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THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Looking Past the Short Term to Recognize MLP Asset Quality

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QUINN T. KILEY, with 15 years of investment experience, is Managing Director and Senior Portfolio Manager of Advisory Research, Inc.'s MLP & Energy Infrastructure team. He joined the MLP team in 2005. Mr. Kiley serves as a Portfolio Manager for three publicly traded closed-end mutual funds: the Fiduciary/Claymore MLP Opportunity Fund (FMO), the Nuveen All Cap Energy MLP Opportunities Fund (JMLP) and the Nuveen Energy MLP Total Return Fund (JMF). He also serves as a Portfolio Manager for three open-end mutual funds: the Advisory Research MLP & Energy Income Fund (INFIX), the Advisory Research MLP & Energy Infrastructure Fund (MLPPX) and the Advisory Research MLP & Equity Fund (INFEX). Prior to joining the MLP team, Mr. Kiley served as Vice President of Corporate and Investment Banking at Banc of America Securities in New York. Mr. Kiley holds a B.S. with honors in geology from Washington and Lee University, an M.S. in geology from the University of Montana, a Juris Doctorate from Indiana University School of Law and an MBA from the Kelley School of Business at Indiana University. He has been admitted to the New York State Bar.

SECTOR — ENERGY INFRASTRUCTURE

TWST: Let's start with a recap of Advisory Research's history and overall business.

Mr. Cunnane: Advisory Research is an institutional investment manager that provides U.S., international, global and MLP and energy infrastructure strategies for a wide variety of investors. Relevant to this conversation, the MLP & Energy Infrastructure team is a 15-person, St. Louis-based team that's been managing MLP and energy infrastructure assets for approximately 20 years. The team currently manages over $3 billion in MLP and energy infrastructure assets.

We have two strategies that we focus on, the MLP Equity strategy and the MLP Balanced strategy. The strategies are offered through a variety of investment vehicles, including two open-end mutual funds, the Advisory Research MLP & Energy Income Fund — INFIX/INFRX/INFFX — and the Advisory Research MLP & Equity Fund — INFEX/INFJX/INFKX.

TWST: What characterizes the firm's investment philosophy in general, and how does that translate to the MLP and energy strategies specifically?

Mr. Kiley: Advisory Research has several investment teams, and each one operates an autonomous investment process. As Jim mentioned, the MLP & Energy Infrastructure team is based in St. Louis. We conduct the fundamental work on the companies whose securities we purchase. We have a dedicated research team focused on approximately 175 companies in the MLP and energy infrastructure space. We also hold a top-down view on the markets, on the industry, on the subsectors and about where you want to be exposed in the energy space. Our approach is predominantly domestic. We have some Canadian exposure, some international exposure, but it's really about U.S. infrastructure and the North American energy industry.

And so we try to marry our top-down views with the fundamental work that we are doing, and end up building a portfolio — whether it's in the Equity strategy or the Balanced strategy — that represents the best exposure to energy infrastructure that we can find, and with a longer-term horizon. A majority of our investors are taxable investors, whether that's within a separate account or in the mutual funds that we operate, and so we try to have a longer-term view and invest in solid, higher-quality assets through the equity and fixed income securities that we purchase in the various strategies.

TWST: When we last spoke two years ago, MLPs were very popular. How would you categorize your overall sentiment and outlook on the space today, and does that differ from how other investors have been reacting to the space?

Mr. Cunnane: Our sense is that the value in investing in MLPs today is similar to what we saw the first time we spoke, back in mid-2010. To put it in terms of expected return, back in 2010 we would talk about 8% to 12% long-term expected returns. By the time we arrived in 2014, the last time we spoke, our return expectation looking forward was 5% to 9% over the long term. That was 30% lower than what we thought you could achieve at the bottom of the market. After the recent market decline we are back to that 8% to 12% long-term return expectation. The reality today is that the high, long-term return expectation is a function of very significant negativity in investor outlook for MLPs.

Mr. Kiley: And I would say near term, as commodity prices recover — and we think it's going to be a volatile road — MLP returns could be outsized as opposed to that low, double-digit number Jim was talking about over the longer term. We're cautious about volatility near term, but we're gaining optimism as the companies in the space do the things they need to do to get through the bottom of the cycle.

TWST: What themes or trends do you think are most important for investors to be thinking about right now?

Mr. Cunnane: To a large degree, I think investors just need to look past the near-term concerns in the marketplace. If you think about why MLPs are valued so low right now, there are a couple of things to address. People are concerned that commodity prices are going to stay lower for longer, and that could hurt transportation volumes and potential growth for MLPs. People are worried about MLP distribution cuts. Investors are worried, at the extreme, that the MLP structure has failed.

All of these concerns led to a price decline driven by a record amount of tax-loss selling from retail investors late last year, de-levering by closed-end funds, and likely some short selling by opportunistic investors. We think that people have to look past the short-term concerns and recognize the high quality and fundamental strength of the assets many MLPs own, the low valuations and potential upside and benefit as we climb a wall of worry here in early and mid-2016.

Highlights

James Cunnane and Quinn Kiley discuss investing in MLPs and energy infrastructure. Their investment approach holds a top-down view on the markets, industry and subsectors, and is predominantly domestic. Mr. Cunnane and Mr. Kiley aim to have a longer-term view and invest in solid, higher-quality assets. While they are cautious about the volatility short term, they are gaining optimism as companies do what they need to do to get through the bottom of the cycle.

Companies discussed: MPLX LP (NYSE:MPLX); Marathon Petroleum Corp (NYSE:MPC); DCP Midstream Partners, LP (NYSE:DPM); Phillips 66 (NYSE:PSX) and Spectra Energy Corp. (NYSE:SE).

TWST: What do you focus on most when evaluating individual investment choices?

Mr. Kiley: The answer to that is going to change over time. Currently, clearly there is concern about production coming down both for oil and gas in the U.S. as prices are lower, and you are seeing the oil and gas-producing companies react to that by reducing their capital spending. We've seen our portfolio shift away from the wellhead, actually over the last several years. Today, we're more focused on demand-oriented infrastructure. If you're talking about crude oil, that's going to be the infrastructure that is supplying crude to refineries, and that refinery doesn't care if the oil is coming from North Dakota or the North Sea, the infrastructure that leads up to it and stages crude at the refinery is going to be highly utilized as long as there is demand for refined products.

Refineries are also running full-out to take advantage of low-cost feedstock, in other words low-cost crude oil, so that they can produce an inventory to sell at better prices in the future. Anything from the refinery downstream is also going to be tied to consumption of refined products, and although you never get huge growth in refined products consumption and refined products demand, demand tends to grow slowly over the long term, and that's positive for that infrastructure.

And then on the gas side, you're talking about long-haul gas pipelines, which are tied more to energy consumption, electricity consumption specifically, and that's doing well. The economy is growing, and people are using more gas than they have historically, and so that's positive there. So as long as you're away from the wellhead, we think you're pretty well-insulated from some of the production concerns that are out there, and you're also moving toward higher-quality counterparties, refiners, utilities, etc., and so you should have less fundamental risk to your contracts if you have those kind of counterparties.

Mr. Cunnane: Quinn spoke to a couple of market features that we think are going to be important. We think it is also going to be important moving forward to be invested in higher-quality assets. We developed a quality process that we use to identify MLPs with lower quality and eliminate them from our fundamental process. We believe this process and thinking is going to be even more important in the environment we're in over the next couple of years.

The reality is we're probably faced with lower-for-longer commodity prices. That's going to limit the amount of growth for infrastructure players in the market, and those infrastructure players with better balance sheets, with less commodity exposure — put a different way, with higher quality — are likely to be the ones that will continue to succeed in the near-term environment.

TWST: What are some of your top holdings or top picks right now, and why?

Mr. Kiley: MPLX (NYSE:MPLX), **Marathon Petroleum's** (NYSE:MPC) MLP, is one name that has been really beat up over the last year, and we've taken the opportunity to add and build our position. As you'd imagine, it's tied to delivering crude oil to **Marathon's** refineries and handling the products there. The reason that the stock has sold off, in large part, is that **MPLX** acquired **MarkWest Energy Partners**, which was a large gathering and processing MLP. Now **MPLX** is an integrated, diversified, mostly Midwest-focused MLP that has exposure to one of the better basins, Marcellus and the Utica, on the gas side, and it is tied to strong utilization of the refineries that **Marathon** controls.

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So in many ways, they have a very strong sponsor and very strong underlying fundamentals for the business, and we think the market has just missed it because of the negative energy sentiment that's been out there. Momentum was negative, it pushed the stock down, but it has created an opportunity for people looking for value.

Mr. Cunnane: And thinking about the earlier comment about higher quality and a lack of growth available in the market, **MPLX** is the type of entity that we believe to be higher quality, does have growth potential in a tougher market environment, and should be one of the success stories as the market recovers over the next few years.

Mr. Kiley: It is also a great example of what's going on in the space and what we think should go on in the space. **MPLX** has said they were going to provide top-tier growth, and as growth expectations have come down, they have prudently lowered their growth expectations. Although they still consider themselves as top-tier, and we do too, the growth is going to be lower. I think that is true for the whole space. Growth expectations have been too high and are coming down, and the market should expect that, and I think the market is adjusting to that. It's a choppy ride while it happens, but that's the outlook — for lower growth from stable cash flows going forward.

TWST: Is there another example you'd offer?

Mr. Kiley: A name that is a little controversial in the market is **DCP Midstream** (NYSE:DPM), which is a natural gas liquids-oriented MLP, one of the largest producers of natural gas liquids, which is a feedstock to the petrochemical industry. They are at this nexus of weaker commodity prices today, but visible increased demand for the products that they handle will likely come from the petrochemical industry and natural gas consumption in the coming years. They have a parent that is controlled by two world-class energy infrastructure players, **Phillips 66** (NYSE:PSX) and **Spectra Energy** (NYSE:SE).

It's been historically a very supportive general partner, which you need in difficult times like this. And what you saw was that those two parent companies dropped a combination of cash and assets into the general partner worth about $3 billion to support them in this time. They're renegotiating contracts to shift from commodity price exposure to fixed-fee contracts, which is also supportive. We think DCP is a story that's misunderstood and not properly grasped by the market, and so we think there is a great opportunity there with, again, a great parent, a good set of assets, and a really dominant position doing what they do.

Mr. Cunnane: That's also an entity where we feel like our balanced approach is quite differentiated. We really like that entity, and we think it is a great equity story in our Equity strategy. But in our Balanced strategy, we've also seen an opportunity to get invested in the debt. We think, interestingly enough, that early in this recovery the debt attached to many MLPs and their affiliates could perform quite well. A balanced approach, which you wouldn't expect to perform well in the

1-Year Daily Chart of DCP Midstream Partners, LP

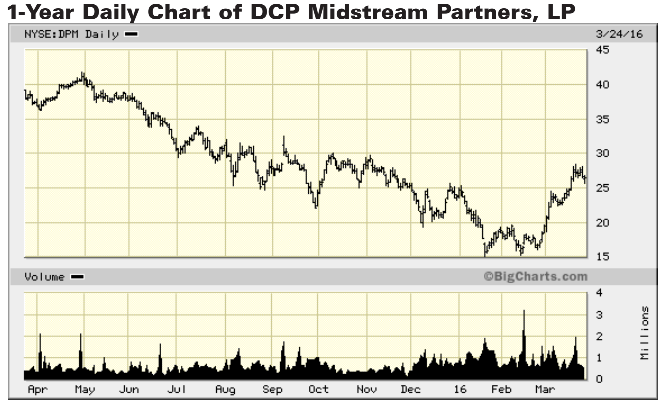

Chart provided by www.BigCharts.com

early stages of recovery, might do quite well because of how poorly the debt performed in the fourth quarter and early in the first quarter of this year. So **DCP** is a good example where the affiliated debt is quite attractive in our minds and should result in strong returns here in 2016.

TWST: What are you shying away from right now?

Mr. Cunnane: We've been shying away from commodity-exposed MLPs and affiliates since 2014. I think from a standpoint of decisions that have worked over the last couple of years, that's one that has worked. We've continued, as this bear market has proceeded, to increase the quality of our portfolio, and increasing quality in our terms means buying into stronger assets, into stronger balance sheets, into stronger coverage ratios and into better management teams. So we're continuing to do that as we move along in what has become a bear market that has been longer and deeper than what we initially expected.

TWST: Are we likely to see more distribution cuts? What are your expectations sector-wide for distributions this year?

Mr. Cunnane: We've seen plenty of distribution cuts already. We have a universe that can be defined in a couple of different ways. You might have 110 traditional MLPs, and then with affiliates, a broader universe of 175 or so, and we have seen 30 to 40 distribution cuts from that universe. So it's been a very difficult period.

Now, the good news from the perspective of our process is that most of those distribution cuts have come from the lower-quality third of the universe. The big question in front of us is, how many more distribution cuts will we see, and how high up the quality curve will they go? A lot of that is going to be dictated, in our mind, by commodity prices. To the degree that commodity prices stay very low for longer periods of time, it raises the odds that higher-quality MLPs reduce their growth to very low levels, or in certain cases even cut.

While we believe that a large majority of high-quality MLPs will flatten their distribution, not cut their distribution, we certainly won't be surprised if a handful of higher-quality MLPs do opt to reduce distributions if commodity prices stay at very low levels. Now, we have seen a rebound in commodity prices over the last month. That rebound is supportive of current distributions, stabilizing at the levels they are at, but time will tell.

TWST: Is there anything else you'd like to add to conclude?

Mr. Kiley: Jim mentioned how we need a recovery in commodity prices, and we do believe that, in large part, because we need sentiment around energy to improve. MLPs and energy infrastructure are often talked about as a toll road, and I think that's an unfortunate misnomer. The reality is that they do have limited commodity price exposure, but in the tails, like the low price environment that we have today, there is clearly some volumetric risk near the wellhead. That's a fundamental risk to the MLPs.

So if we get a slight recovery, the fundamentals recover back to where we think they're manageable, but also sentiment improves, and that raises security prices, which improves capital market access and solves the balance sheet issues of some of these companies that are teetering on the more distressed levels. The distribution cuts that we were talking about before could be simply a solution to financing that's not available in the capital markets today. But a recovery in commodity prices will lead to better capital markets, which will lead to healthier balance sheets, which will lead to better performance, and then the cycle turns higher.

TWST: Thank you. (MN)

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Advisory Research MLP & Energy Income Fund; 2.62% MPLX LP, 3.91% DCP Midstream Partners LP, 0.26% DCP Midstream LLC 8.12% Due 8/16/2030, 1.74% DCP Midstream LLC 6.75% Due 9/15/2037, 2.03% Spectra Energy Capital 6.75% Due 2/15/2032, and 2.18% Spectra Energy Corp.

Advisory Research MLP & Energy Infrastructure Fund; 5.84% MPLX LP, 4.29% DCP Midstream Partners LP, 0.23% DCP Midstream LLC 8.12% Due 8/16/2030, 1.56% DCP Midstream LLC 6.75% Due 9/15/2037, 2.10% Spectra Energy Corp., 0.25% Spectra Energy Capital 7.5% Due 9/15/2038, and 1.59% Spectra Energy Capital 6.75% Due 2/15/2032.

Advisory Research MLP & Equity Fund; 8.29% MPLX LP, 2.84% DCP Midstream Partners LP, and 3.69% Spectra Energy Corp.

Advisory Research mutual funds were not invested in Phillips 66.

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