The Ins and Outs of MLPs

Investment Management Consultants Association
In Partnership with Financial Planning / On Wall Street

Kenny Feng, CFA | President & CEO, Alerian
Webinar | 13 May 2015

Disclaimers

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, 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 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 Master Limited Partnership sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

Linked Products. Alerian licensees its indexes to third parties for the creation of investment funds or other vehicles. Alerian is not responsible for the information on these websites or for anything that they provide.

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.

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

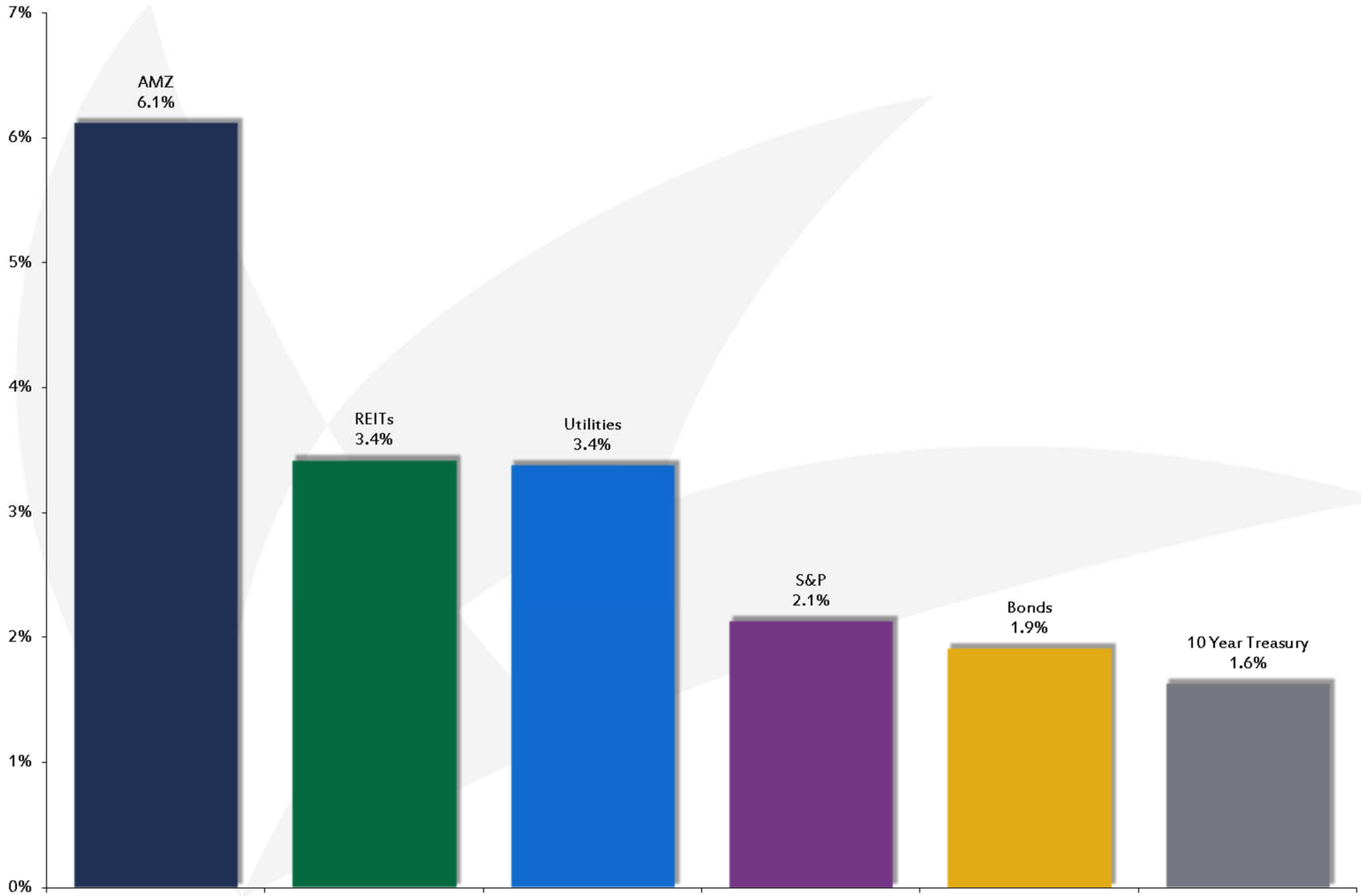
Agenda

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

What's So Great About MLPs?

Tax-Deferred Income	Growth via Energy Renaissance	Real Assets
Inelastic Energy Demand	Inflation Hedging	Lower Correlations
Lower Cost of Capital	Lower Cash Flow Volatility	Estate Planning

MLPs Offer an Attractive Relative Yield



Master Limited Partnerships (MLPs) are represented by the Alerian MLP Index. 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 more frequently traded equity REITs. Utilities are represented by the S&P 500 Utilities Index, a composite of utility stocks in the S&P 500. Bonds are represented by the Barclays US Aggregate Total Return Bond Index. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy.

Source: Alerian as of 30 January 2015

MLPs Historically Outperform Other Asset Classes

Source: Alerian as of 31 December 2014

The Periodic Table of Performance

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Annualized
REITs 38.1%	Commodities 25.6%	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%	**MLPs 13.8%**
Utilities 24.3%	Utilities 16.8%	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%	Utilities 9.6%
Non-US 20.2%	REITs 13.7%	**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%	REITs 8.0%
Small Cap 18.3%	Non-US 13.5%	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%	Small Cap 7.8%
Commodities 17.3%	**MLPs 6.3%**	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 4.89%	S&P 500 7.7%
MLPs 16.7%	S&P 500 4.9%	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%**	Bonds 4.7%
S&P 500 10.9%	Small Cap 4.6%	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%	Non-US 4.4%
Bonds 4.3%	Bonds 2.4%	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 -4.7%

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 more frequently traded equity REITs. Small-cap equities are represented by the Russell 2000 Index. 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. Non-US equities are represented by the MSCI Daily Total Return EAFE Index. Commodities are represented by the S&P Total Return World Commodity Index. Performance is provided on a total return basis.

Source: Alerian as of 31 December 2014

What Is Qualifying Income?

US Code, Title 26, Subtitle F, Chapter 79, Section 7704 (d)(1)(E)

Income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), industrial source carbon dioxide, or the transportation or storage of any fuel described in subsection (b), (c), (d), or (e) of section 6426, or any alcohol fuel defined in section 6426 (b)(4)(A) or any biodiesel fuel as defined in section 40A (d)(1).

The term "mineral or natural resource" means any product of a character with respect to which a deduction for depletion is allowable under section 611; except that such term shall not include any product described in subparagraph (A) or (B) of section 613 (b)(7).

Lower Cash Flow Volatility Than REITs

Both REITs and MLPs own physical, long-lived assets with entity-level taxation benefits

Revenue for REITs is meaningfully exposed to the vagaries of economic cycles

Revenue for MLPs is tied to inelastic energy demand and mandated tariff increases

More Benign Regulatory Framework Than Utilities

Utilities and MLPs both have regional monopoly footprints and benefit from inelastic energy demand and high operating leverage

Regulation for Utilities can be localized, political, and antagonistic toward companies

Regulation for MLPs tends to be more benign due to federal regulation and oversight

Alerian

Better Legislative Support Than Canadian Royalty Trusts

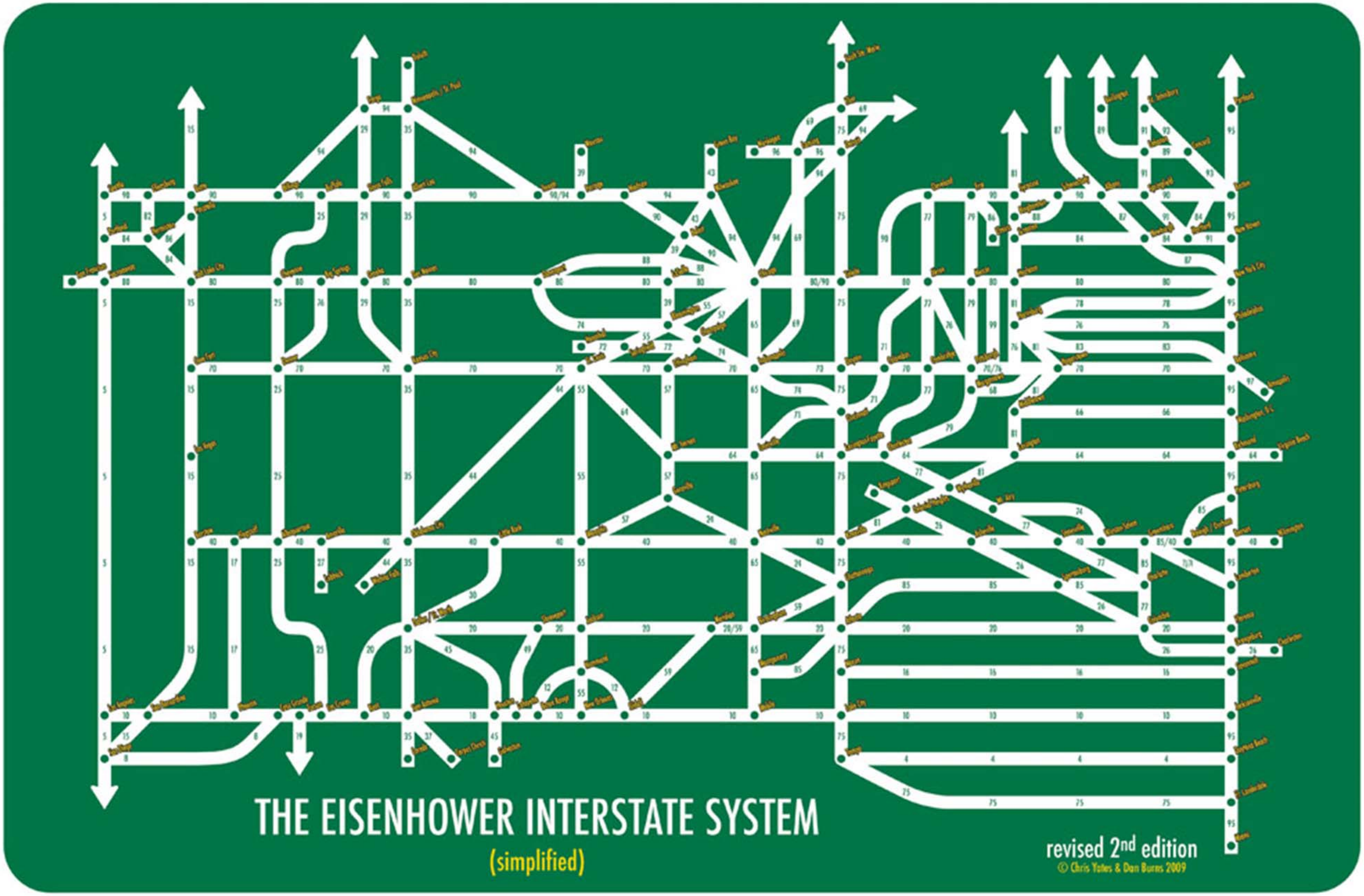
Current tax legislation supporting the MLP structure was written to encourage the build out of domestic energy infrastructure

The US Congressional Joint Committee on Taxation calculated that the revenue the country will forgo by not taxing MLPs at the entity level is a relatively inconsequential $1.3 billion per year

Source: Joint Committee on Taxation as of 5 August 2014

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

Eisenhower, Suburbia, and Gasoline Demand



Source: Chris Yates Studio as of 6 January 2010

14

A Brief History of MLPs

Structure

- 1981: Apache forms first MLP
- 1987: Section 7704 of IRS Code introduced, qualifying income defined

Income + Growth

- 1997: Rich Kinder acquires the GP of Enron Liquids Pipeline
- MLPs evolve from being fixed-income substitutes to growth vehicles

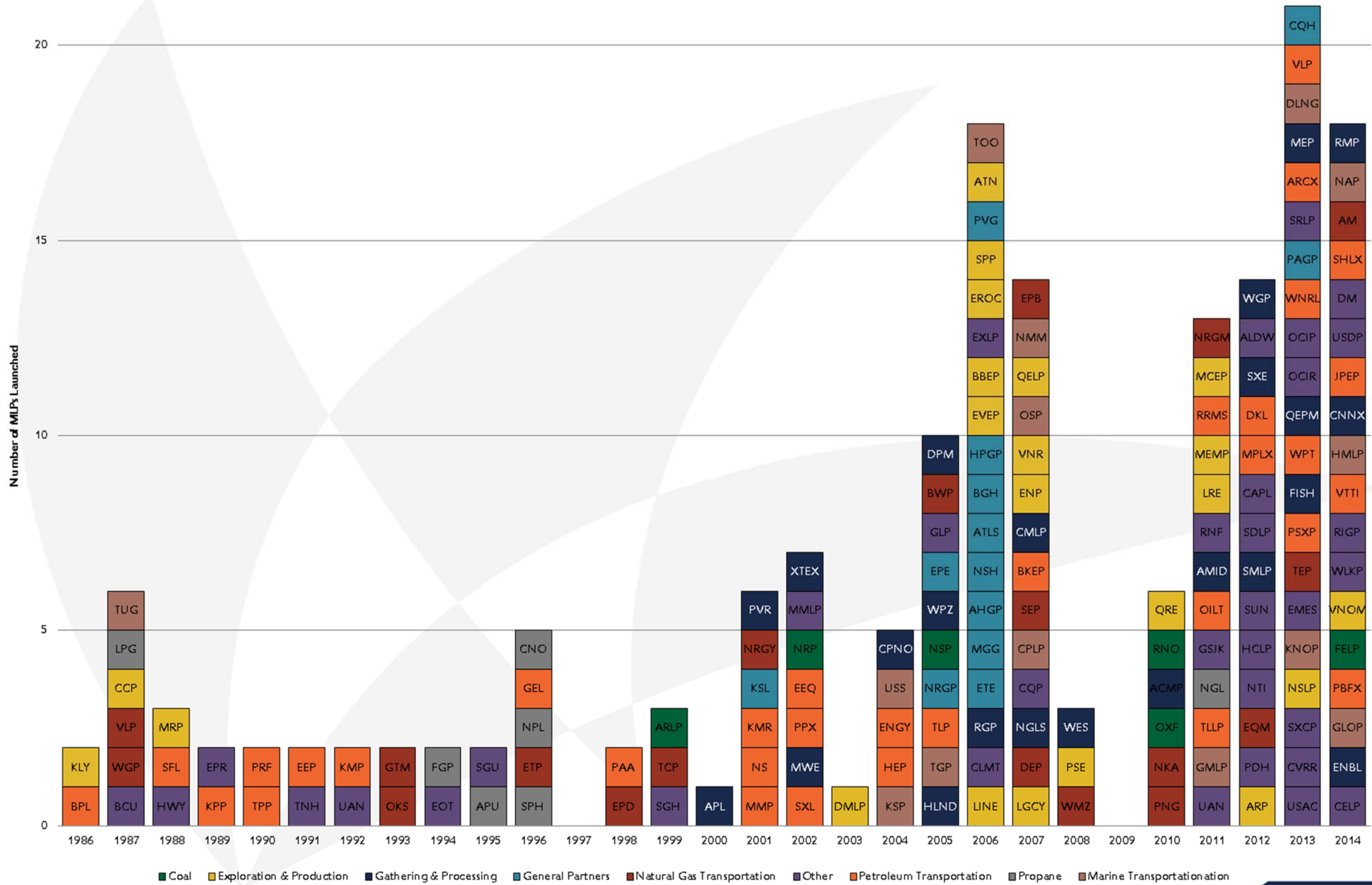
IDRs

- 2004: Copano taken public as first MLP without IDRs
- 2005: Inergy Holdings taken public as first GP MLP

PLRs

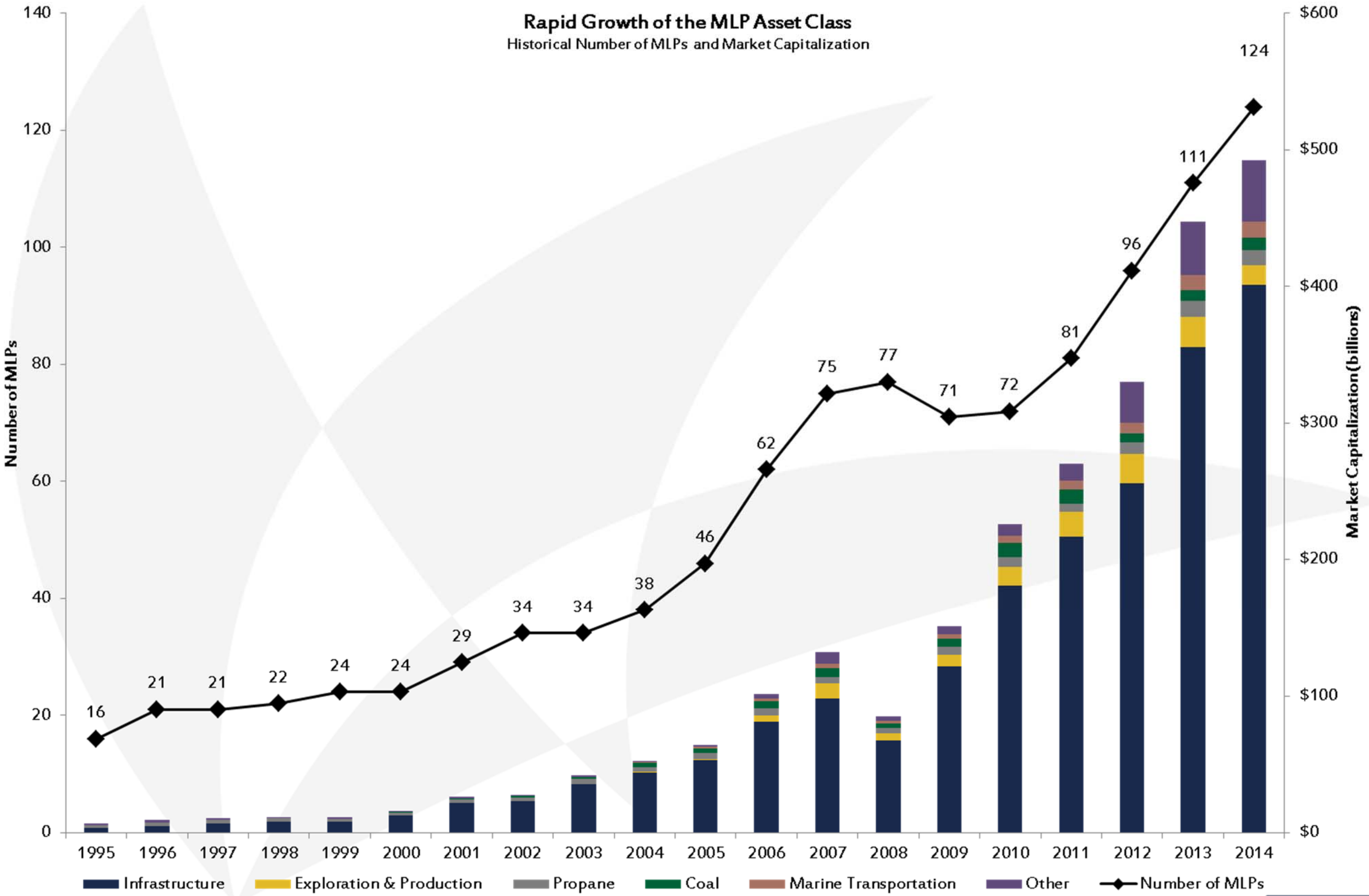
- MLPs today operate businesses along the entire energy value chain
- Products too: frac sand, trona, soda ash, coke, wastewater

MLP IPOs in the Modern Era



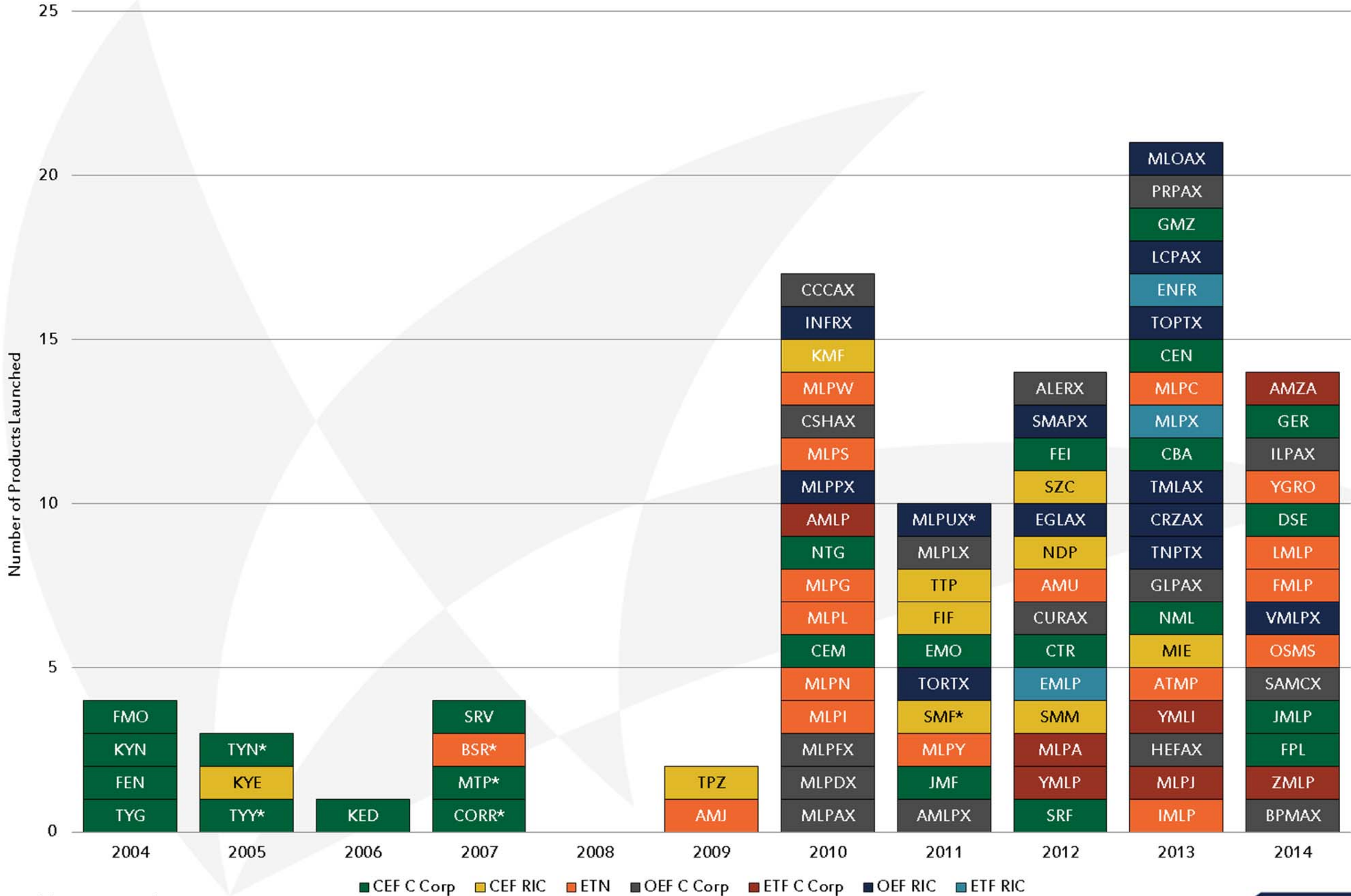
Source: Alerian as of 31 December 2014

No Longer an Emerging Asset Class



Source: Alerian as of 31 December 2014

Continued Demand for Access Products



*discontinued

Source: Alerian as of 31 December 2014

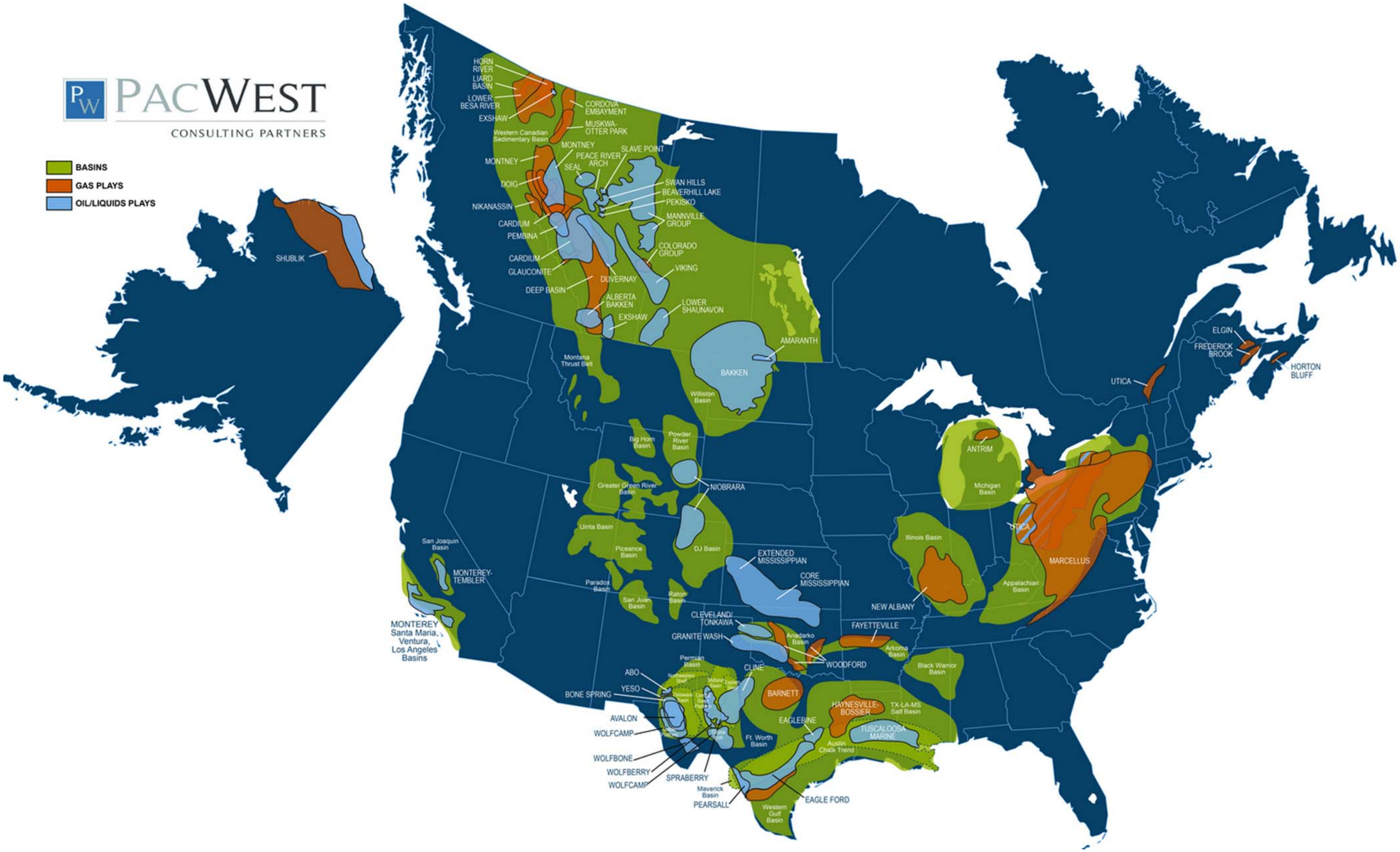
Other Historical Growth Drivers

Baby Boomers Retiring	US Energy Renaissance	Foreign Investors
Tax-Exempt Investors	Media Coverage	Investment Banking Fees
Declining Interest Rates	Real Asset Investors	Retail Investors

Agenda

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

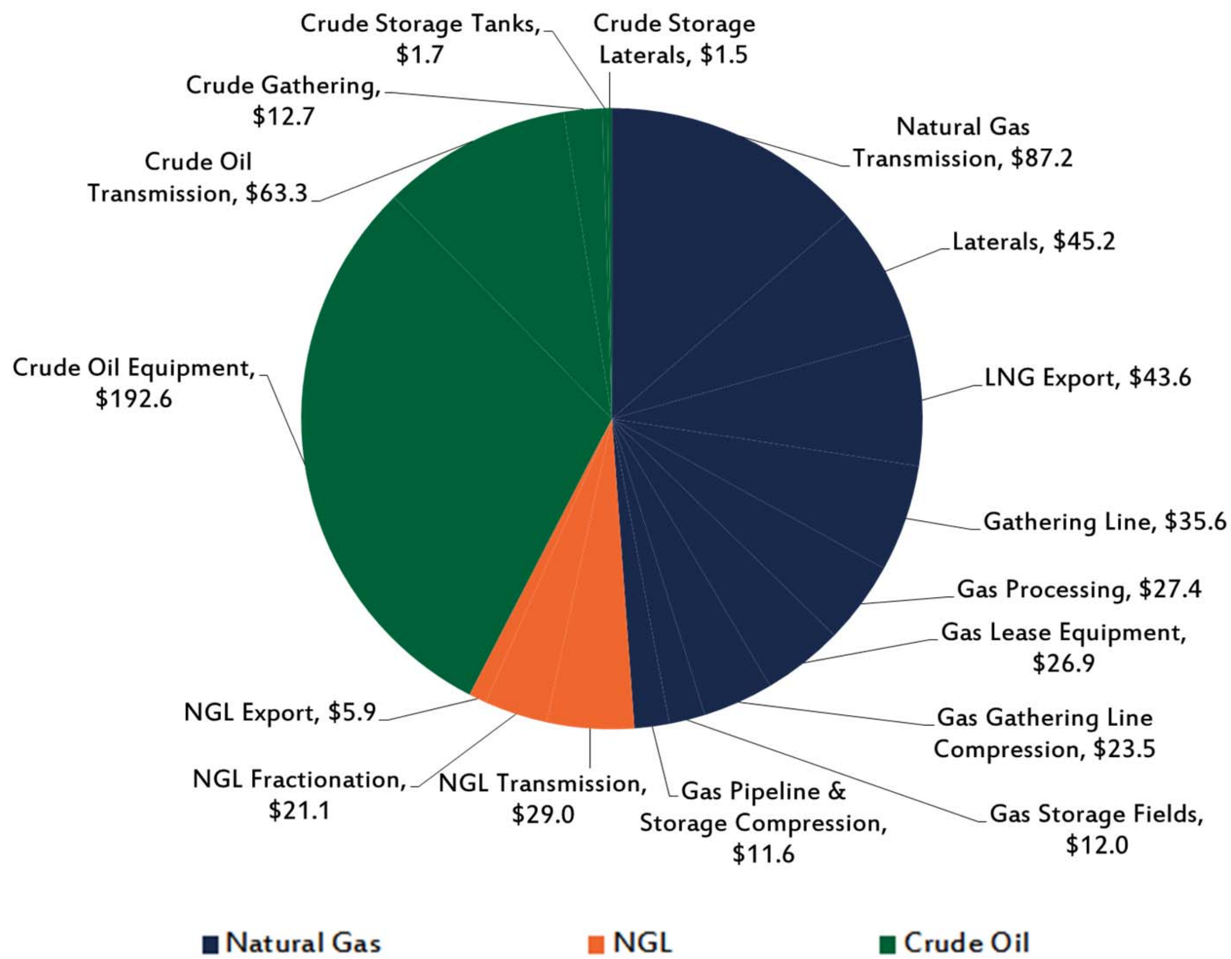
The US Contribution to Global Production Growth



Source: PacWest Consulting Partners as of 1 June 2014

New Supply Centers, New Infrastructure Investment

North America needs $641 billion of new crude oil, natural gas, and NGL infrastructure over the next 20 years



Source: INGAA as of 28 June 2014

Majors Monetizing Non-Core Energy Assets to MLPs

El Paso Corporation Acquired by Kinder Morgan Inc. for $23 Billion

Rex Energy and Sumitomo Sell Keystone Midstream Services to MarkWest for $512 Million

SEMGROUP SELLS SEMSTREAM LP TO NGL ENERGY PARTNERS FOR $190 MILLION

BP'S CANADIAN NGL BUSINESS SOLD TO PLAINS ALL AMERICAN FOR $1.7 BILLION

Marathon's Gulf of Mexico Crude Pipelines Acquired by Genesis Energy for $206 Million

VALERO ENERGY SELLS 50% INTEREST IN CAMERON HIGHWAY OIL PIPELINE (CHOPS) TO GENESIS ENERGY FOR $330 MILLION

EXXON MOBIL SELLS 190 RETAIL GAS STATIONS TO GLOBAL PARTNERS FOR $200 MILLION

Encana Sells Colorado Natural Gas Processing Complex and Gathering Systems to Western Gas for $303 Million

EQT Sells Big Sandy Pipeline in Kentucky to Spectra Energy Partners for $390 Million

CHEVRON SELLS NEW YORK LPG MARINE TERMINAL FACILITY TO BUCKEYE PARTNERS FOR $260 MILLION

BP SELLS REFINED PRODUCTS PIPELINES AND TERMINALS TO BUCKEYE PARTNERS FOR $165 MILLION

EQT SELLS KENTUCKY NATURAL GAS PROCESSING COMPLEX TO MARKWEST FOR $230 MILLION

BP's Cushing Oil Tanks and Refined Product Pipelines Sold to Magellan Midstream for $290 Million

SUNOCO INC ACQUIRED BY ENERGY TRANSFER FOR $5 BILLION

Upstream and downstream energy companies are incentivized to sell their midstream assets to MLPs and reinvest the proceeds into their capital programs

Agenda

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

Risks to the MLP Story

Supply destruction	Limited capital markets access	Sharp interest rate increase
Broad equity market decline	Demand destruction	Tax law changes
Environmental law changes	Labor/materials availability	Recontracting

Agenda

- What are MLPs and what's so great about them?
- How did MLPs become such a big deal?
- Why will MLPs continue to matter?
- What might derail the MLP story?
- Who should invest in MLPs?

For What Type of Investors Might MLPs Be Suitable?

Income	• MLPs screen attractively relative to other yield-oriented equities • Midstream MLP income is 70%-100% tax-deferred return of capital
Growth	• Distribution growth averaged ~7% annualized during the past 10 years • Inflation escalators, inelastic energy demand, organic projects, M&A
Energy Renaissance	• Derivative, lower-risk way to participate in the US energy revolution • Changes in energy flows create opportunities for investment
Infrastructure	• Midstream MLPs own long-lived, physical assets • Cash flow streams are more predictable due to contract structures