



# Investment Opportunities: Master Limited Partnerships (MLPs)

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Capital Link Webinar Series, 9 July 2013

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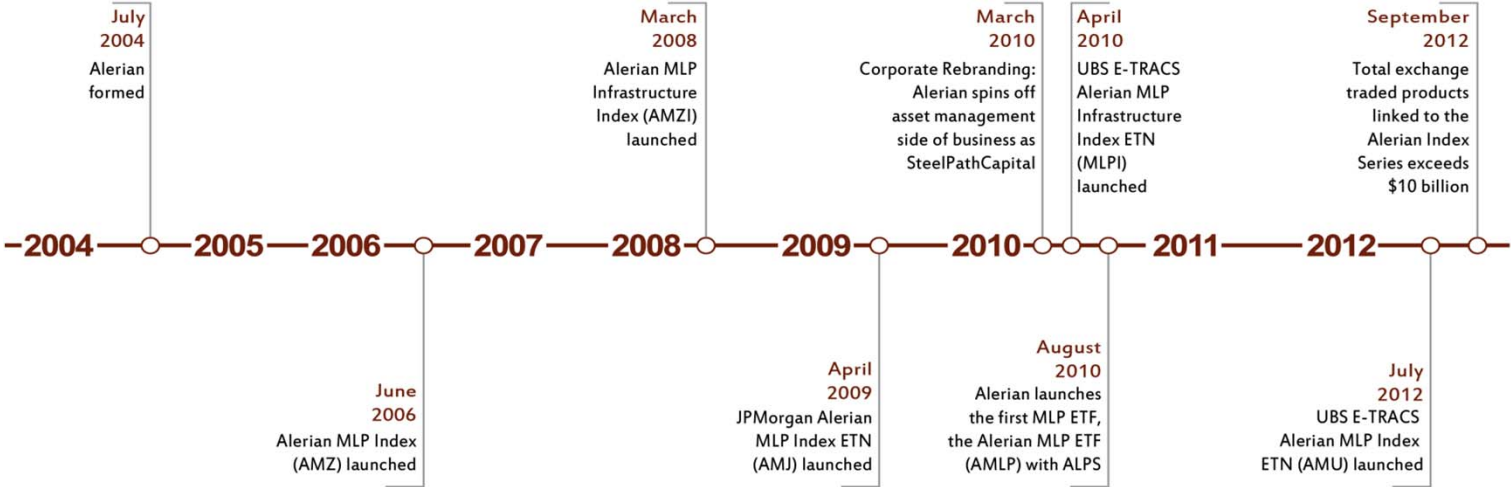
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# About Alerian

Market intelligence provided through industry-leading benchmarks and analytics

Alerian launched the first real-time MLP index

Over \$14 billion is directly linked to the Alerian Index Series



Source: Alerian as of 06/28/2013



# The Chemistry of MLPs

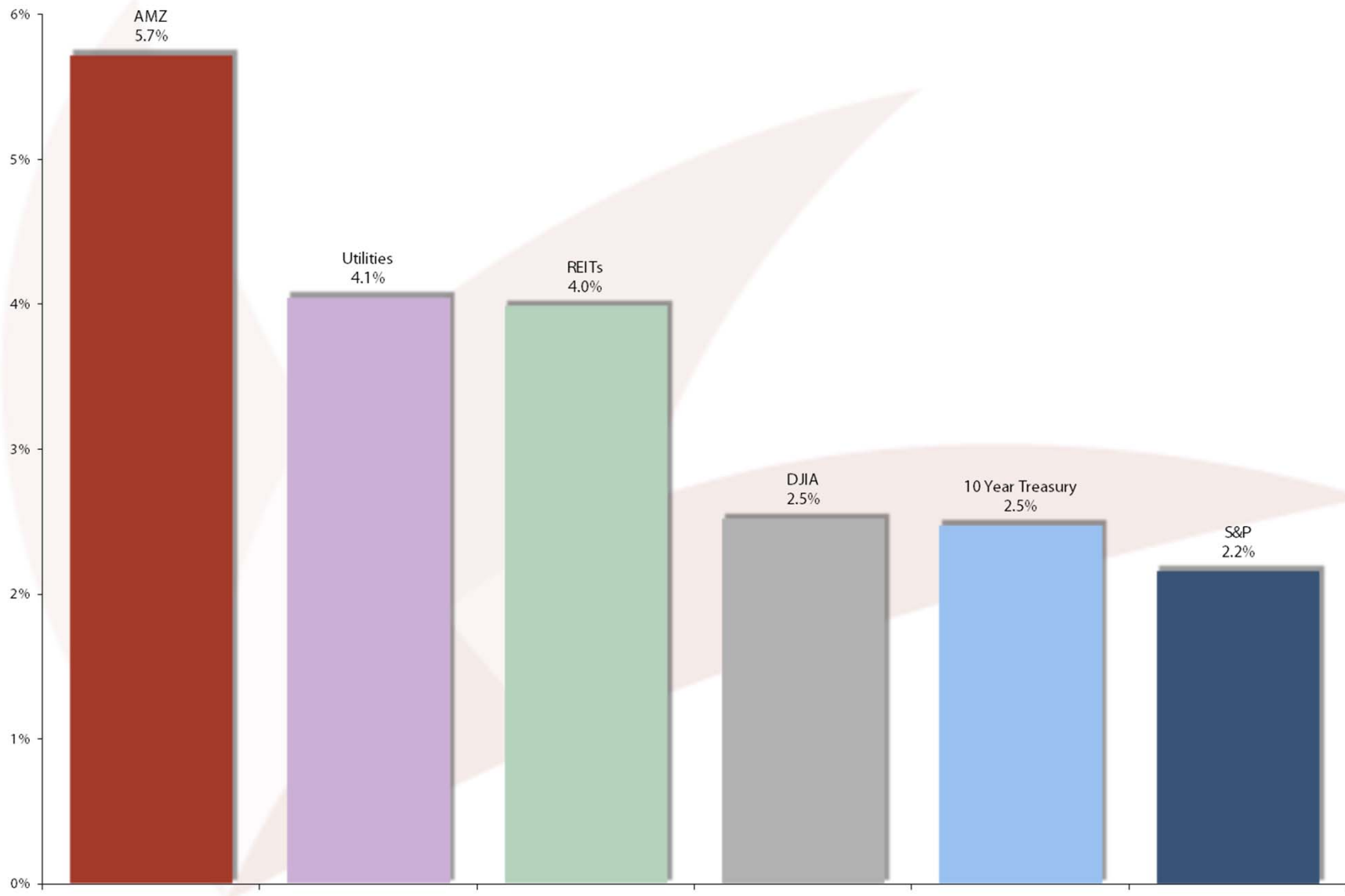
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Annualized
Small Cap 47.3%	REITs 35.0%	Commodities 25.6%	REITs 35.6%	Commodities 32.7%	Utilities -28.9%	<b>MLPs</b> <b>76.4%</b>	<b>MLPs</b> <b>35.9%</b>	Utilities 19.9%	REITs 18.0%	<b>MLPs</b> <b>16.5%</b>
<b>MLPs</b> <b>44.5%</b>	Utilities 24.3%	Utilities 16.8%	Non-US Equity 26.3%	Utilities 19.4%	DJIA -31.9%	Non-US Equity 31.8%	Small Cap 26.9%	<b>MLPs</b> <b>13.9%</b>	Non-US Equity 17.3%	REITs 12.0%
Non-US Equity 38.6%	Non-US Equity 20.2%	REITs 13.7%	<b>MLPs</b> <b>26.1%</b>	<b>MLPs</b> <b>12.7%</b>	Small Cap -33.7%	REITs 27.6%	REITs 26.7%	REITs 9.4%	Small Cap 16.3%	Utilities 10.4%
REITs 36.3%	Small Cap 18.3%	Non-US Equity 13.5%	Utilities 21.0%	Non-US Equity 11.2%	<b>MLPs</b> <b>-36.9%</b>	Small Cap 27.2%	S&P 500 15.1%	DJIA 8.4%	S&P 500 16.0%	Small Cap 9.7%
S&P 500 28.7%	Commodities 17.3%	<b>MLPs</b> <b>6.3%</b>	DJIA 19.0%	DJIA 8.9%	S&P 500 -36.9%	S&P 500 26.5%	DJIA 14.1%	S&P 500 2.1%	DJIA 10.2%	Non-US Equity 8.2%
DJIA 28.3%	<b>MLPs</b> <b>16.6%</b>	S&P 500 4.9%	Small Cap 18.4%	S&P 500 5.5%	REITs -37.3%	DJIA 22.9%	Commodities 9.0%	Commodities -1.1%	<b>MLPs</b> <b>4.8%</b>	DJIA 7.3%
Utilities 26.3%	S&P 500 10.9%	Small Cap 4.6%	S&P 500 15.8%	Small Cap -1.5%	Non-US Equity -43.3%	Commodities 13.5%	Non-US Equity 7.8%	Small Cap -4.1%	Utilities 1.3%	S&P 500 7.1%
Commodities 20.7%	DJIA 5.3%	DJIA 1.7%	Commodities -15.0%	REITs -16.3%	Commodities -46.4%	Utilities 11.9%	Utilities 5.5%	Non-US Equity -12.1%	Commodities 0.1%	Commodities 2.7%

Master Limited Partnerships (MLPs) are represented by the Alerian MLP Index (AMZ). The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy. The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 blue-chip stocks that are leaders in their industry. 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. Commodities are represented by the S&P Total Return World Commodity Index (SPWCITR). Non-US equities are represented by the MSCI Daily Total Return EAFE Index (NDDUEAFE). Small cap equities are represented by the Russell 2000 Index. Performance is provided on a total return basis.

Source: Bloomberg as of 12/31/2012



# MLPs Offer an Attractive Relative Yield



Source: Bloomberg as of 06/28/2013



# What Is an Energy MLP?

## Energy Supply Chain Businesses

- Transportation & Storage
- Gathering & Processing, Fractionation
- Exploration & Production
- Other: Propane, Shipping, Coal

## Tax Efficiency

- No entity-level taxation if 90% of income is from “qualifying sources”
- Lower cost of capital and higher payout ratios than C corporations
- 70%-100% of distributions are tax-deferred return of capital

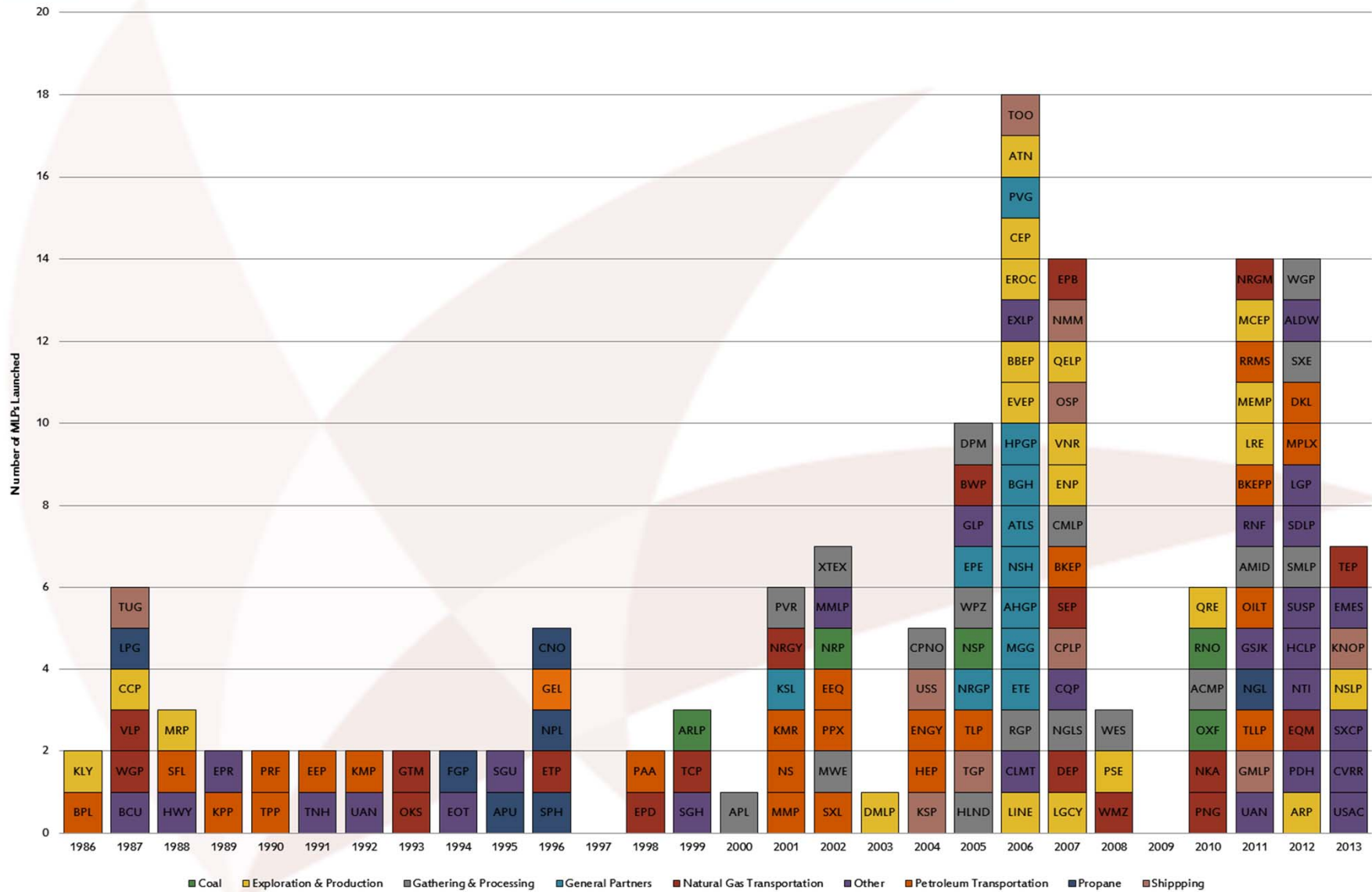
## Stable and Growing Cash Flows

- Midstream assets characterized by fee-based, toll-road business models
- Interstate liquids tariffs indexed to inflation using PPI “plus” methodology
- Average distribution growth of ~7% for past 10 years

## 25 Years of Growth

- MLPs redefined in the 1980s to encourage US energy infrastructure build-out
- 2002: 28 MLPs totaling \$25 billion in market capitalization
- 2013: 99 MLPs totaling \$412 billion in market capitalization

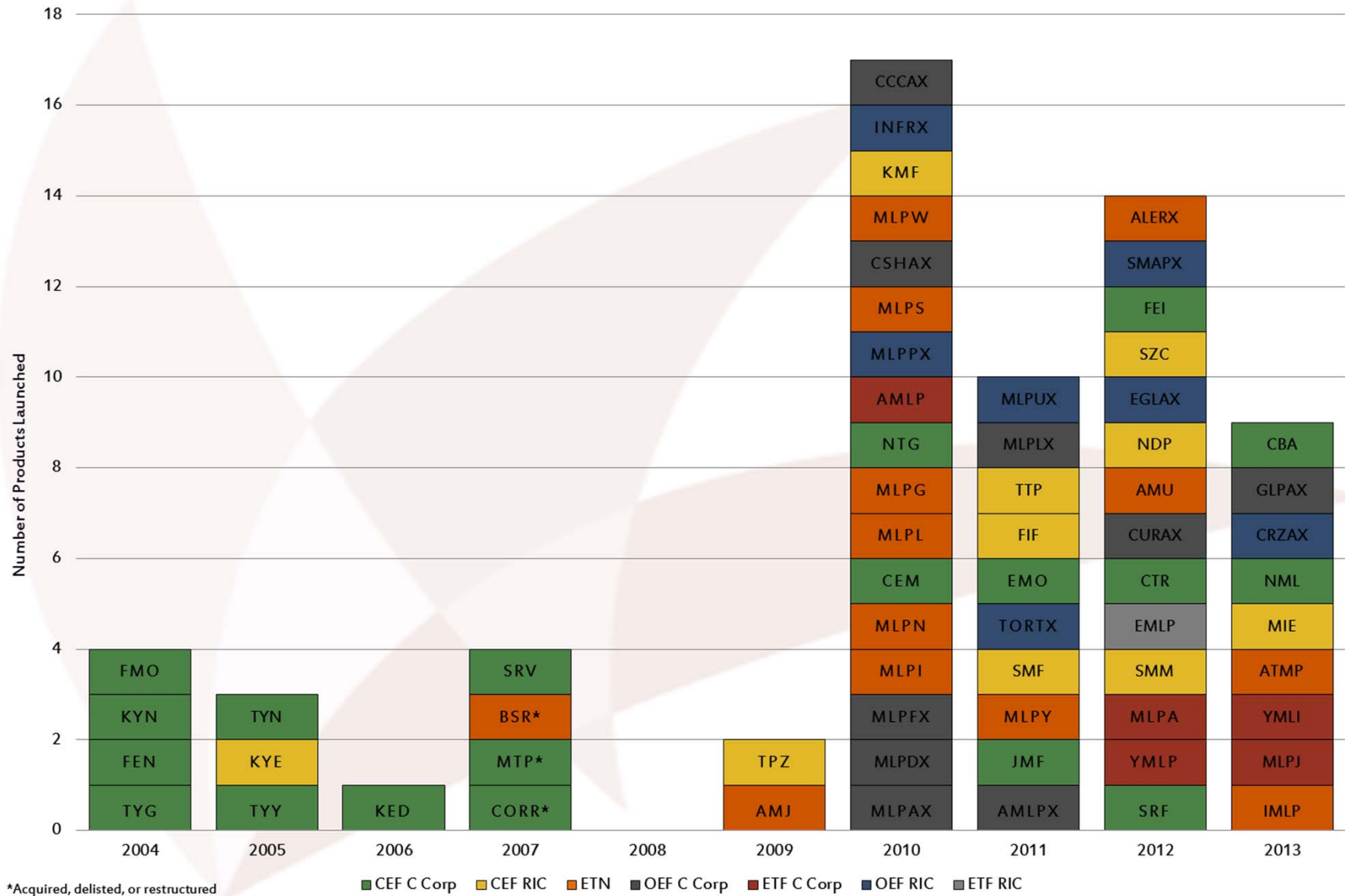
# History of MLP IPOs



Source: Alerian as of 06/28/2013



# Continued Demand for Access Products



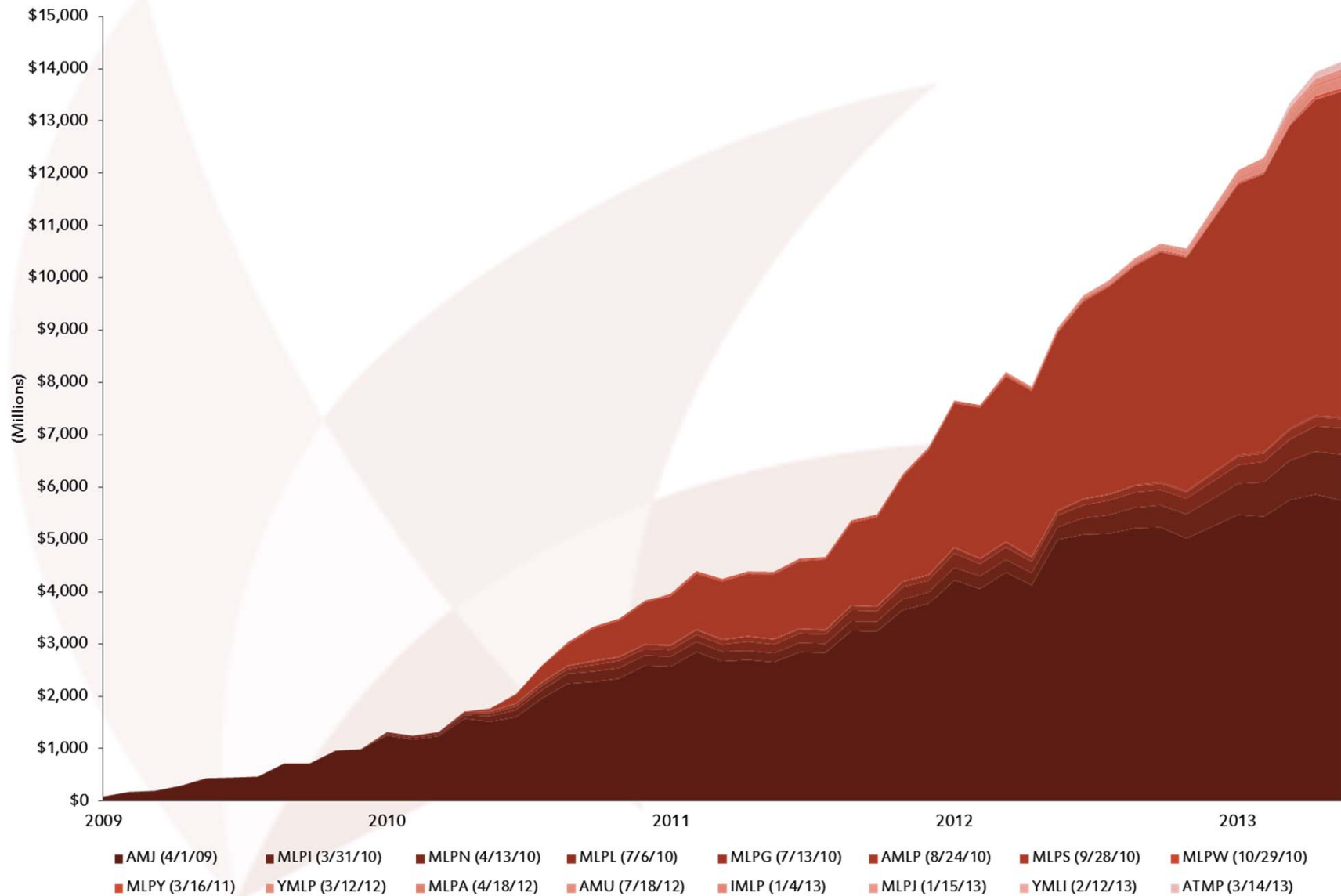
\*Acquired, delisted, or restructured

Source: Alerian as of 06/28/2013



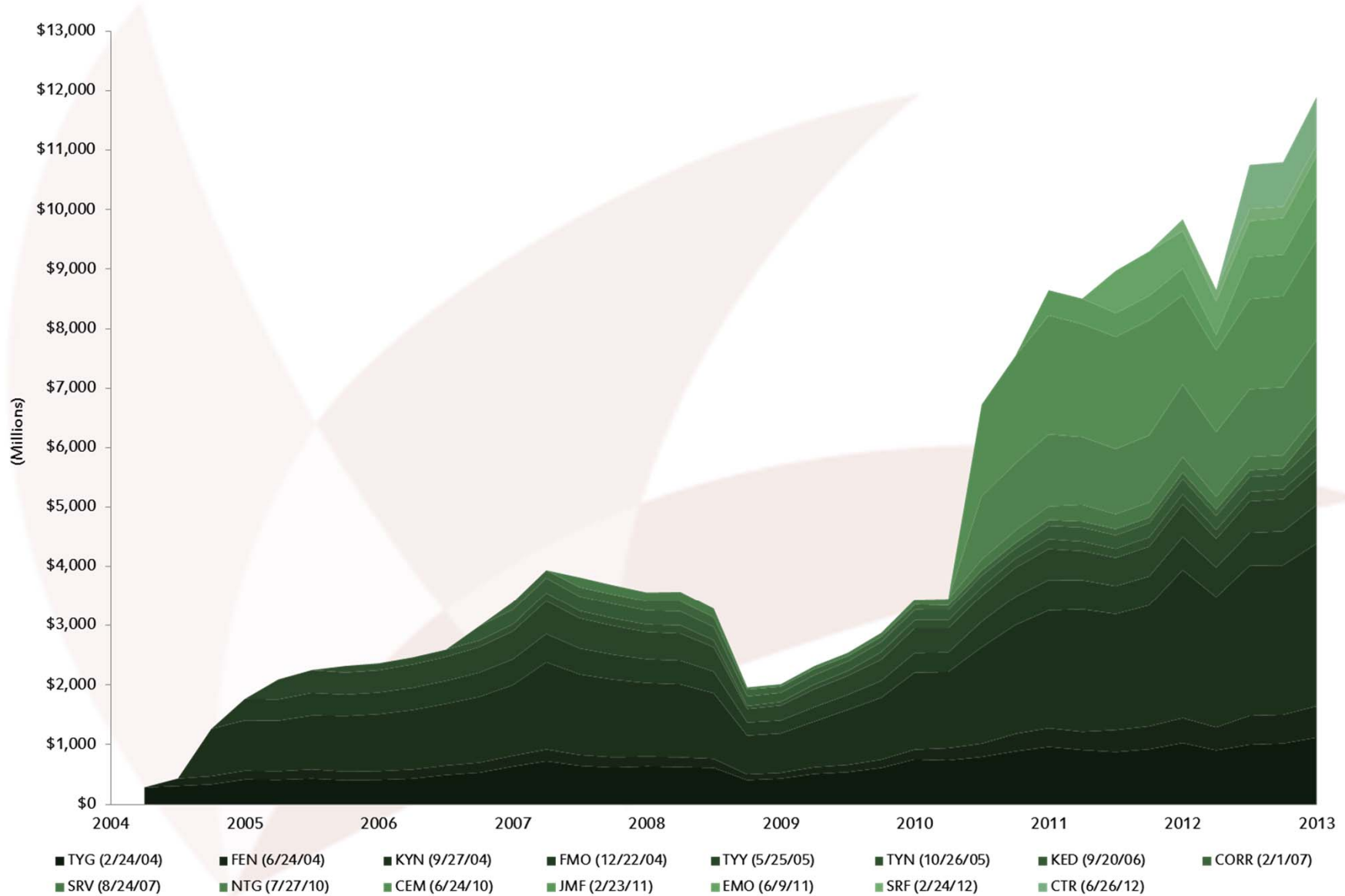


# MLP Exchange-Traded Product Growth (AUM)



Source: Bloomberg as of 05/31/2013

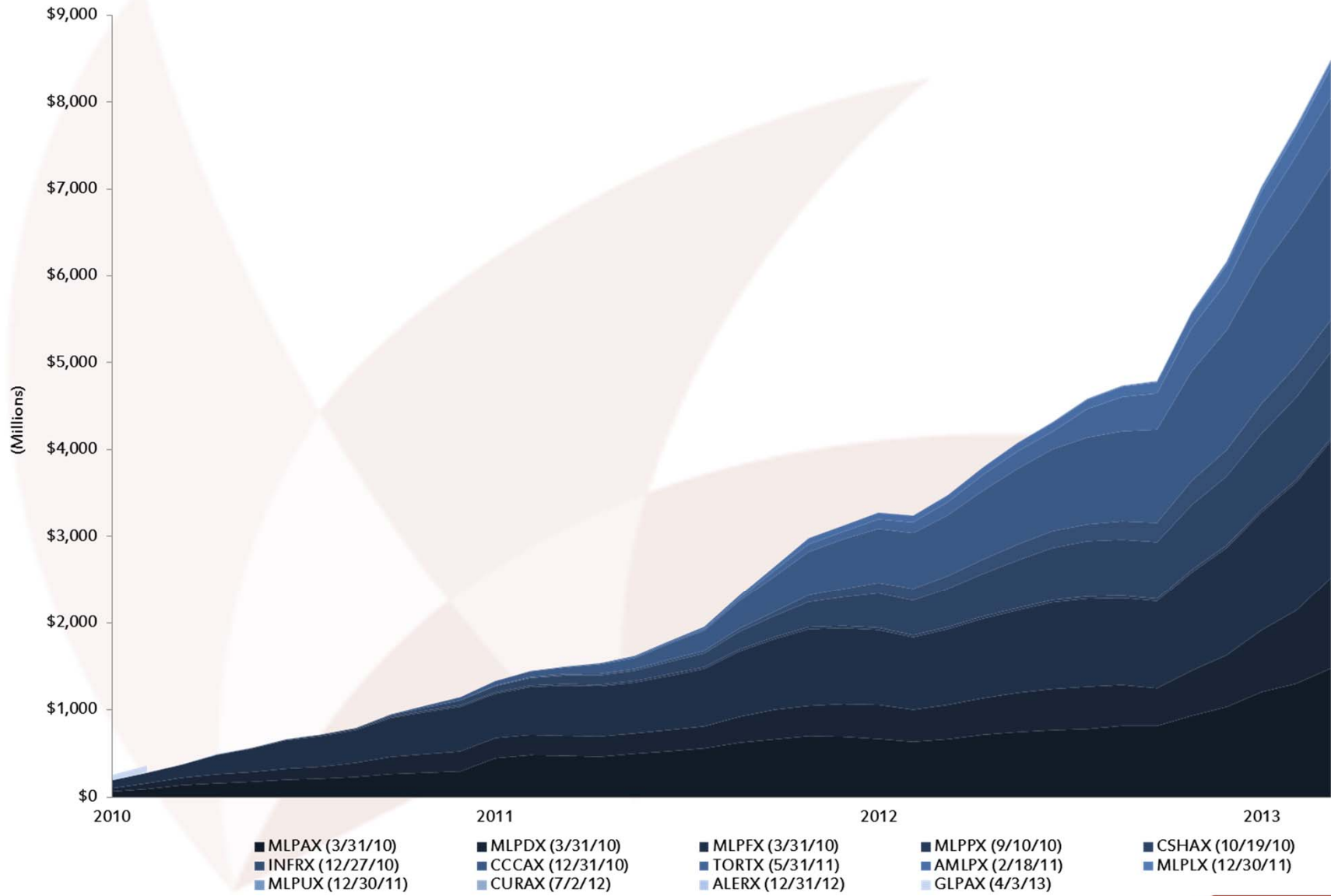
# MLP Closed-End Fund Growth (AUM)



Source: SEC filings as of 02/28/2013



# MLP Open-End Mutual Fund Growth (AUM)



Source: Bloomberg as of 05/31/2013

# Institutions Increasingly Allocating to MLPs

**Tulsa County Employees Retirement System Hires 2 For MLPs**

Delaware Public Employees Retirement System Invests \$200 Million to MLP Index Fund

**OKLAHOMA TEACHERS RETIREMENT SYSTEM ENROLLS 3 FOR MLPs**

**EL PASO COUNTY RETIREMENT PLAN TAPS MLP MANAGERS**

Kansas Public Employees Retirement System Eyes MLP Manager

KNOXVILLE CITY EMPLOYEES RETIREMENT FUND HIRES TORTOISE TO INVEST IN MLPs

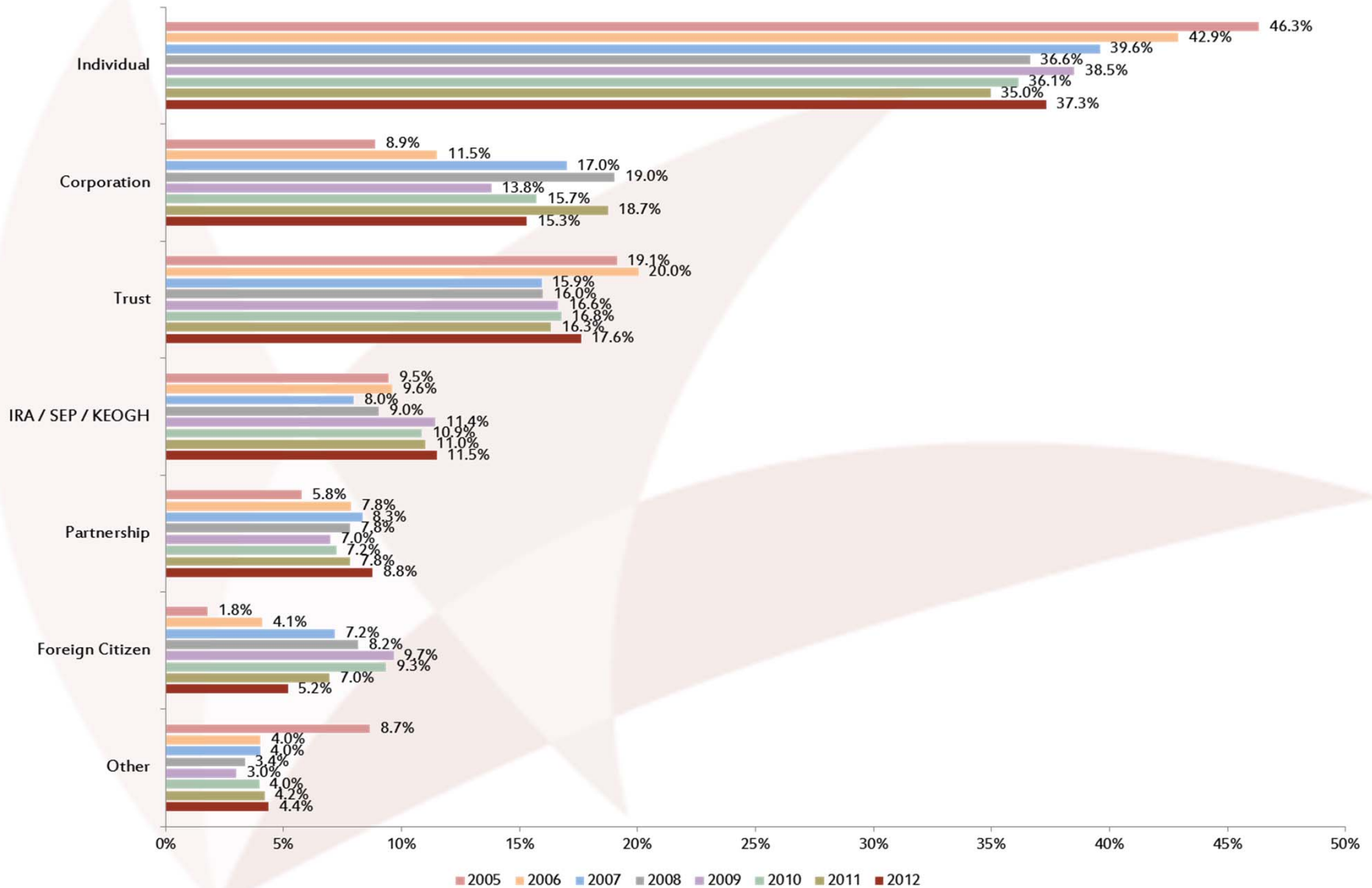
**ST LOUIS CITY EMPLOYEES RETIREMENT SYSTEM ADDS MLPs AS NEW ASSET CLASS**

**ALASKA RETIREMENT MINES FOR MLP MANAGERS**

Pennsylvania Public School Employees' Retirement System Add Risk Parity, Treasuries, and MLPs

**IOWA PERS SOWS ITS DEBUT MLP INVESTMENT WITH HARVEST**

# Foreign and Institutional Investment Has Grown



Source: PwC as of 12/31/2012

# EXTRA! EXTRA! Read All About MLPs!

Market Week Pullout Stocks Up for Sixth Week in a Row; Tech and Small-Caps Surge. Page M3

# BARRON'S

The Dow Jones Business and Financial Weekly [barrons.com](http://barrons.com) August 20, 2012 \$5.00

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## PIPELINE TO 6% PAYOUTS



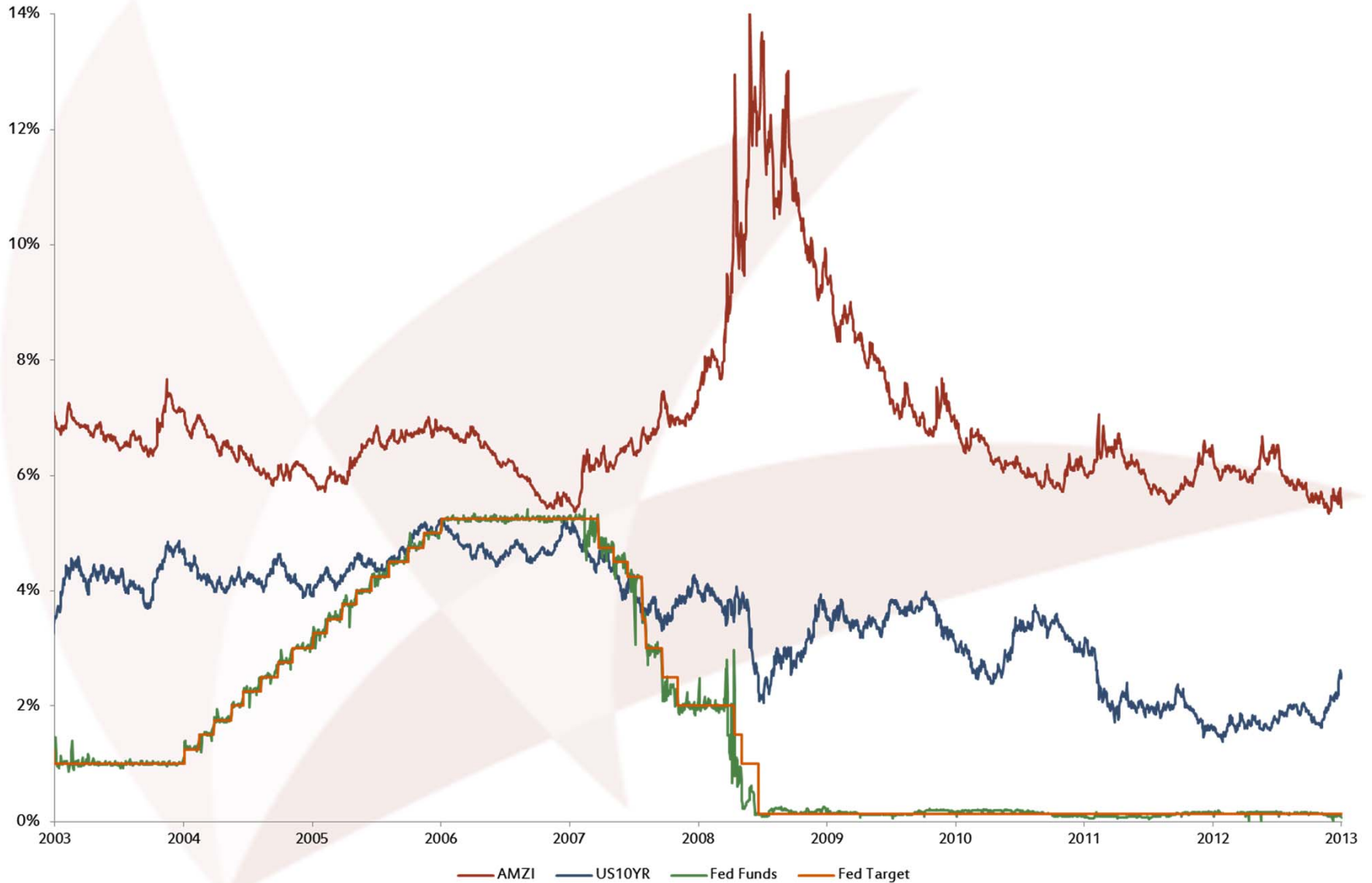
In search of steady income investments, three top financial advisors help us navigate the world of master limited partnerships. What they're buying for clients. What they're avoiding.

MLP  
ROUNDTABLE



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# MLP Sensitivity to Interest Rates Possibly Overstated?



Source: Bloomberg as of 06/28/2013

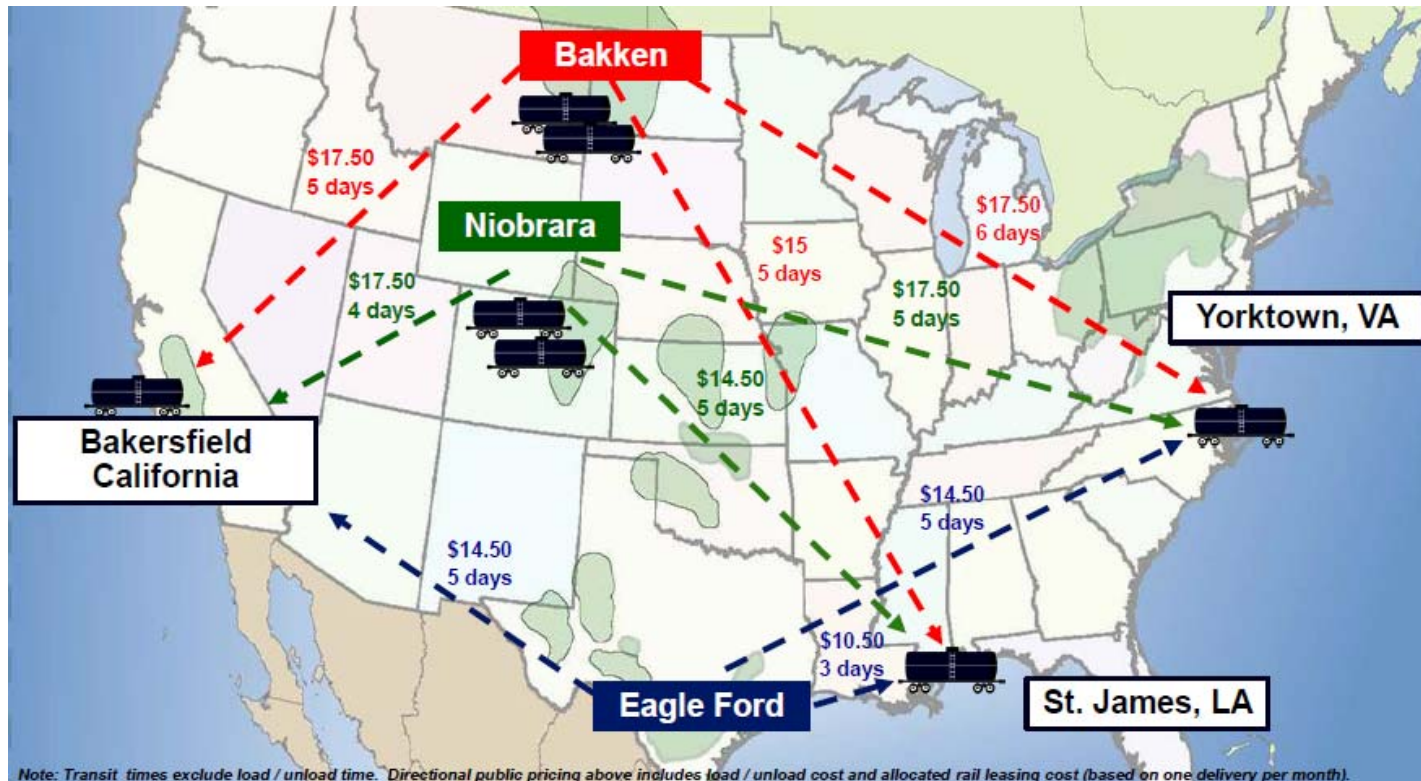
## Congressional Leaders View MLPs Constructively

- Joint Committee on Taxation (JCT) Expenditure List
  - Updated study (Feb 2013) estimates foregone revenue of \$7.5 billion in 2012-2017
  - Increase from Jan 2012 estimate of \$1.5 billion in 2011-2015
- Abolishing structure would be counterintuitive for viability of US energy independence
- MLP Parity Act
  - Proposed in House (HR 1696) and Senate (S 795)
  - Would grant same tax status to certain renewable fuels
- Education outreach via National Association of Publicly Traded Partnerships (NAPTP)
  - “New revenue numbers are dwarfed by the level of private capital that MLPs have invested to build US energy infrastructure (\$113 billion of infrastructure since 2007) and other contributions to our domestic energy security.”



## “Crude-by-Rail” Addresses Takeaway Concerns

- Rail offers producers increased speed to market versus newbuild pipeline
- Access to markets with limited pipeline connectivity (East Coast, West Coast)
- Provides flexibility with short-term contracts



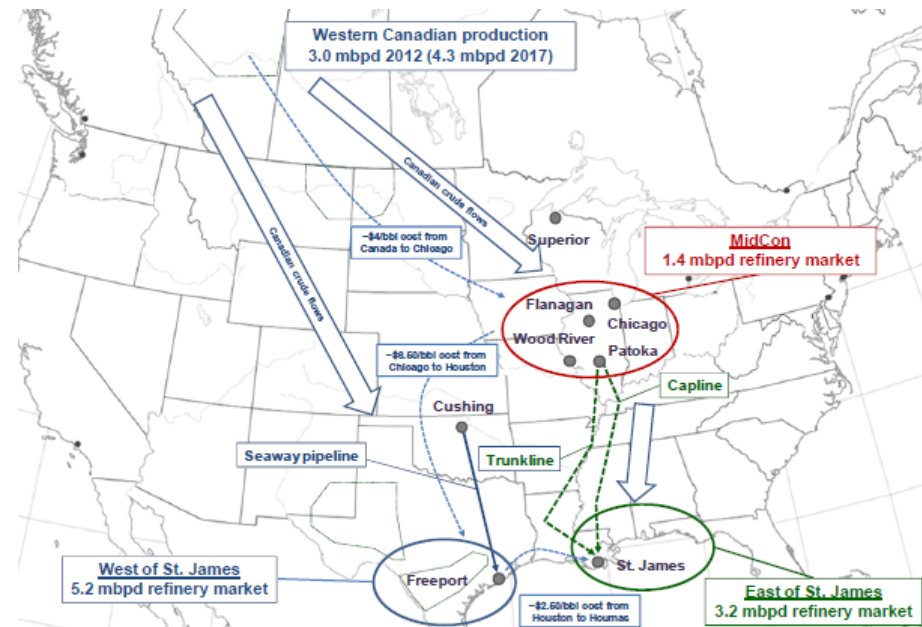
Including acquisitions, MLPs have invested \$2 billion in crude rail terminals\*

Source: \*Plains All American Pipeline LP as of January 2013

# Repurposing Pipelines to Address Bottlenecks

- **Cushing / Mid-Continent region needs de-bottlenecking**

- Seaway (EPD, ENB) first to reverse: built as crude line, converted to natural gas in 1984, converted back to crude in 1996, reversed to flow north-to-south in 2012
- Proposed projects:
  - Capline (PAA, MPC, BP) crude oil pipeline reversal from Patoka, IL to St. James, LA
  - Trunkline (ETP, ENB) natural gas to crude conversion project



- **Enhancing takeaway flexibility from Permian**
  - Proposed: Freedom Pipeline (KMP) natural gas to crude conversion project to California
- **Utica/Marcellus NGL takeaway to Gulf Coast**
  - Proposed: Bluegrass Pipeline (BWP, WMB) natural gas to NGL conversion project

## Feedstock Demand Drives NGL Infrastructure Growth

- **Proposals driven by rising US petrochemical demand for cost-advantaged feedstocks**
  - Bakken NGL Pipeline (OKS) from Bakken to Northern Colorado
  - Bluegrass Pipeline (WMB, BWP) from Marcellus/Utica to Gulf Coast
  - ATEX Express Ethane Pipeline (EPD) from Marcellus/Utica to Gulf Coast
  - Aegis Ethane Pipeline (EPD) from Mt. Belvieu to TX/LA petrochemical facilities
- **Proposals to export cost-advantaged North American energy**
  - Oiltanking Partners (OILT) expands Houston Ship Channel terminal to increase ability to import/export liquefied petroleum gas
  - Enterprise (EPD) expands LPG export facility to load propane, butane, and isobutane
  - Targa Resources (NGLS) expands LPG export capabilities on Houston Ship Channel

# Simple Math

$\vec{v} = \frac{\Delta \vec{r}}{\Delta t}$     $\vec{a} = \frac{\Delta \vec{v}}{\Delta t}$

$v = v_0 + at$   
 $x = x_0 + v_0 t + at^2/2$   
 $v^2 - v_0^2 = 2a(x - x_0)$

$v_x = v \cos(\theta)$   
 $v_y = v \sin(\theta)$

$x = r\theta$   
 $v = \omega r$   
 $a = \alpha r$

$\omega = 2\pi f$     $f = \frac{1}{T}$   
 $\omega = \omega_0 + \alpha t$

$E = K + U$   
 $E_i = E_f$   
 $\frac{1}{2}mv^2$

$\Delta Q_{\text{into}} = \Delta W_{\text{by}} + \Delta E$   
 $RT$  | deg. freedom  
 $C_P = C_V + R$

$\Delta S \geq 0$   
 $\Delta Q = l \Delta(\text{quant.})$   
 $PV = nRT$

$e = \frac{\Delta W}{\Delta Q}$     $e = 1 - \frac{T_L}{T_r}$     $P = \frac{F}{A}$

$\tau = I\alpha$   
 $\sum \tau_i = 0$

**6% + 4-5% = 10-11%**

*Yield*   *Distribution Growth*   *Total Return*

# Different Strokes for Different Folks

Investment Type	Direct Investment	Managed SMA	Closed-End Funds		Open-End Mutual Funds		Exchange-Traded Funds		Exchange-Traded Notes
			100% MLP	<25% MLP	100% MLP	<25% MLP	100% MLP	<25% MLP	
<b>Tax Classification</b>	Partnership	Partnership	Taxable "C" Corp	Non-Taxable "M" Corp	Taxable "C" Corp	Non-Taxable "M" Corp	Taxable "C" Corp	Non-Taxable "M" Corp	Forward Contract
<b>Return of Capital Flow-Through</b>	70%-100%	70%-100%	70%-100%	Varies*	70%-100%	Varies*	70%-100%	Varies*	No
<b>Tax Treatment</b>	0%-30% Ordinary Income	0%-30% Ordinary Income	0%-30% Qualified Dividend	Varies*	0%-30% Qualified Dividend	Varies*	0%-30% Qualified Dividend	Varies*	100% Ordinary Income
<b>Tax Form</b>	Form K-1	Form K-1	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099
<b>IRA/401k Eligible</b>	Taxable Beyond \$1,000 in UBTI	Taxable Beyond \$1,000 in UBTI	Yes	Yes	Yes	Yes	Yes	Yes	Yes
<b>Leverage</b>	No	No	Up to 33%	Up to 33%	Up to 33%	Up to 33%	No	No	No**
<b>First Fund Launched</b>	N/A	N/A	Feb 2004	Jun 2005	Mar 2010	Sep 2010	Aug 2010	Jul 2012	Jul 2007
<b>Total Funds</b>	N/A	N/A	17	10	10	7	5	1	11
<b>AUM (\$ MM)</b>	N/A	N/A	\$15.1B	\$3.6B	\$7.6B	\$1.3B	\$6.5B	\$0.4B	\$7.6B

Closed-End Funds: CBA, CEM, CTR, EMO, FEI, FEN, FMO, JMF, KED, KYN, NML, NTG, SRF, SRV, TYG, TYN, TYY

Open-End Mutual Funds: ALERX, AMLPX, CCCAX, CSHAX, CURAX, GLPAX, MLPAX, MLPDX, MLPFY, MLPLX

Exchange-Traded Funds: AMLP, MLPA, MLPJ, YMLI, YMLP

Exchange-Traded Notes: AMJ, AMU, ATMP, IMLP, MLPG, MLPI, MLPL, MLPN, MLPS, MLPW, MLPY

Managed SMA Examples: Steelpath, Energy Income Partners, Tortoise, etc.

\*RIC-compliant funds hold a diverse group of investments and the tax treatment of income paid to investors may vary dramatically between funds

\*\* Except MLPL, which is 2x leveraged with monthly reset

RIC Closed-End Funds: FIF, KMF, KYE, MIE, NDP, SMF, SMM, SZC, TPZ, TTP

RIC Open-End Mutual Funds: CRZAX, EGLAX, INFRX, MLPPX, MLPUX, SMAPX, TORTX

RIC Exchange-Traded Fund: EMLP

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