



## Examining the Active vs. Passive Debate for Midstream

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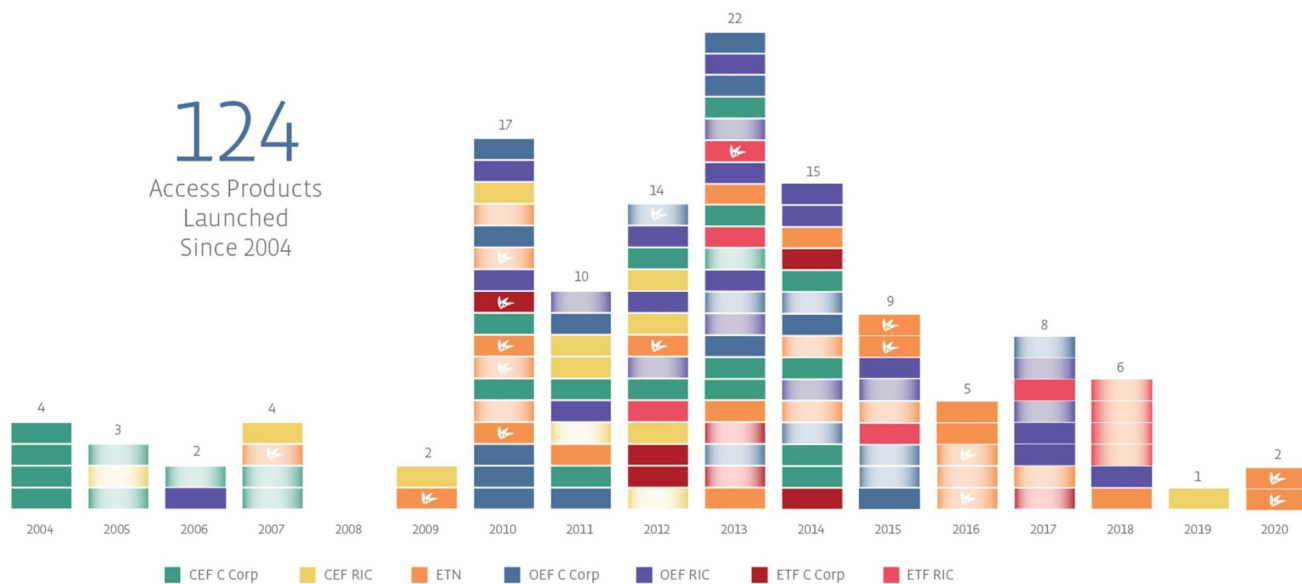
### Summary

- Over the last sixteen years, 124 midstream products have been launched in total, with 76 of those still active as of the end of August 2020. These midstream access products span different investment product structures and strategies, including passive options such as exchange-traded funds (ETFs) and exchange-traded notes (ETNs).
- Passive exchange-traded products seek to replicate the performance of their underlying indexes, are publicly traded and transparent about holdings, and generally have lower fees and less turnover. In contrast, actively managed funds seek to outperform their benchmark index through skilled research.
- Active midstream funds show similarity to their benchmark indexes given some overlap in constituents due to a limited investment universe as well as relatively high correlations and other tracking metrics.
- In general, the active C-Corp and RIC funds evaluated were unable to outperform the index as a group when adjusting for risk, even over shorter periods. While the aim of active investing to consistently outperform a market benchmark on a risk-adjusted basis is enticing, many midstream funds fail to consistently generate superior returns after fees over the long term.

Midstream investing has come a long way since the first MLP closed-end fund was introduced in 2004, and there are now a variety of ways to access the midstream space. One age-old question in investing is whether an active or passive strategy is better. Proponents of active investing claim outperformance of a benchmark can be achieved with skillful selection, while advocates of passive investing argue that excess returns cannot be maintained over the long run and prefer a hands-off approach with lower fees. This white paper examines the numerous factors relevant to this debate for midstream, including the characteristics of the products, applicable risk-return metrics, and the potential for closet indexing.

## The universe of midstream investment products is large and continues to evolve.

The first MLP closed-end fund came to market in 2004 and was the first product to provide investors a way to invest in MLPs without having to file K-1 forms. Over the last sixteen years, 124 midstream products have been launched in total, with 76 of those still active as of the end of August 2020. These midstream access products span different investment product structures and strategies. Midstream exchange-traded products, including exchange-traded funds (ETFs) and exchange-traded notes (ETNs), almost universally leverage a passive strategy – there are only two actively managed midstream ETFs currently. Passive exchange-traded products seek to replicate the performance of their underlying indexes, are publicly traded and transparent about holdings, and generally have lower fees and less turnover. In contrast, actively managed funds seek to outperform their benchmark index through skilled research, capitalizing on opportunities but also trying to minimize downside risk during challenging market environments. Active funds may also utilize leverage and turn over their portfolios more often given their objective of outperforming. In addition to strategy, midstream funds are also nuanced in how they are taxed. Funds that invest more than 25% of their portfolio in MLPs are taxed as C-Corps, while funds with less than 25% invested in MLPs are structured as Regulated Investment Companies (RICs), which function as pass-throughs. For an introduction on midstream investing, please refer to Alerian’s primer on [Energy Infrastructure Investing](#) or this [research note](#) from June 2020.

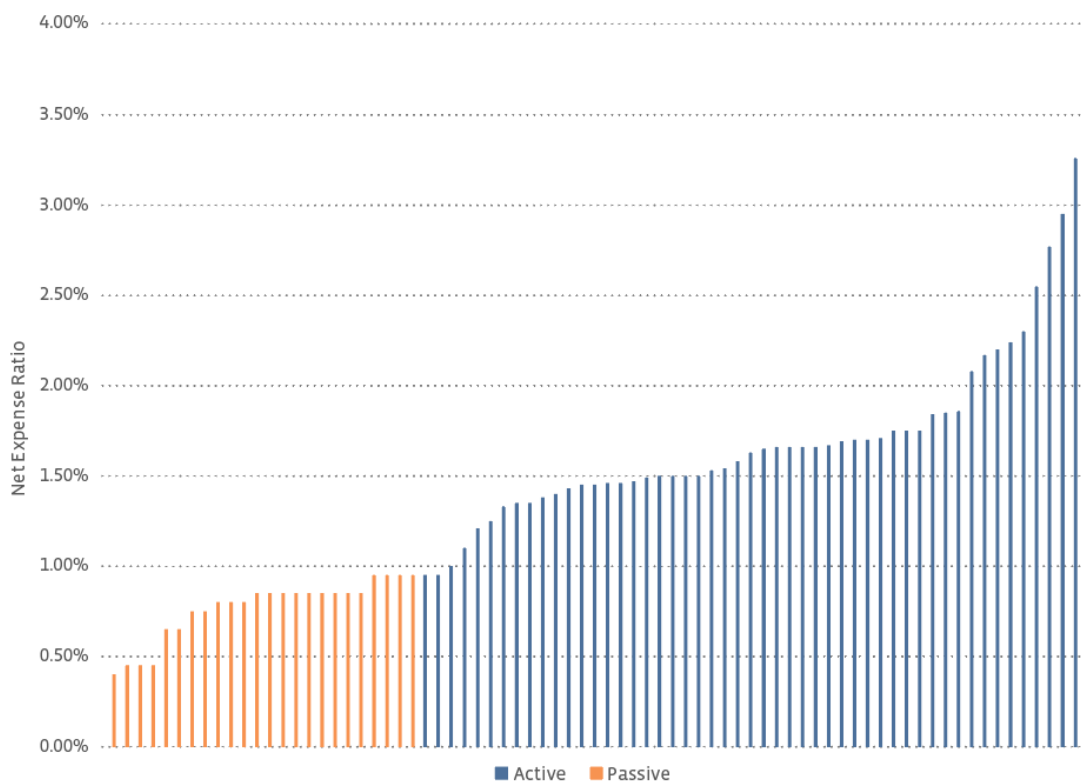


Note: Faded colors represent funds that are now delisted  
Source: Alerian as of August 31, 2020

## Passive midstream funds have lower fees than active funds.

Fees for midstream access products vary widely as a result of management fees for active funds, expenses related to handling taxation (managing K-1s), and other administrative duties on behalf of investors, which can be significant for 100% MLP funds. The chart below compares the net expense ratio without borrowing or tax expenses for active midstream funds to the expense ratio for passive exchange-traded products with assets under management greater than \$100 million. On average, passive products had an expense ratio of 0.77% compared to a net expense ratio of 1.72% for active funds. The wide gap in fees is meaningful for performance over the long term as actively managed funds have to consistently outpace their benchmark to justify the higher fees.

### Passive Midstream Funds Generally Possess Lower Fees Than Active Funds



Source: Fund reports as of June 30, 2020

## Active funds tend to have higher turnover than passive funds.

Turnover ratio, a metric used to reflect how much a portfolio's holdings have changed in a given year, is another point of difference between active and passive funds. In general, passive funds have lower turnover because they track an index, which may follow a rules-based methodology designed to limit the churn within the index. Active funds, in contrast, do not have limitations on turnover, and changes in holdings may occur more frequently as managers seek to produce excess returns and exploit opportunities in the market. High turnover can also result in increased costs related to trading and taxation and therefore higher expenses. The table below highlights average fund turnover for the nine of the largest active C-Corp funds and seven RIC funds per Bloomberg for the last reported fund year as of November 30, 2019, compared to passive C-Corp and RIC products. For comparability, funds were excluded that did not share the same fiscal period. Fund turnover for the passive C-Corp and RIC funds was the lowest at 30.1% and 35.4%, respectively, indicating that the passive fund holdings changed by less than the active funds over the one-year period.

### Average Turnover

Passive C-Corp Funds	30.1%
Active C-Corp Funds	37.6%
Passive RIC Funds	35.4%
Active RIC Funds	54.4%

Source: Bloomberg as of November 30, 2019

Active C-Corp Fund turnover is the average of nine funds; Active RIC Fund turnover is the average of seven funds. Passive C-Corp fund average includes AMLP and MLPA. Passive RIC fund average includes ENFR, MLPX, and TPYP.

## Limited investable universe leads to high fund overlap in some cases.

One potential issue that can arise when investing in the midstream space is closet indexing, which occurs when an actively managed fund largely mirrors an index. Since many active funds have higher fees, closet indexing can result in similar or worse performance compared to a passive product at an increased cost. The most basic means of analyzing the similarity of an active fund and an index is by comparing the overlap of the constituents. The graphics below compare the top 10 holdings and total fund overlap for the three largest active funds in the two categories. C-Corp funds, given their high MLP exposure, are compared to the [Alerian MLP Index \(AMZ\)](#). RIC-compliant funds are compared to the broader [Alerian Midstream Energy Select Index \(AMEI\)](#), which contains 25% MLPs and 75% North American midstream C-Corps and serves as an investable subset of the broad [Alerian Midstream Energy Index \(AMNA\)](#).

Alerian MLP Index (AMZ)		
Name	Ticker	% of Index
Enterprise Products Partners LP	EPD	9.9%
Magellan Midstream Partners LP	MMP	9.7%
Energy Transfer LP	ET	9.6%
Plains All American Pipeline LP	PAA	9.6%
MPLX LP	MPLX	9.5%
Phillips 66 Partners LP	PSXP	7.2%
Western Midstream Partners LP	WES	6.1%
TC PipeLines LP	TCP	4.8%
Shell Midstream Partners LP	SHLX	4.2%
Cheniere Energy Partners LP	CQP	4.1%
Top 10 Overlap with AMZ		100.0%
Total Overlap with AMZ		100.0%

C-Corp Fund A   AUM: \$1.8B		
Name	Ticker	% of Total Assets
Energy Transfer LP	ET	8.3%
Sunoco LP	SUN	7.0%
Targa Resources Corp.	TRGP	6.9%
NuStar Energy LP	NS	6.6%
Westlake Chemical Partners LP	WLKP	6.4%
Enterprise Products Partners	EPD	6.1%
Magellan Midstream Partners LP	MMP	5.6%
The Williams Companies Inc	WMB	5.6%
TC PipeLines LP	TCP	5.6%
MPLX LP	MPLX	5.6%
Top 10 Overlap with AMZ		30.4%
Total Overlap with AMZ		55.3%

C-Corp Fund B   AUM: \$1.7B		
Name	Ticker	% of Total Assets
Energy Transfer LP	ET	16.8%
MPLX LP	MPLX	15.0%
Sunoco LP	SUN	11.3%
Western Midstream Partners LP	WES	10.0%
USA Compression Partners LP	USAC	9.4%
Genesis Energy LP	GEL	7.8%
EnLink Midstream LLC	ENLC	7.1%
Antero Midstream Corp	AM	6.8%
NGL Energy Partners LP	NGL	5.8%
NuStar Energy LP	NS	5.8%
Top 10 Overlap with AMZ		25.3%
Total Overlap with AMZ		39.4%

C-Corp Fund C   AUM: \$930 MM		
Name	Ticker	% of Total Assets
Enterprise Products Partners LP	EPD	10.3%
The Williams Companies Inc	WMB	10.0%
MPLX LP	MPLX	8.7%
Magellan Midstream Partners LP	MMP	8.5%
Energy Transfer LP	ET	7.9%
Kinder Morgan Inc	KMI	7.9%
Pembina Pipeline Corp	PPL CN	5.2%
Phillips 66 Partners LP	PSXP	5.2%
Plains All American Pipeline LP	PAA	5.1%
ONEOK Inc	OKE	4.8%
Top 10 Overlap with AMZ		45.2%
Total Overlap with AMZ		54.0%

Source: Company Reports as of June 30, 2020. Fund C holdings as of March 31, 2020  
AMZ constituents and weightings as of June 30, 2020.

Alerian Midstream Energy Select Index (AMEI)		
Name	Ticker	% of Total Assets
TC Energy Corp	TRP CN	9.9%
Enbridge Inc	ENB CN	9.7%
Enterprise Products Partners LP	EPD	9.0%
Kinder Morgan Inc	KMI	8.2%
The Williams Companies Inc	WMB	6.4%
Cheniere Energy Inc	LNG	5.7%
Energy Transfer LP	ET	5.5%
Pembina Pipeline Corp	PPL CN	5.2%
ONEOK Inc	OKE	4.7%
Plains GP Holdings LP	PAGP	4.6%
Top 10 Overlap with AMEI		100.0%
Total Overlap with AMEI		100.0%
RIC Fund B   AUM: \$512 MM		
Name	Ticker	% of Total Assets
Enterprise Products Partners LP	EPD	8.6%
Enbridge Inc	ENB CN	8.0%
Targa Resources Corp	TRGP	7.3%
Plains GP Holdings LP	PAGP	7.2%
TC Energy Corp	TRP CN	7.2%
The Williams Companies Inc	WMB	6.4%
Cheniere Energy Inc	LNG	6.3%
Pembina Pipeline Corp	PPL CN	5.1%
Kinder Morgan Inc	KMI	5.1%
Energy Transfer LP	ET	4.7%
Top 10 Overlap with AMEI		55.4%
Total Overlap with AMEI		87.1%

RIC Fund A   AUM: \$1.9B		
Name	Ticker	% of Total Assets
Kinder Morgan Inc	KMI	8.7%
Enbridge Inc	ENB CN	8.4%
The Williams Companies Inc	WMB	8.3%
Cheniere Energy Inc	LNG	7.8%
ONEOK Inc	OKE	7.5%
Plains GP Holdings LP	PAGP	6.4%
Enterprise Products Partners LP	EPD	5.6%
Energy Transfer LP	ET	5.3%
MPLX LP	MPLX	5.2%
Targa Resources Corp	TRGP	5.0%
Top 10 Overlap with AMEI		48.8%
Total Overlap with AMEI		79.8%
RIC Fund C   AUM: \$410 MM		
Name	Ticker	% of Total Assets
The Williams Companies Inc	WMB	5.2%
Cheniere Energy Inc	LNG	4.7%
ONEOK Inc	OKE	4.6%
Enterprise Products Partners LP	EPD	4.0%
NextEra Energy Partners LP	NEE	4.0%
Kinder Morgan Inc	KMI	3.9%
Plains GP Holdings LP	PAGP	3.8%
Enbridge Inc	ENB CN	3.8%
TC Energy Corp	TRP CN	3.8%
Magellan Midstream Partners LP	MMP	3.7%
Top 10 Overlap with AMEI		33.8%
Total Overlap with AMEI		50.0%

Source: Company Reports as of June 30, 2020  
AMEI constituents and weightings as of June 30, 2020.

To summarize, overlap was modest for the C-Corp funds and heightened for the RIC-compliant funds. The AMZ has 29 midstream MLP constituents with a total market capitalization of \$147 billion as of the end of August 2020. At that time, the top 10 constituents had a market cap of \$121 billion and represented 73.4% of the index by weighting. The small size of the MLP universe suggests a higher likelihood of overlap between passive and active funds, but this was not the case in part due to some ownership of C-Corps like Williams (WMB) and ONEOK (OKE), which are not in the AMZ. Where overlap is lower, the active fund may be investing in companies outside of midstream. Perhaps surprisingly given the ability to select from the broader midstream universe, the largest RIC-compliant funds had more significant similarity to the AMEI. In general, the biggest US and Canadian C-Corps frequently dominated the top holdings of these funds, leading to higher overlap with the index.

## Tracking metrics indicate some active fund similarity to midstream indexes.

In addition to looking at the overlap of fund constituents, analyzing tracking metrics can be helpful in determining how closely an active fund follows an index. The tables below compare the beta, correlation (both R and R-squared), and information ratio for active funds relative to the AMZ and AMEI Indexes. In this context, beta measures the fund's volatility relative to the benchmark, while R and R-squared measure the strength of the correlation between the fund and the index. Information ratio is useful in determining excess returns compared to the index by taking excess return divided by tracking error. A beta closer to 1.0 and a high R-squared value are more likely to indicate closet indexing. For the 10 C-Corp funds analyzed, the average beta was 1.10 with an average R-squared of 0.89 for the five-year period. An R-squared value of 0.89 means that 89% of the fund movements can be explained by changes in the benchmark AMZ. Similarly, the RIC funds had an average five-year beta of 1.11 and an average R-squared value of 0.86. These metrics suggest a strong relationship between the funds and the index, with betas higher than 1.0 also indicating a potentially increased level of risk relative to the benchmark. While some funds were able to produce positive information ratios, the broader group was not able to generate excess returns relative to the index. Taking into account both the presence of some constituent overlap as well as relatively high correlations and other tracking metrics, the active funds show similarity to their benchmark indexes.

### C-Corp Funds Closely Track the AMZ Index

Fund Name	Ticker	Beta			Correlation - R			Correlation - R-Squared			Information Ratio		
		3-Year	5-Year	10-Year	3-Year	5-Year	10-Year	3-Year	5-Year	10-Year	3-Year	5-Year	10-Year
Center Coast Brookfield Midstream Focus Fund	CCCAX	0.98	0.97	-	0.98	0.97	-	0.95	0.95	-	-0.34	-0.12	-
Goldman Sachs MLP Energy Infrastructure Fund	GLPAX	0.92	0.94	-	0.99	0.98	-	0.97	0.96	-	-0.30	-0.27	-
Invesco Oppenheimer SteelPath MLP Alpha Fund	MLPAX	0.93	0.99	0.91	0.98	0.98	0.98	0.96	0.95	0.96	-0.02	-0.08	-0.24
Invesco Oppenheimer SteelPath MLP Income Fund	MLPDX	1.03	1.04	1.07	0.98	0.97	0.97	0.95	0.94	0.93	0.60	0.40	0.00
Invesco Oppenheimer SteelPath MLP Select 40 Fund	MLPFX	0.93	0.93	0.89	0.98	0.97	0.98	0.95	0.95	0.96	-0.08	0.06	-0.10
Kayne Anderson MLP/Midstream Investment Co	KYN*	1.28	1.32	1.13	0.91	0.90	0.90	0.83	0.81	0.82	-0.36	-0.26	-0.12
MainGate MLP Fund	AMLPX	0.93	0.96	-	0.98	0.97	-	0.95	0.94	-	-0.40	-0.29	-
MainStay Cushing MLP Premier Fund	CSHAX	0.93	0.98	-	0.98	0.98	-	0.96	0.95	-	0.58	0.14	-
Tortoise Energy Infrastructure Corp	TYG*	1.48	1.39	1.48	0.89	0.88	0.94	0.79	0.78	0.89	-0.66	-0.42	-0.09
Tortoise Midstream Energy Fund Inc	NTG*	1.59	1.44	1.84	0.81	0.81	0.78	0.65	0.65	0.62	-0.51	-0.30	0.02

\* Fund uses leverage.

Metrics calculated weekly for the trailing three and five years and monthly for the trailing ten years relative to the Alerian MLP Index (AMZ).

Source: Bloomberg as of September 1, 2020

### RIC Fund Data Suggests Potential Tracking of the AMEI Index

Fund Name	Ticker	Beta		Correlation - R		Correlation - R-Squared		Information Ratio	
		3-Year	5-Year	3-Year	5-Year	3-Year	5-Year	3-Year	5-Year
EIP Growth and Income Fund	EIPIX	0.58	0.65	0.97	0.93	0.93	0.86	0.15	0.08
First Trust Energy Infrastructure Fund	FIF	1.05	1.06	0.88	0.88	0.77	0.77	0.05	0.18
Kayne Anderson Midstream/Energy Fund	KMF*	1.53	1.63	0.95	0.91	0.89	0.82	-0.33	-0.30
Salient MLP & Energy Infrastructure Fund	SMAPX	0.92	1.03	0.99	0.96	0.98	0.93	-0.20	-0.54
Tortoise Energy Independence Fund Inc	NDP*	1.45	1.40	0.85	0.85	0.72	0.72	-1.06	-0.74
Tortoise MLP & Energy Income Fund	INFRX	0.81	0.85	0.98	0.97	0.97	0.93	0.00	-0.49
Tortoise MLP & Pipeline Fund	TORTX	0.98	1.00	0.99	0.99	0.99	0.99	-0.84	-0.85
Tortoise Pipeline & Energy Fund Inc	TTP*	1.53	1.56	0.94	0.94	0.89	0.88	-0.93	-0.62
Tortoise Power & Energy Infrastructure Fund Inc	TPZ*	1.07	1.05	0.88	0.88	0.77	0.77	-0.21	-0.14
Transamerica MLP & Energy Income Fund	TMLAX	0.86	0.88	0.98	0.98	0.97	0.96	0.10	-0.47

\* Fund uses leverage.

Metrics calculated weekly for the trailing three and five years relative to the Alerian Midstream Energy Select Index (AMEI).

Source: Bloomberg as of September 1, 2020



## Active midstream funds fail to generate consistent risk-adjusted returns above the index.

The analysis below compares performance and risk-return metrics for the ten largest funds by assets under management for each fund structure compared to the two most widely used C-Corp and RIC midstream fund benchmarks, the AMZ and AMEI. In general, the largest C-Corp funds have a longer track record and were more likely to have ten-year analytics available than the RIC funds. Closed-end funds, which deploy leverage, stand out in the tables below for having the weakest performance as leverage magnified the downside move in equities. Excluding the funds using leverage, C-Corp funds outperformed the AMZ on a price-return basis over the one-year period but lagged over both five and ten years. Similarly, the RIC funds without leverage had higher price returns than the index on average over the one-year and three-year periods but were weaker over five years. Jensen's alpha is a measure that can be used to examine performance above the theoretical expected return. For the C-Corp and RIC funds, Jensen's alpha was slightly negative on average, with many of the funds not generating excess returns at the given level of risk. In addition to Jensen's alpha, the Sharpe, Treynor, and Sortino ratios<sup>1</sup> help to analyze the risk-adjusted performance of the funds. In general, both the C-Corp and RIC funds were unable to outperform the index as a group when adjusting for risk, even over shorter periods. While a few individual active funds showed some degree of outperformance, the difficulty in consistently beating the index over long periods and higher fees on the active side make a strong case for considering passive products when investing in midstream.

### Comparing C-Corp Fund Performance to the AMZ Index

Fund Name	Ticker	Annualized Price Return				Jensen's Alpha			Sharpe Ratio		Treynor Ratio		Sortino Ratio	
		1-Year	3-Year	5-Year	10-Year	3-Year	5-Year	10-Year	3-Year	5-Year	3-Year	5-Year	3-Year	5-Year
<b>Alerian MLP Index</b>	<b>AMZ</b>	<b>-45.9%</b>	<b>-23.7%</b>	<b>-19.0%</b>	<b>-8.9%</b>	-	-	-	<b>-0.20</b>	<b>-0.17</b>	-	-	<b>-0.20</b>	<b>-0.18</b>
Center Coast Brookfield Midstream Focus Fund	CCCAX	-50.3%	-27.8%	-21.2%	-	-2.5%	-1.0%	-	-0.30	-0.23	-0.06	-0.04	-0.28	-0.20
Goldman Sachs MLP Energy Infrastructure Fund	GLPAX	-46.7%	-23.9%	-19.1%	-	-2.6%	-3.0%	-	-0.32	-0.27	-0.14	-0.06	-0.30	-0.24
Invesco Oppenheimer SteelPath MLP Alpha Fund	MLPAX	-43.4%	-24.8%	-20.5%	-10.4%	-1.0%	-0.5%	-1.3%	-0.27	-0.23	-0.10	-0.05	-0.24	-0.20
Invesco Oppenheimer SteelPath MLP Income Fund	MLPDX	-43.9%	-24.6%	-20.5%	-12.2%	4.6%	3.4%	0.0%	-0.10	-0.09	-0.01	-0.02	-0.05	-0.04
Invesco Oppenheimer SteelPath MLP Select 40 Fund	MLPFX	-42.2%	-23.0%	-17.7%	-8.9%	-1.3%	-0.2%	-0.5%	-0.27	-0.20	-0.05	-0.05	-0.21	-0.15
Kayne Anderson MLP/Midstream Investment Co	KYN*	-65.9%	-35.3%	-30.2%	-15.4%	-3.3%	-3.1%	-2.1%	-0.24	-0.25	-	-	-0.21	-0.21
MainGate MLP Fund	AMLPX	-43.1%	-25.7%	-20.7%	-	-3.6%	-2.4%	-	-0.34	-0.28	-0.07	-0.06	-0.34	-0.27
MainStay Cushing MLP Premier Fund	CSHAX	-41.7%	-22.2%	-20.3%	-	2.7%	0.7%	-	-0.17	-0.18	-0.07	-0.04	-0.16	-0.17
Tortoise Energy Infrastructure Corp	TYG*	-79.8%	-47.5%	-35.1%	-18.7%	-11.6%	-7.2%	-2.5%	-0.25	-0.17	-0.07	-0.04	-0.22	-0.15
Tortoise Midstream Energy Fund Inc	NTG*	-86.0%	-54.4%	-39.0%	-23.7%	-12.4%	-6.7%	-8.0%	-0.01	0.02	0.00	-0.11	-0.01	0.02
<b>C-Corp Fund Average</b>		-54.3%	-30.9%	-24.4%	-13.4%	-3.1%	-2.0%	-2.4%	-0.23	-0.19	-0.06	-0.05	-0.20	-0.16
<b>C-Corp Fund Average Excluding Leveraged Funds</b>		-44.5%	-24.6%	-20.0%	-13.3%	-0.5%	-0.4%	-0.6%	-0.25	-0.21	-0.07	-0.05	-0.22	-0.18

\* Fund uses leverage.

Jensen's Alpha calculated weekly for the trailing three- and five-year periods.

Sharpe, Treynor, and Sortino Ratios calculated monthly for the trailing three- and five-year periods.

Source: Bloomberg as of August 31, 2020

### Comparing RIC Fund Performance to the AMEI Index

Fund Name	Ticker	Annualized Price Return			Jensen's Alpha		Sharpe Ratio		Treynor Ratio		Sortino Ratio	
		1-Year	3-Year	5-Year	3-Year	5-Year	3-Year	5-Year	3-Year	5-Year	3-Year	5-Year
<b>Alerian Midstream Energy Select Index</b>	<b>AMEI</b>	<b>-30.8%</b>	<b>-15.6%</b>	<b>-9.9%</b>	-	-	<b>-0.14</b>	<b>-0.02</b>	-	-	<b>-0.14</b>	<b>-0.02</b>
EIP Growth and Income Fund	EIPIX	-18.2%	-6.7%	-3.6%	0.2%	0.9%	-0.14	-0.04	-	-	-0.11	-0.03
First Trust Energy Infrastructure Fund	FIF	-3%	-18.6%	-11.5%	1.1%	3.0%	-0.23	-0.01	-0.07	0.03	-0.17	0.00
Kayne Anderson Midstream/Energy Fund	KMF*	-56.6%	-31.1%	-27.3%	-3.7%	-8.0%	-0.29	-0.24	-0.08	-0.02	-0.25	-0.20
Salient MLP & Energy Infrastructure Fund	SMAFX	-25.7%	-14.6%	-13.8%	-1.5%	-4.3%	-0.25	-0.20	-0.11	-0.02	-0.23	-0.18
Tortoise Energy Independence Fund Inc	NDP*	-63.2%	-51.3%	-36.9%	-28.3%	-19.9%	-0.65	-0.39	-0.17	-0.14	-0.50	-0.34
Tortoise MLP & Energy Income Fund	INFRX	-26.2%	-16.2%	-14.2%	-1.2%	-3.8%	-0.18	-0.14	-0.08	-0.03	-0.16	-0.12
Tortoise MLP & Pipeline Fund	TORTX	-34.9%	-15.7%	-10.5%	-2.6%	-2.8%	-0.24	-0.13	-0.05	0.00	-0.22	-0.11
Tortoise Pipeline & Energy Fund Inc	TTP*	-72.5%	-42.4%	-30.4%	-17.1%	-13.7%	-0.37	-0.22	-0.10	-0.10	-0.27	-0.19
Tortoise Power & Energy Infrastructure Fund Inc	TPZ*	-49.2%	-23.1%	-15.4%	-3.2%	-2.2%	-0.20	-0.06	-0.06	0.00	-0.17	-0.05
Transamerica MLP & Energy Income Fund	TMLAX	-24.3%	-13.1%	-10.8%	-0.4%	-3.0%	-0.22	-0.17	-0.10	0.00	-0.19	-0.14
<b>RIC Fund Average</b>		-40.8%	-23.3%	-17.4%	-5.7%	-5.4%	-0.28	-0.16	-0.09	-0.03	-0.23	-0.14
<b>RIC Fund Average Excluding Leveraged Funds</b>		-27.8%	-14.1%	-10.7%	-0.7%	-1.7%	-0.21	-0.12	-0.08	-0.01	-0.18	-0.10

\* Fund uses leverage.

Jensen's Alpha calculated weekly for the trailing three- and five-year periods.

Sharpe, Treynor, and Sortino Ratios calculated monthly for the trailing three- and five-year periods.

Source: Bloomberg as of August 31, 2020

1// The Sharpe ratio is the excess return divided by standard deviation, while the Sortino ratio is the excess return over the standard deviation of negative returns (downside risk). The Treynor ratio measures excess return over beta.

### **Conclusion**

While the aim of active investing to consistently outperform a market benchmark on a risk-adjusted basis is enticing, many midstream funds fail to consistently generate superior returns after fees over the long term. The limited number of investable midstream MLPs makes it even more challenging for products owning predominately MLPs to beat an index. Passive exchange-traded products generally provide lower fees and less turnover but carry some nuances as well. The active versus passive debate will undoubtedly continue with midstream investors ultimately having to decide which approach they prefer.



# Examining the Active vs. Passive Debate for Midstream

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