

MLPs are not an asset class—what now?

Summary

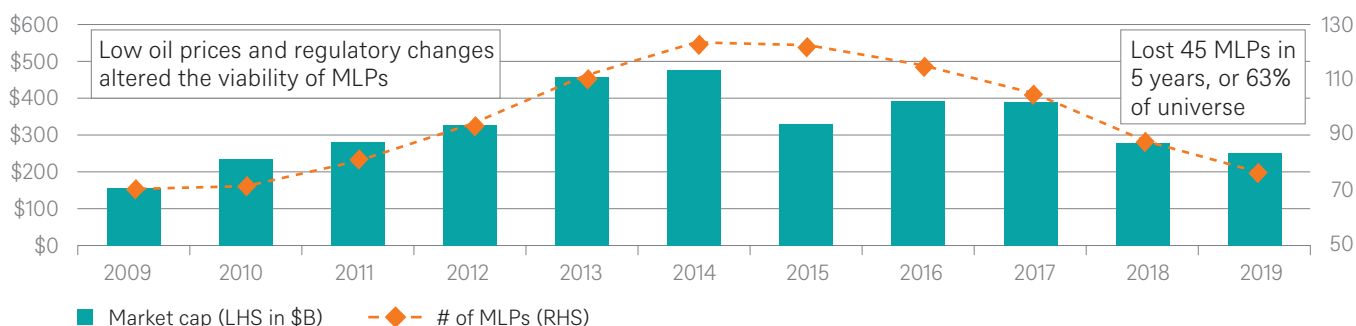
Overview & key points

- _ Until early 2014, Master Limited Partnerships (MLPs) were viewed as stable investments and resulted in significant growth in the sector, but this is not the case today.
- _ We will look into the MLP sector, specifically what investors experienced and how investors may want to utilize MLPs.
- _ MLPs have generally lacked diversification, as they operate in the same region (Americas) and sector (energy).
- _ Recent developments exposed drawbacks of the MLP model and how one may consider allocating to the space.
- _ The below chart depicts changes and concentration risk to the overall MLP market.

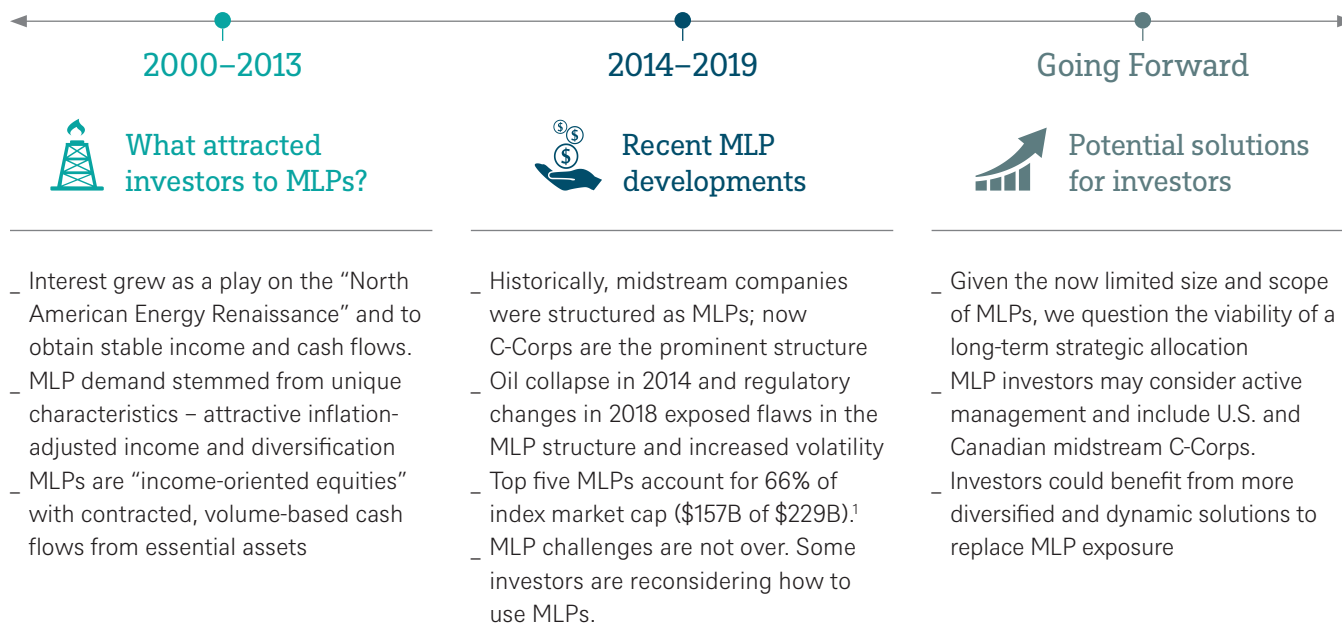
MLP primer—what are Master Limited Partnerships?

- _ MLPs are similar to traditional common stocks (“C-Corps”) that are traded daily on major U.S. stock exchanges.
- _ However, MLPs are “pass-through” entities exempt from corporate taxes which can potentially facilitate attractive and stable dividend income as long as 90% of distributable income comes from “qualified income” sources.
- _ Midstream MLPs are involved in energy transportation and storage, such as oil and natural gas.
- _ Going forward, we will use the Alerian MLP Infrastructure Index (AMZI) as a proxy for “Midstream MLPs”.

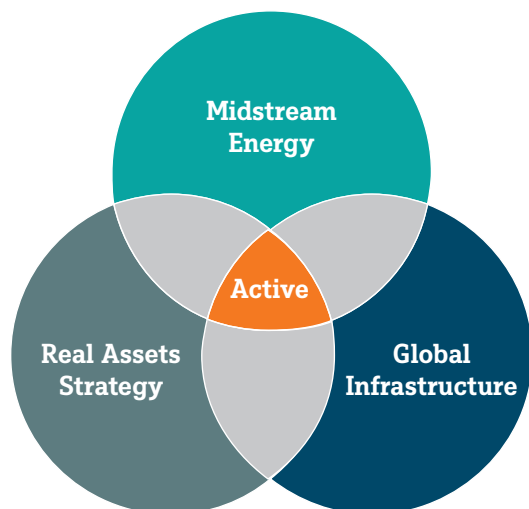
MLP UNIVERSE OVER TIME—CONCENTRATION RISK?



Source: Bloomberg, Wells Fargo, DWS Group. As of 12/31/2019. Represents Wells Fargo MLP Index. **Past performance is not indicative of future returns.** You cannot invest directly in an index.



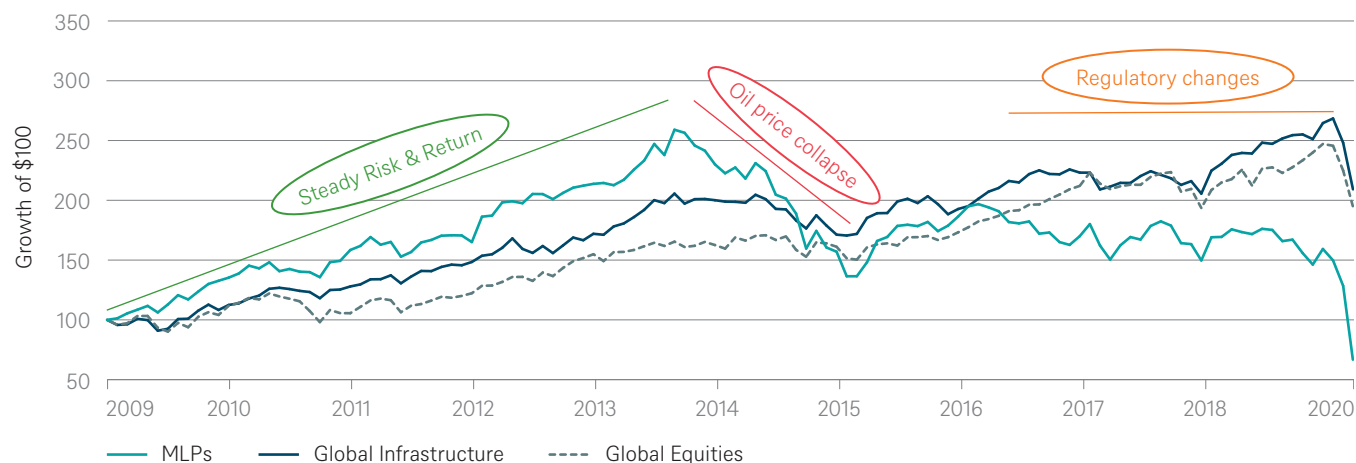
POTENTIAL SOLUTIONS FOR EXISTING MLP EXPOSURE



- 1 / Midstream energy**
 Include midstream energy C-Corps in the U.S. & Canada; capture similar thematic drivers with less volatility.
- 2 / Global infrastructure**
 Infrastructure is a true “asset class”, where midstream energy is a sub-sector of infrastructure. Opportunities outside of concentrated risks inherent in an “MLP-only” allocation.
- 3 / Real assets strategy**
 We believe a diverse combination of real asset classes may provide a level of diversification that would be difficult to achieve by investing in a single real asset sector alone.
- 4 / Active management**
 Given the concentrated niche universe and unique drivers, active can help differentiate passive exposure with the goal of improving risk-adjusted returns and limit downside risks.

¹ Source: DWS Group, FactSet, Bloomberg. As of 12/31/2019. Represents Alerian MLP Infrastructure Index. **Past performance is not indicative of future returns.** You cannot invest directly in an index.

MLPs VS. GLOBAL INFRASTRUCTURE—MLPs ARE A NICHE “SUB-SET” OF THE BROADER INFRASTRUCTURE UNIVERSE

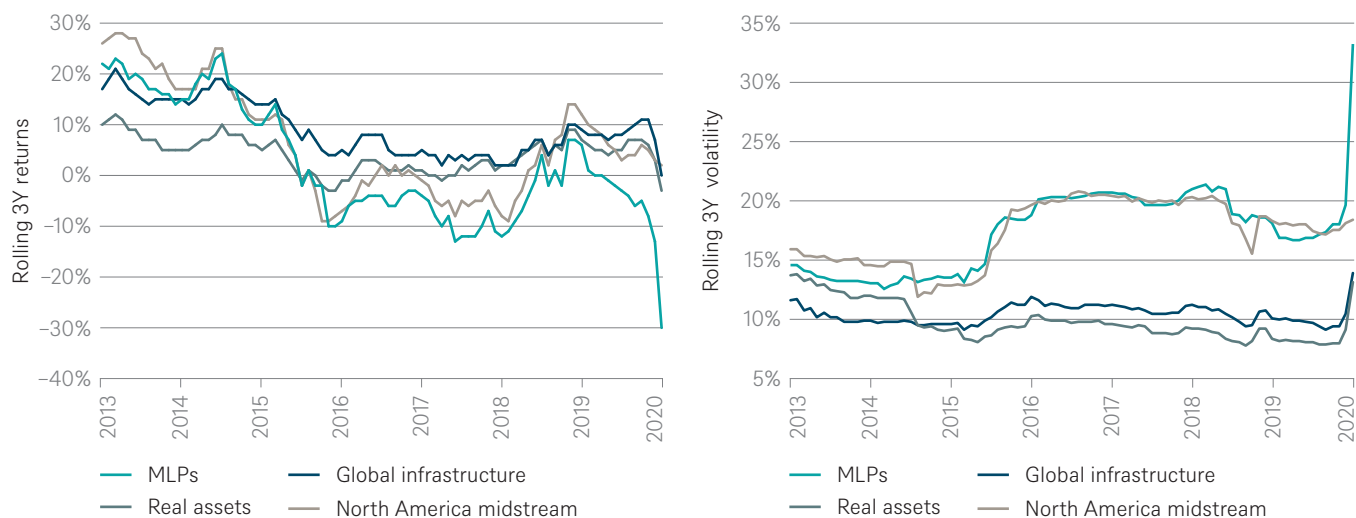


Source: DWS Group, Bloomberg. As of 3/31/2020. MLPs = Alerian MLP Infrastructure Index. Global Infrastructure = Dow Jones Brookfield Infrastructure Index. Global Equities Index = MSCI World Index. See index definitions in disclosure section. **Past performance is not indicative of future results.**

Above, we show the cumulative performance for MLPs versus potential alternatives; the below charts highlight how MLPs were impacted from regulatory changes and a significant drop in commodity prices.

- _ On a rolling 3-year basis, global infrastructure had superior returns in 76% of observations with lower volatility in 100% of observations.
- _ On a rolling 3-year basis, North American midstream had superior returns in 87% of observations with similar volatility.

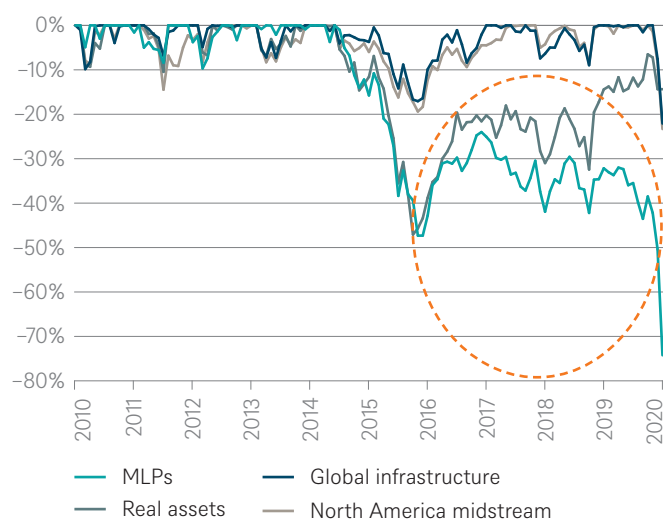
MLPs HAVE DELIVERED LOWER TOTAL RETURNS WITH ELEVATED VOLATILITY



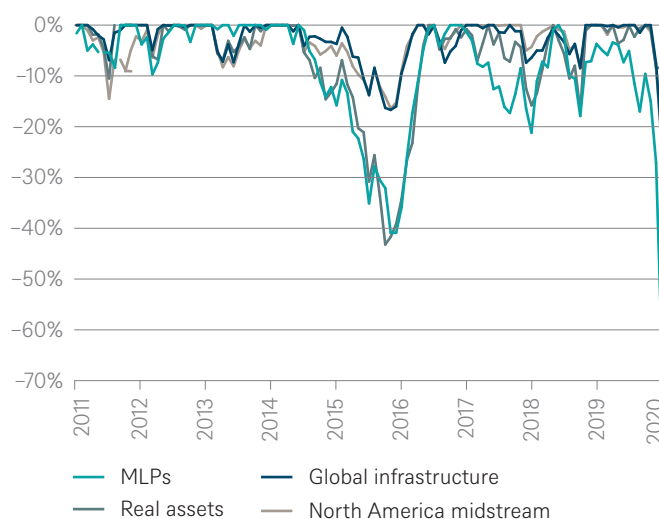
Source: DWS Group, Bloomberg. As of 03/31/2020. MLPs = Alerian MLP Infrastructure Index. North America midstream = A blended 50/50 index of the S&P 500 Oil & Gas Storage/Transportation Index (U.S.) and S&P/TSX Oil & Gas Storage/Transportation Index (Canada). Global Infrastructure = Dow Jones Brookfield Infrastructure Index. Real Assets Index = DWS Custom Index. See index definitions in disclosure section. You cannot invest directly in an index. **Past performance is not indicative of future results.**

The drawdown analysis highlights historical downside risks observed across various market segments. In general, concentrated markets with similar business models, such as MLPs, may at times exhibit greater volatility and a higher probability of significant drawdown periods.

MAXIMUM DRAWDOWN ANALYSIS – 10 YEARS



MAXIMUM DRAWDOWN – ROLLING 12 MONTHS



Source: DWS Group, Bloomberg. 03/31/2010 – 3/31/2020. MLPs = Alerian MLP Infrastructure Index. North America midstream = A blended 50/50 index of the S&P 500 Oil & Gas Storage/Transportation Index (U.S.) and S&P/TSX Oil & Gas Storage/Transportation Index (Canada). Global Infrastructure = Dow Jones Brookfield Infrastructure Index. Real Assets Index = DWS Custom Index. See index definitions in disclosure section.

WHAT TO DO WITH MLP EXPOSURE?—THREE POTENTIAL SOLUTIONS

Solutions	Key points for the option	Rationale
Option #1 Broaden to: Midstream Energy	<ul style="list-style-type: none"> Broaden MLP opportunity set with midstream C-Corps in the U.S. and Canada Midstream market cap is \$502B (MLPs + U.S. C-Corps + Canadian C-Corps) MLP exposure should consider active management 	<ul style="list-style-type: none"> With recent changes, we believe value proposition of a long-term MLP allocation no longer applies Tactically use Midstream Energy and reduce concentration risks of “MLP-only” exposure 90 MLPs cut distributions since 2014
Option #2 Replace with: Global Infrastructure	<ul style="list-style-type: none"> Global Infrastructure as strategic allocation; a potentially attractive substitute to MLPs Infrastructure is a diversified asset class with exposure to various pure-play infrastructure sub-sectors 	<ul style="list-style-type: none"> Global infrastructure may improve diversification MLPs are a “sub-set” of infrastructure universe MLPs focused on U.S. energy only; potential for higher volatility and downside risks
Option #3 Replace with: Real Assets Solution	<ul style="list-style-type: none"> Comprehensive “Real Assets” strategy that offers dynamic exposure to infrastructure, commodities, REITs and TIPS “Best-ideas” approach that allocates across the real assets spectrum with distinct risk/return drivers and opportunities 	<ul style="list-style-type: none"> Holistic solution may serve as a “one stop shop” for Real Assets exposure Alleviate need to actively manage niche asset classes that can benefit from dedicated active management

Source: DWS Group and Wells Fargo. As of 12/31/2019. **Past performance is not indicative of future returns.** You cannot invest directly in an index.

Definitions: **Alerian MLP Infrastructure Index**—The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). **Dow Jones Brookfield Infrastructure Index**—measure of pure-play infrastructure companies domiciled around the world. **Drawdown** — This represents the peak to trough decline of an investment. It is intended to show the maximum loss experienced in a given time frame. **FTSE EPRA/NAREIT Developed Index**—The Index is designed to measure the stock performance of companies engaged in specific real estate activities of the North American, European and Asian real estate markets. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate. **Inflation**—Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling. **MSCI World Index**—The MSCI World Index captures large and mid-cap representation across 23 developed-market countries. **North American Energy Renaissance**—Refers to the period after 2008 in which U.S. production of oil and natural gas soared thanks to new techniques and processes for extraction at lower costs. **Real Asset Index**—is comprised of the following blend of real asset indices: 30% Dow Jones Brookfield Global Infrastructure Index; 30% FTSE EPRA/NAREIT Developed Index; 15% Bloomberg Commodity Index; 15% S&P Global Natural Resources Index; 10% Bloomberg Barclays U.S. Treasury Inflation Notes Index. **S&P 500 Oil & Gas Storage/Transportation Index (U.S.)**: A benchmark designed to measure the performance of pure-play infrastructure companies in the oil & gas storage & transportation sector. **S&P/TSX Oil & Gas Storage/Transportation Index (Canada)**: A benchmark of securities involved in the storage and/or transportation of oil, gas and/or refined products. **Sharpe ratio**—The Sharpe ratio, developed by Nobel laureate William F. Sharpe, is the average return earned in excess of the risk-free rate per unit of volatility or total risk. **TIPS**—Treasury Inflation Protected Securities are Treasury securities that are indexed to inflation. **Wells Fargo MLP Index**—Measure of all MLPs listed on the NYSE or NASDAQ. **Volatility**—Volatility is the degree of variation of a trading-price series over time.

Risk information: Investments in securities of master limited partnerships (MLPs) involve risks that differ from investments in common stock, including risks related to: limited control and limited rights to vote on matters affecting the MLP, potential conflicts of interest between the MLP and the MLP's general partner, cash flows, dilution and the general partner's right to require unit-holders to sell their common units at an undesirable time or price. The fund concentrates its investments in the group of industries comprising the energy infrastructure sector, and will therefore be susceptible to adverse economic, environmental, business, regulatory or other occurrences affecting that sector, including among others: substantial price volatility, fluctuations in commodity prices; reduced availability and consumer demand. A change in current tax law or a change in the underlying business mix of a given MLP could result in an MLP being treated as a corporation for U.S. federal income tax purposes (rather than a partnership), which would result in the MLP being required to pay U.S. federal income tax (as well as state and local income taxes) on its taxable income which could reduce the amount of cash available for distribution, result in a reduction of the value of an investment, or lower income. Companies in the infrastructure, transportation, energy and utility industries may be affected by a variety of factors, including, but not limited to, high interest costs, energy prices, high degrees of leverage, environmental and other government regulations, the level of government spending on infrastructure projects, intense competition and other factors. Investments in commodity-linked derivatives may be subject to special risks. Market price movements or regulatory and economic changes will have a significant impact on the performance of such investments. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. In certain situations, it may be difficult or impossible to sell an investment at an acceptable price. Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility.

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