

MLP TAXATION KNOW YOUR OPTIONS

Global X Funds | Cohen Fund Audit Services

MLPs can be attractive investments for both income and growth-focused portfolios. How to best access MLPs, however, depends on the goals of one's portfolio. Certain fund structures perform better than others depending on whether the goal is income or capital appreciation, and it is crucial that investors understand these differences. In this webinar, Greg King, and Rob Velotta will discuss the tax implications of MLP investing and how product structure can impact returns.

SPEAKERS

Gregory D. King, CFA
Robert A. Velotta, CPA, MT



OVERVIEW

- Intro by ETF.com
- Greg King (Global X)
 - Brief survey of investable MLP landscape
 - Growth of MLP Structure
 - Mutual Funds and Closed-End Funds
 - ETPs (ETFs and ETNs)
- Rob Velotta (Cohen Fund Audit Services)
 - Reminder: What is an MLP from tax perspective?
 - C-Corp fund structure
 - RIC fund structure
 - ETNs
 - After tax returns: C-Corp ETF vs. ETN vs. RIC ETF
 - MLP Special situations e.g. Kinder
- Q&A

MLP Landscape

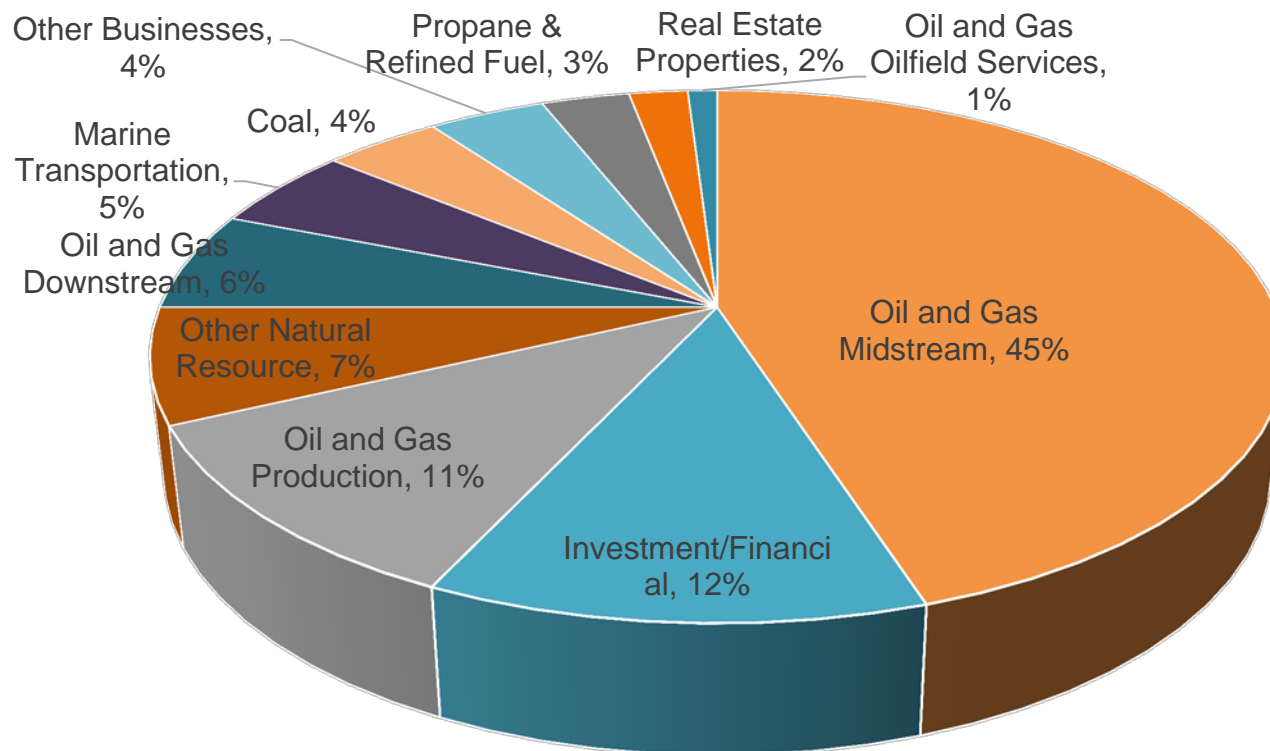


Source: Factset and Wells Fargo Securities, 12/31/2013

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MLP Landscape

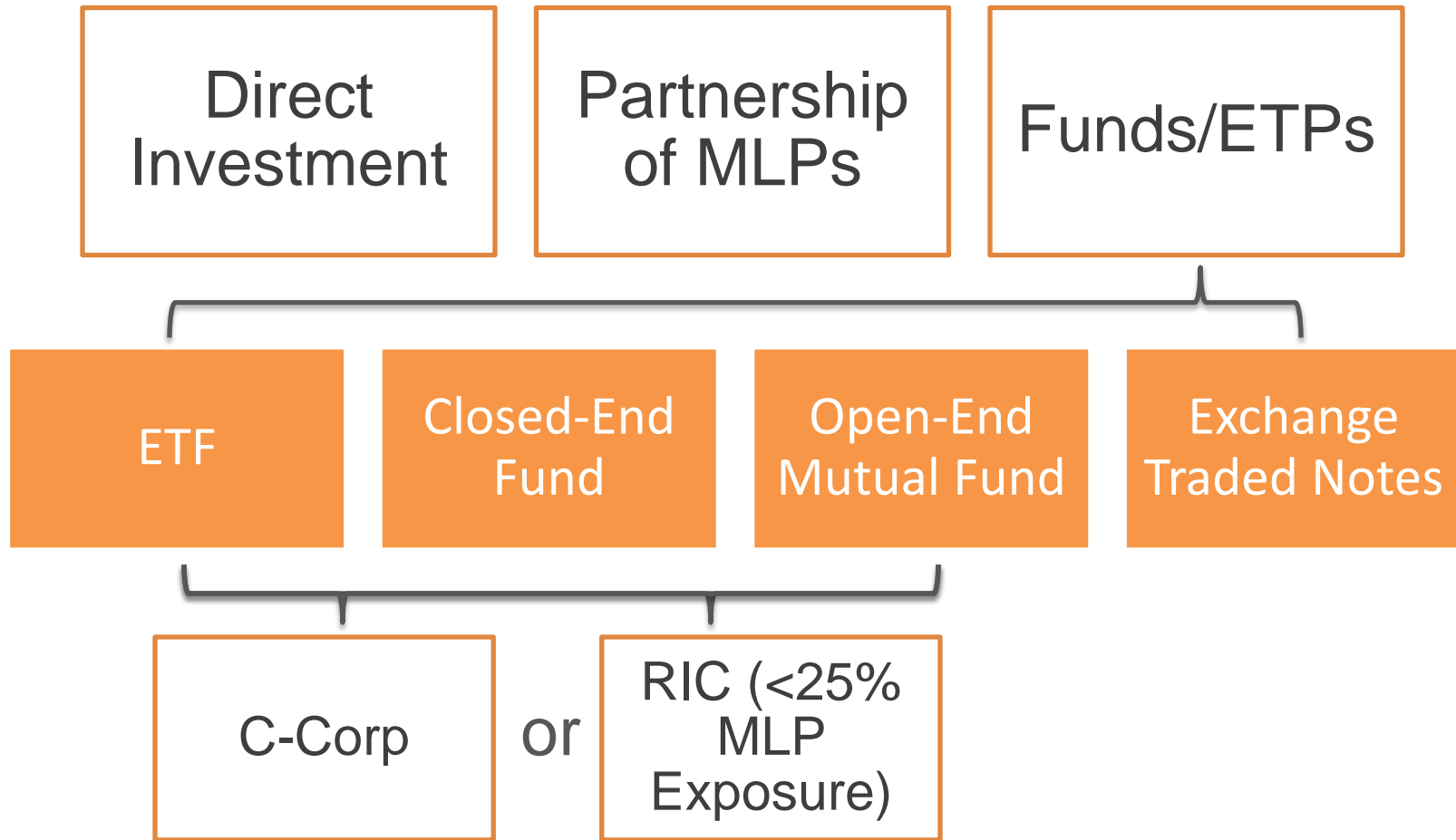
- Over 100 MLPs, with midstream pipelines the most popular
- Currently over \$550b in total market cap
- 14 IPOs, spinoffs, or filings for IPOs in 2014



Source: National Association of Publically Traded Partnerships, 2013

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Investing in MLPs



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Investing in MLPs

Mutual Funds

- 19 open-end mutual funds available
- Over \$23b in total AUM
- Actively managed
- Shareholder purchases and redemptions are at NAV, which includes an accrued tax.
- Average Management Fee*: 1.56%

Closed-End Funds

- 27 close-end funds available
- Over \$33b in total AUM
- First traded on market in 2004
- Trade at a discount/premium to NAV
- Actively Managed
- Incorporate leverage
- Intra-day Liquidity
- Average Management Fee*: 2.18%

*Includes borrowing fees and other expenses. Does not include Tax Expenses

Source: CEFConnect.com, MLPdata.com 8/21/2014

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Investing in MLPs

ETFs

- First ETF launched in 2010
- 6 C-Corp ETFs available
- 3 RIC Structured ETFs
- Over \$10b in total AUM
- Mostly passive instruments
- Intra-day Liquidity
- Average Management Fee*: 0.68%

ETNs

- First ETN launched in 2007
- 12 ETNs available
- Over \$11b in total AUM
- Passively Managed
- Intra-day Liquidity
- Carry credit risk of issuer
- Average Management Fee: 0.84%

*Does not include Tax Expenses

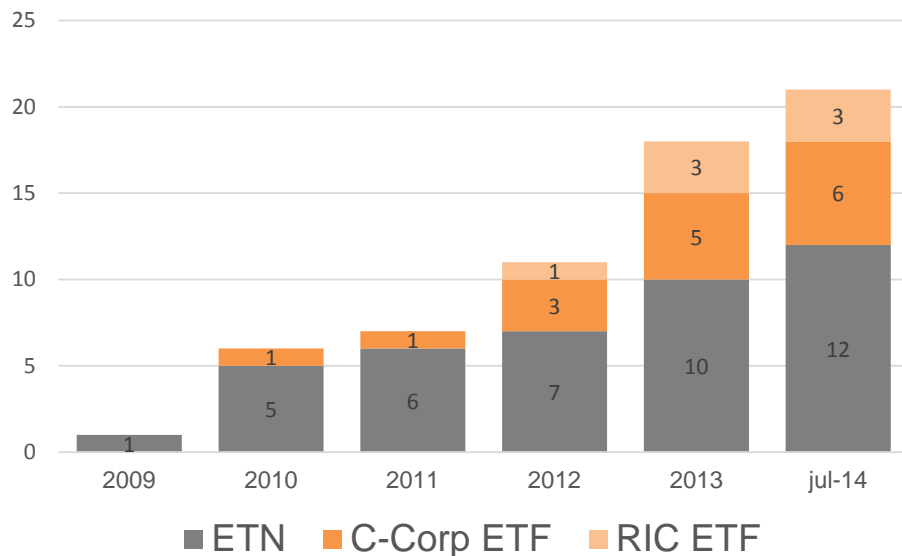
Source: CEFConnect.com, MLPdata.com 8/21/2014

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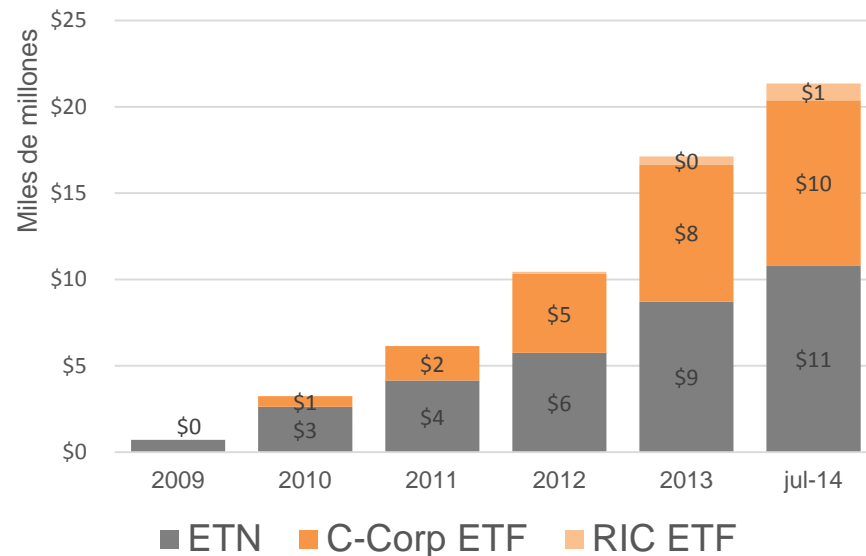
Investing in MLPs

ETPs

of MLP ETPs by Structure



MLP ETP AUM by Structure



Source: Bloomberg, ETF.com, MLPdata.com 7/31/2014

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Investing in MLPs

	Mutual Fund	Closed-End Fund	ETF	RIC Fund (ETF, CEF, MF)	ETN
Exposure	Up to 100% MLPs	Up to 100% MLPs	Up to 100% MLPs	Up to 25% exposure to MLPs, other 75% typically MLP affiliates and energy corporations	Up to 100% MLPs (via note from a bank)
Taxed at Fund Level	Yes, as a C-Corp	Yes, as a C-Corp	Yes, as a C-Corp	No	No
Credit Risk	No	No	No	No	Yes
Tax Reporting	1099 only	1099 only	1099 only	1099 only	1099 only
Active Management	Yes	Yes	No	Some	No

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What is an MLP?

MLPs (master limited partnerships) are publicly traded partnerships: limited partnerships which are traded on stock exchanges that operate active businesses, generally in energy or natural resources

- Types of income limited to “passive income” under IRC Section 7704
 - Interest
 - Dividends
 - Real Property Rents
 - Exploration, development, mining or production, processing, refining, transportation, or marketing of any mineral or natural resource or transportation or storage of certain fuels
 - Gains from sale of capital asset held for production of income described above
 - Income and gains from commodities or commodity derivatives
- Most current MLPs are energy related businesses
- Use of “MLP” label to describe Corporate Entities

MLPs vs. Corporate Stock

MLPs	Corporate Stock
Units	Shares
Pass through	Corporate Tax
K-1	1099
Partnership distribution	Dividend
Deemed disposition of underlying partnership assets	Capital gain on sale of stock
Flow Through of income, UBTI, State Tax	“Blocker” of income, UBTI, State Tax

RIC Limitations

- As changed by American Jobs Creation Act of 2004
- For 90% Good Income Test – IRC Section 851(b)(2)(B) - net income derived from an interest in a qualified publicly traded partnership
- For 25% diversification test – IRC Section 851(b)(3)(B)(iii) – at the close of each quarter of the taxable year, no more than 25% of the total value of the RIC's assets can be invested in the securities of one or more qualified publicly traded partnerships

Therefore:

- A mutual fund/ETF/CEF with 100% exposure to MLPs cannot qualify as a RIC and instead is structured as a taxable C corporation

C-Corp Funds

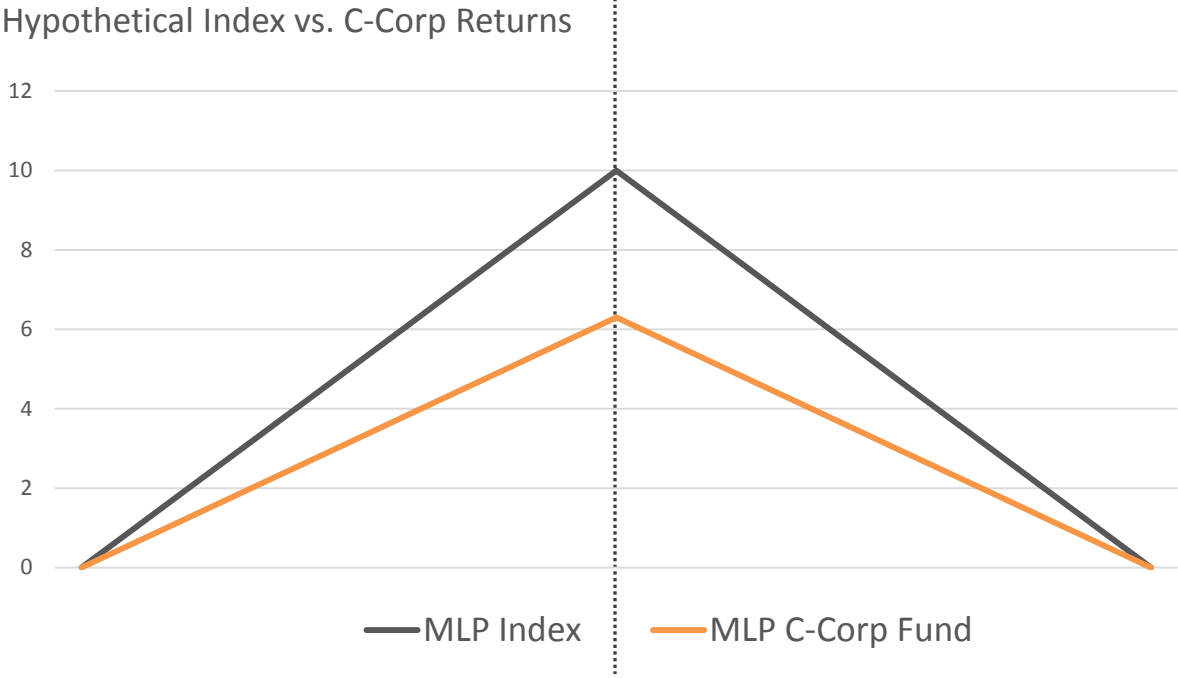
(ETFs, Mutual Funds, CEFs)

- Primary downside is that fund **accrues a corporate tax**
- No K-1s. Have 1099 reporting
- Blocks UBTI and state tax compliance
- No reduced capital gains rates in C corporation
- Distributions from C corporation are treated as dividend income to the extent of current or accumulated earnings & profits
- Dividends may be eligible for qualified dividend rates

C-Corp Fund Performance

Example 1 - Underlying assets in Fund increase by 10%. Fund is accruing a federal and state tax rate of 37%. Investors' increase in value of Fund is 6.3%.

Example 2 – Underlying assets in Fund decrease by 10%. Fund is accruing a federal and state tax rate of 37%. Investors' decrease in value of Fund is 6.3%.



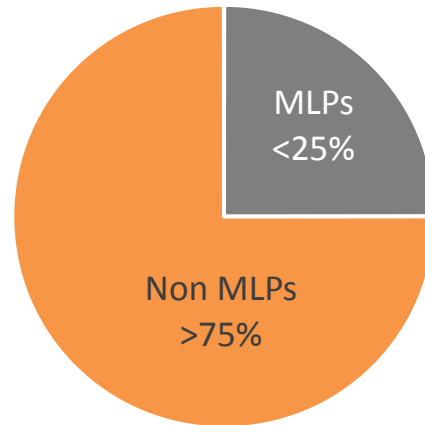
* Above examples assumes no valuation allowances on deferred tax assets of the Funds

RIC MLP Funds

(ETFs, Mutual Funds, CEFs)

- **Limited to 25%** investment in Qualified Publicly Traded Partnerships
- Remaining 75% consists of C corporation General Partners of MLPs or other energy/infrastructure related corporations
- Subject to PAL limitations
- Can pay LTCG distributions
- “Block” UBTI and state tax compliance

Typical Structure of an MLP RIC Fund



RIC Vs. C-Corp MLP Funds

(ETFs, Mutual Funds, CEFs)

- RIC MLP Fund is a flow through entity that pays no tax, but invests primarily (>75% of assets) in corporations that pay tax
- C corporation MLP Fund pays tax, but invests primarily in partnerships that do not pay tax. C corporation does pay tax on capital gains on the sale of the partnership interests

- Unsecured debt of the issuer. Investor does not own any underlying MLPs, but a note pegged to an index
- **Subject to counterparty risk**
- Holders agree to treat quarterly coupon payments (in lieu of MLP distributions) as **ordinary income**
- Prospectuses assume investment is a prepaid forward contract – capital gain on disposition
- Read tax disclosures of prospectus – do they exclude RICs, tax-exempt entities (IRAs), and other investors from Federal Income Tax
Consequences discussion?
- Questions about if IRC Section 1260 (constructive ownership rules) may apply
- ETNs may trade at a discount or premium vs. underlying index if they close to creations, similar to a CEF

After Tax Returns

	MLP Yield	MLP Price Appreciation	Total Return	C-Corp ETF After Tax Return	RIC ETF After Tax Return*	ETN After Tax Return
Example 1	6.0%	0.0%	6.0%	3.0%	1.7%	3.6%
Example 2	6.0%	6.0%	12.0%	6.0%	6.5%	8.4%
Example 3	6.0%	12.0%	18.0%	9.0%	11.3%	13.2%
Example 4	6.0%	-6.0%	0.0%	0.0%	-3.1%	-1.2%

After Tax Return assumes position is sold after one year.

* RIC ETF Assumptions: lower yield of 2.5% due to limited position in MLPs. Also assume 40% of distributions are treated as return of capital and 60% are qualified dividends.

** ETF/ETN Assumptions: maximum individual marginal tax rate of 39.6% (which applies to ETN distributions); an Effective Corporate Income Tax Rate of 37.4% (applicable to MLP ETFs); 100% of distributions are return of capital; Tax Rate of 20% on capital gains. The table above is a general illustration and may differ depending on your own marginal tax rate, the taxability of distributions from the ETF, and the ETF's effective income tax rate.

*** Assumes the MLP ETF has a deferred tax liability to offset against price declines. Accounts may differ if the Fund has valuation allowances against Deferred Tax Assets (DTA).

Kinder Morgan Transaction

– 4 Publicly Traded Entities:

- Kinder Morgan, Inc. (KMI) – Corp. GP of KMP and EPB \$40b market cap
- Kinder Morgan Energy Partners, LP (KMP) – Partnership. \$43b market cap
- Kinder Morgan Management, LLC (KMR) – Corp. Owns LP units of KMP. \$12b market cap
- El Paso Pipeline Partners (EPB) – Partnership. \$9b market cap

Kinder Morgan Transaction

- KMI to acquire outstanding units of KMP and EPB and outstanding shares of KMR
- Expected to be nontaxable to KMR shareholders
- Expected to be treated as a sale of units by KMP and EPB unitholders
- Q4 2014 estimated transaction close date

As of 9/2/2014, KMI, KMP, and EPB accounted for 8.46%, 4.21%, and 0.71% of the Global X MLP & Energy Infrastructure ETF (MLPX), respectively. KMP and EPB accounted for 6.05% and 3.11% of the Global X MLP ETF (MLPA), respectively. Holdings subject to change. Current and future holdings subject to risk. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding the funds or any security in particular.

Thank you

For more information please contact:

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- Rob Velotta at rvelotta@cohenfund.com or visit www.cohenfund.com



Appendix

Comparison of Global X MLP ETFs	Global X MLP ETF (MLPA)	Global X Junior MLP ETF (MLPJ)	Global X MLP & Energy Infrastructure ETF (MLPX)
Exposure	Large Cap MLPs	Small Cap MLPs	MLPs, MLP affiliates (including General Partners of MLPs), and energy infrastructure corporations.
Potential Uses	<ul style="list-style-type: none"> • Accessing high yield potential • Exposure to Large Cap MLPs • Avoiding K-1 tax forms 	<ul style="list-style-type: none"> • Accessing high yield potential • Exposure to Small Cap MLPs • Avoiding K-1 tax forms 	<ul style="list-style-type: none"> • Capturing the potential price appreciation of MLPs and other midstream energy infrastructure companies
Unique Feature	MLPA has the lowest management fee of any MLP ETF at 0.45%*	MLPJ provides unique access to the often overlooked Small Cap segment of the MLP sector which often features more attractive valuations and higher dividend yield potential	MLPX avoids taxation at the fund level by limiting MLP exposure to under 25% of the fund, while accessing highly correlated GPs and other energy infrastructure companies
Taxed at Fund-Level	Yes	Yes	No
K-1s	No	No	No
30-Day SEC Yield**	5.23%	5.51%	2.32%

* Source: etfdb.com, 4/1/2014

**30 Day SEC Yield as of June 30, 2014. To read the Prospectus for more information, please visit globalxfunds.com/MLPA, globalxfunds.com/MLPJ, and globalxfunds.com/MLPX.

Standard Performance

		Since Inception (as of 6/30/2014)	1 Year (as of 6/30/2014)	Annualized Since Inception (as of 6/30/2014)
MLPA Inception Date 4/18/2012	NAV	31.48%	12.57%	13.25%
	Market Price	31.54%	12.63%	13.27%
	SOLMLPA Index	53.35%	19.09%	21.45%
MLPJ Inception Date 1/14/2013	NAV	29.99%	19.60%	19.65%
	Market Price	30.04%	19.27%	19.67%
	SOLMLPJ Index	45.50%	27.07%	29.34%
				Cumulative Since Inception (as of 6/30/2014)
MLPX Inception Date 8/6/2013	NAV	34.01%	---	34.01%
	Market Price	34.61%	---	34.61%
	SOLMLPX Index	34.63%	---	30.63%

	Management Fee	Other Expenses (Deferred Income Tax Expense ¹ and Franchise Tax Expense ²)	Total Annual Fund Operating Expenses
MLPA	0.45%	7.22%	7.67%
MLPJ	0.75%	4.36%	5.11%
MLPX	0.45%	---	0.45%

¹ The Fund is classified for federal income tax purposes as a taxable regular corporation or so-called Subchapter "C" corporation. As a "C" corporation, the Fund accrues deferred tax liability for its future tax liability associated with the capital appreciation of its investments and the distributions received by the Fund on equity securities of master limited partnerships considered to be a return of capital and for any net operating gains. The Fund's accrued deferred tax liability, if any, is reflected each day in the Fund's net asset value per share. The deferred income tax expense/(benefit) represents an estimate of the Fund's potential tax expense/(benefit) if it were to recognize the unrealized gains/(losses) in the portfolio. An estimate of deferred income tax expense/(benefit) is dependent upon the Fund's net investment income/(loss) and realized and unrealized gains/(losses) on investments and such expenses may vary greatly from year to year and from day to day depending on the nature of the Fund's investments, the performance of those investments and general market conditions. Therefore, any estimate of deferred income tax expense/(benefit) cannot be reliably predicted from year to year.

² The Fund has accrued a state franchise tax liability for the year ended November 30, 2013. State franchise taxes are separate and distinct from state income taxes. State franchise taxes are imposed on a corporation for the right to conduct business in the state and typically are based off the net worth or capital apportioned to a state. Due to the nature of the Fund's investments, the Fund may be required to file franchise state returns in several states. Performance is annualized for all funds greater than one year old while performance is cumulative for those less than one year old.

* The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For performance data current to the most recent month end, please call 1-888-GXFUND-1 or visit our website at www.globalxfunds.com

Index Definitions:

- SOLMLPA:** The Solactive MLP Composite Index is intended to give investors a means of tracking the overall performance of the United States master limited partnerships (MLP) asset class.
- SOLMLPJ:** The Solactive Junior MLP Composite Index is intended to give investors a means of tracking the overall performance of the small-capitalization segment of the United States master limited partnerships (MLP) asset class.
- SOLMLPX:** The Solactive MLP & Energy Infrastructure Index is intended to give investors a means of tracking the performance of MLPs and energy infrastructure corporations.

Investing involves risk including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in securities of MLPs involve risk that differ from investments in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP. MLP common units and other equity securities can be affected by macro-economic and other factors affecting the stock market in general, expectations of interest rates, investor sentiment towards MLPs or the energy sector, changes in a particular issuer's financial condition, or unfavorable or unanticipated poor performance of a particular issuer (in the case of MLPs, generally measured in terms of distributable cash flow). The funds invest in the energy industry, which entails significant risk and volatility. In addition, MLPA, MLPJ, and MLPX are non-diversified which represents a heightened risk to investors. Furthermore, MLPA, MLPJ, and MLPX invest in small and mid-capitalization companies, which pose greater risks than large companies. There is no guarantee distributions will be made and dividends may be reduced or eliminated at any time. The potential tax benefits from investing in MLPs depend on them being treated as partnerships for federal tax purposes. MLPA and MLPJ are taxed as regular corporations for federal income tax purposes, which differs from most investment companies. The amount of taxes currently paid by MLPA and MLPJ will vary depending on the amount of income and gains derived from MLP interests and such taxes will reduce an investor's return from an investment in the funds. MLPA and MLPJ will accrue deferred income taxes for any future tax liability associated with certain MLP interests. Upon the sale of an MLP security, MLPA and MLPJ may be liable for previously deferred taxes which may increase expenses and lower the fund's NAV.

Global X Funds are not affiliated with Cohen Fund Audit Services, Ltd. or etf.com.

MLPX has a different and more complex tax structure than traditional ETFs and investors should consider carefully the significant tax implications of an investment in MLPX.

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Funds' prospectus, which may be obtained by calling 1-888-GX-FUND-1 (1.888.493.8631), or by visiting www.globalxfunds.com. Read the prospectus carefully before investing.

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