

Investors have been attracted to the Master Limited Partnership (MLP) sector in recent years due to its attractive yield, low correlation with bonds and other yield-oriented investments, 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 overview 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 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 return of capital, which can be a tax advantage for investors rather than receiving income.

MLP Fund Advantages

Simplified Tax Reporting

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

Diversification

- Exposure to a basket of multiple MLPs reduces single-company risk

Diversification does not eliminate the risk of experiencing investment 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 any potential corporate taxes that will be due upon sale of its securities. In a rising market, upon the Fund being in a net unrealized gain without capital losses to offset, this accrual should cause an MLP Fund to trail a basket of identical individual MLPs by approximately the corporate tax rate (currently 21%) plus an estimate for state taxes (currently 2%) for a total of 23%. Conversely, once an MLP Fund has accrued DTLs, it should be expected to outperform a basket of identical individual MLPs in a falling market as its future potential tax liability is reduced.

Information reported by individual MLPs on K-1 schedules impacts the tax liability for an MLP Fund, as it will need to carefully consider the character of taxable income or losses reported by the MLP. In addition, the DTL of an MLP Fund is impacted by the ability of the Fund to offset income recognized against available net operating losses (NOLs) or capital losses that have been accumulated for tax purposes. Certain expenses reported by MLPs, such as accelerated depreciation expenses, are recharacterized from capital gain/loss to ordinary income upon the sale of the partnership interest. As a result, this can create additional deferred tax liabilities for an MLP Fund to account for the potential sale of a partnership interest.

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

In a rising market, upon the Fund being in a net unrealized gain without capital losses to offset, an MLP Fund will have to accrue a 23% corporate tax liability against any unrealized gains or income received. In the example on the following page, 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 23% tax liability for this unrealized gain, resulting in a deferred tax liability (DTL) of \$2.30. As a result, a \$10 rise in the underlying security prices would result in the MLP Fund increasing, before expenses, by \$7.70 (\$10 increase in security prices less \$2.30 DTL).

Once an MLP Fund has accrued a DTL, the DTL can serve to buffer downside volatility. In the example on the following page, 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, a \$10 decline in the underlying security prices would result in the MLP Fund decreasing, before expenses, by \$7.70 (\$10 drop in security prices and \$2.30 reduction in DTL account). As stated above, the MLP Fund may also need to account for unique tax characteristics of the activity reported by the underlying MLP, such as recapturing as income any accelerated depreciation upon the potential sale of the partnership interest.

Hypothetical Performance Comparison

Day 1	MLP Basket MLP Fund	+\$10 +\$7.70
Day 2	MLP Basket MLP Fund	-\$10 -\$7.70

This hypothetical example is for illustrative purposes and does not account for reclassifications between ordinary income and capital gain/loss due to requirements under the Internal Revenue Code. 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 C-Corp Funds

- Lower Upside Participation while in a DTL
- Lower Volatility while in a DTL

Factors to Analyze When Considering MLP Funds

It is important to note that there isn't one investment option that is always preferable to the other, rather that each option 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 of 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 C-Corp may be suitable for investors that are interested in:

- Lower volatility while in DTL
- Simplified tax reporting
- Potential for enhanced diversification

Important Disclosures & Definitions

An investor should consider the investment objectives, risks, charges, and expenses carefully before investing. To obtain a prospectus containing this and other information, call 1-866-759-5679 or visit www.alpsfunds.com. Read the prospectus carefully before investing.

Shares of ETFs are bought and sold at market price (not NAV) and are not individually redeemable.

All investments are subject to risks, including the loss of money and the possible loss of the entire principal amount invested. Additional information regarding the risks of this investment is available in the prospectus.

Investments in securities of Master Limited Partnerships (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.

A portion of the benefits 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 or 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.

The Fund invests primarily in a particular sector and could experience greater volatility than a fund investing in a broader range of industries.

The Fund's investments in non-US issuers may involve unique risks compared to investing in securities of US issuers, including, among others, less liquidity generally, greater market volatility than US securities, and less complete financial information than for US issuers. In addition, adverse political, economic, or social developments could undermine the value of the Fund's investments or prevent the Fund from realizing the full value of its investments. Finally, the value of the currency of the country in which the Fund has invested could decline relative to the value of the US dollar, which may affect the value of the investment to US investors.

Investments in the energy infrastructure sector are subject to: reduced volumes of natural gas or other energy commodities available for transporting, processing, or storing; changes in the regulatory environment; extreme weather and; rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities.

The ALPS | Alerian Energy Infrastructure Portfolio is only offered to participating insurance companies and their separate accounts to fund the benefits of variable annuity contracts and variable life insurance policies. Shares of the Portfolio also may be used as investment vehicles for qualified pension and retirement plans and certain registered and unregistered separate accounts.

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.

ALPS Advisors, Inc., registered investment adviser with the SEC, is the investment adviser to the Funds. ALPS Advisors, Inc. and ALPS Portfolio Solutions Distributor, Inc., affiliated entities, are unaffiliated with VettaFi and the Alerian Index Series.

ALPS Portfolio Solutions Distributor, Inc. is the distributor for the Funds.

Not FDIC Insured • No Bank Guarantee • May Lose Value

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