MAINGATE
MLP FUND



JULY 20, 2011

MLP UPDATE

SECOND QUARTER 2011

Risk to the Broad Financial Markets, from Either a European Debt Crisis or Other Exogenous Factors, Remains Our Major Concern

We Continue to View MLPs as Attractive, Given What in Our Opinion Are Their Strong Balance Sheets, Good Visibility to Cash Flow[1] Supporting Current Distributions, Inflation Protection and Visible Growth Prospects

Some things never seem to change. We've long been concerned about the lengthy list of risks in this ever smaller and inter-connected world. The Sovereign debt crisis in Europe, potential oil supply interruptions because of uprisings in the Middle East, inflation fears and slowing growth, among other risks, continue to point their challenging fingers at the U.S. from across ever more narrow oceans. Then there are our own domestic problems of slowing growth, the huge budget deficit and stubbornly high unemployment. No wonder investors have been avoiding U.S. shares, buying bonds and foreign securities and remaining liquid. Despite all this, the domestic equity markets have continued to recover over the past two years, although a portion of the strength can be attributed to the Federal Reserve purchases of government securities under QE1 and QE2, which may have displaced investor funds from government bonds into other securities. Given that quantitative easing has now ended and U.S. economic woes appear so intractable, it might seem somewhat counterintuitive that we continue to be quite positive in our view toward Master Limited Partnerships (MLPs).

Notwithstanding the rise in equity prices year-to-date and over the past two-plus years, and the performance of MLPs over the past 2.5 years, we remain optimistic that the great proportion of MLPs which have strengthened their balance sheets, termed out debt and which also have visible, high returning projects should continue to perform strongly for investors. Valuation is always a difficult topic because of the many different ways to analyze value and risk. MLPs currently have yields in the low 6% range[2], below historic yields which have been trending down over time.

> "Even if valuation were not to change, we believe that positive total returns for many partnerships appear achievable."

(1) Cash flow measures the cash generating capability of a company by adding non-cash charges (e.g. depreciation) and interest expense to pretax income.

(2) Source: The Alerian MLP Index – a capitalization-weighted index of the 50 most prominent energy Master Limited Partnerships.

FUND FACTS

Investment Style		MLP Total Return
General Information	**A Shares**	**I Shares**
Ticker	AMLPX	IMLPX
CUSIP	560599102	560599201
Minimum Investment	$2,500	$1,000,000
Number of Holdings	20-30	20-30
Management Fee	1.25%	1.25%
12b-1 Fee	0.25%	NONE
Maximum Load	5.75%	NONE
Redemption Fee	NONE	NONE
Gross Expense Ratio*	3.83%	3.58%

**The Fund's adviser contractually has agreed to cap the Fund's total annual operating expenses (excluding fee and commissions; borrowing costs; taxes; acquired fund fees and expenses; 12-b fees; and extraordinary expenses) at 1.50% of the average daily net assets of each class through March 31, 2012.*

Top 10 Holdings (07/31/11)	% of Fund
Crosstex Energy, Inc.	7.37%
Williams Partners, LP	6.85%
Enterprise Products Partners, LP	6.37%
Copano Energy, LLC	6.35%
Plains All-American Pipeline, LP	4.82%
El Paso Pipeline Partners, LP	4.79%
Oiltanking Partners, LP	4.71%
Energy Transfer Equity, LP	4.67%
Tesoro Logistics, LP	4.15%
Regency Energy Partners, LP	3.97%

Top 5 Sectors (07/31/11)	% of Fund
Natural Gas Pipeline & Storage	37.6%
Crude/Refined Prod. Pipeline & Storage	29.4%
Natural Gas Gathering/Processing	27.8%
Propane	4.3%
Other	0.9%

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

Last Quarterly Distribution (07/29/11)	$0.1575

Performance: A Shares (07/31/11)		
NAV per Share		$10.08
POP per Share		$10.69
Returns:	**Without Load**	**With Load**
1 Month	0.10%	-5.62%
3 Months	-1.95%	-7.61%
Inception (02/17/11)–06/30/11	0.70%	-5.09%
Inception (02/17/11)–07/31/11	0.80%	-5.00%

Performance: I Shares (07/31/11)	
NAV per Share	$10.10
Returns:	
1 Month	-0.20%
3 Months	-1.75%
Inception (02/17/11)–06/30/11	0.80%
Inception (02/17/11)–07/31/11	1.00%

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. To obtain performance data current to the most recent month-end please call 855.MLP.FUND (855.657.3863). Performance data shown reflects the Class A maximum sales charge of 5.75%. Performance data shown for the Class I shares does not reflect the deduction of a sales load or fee. If reflected, the load or fee would reduce the performance quoted.

However, using historic comparisons of yield and multiples of cash flow (typically EBITDA), some may conclude that MLPs are fairly or even fully priced. We disagree, despite the higher than historic multiple on EBITDA, believing that MLPs provide both better downside protection in the current uncertain world and significantly better upside potential than in most other securities that investors compare to MLPs. In many ways, we view MLPs as a distinct and attractive asset class because of their historically high yields—which in our experience have been supported by better projected cash flows than generally perceived; their long-lived hard assets, which are difficult to replicate; and inflation protection that these assets and businesses inherently have. These characteristics, when combined with the balance sheet strength and growth prospects, mostly tied to the shale plays and growing natural gas and liquids markets in the U.S., point to a set of fundamentals and financial statistics which we believe could be more highly valued by investors in future periods. Even if valuation were not to change, we believe that positive total returns for many partnerships appear achievable.

Although Sovereign Debt Issues in Europe Appear to be Worsening, We are Actually Becoming a Bit More Sanguine in our Overall Risk Analysis

Headlines about Greece, Portugal, Spain and now Italy continue to dominate the front page. Greece was downgraded three notches on June 13th to CCC[3] by Standard & Poor's. The country's 2010 budget deficit came in at 10.5% of total GDP (challenging the U.S. for worst in the developed world), not the promised 9.4%, because of their rapidly shrinking economy. Now Greece has agreed to a package with $41 billion in spending cuts and tax hikes in its estimated $311 billion 2011 economy, an agreement that clearly looks to us to be more medicine than this patient is willing or able to actually swallow. Portugal was downgraded to junk status on July 5th by Moody's, which pointed to its 9.1% budget deficit in 2010 and their lack of confidence in reducing it to acceptable levels. Italy's budget deficit, although smaller than these two, continues to add to its substantial total debt load and brings on new concerns. Amidst the recessions that certain European countries find themselves mired in, the European Central Bank (ECB) raised its benchmark interest rate on July 7th to 1.5% from 1.25%, with its statement pointing to its most important objective of "maintaining price stability." Inflation is above the bank's 2% inflation goal (and was 2.7% in March in the Euro zone). The Bank of England warned that inflation could hit 5% this year in England. This difficult choice of fighting inflation or facilitating growth stands out as an object lesson in considering monetary policy in the U.S.

The risks in Europe appear to be only greater than in past periods. Spain and now Italy add to an already too long list of those countries which appear to not be able to live within their means. Given the current very low rate of growth in Europe and rising interest rates, it is difficult to see how Europe can find its balance and stabilize itself on this narrow ledge. We continue to be most concerned about the Sovereign debt risks because of the substantial inter-dependency of these economies with our own and the intertwined financial systems. We remember well the impact that the U.S. real estate bubble three years ago had on world-wide financial markets, and the magnitude of this Sovereign debt crisis does not appear to be any smaller.

The inflation threat in most emerging economies, which have much fuller utilization rates of labor and physical resources than in the U.S., pushed up by sharply higher food and energy prices, has been fought reasonably aggressive by Central Banks, giving us reason for some optimism on this other issue which has concerned us in recent periods. Brazil raised its interest rate in June to 12.25%. China's growth and inflation appear to be slowing after its recent interest rate hike to 6.3%. The Organization for Economic Cooperation and Development (OECD) now forecasts China's growth at 9% for 2011 compared to its prior 9.7% forecast. An unanswered question is whether the 6% reported June inflation rate in China is, in fact, slowing down or even a real number. The OECD also increased its inflation forecast for 34 countries to 2.3% in its semi-annual forecast in May, pointing to the risk of further inflation. Finally, it urged the U.S. Federal Reserve, as well as counterparts in Brazil, China and India to raise interest rates to contain inflation. Clearly, Chairman Bernanke, in contrast to his counterparts in most other areas of the world, sees it differently.

All this said we are getting a bit less pessimistic about the risks that we have addressed. Unlike the U.S. real estate bubble, which precipitated the previous financial collapse, the current financial risks have gotten much more publicity and created time for participants to prepare for

(3) Bonds rated CCC by Standard and Poor's are considered currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments.

the almost inevitable shock, in our view, of a Greek and/or other European country default. Before Bear Stearns was taken over and Lehman was allowed to fail, investors knew that there would be a financial cost at some point, and yet few thought that it would be them 'holding the bag'. The current Sovereign debt crisis has been a disaster in slow motion, as individual and institutional investors have been able to cash out of country debt, accepting their losses, and banks holding tens of billions of Euros in Sovereign securities have had substantial time and help to strengthen their balance sheets. We don't claim to have any special insight as to how this will all play out; however, we feel there is less risk specific to the U.S. institutional and individual investors compared to this point three years ago and believe that corporate balance sheets, particularly at MLPs, are at a very different place than during the last crisis should a collapse or series of collapses test the financial markets.

The U.S. Economy Keeps Crawling Along Is This So Bad for MLPs? We Don't Believe So

The list of challenges to the U.S. economy and financial markets is long and daunting. Q1 GDP growth of 1.9% was puny, the substantial Federal deficit almost demands budget cuts, employment levels appear stuck in neutral and the huge and historically reliable housing engine continues to sputter. Perhaps the best piece of news is that Federal Reserve Chairman Bernanke indicates that the economy and jobs are more significant issues than inflation, and that credit policy will therefore remain accommodative for "an extended period". This policy is in stark contrast to most of the rest of the world where inflation from food and energy prices, as well as labor costs in much of Asia, is a much greater challenge than in the U.S. economy, where food and energy are a much smaller portion of the economy and where there is currently no labor cost pressure.

The U.S. is indeed fortunate that inflation pressures have been more muted here than elsewhere in the world, giving policy makers greater flexibility. Given the historic resiliency of the U.S. economy and the probability, given their public statements, that the Federal Reserve may either announce a QE3 program or otherwise inject cash into the financial system, it appears likely that the U.S. economy could continue to grow, even if at a sub-par rate. It is also more than interesting that the U.S. is relatively alone in the world among major countries, with a continued low interest rate policy. There are benefits to the U.S. as other countries fight the global inflation battle and, for now at least, the U.S. is able to concentrate on generating growth. As part of this dichotomy, it is likely in our view that the dollar could be weak, generating potentially strong competitiveness for our exports and advantages for energy companies, which could benefit because oil and natural gas liquids are priced on a worldwide basis.

Both the Supply of Natural Gas and Natural Gas Liquids (NGLs) and the Demand for NGLs by the Chemical Industry, and Natural Gas to Fuel our Economy, Appear Likely to Grow, Possibly Creating Major Growth for MLPs

Our MLP Updates over the past two years have progressively focused more attention on the significant new shale development projects, as more liquids-rich gas is being produced, replacing other declining gas fields and producing incremental NGLs. MLPs are instrumental in processing this gas and bringing it to market, and it is these shale plays that either directly or indirectly are leading to significant growth projects for many MLPs. According to EIA data and Wells Fargo reports, NGL production reached 2.168 million barrels per day (bbl/d) in March, up 8.2% from March 2010. This increased production of ethane, propane and other NGLs is being used mainly by the chemical industry, replacing naphtha and other higher cost oil-based products. We wrote in our April Update that most major chemical companies in the U.S. had issued press releases in the previous six months addressing plans to convert or expand existing facilities, as well as move forward on building new world class crackers in the U.S. because of this new availability of low cost NGLs and the visibility to possible decades of such supply. Since our April 14th report, the pace and details of such announcements has only increased.

Dow Chemical (Dow, $34.76) announced in April a broad plan to increase its ethylene and propylene production based on its confidence in future supplies of NGLs from the Eagle Ford and Marcellus shale plays[4]. Only two years ago, neither of these new shale plays had significant production. In addition to restarting an ethylene cracker in Louisiana by the end of 2012, the company plans to build a world class ethylene production facility by 2017 and a world-scale propylene facility by 2015. Similarly, Shell Oil Co. (RDS/A, $72.13) announced plans to build a world scale ethylene cracker in the Northeast, using Marcellus shale ethane[4].

(4) *The estimated growth rate is not a measure of the fund's future performance.*

The sheer magnitude of these announcements by the major chemical companies is extraordinary. Chemical companies have historically been quite conservative in making such capital expenditure commitments. Major plant investment has been more concentrated in the Middle East because of the availability and low cost of energy. However, the shale plays in the U.S. represent a true step-change for the U.S. energy and chemical industries. Technology advancements and the use of this technology enable energy companies to produce huge amounts of liquids from these new rich plays at costs which are lower than in most other producing regions in the world. It is notable that so many chemical companies appreciate not only the cost advantages in the U.S., but also have confidence in a potential many-decade-long supply that appears increasingly inevitable and may be able to support these multi-billion dollar investments. Numerous industry forecasts back up these expectations. Enterprise Products Partners, LP (EPD, $43.60) forecasts some 200,000 to 300,000 bbl/d of incremental ethane demand by 2015 as a result of the many expansion and new-build announcements of chemical companies, representing a 20% to 30% increase from late December 2010's 1,000,000 bbl/d of production. Wells Fargo forecasts that the Marcellus shale play alone could produce up to 134,000 bbl/d by 2015 and that the current 900,000 bbl/d of total U.S. ethane supply can grow to 1,266,000 bbl/d by 2014, matching their 2016 demand figure.

As third party service providers and solution creators, with major participation in all of the emerging shale plays, we feel many MLPs appear extremely well-positioned to possibly benefit from this substantial investment over the next three to five years. Just in recent months, there has been an unprecedented list of expansion and new project announcements by MLPs, from fractionator expansions to two major Y-grade pipelines moving liquids from the Permian Basin to the Gulf Coast, to a number of Bakken field projects and a large number of pipeline and related projects in the extremely prospective and well-located Eagle Ford shale. The Interstate Natural Gas Association of America (INGAA) released a report on June 28, 2011, entitled: "North American Gas Midstream Infrastructure Through 2035; A Secure Energy Future," forecasting the need for some $10 billion per year of infrastructure in midstream energy investments. The large portion of such investments appears likely to be made by MLPs gathering gas in the shale plays, processing it and moving the various products to market. Clearly, if the energy future we have outlined above unfolds, there could be the need for many tens of billions of dollars to be invested in fractionators, storage facilities, pipelines and other related assets. The strong market position of MLPs appears to give so many of these partnerships a strong leg-up in building high return projects, and our analytical efforts are focused on identifying those best positioned to benefit and most attractively priced in the market.

Recent Press Reports about the Risks of Fracking and So-Called 'Unfounded Optimism in Shale Plays' are Totally Off-Base in our View

It would be impossible to complete such as review about the future for MLPs without addressing issues written in a major front page article in June in the *New York Times*. We disagree with the contention of this article that the volumes of gas and NGLs may not exist, may not be profitable and that hydraulic fracturing (fracking) is dangerous in a variety of ways. It is notable that most of the claims made in the *NYTimes* article are made by either anonymous sources or sources that appear to us to not be hands-on in their knowledge of energy. Anecdotal 'evidence' is used to claim that fracking contaminates the drinking supply and releases dangerous chemicals. The *Wall Street Journal* wrote a lead editorial on June 25-26, 2011 that disputes and contradicts the many claims made in the *NYTimes* article on a point by point and fact-based basis. We agree with virtually all the detailed points made in the *Wall Street Journal* editorial.

Several specific points deserve mention. On the contention made in the *NYTimes* article, supported by emails where names were redacted, that supply would not match expectations, there is a plethora of disagreement expressed by industry experts including the most recent report of the prestigious Potential Gas Committee, independent reservoir engineers, and many energy and chemical companies who are investing tens of billions of dollars in facilities in the strong confidence that these supplies exist. As to whether chemicals used in fracking contaminate the water supply, Porter Bennett of consulting firm Bentak points out that 5000 to 8000 feet separate the gas formations from the shallow water tables and the rock in between is impermeable. The *Journal* quoted EPA Administrator, Lisa Jackson, herself no friend of energy companies, saying that there have been no "proven cases where the fracking process itself has affected water." This is not to say that an irresponsible operator or an accident couldn't allow chemicals to flow into a river just as with any other operation. We fully expect shale development to continue at a rapid pace, and for MLPs to continue to benefit from a growing number of capital projects. Our last thought on this, as it relates to the bigger economic picture which we addressed earlier in this piece, is that we are surprised more politicians haven't recognized and embraced this energy investment opportunity which may create huge numbers of jobs and could become more energy independent through this incremental production of energy. However, quietly, there are already many tens of thousands of jobs being added to support shale gas development.

We will close with a brief mention on recently announced distribution increases. Barclay's Capital published a comprehensive tabulation of MLP distribution increases following Q1 payments in April and May. Only a handful of partnerships have not increased distributions over the previous year. Barclay's calculated that as of May 13, 2011 the average annual increase in distributions of all MLPs was 5.02%. However, the rate of increase has increased, as the average sequential quarter-to-quarter increase was 1.52% from Q4 2010. Given that most MLPs continue to have reasonable coverage ratios of current distributions and growing visibility to growth projects, it appears that the broad group should continue to offer reasonable prospects for continued mid-single digit distribution growth over the intermediate term.

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ADDITIONAL DISCLOSURES