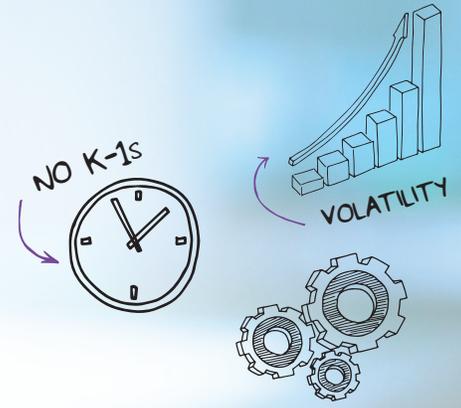


ALPS INSIGHTS

A Primer on MLP Funds



Investors have been attracted to the Master Limited Partnership (MLP) sector in recent years due to its attractive yield, low correlation to stocks and bonds and built-in inflation protection. There are multiple ways to access the MLP sector, including direct investing through individual MLPs and through MLP Funds.

This ALPS Insight provides more information on MLP Funds, including their advantages and disadvantages compared to direct investing, as well as an analysis of the factors to consider when choosing the most appropriate way to access MLPs.

MLP Investing Can be Complex

Investing in MLPs can be complicated from a tax perspective. A direct investment in individual MLPs requires K-1 tax reporting for (each individual) every single MLP that is purchased. Individual MLP investments may also generate Unrelated Business Taxable Income (UBTI), which can be problematic for qualified accounts including Individual Retirement Accounts (IRAs). Furthermore, the size of an individual MLP investment may trigger the need to file state taxes for every state in which the MLP operates. This may be cumbersome as many MLPs own extensive pipeline networks that extend across several states.

To minimize the tax complexity of direct MLP investing, investors may opt to hold a limited number of MLPs. While this strategy may reduce tax reporting requirements, it also introduces additional single-security risk.

MLP Funds Can Simplify Tax Reporting

MLP Funds simplify the tax reporting associated with an MLP investment. MLP Funds are Funds that own more than 25% of their assets in MLPs and can be organized as either Open-End Funds, Closed-End Funds or Exchange Traded Funds (ETFs).

Rather than issuing K-1s, MLP Funds issue a single Form 1099 each year and are not subject to either state tax filing requirements or UBTI. In addition, MLP Funds provide exposure to a basket of MLPs, perhaps providing better diversification than a concentrated portfolio of individual MLPs. It is also important to note that, unlike structured notes, MLP Funds retain the tax character of the underlying MLP investments. This may be an important feature, as historically a large percentage of MLP distributions have been characterized as a tax-deferred return of capital.

MLP Fund Advantages

Simplified Tax Reporting

- One Form 1099 vs. Multiple K-1s
- No State Tax Filing Requirements
- No UBTI

Diversification

Diversification does not eliminate the risk of losses.

The Impact of Corporate Taxes

In exchange for diversification, exposure and tax reporting benefits, MLP Funds are required to be taxed as corporations if their investment in MLPs exceeds 25% of the Fund's assets. This requirement applies to all MLP Funds, including Open-End Funds, Closed-End Funds and ETFs.

As a corporate taxpayer, MLP Funds are required to accrue deferred tax liabilities (DTLs) to account for corporate taxes that will be due upon sale of its securities. In a rising market, this accrual should cause an MLP Fund to trail a basket of

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identical individual MLPs by approximately the corporate tax rate (currently 35%) plus an estimate for state taxes (currently 2%) for a total of 37%. Conversely, once an MLP Fund has accrued DTLs, it should be expected outperform a basket of identical individual MLPs in a falling market as its future potential tax liability is reduced.

The following example highlights a hypothetical example of corporate taxation on an MLP Fund.

In a rising market an MLP Fund will have to accrue a 37% corporate tax liability against any unrealized gains or income received. In the below example the basket of MLP securities rose in value from \$100 to \$110, creating an unrealized gain of \$10. An MLP Fund has to accrue the potential 37% tax liability for this unrealized gain, resulting in a deferred tax liability (DTL) of \$3.7. As a result, for a \$10 rise in security prices an MLP Fund would rise, before expenses, in value by \$6.3 (\$10 increase in security prices less \$3.7 DTL).

Once an MLP Fund has accrued a DTL, the DTL can serve to buffer downside volatility. In the below example, security prices fall on Day 2 from \$110 to \$100. As the unrealized gain is eliminated so is the need to accrue a DTL. Eliminating a liability has the same economic impact as adding an asset. As a result, for a \$10 decline in security prices an MLP Fund would fall, before expenses, by \$6.3 (\$10 drop in security prices and \$3.7 reduction in DTL account).

Hypothetical Performance Comparison

Day 1	MLP Basket	+\$10
	MLP Fund	+\$6.3

Day 2	MLP Basket	-\$10
	MLP Fund	-\$6.3

Hypothetical example for illustrative purposes only. Not based on any actual investment.

As shown in the example, corporate taxes may serve to lower both the upside and downside capture of an MLP investment, potentially lowering overall volatility.

Potential Performance Impact of MLP Mutual Funds

- Lower Upside Participation in a Rising Market
- Lower Volatility

Factors to Analyze When Considering MLP Funds

It is important to note that there isn't one structure that is always preferable to the other, rather that each structure may be more or less appropriate given a number of factors related to the investor. In the final analysis the choice between direct and indirect MLP investing will typically depend upon a number of factors, including:

- Tax Status of the Account
- Sensitivity to Volatility and / or Concentrated Positions
- Sensitivity to Complex Tax Reporting

While taxable investors will typically have the choice between individual MLPs and MLP Funds, tax-deferred investors should consult a tax advisor to determine the tax ramifications of including MLPs in qualified accounts.

MLP Investment Options

A Portfolio for Individual MLPs may be suitable for investors that are:

- Seeking the potential for higher returns
- Not concerned with potential for higher volatility
- Comfortable with complicated tax reporting

An MLP Fund may be suitable for investors that are interested in:

- Lower volatility
- Simplified tax reporting
- Potential for enhanced diversification

Important Disclosures

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information, call 1.866.432.2926 or visit www.alpsfunds.com. Read the prospectus carefully before investing.

Shares of AMLP and ENFR are not individually redeemable. Investors buy and sell shares on a secondary market. Only market makers or "authorized participants" may trade directly with the Fund, typically in blocks of 50,000 shares.

The Funds are not suitable for all investors. Subject to investment risks, including possible loss of the principal amount invested.

Investments in securities of MLPs involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs.

The benefit you are expected to derive from the Funds' investment in MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the Funds' ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment in the Fund.

The Funds invest primarily in a particular sector and could experience greater volatility than a Fund investing in a broader range of industries. The MLP is not required to make distributions or make distributions that are equal to the distribution rate of the underlying partnership programs. MLPs that invest in companies engaged in the energy sector are also subject to risks including, but not limited to; a sustained decline in demand for energy products could adversely affect revenues and cash flows, increases in the market price of the underlying commodity, changes in regulation; and extreme weather.

Investments in securities of non-U.S. issuers involve risks not ordinarily associated with investments and instruments of U.S. issuers.

The ALPS | Alerian Energy Infrastructure Portfolio is only offered as an underlying investment option for variable insurance contracts and to qualified plans.

Not FDIC Insured • No Bank Guarantee • May Lose Value

The Funds are distributed by ALPS Portfolio Solutions Distributor, Inc. ALPS Portfolio Solutions Distributor, Inc. is not affiliated with Alerian.

Definitions

Correlation - a statistical measure of how an index moves in relation to another index or model portfolio. A correlation ranges from -1 to 1. A correlation of 1 means the two indexes have moved in lockstep with each other. A correlation of -1 means the two indexes have moved in exactly the opposite direction.

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