

POWER TO THE PEOPLE

M L P S

WHEN INDIVIDUAL investors ask how best to invest in energy, the answer often involves MLPs. MLPs are master limited partnerships. Public MLPs have become popular in the U.S. in recent years and have played a vital role in the expansion of the U.S. energy infrastructure. For public MLPs, the limited partnership units trade on public exchanges, like the NYSE, AMEX and NASDAQ. There are about 50 public MLPs currently, with most focused on the energy and natural resources industries. An individual that purchases an MLP unit becomes a limited partner in the MLP.

We have structured vehicles and products involving MLPs. For example, we have advised the underwriters in connection with various closed end funds created to invest principally in MLPs. Creating a closed end fund that invests in MLPs creates greater efficiencies, compared to investing directly in MLPs. A direct investment in an MLP potentially offers the opportunity to receive an attractive distribution that is approximately 80 percent tax deferred, with a historically low correlation to returns on stocks and bonds. However, the tax characteristics of a direct MLP investment are generally undesirable for tax-exempt investors, like retirement and pension plans. By creating a closed end fund that is taxed as a C-corporation (accruing federal and state income taxes), institutions, pensions and retirement accounts may become individual investors in MLPs. We advised in connection with the first universal shelf registration structure for an MLP closed end fund, which allowed the fund to access the market quickly.

In addition to creating these closed end funds that make MLPs accessible to more investors on a tax-efficient basis, we also have structured a variety of derivatives transactions that reference MLPs. These derivatives transactions give counterparties exposure to MLPs wherein a direct investment may not be feasible, including by using MLPs as the reference assets for structured products, creating MLP baskets, or structuring total return swaps. Given the activity in the energy infrastructure sector, exposure to MLPs—either direct or indirect—is increasingly sought out by investors. If the objective is power to the people, MLPs have an important role to play.