

Alerian MLP Index (NYSE: AMZ) Index Methodology Guide

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Alerian Capital Management LLC
2100 McKinney Avenue
Dallas, TX 75201
www.alerian.com

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INTRODUCTION

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class. The index is calculated by Standard & Poor's using its standardized proprietary methodology in consultation with Alerian Capital Management for application to the Master Limited Partnership sector. The index is disseminated real-time on a price-return basis (NYSE: AMZ) and the corresponding total-return index is disseminated daily through ticker AMZX. Relevant data points such as dividend yield are also published daily. Historical performance data, constituents, total market capitalization, and announcements regarding constituent changes can be found at www.alerian.com.

ABOUT ALERIAN CAPITAL MANAGEMENT LLC

Alerian is a registered investment advisor that manages portfolios exclusively focused on midstream energy Master Limited Partnerships. The company focuses on fundamental analysis in this emerging asset class, combining its bottoms-up, private-equity philosophy with risk management programs designed to preserve capital and mitigate portfolio volatility. Investing in both the private and public equity markets, the company concentrates on maximizing absolute total returns on a risk-adjusted basis. For more information, visit www.alerian.com.

DOCUMENTS

The following documents are used to calculate the units outstanding and investable weight factors of the constituents of the Alerian MLP Index (NYSE: AMZ).

- Press releases via PR Newswire, Business Wire, Market Wire, Globe Newswire, and constituent websites
- Annual reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (10-K, 20-F)
- Quarterly reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (10-Q, 6-K)
- Certain registration statements pursuant to Rules 415 and 462 under the Securities Act of 1933 (S-1, S-3)
- Prospectuses and prospectus supplements pursuant to Rules 424(B)(#)
- Proxy statements pursuant to Section 14(a) of the Securities Exchange Act of 1934 (DEF 14A)
- Current reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 (8-K, 6-K)
- Schedules (13D, 13G) under the Securities Exchange Act of 1934

The following documents are not used in the aforementioned calculations.

- Forms (4) pursuant to Section 16(a) of the Securities Exchange Act of 1934
- Certain registration statements under the Securities Act of 1933 (S-8)

UNITS OUTSTANDING

All of a constituent's units outstanding are included except general partner ("GP") units and tradable, non-common units. The following is a list of examples of the latter.

Constituent Common Units	Tradable, Non-Common Units
Enbridge Energy Partners LP (NYSE: EEP)	Enbridge Energy Management LLC (NYSE: EEQ) ¹
Kinder Morgan Energy Partners LP (NYSE: KMP)	Kinder Morgan Management LLC (NYSE: KMR) ¹
Natural Resource Partners LP (NYSE: NRP)	Natural Resource Partners LP (NYSE: NSP) ²
Star Gas Partners LP (NYSE: SGU)	Star Gas Partners LP (NYSE: SGH) ²

The following is a non-exhaustive list of units included in the calculation of units outstanding.

- Common units
- Subordinated units
- Special class units

This number generally reflects that which is represented by the latest annual or quarterly report, unless otherwise indicated by a press release or Securities and Exchange Commission document filed pursuant to a transaction. The following is a non-exhaustive list of qualifying transactions and the point at which they are reflected in a constituent's units outstanding.³

Qualifying Transaction	Reflected in Units Outstanding
Public secondary equity offerings	Time of pricing
Over-allotment option exercises	Earlier of time of press release or current report
Private investments in public equity ("PIPEs")	Time of closing
Unit repurchases	Earlier of time of press release or current report

INVESTABLE WEIGHT FACTORS

A constituent's investable weight factor ("IWF") has three components.

- Numerator
- Units outstanding
- GP adjustment

The numerator is equal to the number of tradable units and is calculated as follows.

- Units outstanding
 - Non-common units
 - Locked up common units⁴
 - Insider-owned common units⁵
 - GP-owned common units⁶

The GP adjustment is calculated as follows.

$$100\% - \text{GP percentage}^7$$

The IWF is then calculated as follows.

$$\text{Numerator} * \text{GP adjustment} / \text{Units outstanding}$$

CONSTITUENT CRITERIA

A company or partnership must meet the following criteria in order to be eligible for addition to the index.⁸

- Trade on the New York Stock Exchange, NASDAQ, or American Stock Exchange
- Be a publicly traded partnership or limited liability company exempt from corporate taxation⁹
- Be engaged in the production, transportation, processing, or storage of energy commodities
- Represent both/either the limited and/or GP interests of a partnership or limited liability company that is an operating company¹⁰
- Have four consecutive quarters of distributions equal to or greater than the partnership's minimum quarterly distribution ("MQD")¹¹
- Have a median daily trading volume for each of the trailing six full months of at least 25,000 units
- Have not received a merger or buyout proposal that management has approved¹²
- Have not received a merger or buyout proposal to which management has yet to respond¹²

In addition, preference is given to partnerships meeting the following criteria, in order.

- Close above \$5 on each trading day during the last full month
- Have a median daily trading volume for each of the trailing six full months of at least 50,000 units
- Have an unadjusted market capitalization of at least \$500 million
- Have an IWF of at least 25%

If there are not 50 partnerships meeting both the mandatory and preferential criteria, all remaining partnerships are screened on market capitalization, adjusted market capitalization ("AMC"), and median liquidity rank ("MLR").¹³ All else equal, preference is generally given to the following (in order).

- Partnerships that have a rank that is equal to or better than the number of spots remaining in the index in all three categories
- Partnerships that have a rank that is equal to or better than the number of spots remaining in the index in only market capitalization and AMC, but have seen a recent uptick in liquidity due to an increase in float¹⁴
- Partnership that are already in the index¹⁵
- Partnership that have never cut their distribution
- Partnership with pipeline business models¹⁶

These criteria are reviewed regularly to ensure consistency with industry trends. Any changes will be announced in advance.

INDEX EQUATIONS

The index is calculated according to the following equations.

- Index Value = Σ AMC / Divisor
- AMC = Price x Units x IWF
- Initial Index Divisor = Σ AMC / Base Index Value
- New Divisor = Σ New AMC / Old Index Value

Index values are rounded to six decimal places and divisors are rounded to 14 decimal places. The index closing price is calculated using the closing prices issued by the primary exchange for each constituent in the index. If the primary exchange changes the closing price of a constituent, the new price will be used to calculate the closing value of the index. A final check of closing prices is completed between one and two hours after market close. Only changes received prior to this final check are used in the calculation of the closing index value.

INDEX REBALANCINGS

Index rebalancings fall into three groups. Major rebalancings occur in March, June, September, and December of each year. Minor rebalancings occur in all other months. All major and minor index rebalancings occur at the close of business on the third Friday of the month and are effective at the open of the next trading day. In the event that the major US exchanges are closed on the third Friday of a given month, the rebalancing will take place at the close of business on the immediately preceding trading day. Special rebalancings occur as triggered by corporate actions, and take place at the close of business on the last day of trading for an existing constituent. Corporate actions include, but are not limited to the following.¹⁷

- Mergers of two constituents
- Delistings
- Bankruptcies

On major rebalancing dates, all units outstanding and IWFs are adjusted to reflect the latest information available. On minor rebalancing dates, only those constituents that have had an accumulated change greater than or equal to 5% in their units outstanding as compared to the previous rebalancing will have adjustments in their units outstanding and IWFs. On special rebalancing dates, only new and triggering constituents will be updated to reflect the latest information available.¹⁸ No other constituent units outstanding or IWFs will be affected, even if the 5% threshold is exceeded.

In the case of a stock dividend, a constituent's units outstanding are adjusted at the close of business on the trading day immediately prior to the ex-dividend date.

TREATMENT OF DISTRIBUTIONS

The price-return index does not account for distributions. The total-return index accounts for distributions by including them on the ex-dividend dates of the underlying constituents and reinvesting them daily.

BASE DATE

The base date for the index is December 29, 1995, with a base value of 100.

ANNOUNCEMENTS

Constituent changes on major rebalancing dates will be announced after the close of business on the immediately preceding trading day. Constituent changes on special rebalancing dates will be announced as soon as is practical.¹⁹ Announcements can be found on the website, www.alerian.com.

HOLIDAY SCHEDULE

The index is calculated when US equity markets are open.

INDEX GOVERNANCE

The Alerian Index Committee (“AIC”), which consists of three full-time professionals of Alerian’s staff, maintains the index. The AIC meets on the second Friday of each month. At each meeting, the AIC reviews the data relevant to the mandatory and preferential criteria for every partnership in the sector, as well as corporate actions that may result in special rebalancings. The AIC may also revise the index’s methodology at this time. Alerian believes that information regarding changes to the index and its methodology is material and can have an impact on the market. Consequently, all AIC discussions are confidential.

DATA INTEGRITY

Standard & Poor’s uses various quality assurance tools to monitor and maintain the accuracy of its data. While every reasonable effort is made to ensure data integrity, there is no guarantee against error. Incorrect data will be corrected as soon as feasible upon detection. Incorrect intraday ticks of the index resulting from data errors will not be corrected.

INDEX METHODOLOGY HISTORY

The following is a history of changes to this document.

Version	Date	Change
1.0	1 June 2006	First edition
2.0	15 August 2006	Second edition
3.0	26 October 2009	Third edition

CONTACT INFORMATION

Index Management | Kenny Feng, CFA | Portfolio Manager | 214.740.6045 | kf@alerian.com
Investor Relations | Whitney Hain | 214.740.6040 | wh@alerian.com

ENDNOTES

¹ EEQ and KMR are both examples of tradable institutional units.

² NSP and SGH are both examples of tradable subordinated units. Both of these securities are no longer tradable.

³ The word “reflected” here means for intermediate calculation purposes only. Changes to units outstanding and IWFs, as it relates to calculating the index, only occur on rebalancing dates.

⁴ PIPE investors are usually subject to lock-up periods. A common unit issued in a PIPE transaction is considered to be locked up until the later of (a) the expiration date of the lock-up period and (b) the effectiveness date of the accompanying registration statement.

⁵ For the purposes of this calculation, insider-owned common units are those which are included in Item 12 (“Security Ownership of Certain Beneficial Owners and Management”) of a constituent’s latest annual report or proxy statement. This number is frequently expressed as, or is similar to “All directors and named executive officers as a group”. Though insiders file Forms (4) to indicate changes to their ownership position between annual reports and proxy statements, they are not factored into the calculation.

⁶ Although Forms (4) are ignored, Schedules (13) and other documents (e.g. press releases, 8-Ks, and prospectus supplements) indicating changes to ownership by a GP entity are factored into the calculation immediately.

⁷ For constituents with a non-economic GP or no GP at all, the GP percentage is 0%. For traditional MLPs, the GP percentage typically starts at 2%, and either (a) stays constant if the GP makes coincident contributions with the constituent’s equity offerings or (b) falls if the GP chooses not to do so. When the specific number of GP units is available, it is used to calculate the GP percentage. The GP’s contribution decision related to a specific equity offering is frequently found in at least one of the following documents: (a) the prospectus supplement accompanying the equity offering, (b) the current report accompanying the equity offering, and (c) the quarterly or annual report immediately following the closing of the equity offering.

⁸ With the exception of the criteria related to the merger or buyout proposal, an existing constituent is removed on the immediately following major rebalancing date if it fails to meet all of the criteria below.

⁹ Publicly traded partnerships are exempt from corporate taxation if at least 90% of their gross income comes from qualifying sources as stipulated in U.S. Code 26, § 7704(d)(1).

¹⁰ Closed-end funds, exchanged-traded funds, investment vehicles, royalty trusts, and income trusts are not eligible for inclusion.

¹¹ A partnership’s MQD can be found in the prospectus related to its initial public offering. A partnership fails to meet this criterion if it pre-announces a distribution cut below its MQD after declaring its distribution for the immediately preceding quarter but before the upcoming major or special rebalancing date. However, a partnership that cuts its distribution due to publicly ongoing merger or buyout discussions will not be removed from the index on that basis alone. If the discussions dissolve and the partnership fails to reinstate a distribution that is greater than or equal to its MQD by the immediately following quarter, it will then be removed.

¹² And/or the Conflicts Committee, as appropriate.

¹³ MLR is a means of ranking a partnership’s relative liquidity profile. Partnerships meeting the mandatory criteria but failing at least one of the preferential criteria are ranked in each of the trailing six full months according to their median daily trading volume. The median of those six rankings is taken for each partnership, and the partnerships are ranked again according to this score.

¹⁴ This increase may be the result of a public secondary offering, conversion of non-common units to common units, expiration of the lockup period on some of a partnership’s common units, and/or other liquidity event.

¹⁵ Turnover in index membership will be avoided when possible.

¹⁶ This description excludes shippers, propane distribution entities, coal entities, E&P entities, and refiners, among others.

¹⁷ Constituents that are halted from trading may remain in the index at Alerian’s discretion until trading resumes.

¹⁸ A triggering constituent is defined as a surviving constituent of the corporate action that triggered the special rebalancing, e.g. the acquirer in a merger of two constituents.

¹⁹ Practical excludes the possibility of an announcement prior to unitholder approval, as stated in a partnership’s press release or delisting notice.

DISCLAIMERS

Conflict of Interest. Alerian Capital Management LLC (“Alerian”) is a general partner or investment advisor to a number of private investment funds (the “Funds”), both onshore and offshore, that primarily invest in Master Limited Partnerships (“MLPs”). This report does not constitute, and does not purport to be, an offer to invest in any of the Funds. Such an offer may only be made through the Funds’ respective Confidential Private Placement Memoranda, the review of which is permitted by invitation only.

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