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Master Limited Partnership Risk Acknowledgment Disclosures



Master Limited Partnerships

A Master Limited Partnership (MLP) is generally a limited partnership which operates an active business. MLPs are created by a sponsor. That sponsor, which may be a public company, contributes assets to the MLP. The sponsor exerts control over the MLP by controlling the general partner (GP) of the MLP and appointing the GP's board of directors. The GP manages the affairs of the MLP. An MLP raises capital by offering interests, known as units, that typically are traded on a securities exchange or an active secondary market. The Securities and Exchange Commission describes an MLP as "exchange-traded investments that are focused on exploration, development, mining, processing or transportation of minerals or natural resources." MLPs hold cash-generating assets such as oil and gas properties or pipelines. Investments in MLPs may be attractive for several reasons: they may offer relatively high yields, consistent cash distributions, and limited liability to investors as a limited partner. However, MLPs also present partnership tax consequences which may be complex and introduce additional risks that you should consider before investing.

Tax Risks. MLPs and similar partnership investments are subject to complex tax rules. An MLP is taxed as a partnership and generates Schedule K-1 (Form 1065) (referred to as K-1) to its partners. Units in MLPs have special tax considerations depending on the type of account (taxable or tax-exempt) in which they are purchased. **Consider consulting a tax advisor to discuss the tax implications of MLP investing.** Owning these investments in any type of account may result in unanticipated tax consequences. For example, if an MLP has debt that is canceled or forgiven, this could result in MLP investors having Cancellation of Debt Income (CODI). CODI is directly taxable to the MLP's investors, including investors or accounts that are typically tax-exempt, such as IRAs, as described in more detail below. The following tax risks associated with owning MLP units depend on the account in which the MLP is held.

Tax Risks for MLPs in IRAs and Other Tax-Exempt Accounts. MLP units often can generate Unrelated Business Taxable Income under federal and state tax law when held in an IRA, employer sponsored retirement plan or other tax-exempt account. This means that your IRA or employer sponsored retirement account may have to pay Unrelated Business Income Tax (UBIT) on the taxable income generated by the MLP, even though those accounts are generally exempt from income taxation until any distributions occur. As an IRA custodian, Ameriprise Trust Company is required to file a Form 990-T, Exempt Organization Business Income Tax Return, and pay any UBIT owed from an IRA's assets, according to the terms described in the applicable custodial agreement. Ameriprise Trust Company will charge your IRA a \$200.00 fee for completing the Form 990-T. Please note that UBIT must be paid from the IRA or other tax-exempt account in which the tax is incurred; you are not permitted to pay any amounts due the IRS or your filing fee from your personal assets. UBIT can be complex; you should consult a tax advisor and [IRS Publication 598](#) for additional information.

In addition, in the event that an MLP files for bankruptcy through which it has debt discharged, that discharge of debt is CODI, which generates UBIT for an IRA or employer sponsored retirement plan account. In these situations, **it is possible for the unrelated business taxable income to generate a tax bill that is larger than your principal investment amount, which in turn could result in large losses to your IRA or other employer sponsored retirement plan account. This is especially likely to occur when you purchase units of an MLP at a lower price because the MLP is distressed.** Indications of distress may include elevated financial leverage, significant stock price underperformance, and reduction or elimination of distributions.

Tax Risks for MLPs in Taxable Accounts. Investors holding MLPs in taxable accounts (i.e., accounts other than IRAs or other tax-exempt accounts) are taxed on their proportionate share of the MLP's income, deductions, gains, losses, and other tax items. The MLP sponsor will provide this information to investors on K-1. **This tax information is not included in the annual tax statement package that you receive from American Enterprise Investment Services.** It is your responsibility to provide the K-1 to your tax preparer. K-1 can be complex, and often arrive later than other tax statements, possibly delaying the filing of your tax return. Investors are taxed on the MLP's income regardless of any distributions from the MLP. This means that:

- Investors may see no correlation between taxable income reported to them on a K-1 and an MLP's annual cash flow
- Investors may need alternative sources of cash to pay tax on the taxable income reported by the MLP if the tax exceeds distributions from the MLP
- Gains from the sale or liquidation of MLP units may consist of both ordinary income and capital gains
- Investors will need to calculate their cost basis in MLP units, including adjustments to basis for distributions (decreasing basis) and net income or loss from the K-1
- MLP investors may need to make estimated tax payments to avoid penalties for underpayment of tax (it may be difficult to accurately project the MLP's annual income for purposes of making estimated tax payments).



Also, investors may need to file state income tax returns in each state where the MLP holds assets or conducts operations, even if the investor does not reside in those states. A tax professional can help you decide which returns to file and where.

Additional Risk Considerations

Market and concentration risk: Any investment which focuses on one industry or economic sector may present considerably more risk than an investment portfolio diversified across numerous economic sectors. MLPs tend to focus on a single industry or sector, typically investing in sectors related to development, mining, processing, and transportation of natural resources, such as oil and gas, timber, or alternative fuels, which concentrates your exposure to any volatility in that sector. For example, if the price of oil were to experience an extended period of decline it will likely have an adverse impact on the revenue and cash flows of an MLP invested in this sector.

Interest rate risk: Much like bonds, higher interest rates may affect the value of MLP units. As rates rise the amounts distributed by the MLP may be less attractive, which may result in the price of MLP units declining (and vice versa). Rising interest rates could also increase the MLP's cost of capital, which may limit potential growth through acquisition or expansion and reduce distribution growth rates.

Liquidity risk: An MLP may have an anticipated duration, detailed in its prospectus, but the GP can decide when to liquidate the MLP. Typical durations can range from 5 to 15 years; some MLPs can be perpetual. While MLPs are publicly traded, investments in MLPs may be relatively illiquid due to their unique investment strategy, asset concentration or other factors. Lack of liquidity can adversely impact your ability to sell your MLP units, making it difficult or impossible to recover your initial investment. You should be prepared to hold your investment for a number of years, or risk selling it at a significant loss if sufficient liquidity is not available.

Regulatory risk: The industries in which MLPs operate tend to be heavily regulated by federal and state governments. Changes in regulation can adversely impact an MLP's profitability and therefore the value of MLP units.

Conflicts of Interest: Since the general partner of the MLP is often controlled by the corporation that contributed assets to the MLP, the GP may act in a way that benefits itself and the underlying corporation instead of the limited partners. According to the SEC, the GP "may consider its own interests ahead of interests of the MLP and its limited partners and resolve conflicts in a manner favorable to itself." Also, general partners receive what is known as an "incentive distribution right," which is the "general partner's right to an increasing share of cash distributions as certain cash distribution benchmarks for the limited partners are achieved." In other words, as the cash distributions made to limited partners rise, the GP earns a greater share of the total cash flows.

Clients who have acknowledged the risks of these products have made the following representations:

- You acknowledge that you have read and considered the risks of the MLPs that you may elect to purchase through Ameriprise Financial.
- You have determined that MLPs are generally appropriate for you and your taxable or tax-exempt account, and that you will review each MLP that you intend to purchase to assure that it is suitable for your investment needs and portfolio, notwithstanding the potential tax consequences and investment risks associated with purchasing such securities.