MAINGATE
MLP FUND



JANUARY 20, 2014

MLP UPDATE

FOURTH QUARTER 2013

Risks to the World's Financial Structure Appear to be Diminished, at Least for Now. Investors Are Increasingly Seeking Growth and Yield[1] Opportunities at Reasonable Valuations. We Believe That (Many) MLPs Stand Tall on These Measures.

The long list of macro concerns which could cause a double-dip recession or another financial crisis appears to have diminished. The economies and financial condition of European countries have stopped getting worse and several major countries appear to be crawling out of recession. Default risk appears to be diminished with the strong European Central Bank (ECB) verbal support that has buoyed confidence in Europe over the past 18 months. The BRIC countries (Brazil, Russia, India, China), which were the growth engines of the world for some years, are losing this status as Russia, the world's eighth largest economy, and heavily dependent on oil and gas revenues, is stagnating and Brazil and India are plagued with higher inflation and modest growth. Only China continues to report strong, but diminished growth at 7.5%. However, with rising internal debt, excess industrial capacity and diminished export potential, some are questioning future growth prospects even for China. Growth expectations are now falling on the developing countries and the United States.

Prospects for sustained growth in the United States appear to be improving. Although headlines continue to focus on job creation, the still high unemployment rate and lack of wage growth, the facts are that the U.S. economy has enjoyed four years of growth at between a 1.8% and 2.8% rate. Most forecasts for 2014 are in the 2.5% range, although the new Federal Reserve Chairman Yellen sees 3% growth as possible. Housing, automotive, and the broad manufacturing segment, especially the chemical and energy industries within it, all appear likely to contribute to future growth. It does appear increasingly possible that growth will accelerate in future years. One of the measures that we and others rely on as a leading indicator of economic growth is the net worth of U.S. households and non-profit organizations. The value of housing, stocks and other assets rose $1.9 trillion or 2.6% in Q3 to $77.3 trillion,

> "When asked by investors how we've been able to generate strong performance in our portfolios over recent years, we usually begin our answer by talking about our process to avoid investing in companies which we believe accept excessive risk for the opportunities they are pursuing."

FUND FACTS as of 12/31/13

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 10 Holdings (as of 12/31/13)	% of Fund
Crosstex Energy, Inc.	9.25%
Enterprise Products Partners, LP	8.77%
Plains All American Pipeline, LP	7.98%
Western Gas Equity Partners, LP	6.40%
Buckeye Partners, LP	6.36%
Genesis Energy, LP	6.27%
Williams Companies, Inc.	6.25%
Oiltanking Partners, LP	5.63%
Energy Transfer Equity, LP	5.47%
Magellan Midstream Partners, LP	4.96%

Top Sectors (as of 12/31/13)	% of Fund
Crude/Refined Prod. Pipeline & Storage	44.45%
Natural Gas Pipeline & Storage	32.35%
Natural Gas Gathering/Processing	23.20%

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 12/31/13)		
NAV per Share		$12.33
POP per Share		$13.08
Returns:	Without Load	With Load
3 Month	7.88%	1.65%
1 Year	25.70%	18.50%
Since Inception (02/17/11)	13.25%	10.94%

Performance: I Shares (as of 12/31/13)	
NAV per Share	$12.43
Returns:	
3 Month	7.91%
1 Year	25.95%
Since Inception (02/17/11)	13.54%

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.

according to Federal Reserve statistics. This is a new record. The value of residential real estate rose by $428 billion and homeowners in every region of the country saw the equity in their homes rise. The value of stocks rose by $917 billion. The so-called ‘wealth effect’ of such increases typically has led to greater consumer spending, although with a lag. As investors become increasingly wary of bonds on the fear of a period of at least modestly rising interest rates, certain MLPs with visible growth, high relative yields[1] to other investment instruments available in the markets, and reasonable valuation appear likely to us to be favored by investors.

MLPs Turned in a Strong Performance in 2013. We Believe that More Appreciation is Ahead.

Master Limited Partnerships (MLPs) performed strongly in 2013, generating a 27.6% total return according to the Alerian MLP Total Return Index[2] (AMZX), though this return fell modestly short of the 32.4% return of the S&P 500[3]. This is the second year in a row where MLP returns were below that generated by the S&P 500[3]. However, the relative returns of the AMZX[2] far outpaced those generated by Utilities (as represented by the Dow Jones Utilities Average[4], which returned 12.69% for 2013), REITS (as represented by the Dow Jones U.S. Select REIT Index[5], which returned 1.22% for 2013), high yield[1] bonds (as represented by the S&P U.S. Issued High Yield Corporate Bond Index[6], which returned 6.43% for 2013), corporate and government bonds (as represented by as represented by S&P U.S. Issued Investment Grade Corporate Bond Index[7], which returned -1.59% for 2013 and S&P/BGCantor U.S. Treasury Bond Index[8] which returned -1.87% for 2013, respectively), pointing to the importance of their growth attributes and ability to generate superior total returns in addition to their yields[1]. According to Wells Fargo, there was a wide dispersion of total returns, with General Partner MLPs generating the highest total returns at 75.8% and Upstream MLPs providing the lowest total returns at 6.0%. Additionally 23 out of 111 MLPs tracked by Wells Fargo generated negative price performance. We see such continued dispersion in performance between sub-sectors of MLPs and individual names as an opportunity for thoughtful and analytical investors.

Questions are frequently asked of us about the possible impact of rising interest rates on MLPs in 2014 and beyond. We believe that the most likely scenario most strategists are forecasting of a modest and gradual rise in rates is not a negative at all for MLPs because of the investment opportunities MLPs enjoy which should support future distribution growth. This is supported by the close to market performance in 2013, the lack of correlation[9] to other income securities and the historical data which we addressed in several previous letters, where MLPs performed satisfactorily or better in periods of rising interest rates. We belive that strong growth prospects are an offset to rising interest rates.

Rising production of oil, natural gas and natural gas liquids (NGLs) and the wide range of services required to gather, process, transport, fractionate and store these products are the themes that create the growth opportunities for MLPs. Although many MLPs sell at valuation multiples at or above their historic average, many, but by no means all MLPs, remain attractive as we analyze them because of their strong market positions and good visibility to excellent multi-year growth.

Several Major Themes Have Defined the Opportunities in Recent Years. It’s Getting a Bit More Complicated Now.

Themes such as simply participating in the most prolific basins and shale plays typically have generated superior performance in recent years for gathering and processing companies. Companies who were among the first to build gathering systems and provide good service found success even with dedication-based contracts because so many drilled wells were awaiting hook-up. Other companies which transported and fractionated liquids similarly benefited but with lower risk because of more advantageous contract terms. With so many companies chasing these opportunities and some paying extraordinary prices for an asset to establish their presence in a shale play, success is not nearly as straightforward as it used to be not that long ago. We find

(1) Yield: Refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment’s cost, its current market value or its face value.
(2) The Alerian MLP Index: A capitalization-weighted index of the 50 most prominent energy Master Limited Partnerships. Visit http://www.alerian.com/indices/amz-index for more information, including performance. You cannot invest directly in an index.
(3) S&P 500: A free-float capitalization-weighted index published since 1957 of the prices of 500 large-cap common stocks actively traded in the United States.
(4) Dow Jones Utilities Average: A price-weighted average of 15 utility stocks traded in the United States.
(5) Dow Jones U.S. Select REIT Index: An index that defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.
(6) S&P U.S. Issued High Yield Corporate Bond Index: An index designed to measure the performance of high-yield U.S. dollar-denominated bonds issued by U.S.-domiciled corporations.
(7) S&P U.S. Issued Investment Grade Corporate Bond Index: An index designed to measure the performance of investment-grade U.S. dollar-denominated bonds issued by U.S.-domiciled corporations.
(8) S&P/BGCantor U.S. Treasury Bond Index: A broad, comprehensive, market-value weighted index that seeks to measure the performance of the U.S. Treasury Bond market.
(9) Correlation: The measure of the relationship between two data sets of variables.

that a combination of the right investment opportunities and extremely disciplined financial management are required for companies to generate superior financial results.

However companies which pay too dearly for even well-positioned assets or have too much capital invested ahead of earning a return on that capital, place themselves in a financial hole from which it may be difficult to escape. We are disappointed to see some companies shift from being risk averse in their capital investments to not wanting to miss opportunities. A bit of "Goldilocks investing" is required... investing enough capital to satisfy your customers, but not so much that assets are built too far ahead of the supply so that utilization rates and profits are low for a period of time. Our concern is also that a short-term dip in drilling or shift in drilling to a different region might leave a plant or system less than fully utilized for a protracted period of time. We have reduced in size or outright exited positions that we feel have increased their exposure to overbuilding. There seems to be little question that shale plays which are rich in oil and natural gas liquids (NGLs), including ethane and propane, will produce supplies well in excess of domestic demand for a number of years into the future. Already significant and rising quantities of propane and butane are being exported and ethane is being 'rejected' back into the natural gas stream to balance inventories. As a result, the domestic chemical industry has announced and is currently building a number of multi-billion dollar crackers to produce ethylene from the low-cost ethane coming from the Marcellus and Eagle Ford shales, among others. Some 135 new chemical production projects, valued at over $90 billion have been announced, according to the American Chemistry Council, which will utilize ethane, propane or natural gas as their feedstock to make a variety of chemical products. These facilities will require a massive investment in logistics assets from the producing wells all the way to the mostly Gulf Coast chemical plants to meet their raw material requirements. Transportation, fractionation and storage are in heavy demand in addition to the gathering and processing functions close to the wellhead, and long-term contracts are being signed or negotiated currently for many of these services.

We are convinced that the U.S. shale plays are only demand constrained and can produce nearly whatever quantities of NGLs and natural gas are required by customers. Because the value of the NGLs alone justifies production of the natural gas stream which contains them, we believe that natural gas may be in significant excess supply in future years. Natural gas consumption is growing in the U.S., but at a much slower pace than the ability to produce it and this will likely be exacerbated without the ability to export substantial liquefied natural gas (LNG). The timing of building these export facilities and the number that are eventually approved by the government, are critical to the level of future natural gas prices. We have been quite mixed at best in our interest toward companies with LNG export ambitions and yet see the probability of some 10 billion cubic feet per day (BCF/d) of export facilities being approved and the early projects moving forward.

Oil-by-train investments, with both loading and unloading opportunities, along with final mile movement to customers, are seen by many as short-term solutions to moving crude oil until pipelines are 'inevitably' built as the permanent transportation solution. However, this may not be the end result despite higher cost of rail movement (although the potential exists for these costs to fall) than by pipeline and greater safety problems, highlighted by several recent train derailments and fires. In particular, Bakken production of 1 million barrels per day (bbls/d) is being transported partly by existing and expanding pipeline capacity and other pipelines are in the planning stage. However, producers appear to be in no hurry to contract for pipeline capacity which commits them through long-term contracts to a certain destination. It is also quite difficult to site and build pipelines from North Dakota to the east and west coast locations where much of this light, sweet crude appears destined to go and be refined. As a result, we believe that many rail loading and unloading facilities appear likely to be much more than transitional assets and instead may have quite long useful lives. Certain of the best located facilities with first-mover advantage appear likely to us to earn strong returns from these assets. Their ability to provide a variety of services and destination flexibility to producers and consumers alike appear to make many of these assets strategic and strong long-term earning assets.

Clearly, the large number of fully contracted oil and product pipelines that are being built from the various basins appear to be classic and appropriate investments for midstream MLPs. We are hopeful that the temptation will not be too great for companies that cannot fully contract such projects to move ahead anyway on the belief that 'if they build it, the customers will come.' Gulf of Mexico oil and natural gas production appears likely to rebound over the next five years and beyond as the deep water rig count continues to increase post the Macondo incident and new discoveries continue to be announced. Several MLPs with underutilized pipeline capacity in the Gulf should benefit as these fixed-cost assets see utilization rates rise. Another theme that is benefitting several companies is the export of propane, butane and eventually ethane. A finite number of companies have the combination of access to these liquids, adequate storage and appropriate deep-water dock facilities. Another 'smaller' theme that may not be so small at all is the potential building of splitters to deal with the increasingly large amount of condensate (very light crude-like product) being produced and then exporting the finished product.

Finally, we will mention the new trend of consolidation which is difficult to analyze. Copano was bought by Kinder Morgan Energy Partners, LP (KMP, $81.31) early last year as Kinder sought the strong liquids capability of the company and its Eagle Ford assets. Crosstex Energy, Inc. (XTXI, $35.38) and Crosstex Energy Partners, LP (XTEX, $27.48) announced a very positive combination late in the year with Devon Energy Corp (DVN, $59.01) in what was both a combination of assets and management teams. It also eliminated a planned Initial Public Offering (IPO) of Devon's midstream assets allowing them to accelerate the valuation of their midstream assets. Perhaps the theme here is that other companies are recognizing the value of well-positioned midstream companies and owning such companies can be rewarding in various ways.

Risks Are Part of Every Opportunity and There Are More Risks for Investors to Analyze.

The previous section addressed many of the developing themes and sub-themes where we see significant investment opportunities. At the same time, opportunities come with a variety of risks, depending on how they are pursued, and in this section we will attempt to focus more specifically on some of these risks. When asked by investors how we've been able to generate strong performance in our portfolios over recent years, we usually begin our answer by talking about our process to avoid investing in companies which we believe accept excessive risk for the opportunities they are pursuing. A portion of our risk management process is top-down, as we seek to avoid companies with significant commodity price risk, or with low spreads between their cost of capital[10] and return on capital[11], or with excessive debt-to-EBITDA[12] ratios. However, the more difficult and yet critical risk analysis is done on a company by company basis and requires in depth work because the underlying risks at each company — whether with contract terms, balance sheet management or operational risks — are different at each company. It is also interesting to see how investors value/price risk each day in the pricing of the many MLPs which trade in the market. A generalization of ours, that does not always hold, is that higher-yielding[1] MLPs frequently have more incremental risk than the incremental yield[1] over other MLPs. The conclusion may be that total return investors should perhaps not be chasing the higher yielding[1] MLPs.

Perhaps the most obvious risk that frequently gets ignored by investors is balance sheet risk. Following the financial crisis of 2008-09, virtually all MLP management teams focused on improving their debt ratios and terming out their debt, even at costs well above short-term rates. We now see some companies making greater use of short-term debt and adding greater debt to their capitalization mix. We continue to have a strong discipline and rarely invest in companies with greater than four times debt-to-EBITDA[12] ratios.

Another obvious risk that is frequently ignored by investors is the added risk that higher yielding[1] securities typically bring. This is also the case in the ever-growing IPO market. Last year there were some 20 initial public offerings (IPOs) in the MLP space, with a broad range of qualifying assets in these offerings. Of these new issues, we found only a select few quite interesting companies with attractive assets, strong general partners, low debt and a reasonable valuation in which to invest during 2013. However, many other companies coming to market have, in our judgment, less attractive assets, many with volatile cash flow[13] streams and other risks. We expect this mix of IPO opportunities to continue.

Successful Investing Requires a Great Many Disciplines and We Attempt to be Disciplined Investors.

Our investment process focuses on the general themes, sub-themes and risks we outlined in the previous sections. Opportunities continue to evolve and categories of risk that need evaluation do appear to be increasing. We evaluate a potential investment for every possible risk we've previously

(1) Yield: Refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.
(10) Cost of Capital: The cost of funds used for financing a business.
(11) Return on Capital: A return from an investment that is not considered income.
(12) Debt to EBITDA: A measurement of leverage, calculated as a company's interest-bearing liabilities minus cash or cash equivalents, divided by its Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA).
(13) 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.

mentioned and others unique to that company. For us, risk trumps opportunity and we will usually pass on an investment when financial, operating or other risks appear to be too great. We also must have confidence in company management, as to what they might do and won't do in making acquisitions or additional investments. It is easy for a company to pay dearly for a so-called strategic investment that might never yield[1] an attractive return. We remind ourselves that every acquisition goes to the one highest bidder, willing to pay more than anyone else, and that value creation opportunities need to be obvious, near-term and unique to the buyer.

Although it is easier said than done, we seek companies with the best market positions in the best geographic regions, with the most credit-worthy customers and with the highest tariff-based contract proportion of their business. We look at all the traditional valuation methodologies, but do not find one of the most popular ones — current yield[1] — to be a good measure of value. Because so many investors are chasing yield[1], we find that in many instances high yielding[1] securities continue to be overvalued and growth undervalued. Needless to say, our portfolio can have a lower than average yield[1] and higher component of growth. We don't seek to have a portfolio with lower yield[1]. Rather that outcome may be simply the result of our effort to seek the maximum total return for the least risk. We do rely on DCF (distributable cash flow[14]) yield[1], which is quite different from the current yield[1] because of varying payout ratios of companies. Finally, we disaggregate all of the businesses within each MLP in our portfolio by subgroup and then assess our weighted average cash flow[13] across the portfolio. We, of course, rely on our own estimates and therefore are optimistic about potential performance prospects for 2014.

We thank our investors, who have helped us to grow and wish all a Healthy and Prosperous 2014.

David Fleischer, CFA   Geoffrey Mavar   Matt Mead   Robert Walker

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(2) The Alerian MLP Index: A capitalization-weighted index of the 50 most prominent energy Master Limited Partnerships. Visit http://www.alerian.com/indices/amz-index for more information, including performance. You cannot invest directly in an index.
(13) 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.
(14) Distributable Cash Flow: Measured as earnings before interest, taxes, depreciation and amortization (EBITDA) available to pay unitholders after reserving for maintenance capital expenditures and payment of interest expense.

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