MAINGATE MLP FUND



JULY 22, 2013

MLP UPDATE

SECOND QUARTER 2013

It May Appear That Successful Investing is Dependent on What Future Federal Reserve Actions May Be. With All Due Respect to Mr. Bernanke and Whatever May Come, We See Good Investment Appeal in Many MLPs.

The recent, almost single-minded market focus on <u>when</u> the Federal Reserve might begin to back away from its current program of Quantitative Easing (QE), as well as on job creation statistics each month, has seemingly pushed all other issues, as well as fundamentals, off center stage, at least temporarily. We will not attempt to diminish the importance of future Fed action. However, recent qualifications from Mr. Bernanke and other Federal Reserve Board members seem to indicate that future action will not likely be hasty or extreme. That said, we believe it is quite understandable why the bond market would react as sharply as it did following its multi-decade bull market that we believe may now be over. It is more than interesting to note that equities and MLPs have recovered from their initial declines and are at or near their former record highs, even as Treasury prices have recovered only modestly.

Equity investors, including MLP investors, following the initial shock that Fed action might be forthcoming, appear to have realized that 2.6% ten-year Treasury yields are still historically quite low, that external shock risks to the financial system, particularly from Europe, appear to be reduced and that the U.S. economy continues to perform better than most economies in the developed world. In short, with the current levels of inflation measures, trends in consumer wealth, and the status of the U.S. economy, it does indeed appear that there is continued logic to the current investor interest in U.S. equities.

Notwithstanding the strong performance of MLPs in 2013 to date and the somewhat higher than historic valuations of MLP equities, we continue to believe that many MLPs have substantial investment appeal. Balance sheets are strong, with long-dated and low-cost debt locked in at most significant companies. Cash flow[1] is stable and sustainable at many companies and potential growth is increasingly visible at companies in which we invest, because of excellent

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

FUND FACTS as of 6/30/13

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
Maximum Load	5.75%	NONE
Management Fee	1.25%	1.25%
Redemption Fee	NONE	NONE
12b-1 Fee	0.25%	NONE
Gross Expense Ratio	8.17%	7.92%
Net Expense Ratio	1.75%	1.50%

*(excluding 6.01% Deferred Income Tax Expense)**

**The Fund's adviser has contractually agreed to cap the Fund's total annual operating expenses (excluding brokerage fees and commissions; borrowing costs; taxes, such as Deferred Income Tax Expense; Class A 12b-1 fees; and extraordinary expenses) at 1.50% through March 31, 2014. Deferred income tax expense/(benefit) represents an estimate of the Fund's potential tax expense/(benefit) if it were to recognize the unrealized gains/(losses) in the portfolio. An estimate of deferred income tax expense/(benefit) depends upon the Fund's net investment income/(loss) and realized and unrealized gains/(losses) on its portfolio, which may vary greatly on a daily, monthly and annual basis depending on the nature of the Fund's investments and their performance. An estimate of deferred income tax expenses/(benefit) cannot be reliably predicted from year to year. The 6.01% deferred tax expense represents the performance impact of accrued deferred tax liabilities for the fiscal year ended November 30, 2012.*

Top 5 Holdings (as of 6/30/13)	% of Fund
Enterprise Products Partners, LP	8.34%
Plains All American Pipeline, LP	8.25%
Crosstex Energy, Inc.	6.23%
Buckeye Partners, LP	6.17%
Genesis Energy, LP	6.17%

Top Sectors (as of 6/30/13)	% of Fund
Crude/Refined Prod. Pipeline & Storage	42.99%
Natural Gas Pipeline & Storage	34.66%
Natural Gas Gathering/Processing	22.35%

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

Performance: A Shares (as of 6/30/13)		
NAV per Share		$11.73
POP per Share		$12.45
Returns:	Without Load	With Load
3 Month	1.44%	-4.43%
1 Year	25.14%	17.90%
Since Inception (02/17/11)	12.59%	9.81%

Performance: I Shares (as of 6/30/13)	
NAV per Share	$11.81
Returns:	
3 Month	1.51%
1 Year	25.44%
Since Inception (02/17/11)	12.89%

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.

market positions in oil and NGL logistics, as well as third-party gas services in attractive basins. MLPs have provided robust yields and superior growth prospects, in large part because of substantial shale development and rejuvenated oil basins that create third-party midstream investment opportunities for certain well-positioned companies.

The World Continues to Be a Difficult and Uncertain Place to Do Business and to Invest. However, It May Be Not Quite as Difficult and Uncertain as in the Recent Past.

A longstanding theme that we and others have frequently written about is how this smaller and more inter-related world presents ever greater challenges and risks for both companies and investors. A year ago, Mario Draghi, President of the European Central Bank (ECB), outlined an open-ended financial commitment to support the European Community. Financial markets responded positively to this credible statement and this commitment along with the U.S. Federal Reserve's program of QE have helped to create a more favorable investment climate. Mr. Draghi has stayed committed to accommodative monetary policy, comforting those who feared that Europe might be the trigger to a new worldwide financial crisis. The ECB very recently indicated in a statement that rates would remain at current low levels, or even be reduced, for an extended period of time, adding comfort to a market that has been watching southern European Sovereign debt costs rising in recent months.

Growth in both the developed and developing world has continued to slow. The World Bank forecasts that the global economy will grow only 2.2% this year and 3% in 2014. The International Monetary Fund (IMF) pegs growth this year more optimistically at 3.1%. The big growth engine in China continues to slow down and the Chinese Finance Minister recently said that growth this year might be only 7%, as exports slow and the country relies less on major capital projects for growth and more on the consumer side of their economy. Most commodity prices have fallen as China reduces its imports of a wide range of commodities. The major transition in China appears to be in large part responsible for reducing inflationary pressures in many countries, including the United States, where the overall and core Consumer Price Index (CPI)[2] were up only 1.7% in May from a year ago. Only oil prices of the major commodities have not fallen significantly, apparently because of the volatility and uncertainties in the Middle East, which is a significant world supplier. Nevertheless, the 'inflation monster' appears to have been tamed for now, giving the world's monetary authorities, including the Federal Reserve, greater flexibility in their prospective actions.

The U.S. Economy Continues to Grow, Even If Slower than in Past Recoveries. The Good News is That Excluding Potential Financial Shocks, There Appear to Be Few or Any Excesses That Might Lead to a Recession.

The major focus of the press on job creation statistics each month and the future of the Federal Reserves' QE program has obscured the fact that the U.S. economy continues to grow. The World Bank and the White House Office of Management and Budget (OMB) forecast GDP growth this year at 2%; the recent *Wall Street Journal* poll of economists pegs growth this year at 2.3%. Clearly, economic growth has been held back by consumers who no longer choose to borrow and spend, the lack of significant wage growth, government spending that has essentially held flat in the recent post-recession years and a weak export market. Given that nearly two-thirds of the U.S. economy is consumer driven, it is not surprising — and perhaps not even a bad thing at all — that growth in this U.S. economic recovery from the worst recession since the depression, would be well below trend line as the U.S. consumer has been paying down debt while rebuilding his balance sheet and confidence.

However, there are many positive signs, including increased wealth, planned investments in a number of capital intensive industries and the incipient recovery in the energy, auto and housing markets, that point to the sustainability of this recovery, if not an acceleration of growth. The recent annual A.T. Kearney survey of multi-national companies showed the U.S. rising to number one in the world from number four last year in appeal for foreign investment. After a decade of China and others leading the list, low cost and plentiful energy to support manufacturing was cited as a reason for considering investment in the U.S. A number of visible and large energy, chemical, steel and fertilizer investments have been announced in the U.S. by both U.S. and foreign companies. And we'd be remiss if we did not add that we believe that midstream MLPs will be integral to connecting these investments with energy supply.

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

Total household wealth rose by $3 trillion to $70.3 trillion in the first quarter, according to Federal Reserve data. Although the rising 'wealth effect' has over the past several years been more concentrated in the smaller number of Americans who invest in stocks, the impact has shifted over the past year to include most American households, as the value of housing has recovered in a fairly impressive fashion. The most recent Case-Shiller Index[3], calculating the value of homes in the twenty largest U.S. markets, rose by an impressive 12.1% from the prior year. The rise was significantly greater in a number of markets where the declines had been greatest. Although many millions of Americans continue to have no positive equity in their homes, many millions of others are seeing positive equity in their homes for the first time since the housing price collapse and have been able to refinance their mortgages at lower rates. Home values remain 11.7% below their pre-recession peaks according to the Federal Housing Finance Agency and more than 25% below their peaks according to Case-Shiller data, but housing prices appear to be continuing to rise.

Home construction continues to rise, and building permits in April and May approximated the 1 million rate each month, the highest post-recession level, according to the U.S. Department of Housing and Urban Development. Historically, durable goods sales have followed housing sales, as consumers stock their new homes with appliances and other long-lived items. The consumer has already pushed up automotive sales to the 15 million unit rate, and the potential for greater consumer spending is looking modestly better as more time since the deep recession helps boost consumer confidence, as employment continues to rise at 200,000 per month this year, and the wealth effect of the past several years has its typical delayed impact.

A Number of Energy and Environmental Themes Continue to Impact MLPs and Point to Both Risks and Opportunities.

The 'new' shale plays, with their substantial natural gas, NGL and oil potential, and technological developments that have turned some old oil fields into new and prolific oil fields have been the themes that we have been immersed in and which have driven us as investors over the past handful of years. We believe that many midstream MLPs have positioned themselves well as the preferred providers of third-party services in these massive and rapidly developing plays and it is on these opportunities and risks where we have focused our company analyses, as some companies appear to us to be much better positioned than others. The energy markets in the U.S. are in a major state of change as crude, natural gas liquids (NGLs) and natural gas flow patterns significantly change because of markedly different geographic locations of the new shale plays and oil basins compared to many historic basins which have declining production. Investors must not forget that some companies seem to be getting left behind, with less attractive historic investment positions, even as they are attempting to catch up to other seemingly better-positioned companies.

The International Energy Agency (IEA) forecasts that the U.S. will add 2.8 million bbls/d of oil production between 2012 and 2018 (oil production at the end of 2012 as reported by the Energy Information Administration (EIA) was 7.0 million bbls/d). The IEA also forecasts that Canada will add 1.3 million bbls/d to its total production by 2018 (current oil production as of the end of 2012 reported by the Canadian National Energy Board (NEB) was 3.2 million bbls/d). This massive increase in North American production and change in flow patterns, as more crude finds its way to the east and west coasts, plus the Houston Gulf coast market, displacing imported crude, is already creating significant investment opportunities for a number of MLPs through pipelines, terminals, rail and barge. It does appear to us to be highly likely that forecast substantial oil production increases will occur given the relatively reasonable cost of finding and producing this oil. We would say that the growth rate in domestic natural gas and NGL production is less certain despite the ready availability of a huge and low-cost resource base. The value of NGLs, primarily ethane, propane and butane, equals or exceeds that of the natural gas in the new shale plays and it is the timing of demand increases that will likely drive many projects. Propane and butane can be used domestically for heating and fuel purposes or exported; low-cost ethane is the most likely feedstock in the many future domestic chemical industry crackers being planned for 2016 to 2018, or it can be left in the natural gas stream for the value of its BTUs.

The biggest problem facing the industry might be what to do with all of the possible future natural gas production that may be available from the Marcellus and other shale plays. It is important to note that after a decade of zero consumption growth from 1999 to 2009, when conservation impacted demand, natural gas consumption has grown by 11.3% from 2009 to 2012, according to the EIA, with almost all the

(3) The S&P/Case-Shiller Home Price Indices: A leading measure for the US residential housing market, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions.

growth coming from the electric power industry and at the expense of coal. It is certainly a debatable question as to the pace of natural gas consumption and export growth in future years, and we could see natural gas consumption and exports (and therefore production) increasing at a greater or lesser rate depending on several factors.

President Obama recently spoke about his climate change objectives and his goal of reducing greenhouse gas emissions by 17% from 2005 to 2020. He has instructed the Environmental Protection Agency (EPA) to enact tough CO2 emission regulations for power plants (as he and they previously did with automobiles). As electric power plants emit 40% of the CO2 of all sources in the U.S. according to the EIA, and natural gas sourced production of electricity emits just over 50% the amount of CO2 that coal does, it is widely expected that the EPA will take actions that force the shutdown of many old and less efficient coal-fired plants. Natural gas is expected to gain substantial market share if and when this takes place. Many electric utilities are already planning to shut down a number of coal-fired generation plants and to build gas fired combined cycle plants. Needless to say, the many legislators and union workers that would be affected by these actions are working hard to lessen this potential impact of any rule changes or delay them.

The outlook for liquefied natural gas (LNG) exports is anything but certain, even as a second LNG export terminal recently received licenses. The United States has a number of LNG import terminals which were built some years ago when it was believed that the U.S. was running out of natural gas. With these many tens of billions of dollars of sunk costs, we believe that the economics of converting these facilities into export terminals are excellent, especially with domestic natural gas selling at less than $4 per mcf when Asian import prices are at $15 to $20 per mcf. The arguments in favor of exporting substantial quantities of LNG can be quite persuasive: The U.S. has massive quantities of natural gas that can be produced from the shale plays and it is doubtful that demand will rise very rapidly in residential, transportation or even in manufacturing. Electric generation demand growth will likely be significant, and yet the energy industry appears capable of producing substantially greater quantities of natural gas than will be demanded domestically. The industry argues that exports are required in order to produce all the NGLs that the chemical industry will require as well as to benefit the U.S. economy. Environmentalists are lining up in their efforts to limit exports because this incremental gas production will be the result of hydraulic fracturing, a practice with which they disagree and are fighting.

Our Short Summary is That Many, But Certainly Not All MLPs Continue to Have Good Investment Appeal.

We believe that the appeal of many MLPs continues to be quite strong. Although yields have fallen this year with the market rally, the spread of ten-year Treasuries to midstream MLPs, which many investors focus on, is still modestly wider than the 250 to 300 basis point long-term historic range (excluding the 2008 and 2009 financial crisis). Other measures of valuation, including Price to EBITDA[4], show MLPs trading at a 10% to 15% higher than historic level. We find it increasingly difficult to generalize about the value and appeal of MLPs as a group. MLPs are the legal entity that defines this group and the term is not particularly defining as to the asset type and prospects of individual companies. The MLP 'group' has become increasingly diverse within the broad energy space and investors are left with the burden of identifying the truly best-in-class companies, which can provide the highest level of service demanded by customers, the most stable and predictable cash flows, and profitably growth over time. The MLP structure now includes many different types of businesses with varying quality differences in cash flow streams and growth prospects. In depth fundamental analysis, quantification of risk and multi-factor valuation are required for each category of MLPs and each individual company. We continue to focus on the many risks to which each company is exposed before becoming too excited about possible upside potential.

MLPs have continued to issue equity this year at last year's record pace to help finance the many attractive growth projects and support attractive returns. Debt financings have actually accelerated from last year's record pace of issuance, with some $16.1 billion of debt offerings in the first half of this year (UBS, *Weekly MLP Update*, 7/5/13). The impact of this massive debt issuance has been to secure low interest costs and to significantly lengthen maturities. The continued focus of many, but definitely not all, MLP management teams in maintaining or strengthening balance sheets in this period of low-cost debt and equity is a critical factor in our analytical process. It is a rare MLP that carries higher than a 4x debt-to-EBITDA ratio that will interest us as an investment. Access to equity and the cost of equity issuance

(4) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA): Essentially net income with interest, taxes, depreciation, and amortization added back to it; can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

appear to have markedly improved with the more widespread use of At-The-Market (ATM) issuance of equity. Until recently, MLPs were forced to come to market at fairly predictable times as equity was required to fund capital investments. Selling hundreds of millions of dollars of equity at one time temporarily depresses the share price and places much of the issuance in hands that are not permanent holders. The more widespread use of ATMs is changing this negative, with opportunistic equity issuance possible without disrupting the market. Some 21 MLPs now have ATMs with a total capacity of $8.4bn (Wells Fargo, *MLP Monthly*, July 2013).

A rising interest rate environment is also on the list of investor concerns. However, we would point to the positive return of MLPs in Q2 as the ten-year Treasury yield jumped from 1.87% to 2.52%. Morgan Stanley recently did an interesting study which showed that in a number of past periods of rising interest rates, there was no or little correlation[5] in the price action of MLPs. Growth, in our view, is the best answer to the inevitable issue of rising interest rates. We feel that companies which can grow at an attractive rate for multiple years and obtain attractive returns should be more highly valued. In fact, current yields appear to be the most highly sought after characteristic of most investors (not us). It is, of course, true that promised or hoped-for growth does not always occur and that it is also a risk that investors may pay too much for expected growth.

After addressing many, but by all means not all of the issues facing MLPs today in this quarterly letter, we reiterate and emphasize our investment philosophy that we continue to seek out companies with: 1) strong balance sheets, 2) stable and predictable cash flow, 3) credible management teams, 4) attractive current valuations based on all known factors and 5) which have visibility to or strong prospects to grow for a multi-year period and for this growth to not be discounted in the current share price. Finally, we thank our investors for placing their confidence in us.

David Fleischer, CFA   Geoffrey Mavar   Matt Mead   Robert Walker

(5) Correlation: The measure of the relationship between two data sets of variables.

References to market or composite indices, benchmarks or other measures of relative market performance over a specified period of time (each, an "index") are provided for your information only. Reference to this index does not imply that the portfolio will achieve returns, volatility or other results similar to the index. The composition of the index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time. It is not possible to invest directly in an index.

Earnings Growth is not a measure of the Fund's future performance.

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ADDITIONAL DISCLOSURES

Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 855.MLP.FUND (855.657.3863). Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. The Fund is nondiversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund will invest in Master Limited Partnerships (MLPs) which concentrate investments in the natural resource sector and are subject to the risks of energy prices and demand and the volatility of commodity investments. Damage to facilities and infrastructure of MLPs may significantly affect the value of an investment and may incur environmental costs and liabilities due to the nature of their business. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment. Investments in smaller companies involve additional risks, such as limited liquidity and greater volatility. Investments in foreign securities involve greater volatility and political, economic and currency risks and differences in accounting methods. MLPs are subject to certain risks inherent in the structure of MLPs, including complex tax structure risks, limited ability for election or removal of management, limited voting rights, potential dependence on parent companies or sponsors for revenues to satisfy obligations, and potential conflicts of interest between partners, members and affiliates.

An investment in the Fund does not receive the same tax advantages as a direct investment in the MLP.

The Fund is treated as a regular corporation or "C" corporation and is therefore subject to U.S. federal income tax on its taxable income at rates applicable to corporations (currently at a maximum rate of 35%) as well as state and local income taxes.

MLP Funds accrue deferred income taxes for future tax liabilities associated with the portion of MLP distributions considered to be a tax-deferred return of capital and for any net operating gains as well as capital appreciation of its investments. This deferred tax liability is reflected in the daily NAV and as a result the MLP Fund's after-tax performance could differ significantly from the underlying assets even if the pre-tax performance is closely tracked.

The potential tax benefits from investing in MLPs depend on them being treated as partnerships for federal income tax purposes.

If the MLP is deemed to be a corporation then its income would be subject to federal taxation, reducing the amount of cash available for distribution to the Fund which could result in a reduction of the Fund's value.