CHICKASAW CAPITAL MANAGEMENT

WHITE PAPER SERIES

Demystifying MLPs

Addressing Questions and Misconceptions

JUNE 2015

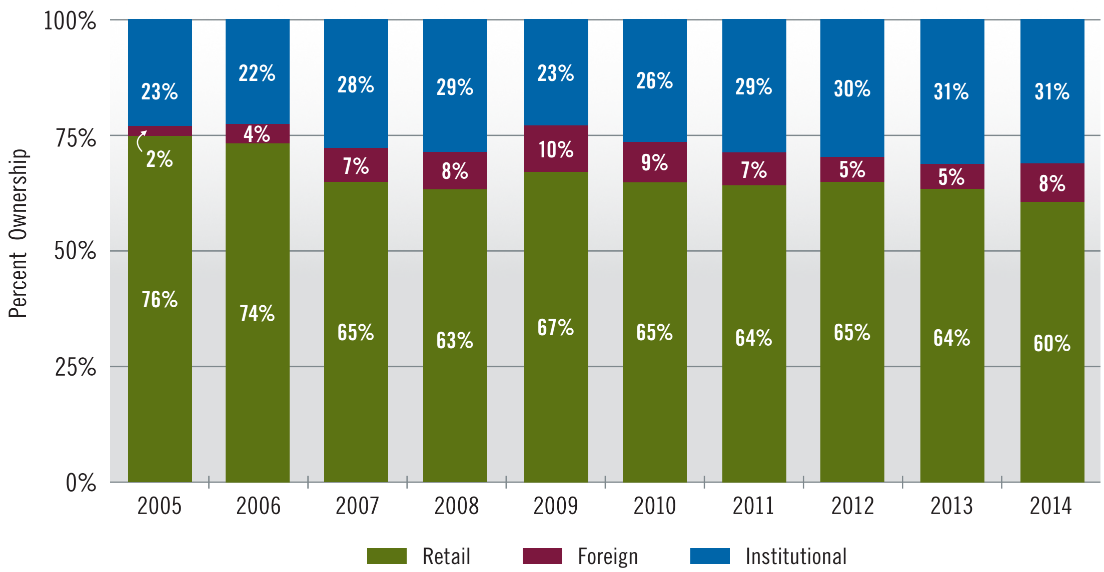
Introduction

Over the past two decades of researching and investing in leading midstream MLPs, we've been asked many different questions by curious investors eager to better understand this growing asset class. At least some of those questions lead us to believe that there are many misconceptions regarding MLPs and how they function in the market. This paper outlines several of the more pervasive questions that have been communicated to us over the years and we address each with an update as we see it.

1. Isn't MLP ownership dominated by retail investors chasing yield?

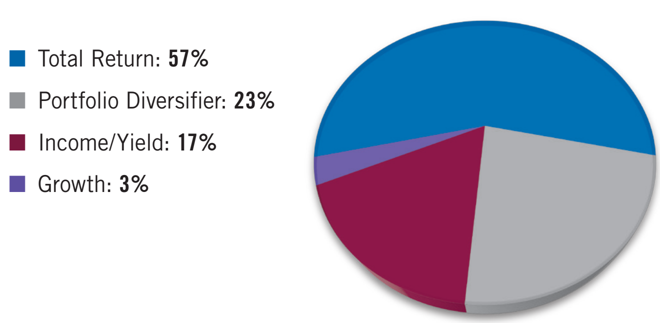
Historically, MLP ownership has included a high proportion of retail ownership, estimated at 76% in 2005 and that has decreased to 60% as of 2014 due to greater institutional participation.

Exhibit 1: Proportion of MLP Ownership



Historically, yield has been a leading investment attribute for some investors, but the market is evolving and increasingly investors are attracted to the total return potential of MLPs. Results from our investor conference surveys in 2014 indicate that the majority of our respondents are allocating for reasons other than yield.

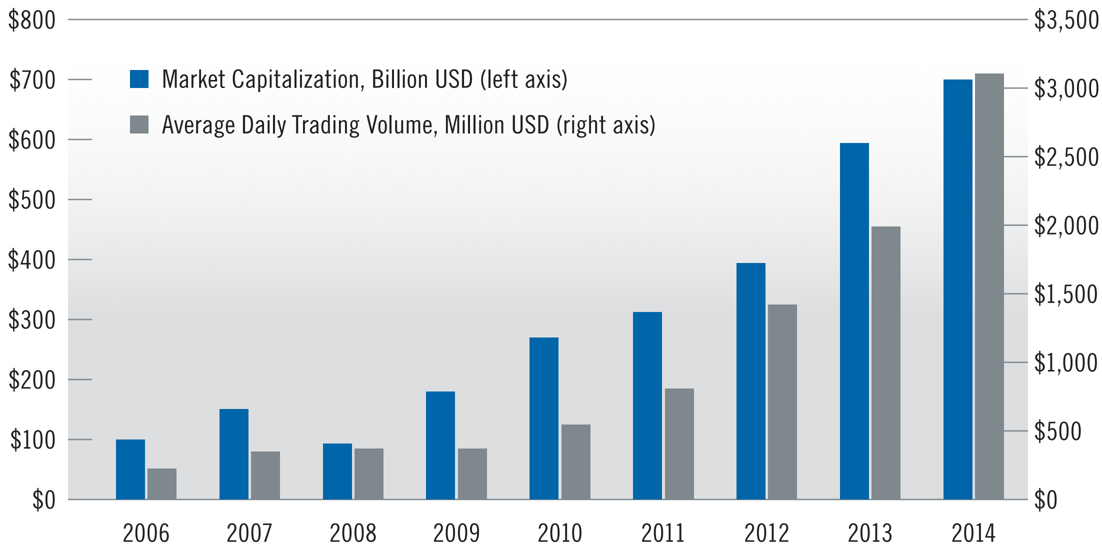
Exhibit 2: Investor Ranking of the Importance of Key MLP Investment Attributes



2. Isn't the MLP market relatively illiquid and thinly traded?

MLP market capitalization and trading liquidity has increased significantly over the past 9 years. We estimate that the total market capitalization of MLPs and MLP interests[1] is $700 billion and this universe of companies trades $3 billion of value per day.

Exhibit 3: Historical Market Cap & Trading Volumes of Energy MLPs



3. Aren't MLPs exposed to short-term commodity price movements such as the price of natural gas and oil?

This is a common misconception particularly as it relates to midstream MLPs.

Most midstream MLPs have very low direct exposure to commodity prices. Long-term fee-based contracts underpin the cash flows generated by most midstream MLPs which dampens the impact of short-term moves up and down in the various commodity markets such as Natural Gas and Crude Oil.

Gauging investor perspective on price movements is always tricky. Certain investors may assume that the recent move lower for the MLP market was correlated to the decline of the price of crude oil. As Exhibit 4 shows, the daily correlation of the Alerian MLP Total Return Index (AMZX) and West Texas Intermediate (WTI) crude oil was only 41.4% during the period from AMZX's peak on 8/29/14 through 12/31/14. So far this year, the daily correlation has risen to 52.2% through 5/31/15, which we note is the highest correlation over any short term measurement period. As a reference, the long term correlation with crude oil is 29.1 % since inception of the index.

Exhibit 4: AMZX / WTI Correlation

(1) MLP Interests: MLP common units, General Partner interests and I-shares.

Unless an investor believes that there is a more permanent change in the historical relationship between MLPs and the price of crude oil, this most recent period would suggest a more short-term emotional attachment to commodity prices that is out of sync with the long-term relationship as well as fundamentals.

4. With oil prices dropping so significantly, isn't the energy renaissance/energy infrastructure growth story coming to an end and won't that be negative for MLPs?

The energy renaissance and subsequent demand for energy infrastructure is not over and has many years of growth ahead. We believe that market prices reflect expectations around future value and future value is determined by expectations of future cash flow. So if commodity prices decrease, but MLP cash flow generally is secured by long-term, fee-based contracts, and the market price performance was not directly correlated to the price of oil, then the market must be implying that growth capital expenditures will be less in the future which would potentially drive lower cash flow growth.

First of all, we don't believe future capital expenditures and associated cash flows were being properly reflected in prices prior to the downturn. We believe that market prices were underestimating future growth potential. Second, as we discussed in our April 2015 newsletter, we believe that volume growth is underappreciated given the advances in drilling technology and efficiencies and that volume growth will drive midstream energy infrastructure project spending in excess of what the market is expecting.

MLPs benefit from potential growth projects that originate from both supply and demand focused end customers. For example, certain supply-side MLP customers have recently completed growth capital expenditure budget cuts which may impact the near-term project opportunity set for MLPs. However, demand-based end customers continue their robust appetite for additional infrastructure projects. Many of these demand-based projects seek to capitalize on lower-priced, geographically stable hydrocarbon supplies. Examples of this include an expected $137 billion to be spent on U.S. Gulf Coast petrochemical expansion projects, conversions to and increased usage of combined cycle gas technology (CCGT) power plants, and projects designed to improve access to increasing export markets through the exportation of liquefied natural gas (LNG), liquefied petroleum gases (LPG) such as ethane, propane and butane and the exportation of lightly processed condensate.

5. Will higher interest rates negatively impact MLPs?

There are two ways that MLPs may be affected by a change in interest rates. The first is the cash flow impact that a rise or fall in interest rates can have on the MLPs distributable cash flow (DCF).

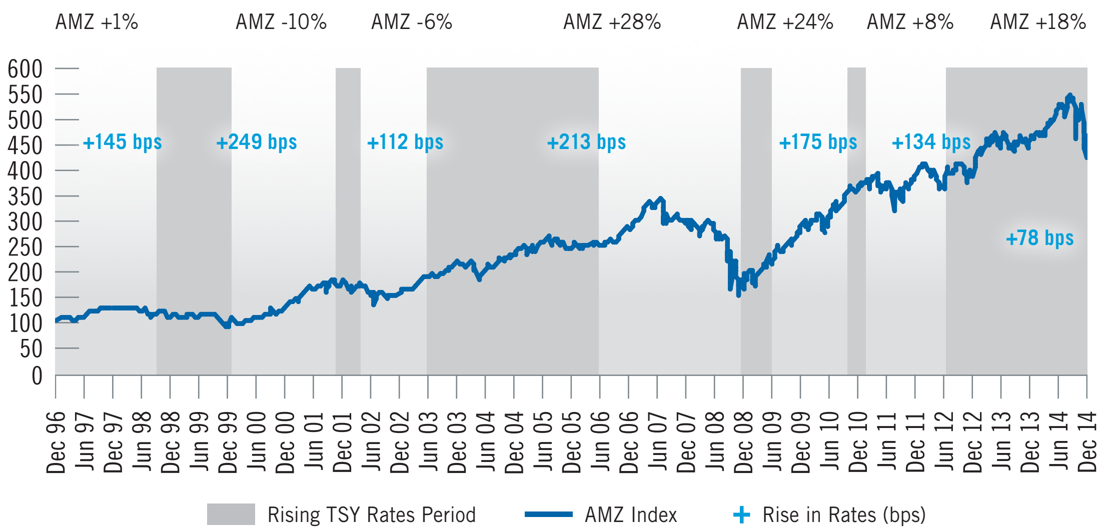
DCF is generally defined as:

+	Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
−	Maintenance Capital Expenditures
−	Interest Expense
=	Distributable Cash Flow (DCF)

Should interest rates rise, the cost of borrowing for any company with floating rate debt could rise. MLPs are well positioned for this potential headwind. As of March 31, 2015, only 13% of MLP and MLP interests' debt outstanding was short-term, floating rate debt. MLPs have taken advantage of the low interest rate environment to mitigate the potential cash flow effects of a rising rate environment.

The other way that an MLP could potentially be impacted by a rise in interest rates is based on a yield oriented view of MLP equity valuation. Certain investors may view MLPs as if they are a fixed income instrument. However, since MLPs are equity securities, trying to compare them to the 10 year U.S. Treasury (bonds) is like comparing apples and oranges. MLPs are not a fixed income instrument and an approach that attempts to address MLP valuation with a spread to Treasury framework ignores the power of the MLP distribution growth rate. More importantly, the data just doesn't support the perception that MLPs perform poorly in a rising rate environment. As shown in Exhibit 5, the Alerian MLP Index (AMZ) has outperformed U.S. Treasuries in every rising rate environment since the inception of its data series.

Exhibit 5: Alerian MLP Index (AMZ) vs. Rising Interest Rates



6. Like REITS, does 90% of the cash flow of MLPs have to be paid out as a distribution and doesn't this impact long-term reinvestment efficiency?

This is a common misconception. Section 7704 simply requires that an MLP generate 90% of its gross receipts from qualifying activity. There is no requirement that an MLP must pay out 90% of their cash flow. In fact, the coverage ratio[2] and payout policies vary greatly among MLPs. Certain MLPs retain more cash flow for reinvestment into new projects, which results in a higher coverage ratio.

Should an MLP experience any level of operational or financial stress it could cut its distribution and use any or all of their distributable cash flow to finance the equity component of investment and/or pay down debt.

However, as a standard practice MLPs do pay out a large proportion of their cash flow in the form of quarterly cash distributions, typically 90% of available cash, and the AMZX has a current coverage ratio of 1.19x.

Conclusion

This concludes what we believe is the first installment of answering the common questions we've heard. We look forward to providing additional clarity in subsequent white papers to help allocators to MLPs make better informed investment decisions.

(2) Coverage Ratio: Distributable Cash Flow (DCF) / Distributions Paid.

Chickasaw Capital Management

Chickasaw Capital Management, LLC is a leading MLP investment manager serving institutions, financial intermediaries, and high net-worth individuals. The firm's investment professionals have been continuously involved with the MLP market since the early days of the structure and have played a direct role in the evolution of the MLP space — including their involvement with MLP IPOs and innovative capital funding techniques. The firm's leaders maintain longstanding relationships with MLP management teams, providing a strong foundation for their intellectual capital in this dynamic market. To learn more, visit www.chickasawcap.com.

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(1) Exhibit 1 Source: Pricewaterhouse Coopers LLP and Wells Fargo Securities, LLC as reported in Wells Fargo Securities, LLC Equity Research report 5/26/15, "MLPs: It's A (Not So) Small, Small World".

(2) Exhibit 2 Source: Results of Chickasaw Capital Management 2014 Investor Relations Conference surveys of ~200 attendees.

(3) Exhibit 3 Source: Data from Bloomberg LP.

(4) Exhibit 4 Source: Data from Bloomberg LP.

(5) Exhibit 5 Source: Data from Bloomberg LP and Alerian Capital Management.