

MLP's for the Income Investor

William Gregg. Sept. 2025

- **Asset classes for income investors:**

- Dividend growth stocks
- Reits
- MLP's and other midstream stocks
- BDC's
- Senior loans and CLO's
- Preferred stocks & baby bonds

- Royalty trusts
- Annuities
- Utilities
- Telecoms
- Buy-write/option income funds
- Bonds & other debt securities



- **History of MLP's:**

- First one started in 1981....Apache Petroleum
- As a limited partnership, income was reported on a 1040 K-1 form.
- Due to concerns that this was eroding the corporate tax base, congress passed section 7704 in an act in 1987, treating publicly traded partnerships as corporations.
- But they put in an exception—if 90% of the income is qualifying income.

- Basically a limited partnership that is publicly traded on an exchange.
- In the case of oil and gas MLP's, they don't own the actual commodity.
- They just store and move the commodity from one place to another and act as a tolltaker.
- Not influenced by price volatility.
- Oil, gas, coal, timber, ethanol, biodiesel, propane and others.
- Must make distributions quarterly.
- Distributions are higher because there is no federal or state corporation taxes on the entity.

- MLP's are usually referring to oil and gas companies.
- But MLP's exist in other sectors too
- **Real Estate MLP's:**
- Shopping malls, apartments, data centers
- Brookfield Property Partners is an example of this.

- **Infrastructure MLP's:**
- Power transmission lines, railroads, ports, toll roads.
- Brookfield Infrastructure Partners

- **Financial and Investment Services**
- Alliance Bernstein Holding L.P.
- Apollo Global Management
- Blackstone Group (BX)

- **Commodities (other than oil & gas)**
- Operate in coal and fertilizers
- Alliance Resource Partners L.P.

- **Renewable Energy**

- Transportation and storage of renewable fuels
- Brookfield Renewable Partners

- **Royalty interests**
- Black Stone Minerals
- Dorchester Minerals

- There are three stages of activities in the oil and gas industry:
- The exploration and extraction sector, also called the upstream sector.
- **The in-between activities that connect the upstream and downstream sectors, and known as the midstream sector.**
- The refining and distribution of oil and gas, also called the downstream sector.

- Midstream sector ensures the steady and efficient flow of energy resources between the other two sectors.
- It includes:
- Transportation of oil and gas, carbon dioxide and hydrogen utilizing pipelines, tankers, barges, and rail cars to move the product.
- Storage tanks for oil and underground storage for natural gas.
- Processing operations to remove impurities, separate components, like natural gas liquids, etc
- It connects the raw crude oil and gas production (upstream) with the refining sector (downstream).
- Some companies are totally integrated, with upstream, midstream, and downstream activities combined.
- In Europe, most are fully integrated

- Companies operating in the midstream sector, have often times been broken off from their upstream companies.
- Companies in the midstream sector are formed as master limited partnerships (MLP's). Some operate as regular corporations though.
- For instance, the US alone has a network of pipelines with more than 2.8 million miles of pipe.
- Crude oil pipelines themselves are approximately 85,000 miles of pipe.

- Examples of pure-play midstream public MLP companies:

- Magellan Midstream Partners LP (MMP) Now ONEOK
- Energy Transfer LP (ET)
- MPLX LP (MPLX)
- Western Midstream Partners LP (WES)
- Plains All American LP (PAA)
- Hess Midstream LP (HESM)

- Enterprise Products Partners LP (EPD)
- Sunoco (SUN)
- Cheniere Energy Partners (CQP)

- Many older MLP's have re-formed into standard C corporations.
(Commonly called roll-ups)
- The Williams Companies (WMB)
- Kinder Morgan (KMI)
- Oneok (OKE) w/Magellan
- Targa Resources (TRGP)
- Antero Midstream (AM)
- Enbridge (ENB)
- Cheniere Energy (LNG)
- TC Energy (TRP)

- **Investment Returns in Pure-Play MLP's – as of 08/21/2025**

- Yield and five year growth rate, including dividends:

- Magellan Midstream (MMP) (ONEOK)

- Energy Transfer LP (ET) 7.62% 293%

- MPLX LP (MPLX) 7.58% 310%

- Western Midstream Partners LP (WES) 9.57% 536%

- Plains All American LP (PAA) 8.66% 208%

- Hess Midstream LP (HESM) 6.86% 208%

- Enterprise Products Partners LP (EPD) 6.92% 305%

- Sunoco LP (SUN) 7.25% 23.25%

- Cheniere Energy Partners (CQP) 6.28% 22.40%

- Cross America Partners (CAPL) Downstream MLP 10.34% 16.8%

- **Tax implications of pure-play MLP's:**
- Qualify for a wide range of tax deductions.
- MLP's pass through their income and deductions **without** the company paying taxes on it.
- Creates a K-1 for tax reporting, federal and states.
- Distributions in excess of income are a return of capital (ROC) and act to lower basis. 70%-100% of distributions are considered a return of capital. The income is taxed at ordinary income rates with a 20% qualified business income deduction. (QBI)
- Best to buy them in taxable accounts, but dealing in K-1's is difficult, especially since MLP's operate in many states.
- Taxation is generally deferred until the security is sold. An investor gets cash but pays taxes later.
- If cost basis reaches zero, further distributions are taxes as capital gains
- Owning individual MLP's in tax-advantaged accounts can result in UBTI.
- If the owner passes away, the heirs get a stepped up basis.

- Why are MLP's going back to being 'C' corps?
- Decreased complexity. K-1's are complicated and time consuming.
- Incentive Distribution Rights (IDR's) were causing the GP to get higher %'s of cash flow.
- C corps can better manage their cash flow.
- Attract a wider variety of investors.

- **Investment Returns in MLP's converted to "C" Corps—as of 08/22/2025**

- The Williams Companies (WMB)
3.46% 297%

- Kinder Morgan (KMI) 4.36% 154%

- Oneok (OKE) w/Magellan
5.57% 235%

- Targa Resources (TRGP)
2.47% 864%

- Antero Midstream (AM) 5.08% 476%

- Enbridge (ENB) 5.69% 100%

- Cheniere Energy (LNG) .83% 399%

- TC Energy (TRP) 4.70% 63.29%
(100% owner of Keystone Pipeline)

- Example of an MLP purchase I made:
- I bot Crestwood Equity Partners preferred 9.25%
- Par was \$9.13
- Bot it at \$9.17, for a yield of 9.16%
- No rating
- Can't be called and no maturity date
- Acquired by Energy Transfer (ET)
- The preferred is still 9.25%
- Price is now \$11.41
- Yield is now 7.40%

- **Investment strategy delivery vehicles (wrappers)**
- MLP ETF's, CEF's, Mutual Funds and Unit Investment Trusts
- We will consider only ETF's and CEF's.

- There are two types of funds to consider.
- Both types issue a 1099, not a K-1
- First type: Funds that are weighted with **more than 25%** MLP's in them.
- C-Corp MLP funds. Taxed as a corporation.
- Retain the tax characteristics of MLP's, which are tax-deferred ROC and qualified dividends taxed at L/T capital gains rate.
- Doesn't create UBTI.
- Adds simplicity. The ETF issuer processes the K-1 to provide you a regular 1099.
- Best for taxable accounts because of its tax deferred income benefits.
- **Only four ETF's left:**
- Alerian MLP (AMLP) yield is 7.98% \$10 billion in assets. 80% has been tax deferred.
- MLPA MLP (MLPA) yield is 7.41% \$1.8 billion in assets. Index fund.
- Infra-Cap MLP (AMZA) yield is 7.81% \$416 million in assets.
- FT Energy Income Partners (EIPI) Yield is 5.49% \$901 million in assets.

- **CEF's in this category.**
- Many of the CEF's that were taxed as corporations have merged, converted to RIC's or liquidated.
- All of the tax aspects of MLP ETF's are the same here.

- Clearbridge Energy Midstream Opp. Fund (EMO). Yield is 9.29%
- Kayne Anderson Energy Infrastructure Fund (KYN) Yield is 7.87%
- NB Energy Infra & Income Fund (NML) Yield is 8.07%

- Second type:
- Funds that own **up to** 25% MLP's are structured as a RIC ('40 Act Funds)
- Pass-through entities, **NOT** subject to taxes at the corporate level.
- Can still be referred to as midstream funds or as infrastructure funds.
- There's about a dozen midstream RIC ETF's.
- Typically own U.S. and Canada midstream companies.
- The other 75% can be corporate midstreams, utilities, power or other infrastructure stocks.
- Best for tax deferred accounts.
- Best for those seeking total return.

- **Midstream ETF's in the RIC category:**
- Global X & Energy Infrastructure ETF (MLPX) Yield is 4.63%
- Alerian Energy Infrastructure (ENFR) Yield is 4.58%
- Tortoise North American Pipeline Fund (TPYP) Yield is 3.86%
- Tortoise Energy Infrastructure Corp (TYG) Yield is 10.33%

- **Midstream CEF's in the RIC category:**
- Adam's Natural Resources (PEO).
Yield is 9.51%
- Blackrock Resources & Commodities Trust (BCX) Yield is 8.35%
- Blackrock Energy and Resources Trust (BGR) Yield is 8.57% Pays monthly. 3.33% discount. Managed distribution. Actively managed. No leverage. 28 securities. Writes covered calls. Maintains NAV. No MLP's. 100% energy w/ lots of midstreams. Total is \$358 million.

- **Investment Guidelines**

- People think midstream oil and gas companies are insulated from energy prices. Not exactly true.
- In practice, it's much better to buy when energy prices are in the tank.
- And a much better idea is to buy the funds, providing you with:
 - Nice yields, diversification and a 1099.
 - CEF's can also offer leverage and the ability to buy at a discount to NAV.
- With CEF's, liquidity can be constrained.
- CEF's were first to the party, but numbers dwindling.
- Leave the ETF's to the basic investors and the CEF's to the more advanced investors.