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The *Research* Magazine Guide to Master Limited PARTNERSHIPS 2015

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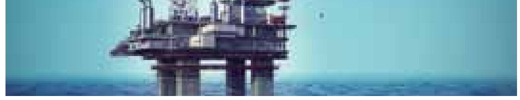



BY ED MCCARTHY, CFP

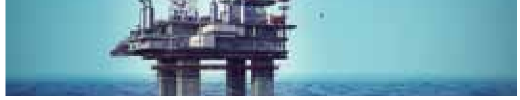
A Powerful Outlook for MLPs

When it comes to master limited partnerships, six experts agree that investors have a variety of ways to tap into the energy sector and many reasons to do so.

Master limited partnerships give investors the means to benefit from the industry's long-term development, regardless of how energy prices are moving in the short term. Investment professionals believe MLPs have attractive fundamentals and valuations, as well as low correlations with other asset classes, for instance.

We asked several industry experts to give us more details on investing in MLPs and how investors should be positioned within the MLP sector. This year's panel includes the following participants:

- **David Chiaro**
  Partner
  Eagle Global Advisors
  Houston, Texas
- **Kenny Feng, CFA**
  President and Chief Executive Officer
  Alerian
  Dallas, Texas
- **Quinn T. Kiley**
  Managing Director and Senior Portfolio Manager
  Advisory Research, Inc.
  St. Louis, Missouri
- **David King**
  Managing Partner
  U.S. Capital Advisors
  Houston, Texas
- **James Mick, CFA**
  Managing Director and Portfolio Manager
  Tortoise Capital Advisors
  Leawood, Kansas
- **Darren Schuringa**
  Chief Investment Officer
  Yorkville Capital Management LLC
  New York, New York


Which sectors/areas of the MLP universe or MLP trends do you focus on and why?

DAVID CHIARO, EAGLE GLOBAL ADVISORS: We follow most of the sub-sectors within the MLP universe. However, our focus is mainly geared toward predominately midstream companies.

These types of assets include crude oil and natural gas pipelines, gathering and processing, and storage terminals. In addition, our products have exposure to some shipping MLPs, as well as the general partners of various MLPs.

KENNY FENG, ALERIAN: As an independent index provider, Alerian does not manage assets or focus on a particular area of the energy MLP universe. Our mission is to equip investors to make informed decisions about MLPs and energy infrastructure.

The two Alerian indices that have been adopted by industry stakeholders as sector benchmarks are the Alerian MLP Index (AMZ), which is the leading gauge of energy MLPs, and the Alerian MLP Infrastructure Index (AMZI), which is a midstream-focused composite of energy infrastructure MLPs.

QUINN T. KILEY, ADVISORY RESEARCH: Our MLP & Energy Infrastructure team focuses primarily on midstream MLPs and their affiliates. Although most of our client portfolios follow a long-only MLP mandate, we also invest across the capital structure of MLPs, their affiliates and other high-quality energy infrastructure companies.

QUINN T. KILEY
ADVISORY RESEARCH

MLP valuations look to be on the low end of fair value, which is typically a good entry point. As we get through the second quarter, we think energy prices will stabilize a bit, and there will be a better environment for security prices to move higher. MLPs with assets further away from the wellhead should be more immune to commodity price volatility, for example pipelines. Natural gas pipelines should see some incremental utilization as demand picks up in 2016. More broadly, we think growth-oriented MLPs will continue to outperform, especially if the market is wary of rising interest rates.

—Quinn T. Kiley, Advisory Research

DAVID KING, U.S. CAPITAL ADVISORS: At U.S. Capital Advisors (USCA), our primary business lines are Wealth Management and Capital Markets. We are active in the MLP sector in both of our businesses.

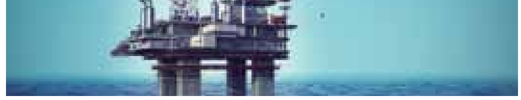
Our Wealth Management business allocates capital to MLPs as one of the many asset classes our financial advisors use to provide return and diversification to their clients. Our Capital Markets business is focused on energy and energy infrastructure.

We are highly involved in the MLP sector across our Capital Markets platform. This includes our institutional client business where we work with the majority of institutional investors in MLPs, as well as our investment banking and merchant banking businesses where we advise and raise capital for MLPs and private midstream companies.

At USCA, we are primarily focused on the midstream oriented MLPs, including those with gas pipeline, gas gathering and processing, natural gas liquids (NGLs) pipelines and storage, crude pipeline and terminal and liquefied natural gas (LNG) operations.

JAMES MICK, TORTOISE CAPITAL ADVISORS: We invest across the North American energy value chain through closed-end funds, open-end mutual funds and separately managed accounts. Some of our closed-end funds are specifically MLP-focused, while our other funds are broader in scope but also energy/infrastructure focused. Within the MLP space, we focus on midstream investments.

DARREN SCHURINGA, YORKVILLE CAPITAL MANAGEMENT: Yorkville doesn't focus on a specific sector of the MLP asset class; rather, it focuses on MLPs with market-leading distribution growth. Our disciplined invest-

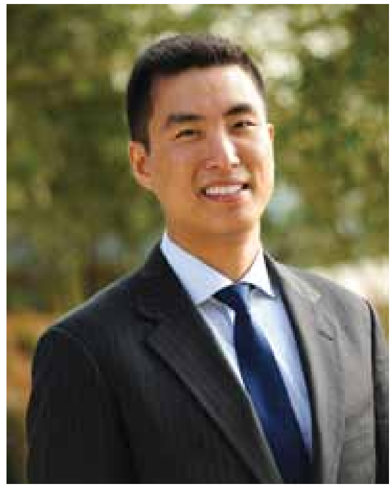




ment process identifies MLPs that deliver the highest quality and fastest growing distributions.

Distribution growth is the investment thesis underpinning MLPs for the following reasons: (1) growth provides a hedge against inflation; (2) it protects from rising interest rates; and (3) it drives price appreciation. If one wanted to classify Yorkville, we are the growth managers of MLP investing.

The investment objectives of all of our strategies and funds are fundamentally focused on quality and growth of distributions. It is our goal to deliver a best-of-breed MLP experience, which we define as consistent distribution growth across all market cycles. To deliver on these objectives, we have shifted our portfolio to more of an infrastructure/midstream focus to ride out any near term oil price volatility.

Yorkville is always following 100% of the MLP universe in order to find best-of-breed growth MLPs. In fact, to help us accomplish this task and to help investors better understand differences in the growing asset class, Yorkville has gone so far as to create a suite of MLP Universe Indices, which include 10 distinct MLP sectors and contain every single publicly traded partnership.



KENNY FENG
ALERIAN

When comparing MLPs to other investments, real assets have really caught on with the general investing public over the last 15 years, thanks to the dotcom bust and the 2008 financial crisis. Midstream energy MLPs have benefited from that wave, which includes other long-lived infrastructure assets like toll roads, airports and seaports. Not to mention, at roughly a 6% yield currently and projected distribution growth in the mid- to high single digits, infrastructure MLPs offer the potential of both attractive yields and higher risk-adjusted returns relative to other yield-oriented asset classes.

—Kenny Feng, Alerian

Given the sharp rebound in energy prices, what is your outlook for these sectors in late-2015 and in 2016 compared with how they did in 2014 and early 2015?

CHIARO: Total return year to date (YTD) through May using the Alerian MLP index is down roughly 3%, and for 2014 the Alerian MLP index returned a positive 4.8%. Our own products are performing well and showing positive returns YTD through the end of May, as well as having shown outperformance vs. the index in 2014.

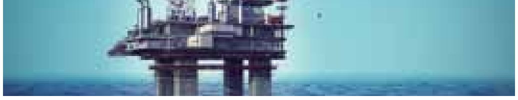
We continue to believe that the sector outlook is still positive for late 2015 and 2016. While we expect some volatility in commodity prices, we are confident that other factors at play will help the MLPs to show cash flow growth.

These factors include long-lead projects coming on-line with contracts in place to protect investment returns, a continued need for selective infrastructure investments to support producer activity, MLP sponsors continuing to drop down assets into MLP companies and an increase in M&A activity.

FENG: In 2014, the AMZ and AMZI gained 4.8% and 7.6%, respectively, on a total return basis. During the first five months of 2015, the AMZ and AMZI were down modestly, returning -3.0% and -2.4%, respectively.

Oil prices have certainly recovered from their sub-$50/barrel lows, but to say that they have sharply rebounded does not paint the full picture. Crude and natural gas are hovering around $60/barrel and $3/thousand cubic feet (or Mcf), roughly 40% below their respective July and June 2014 peaks. Despite the sharp decline in energy prices since the middle of last year, U.S. crude production has continued to grow, touching 9.531 million barrels per day in March, a 43-year high.

This slow supply response, high storage utilization rates, and muted global demand growth, among other fac-


tors, all point to the expectation of a measured recovery in energy prices over the next 12-18 months as compared to the 2008 commodity bust.

While MLP price performance historically has not been strongly correlated to oil prices over the long term, during shorter periods of volatility and uncertainty such as now, correlations tend to be stronger. We expect MLPs to trade sideways until crude finds a firmer footing. An uptick in global demand, geopolitical instability, or a lift of the U.S. crude export ban would probably help that cause.

KILEY: Midstream companies are more tied to the volumes of commodities they handle than to the price of those commodities. Price collapses like we have seen recently do have an impact, and we have seen a reduced outlook for growth among many of the companies we follow. That said, these companies are still growing, and we expect better results in the second half of 2015 and 2016 than what we have seen over the last nine months.

KING: Despite oil prices having rebounded somewhat, our view is that high inventories for crude oil, NGLs and natural gas will continue to weigh on the sector through 2015. That said, we also believe that the likelihood of continued M&A will continue to provide a valuation floor below many of the stocks.

Most of the large-cap players are poised and eager to take advantage of any significant downturn in the sector. Going into 2016, we are more optimistic on commodities, because we think that domestic production will decline at these rig count levels.

MICK: Midstream MLPs demonstrated strong performance during much of 2014, with oil and natural gas production growth continuing to drive infrastructure build-out. The backlog of projects was strong throughout 2014, even as crude oil prices moved sharply lower.

Liquids pipelines prospered due to increased production growth in both crude oil and natural gas liquids. Natural gas pipeline companies also benefited from additional build-out, particularly in the Marcellus, where pipeline takeaway capacity still cannot keep pace with production.

Toward the end of 2014, however, the MLP market came under pressure as crude oil prices fell and sentiment waned, which continued into the first and now the second quarter of 2015. Volatility has been higher than usual as crude oil has continued to face headwinds in search of a floor, with stocks moving in both directions.

Despite that, we have continued to see tailwinds in the midstream space, including new project announcements, strong acquisition activity and the persistent need for more infrastructure to help solve the supply/demand imbalance. Our projection for capital investment in MLP, pipeline and related organic growth projects from 2015 through 2017 is approximately $153 billion.

We have high visibility to cash-flow growth through the remainder of 2015 and 2016; but should organic projects slow thereafter, we believe opportunities remain, albeit focused on a smaller, select group of basins better economically situated. With supply continuing to increase, we think a key theme for 2016 will be the demand response across various energy products. Visibility to increasing demand is present in many sectors, yet still must occur in order to bring the market

DAVID CHIARO
EAGLE GLOBAL ADVISORS

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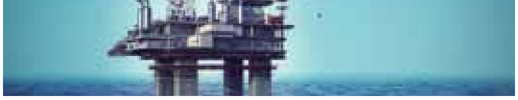
Eagle Global Advisors


back into balance.

SCHURINGA: Ultimately, the difference between $60 and $45 a barrel oil is negligible for midstream, as we view MLPs as a long-term, strategic and wealth-generating asset class, not as a tactical way to play short-term fluctuations in oil and natural gas prices. Over time, MLPs are going to decouple from commodity prices and return to historical correlations, which have averaged 0.3 since 2000.

Regardless of the rebound in energy prices, we are certainly more bullish on MLPs than we were this time last year. The fact that MLPs have noticeably underperformed the equity market over the last six months creates an attractive entry point.

The result has been a dislocation between MLP fundamentals and unit prices, which we expect to revert back to the mean. Add in continued record levels of energy production, and MLPs present a compelling investment opportunity for the long haul.

> **We think the recent price decline represents a good opportunity to invest in the asset class … [W]hen we look at the longer-term scenarios over the next five to 10 years, we are optimistic that global demand will increase and require continued hydrocarbon production growth from North America … This is a visible and sustained runway for investment in infrastructure to support North American hydrocarbon supply growth. The MLPs are well positioned to benefit from this long-term structural theme.**
>
> *—David Chiaro, Eagle Global Advisors*

Is now a good time to invest, given recent price declines? Why or why not?

CHIARO: We think the recent price decline represents a good opportunity to invest in the asset class. Commodity-price pressure has put some uncertainty on North American hydrocarbon production growth in the near term. It will take some time for global supply and demand to calibrate back to a more evenly balanced market.

However when we look at the longer-term scenarios over the next five to 10 years, we are optimistic that global demand will increase and require continued hydrocarbon production growth from North America. Both the BP Energy Review and Outlook as well as the latest IEA World Energy Outlook are showing crude oil demand growth globally of around 1% for the next 10 years and an increasing reliance on non-OPEC volumes, specifically North American, to supply to the increasing demand.

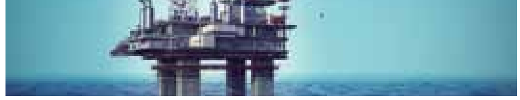
This is a visible and sustained runway for investment in infrastructure to support North American hydrocarbon supply growth. The MLPs are well positioned to benefit from this long-term structural theme.

FENG: We remain confident in the long-term thesis for MLPs, rooted in the necessity for the continued build-out of energy infrastructure to serve North America's energy needs. The U.S. is now the world's leading producer for natural gas and oil (when including NGL production).

Despite the volatility in energy prices, infrastructure MLPs continue to announce new projects (albeit at a more measured pace than in previous years) in growing-production areas such as the Denver-Julesburg (DJ) Basin and the Permian. The fact that spreads are still wide between the price of crude in different regions indicates that certain areas still do not have enough pipeline takeaway capacity to take the product to market. Other factors that also support the long-term thesis include rising natural gas exports to Mexico via pipeline, LNG exports, and the fact that a reduction in crude-oil imports creates repiping needs.

When comparing MLPs to other investments, real assets have really caught on with the general investing public over the last 15 years, thanks to the dotcom bust and the 2008 financial crisis. Midstream energy MLPs have benefited from that wave, which includes other long-lived infrastructure assets like toll roads, airports and seaports. Not to mention, at roughly a 6% yield currently and projected distribution growth in the mid- to high single digits, infrastructure MLPs offer the potential of both attractive yields and higher risk-adjusted returns relative to other yield-oriented asset classes.

KILEY: MLP valuations look to be on the low end of fair value, which is typically a good entry point. As we get through the second quarter, we think energy prices


will stabilize a bit, and there will be a better environment for security prices to move higher.

KING: On a selective basis, yes, but not across the board. We think some of the larger capitalization names are oversold, as investors have thrown out some of the best babies with the bath water. Given our view on commodity prices and the potential for rising interest rates, in general it is very important to focus on those MLPs with strong balance sheets and solid and visible distribution growth in this environment.

For the MLPs in our research coverage universe, we estimate 8.2% average distribution growth for 2015 and 10.2% average distribution growth for 2016. That is off an average current yield of 5.5%

This compares quite favorably to the U.S. Utilities sector, which has a current yield of 4% and an expected dividend growth of 5.4% for 2016 over 2015, as well as to the U.S. REITs sector, which has a 4% yield and an expected dividend growth rate of 7.1% for 2016 over 2015. If you factor in the tax-deferral advantage of MLPs to taxable investors, MLPs look even better on a relative basis.

With the Alerian MLP Total Return Index currently down approximately 18% from its peak level in late August 2014, I view the current environment as providing an opportunity to buy select high-quality MLPs at attractive levels.

JAMES MICK
TORTOISE CAPITAL ADVISORS

[W]e have continued to see tailwinds in the midstream space, including new project announcements, strong acquisition activity and the persistent need for more infrastructure to help solve the supply/demand imbalance. Our projection for capital investment in MLP, pipeline and related organic growth projects from 2015 through 2017 is approximately $153 billion.

—James Mick, Tortoise Capital Advisors

MICK: Despite the volatility in the energy sector, we believe the current market presents many long-term investment opportunities, not only in the midstream space but across the energy value chain. We have already seen some improvement in crude oil prices, and we believe that in the second half of 2015 the demand/supply equation should be more balanced and supportive of somewhat higher crude oil prices.

In the meantime, lower crude oil prices have been driving greater demand for gasoline, which has been exceeding peak levels last seen in 2007. This lends support to the weekly gasoline demand figures we are seeing, which point to 3-4% demand growth on a year-over-year basis, albeit for a small sample size.

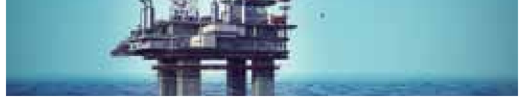
Crude oil production has remained strong, and we expect volumes to increase over 2014 given the new wells already drilled and the growing backlog of drilled but uncompleted wells. Producers are maximizing efficiencies by focusing on the lowest-cost, most productive shales. However, we are more cautious on the 2016 outlook if we stay in a low-price environment.

The other positive for crude oil pipeline and storage operators is the contango market. The market has moved to contango (when futures prices are above spot prices) as inventory levels have ballooned in the U.S.

As a result, rates for storage providers with recent contract renewals are up 20% in many locations. Higher demand for storage and higher rates leads to higher storage cash flows for midstream operators.

Meanwhile, natural gas production has continued at a strong pace, with production reaching 73.7 billion cubic feet per day in the first quarter, an 8.7% increase over daily production levels in the first quarter of 2014.

Growth in the prolific Marcellus Shale is one big reason the market is oversupplied, and it, along with the Utica, aren't even producing at potential (with some estimates over 30-plus billion cubic feet per day), due to pipeline takeaway constraints for gas going to the northeast and southeast markets. Additionally, there are likely to be deliveries to the Gulf Coast as well, when pipeline


reversals are completed.

We are moving closer to significant events, such as liquefied natural gas (LNG) exports in the fourth quarter of this year. That should add incremental demand that will help to rebalance the gas market.

On another front, as production increases, so does global demand for propane and butane. We believe it will be increasingly important for the export market to help balance U.S. supply and demand.

Current export markets are primarily Central America, South America and Europe. Incremental supply is expected to be absorbed by Asia. While this overall is positive, it further connects what was once primarily a domestic market with international markets, likely increasing volatility.

Over the long term, we believe supply and demand fundamentals will move back into balance, supporting the North American energy build-out. As production increases in various products, infrastructure will be needed to deliver that supply to its various end market users, including both domestic and international.

SCHURINGA: Yorkville believes that MLPs, particularly midstream, have limited downside following the difficult fourth quarter of 2014 and start to 2015. Consequently, the firm stands behind MLPs as currently attractive for several reasons.

The first reason is fundamentals. Ultimately, MLPs will trade based on the level of income they produce and the expected growth in distributions. While the growth expectation side of the equation has been slightly pared back, midstream MLPs have not cut distributions, and we expect that to continue.

The second is valuation, the most appropriate metric for which is yield. Currently, MLPs stand at a spread of 380 basis points relative to the 10-year Treasury. This spread is toward the higher end of the historical range and represents what has proven to be an entry point for outsized returns. Since 2000, MLPs have returned an average 12-month return of 22% when spreads are in the 350-399 basis-point range.

The final reason for investing now in MLPs is their lack of correlations. While MLPs have experienced elevated correlations with energy prices over the past 12 months, there has historically been no discernable relationship between the two asset classes.

As a result, we think MLPs make sense for investors who are bullish on U.S. energy. MLPs allow for investors to participate in the U.S. energy revolution without having to be right about where energy prices are headed in the near to intermediate term. That alone should make them compelling for anyone looking to add energy exposure to their portfolios.

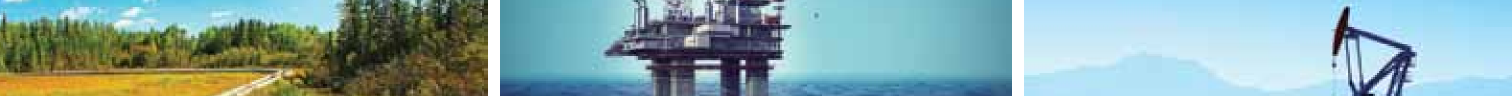
Which MLP sectors do you believe have the most favorable outlooks for the short and medium term and why?

CHIARO: Generally speaking, we like companies focused on owning and building fee-based, contracted traditional midstream assets with little to no commodity exposure. We think the shipping sector has a posi-

DAVID KING
U.S. CAPITAL ADVISORS

For the MLPs in our research coverage universe, we estimate 8.2% average distribution growth for 2015 and 10.2% average distribution growth for 2016. That is off an average current yield of 5.5% This compares quite favorably to the U.S. Utilities sector, which has a current yield of 4% and an expected dividend growth of 5.4% for 2016 over 2015, as well as to the U.S. REITs sector, which has a 4% yield and an expected dividend growth rate of 7.1% for 2016 over 2015. If you factor in the tax-deferral advantage of MLPs to taxable investors, MLPs look even better on a relative basis … I view the current environment as providing an opportunity to buy select high-quality MLPs at attractive levels.

—David King, U.S. Capital Advisors



tive outlook as commodity flows continue to evolve into a more developed global market.

Increased global trade in liquefied natural gas, natural gas liquids, as well as refined products continues to support the need for growth in the shipping sector. In addition, specific general partners should benefit from the growth and continued robust investment of their underlying MLPs.

FENG: "Favorable" can have different meanings depending on the environment. In an environment where there is uncertainty in where commodity prices will settle, we view favorable MLPs as those that have the most visible growth outlook or those with a limited amount of commodity price exposure.

While certain sectors have been hit harder than others (and will likely rebound faster), we are bottom-up investors in the space, and there has never been a better time to be an active stock picker in the MLP space. In fact, since 2000, the best MLP in a given quarter has averaged a gain of 57%.

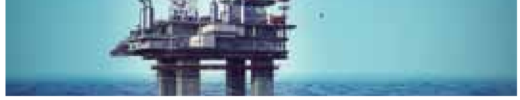
—Darren Schuringa, Yorkville

While not necessarily considered a sector, dropdown MLPs seem to have greater visibility to short- and medium-term distribution growth, which is primarily measured by a pre-determined suite of assets that they can acquire from their sponsors. The dropdown MLPs that have gone public in the last couple of years are expected to increase their unitholder distributions at an annualized rate of 15%-plus over the next few years.

Some areas of the U.S. need a major overhaul of their energy infrastructure, regardless of the price of commodities. Natural gas pipeline MLPs that have a presence in the Northeast have the hefty task of debottlenecking and building new pipelines to better serve growing Marcellus and Utica shale production.

One major task is to rearrange how natural gas flows in the Northeast in a way that allows the gas to reach end users in the most efficient manner. Think of a traffic jam during rush hour and having the ability to build additional highways, side ramps, and smaller roads; reverse the direction of one-way streets; and turn one-way streets into bidirectional streets.

Energy infrastructure companies are all working to find a solution to the Northeast natural gas traffic jam. Further out, the next major task is to build "export" pipelines that will take excess gas not consumed in the Northeast to other domestic markets, such as the mid-Atlantic


and Southeast (namely, Florida), where the push for natural gas electricity generation continues to strengthen.

Regardless of where commodity prices move in the near term, these projects need to be built, many with 15-year contract commitments. Natural gas pipeline MLPs may be a relatively safer investment with more visible growth versus other MLP subsectors in the short and medium term.

KILEY: MLPs with assets further away from the wellhead should be more immune to commodity price volatility, for example pipelines. Natural gas pipelines should see some incremental utilization as demand picks up in 2016. More broadly, we think growth-oriented MLPs will continue to outperform especially if the market is wary of rising interest rates.

KING: Over the short term, we remain cautious on the broad sector so are sticking with those companies that have primarily fee-based businesses (low commodity exposure), supportive dropdowns and/or organic growth backlogs which provide visibility on distribution growth.

Running the sector through this filter leaves the large-cap diversified names as well as a number of small and mid-cap companies that are primarily in the gas gathering, gas pipeline and crude pipeline and logistics businesses.

MICK: We think drilling may pick up in the second half of 2015, albeit at a slower pace year over year. This production should continue to drive the critical need for greater pipeline takeaway capacity.

DARREN SCHURINGA
YORKVILLE CAPITAL

Ultimately, the difference between $60 and $45 a barrel oil is negligible for midstream, as we view MLPs as a long-term, strategic and wealth-generating asset class, not as a tactical way to play short-term fluctuations in oil and natural gas prices. Over time, MLPs are going to decouple from commodity prices and return to historical correlations, which have averaged 0.3 since 2000. Regardless of the rebound in energy prices, we are certainly more bullish on MLPs than we were this time last year. The fact that MLPs have noticeably underperformed the equity market over the last six months creates an attractive entry point … Add in continued record levels of energy production and MLPs present a compelling investment opportunity for the long haul.

—Darren Schuringa, Yorkville

MLP and pipeline companies have remained responsive, with new projects coming online. We anticipate this midstream scenario will remain intact for some time to come.

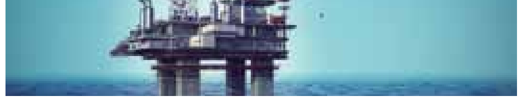
Within the pipeline universe, we think natural gas pipeline companies will be the least affected by lower crude oil prices, because their performance isn't directly tied to crude oil. Increased demand for refined products should lead to higher volumes through pipes and more products blended as well as stored.

In the downstream sector, lower commodity prices have been creating opportunities. Petrochemical companies in particular benefit from low-cost feedstocks and the ability to export.

Refiners also are beneficiaries of widening refining margins and lower crude oil prices, as demand for refined products has increased. Meanwhile, renewable power companies benefit in response to growing demand for renewable power generation.

SCHURINGA: Yorkville is relatively agnostic when you get down to the sector level in the midstream segment of the MLP asset class. There are natural gas pipeline names which we like and are gathering and processing MLPs that make sense here.

While certain sectors have been hit harder than others (and will likely rebound faster), we are bottom-up investors in the space, and there has never been a better time to be an active stock picker in the MLP space. In fact, since 2000, the best MLP in a given quarter has av-


eraged a gain of 57%. Meanwhile, the worst MLP has lost 41%. This represents an average difference of 98% per quarter.

Yorkville focuses on MLPs that (1) have clearly identifiable catalysts for distribution growth and (2) a very low probability of a distribution cut. We look for these criteria throughout the entire MLP spectrum.

This focus on growth MLPs has led to Yorkville's outperformance relative to our peers. Our flagship MLP Core Income Strategy returned an annualized 24.1% over the five years ended March 30, which earned us fourth place out of 1,731 managers in the Morningstar Separately Managed Account ranking.

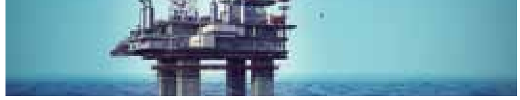
Which factors are likely to most influence the performance of MLPs over the next year or so, and why? (Changes in oil and/or gas prices, energy demand, the dis/approval of Keystone XL Pipeline, domestic and/or global economic growth, etc.)?

CHIARO: Production volumes and production growth are key [factors] for investment in hydrocarbon infrastructure. Better margins and visibility for producers will help them establish reliable capital expenditure and production budgets.

As a result, the MLPs can calibrate their own budgets and manage expectations accordingly. M&A activity has largely been in play since the beginning of the year, and we expect that this will continue to be a factor over the next year or so.

In addition to buying assets and other companies, MLPs are looking to simplify their own capital structures to manage through other external factors in the market place. While activity within the space will continue to influence performance, we are also starting to see assets sales by the majors and independent producers that not only qualify in an MLP structure but in many cases complement the existing asset portfolio of the current MLP companies.

Interest rates will also influence the performance of the asset class. However, the yield spread of MLP yields over U.S. ten-year Treasuries is still historically high. So even in a rising interest rate environment, we believe this yield spread will start to normalize when


rates start to increase.

FENG: Commodity prices, global economic growth, and interest rates are all major factors that will influence MLP performance over the next year. MLPs are likely to be correlated with crude prices until there is more clarity around the global supply/demand imbalance. An increase in interest rates has already been built into the forward curve; any deviation from the pace of that increase could impact MLP valuations.

The factor we believe will most likely influence MLP performance—and differentiate one MLP from another—is sustainable distribution growth. By sustainable, we mean multiple years, from recurring cash flows, without increasing leverage, and without lowering the coverage ratio. In the past few months, we have seen MLP coverage ratios come down; as a caveat to the previous statement, a temporary drop in the coverage ratio is not an automatic indicator that an MLP is in trouble.

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—Kenny Feng, Alerian

During the 2008 commodity bust, MLPs operated in "survival" or "maintenance" mode. Not only was the shale boom just in its infancy, but access to capital was restricted as a function of the financial crisis. It is a different story today.

Even though energy prices are down, capital access is still readily available, and there is still the need for additional infrastructure in higher production areas. Because of this, investors have an implied expectation for MLPs to continue growing.

The MLPs that are able to finance new construction and complete these projects on time and on budget, and those that are able to acquire assets (either via dropdown or from a third party) at accretive multiples will see increases to their bottom line. The MLPs that translate these increases into consistent unitholder distribution growth will be ascribed a premium valuation in this environment.

KILEY: Economic activity leads to energy demand, so the macro picture is key. We expect energy prices and interest rates to be the biggest drivers of MLP prices in 2015.

KING: Commodity prices, interest rates and M&A will be the three key drivers of MLP performance over the next few years. The direction of commodity prices is clearly a key factor on performance of the MLP space.

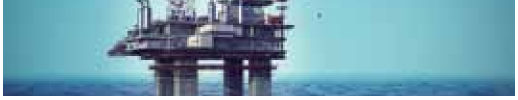
Regardless of whether an MLP has direct commodity sensitivity, commodity prices impact the sector due to the perceived need for additional infrastructure, capacity utilization and money flows. Crude prices don't need to bounce back into the \$80 per barrel range nor natural gas to \$4 per thousand cubic feet (Mcf) for MLPs to generate attractive total returns, but a significant additional sell-off in commodity prices from current levels would exert pressure on the more commodity sensitive businesses, such as gas processing.

Aside from the impacts of crude oil and natural gas prices, it is important to closely watch the pricing of natural gas liquids (NGL) prices. NGLs have been remained persistently weak recently even as crude prices have edged back up over last few months.

We attribute this to seasonal effects that diminish propane and butane demand in summer months. We expect some relief in the back half of the year as seasonal demand picks back up, domestic production begins to roll over, and LPG export facilities that come online in 2015 continue to ramp up volumes.

On the interest rate front, MLPs, utilities and REITs have been the go-to sectors for individual investors seeking yield. Depending on the amount and pace of interest rate increases, these sectors are likely to face some impact.

Although the Federal Reserve is expected to begin increasing short-term rates over the next 12 months, we've already seen the longer end of the curve begin to rise with the 10-year treasury yield at 2.39% today



versus 2.17% at the beginning of the year and 1.67% in early February.

Although these look like small moves, they are actually 10% and 43% increases, respectively, and other higher yielding equity sectors, such as utilities (-10.9% YTD) and REITs (-5.3% YTD) are already feeling the impact. MLPs that have good distribution growth can perform well, even in a rising interest rate environment, which is yet another reason to focus on those companies that have solid visibility on distribution growth over the next several years.

And on M&A, with roughly 135 companies in the MLP sector and over half of those with market capitalizations less than $2 billion, a slowing growth cycle due to current-

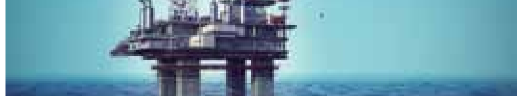
> MLPs that have good distribution growth can perform well, even in a rising interest rate environment, which is yet another reason to focus on those companies that have solid visibility on distribution growth over the next several years. And on mergers and acquisitions, with roughly 135 companies in the MLP sector and over half of those with market capitalizations less than $2 billion, a slowing growth cycle due to currently low commodity prices and a desire for geographic diversity, we think the space is ripe for M&A.
>
> *—David King, U.S. Capital Advisors*

ly low commodity prices and a desire for geographic diversity, we think the space is ripe for M&A.

MICK: It appears that oil prices may have found their floor in April, but several factors could keep a lid on prices (and the upstream sector) for the next 12 to 18 months. For starters, OPEC countries continue to produce over their quotas, which is probably the largest factor affecting oil prices.

We are watching this closely. We anticipate more stagnation with Iran. While some preliminary agreements have been made, it appears there is still a long way to go before additional oil would hit the world market.

Even if it happens sooner rather than later, it is unclear how much oil it would be, although by all ac-


counts is likely well below the 1 million barrels per day (bp/d) espoused by the Iranian oil minister. We think incremental exports likely will be closer to 200,000 to 400,000 bp/d.

On a related note, we think it is possible the U.S. could become the swing producer of crude oil, as OPEC has recently shunned the role they held for so many years. If that does occur, we anticipate more volatility in prices on a domestic basis.

Another factor that could help keep a ceiling on prices is that domestic producers are pushing service companies to reduce costs, with some anticipating cuts as much as 30% for the full year. In addition, wells are still being drilled but not completed, effectively creating underground storage for crude oil that can be brought to market quickly when prices recover. Finally, inventory levels are at 80-year record highs, and it will take some time to work those off.

> With an impressive and abundant resource base in North America for crude oil, natural gas, and natural gas liquids, export related projects are now being considered and undertaken by a number of the MLP companies. Pipelines, storage, and marine terminals are being built to facilitate the movement of commodities from the wellhead to local markets, as well as to docks and marine facilities for export into the global markets. We will soon see the first LNG cargo leaving the Louisiana Gulf Coast later this year with a number of other similar projects to come online over the next five years.
>
> *—David Chiaro, Eagle Global Advisors*

As a result, the price of crude oil is likely to be rangebound, yet more stable. Stability should lead to more certainty from producers, generating a more positive environment for energy companies in general.

The focus should then shift to demand and whether or not the increased supply within the market can be absorbed or if a global slowdown will further complicate an already difficult storage environment.

SCHURINGA: The price of oil will continue to exert influence on MLP unit prices until the global oversupply of oil is brought into balance and oil prices stabilize. The pundits will tout the risks of rising interest rates, but these concerns are unfounded and not substantiated by the historical positive performance of MLPs in almost every rising rate environment.

U.S. oil production, meanwhile, which is consistently breaching new all-time highs, is the ultimate driver of long-term distribution growth and will continue to influence MLP performance.

What new developments could push MLPs in new directions over the next year or two? And how about in the intermediate and long term?

CHIARO: Export-related projects continue to grow in scope and viability for the MLPs. As we answered in a previous question, the increasing globalization of commodity markets is an important theme unfolding.

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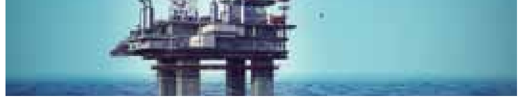
We will soon see the first LNG cargo leaving the Louisiana Gulf Coast later this year with a number of other similar projects to come online over the next five years. Again, this also plays into the need for shipping assets to support increased global trade.

While it is likely not a near-term phenomenon, the lifting of the crude oil export ban could facilitate a whole new wave of projects to support crude oil exports in earnest if the ban were to be lifted by Congress. Recently, the IRS proposed new guidelines for Private Letter Rulings (PLRs), clarifying whether some non-traditional assets would be considered "qualifying" for residing within an MLP.

With this process nearing a more definitive outline for exactly which assets will be qualifying, we could start to see new MLPs come to market or existing MLPs expand into ancillary and complimentary business lines. Water handling and distribution assets are a good example of


assets that support producer activity and could represent opportunities for some MLPs, now that more clarity is starting to emerge with regards to qualifying within an MLP.

FENG: Last year, the Department of Commerce clarified that condensate that has been minimally processed through a distillation tower can be exported out of the U.S. If the government was to take it a step further and lift the ban on crude exports, the implications for the domestic energy industry and global pricing could be significant.

On the one hand, this could incentivize producers drilling for light sweet crude to up their production to meet new demand. On the other hand, production growth could put pressure on global crude prices, further exacerbating the current supply/demand imbalance.

> **Another development that MLPs will be watching closely is the increase in natural gas exports to Mexico. Since 2010, US gas exports to Mexico have almost tripled from 0.9 Bcf/d to 2.5 Bcf/d currently, and the Department of Energy expects that number to more than double to 5.5 Bcf/d by 2030 given declining Mexican production and the country's build-out of gas-fired power plants to meet projected electricity demand growth.**
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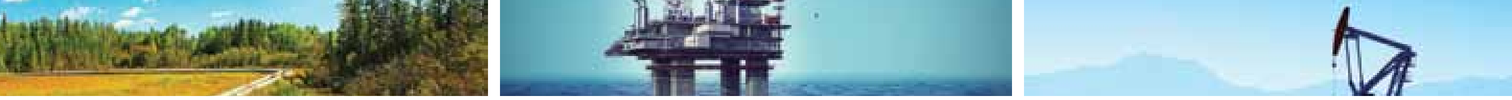
In order to serve these plants, Mexico will need to invest in the build-out of gas pipeline infrastructure domestically, and the government has been encouraging co-investment with the private sector. U.S. MLPs—particularly ones with existing natural gas pipelines in South Texas—stand to benefit, as they will be carrying the product through



their pipelines until it reaches the Mexican border.

KILEY: The comment period for the IRS' new guidelines relating to MLPs is ongoing. The outcome of that process is likely to take a year or more. The end result will be a better definition of what types of assets can be in an MLP, but we don't expect any radical changes.

Our attention is on interest rates and energy prices, both of which may cause investors to be wary of MLPs. However, a portfolio of high-quality, growth-oriented MLPs should perform well from current levels.

KING: One significant potential catalyst over the near term would be removal of the U.S. crude oil export ban. This would provide an opportunity for significant additional crude infrastructure build to facilitate exports.

Over the longer term, the increased environmental push to retire coal-fired and nuclear plants should be an important catalyst for increased natural gas demand. This combined with the large-scale U.S. liquefied natural gas (LNG) export facilities that will be coming on line over the next several years, as well as increasing demand from Mexico for U.S. natural gas, could drive natural gas prices higher and further increase the need for additional infrastructure.

> We believe though MLPs are not immune to rising interest rates, they remain an attractive long-term investment in both periods of economic growth and uncertainty. While higher rates are inevitable at some point, we believe that over the long term, quality growth will prevail. What we have seen historically is that when rates have increased by 50 basis points or more, the return of MLPs has actually been quite positive and similar to what we see in the S&P 500 Index. In fact, in five of the last six instances of rising rates, MLPs generated a positive return …
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SCHURINGA: The most substantial development for MLPs over the next 12-24 months will be the beginning of liquefied natural gas (LNG) exports out of the United States. Natural gas trades at a substantial premium in Europe and Japan when compared to the U.S., making the economics of the LNG trade extremely attractive for domestic producers.

Exporting LNG has the potential to raise demand for natural gas in the U.S. by greater than 20% of current levels. As a consequence, MLPs will play a role in building out LNG export facilities, pipeline infrastructure leading to existing facilities, and additional essential energy infrastructure.

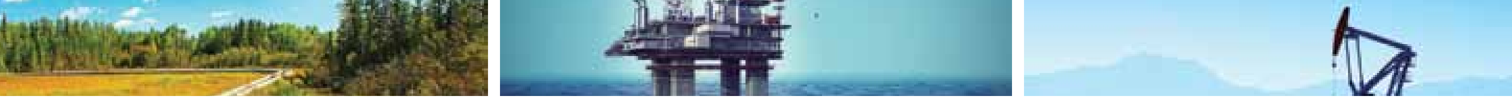
Meanwhile, the long-term story for MLPs has not changed. As per the [research group] IHS, it is estimated that more than $80 billion will be needed in energy infrastructure spending per year through 2020.

Given their cost of capital advantage over other energy companies, MLPs are expected to account for a large percentage of this build-out. For an asset class with a total current market capitalization of $500 billion, the growth potential from these new projects will be tremendous.

Are there any additional trends in MLP investing that you would like to highlight that you see as important for the industry's future success?

CHIARO: Renewable capacity additions have seen large growth over the last few years and are forecasted to increase market share going forward. In particular, solar and wind power generation assets are accounting for the bulk of this growth. The owners of these assets have adopted a structure similar to a MLP within a C-Corp structure called a "Yieldco."

As the name would imply, these companies pay out the majority of their cash flow to investors via a divi-



dend and mimic the very stable, highly contracted, fee-based nature of the cash flows that MLPs exhibit. While the asset class is still in its infancy, it is likely that this structure will be used for the growth in renewable power generation assets as they come online.

We are actively monitoring the evolution of this related asset class. While it is not important to the success of the MLP industry per se, we view it as complementary.

The turbulent markets we all have experienced recently make it clear to us that portfolio strategies and fund structures are going to be a key determinant of performance over time. Not all exchange-traded products are created equal, and investors need to understand how strategies and structures can impact their own portfolios.

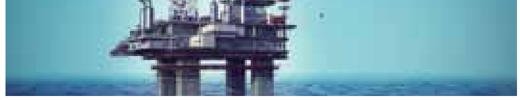
—Quinn T. Kiley, Advisory Research

FENG: As of April 30, there are now 84 pooled products designed to invest in 123 energy MLPs. The products consist of 15 exchange-traded notes (ETNs), 10 exchange-traded funds (ETFs), 27 open-end mutual funds, and 32 closed-end funds.

With so many product choices, we encourage investors to look under the hood and understand exactly what each product owns. Does your small-cap fund have large- and mid-cap exposure? What types of MLPs are in your high-yield MLP fund? Does your energy infrastructure fund own non-infrastructure assets? Do your homework, and know what you own.

There is no one best or most appropriate way to invest in MLPs. For a U.S. 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 option.

When considering a pooled product, we encourage investors to consider management fees, use and cost of leverage, tax treatment of income, tax structure, tracking error, credit exposure, liquidity and investment objectives, among other issues.

KILEY: The turbulent markets we all have experienced recently make it clear to us that portfolio strategies and fund structures are going to be a key determinant of performance over time. Not all exchange-traded products are created equal, and investors need to understand how strategies and structures can impact their own portfolios.

KING: An interesting development over the last year has been two of the publicly traded general partners buying in their MLPs. Historically, general partnership/limited partnership (or GP/LP) consolidation worked the other way, with the LP buying in the GP by issuing additional LP units to GP owners.

The new GP buyouts of the LP trigger tax events for the MLP-holders. We think investors who have historically placed MLPs in their portfolios for tax-planning purposes may be more cautious on the sector or on certain names if we begin to see more of these transactions.

Another important trend we follow closely is the pace and scale of money flows into the sector. The direction and size of money flows are important for any asset class, and that is particularly true for MLPs, which have a relatively small equity float versus shares outstanding.

Float for the MLP sector is roughly $450 billion or 65% of sector market cap versus approximately 95% for both the utilities and REITs sectors (which have $720 billion and $775 billion floats, respectively). A primary reason for the much smaller float versus market cap is the high percentage of MLP units held by the GPs and other affiliated entities. This lower float translates into lower trading liquidity, which in turn means it takes less capital flowing into or out of the sector to move unit prices.

From a sector money-flow perspective, the proliferation and growth of MLP investment products, which include closed-end mutual funds, open-end mutual funds and exchange-traded notes/exchange-traded funds (ETNs/ETFs), have had a positive impact on the performance and trading liquidity of the sector.

New MLP products hit the market at a very rapid pace over the last several years, with the 28 products in the market in 2010 growing to 70 today. Assets under management have increased at a similarly rapid clip, with total product assets growing from $10 billion in 2010 to having $76 billion today.

Over the last 12 months, we've seen a material slowdown in MLP product inflows, which peaked at just over $6 billion in the second quarter of 2014 and have declined in each of the three subsequent quarters to $2.1 billion for the first quarter of 2015. The fact that the pace of new money flowing into the sector through these products has slowed shouldn't be a surprise against the backdrop of the significant drop in commodity prices during the period.

Although an $8 billion annualized level of new capital into these products would still represent a healthy dose of new capital to the space, it would be significantly less than the $20 billion figure in 2014 and the $25 billion in 2013. Although these products are just one of the sources of new capital flows into the sector, they have driven serious new money into MLPs and thus are important to monitor closely.

SCHURINGA: Yorkville sees the potential for tremendous expansion of the MLP structure, similar to that we have seen with REITs over the years.

We see this evolution taking shape on a number of fronts, as the MLP structure is adopted and accepted in different markets, including: (1) expansion into renewable energies with the passing of the Income Parity Act; (2) expansion into other infrastructure assets like power transmission and utilities; and (3) globalization, with the adoption of the structure in other countries, such as Mexico.

The expansion of the MLP structure on any or all of these frontiers will be driven by the need to encourage private investment in essential infrastructure projects as governments contend with ballooning deficits. The opportunities that present themselves from such growth will be enormous and far-reaching.

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—Darren Schuringa, Yorkville