PARKER GLOBAL STRATEGIES

Special Report

HOW MLPS ARE LIKE THE REITS OF THE US ENERGY MARKET

NOVEMBER 2012

Comparing US MLPs to US REITs

MLPs and REITs both link their growth and development to the Tax Reform Act of 1986. The Tax Act created the MLP structure as a pass-through entity, thereby eliminating double taxation (corporate and individual). REITs already existed by 1986 as pass through entities. The Tax Act allowed REITS to manage properties directly, fueling growth of the REIT industry. In 1993, US pensions were finally allowed to invest directly in REITs without creating adverse tax issues. Today the market cap of US REITs and MLPs are $458 billion (top 50) and $376 billion, respectively. Today the market cap of MLPs is approximately where REITs were at the end of 2007.

Master Limited Partnerships (MLPs) may be thought of as the REITs of the US energy market. There are many similarities and few differences. MLPs are comprised of assets involved in the exploration, transportation, processing, storage or marketing of energy or minerals. MLPs are often referred to energy infrastructure. MLPs were created to encourage private enterprise to build out the US energy infrastructure. Similar to public REITs, public MLPs are exchange traded, primarily on the NYSE and the NASDAQ. Similar to REITs, MLPs' primary driver of valuation are stability in distributions (dividends in the case of REITs) and cash flow coverage of distributions. MLPs and REITs are both considered high yielding securities and both have been popular with US retail and high net worth investors as a reliable source of income. US investors use both MLPs and REITs as an inflation hedge. Investors in both MLPs and REITs appreciate the business and financial transparency of the structures and strong corporate governance.

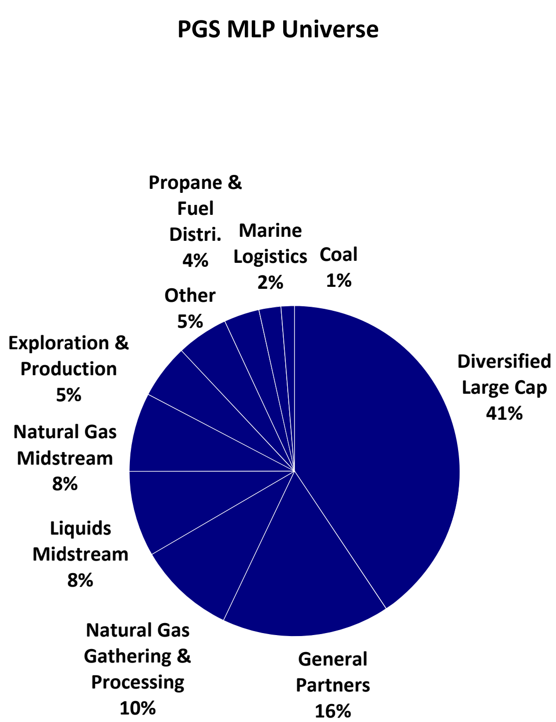
Comparing Risks of MLPS and REITs

MLPs and REITs have many similar risks, as summarized in the table. On the fundamental side each faces regulatory, environmental, terrorism, and tax law changes. Specific to REITs are property valuation, debt level, development and construction, competition, and asset impairment. Specific to MLPs are demand, supply (asset specific), and macro supply disruptions. On the financial side risks are the same: increasing interest rates, equity volatility and correlation, an equity crisis or a credit crisis.

FUNDAMENTAL		
RISK	**REITs**	**MLPs**
Regulatory	✓	✓
Demand-Side Throughput		✓
Supply Asset-Specific		✓
Macro Supply Disruptions		✓
Environmental	✓	✓
Terrorism	✓	✓
Tax Law Changes	✓	✓
Difficulty Determining Property Values	✓	
Indebtedness	✓	
Development and Construction	✓	
Strong Competition	✓	
Asset Impairment	✓	
FINANCIAL		
RISK	**REITs**	**MLPs**
Interest Rates	✓	✓
Equity Volatility and Correlation	✓	✓
Equity Crisis	✓	✓
Credit Crisis	✓	✓

Outlook for MLPs

As of Q4 2012, the outlook for MLPs is quite positive. The US energy revolution, which requires hundreds of billions of dollars of new infrastructure over the next decade, is a game changer for MLPs. Many investors now look at MLPs as a growth sector. Some MLPs are expected to grow their distributions more that 12% YoY. Equity and debt capital markets are easily accessible for MLPs. Borrowing costs have declined considerably since 2008, and rates are expected to stay low. Low interest rates makes MLPs projects more accretive. MLPs have refinanced their higher cost debt with long maturities, sometimes 30 years or more, at very low rates. US producers of oil and gas must transport their product, and MLPs are important partners in the process. US tax rates will likley increase; MLPs currently provide the highest after tax cash flows to investors when compared to REITs and high yield bonds. Pensions and insurance companies have also been attracted to the higher yields and look at the sector as a way to diversify their REIT and high yield bond holdings.



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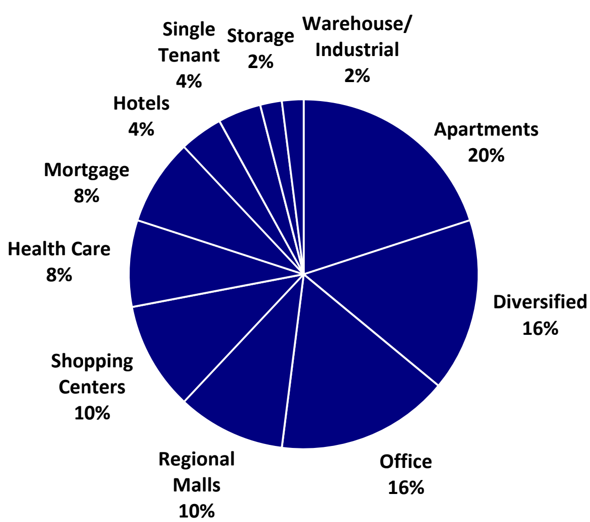
Outlook for US REITs

The outlook for REITs is moderately positive. The biggest challenge for US REITs is that many of its sectors are sensitive to the economy. Another important challenge for REITs has been refinancing debt with banks. Banks have been very slow to lend, since they are concerned about loan to debt values. In the mutli-family sector, there is concern that a combination of over-supply and a small upturn in the housing sector will lead to increased vacancies. Bricks and mortar retailers are losing sales to the internet and the slow US economy. The US hospitality sector has also been weak more recently. When the US begins to see a pickup in the housing sector, this trend should have a multiplier effect, positively impacting many of the economically sensitive REIT sectors. See the sidebar for a review of current sectors and outlook.

FTSE NAREIT Real Estate 50 Index



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Pros and Cons of MLPs and REITs

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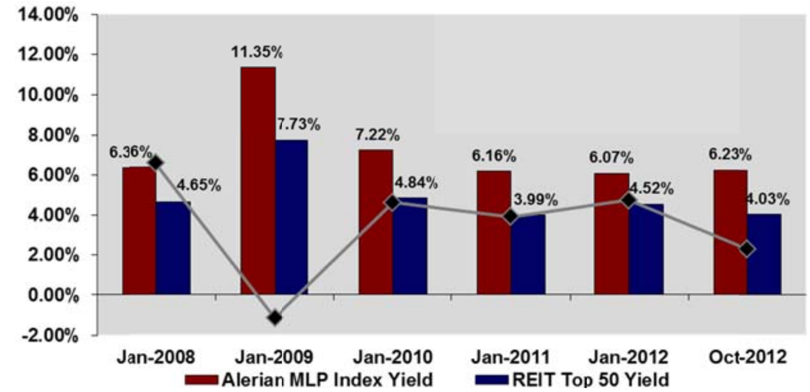

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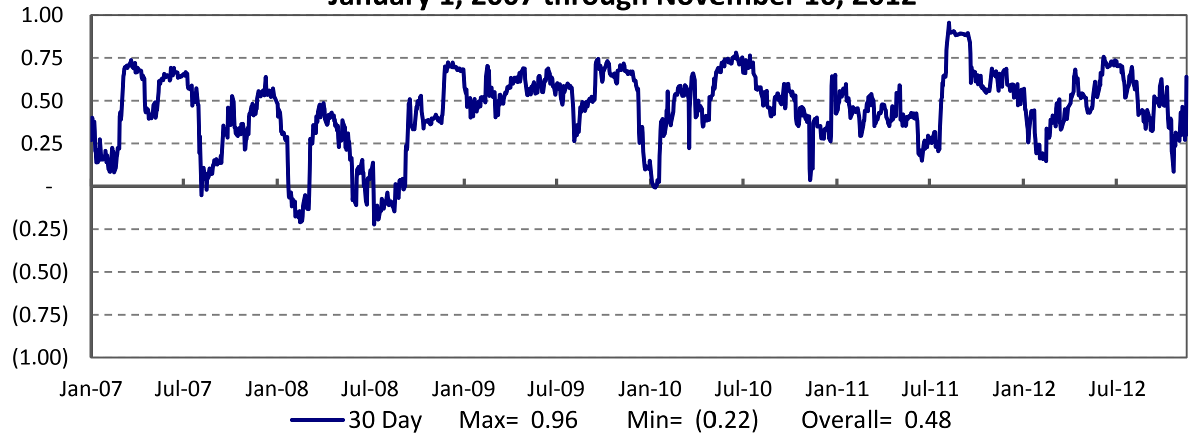

Alerian TR 90D Rolling Correlation to REIT TR

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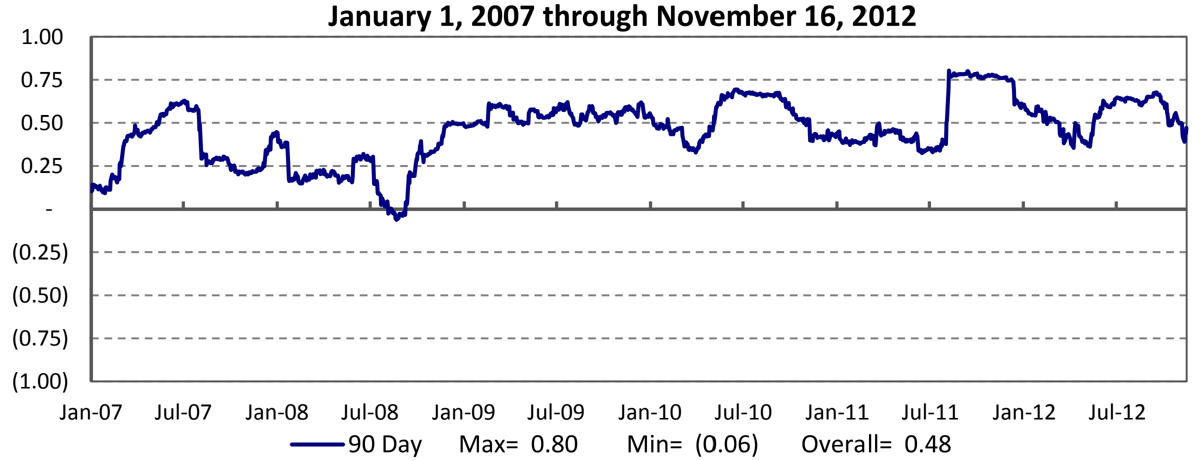

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