



**DIVIDEND ASSETS CAPITAL, LLC**

INVESTMENT ADVISORS

## MLP STRATEGY

DIVIDEND ASSETS CAPITAL – INVESTMENT STRATEGIES FOR RISING INCOME & GROWTH 09/30/18

### PARTICIPATING IN THE ENERGY REVOLUTION

**CONSISTENTLY RISING INCOME** provides opportunities for enhancing income and to help protect purchasing power.

**GROWING DEMAND FOR ENERGY** and new U.S. oil and gas reserves propel MLP expansion and investors' potential.

**FIND INCOME IN A LOW YIELD UNIVERSE** through the higher yields and chance for tax deferral of MLPs.

### FOCUSED INVESTMENT APPROACH

MLPs present the opportunity to participate in the energy sector and have historically demonstrated less volatility than the underlying commodity. Within the universe of available MLPs, we seek companies that have historically consistent rising distributions, strong balance sheets, and significant growth potential at attractive prices.

Demand for energy is increasing and the U.S. is taking the lead in discovery and production.

Exploration and extraction of natural gas formations in vast domestic reserves are growing. Shale plays across the country include Monterey Shale (central California), Eagle Ford Shale, Granite Wash, Permian Shale (Texas, Texas-Oklahoma Panhandle), Bakken Shale (North Dakota, Williston Basin), and Marcellus Shale (Pennsylvania, Appalachian Basin).

WE SEEK TO INVEST IN HIGH-QUALITY MASTER LIMITED PARTNERSHIPS (MLPS) THAT OFFER INVESTORS THE POTENTIAL FOR HISTORICALLY HIGHER INCOME THAN TRADITIONAL SOURCES DURING CHALLENGING YIELD ENVIRONMENTS, AS WELL AS CAPITAL APPRECIATION AND DIVERSIFICATION.

### THE IMPACT OF MLPs

- As the U.S. moves to create and export more energy, MLPs are positioned to play a critical role in financing infrastructure construction and maintenance.
- MLP earnings tend to be stable, providing a potentially reliable source of ongoing income.
- With historically low interest rates, MLPs have generated consistent and attractive relative yields.

### UNITS

- MLPs are limited partnerships that trade in the form of units on public securities exchanges, much like stocks. All of the MLPs we favor pay distributions on a quarterly basis and many grow these distributions quarterly.

### MIDSTREAM ENTITIES

- Most Energy MLPs are considered midstream entities. They own the networks of storage facilities and pipelines used to transport the energy (generally oil, gas, and natural gas liquids) to and from the refineries to end-users.
- Energy MLPs play a critical role in providing the distribution infrastructure across all states.
- We want exposure to the growth in demand for something as critical as energy, but we would prefer to avoid, as much as possible, direct exposure to the volatility of the underlying commodities.

### REVENUE

- MLPs charge fees for transporting petroleum products, and the Federal Energy Regulatory Commission (FERC) regulates the transmission rates they may charge.
- FERC oversight tends to limit partnership returns on the upside, but also tends to stabilize the earnings.

### COMPETITION

- Another reason we recommend Energy MLPs is the high barrier to entry that characterizes this industry.
- Because of disruptions in creating new rights-of-way, building new pipelines could prove to be prohibitively expensive and time-consuming.

### TAX ISSUES

- The IRS considers MLPs to be pass-through entities; MLPs do not pay income tax.
- Individuals generally receive K-1 tax forms by March 15 of each year.
- For most investors, a substantial portion (typically 70-80 percent) of the cash distributions they receive as LP unit holders in a given year is considered a return of capital.
- When units are sold, a portion may be taxable at ordinary tax rates.

Investments for our MLP Portfolios are generally MidStream Energy MLPs, offering the potential for greater diversification in an overall investment strategy than traditional stocks and bonds. When selecting MLPs, we assess the growth of the distributions, geographic footprint, credit quality, the fundamentals of the business and the attractiveness of the price of the security.

Top Ten Holdings	Portfolio	Dividend	Cap
Enterprise Products Partners LP	11.58	5.9%	62.5
Magellan Midstream Partners LP	9.57	5.5%	15.5
Energy Transfer Partners LP	8.53	10.2%	26.0
MPLX LP	8.53	7.0%	27.5
Tallgrass Energy LP	8.42	7.2%	6.6
Andeavor Logistics LP	6.66	8.3%	11.9
Western Gas Partners LP	5.93	8.5%	7.3
Phillips 66 Partners LP	5.68	5.5%	6.3
EQT Midstream Partners LP	5.67	7.9%	6.7
Cheniere Energy Partners LP	5.21	5.2%	19.1

## COMBINED PERFORMANCE OF SELECT PORTFOLIOS\*\*

Total Returns %	Qtr	YTD	1 YR	Annualized			
				3 YR	5 YR	10 YR	Incept.*
DAC (Gross of Fees)	5.90%	4.12%	0.56%	3.09%	-1.00%	10.54%	9.14%
DAC (Net of Fees)	5.60%	3.27%	-0.53%	-2.19%	-1.84%	9.65%	8.30%
Alerian MLP Index	6.57%	5.90%	4.89%	4.43%	-2.72%	9.11%	7.65%

\*Inception Date 4/30/06

Calendar Year	2017	2016	2015	2014	2013	2012	2011	2010	2009
DAC (Gross of Fees)	-6.92%	17.62%	-29.87%	12.14%	26.35%	8.41%	15.82%	33.86%	63.25%
DAC (Net of Fees)	-7.86%	16.88%	-30.41%	11.28%	25.34%	7.57%	14.92%	32.95%	61.91%
Alerian MLP Index	-6.52%	18.31%	-32.60%	4.80%	27.59%	4.35%	13.97%	35.90%	76.46%

Certain performance calculations are prepared internally and have not been verified or audited by a third party. The use of a different methodology for preparing, calculating, or presenting performance returns may lead to different results and such results may be material. **Past performance is not indicative of future results.**

\*\*HISTORICAL PERFORMANCE RETURNS. Performance calculations are time-weighted and include the reinvestment of dividends and other earnings. The MLP composite includes discretionary and non-discretionary accounts. Net performance results reflect the deduction of investment management fees. Gross performance results do not reflect the deduction of investment management fees, and are net of commissions and foreign withholding tax.

The S&P 500 Index is a market value weighted index consisting of 500 stocks chosen for market size, liquidity and industry group representation.

The Alerian MLP Index (NYSE: AMZ) is a widely recognized, unmanaged index that includes a composite of the 50 most prominent energy MLPs.

These indexes are unmanaged, and you cannot invest directly in an index. The index comparisons are provided for informational purposes only and should not be used as the basis for making an investment decision. The index returns do not reflect the deduction of fees.

## PORTFOLIO CHARACTERISTICS

Average Market Capitalization	\$18.5B	Distribution Yield	7.0%	Beta	0.88
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For the period April 30, 2006 to December 31, 2013, inclusion in the MLP composite was based on portfolios with an initial target allocation of 90% holdings in MLPs. Based on customization of client accounts that occurred over time, not all accounts in the portfolio held investments meeting the target allocation. As of January 2014, the following composite methodology was used: No Fixed Income, target 90% or greater in MLPs and 10% in cash. In addition, each individual portfolio in the composite is customized to the client's investment objectives. This also contributes to a wide dispersion of performance returns for portfolios in the composite.

OWNERSHIP IN MASTER LIMITED PARTNERSHIPS. Master Limited Partnerships (MLPs) are limited partnerships that trade as units on public securities exchanges. MLPs are generally held in an investor's account to generate income. A substantial portion of the cash distributions made are considered a return of capital, tax-deferred until the units are sold. Investors should consult a tax advisor regarding individual circumstances. Investors in MLPs should determine the tax consequences of investing in MLPs based on their specific circumstances and should consult with their tax advisor regarding the tax consequences of an investment strategy of investing in MLPs. Investors in MLPs should be aware that any changes in the current tax law could potentially result in future and retroactive tax consequences and should consult their tax advisors regarding any tax law changes. Investors in MLPs may be required to file tax returns and pay tax in each state in which the MLP operates. Individual retirement accounts and retirement plans investing in MLPs may be required to report unrelated business taxable income (UBTI) and pay unrelated business income tax (UBIT). Tax reporting information for MLPs is provided to investors on an annual Schedule K-1 issued by an MLP. Investors may be required to request an extension of time to file their tax returns if an MLP has not issued a Schedule K-1 by April 15.

Dividend Assets Capital, LLC (DAC) is a Registered Investment Adviser with the U.S. Securities and Exchange Commission. Registration does not imply any certain level of skill or training. The risk of substantial loss exists in equity and MLP trading and equity and MLP investments are not suitable for all investors. You should carefully assess your objectives and risk tolerance before investing. Data is deemed to be reliable, but DAC does not guarantee reliability or accuracy. Information provided is as of the date of this report and subject to change at any time.

ADDITIONAL INFORMATION. You should carefully consider the investment objectives, potential risks, management fees, and charges and expenses before investing. The Firm's Investment Adviser Brochure, Form ADV Part 2, contains this and other information about the Firm, and should be read carefully before investing. You may obtain a current copy of DAC's Form ADV Part 2 by visiting our website at [www.DACapitalSC.com](http://www.DACapitalSC.com), emailing [info@DACapitalSC.com](mailto:info@DACapitalSC.com), or by calling us at (866) 348-4769. Additional information about Dividend Assets Capital, LLC is also available on the United States Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) You may search this site using a unique identifying number known as a CRD. DAC's CRD is 129973.



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