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As an investment advisor, you have been subscribed to the MLP Newsletter so that you and your clients can stay abreast of this powerful income-generating sector. Published quarterly, the MLP Newsletter includes valuable information and expert opinion about MLPs that you cannot get anywhere else.

The Master Limited Partnership Association (MLPA) is a trade association representing the publicly traded limited partnerships (PTPs) that are commonly known as master limited partnerships (MLPs), and those who work with them.

Kayne Anderson
Capital Advisors, L.P.

Kayne Anderson Capital Advisors, L.P., founded in 1984, is an independent alternative investment management firm focused on niche investing in upstream oil and gas companies, energy infrastructure, specialized real estate, middle market credit, and growth private equity.

Advisor Access spoke with managing partner Kevin McCarthy.

Advisor Access: ***Now that the dust has settled a bit from the recent FERC ruling, what do you see as the impact on the MLP sector?***

Kevin McCarthy: In response to the FERC announcement, many MLPs issued press releases indicating that they thought the impact would be immaterial—at least in the near term. For perspective, the MLPs that were "materially" affected by the announcement constituted less than 10% of the MLP market (by market capitalization). The reasons for the small impact vary from MLP to MLP, but they were generally some combination of having a small percentage of earnings attributable to FERC-regulated pipes, having pipelines with negotiated or market-based rates, or having cost-of-service pipelines that are underearning. Our analysis generally confirms what these MLPs have said publicly—namely the vast majority of MLP earnings are not derived from regulated, cost-of-service pipelines, so the financial impact should be manageable for the sector as a whole.

That being said, there were clearly MLPs that were much more impacted. For instance, TC Pipelines cut its distribution in response to the announcement, and Dominion Energy Midstream has traded very poorly after the announcement. In addition, there is no doubt that the FERC announcement was an important consideration in Enbridge's decision to acquire its subsidiary MLPs (Enbridge Energy Partners and Spectra) and Williams' decision to acquire its MLP, though there were other reasons as well.

With regard to how it all shakes out, many unknowns remain. MLPs have always been entitled to some form of income tax allowance, and the policy that was changed in March had been in place since 2005. Not surprisingly, many MLPs have made filings with FERC requesting rehearing and objecting to the policy change. While we think a complete about-face is unlikely, we do think that there will be clarifications in the coming months that could mitigate some of the impact. Over the next several years, as FERC works through the massive backlog, each MLP will be making arguments as to why its circumstances are unique and it should get some form of accommodation. The broad strokes of the policy shift left the door open for these types of arguments because many questions were left unanswered concerning treatment of various corporate and partnership structures. Further, without getting too far in the weeds with respect to rate making, we believe that there will be some room to argue that MLPs' cost of capital has increased and that they should be entitled to a higher allowed return.

MLPs in the News	
TC PipeLines, LP	**TC PipeLines, LP** (NYSE: TCP) Announces 2018 First Quarter Financial Results and Cash Distributions
Spectra Energy Partners	**Spectra Energy Partners** (NYSE: SEP) Reports First Quarter 2018 Results and Announces 42nd Consecutive Quarterly Cash Distribution Increase
PBF Logistics	**PBF Logistics** (NYSE: PBFX) Announces Multi-Asset Growth Acquisitions
NuStar	**NuStar Energy** (NYSE: NS) and NuStar GP Holdings, LLC Announce Earnings Results for First Quarter 2018
NRP	**Natural Resource Partners** (NYSE: NRP) Announces First Quarter 2018 Results
MAGELLAN MIDSTREAM PARTNERS, L.P.	**Magellan Midstream Partners** (NYSE: MMP) Reports First-Quarter 2018 Financial Results
HOLLY ENERGY PARTNERS.	**Holly Energy Partners** (NYSE: HEP) Reports First Quarter Results
EQT Midstream PARTNERS, LP EQT GP HOLDINGS, LP	**EQT Midstream Partners and EQT GP Holdings** (NYSE: EQM, EQGP) Announce 2018 Q1 Results
Enterprise Products Enterprise Products Partners L.P.	**Enterprise Products Partners** (NYSE: EPD) Reports Record Results for First Quarter 2018

AA: ***OPEC and Russia have done fairly well on their drive to limit production. Will the shale industry's ability to rapidly ramp up production make their efforts irrelevant?***

KM: OPEC will always be relevant. In fact, the news reports over the past 1-2 weeks suggest that they are actually moving the other way and are expected to discuss production increases at their meeting later this month. That said, we join the loud chorus of investors urging producers to be disciplined and to plan for long-term, sustainable growth. Of course, offsetting any increases by OPEC or domestic production is demand growth, and the good news is that demand continues to grow and has been surprising to the upside over the past few years. That means we need shale production to meet growing demand and that there is likely some room for OPEC to lift production targets.

AA: ***Although industry fundamentals have been firming for a while now, investor sentiment doesn't seem to be keeping pace. Do you see sentiment catching up in coming quarters?***

KM: It's always difficult to predict when sentiment will turn, but we agree that fundamentals continue to be supportive of midstream. Earnings have been good, and we expect volume growth to continue to drive improving operating results for midstream companies. At the same time, valuations, both on a yield basis and a trading multiple basis, are very attractive, so we think this is a very good setup for investors in the midstream space for the next few years.

> ***"Earnings have been good, and we expect volume growth to continue to drive improving operating results for midstream companies."***

Despite this backdrop, many MLP investors have felt like they've been burned over the last few years by "simplification" transactions. These simplification transactions are generally pursued to eliminate the incentive distribution rights, or IDRs, within the MLP, and they can be accomplished either by the MLP buying in the IDRs or by the general partner acquiring the publicly held MLP common units. In many of these transactions, MLP investors have ended up with a big tax bill, paid too much for the IDRs, or received an insufficient premium (or some combination thereof). Deals that have been unfair to MLP investors are clear indications that corporate governance needs to be strengthened in the MLP space. For the attractive macro and valuation backdrop to garner the attention it deserves from investors (and start that sentiment shift we need), we think that MLPs with simplification transactions on the horizon need to structure deals that are fair to both sets of investors and result in a structure that has much improved governance provisions.

AA: ***What kind of corporate governance changes would you like to see?***

KM: Any efforts in this area would go a long way. Ideally, we would like to see majority independent boards that are elected by unitholders, as well as other changes that would make limited partner rights similar to those of a corporation. Sadly, there are only two MLPs out there that have this governance construct. In addition, we think a number of changes could be instituted in MLP partnership agreements to provide more protections in related party transactions. Nevertheless, we understand that we may need to crawl before we can run. Even if the majority of directors are not independent, a requirement that the independent directors be elected by the limited partners would go a long way. When the "conflicts committee" only represents 20% of the board—and they are appointed by the general partner—it's almost too much to expect that the limited partners will be adequately protected. That's got to change.

AA: *Which sectors within the space do you see as more favorably positioned at this point?*

KM: Currently, we favor companies that are integrated from the wellhead to the downstream market, as they have many opportunities to handle the commodity, whether crude, gas, or NGLs, and thus many opportunities to charge fees for services. We also prefer exposure to companies with leverage to volume growth in the most attractive basins. The most widely known example is the Permian Basin, but there is a lot of activity going on in the SCOOP/STACK in Oklahoma, the Marcellus/Utica in the Northeast, the DJ Basin in the Rockies, the Bakken in North Dakota, and the Eagle Ford in Texas. We look for midstream companies with assets located in the best parts of these plays and with quality producers as customers.

"Currently, we favor companies that are integrated from the wellhead to the downstream market, as they have many opportunities to handle the commodity, whether crude, gas, or NGLs, and thus many opportunities to charge fees for services."

AA: *Do you have any specific MLPs that you would recommend to readers?*

KM: We don't typically recommend specific MLPs, but anyone can view the top ten holdings of our closed-end funds by visiting www.kaynefunds.com.

AA: *Thank you, Kevin.*

Kevin McCarthy is Chairman and Chief Executive Officer of KYN, KYE, KMF, and KED and a managing partner at Kayne Anderson Capital Advisors, L.P., overseeing the firm's energy infrastructure securities activities. In this position, Mr. McCarthy has extensive knowledge of each company, its operations, personnel and financial resources. Prior to joining Kayne Anderson in 2004, Mr. McCarthy was most recently global head of energy at UBS Securities LLC. In this role, he had senior responsibility for all of UBS' energy investment banking activities, including direct responsibilities for securities underwriting and mergers and acquisitions in the MLP industry. From 1995 to 2000, Mr. McCarthy led the energy investment banking activities of Dean Witter Reynolds and then PaineWebber Inc. He began his investment banking career in 1984. In addition to his directorships at KYN, KYE, KMF, and KED, he is also on the board of directors of Kayne Anderson Acquisition Corp., and previously served on the board of directors of Range Resources Corporation, ONEOK, Inc., Emerge Energy Services LP and K-Sea Transportation Partners L.P.

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Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.