



January 2014

The ELCO Management Master Limited Partnership (MLP) Separately Managed Account Program (SMAP) was up 35.70% (net of fees) in 2013. This marks an exceptional year in the MLP space in which, historically, one could expect a low double digit annual total return. The outperformance is attributable to many factors that created a pleasant tailwind throughout the year, but, most importantly, we believe the greatest factor, as explained below, is attributed to active management.

Ticker	Name	2013 Performance
<i>AMZ</i>	<i>Alerian MLP Index</i>	<i>27.58%</i>
AMJ	JP Morgan Alerian MLP	26.45%
AMLP	Alerian MLP ETF	18.55%
EMO	Clearbridge Energy MLP Opportunity Fund	18.46%
INFIX	FAMCO Advisory MLP & Energy Fund	15.34%

Source: Bloomberg

The chart above displays the disparate range of performance of just a few of the investment vehicles in the MLP space. The first (in italics), the Alerian MLP Index, is the industry benchmark where the top six MLP positions comprise almost 50% of the total Index. (See below)

EPD	Enterprise Products Partners LP	15.48%
KMP	Kinder Morgan Energy Partners LP	9.64%
PAA	Plains All American Pipeline LP	6.90%
ETP	Energy Transfer Equity LP	6.22%
MMP	Magellan Midstream Partners LP	5.68%
MWE	Markwest Energy Partners	4.00%

Source Bloomberg

The other three securities run the gamut of investment vehicles in the space: AMJ, an exchange traded note (ETN), AMLP, an exchange traded fund (ETF), EMO, a closed fund, INFIX, an open-end mutual fund. These securities have become very popular over the last few years as investors viewed them as an easy way to gain exposure to the MLP space. Following MLPs for many years, we have always maintained a mixed view of these securities. On one side, we enjoyed the added volume and investor interest in 2013, but on the other, we were concerned with concentration risk, use of leverage, passive management, and high fees. As seen above, we believe our concerns have proved to outweigh the benefits as investors received severe underperformance from these types of investments. Most importantly, we'd like to emphasize the concentration risk, as the majority of the available MLP investment options were created to track the Alerian Index and their overweight position in the Kinder Morgan complex (See below) significantly hurt their performance.

<i>Fund</i>	<i>% owned of Kinder Morgan</i>
AMJ	9.53
AMLP	9.20
EMO	9.15

<i>Ticker</i>	<i>2013 Performance</i>
KMP	7.68%
KMR	6.81%
KMI	6.31%

Source: Bloomberg

At ELCO, we maintain our strong belief that the only way to successfully invest in MLPs is through a diversified actively managed account. The ELCO MLP SMAP was launched in February of 2004; has an unlevered compounded annual return of 15.42%, currently yields ~6% and is invested in ~20 various MLPs. Please feel free to contact me with any questions. Past Performance is not indicative of future results of the program.

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