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MASTER LIMITED PARTNERSHIP

MORE GOING ON THAN OIL PRICE

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KEY TAKEAWAYS

MLPs can provide investors with exposure to a niche, yet vital, aspect of the energy production chain.

MLPs are sensitive to a number of factors, including the prices of oil and natural gas, interest rates, and the overall performance of the stock market. Yet at times, the performance of MLPs does not seem very connected to any of them.

Despite poor performance year to date, MLPs may seem well positioned going forward.

Master limited partnerships (MLP) appear to be a natural way to invest in the changing energy landscape. MLPs are exclusively focused on energy infrastructure in the United States and Canada. North American energy production has become a dominant factor in the price of oil and in the North American drive to be energy independent. Yet, the pricing and performance of MLPs can be complicated, influenced by systemic factors, such as the prices of oil and gas, interest rates, and movement in the equity markets. MLPs are also influenced by the degree of success of each individual partnership, in the same way that traditional stocks' performances are determined by both market and individual factors. Despite recent performance, we believe that the sector may still represent a good long-term investment option to potentially profit from increased North American energy production.

WHAT IS AN MLP?

MLPs are technically partnership interests that issue units, instead of shares, that often trade on national stock exchanges. Partnerships are legal entities that by definition have a pass-through tax structure and do not pay federal or state income taxes. In order to qualify for this treatment, the partnership must generate more than 90% of its income as "qualifying income." The definition of "qualifying income" has changed over the years, and has been largely limited to payments related to natural resources, commodities, and real estate. In practice, this means that MLPs are typically involved in transportation and storage of oil and natural gas. Unlike real estate investment trusts (REIT), MLPs are only required to pay out "available capital," whereas REITs are required to pay out 90% of income received. Because the revenue of an MLP is determined by the amount of oil or gas flowing through the pipeline, not the price of that commodity, MLPs are often referred to as "energy toll roads."

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MLPs are required to pay out most of their income and that income is exempt from income tax. Furthermore, the actual distribution from the MLP is frequently

characterized as a return of capital, as opposed to income, so the unit-holder does not pay income tax at the time of distribution. Consequently, MLPs historically have higher yields than the dividend yield on the broad stock market averages, or than the yield on investment grade bonds. As a result, MLP may be a potential play for investors seeking quarterly distributions, much like REITs. The tax component does present an element of uncertainty to MLP pricing; as a function of the tax code, their status could be removed by Congress. In addition, lower personal and corporate income taxes may make MLPs less attractive.

THE CHANGE IN ENERGY FORTUNES

Historically, the United States was heavily dependent on imported oil, with much of that oil coming from the Middle East. In 1981, after the two major oil supply shocks of the 1970s, Congress created the concept of the MLP to encourage private capital investment in U.S. energy production. Interest in MLPs, and their tax advantaged nature, grew substantially over the years, until Congress clarified rules in order to limit their use primarily to oil and gas-related companies. However, it was really the development of drilling technologies, most notably hydro-fracturing (fracking) that led to sustained interest in MLPs.

Primarily due to the changes in drilling technology, North America is largely energy self-sufficient. The United States has all the natural gas (and coal) it needs, quite possibly for generations. Due to increased domestic oil production, the U.S. only imports about 25% of its oil, and approximately 45% comes from Canada and Mexico, countries where U.S. based MLPs help facilitate movement of energy. As a result, almost all energy consumed in the U.S., quite literally all the natural gas, and over 85% of the oil has some connection to MLPs.

The prospective future of MLPs was enhanced after the 2016 election. U.S. oil and gas production

increased significantly during the past five years, despite skepticism about the safety of fracking from the Obama administration and a number of state governments. The Trump administration promised to be much more energy friendly, with promises to roll back regulations and approve permits for additional energy development. According to Bloomberg, there is an estimated that there is about \$50 billion in energy projects waiting permitting. Thus far, the Trump Administration has been unable to speed up the process or deal with this backlog. One reason for the delay is that the Federal Energy Regulatory Commissioner (FERC), the main regulatory body for energy infrastructure, only has two of its five commissioners seated, and one of those two announced she would not stay on after her term expires this June.

We view the current rebalancing of oil supply and demand to be very positive for domestic energy production, and therefore MLPs, going forward. Reduction in supply from OPEC has been met with increased production from North America. This should benefit Canadian and U.S. MLPs, some of which connect with pipelines into Mexico as well.

WHAT MOVES AN MLP?

Though conceptually, investing in MLPs should be straightforward, there are areas of confusion. While many factors drive MLP performance, different factors dominate at different times. Figure 1 details how much of the MLP index's performance can be attributed to different factors. Overall, the most consistent factor determining MLP performance is still the broad equity market (as measured here by the S&P 500). The price of oil matters most to MLP performance when oil is at its most volatile, such as near oil's peak price in mid-2008 and near the end of its price collapse in the beginning of 2016.

What is somewhat surprising is how seldom interest rates are a major factor in the performance of MLPs. One often hears MLP investors express

confidence, or concern, regarding their investment based on movements in the bond market. Changes in yield on the 10-year Treasury bond are seldom the primary driver of MLP returns, though they were in parts of 2012 and 2013. But movement in the bond market is frequently a secondary driver. Therefore, we often look to yield to determine when MLPs are attractively valued. Figure 2 displays the yield of both MLPs and REITs relative to Treasury yields. With overall yields low, investors frequently look to alternative sources for income. At current levels, MLP yields should be attractive to investors, assuming stability in oil prices.

CONCLUSION

The performance of MLPs has been disappointing lately even as stock prices have increased, we believe due to the decline in oil prices this year. However, oil prices do not have to rise for MLPs to appear attractive, they just need some stability. We see a strong fundamental backdrop for MLPs with increased North American production and what is likely to be an easier regulatory environment going forward. Combined with attractive valuations, we believe MLPs have a role in a diversified investment portfolio. ■

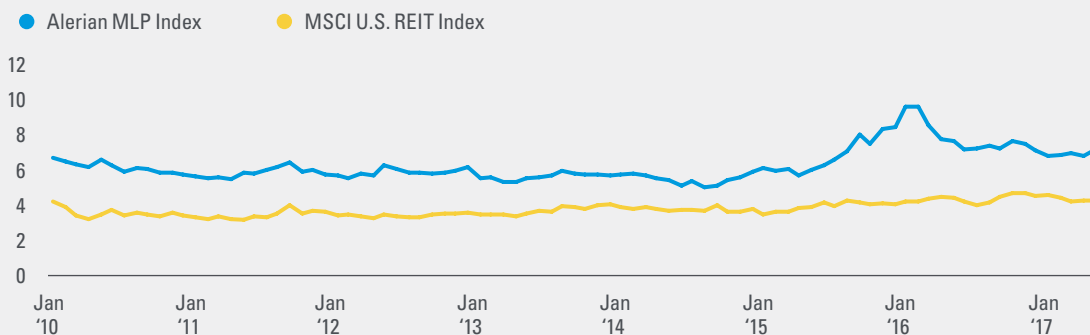
1 WHAT MOVES MLP PRICES — MLPs ARE MOST SENSITIVE TO THE STOCK MARKET; OIL AND YIELDS BOTH MATTER AS WELL

Rank of Importance	10-Year Treasury Yield	NYMEX Natural Gas Henry Hub Spot	NYMEX WTI Crude Spot	S&P 500
1	8%	4%	17%	71%
2	26%	19%	36%	20%
3	30%	42%	22%	6%
4	36%	35%	26%	3%

Source: LPL Research, FactSet 05/31/17

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

2 INDEX YIELD OVER 10-YEAR TREASURY — MLPs STILL ATTRACTIVE



Source: LPL Research, Bloomberg 06/02/17

Data as of 05/31/17

Indexes are unmanaged and cannot be invested in directly. Past performance is no guarantee of future results.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

All investing involves risk including loss of principal.

INDEX DESCRIPTIONS

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The USD Index measures the performance of the U.S. dollar against a basket of foreign currencies: EUR, JPY, GBP, CAD, CHF and SEK. The U.S. Dollar Index goes up when the dollar gains "strength" compared to other currencies.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index, which is calculated using a float-adjusted, capitalization-weighted methodology, is disseminated in real time on a price-return basis (NYSE: AMZ) and on a total-return basis (NYSE: AMZX).

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