

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

The Advantages of Investing in Master Limited Partnerships



JAMES J. CUNNANE JR., CFA, became Chief Investment Officer of Fiduciary Asset Management, LLC, (FAMCO) in April 2009. He oversees the firm's three investment product lines and chairs the risk management committee. Mr. Cunnane serves as a Portfolio Manager for two publicly traded closed-end mutual funds, the Fiduciary/Claymore MLP Opportunity Fund and the MLP & Strategic Equity Fund, Inc. Mr. Cunnane has served as a Flex Core Equity and Master Limited Partnership Portfolio Manager since joining FAMCO in 1996. He is a member of the strategy committee and is actively involved with the firm's macroeconomic assessment and top-down approach to portfolio management. Mr. Cunnane holds a B.S. degree in finance from Indiana University. He is a CFA and serves on the investment committee of the Archdiocese of St. Louis.

SECTOR – GENERAL INVESTING

TWST: Please start with the background of FAMCO and your relationship with Piper Jaffray.

Mr. Cunnane: FAMCO was founded when three members of General Dynamics' internal investment group outsourced themselves in 1994, and it was really a win-win situation. General Dynamics Corp. was able to convert the fixed cost of an investment department to a variable cost. It also enables the investment people to retain oversight of the corporation's investment plan, while providing the principals the ability to grow a business and bring on external clients. That was the founding of Fiduciary Asset Management.

After the founding, the decision was made to manage assets not just on an institutional level, but also for high-net-worth individuals, and that's where our MLP investment platform was born. About three years ago, we were purchased by Piper Jaffray Investment Management, and Piper came to us with a good proposition that they were able to bring to us some capital to help us grow, to help us transition our ownership and bolster our capabilities in certain areas, such as compliance and risk management. As we've seen in the last couple of years, having more of a competency in compliance and risk management has become a more and more significant attribute that investors are seeking in investment management firms.

TWST: It was just the right thing at the right time.

Mr. Cunnane: It was a transaction that was necessary for FAMCO to continue to grow. And Piper has been a valuable partner during the market turbulence of the last couple of years.

TWST: Would you describe your investment philosophy for us?

Mr. Cunnane: We think we have a unique investment philosophy. Our view is that as an investor, you need to identify what part of the economic cycle the U.S. and global economies are in, and also what is the likely future direction of the economy. An investor also needs to identify macro items and themes that are consistent with previous economic cycles and what may be different in the current cycle. Our view is by having that fundamental macro backdrop well defined, you have the ability as an investor to add value before you begin a more traditional bottom-up process. As a firm, we certainly believe that the bottom-up part of the process is very important, and we work hard to get that right as well. But we also believe that having a strong position on macro items is an incredibly valuable way to add value to your investment process and investor returns.

TWST: You have four products, correct?

Mr. Cunnane: We have three main areas of focus, core equity, fixed income and master limited partnerships, and we combine these with various asset allocation or balanced strategies. We manage a core equity style, Flex Core Equity. Historically, core equity has created value with top-down decisions and bottom-up security selection. We've seen over the years an opportunity to be a growth investor at certain times and a value investor at other times, to be very focused on large caps at certain points and more in mid caps at other points. We refer to our style as "core." The core equity style gives us the flexibility to execute on top-down views that we have.

Besides core equity, we also have core fixed income, which focuses on duration, yield curve and implementing across the sectors available to fixed income investors — whether it be Treasuries, corporates, mortgages or agencies — and to try to get those decisions right on a consistent basis in line with our top-down view. Then we also manage energy infrastructure assets, mainly in the form of master limited partnerships, or MLPs as they are more commonly referred to. That's been over the last 10 years the fastest-growing portion of our overall business mix. We combine these products with balanced accounts, focusing on traditional balanced accounts with equities and fixed income, and by utilizing MLPs with equities and fixed income. Our background in asset allocation, coupled with our strategic views and our product-specific expertise, allow us to focus on these allocation strategies.

TWST: I'm going to focus in a bit on the MLPs because although, as you said, they are growing very quickly, many investors still aren't really sure what they are. Would you expand a little bit more? Would you explain what an MLP is and what the advantages and disadvantages are of investing in one?

Mr. Cunnane: It probably makes sense to step back and look at infrastructure, and even infrastructure is a term that is defined differently by many investors out there. Infrastructure can be defined as broadly as roads and hospitals and water facilities, in addition to the large amount of energy infrastructure that's in the U.S. marketplace. MLPs are defined by the tax code; you have to qualify under the tax code to be an MLP. A good analogy for MLPs are real estate investment trusts, or REITs, which similarly have to qualify to be a REIT under the tax code. To be an MLP, you have to have assets

of a partnership and the liquidity of a corporation. Generally assets that qualify to be MLPs, people want to put in the MLP format to take advantage of these benefits. What's happened over time is that a large majority of the pure-play U.S. energy infrastructure assets that do publicly trade are in the MLP format. If you want access to pure U.S. infrastructure, generally the way you get it as an investor is through MLPs.

Highlights

James J. Cunnane Jr. offers an in-depth explanation of FAMCO's investment philosophy, particularly focusing on the firm's energy infrastructure assets through master limited partnership investing. Mr. Cunnane discusses the benefits of investment in MLPs, including high income, favorable tax treatment, growth prospects and low correlations when compared to U.S. stocks and bonds. His strategy centers around adding value through top-down and bottom-up work. Mr. Cunnane prefers higher-quality MLPs and offers advice to investors on what to watch out for when investing in MLPs. Companies include: Inergy, L.P. (NRGY).

Then the question becomes why do investors buy MLPs? What is it besides the access to infrastructure that they like? The answer to that is that there are really four features of MLPs that investors really like. One is the high level of current income. The second feature that investors like is the growth potential that MLPs have. It's important to note that MLPs are real operating companies, which can make acquisitions and grow organically. The combination of that current income, the distribution yield plus that growth potential creates opportunity for double-digit type returns. The third thing that investors find attractive about MLPs is that they've historically had fairly low correlations against the U.S. stock market, against the U.S. bond market and even against commodities such as crude oil.

The fourth thing, and this is relevant to taxable investors, is that MLPs have a very favorable tax treatment for investors. Almost

all MLP taxation is paid upon sale of the asset, so a lot of the current distribution is tax deferred and capital gains are also deferred until sale. For taxable investors, particularly those with longer time horizons who are willing to manage with low turnover, there tends to be a lot of tax advantages. That combination of high-yield, growth potential, low correlations and tax features are really a potent combination that investors have found very attractive.

"What's really critical though is not so much how you qualify to be an MLP, but why do MLPs exist. MLPs exist because MLPs have the benefit of being a partnership, meaning that there is no corporate-level taxation, so it's a very tax-efficient structure. Additionally, they are publicly traded, so they are able to get the liquidity that's typically only afforded to corporations. To some extent you get the best of those worlds."

that are qualifying assets under the tax code, and so the question is what are the qualifying assets? Many of the qualifying assets tend to end up in the energy infrastructure business. And so right now, a large majority of MLPs are composed of assets that are energy infrastructure assets. What's really critical though is not so much how you qualify to be an MLP, but why do MLPs exist? MLPs exist because MLPs have the benefit of being a partnership, meaning that there is no corporate-level taxation, so it's a very tax-efficient structure. Additionally, they are publicly traded, so they are able to get the liquidity that's typically only afforded to corporations. To some extent, you get the best of those worlds — the tax treatment

TWST: What about tax-free investors? Is it still a good vehicle for them as well?

Mr. Cunnane: Tax-free investors clearly don't benefit from the tax advantages, but that's not necessarily a negative — you just don't get that additional value. But the other benefits still exist. When tax-free investors look at their investment objectives, they are generally seeking assets that are generating reasonably high levels of expected return. Many institutional investors have a particular interest in current distribution. Most institutional investors and tax-free investors are seeking diversifying assets, and MLPs provide that as well. So the attributes of MLPs are very attractive for institutions as well.

TWST: Looking at the MLPs, what makes something attractive to you within that? Do you choose a group together or do you choose individual stocks? How does that work?

Mr. Cunnane: Earlier I spoke about our investment philosophy and style. We focus on adding value through solid top-down and bottom-up work. We believe that process creates the highest certainty of consistently achieving the level of return that our investors are seeking. FAMCO’s philosophy stems from our pension fund background, where the pension that we worked on behalf of was constantly striving to achieve its actuarial rate of return. MLPs are great assets from the perspective of

Over the last decade, there have been plenty of examples of individual MLPs that have done an exceptional job of growing and thereby providing outstanding total returns to their investors. A good example of that might be **Inergy** (NRGY), which is a Kansas City-based MLP that initially focused in propane and as time has gone on, has expanded into other midstream energy businesses. **Inergy** has offered since day one an attractive yield for investors, but also because of a fairly aggressive organic and acquisition plan, has grown their distribution consistently and provided outstanding total returns. **Inergy** would be a good example of a type of MLP that has worked very well for us over the years.

“When we look at MLPs, we tend to like MLPs that are of higher quality. Frankly we believe that across all the asset classes in which we invest, high quality outperforms in most parts of a market cycle and that if you can identify higher quality assets, you tend to perform well over time. We have developed a quantitative way to weed out what we consider to be low-quality opportunities, and then we tend to avoid those.”

consistently creating a reasonable level of return. They tend to generate a high and stable level of cash that they pay to investors. When we look at MLPs, we tend to like MLPs that are of higher quality. Frankly we believe that across all the asset classes in which we invest, high quality outperforms in most parts of a market cycle, and that if you can identify higher-quality assets, you tend to perform well over time. A key issue is identifying what quality is. We don’t spend a lot of time looking at rating agency definitions of quality or external sources’ views of quality, we’ve developed internal processes to independently evaluate each and every asset. We have developed a quantitative way to weed out what we consider to be low-quality opportunities, and then we tend to avoid those.

TWST: Looking at the MLPs, are you comfortable giving us an example of one that you really like a lot and why?

Mr. Cunnane: It’s always interesting for us talking about specific securities in the MLP universe because we really are trying to

1-Year Daily Chart of Inergy



Chart provided by www.BigCharts.com

“A good example might be Inergy, which is a Kansas City-based MLP that initially focused in propane and as time has gone on, has expanded into other midstream energy businesses. Inergy has offered since day one an attractive yield for investors, but also because of a fairly aggressive organic and acquisition plan, has grown their distribution consistently and provided outstanding total returns.”

add value for our investors in two different ways. The first and most important way that we’re adding value is by making good thematic calls and investments in the MLP space. For example, throughout much of this decade, we thought there was a tremendous opportunity to buy growth-focused MLPs because our view was that historically MLPs had been purchased by retail and high-net-worth investors that were mostly focused on the yield aspect of MLPs, and they weren’t really focused on the fact that some MLPs had very limited growth potential and others might have double-digit or above growth expectations. For a long time, we felt like there was a tremendous opportunity to buy higher-growth MLPs, and we felt we weren’t paying much, if anything, from a valuation standpoint to buy that additional growth.

TWST: Listening to and hearing about the asset class as a whole and its advantages, why don’t more investors know about MLPs?

Mr. Cunnane: This was a really small asset class for a long period of time. Just giving some history, I started managing in this asset class in 1992, and in 1992 there were only a handful of MLPs even available for purchase, and so most investors didn’t know about the asset class because there just weren’t many MLPs to buy. Even if you move forward to the year 2000, there were about 16 MLPs that were available. It really wasn’t until about 2004 that we started to really see a significant increase in the capitalization of the asset class. What’s happened now is that we’ve gotten to a point now where there are about 75 MLPs that

we look at in our universe. And liquidity has increased dramatically, and we're seeing investors that are bigger and broader starting to embrace this asset class. The asset class is morphing quickly from an area that was purely the domain of the high-net-worth investor to an investment class that many investors, including much bigger investors and institutions, are beginning to embrace.

"There are a couple of potential downsides. MLPs clearly benefit from the tax code, and so one of the very large risks — although it's a low-odds risk — is change in the tax code, and so that's something that we're always monitoring here as an organization."

TWST: What's the downside of investing in MLPs?

Mr. Cunnane: There are a couple of potential downsides. MLPs clearly benefit from the tax code, and so one of the very large risks — although it's a low-odds risk — is change in the tax code, and so that's something that we're always monitoring here as an organization. Fortunately, changes in a tax code have been generally to the favor of MLPs over the last five to 10 years. So although it's a big risk, it's not a risk that has very high odds of occurring. Secondly, MLPs are surprisingly volatile, and this is an important distinction. The cash flows of the entities are not particularly volatile at all. In fact, the stability of the cash flow is one of the really strong attributes of MLPs and the assets that they own, but they are traded vehicles. MLPs trade on the New York Stock Exchange and other exchanges. Because they're traded and because they tend to be mid-cap to small-cap-type securities, they do show some significant volatility.

For example, up until a couple of years ago, we used to expect MLPs to trade with about 70% of volatility of the S&P 500. But in the last couple of years, we've seen them trade at nearly 100% of the volatility of the S&P 500. That is one of the downsides; although you're buying into a stable cash flow business, you get a lot of volatility in the actual traded asset that you own.

"MLPs are surprisingly volatile, and this is an important distinction. The cash flows of the entities are not particularly volatile at all. In fact, the stability of the cash flow is one of the really strong attributes of MLPs and the assets that they own, but they are traded vehicles. MLPs trade on the New York Stock Exchange and other exchanges. Because they're traded and because they tend to be mid-cap to small-cap-type securities, they do show some significant volatility."

TWST: Explain the process to me. A client comes in to you and says, "Hi, I have some money I'd like to invest." How do you decide who goes where and what's the best product for them?

Mr. Cunnane: We begin by focusing on each client's unique risk-reward position or tolerance to determine what makes the most sense for them. We offer products that fit with many of those needs, and our asset allocation products can cover a wide range of those needs. MLPs are a good example of a product that fits well for many clients, as they offer income and growth.

Maybe I can address the concerns or issues that some investors face investing in MLPs. When you buy an MLP, you are buying an investment in a partnership. If you buy the MLP directly, you're issued a

K-1 at the end of the year, and that K-1 potentially obligates an investor to file taxes in different states that the MLP is operating in. If you're a tax-free investor, including individual retirement accounts, you might also be exposed to UBTI, which enables the government to capture taxes if a tax-free entity buys a flow-through vehicle like a MLP. So state tax filing obligations and UBTI are problems that investors might face

buying MLPs directly. One of the first questions you ask anyone walking in the door is, "Are you okay with receiving K-1s and potentially being subjected to state tax filings and UBTI?"

Generally if an investor is a larger investor and they're okay with the filing requirements associated with the K-1, then we tend to direct them towards a separate account of MLPs. We think that buying a separately managed account of MLPs is a very effective way of accessing the features that we like in MLPs, and then we tend to try to actively add management value to that portfolio. Over the last 15 years we have been able to do that. If an investor is a smaller investor, there are some publicly traded funds that can be effective ways for those investors to access the asset class while receiving a 1099 in lieu of the K-1. We sub-advise to two such funds, and so we do direct people in that way as well.

For larger institutions, that's where you run into a bigger challenge because a lot of larger institutions are not interested in UBTI or state tax filings, but they're too big to get adequate liquidity in the closed-end-fund approach. For them, we are offering an option to invest across the MLP and energy infrastructure asset class, using both MLPs and MLP debt, and the equity and debt of affiliates of MLPs. By constructing a portfolio appropriately using that kind of mechanism, there is an opportunity to offer those types of clients broad access to energy

infrastructure with a lot of liquidity and a little less volatility because you own debt and own some other infrastructure assets. We offer this strategy in a variety of structures depending on an investor's interest and tax needs. So that's what we're using for the different types of investors that come in our door.

TWST: What makes you decide to add or sell an MLP?

Mr. Cunnane: There are two things that are going to drive an investment decision at FAMCO. The first is a broad change in our view of what's going on in the world, either the broader economy or specifically the MLP marketplace. To give an example of that, in early 2008 we got concerned both globally and more specifically in the MLP marketplace about the state of affairs and felt like the most effective

management technique would be to increase the quality of the holdings in our portfolio. In general we never own MLPs that are in the worst quintile from a quality perspective. But in 2008, Quinn Kiley, who is the Lead Portfolio Manager for our MLP product, and I went to our team and said, “We don’t want to own a single MLP that’s not in the best half from a quality perspective.” That might not seem like a major change, but when you eliminate half of the entities even from consideration in your process, you end up with a significant bias. And so we entered the back half of 2008 with a very significant bias towards high-quality MLPs. That’s an example of what would cause us to sell.

“There are two things that are going to drive an investment decision at FAMCO. The first is a broad change in our view of what’s going on in the world, either the broader economy or specifically the MLP marketplace.”

And then there are security-specific reasons why we would sell. Our team here attends every MLP conference, broader energy conferences, we meet with management teams, and the broad team here spends a lot of time modeling and understanding valuation of the MLP asset class and individual MLPs. There are certainly circumstances where an MLP appreciates to a point where it’s no longer attractive comparatively to others, or alternatively the fundamentals break down and we become concerned that the entity simply isn’t competitive in comparison to other opportunities that we might have.

TWST: Have you changed the way you invest based on the market turbulence over the last couple of years?

Mr. Cunnane: I don’t think we’ve changed. I’ll give two thoughts there. First, we’ve managed MLPs through the five market cycles, and so we’ve seen the bear markets in MLPs. And in our view, there have been five MLP bear markets, with average drawbacks of 20% and durations that have ranged from weeks to months. What we saw in 2008 was the worst MLP pullback that we’ve seen, but

“There are security-specific reasons why we would sell. There are certainly circumstances where an MLP appreciates to a point where it’s no longer attractive comparatively to others, or alternatively the fundamentals break down and we become concerned that the entity simply isn’t competitive in comparison to other opportunities that we might have.”

certainly the pullback itself didn’t surprise us, and we felt like we had processes in place that allowed us to be prepared and helped us navigate through that period.

Second, what we did do through 2008 — and really it started in 2007 — was continue to build out our internal risk process. We spend a lot of time making sure that as an organization, we’re adjusting to the demands of the marketplace and to our own demands, that we really understand the risk of our portfolios and the risk of our processes. So I don’t think we’ve changed, but we’ve certainly tried to consistently enhance what we’ve got and to stay at or above where our competitors are. We also try to benefit from the lessons we have learned managing through each of the last five MLP bear markets.

TWST: As we look out over the next several years, will we continue to see market turbulence? What impact will that have on investors?

Mr. Cunnane: Market turbulence is high right now, and we’ve talked a lot internally about the reasons for that and the potential persistence, and we’re also seeing very high correlation between securities. The question is what’s driving this? Is it the recent increase in the government’s role in the economy? Is it the explosion of ETFs and other investment vehicles in the marketplace? We think the answer is that it’s a combination of those things, and so as investors own more ETFs

and buy and sell baskets of securities, as government policy maintains its significant position across a lot of assets in the marketplace, you could make a strong case that market volatility will remain fairly significant. Clearly, we’re far from the historically elevated levels of 2008, but it wouldn’t surprise us if volatility remained somewhat elevated over the next couple of years.

From an investor standpoint, the question is how do I react to that? And we think there is a strong case to be made historically and today that buying higher-yielding securities that are higher quality are both themes that will work in this type of an environment. When you say, “How do we implement that?” in equity portfolios we are buying stocks that tend to be tied to companies in more stable businesses. Many of these companies are generating an awful lot of cash and are using that to pay significant dividends and engage in significant stock buybacks. In the MLP and energy infrastructure asset class, we’re buying higher-quality MLPs. And even at the asset class level, we think MLPs are probably advantaged because they are by nature stable, high-yielding, very cash-rich businesses.

TWST: The Internet allows many investors to become their own investment advisers. What is the advantage of using a professional investment adviser?

Mr. Cunnane: Let me use the MLP asset class as an example on this question, and I’ll start with a top-down example, and then I’ll use a bottom-up example of value added. There is historical evidence that suggest the returns between different asset classes are significantly different over periods of time, and that an investor’s allocation between those asset classes is a substantial driver of their overall investment return.

We’re very comfortable recommending to investors that a particular period is the right time to be overweight MLP equity, and then in a different environment, it is the time to be overweight debt.

This is what our organization has done since day one. We think from a standpoint of just very high-level, top-down asset allocation, we have the opportunity to really add some value in an area where most investors, whether they be personal private investors or professional investors, are fairly uncomfortable. But that's the legacy and the background of our organization. And so in the MLP asset class and outside of it, we've historically tried to add value by investing across the capital structure.

"We think from a standpoint of just very high-level, top-down asset allocation, we have the opportunity to really add some value in an area where most investors, whether they be personal private investors or professional investors, are fairly uncomfortable. But that's the legacy, and the background of our organization, and so in the MLP asset class and outside of it, we've historically tried to add value by investing across the capital structure."

From a bottom-up perspective, there is also an opportunity to add value for investors. MLPs are a fairly small asset class. Being an investor in that space for close to 18 years, we as a team have developed a very deep knowledge of the different organizations, and their strengths and weaknesses, and strong insight into what's going on in the asset class today and what's likely to happen tomorrow. We think by putting that to work for our investors, we are able to add value over an index. And we think that our track record, which extends back now more than 15 years and shows consistent value-add over that period, is really a testament to the fact that there is an opportunity in a smaller asset class, like MLPs in particular, to consistently add value. I would note that in equities and fixed income, we've also been able to add value over time, and so we think there is opportunity there as well.

TWST: Tell us about your background. How did you get interested in investments?

Mr. Cunnane: I was a kid who grew up starting to buy stocks when I was 12 years old and owned my first MLP when I was still in my early teens. The Boston Celtics used to be an MLP way back then — I know that's not an energy infrastructure company, but the rules governing MLPs were different in the early 1980s. I was a kid who also loved basketball, so that was a natural thing for me to buy at that time, and little did I know I would eventually be spending a lot more time with that asset class.

"There are good MLP investment opportunities for every type of investor, but there's no silver bullet from a standpoint of getting pure MLP exposure with no side effects. The question is what is it as an investor that you're trying to achieve and what is the structure that provides the best fit?"

I started my career working for a small high-net-worth shop that had what I considered to be a traditional early 1990s investment portfolio for its high-net-worth clients; they owned equities and municipal bonds. That organization, which was acquired by FAMCO in 1995, was looking for alternatives to municipal bonds. Investing in municipal bonds offered yield and diversification, and served as a kind of stalwart of the portfolio to protect against volatility and had low correlation to the broader equity market. We identified MLPs as an investment that could deliver to our investors many of the same benefits as municipal bonds, with the added

opportunity of a growing distribution. My early exposure to MLPs was looking at a handful of the IPOs that were occurring in the 1992-1993 window and evaluating them for our clients. We still have clients today that own those positions that were purchased right out of the IPO or in that early 1990s window and have held those positions all the way through. As time has gone on, I've had the good fortune of managing core equity portfolios and also MLP portfolios for FAMCO's clients.

TWST: Is there anything you'd like to add or that I should have asked you about?

Mr. Cunnane: I would like to comment on current valuation and outlook. I think that's a worthwhile thing to comment on, and then I have one other area I'd like to touch as well. MLPs have had a pretty strong performance path here in the last year, and they've done well in the last 10 years. In fact, if you look at MLPs over the last decade, there are several MLP securities that have been among the strongest performers of all traded equities. If you look at the S&P 500 and put MLPs in there, several MLPs have been among the top 25 performers of the past decade. So the question invariably arises: Are we overvalued? Is it too late to invest?

We consistently look back to the history of the space, and we believe that on an absolute basis, you can start by looking at yield. Yield is a pretty good valuation metric for MLPs because they're paying out all of their cash flow generally every year, and yield right now is about average versus the history. On an absolute basis, I think you can make a decent argument that there's fair valuation. The second way of looking at them is to look at the relative valuation. As an investor, I always have to look at all of the asset classes in front of me and decide which one I want to buy today. When investors look at MLPs, they're typically seeking growth and income investments, so comparable asset classes would be REITs or utilities, and maybe on the pure income side, corporate bonds. When you look at MLPs versus those asset classes, MLPs actually look cheap

versus their history right now. So from a relative valuation perspective, I think you can make an argument that the assets are reasonably priced or even a little cheap. Our expectation is that you're going to get paid your yield, which right now is in the 7% range, and you can expect a couple of percent annual distribution growth. And maybe that gets you to a high-single-digit, low-double-digit return stream over the next three to five years. Now that's well south of the history of the asset class, which has been almost in the 20% range over the last 15 years. But we expect that whereas in the past we were in a falling interest rate environment,

which helped all yielding vehicles, we're going to be in a flat to rising environment going forward. And that's going to slow down returns in this asset class to some degree.

TWST: There was a second thing you wanted to mention.

Mr. Cunnane: There has been an explosion of product creation in the MLP space in the last five years and particularly in the last year. I think it's worth noting that investors need to be very cautious when looking at MLP investment options and really understanding the tax and other implications of the structures that they're buying into. There's been a long-sought holy grail in the space of getting away from the K-1 and the associated tax items involved with the K-1, while still delivering pure MLP returns to investors. We've seen investors using total return swaps and investors paying taxes at the fund level, for example, to avoid the K-1 and deliver to investors either a cleaner K-1 or a 1099.

What we found historically is that if an investor wants to invest in MLPs and they really like MLPs as an asset class, buying them directly and dealing with the K-1 issues is a great approach, particularly for a taxable investor. We've also found that for smaller investors, the closed-end fund approach is a good approach. For larger investors, particularly those seeking dampened volatility and increasing liquidity, or who prefer a 1099 to a K1, we think that investing across the MLP capital structure and owning some debt and equity of MLPs and their affiliates is a really good way to access the space. We would just caution that there are a lot of structures out there, many of which have some very unique and interesting tax and other attributes to them that people need to be aware of as they look for the right access point to what we think is a very strong asset class.

TWST: Is it accurate to say MLPs are adaptable platforms for many different types of investors?

Mr. Cunnane: Yes, absolutely. There are good MLP investment opportunities for every type of investor, but there's no silver bullet from a standpoint of getting pure MLP exposure with no side effects. The question is what is it, as an investor, that you're trying to achieve, and what is the structure that provides the best fit? Our sense is that MLPs and other publicly traded infrastructure assets are a really great place to invest. Investing in those spaces, whether just on the equity side or across the capital structure, makes a ton of sense. And some of the funds that have been organized to deliver 1099s can be a good answer for investors who need a 1099 delivered to them at the end of the year.

TWST: Thank you. (LMR)

JAMES J. CUNNANE JR.
Chief Investment Officer
Fiduciary Asset Management, LLC
8235 Forsyth Boulevard
Suite 700
Saint Louis, MO 63105
(314) 446-6700
www.famco.com