

ACM

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MLP Market Analysis: Cost of Capital and the Financing Gap

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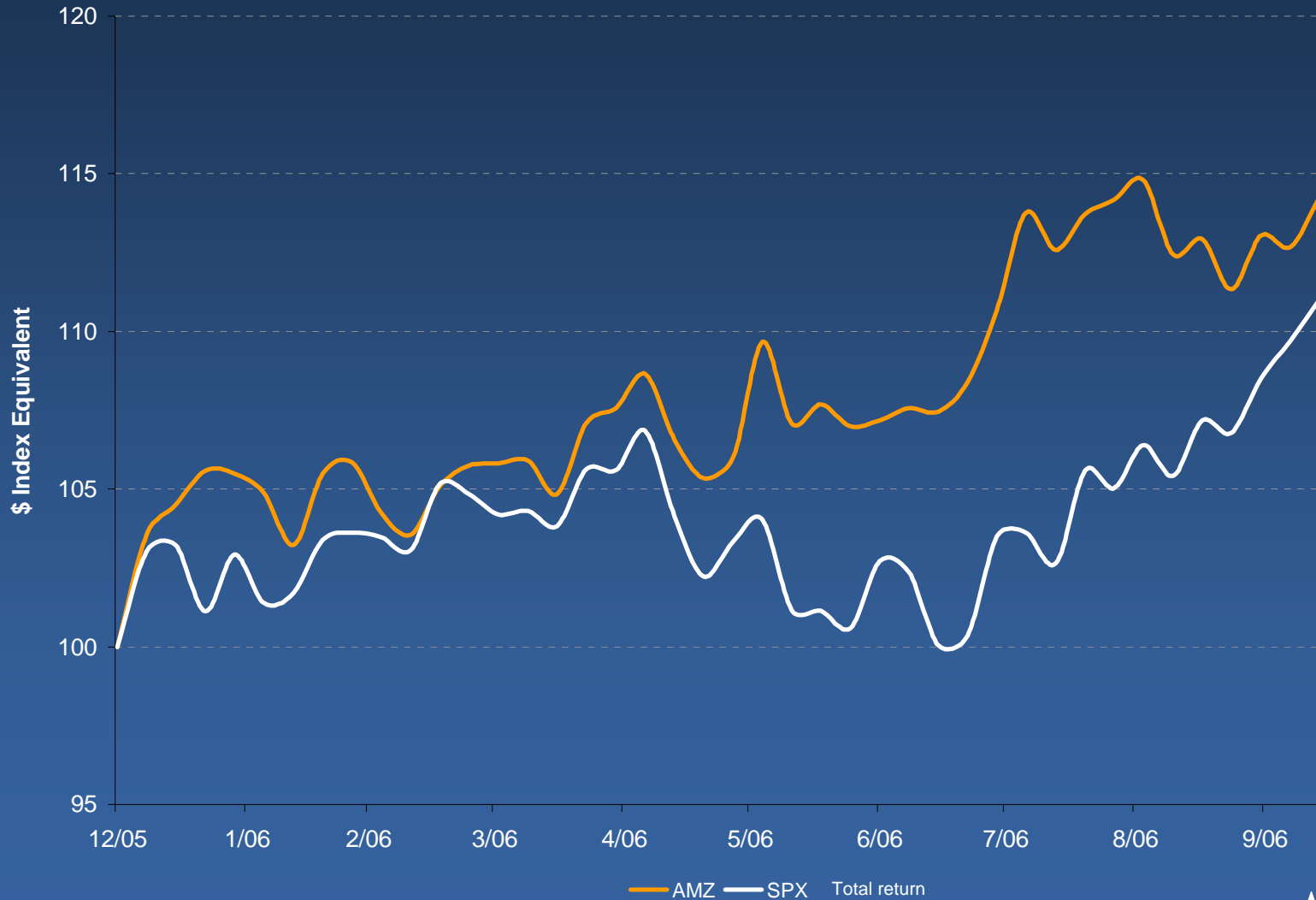
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2006 in Review: The AMZ vs. the S&P 500



Decade in Review: The AMZ vs. the S&P 500



Introduction to the Alerian MLP Index Series

- The Alerian MLP Index Series is a composite of the 50 most prominent energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology
- The first of its kind, the index provides investors with an unbiased, comprehensive benchmark for the performance of the energy master limited partnership universe
- Using Standard & Poor's proprietary calculation methodology, the Alerian MLP Index provides transparency into the historical performance of Master Limited Partnership investments
- The index is disseminated by the New York Stock Exchange in real-time on a price return basis (NYSE: AMZ); the corresponding total return index is calculated and disseminated daily through ticker AMZX

Additional Constituent Requirements

- *Market capitalization.* Each constituent security must have a market capitalization of at least \$500 million. This minimum requirement is reviewed from time to time to ensure consistency with market conditions
- *Adequate trading liquidity.* Each constituent security must maintain a ratio of annual dollar value traded to market capitalization of 0.30 or greater
- *Public Float.* Each constituent security must have a public float of at least 50% of the total outstanding units
- *Financial viability.* Each constituent security must maintain trailing twelve months distributable cash flow that exceeds cash distributions paid to unitholders, where distributable cash flow is defined as GAAP net income excluding discontinued operations and extraordinary items, plus non-cash charges such as depreciation and amortization, and minus maintenance capital expenditures

Comparative Performance Review

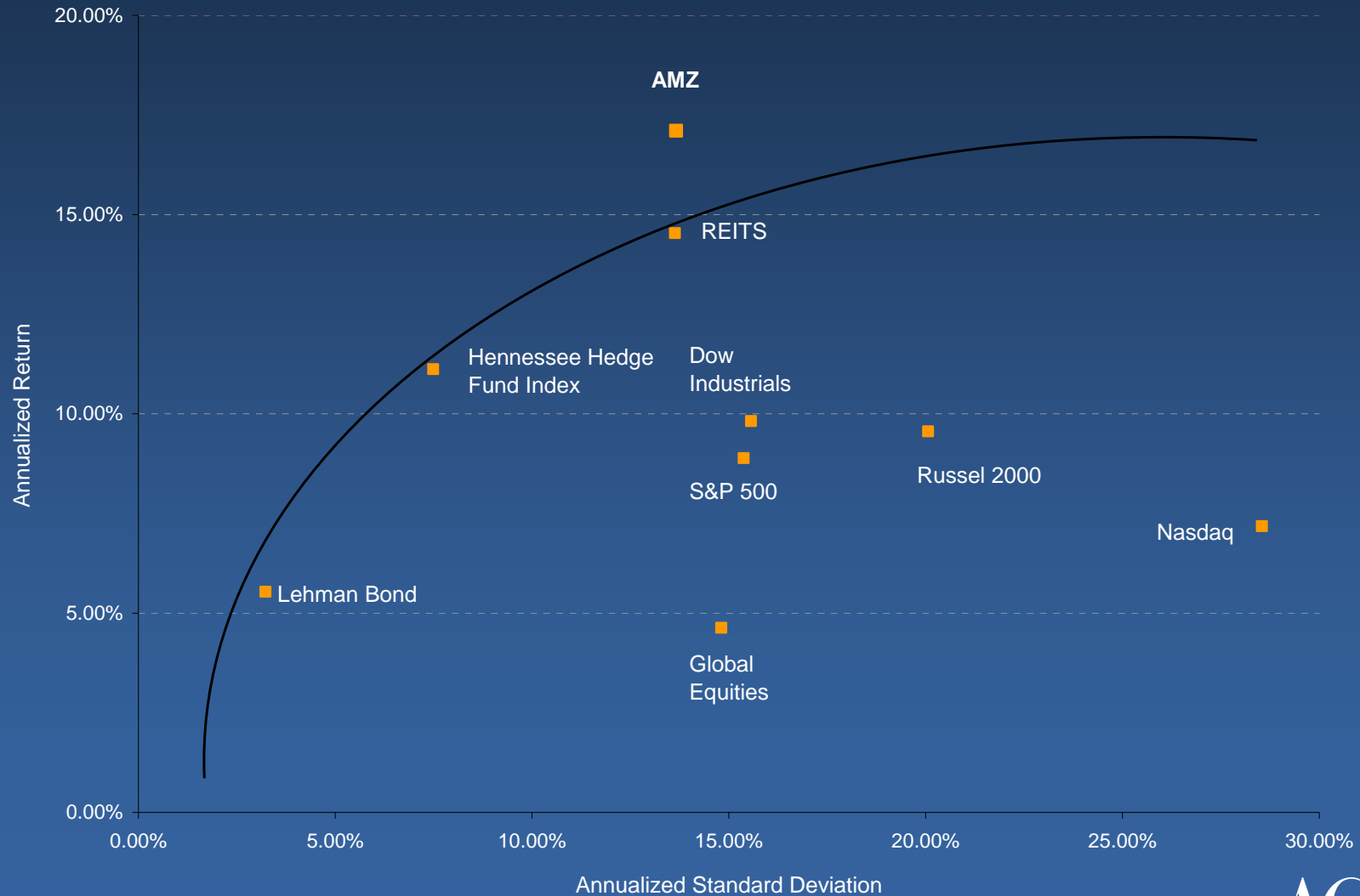
December 1995- September 2006

	Annualized Return	Standard Deviation	Largest Drawdown	% Positive Months	Value of \$1,000	Sharpe Ratio	Correlation to MLPs
AMZ	17.1%	13.4%	-15%	68%	\$5,468	1.05	
S&P 500	9.0%	15.2%	-47%	63%	\$2,522	0.34	0.23
Russell 2000	9.4%	19.9%	-31%	59%	\$2,614	0.27	0.29
Hedge Funds	10.6%	7.4%	-12%	61%	\$2,914	1.02	0.24
REITS	15.8%	13.6%	-19%	65%	\$4,838	0.77	0.35
NASDAQ	7.0%	28.3%	-78%	53%	\$2,076	0.13	0.17
EAFE World	4.8%	14.6%	-47%	62%	\$1,660	0.00	0.17
Dow Jones	9.8%	15.4%	-31%	61%	\$2,739	0.38	0.25

Indices do not include fees or operating expenses and are not available for actual investment. Indices presented are representative of various broad based asset classes. They are unmanaged and shown for illustrative purposes only. An investor cannot invest directly in an index.

The AMZ is a float-adjusted capitalization-weighted index that measure the performance of 50 most prominent energy Master Limited Partnerships. The S&P 500 Index is a capitalization-weighted index that measures the performance of 500 large-capitalization domestic stocks representing all major industries. The Russell 2000 Index offers investors access to the small-cap segment of the U.S. equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The National Association of Real Estate Investment Trusts Index (NAREIT) is an unmanaged, market capitalization-weighted index of all equity Real Estate Investment Trusts (REITs). The NASDAQ (National Association of Securities Dealers Automated Quotation System) Composite Index measures over 3,000 stocks listed on the NASDAQ Stock Market. The MSCI EAFE Index (EAFE World) is a representation (or model) of the performance of the world's equity markets, excluding the U.S. and Canada. and does not include fees or expenses. The Dow Jones Industrial Average is a price-weighted index comprised of 30 leading companies indicating the general state of the stock market. Hedge Funds are represented by the Hennessee Hedge Fund Index. The index tracks broad-based hedge fund performance.

Risk vs. Reward (December 1995 – September 2006)



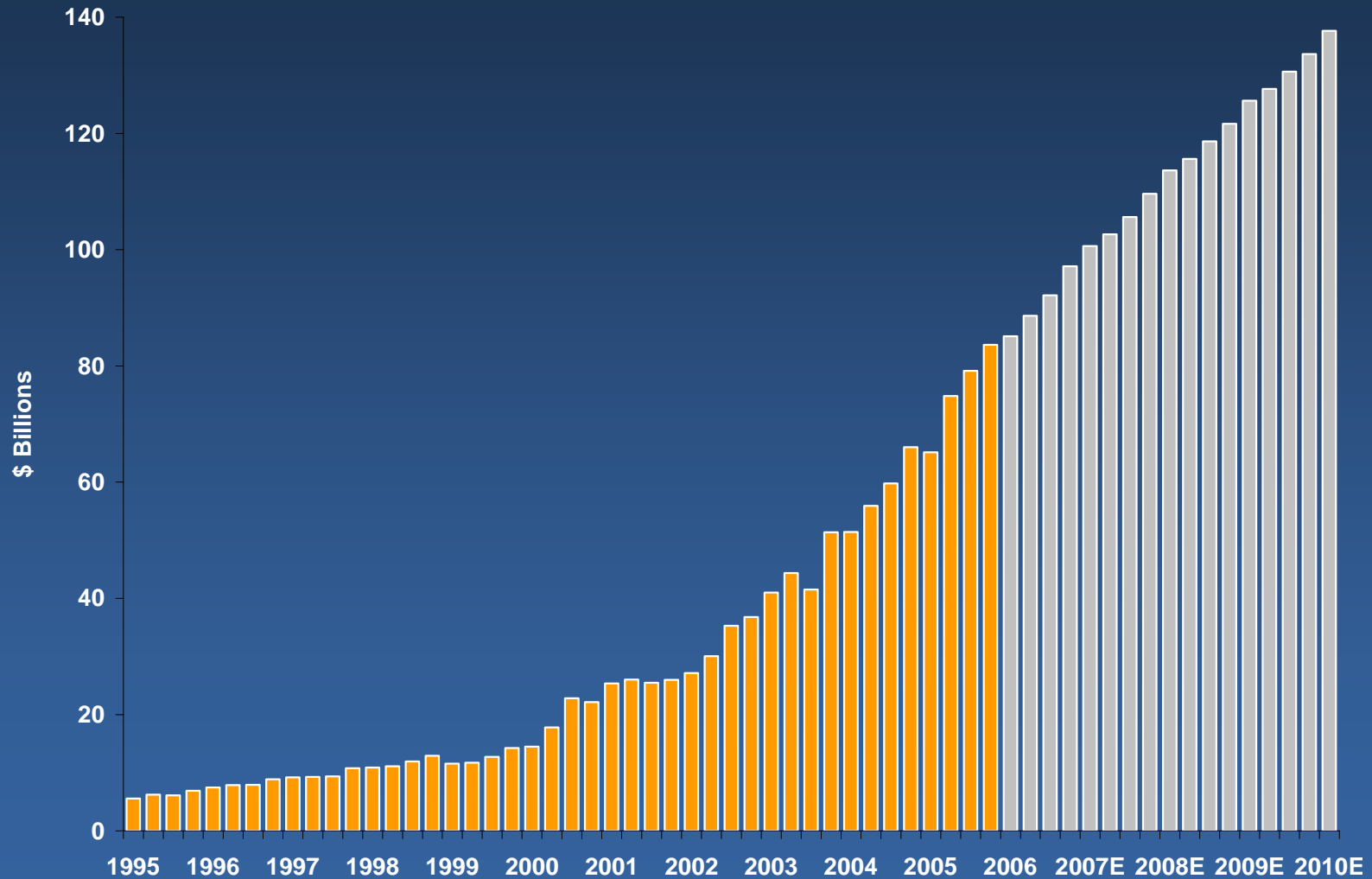
Total Return Analysis: Income vs. Growth

Period	Price		Income		Simple
	Index	Return	Index	Return	Total Return
12/31/96	108.14	8.14%	7.85	7.85%	15.99%
12/31/97	126.80	17.26%	8.67	8.02%	25.28%
12/31/98	114.72	-9.53%	8.91	7.03%	-2.50%
12/31/99	98.64	-14.01%	8.10	7.06%	-6.95%
12/31/00	131.08	32.88%	10.29	10.43%	43.31%
12/31/01	176.27	34.47%	10.79	8.23%	42.70%
12/31/02	158.64	-10.00%	11.51	6.53%	-3.47%
12/31/03	214.26	35.06%	12.41	7.82%	42.88%
12/31/04	234.67	9.53%	13.23	6.17%	15.70%
12/31/05	237.41	1.17%	12.34	5.26%	6.43%
Annualized		9.03%		7.43%	16.46%

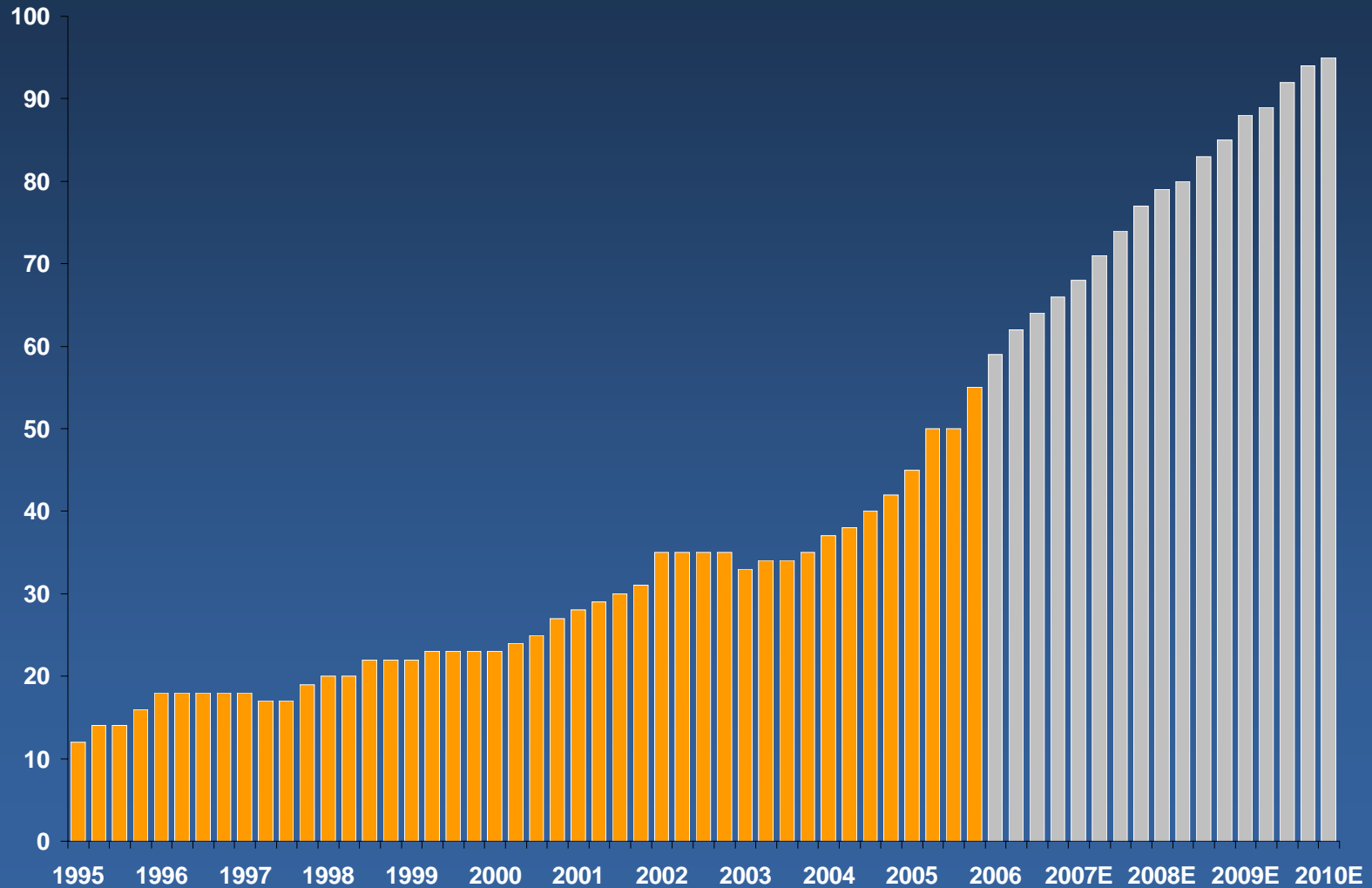
MLP Asset Profiles Continue to Evolve

- *Competition for Assets Drives Diversification* – with the increasing number of MLPs, private equity players, and financial sponsors competing in the energy space, MLPs have moved outside traditional asset categories to continue to expand
- *Natural Gas Assets Comprise a Growing % of Assets* - Particularly with gas gathering and processing acquisitions and initial public offerings over the past 18 months
- *Shipping has Entered the Foray* - both U.S. coastwise Jones-Act tankers and international LNG vessels, with additional consolidation and initial public offerings expected
- *Alternative Energy Technologies* - LNG terminals, coal-gasification, gas to liquids technology, all being considered for the MLP structure

Master Limited Partnership Market Capitalization



Number of Master Limited Partnerships



What Does the Rebirth of the E&P MLP Mean?

- *E&P in MLPs is not new.* We have seen this in the past, and certain prominent “midstream” MLPs own and operate oil and gas reserves
- *Consolidation and monetization of long-lived reserve properties.* 30 year reserve life index oil and gas properties are being monetized in a tax efficient structure
- *Raises the tolerance and acceptance of commodity price sensitivity.* Continues along the vein of commodity price sensitive gas gathering and processing MLPs
- *Creates Competition for Capital for Traditional midstream MLPs –* these E&P MLPs are directly competing for capital with a retail investor base with a limited attention span

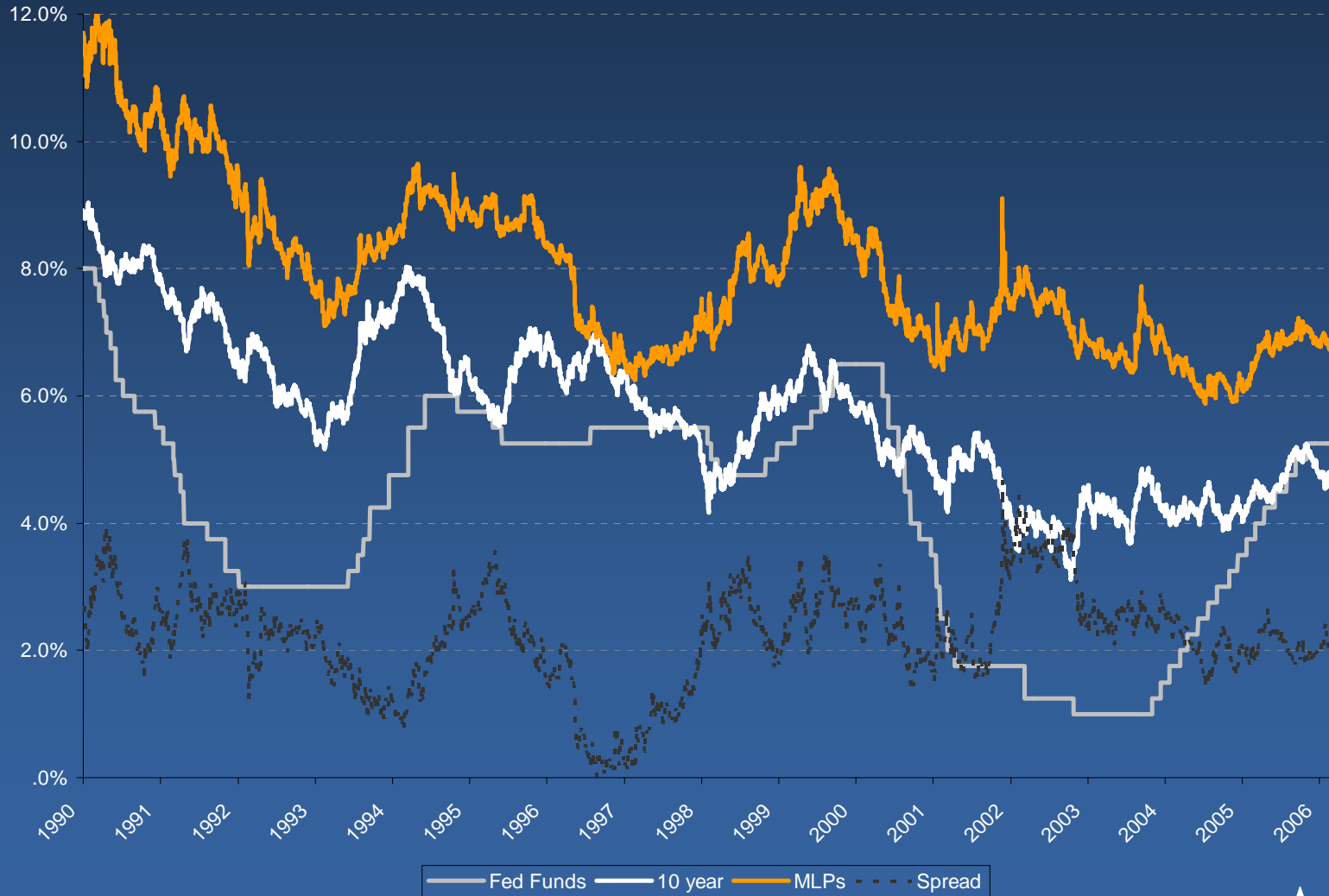
When Will Institutional Ownership Increase?

- *The Jobs Creation Act of 2004* - attempted to increase mutual fund ownership of Master Limited Partnerships but has run into practical roadblocks in execution phase
- *Barriers to foreign ownership* - contradict the spirit of 1980s REIT legislation and even with mutual fund ownership may pose barrier to REIT/MLP valuation parity
- *Hedge fund presence* – how significant and how sticky are these players and will they continue to drive the PIPE market where the closed end funds left off?
- *Catalysts* – fresh legislative attempt or U.S. Treasury re-write of the 2004 Jobs Creation Act

The Financing Gap

- *Barriers to institutional ownership of MLPs* – lack of wholesale institutional ownership through mutual funds, tax exempts such as school and hospital endowments, and foreign capital creates an inefficient market
- *No Official Private Wealth Management MLP Allocation* – pent up retail demand creates marketing breadth problem
- *PIPE Market* – Do new capital structures adequately address lead time to cash flow for organic growth projects?
- *IPO Market Continues to Gain Momentum* – double digit pace of new offerings in 2005 and 2006 looks likely to continue in 2007 and beyond

MLP Valuation – Yield Spread



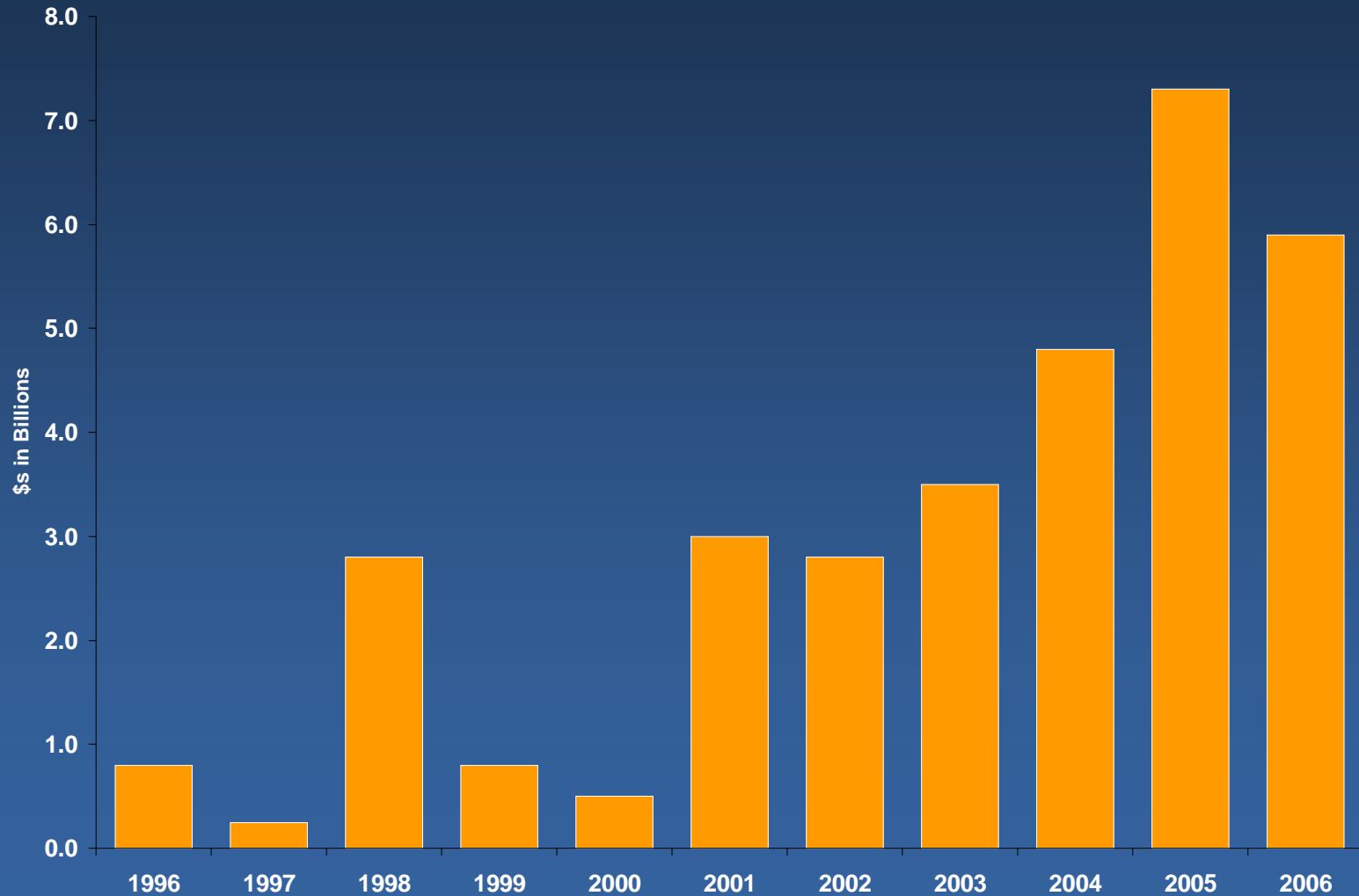
What is the Cost of Capital?

- *The Required Rate of Return for Securities Holders* – relative to all investment alternatives, what return does the market demand to hold assets of a given risk profile?
- *Business Risk Profile* – the cash flow volatility of an asset proxies the predictability of future earnings
- *Distribution Yield does not equal the Cost of Capital* – valuation vs. the cost of capital
- *Operating Leverage, Financial Leverage, Economic Value Added*
- *General Partner Splits Do Not Impact Cost of Capital* – general partner incentive distributions are a cash tax, they do not alter the rate of return required by investors to hold LP units

Where Will the Capital Be Spent?

- *Acquisitions* – over \$10 billion of M&A activity in 2005 and 2006 looks likely to increase as sellers have even more incentive to redeploy cash flows into higher-risk, higher-reward projects
- *Organic Growth* – competitive acquisition environment is driving companies towards a focus on greenfield growth investment
- *MLP on MLP M&A* – consolidation appears logical but unlikely to occur with market forces leaving little valuation disparity and the advent of the GP IPO

A Decade of Equity Issuance



Which Investment Bank Should You Choose?

- *Distribution, Distribution, Distribution.* The breadth and depth of retail distribution and the stickiness of retail accounts is the primary determinant of an offering's success
- *A Specialized Sales Team.* As hard a pitch as banks give on increasing institutional support, there are few institutional sales teams that can tell a good story
- *Research Support.* An analyst who understands a company and can communicate the fundamental story to investors
- *Balance Sheet.* Whether stabilizing pre-offering or providing debt financing, the breadth of support matters