

# ALERIAN MLP ETF (AMLPL) UPDATE

## Federal Energy Regulatory Commission (FERC) Revised Policies on Tax Allowance Cost Recovery in Master Limited Partnership (MLP) Pipeline Rates

For standardize Performance, please see page 2.

In light of the FERC's press release on revised policies on tax allowance cost recovery in MLP pipeline rates<sup>1</sup>, we wanted to provide a summary on the potential implications that the new policies may have on the MLP space.

- Double Tax Benefit Removed for MLPs.** MLPs were hit today after the FERC announced MLPs will no longer be able to recover an income tax allowance when setting pipeline rates for "cost-of-service" interstate (long-haul) pipelines. MLPs are not taxed at the federal level since they pass-through their income to unitholders; thus, this ruling removes the "double" tax benefit for MLPs as it relates to setting pipeline rates. Today's ruling was in response to a 2016 case between United Airlines and the FERC.
- Not All Pipelines Impacted.** Interstate natural gas pipelines can choose to charge cost-of-service rates, market rates, or negotiated rates. Interstate liquids (crude oil, refined product, natural gas liquids) pipelines adjust their rates annually by FERC's prescribed index methodology (currently: PPI +1.23%), or elect to charge cost-of-service, market, or negotiated rates. Since the vast majority of liquids pipelines choose the indexed rate, in the near-term, the ruling primarily impacts natural gas pipelines – and only natural gas pipelines with cost-of-service rates. The FERC plans to address tax changes for liquids pipelines in 2020.
- AMZI Constituents Are Diversified.** Roughly half of the AMZI constituents have some exposure to interstate natural gas pipelines that FERC regulates. But their overall EBITDA exposure to the ruling is not that meaningful based on each MLP's mix of rates (indexed, cost of service, negotiated, or market). In addition, diversified MLPs have a mix of natural gas gathering & processing assets, storage assets, export facilities, etc. which also dilutes the actual EBITDA impact.
  - For example, Enterprise Products Partners (**EPD**; 10.7% weight in AMZI) who is as diversified an MLP as you can get with natural gas and natural gas liquids assets, noted today, "We do not expect the revisions to the FERC's policy on the recovery of income taxes to materially impact our earnings and cash flow." DCP Midstream LP (**DCP**; 2.9% weight in AMZI) also noted they don't see a significant impact from the FERC ruling. Meanwhile, Andeavor Logistics LP (**ANDX**; 3.5% weight in AMZI) noted that the FERC ruling will have less than a \$10M (~ 1%) impact to their annual EBITDA.
- Income Tax Allowance Only One Component of Cost-of-Service Rate.** With the allowance recovery removed under the cost-of-service method, the pipeline tariff may be decreased by the implicit corporate tax rate used in the rate calculation. However, the FERC will still allow a pipeline to capture a "reasonable" return-on-equity (ranging from 10-18%). Because there are many other variables that go into a cost-of-service calculation other than taxes (maintenance costs, steel costs, etc.), if an interstate pipeline is "under" earning its target ROE, then the MLP may be able to use additional cost inflation metrics to convince FERC that its current rate should be maintained. Every interstate pipeline is different and it will take time for FERC to review the rates for every cost-of-service pipeline, and industry analysts note that the MLP industry will likely appeal today's ruling.

<sup>1</sup> <https://www.ferc.gov/media/news-releases/2018/2018-1/03-15-18-G-2.asp#.WqvNCWrwbRZ>

## Performance as of 3/31/18

Total Returns	1 Mo.	3 Mo.	YTD	1 Yr. <sup>1</sup>	3 Yr. <sup>1</sup>	5 Yr. <sup>1</sup>	S.I. <sup>1</sup>
Alerian MLP ETF (Net Asset Value) <sup>2</sup>	-7.31%	-11.64%	-11.64%	-20.54%	-10.32%	-5.25%	0.67%
Alerian MLP ETF (Market Price) <sup>3</sup>	-6.72%	-10.91%	-10.91%	-19.97%	-10.12%	-5.13%	0.76%
Alerian MLP Infrastructure Index	-7.25%	-11.52%	-11.52%	-22.50%	-11.66%	-5.37%	3.10%
S&P 500 <sup>®</sup> Total Return Index	-2.54%	-0.76%	-0.76%	13.99%	10.78%	13.31%	15.28%

### ETF Stats

Ticker:	AMLP
Underlying Index:	AMZI
Listing Exchange:	NYSE Arca
CUSIP:	00162Q866
Fund Inception:	8/25/10
Net Assets:	\$8,456,158,436
Net Asset Value:	\$9.38**
Last Quarterly Distribution:	\$0.207*
Last Payable Date:	2/15/18
Dividends Paid:	Quarterly
Total Expense Ratio:	<b>0.85%</b>
Deferred Income Tax Expense <sup>2</sup> :	0.00%
Expense Ratio before Deferred Taxes:	0.85%

\* Dividend paid on February 15, 2018

\*\* As of March 31, 2018

### Top 10 Holdings<sup>A</sup>

Energy Transfer Partners LP	10.3%
Enterprise Products Partners LP	10.3%
Magellan Midstream Partners LP	10.1%
MPLX LP	8.2%
Williams Partners LP	7.9%
Plains All American Pipeline LP	7.0%
Buckeye Partners LP	5.8%
Western Gas Partners LP	3.9%
EQT Midstream Partners LP	3.4%
Andeavor Logistics LP	3.3%

<sup>A</sup> As of December 31, 2017, Holdings subject to change.

**Performance data quoted represents past performance. Past performance does not guarantee future results. Current performance may be higher or lower than actual data quoted. Call 1.877.398.8461 or visit [www.alerianmlp.com](http://www.alerianmlp.com) for current month end performance.** The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. The ETF accrues deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investment. This deferred tax liability is reflected in the daily NAV and as a result the MLP fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

<sup>1</sup> Annualized.

<sup>2</sup> Under current law, the Fund is not eligible to elect treatment as a regulated investment company due to its investments primarily in MLPs. The Fund must be taxed as a regular corporation for federal income purposes. Whereas the NAV of Fund Shares is reduced by the accrual of any deferred tax liabilities, the Alerian MLP Infrastructure Index is calculated without any tax deductions.

<sup>3</sup> Market Price is based on the midpoint of the bid/ask spread at 4 p.m. ET and does not represent the returns an investor would receive if shares were traded at other times.

### Important Disclosure & Definitions

**An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information, call 1.877.398.8461 or visit [www.alpsfunds.com](http://www.alpsfunds.com). Read the prospectus carefully before investing.**

**Shares 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 AMZI Index is a composite of energy infrastructure Master Limited Partnerships. The capped, float-adjusted, capitalization weighted index constituents earn the majority of their cash flow from midstream activities involving energy commodities.

One may not invest directly in an index.

MLPs represented by the Alerian MLP Infrastructure Index (AMZI)

**Performance data quoted represents past performance. Past performance is not a guarantee of future results; current performance may be higher or lower than performance quotes. An investor cannot invest directly in an index.**

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 Fund's 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 of more MLPs as a corporation for federal income tax purposes could affect the Fund's 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.

Not FDIC Insured • No Bank Guarantee • May Lose Value

ALPS Portfolio Solutions, Inc. is the distributor for the Alerian MLP ETF

The following note is not intended as tax advice. Because everyone's tax circumstances may be different, please consult your tax professional.

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