

December 8, 2015

With MLPs touching new lows over the last week, the current environment is akin to the 2008 financial crisis, but contained to the energy industry. The pain MLP investors experienced in 2008 was real, but those long-term investors who persevered were rewarded. Despite the negative headline news, demand for energy continued. People needed to heat and cool their homes, fuel their cars, and power their iPhones. During the recovery the majority of midstream companies accessed capital markets, funded growth projects, and continued to pay and grow distributions, thus demonstrating the sustainability of the MLP business model in a difficult economy. This led to a significant MLP price rebound. Today represents another crisis in confidence in MLPs; but this time we have a more stable banking system, a positive macroeconomic environment, and an increased global demand for energy.

The most recent price drop has come from uncertainty as to whether Kinder Morgan Inc., one of the largest midstream energy infrastructure entities, would cut its distribution. Last week Moody's reduced Kinder's credit outlook to negative following a small acquisition of a natural gas pipeline that modestly increased Kinder's credit profile. The company's high leverage and cash payout promise to equity investors put management in a difficult position. After the close today, Kinder chose to cut its dividend instead of slowing down growth spending or selling non-core assets to defend its investment-grade credit rating, which management stated was a priority.

We believe Kinder took this course of action largely because their shareholder base has changed significantly since consolidating its entities in 2014, leaving the Alerian MLP Index, and joining the S&P 500 Index. Besides Richard Kinder, the company's largest current investors are Vanguard, BlackRock, and SSGA, who invest through large passively-managed S&P 500 based funds. S&P 500 investors expect a higher growth rate and a dividend yield of 2-3% annually. On the other hand, MLP investors have lower growth expectations and enjoy the higher, tax-deferred yield which MLPs generate. From this perspective, Kinder's move to cut their distribution makes sense. Kinder's forward looking 2016 \$0.50 annual dividend translates to a yield of approximately 3% based on Tuesday's closing price, in line with the broader S&P 500 group.

This announcement does not change Kinder's operating expectations moving forward. The business is still expected to generate over \$5 billion of cash in 2016 without having to access the capital markets. While Kinder's dividend cut may signal weakness to the market, we believe the

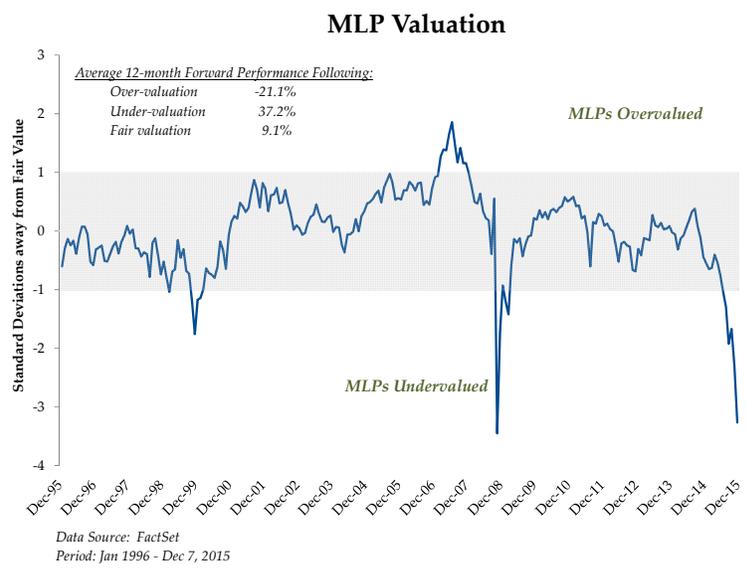
company is simply choosing to use its cash to defend its investment grade credit rating and avoid accessing equity markets at the current low prices.

Because Kinder has been a bellwether name in the industry for so long, we believe retail investors are likely to be spooked and assume that all MLP distributions are broadly at risk. We disagree with this narrative. Kinder Morgan was in a unique situation. The company is a mega-cap player and possesses a premier suite of assets, which are burdened with a high degree of leverage in contrast to other MLPs and energy infrastructure entities that have much stronger credit profiles. In fact, our analysts are hearing reassuring language from MLP management teams today that distributions are going to be supported.

In hindsight, we wrongly assumed that because Kinder was talking like an MLP and reporting like an MLP, as they had in the past, they would act like an MLP management team. Instead, they acted like what they are, a C-Corp S&P 500 constituent. MLPs do not have Kinder's specific set of circumstances and do not have the option to forsake MLP buyers.

For MLPs, we believe distribution growth will remain positive, slowing to low-to-mid single digits, but with the vast majority of distributions being sustainable. The failure by the market to discern between Kinder Morgan's situation versus other MLPs is creating incredible volatility. This negative price momentum is likely forcing selling by leveraged funds. Tax-loss sellers and short sellers, who understand these pressures, are further forcing the market down.

On a valuation basis, our proprietary valuation model indicates that MLPs are near their cheapest valuation levels in its 20 year history. At Monday's close, valuation levels were nearly at the intra-month lows of the financial crisis. This is truly a rare occurrence.



Our long-term return expectations are 8-12%, including dividend growth between 4-6%. The main risk in buying MLPs today is that market prices may stay depressed for a longer-than-expected period of time; the current pullback already ranks as the second longest over the past twenty years. Even considering this risk, we feel strongly that 6-12 months from now investors will look back to today as a great buying opportunity.

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Index Definitions:

Alerian MLP Index – A composite of the 50 most prominent energy master limited partnerships using a float-adjusted market capitalization methodology.

S&P 500 Index – A value-weighted index of the prices of 500 large cap common stocks actively trading in the United States.

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