

MLP Developments and Introduction

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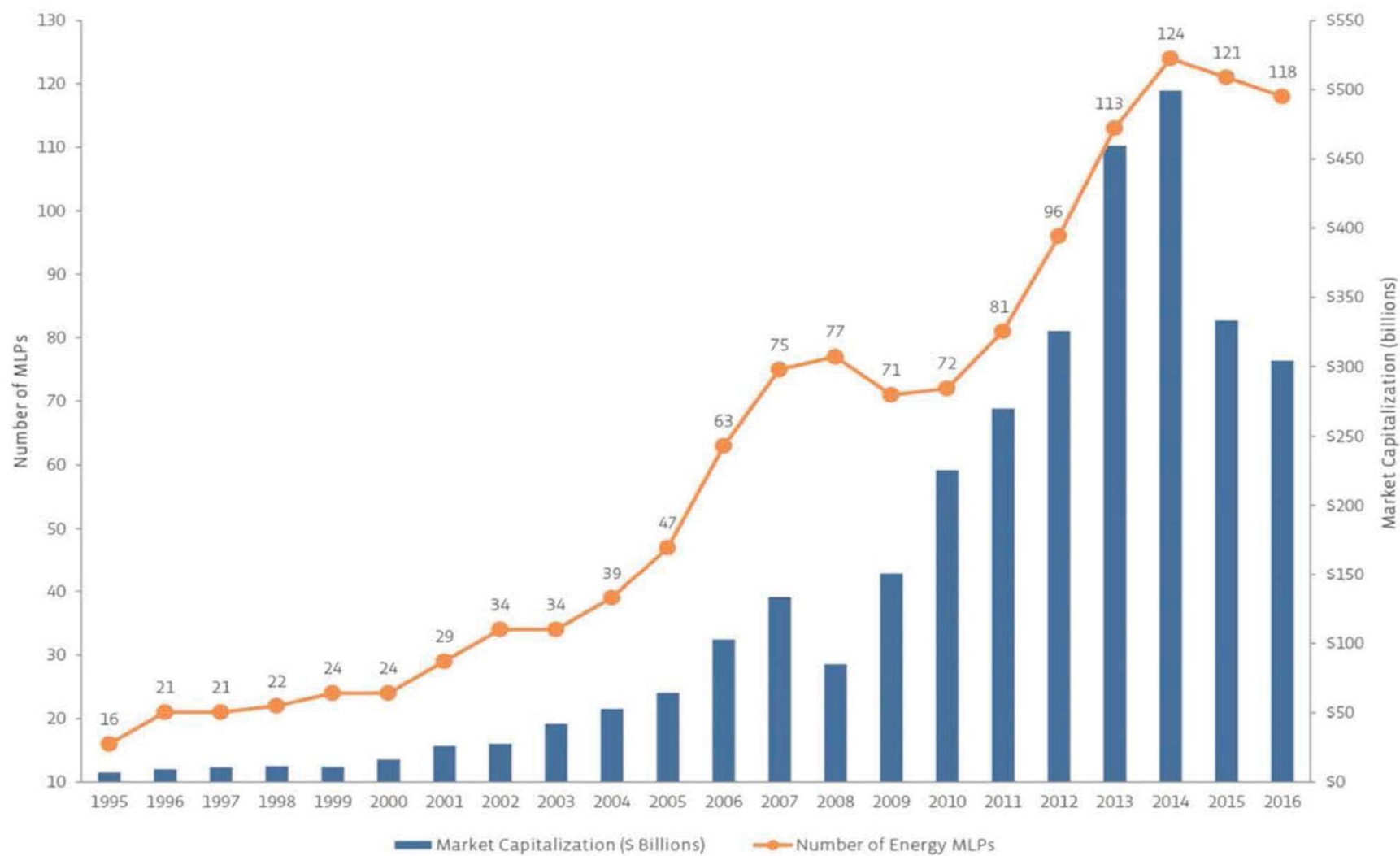
What are Master Limited Partnerships?

- Usually refers to publicly traded partnerships and LLCs taxed as partnerships
- Primarily in energy related businesses
- Must earn 90% of their income from specific sources
 - Not required to pay out a certain percentage like REITs

Why MLPs?

- MLPs are only taxed once at the investor level, not at the corporate level increasing the value of assets
- High tax-advantaged cash flow from consistent operations
- Growth potential from increased domestic energy production

Growth in MLPs



Source: Alerian

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MLP Terms

- EV/EBITDA – Enterprise value/Earnings before interest, taxes, depreciation, and amortization
- Leverage and balance sheet – Debt/EBITDA
- Drop-down – Sale of an asset from a GP to an LP
- Incentive Distribution Rights - IDRs
- Coverage ratio – Distributable cash flow/distributions

Distributable Cash Flow

- Non GAAP number that MLPs report
- Each one varies a little

Recurring net income

+ Depreciation, depletion, and amortization

+ Non cash items/adjustments

- Maintenance capital expenditures

= Distributable cash flow (DCF)

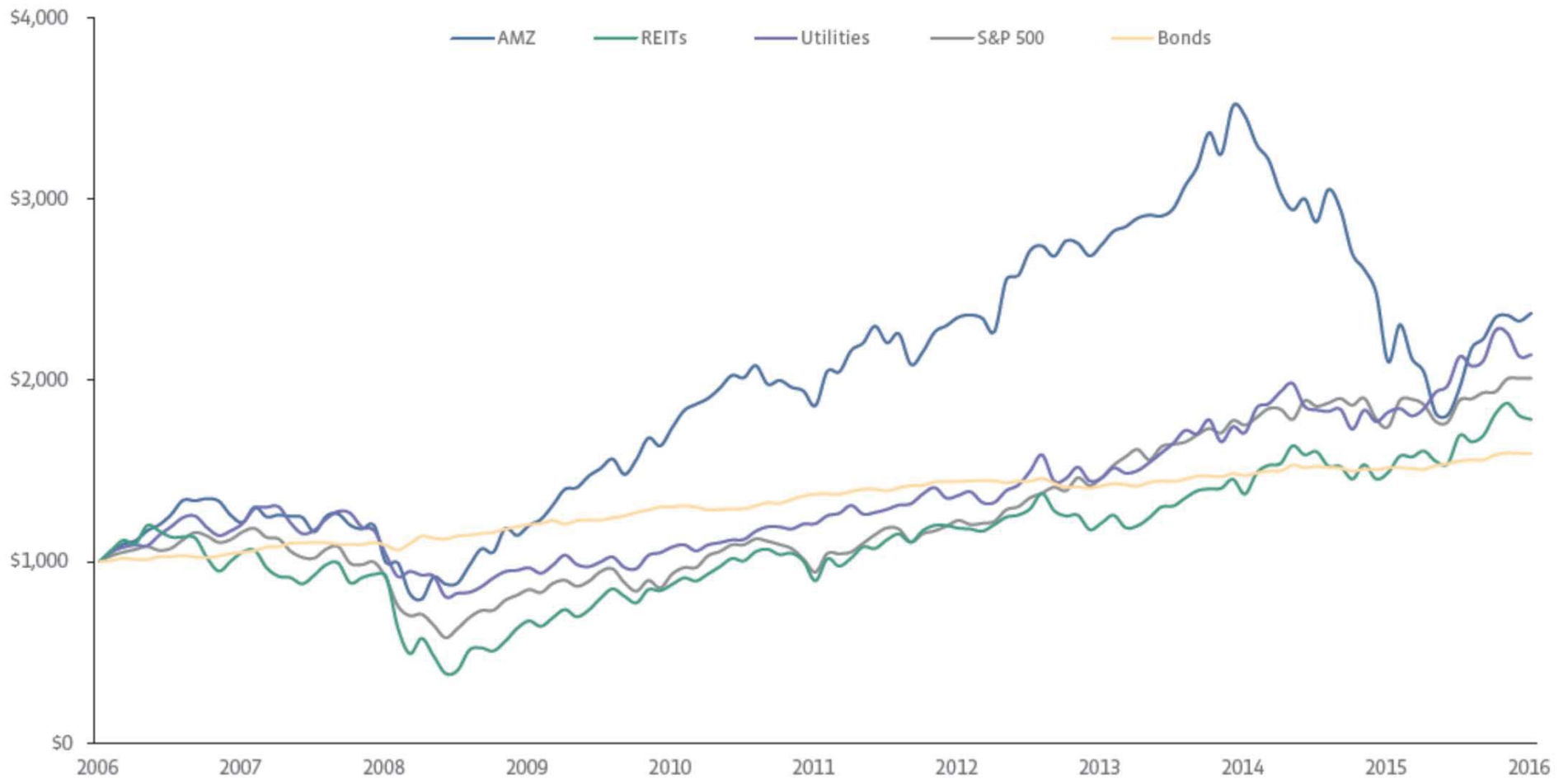
MLP Taxation Considerations

- Unitholders receive a Schedule K-1 instead of a 1099 which may be burdensome for some investors
- May require state filings
- Partnership income in an IRA may be considered unrelated business taxable income subject to tax

Key Attributes of MLP Investment Options

	Passive Strategies		Active Strategies			
	Exchange Traded Note	Exchange Traded Fund	Closed-End Mutual Fund	Open-End Mutual Fund	Limited Partnership Fund	Separate Account
Liquidity	Daily	Daily	Daily	Daily	Typically Quarterly	Daily
Tax Reporting	1099	1099	1099	1099	Consolidated K-1	Multiple K-1s
Investment Tax Status	Taxable Note	Taxable C-Corp	Taxable C-Corp	Taxable C-Corp	Partnership Tax Status	Partnership Tax Status
Additional Corporate Level Tax Drag	No	Yes	Yes	Yes	No	No
Taxation of Distributions	Interest Income	Largely Return of Capital	Largely Return of Capital	Largely Return of Capital	Largely Return of Capital	Largely Return of Capital
Generates UBTI	No	No	No	No	Yes	Yes
Bank Credit Risk	Yes	No	No	No	No	No

10 Year Performance



Source: Alerian