MAINGATE
MLP FUND

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MLP UPDATE

FIRST QUARTER 2011

The World Remains an Uncertain Place, with an Increasing Number of Unpredictable and Potentially Significant and Far-Reaching Risks

We Believe MLPs Could Be an Excellent Place to Hide and Also Provide the Potential to Prosper

Debt is indeed a four letter word. It very much appears that the cumulative effect of borrowing in excess of revenues in both Western Europe and the U.S. over the past several decades has finally taken the world to a new and extreme place and created risks that didn't previously exist. Portugal, Ireland and Greece have all had to tap the European Community for loans that the markets would not provide. However, with no way to gain competitive advantages (such as depreciating a separate currency) and with populations seemingly unwilling to pay the huge required price of reduced services and benefits, one wonders how these countries can significantly reduce their budget deficits and repay their debts when their economies are already in recession? The key to whether Europe can contain its problems to these three smaller economies, and muddle through, lies with Spain. Spain is alone bigger than the other three problem countries combined and has even recently been able to access the debt markets at an acceptable cost (despite rating downgrades). Perhaps the major question is whether Spain will be able to reduce its budget deficit from 9.2% in 2010 to anywhere close to its 6% objective for 2011, while maintaining a reasonable rate of growth in its economy. If Spain cannot make it on its own without a bailout, the European community and the Euro may be at some risk, with negative implications worldwide. The decision on April 7th by the European Central Bank to raise its benchmark interest rate to 1.25% from 1% to fight inflation that hit 2.6% in March, and the likelihood of further rate increases, do not bode well in the effort for Europe to stabilize.

Inflation appears to be a growing problem throughout the world. China reported a 4.9% CPI[1] increase in January and February following 3.3% reported inflation in 2010; many believe the true inflation rate is significantly higher. Brazil reported a nearly 6% inflation rate in 2010 and Britain hit 4% inflation early this year. Interest rates are being increased to fight this rising inflation and reduce growth in China, Brazil

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FUND FACTS

Fund Inception	February 17, 2011
Investment Style	MLP Total Return
Distribution Frequency	Quarterly
A Shares	Symbol to come
NAV per Share (2/28/11)	10.05
Minimum Investment	$2,500
CUSIP	560599102
Number of Holdings	20-30
Management Fee	1.25%
12b-1 Fee	0.25%
Maximum Load	5.75%
Redemption Fee	NONE
Last Declared Dividend	to come
I Shares	Symbol to come
NAV per Share (2/28/11)	10.05
Minimum Investment	$1,000,000
CUSIP	560599201
Number of Holdings	20-30
Management Fee	1.25%
12b-1 Fee	NONE
Maximum Load	NONE
Redemption Fee	NONE
Last Declared Dividend	to come
Top 10 Holdings (2/28/11)	% of Fund
Copano Energy, LLC	7.92%
Enterprise Products Partners, LP	7.81%
Williams Partners, LP	7.74%
Plains All American Pipeline, LP	7.16%
Crosstex Energy, Inc.	6.03%
Energy Transfer Equity, LP	5.80%
Magellan Midstream Partners, LP	5.11%
Genesis Energy, LP	4.93%
Targa Resources Corp.	4.89%
El Paso Pipeline Partners, LP	4.87%
Top 5 Sectors (2/28/11)	% of Fund
Natural Gas Pipelines & Storage	35.8%
Natural Gas Gathering/Processing	31.5%
Crude/Refined Products Pipelines & Storage	29.2%
Propane	2.1%
Other	1.4%

Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security.

(1) CPI (Consumer Price Index) measures changes in the price level of consumer goods and services purchased by households.

(2) Refer to supporting figures at http://maingatefunds.com/individual_investors/mlp_background.

(where the Central bank lending rate is now 11.75%) and elsewhere. Rates have been maintained in the United States as our Federal Reserve chairman claims not to be concerned about inflation. It is true that the U.S. is different from many other countries, with energy, food and commodities representing a smaller portion of our economy. Also, productivity has remained high, at 2.5% in the second half of 2010 and there is no evidence at all of labor cost inflation given the still high level of unemployment. This contrasts to China, most of the rest of Asia, Brazil and even India where labor shortages are adding to wage pressures. It remains an unanswered question whether and how well the U.S. can avoid the pressures of inflation that could increase as a result of continued high commodity prices and increased cost of imports.

Economic Signals in the U.S. are Inconsistent and Investor Psychology is Likely to Remain Confused

Numerous positive signals are unfolding in the U.S. economy and this would ordinarily lead one to believe that growth would accelerate, leading to a full-blown traditional recovery. GDP growth of 3.1% in Q4 and 2.9% for the full year 2010 wasn't bad compared to most other Western countries (although far below historic recovery levels and those in the developing countries). Industrial production rose 6% in 2010, productivity gains remained relatively high at 2.5% in the second half of 2010 and consumer spending accelerated late in the year, with Q4 up 7.8%. Business inventories remained low. The obvious negative part of the economic analysis is that housing prices continued to fall and the major housing engine, including construction and durable goods purchases, continued to sputter. Core CPI rose 1.5% in 2010 and yet many appear rightly concerned that significantly rising food and energy costs might feed rising inflation. Finally, the elephant in the room continues to be the huge Federal deficit and implications of both reducing and financing it.

Perhaps our biggest concern is that over the previous two years, a large portion of U.S. deficit spending has been monetized as the Federal Reserve has pursued its policy of quantitative easing. This program appears increasingly likely to end mid-year. What will happen to domestic interest rates over the next year or two as our government must attract other buyers of its debt to finance the very large annual deficit? And what will happen if or when the Fed needs to again fight inflation by withdrawing the same cash it just injected into the economy? There could be hundreds of billions of dollars of securities for sale in competition with the Treasury's continued need to sell debt to fund the deficit. Is the Fed's growth agenda or its mission to fight inflation going to win out? It may not be possible to do either well, and it is impossible to do both at the same time.

MLPs Have Strong Fundamental Appeal and Long-Term Growth Prospects Appear Excellent

The performance of Master Limited Partnerships (MLPs) did not closely correlate (relationship between two variables during a period of time) to the broader equity markets prior to 2008. In fact, performance had been negatively correlated to stock indexes during many important multi-year periods, including 2001 and 2002 when MLPs dramatically outperformed a weak stock market. However, beginning in 2008, and continuing to the date of this publication, MLP performance has generally correlated, though not always closely, with the broad domestic equity markets. MLPs declined with the S&P 500[3] in 2008 because of the broad macro concerns and the legitimate focus of investors on their ability to access debt and the cost of debt capital. At that point, MLPs were heavily reliant on short-term and low-cost bank debt, with some 40% of total debt sourced from these riskier credit lines.

Since then just about everything has changed. MLPs have risen sharply over the past two years, significantly outperforming the broader indexes and much more than offsetting the underperformance of 2008[1]. The obvious reason for this strong performance is that the group was able to regain access to the capital markets and investors could again focus on the strong cash flows generated by MLPs. Almost without exception, management teams have taken advantage of market conditions to term out debt at very reasonable cost and sell equity. Credit lines now account for less than 15% of total debt and most partnerships are very appropriately or even conservatively capitalized.

Various traditional valuation methodologies indicate that MLPs have equaled or even exceeded past valuation levels, leading some observers to believe, in the current uncertain market environment, that MLPs must be fully or fairly valued. Wall Street analysts point to yield premiums to ten-year Treasuries being at historic levels. There are are valid arguments as to why MLPs do not look statistically cheaper than they have historically been if using history as one's guide. However, we believe that the current yields and the stable cash flows which support them[1], when combined with the

(3) The S&P 500 is a free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States.
(1) Refer to supporting figures at http://maingatefunds.com/individual_investors/mlp_background.

visible growth prospects of many MLPs, imply the potential for meaningful further appreciation in the group.

It's All About Fundamentals and Competitive Advantages

All this said we continue to believe that MLPs represent both timely and attractive investments for a number of reasons. In an increasingly uncertain world, the importance of stable cash flow[1] cannot be over emphasized. Many MLPs, and particularly midstream MLPs, have established franchises, and have not just placed assets, in the most attractive and prospective shale plays and other fast growing basins in the U.S. They have developed competitive advantages and signed long-term contracts with producers and a variety of customers at fixed tariffs in many instances, giving investors excellent visibility to strong and growing cash flow. In the section which follows, the shale and natural gas liquids story, which will likely generate substantial growth for many midstream MLPs over the coming decade and longer, is presented in support of these conclusions. It is important to point out that all MLPs will not benefit from this and other important trends. With over 75 MLPs now trading in the market, many have either different appeal or little of the fundamental appeal that we find so compelling in this space.

In contrast to so many industries which are more dependent on the tenuous economy and at risk from the exogenous factors we outlined in our opening comments, many MLPs appear positioned to both sustain operations and grow even in a slow growth or inflationary environment. Midstream MLPs dominate the shale plays, which appear likely to provide an increasing share of volumes as older fields decline. Some tens of billions of dollars of projects are already in the planning stage or in the visible future. We believe that these organic projects could potentially produce strong returns, perhaps well above the cost of capital of involved partnerships. So, the question to be asked and which will be answered by the marketplace over time is: What is a potentially positive yield worth when combined with the stability of the cash flow supporting it and a growth rate which might reasonably be estimated at 3% to 6% over a longer time period[2]? We believe that a higher valuation is logical or that at a minimum continued above average appreciation can potentially be anticipated from an average MLP generating organic growth projects. Those which are better positioned than others, particularly in liquids, and with the ability to grow at a greater rate might well be even more highly valued.

Huge New Shale Production + Demand from Chemical Companies for NGLs = Potential for Major Growth for Many Midstream MLPs

Although the well-publicized shale plays in the U.S. have been growing in importance and significance for a number of years, beginning with the Barnett shale in Texas and the development of the various technologies which could exploit these plays, no one until quite recently appreciated how significant and truly game-changing these plays could become. In quick order, the Haynesville, Eagle Ford and Marcellus shale plays have risen in importance, driven by the ability to extract gas and the substantial two to eight gallons of natural gas liquids (NGLs) per mcf very economically from these mammoth resource basins. There are now over 20 distinct shale plays in all areas of the U.S. and substantial development in many is likely. The simple and critically important bottom line is that the U.S. now has major cost advantages in the production of natural gas liquids (ethane and propane being the two major liquids) on a world-wide basis, that will drive continued development of these shale plays at a significant pace and will facilitate significant growth for many midstream MLPs. Also, the story is not simply the development and transportation of natural gas. The capital investment required of midstream providers to process, transport, fractionate and store the substantial quantities of NGLs in the gas stream turns these shale plays into truly huge investment opportunities, and many MLPs are at the epicenter of these opportunities.

Three facts are critical to appreciate: First, the resource base of natural gas has grown dramatically in recent years. The last Potential Gas Committee report of two years ago shows a nearly 100 year supply of natural gas in the U.S. and many observers expect these figures to grow with the new shale discoveries. Second, much of this natural gas stream is rich in liquids, containing from two to eight gallons of ethane, propane and other NGLs. These liquids are in strong demand by the chemical industry as feedstock. Third, the U.S. chemical industry which uses ethane as the primary feedstock to crack into ethylene currently possesses a significantly lower cost (estimated in the Hodson Report at half the cost of naphtha based production) than other major chemical producers around the world except for those in the Middle East. Most chemical companies in the world rely on naphtha, an oil sourced feedstock, and do not have the advantage of utilizing low cost ethane.

(1) Refer to supporting figures at http://maingatefunds.com/individual_investors/mlp_background.
(2) *The estimated growth rate is not a measure of the fund's future performance.*

Natural gas liquids production in the U.S. has been steadily rising in recent years, touching 2.7 mm bbls/d in December 2010 according to the Energy Information Administration (EIA), up some 4.2% from the year-end 2009 data. Ethane production has ranged between 850,000 and 900,000 barrels per day in recent months and demand has exceeded 900,000 barrels/d in some months as chemical companies have been operating their crackers at very high rates. Ethane production has increased over 100,000 bbls/d over the past three years with much of the production increase coming from the liquids rich shale plays. Chemical companies including Dow Chemical Company (DOW, $36.65), Formosa, Chevron–Phillips and Westlake Chemical Corp. (WLK. $58.25) have publicly indicated that they are exploring conversions (from naphtha), expansions of existing crackers or greenfield opportunities in the U.S. to take advantage of the low cost ethane and propane supply. Certain MLPs acknowledge discussions with potential customers and are proposing projects to supply this increased ethane and propane demand on a long-term basis. With some 270,000 bbl/d of naphtha still consumed in the U.S. by chemical companies, significant conversion and growth opportunities exist.

The bidding war for the liquids assets put up for sale (and sold for nearly $2 billion) by Louis Dreyfus Highbridge Energy LLC captured a great deal of attention in recent months as many MLPs and other industry players aggressively pursed these strategic assets in an effort to quickly become a major player in the increasingly important liquids segment. Energy Transfer Partners, LP (ETP, $52.35) and Regency Energy Partners, LP (RGNC, $27.82) jointly submitted the winning bid (split 70% ETP/30% RGNC) and the price was potentially rich, estimated in the 11x to 12x EBITDA range, a price that while marginally accretive does not appear to provide significant accretion to the partnership's total cash flow. However, Energy Transfer and Regency have gained important capabilities and a significant presence in the liquids space that many other MLPs hunger for. Given our very positive view that tens of billions of dollars of attractive investment opportunities exist in the midstream space as part of the shale and NGL build out that will likely take place over the coming decade, we believe that those midstream providers with storage and fractionation capabilities at Mont Belvieu or Conway and strategic liquids pipelines will have excellent growth opportunities over this period. We believe it is partnerships that are best positioned to pursue these opportunities that lead our list of investment opportunities.

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ADDITIONAL DISCLOSURES