all warranties of suitability with respect thereto.

**Limitation of Liability.**
While Alerian believes that the information provided in this document is reliable, Alerian shall not be liable for any claims or losses of any nature in connection with the use or misuse of the information in this document, including but not limited to, lost profits or punitive or consequential damages, even if Alerian has been advised of the possibility of same.

**Research May Not Be Current.**
This document has been prepared solely for informational purposes based on information generally available to the public from sources believed to be reliable. Alerian makes no representation as to the accuracy or completeness of this document, the content of which may change without notice. Alerian expressly disclaims any obligation to update the contents of this document to reflect developments in the energy MLP sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

**Policies and Procedures.**
Analytic services and products provided by Alerian are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Alerian has established policies and procedures to maintain the confidentiality of material non-public information received during each analytic process. Alerian and its affiliates provide a wide range of services to, or relating to, many organizations, and may receive fees or other economic benefits from these organizations.

**Sector Citations**
Master Limited Partnerships (MLPs) are represented by the Alerian MLP Index. Utilities are represented by the S&P 500 Utilities Index, a composite of utility stocks in the S&P 500. Real Estate Investment Trusts (REITs) are represented by the Real Estate 50 Index, a supplemental benchmark to the FTSE NAREIT US Real Estate Index Series to measure the performance of larger and more frequently traded equity REITs. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy. Bonds are represented by the Barclays US Aggregate Total Return Bond Index.

**Contact**
www.alerian.com
index@alerian.com // 972.957.7700
1717 McKinney Avenue, Suite 1450 // Dallas, TX 75202