



GUIDE TO  
**Midstream  
MLP  
Investing**

An exciting asset class for  
investors seeking diversification,  
growth and income.



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CAPITAL**

Not the index.®

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Experts are projecting an unparalleled \$640 billion to \$900 billion of energy infrastructure spending in the US over the next ten to twenty years. Canadian investors need to access this ground-breaking asset class.<sup>1</sup>

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<sup>1</sup> Source: ICF International/INGAA (March 2014); IHS Global Inc., "Oil and Natural Gas Transportation & Storage Infrastructure: Status, Trends & Economic Benefits" (December 2013).

# **UPSTREAM**

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OIL AND GAS PRODUCERS  
DRILLING AND SERVICING COMPANIES

# **MIDSTREAM**

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TRANSPORTATION  
STORAGE  
PROCESSING

# **DOWNSTREAM**

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INDUSTRIALS  
PETROCHEMICALS  
MANUFACTURING  
END CONSUMERS

# UNDERSTANDING MIDSTREAM MLP INVESTING

## 1.1

## What are Midstream MLPs?

*Midstream* refers to businesses that are generally involved in the transportation and storage of energy, which help *upstream* producers deliver their product *downstream* to industry and consumers.

*MLP* stands for Master Limited Partnership. In the 1980s, US Congress passed laws designed to encourage investment in America's energy infrastructure, making it beneficial for energy businesses to structure themselves as MLPs.

Today, demand for energy infrastructure is growing, as North America continues to unlock vast oil and gas reserves—providing cheap energy for both industry and consumers.

Midstream MLPs are businesses that own 'long life' infrastructure assets, such as gas storage, oil terminals, pipelines and marine storage. The midstream sector represents about 70% of the total US MLP market; publicly listed MLPs had a market capitalization of approximately US \$560 billion as at June 30, 2014, and that number continues to rise.



1.2

## A Good Business

Midstream MLPs have some inherent strengths

- Midstream MLPs typically have 'toll-road' business models, where revenues are driven by volume, providing some insulation from the ups-and-downs of oil and gas prices
- They tend to secure long-term contracts where prices are adjusted annually based on the US Producer Price Index (PPI), creating a hedge against inflation<sup>2</sup>
- MLPs often have strong operating leverage based on their long-life physical assets, which in turn create substantial barriers to entry

1.3

## A Great Investment

Midstream MLPs provide investors a new tool for growth, income and diversification

- 1 MLPs have averaged an impressive 13.8% annualized return over the last 10 years, outperforming other major asset classes. *See section 2.1 for details*
- 2 They provide a stable income stream, typically paying monthly distributions to their limited partners, with yields commonly 2-4% higher than those of typical dividend stocks. *See section 2.2 for details*
- 3 MLPs have been able to consistently grow distributions by over 6%/yr over the last 15 years, outstripping dividend growth of REITs, utilities and bank stocks. *See section 2.2 for details*
- 4 They tend to have a low correlation with other common investments, providing important diversification to an investor's portfolio. *See section 2.3 for details*

<sup>2</sup> Alerian: [www.alerian.com/education/mlp-201](http://www.alerian.com/education/mlp-201)

<sup>3</sup> As represented by the Alerian MLP Index.  
Source: Bloomberg, as at December 31, 2014.

### DID YOU KNOW?

MLPs OUTPERFORMED THE S&P 500  
11 OF THE LAST 14 YEARS.<sup>3</sup>

1.4

## Haven't heard of MLPs?

Fundamentally, most midstream MLPs provide services similar to those of familiar Canadian infrastructure companies like Enbridge or Transcanada Pipelines.

However, special legislation in the US has shaped investment in the midstream energy pipeline and storage sectors. American legislation that introduced preferred tax benefits to master limited partnerships (MLPs) also made tax reporting complex, especially for individual foreign investors. Despite the sector's outstanding returns over the last 15 years, midstream MLPs are not widely held outside the US. Front Street Capital has been a pioneer in giving Canadian investors access to this exciting asset class, releasing our first MLP product in 2010.

1.5

## Experience Counts

Investing successfully in Midstream MLPs requires in-depth knowledge and ongoing analysis of the sector.

Front Street Capital has been a long-standing leader in bringing MLPs to Canadian investors, and works closely with US-based MLP experts, OFI Steelpath. We launched the Front Street US MLP Income Fund in 2010<sup>4</sup>, which continues to trade on the TSX. In 2014, we introduced the Front Street MLP & Infrastructure Income Class, the first daily buy/sell mutual fund to provide Canadians significant access to the MLP asset class.

Both the Front Street US MLP Income Fund and the MLP component of the Front Street MLP & Infrastructure Income Class are sub-advised by Oppenheimer's OFI Steelpath. The Steelpath organization has been exclusively dedicated to MLP investing since 2004, and developed the industry-standard Alerian MLP Index<sup>5</sup>. Steelpath was acquired by OppenheimerFunds Inc. (OFI) in 2012 and has over US \$13 billion<sup>6</sup> in MLP-focused assets under management.

<sup>4</sup> Formerly Front Street MLP Income Fund Ltd.

<sup>5</sup> OFI Steelpath was founded as Alerian in 2004

<sup>6</sup> Source: OFI Steelpath

# HOW HAVE MLPs PERFORMED?

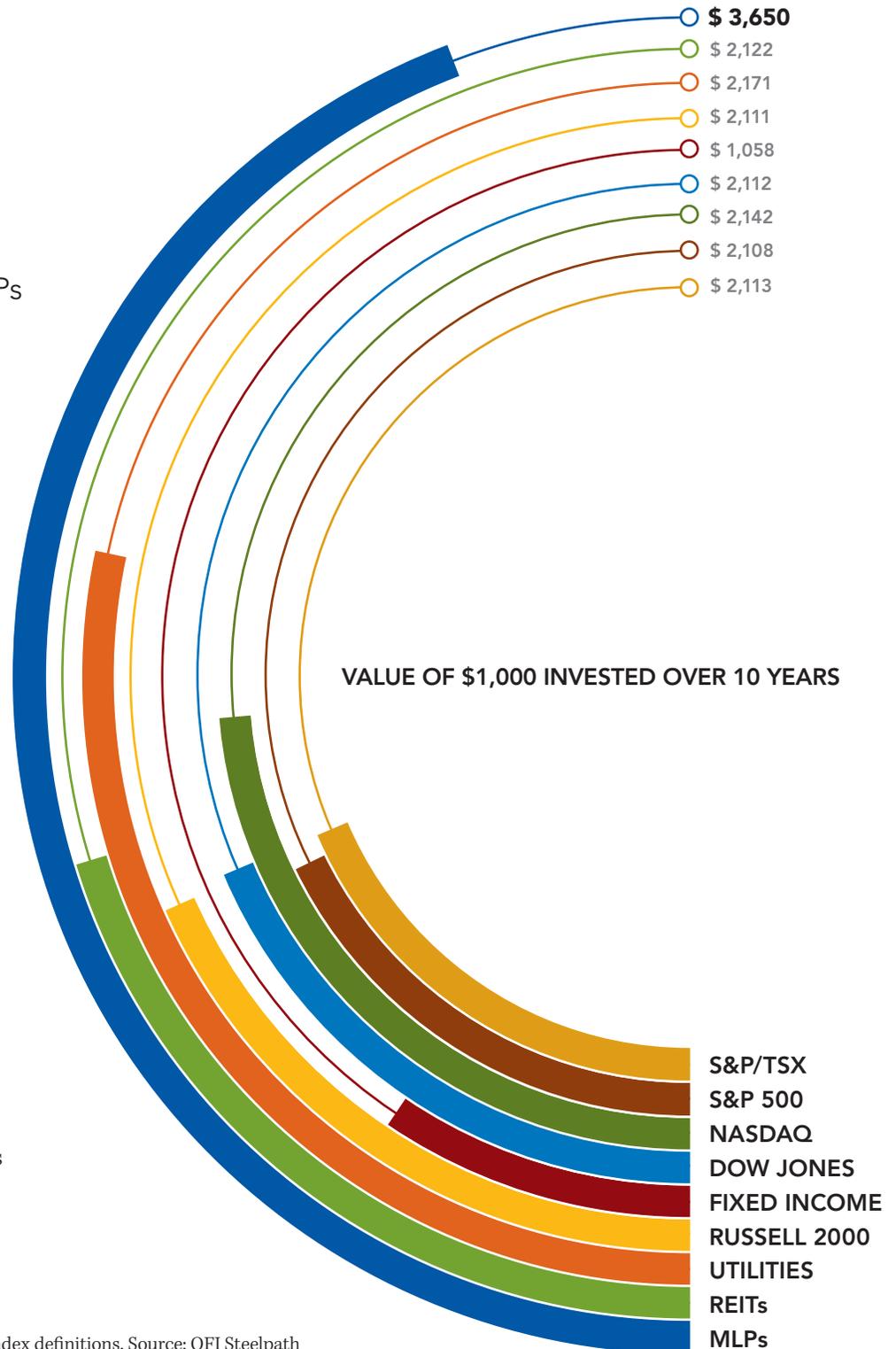
2.1

## Growth

On a total return basis, MLPs have outperformed other popular asset classes over the last 10 years.

**265%**  
10 YEAR RETURN

This chart shows the value of \$1,000 invested—from January 1, 2005 to December 31, 2014—in energy infrastructure MLPs compared to a portfolio of real estate investment trusts, utilities, fixed income investments, the S&P 500 Index, the Russell 2000 Index, the NASDAQ Composite Index, and the Dow Jones Industrial Average.



See *Notes* on back cover, for asset class and index definitions. Source: OFI Steelpath

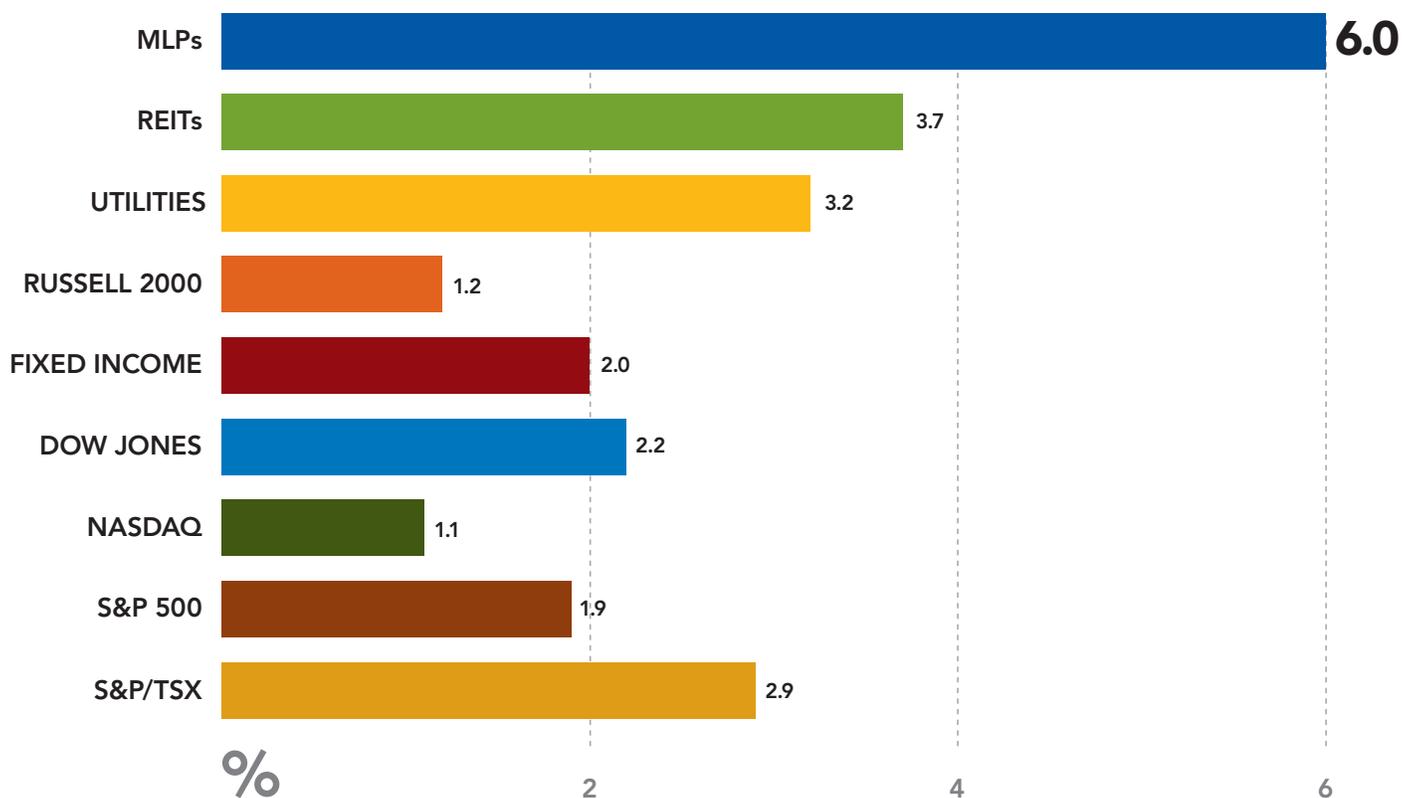
## DID YOU KNOW?

MLP RETURNS WERE POSITIVE IN 5 OF THE LAST 7 PERIODS OF RISING INTEREST RATES.<sup>7</sup>

2.2

# Income

## COMPARATIVE YIELDS



In today's world, investors are demanding income. MLPs have typically delivered 2-4% higher yields, when compared to traditional sources of income such as bonds and dividend stocks.

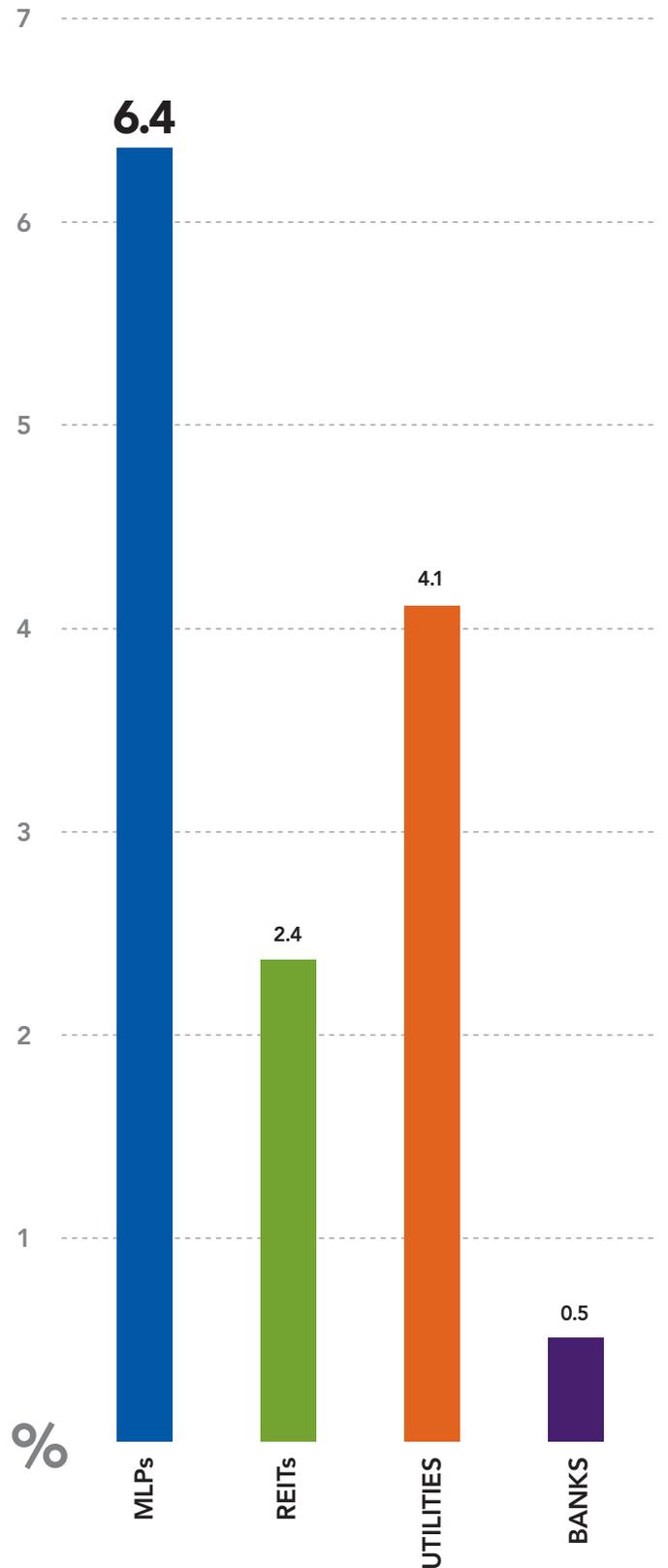
See *Notes* on back cover, for asset class and index definitions. Source: OFI Steelpath

<sup>7</sup> Data as at Dec 31, 2014. Source: Bloomberg, Alerian, Barclays (estimates).

Periods of rising treasury rates: 1/1/1996-7/5/1996; 10/2/1998-1/21/2000; 11/9/2001-4/1/2002; 6/13/2003-6/28/2006; 12/18/2008-6/18/2009; 10/6/2010-2/8/2011; 7/24/2012-6/27/2013

## GROWTH OF INCOME DISTRIBUTIONS

2007-2014



Not only do MLPs have attractive distributions, they have also managed to grow those distributions by over 6% annually, outstripping comparable asset classes such as REITs, utilities and banks.

See Notes on back cover, for asset class and index definitions.  
Source: OFI Steelpath, Bloomberg.

# Diversification

## COMPARATIVE RETURNS, YIELD & CORRELATION

JANUARY 2005 – DECEMBER 2014

	ANNUALIZED RETURN	CURRENT YIELD <sup>8</sup>	CORRELATION TO MLPs	SHARPE RATIO <sup>9</sup>
MLPs	13.8%	6.0%		0.83
FIXED INCOME	4.7%	2.0%	-0.10	0.41
REITs	8.3%	3.7%	0.35	0.33
UTILITIES	10.3%	3.2%	0.44	0.77
RUSSELL 2000	7.7%	1.2%	0.46	0.39
DOW JONES	7.8%	2.2%	0.48	0.58
NASDAQ	9.2%	1.1%	0.50	0.53
S&P 500	7.6%	1.9%	0.51	0.52
S&P/TSX	7.9%	2.9%	0.51	0.55

In the last 10 years, MLPs have outperformed common indices, both in yield and total return, while exhibiting a relatively low correlation to the same indices. This low correlation helps to reduce the volatility of a diversified portfolio.

See *Notes* on back cover, for asset class and index definitions. Source: OFI Steelpath

<sup>8</sup> Yield as at December 31, 2014.

<sup>9</sup> Sharpe Ratio is a measure of risk/reward, where higher numbers indicate higher return per unit-of-risk.

INTRODUCING THE FRONT STREET

# MLP & Infrastructure Income Class

## CANADA'S FIRST MLP-FOCUSED MUTUAL FUND

The new Front Street MLP & Infrastructure Income Class brings Canadian investors straight-forward access to MLPs in a mutual fund. With a target yield of 5%, paid monthly, the mutual fund is sub-advised by US-based MLP experts, OFI Steelpath, and invests or provides economic exposure to North American midstream energy infrastructure issuers, including MLPs and similar businesses.

*Available in CAD and USD series*

### **A NEW ADDITION TO OUR GROWING CORPORATE CLASS OF FUNDS**

The Front Street MLP Infrastructure & Income Class joins our full range of corporate class funds, providing 'switchability' for investors. Investors can switch between our various corporate class funds without triggering a taxable event or incurring extra fees, allowing investors to dynamically shift or re-balance their portfolio to match their risk tolerance or respond to market changes.

Speak with your investment advisor to discuss whether the Front Street MLP & Infrastructure Income Class could play a role in your investment portfolio.

Please visit [www.frontstreetcapital.com/fl](http://www.frontstreetcapital.com/fl)  
to learn more about our corporate class offerings.

## NOTES

Asset classes/Indices: MLPs are represented by the equal-weighted average of energy MLP universe. The Alerian MLP Index (AMZ) is a composite of the 50 most prominent MLPs. REITs are represented by the FTSE NAREIT Equity REIT Index. Utilities are represented by the Dow Jones Utilities Index. Fixed Income is represented by the Barclays Aggregate Bond Index.

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## Visit [FrontStreetCapital.com](http://FrontStreetCapital.com)

For more information, and to find out more about our family of funds.

Privately held and independent, Toronto-based Front Street Capital has been serving Canadian advisors and investors for over a decade. We offer a diverse range of investments, including growth, income and tax-minded portfolios offered as mutual funds, hedge funds, and flow-through limited partnerships. Our independent-thinking and experienced portfolio managers have demonstrated long-term success in assessing global macroeconomic and structural themes driving the markets.



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