

Kayne Anderson



Upstream Activities, Shale Plays and Other MLP Trends

May 25, 2011

Forward Looking Statements

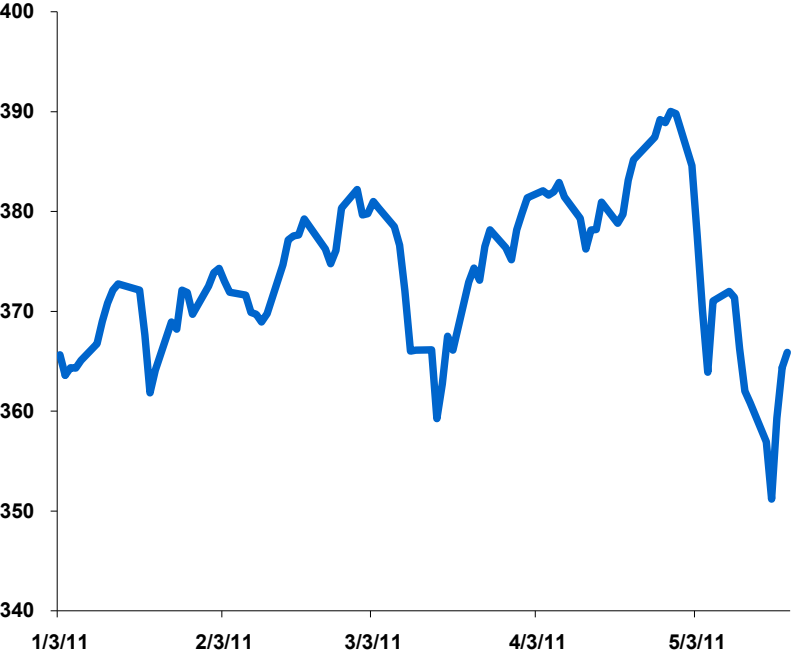
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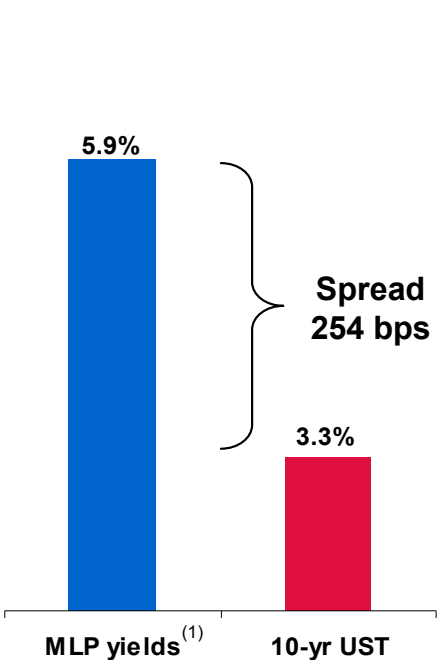
Recent MLP Performance

- ◆ MLPs traded very well during the first four months of 2011, with the Alerian MLP Index generating a return of 7.2% (price change)
 - The index hit an all-time high of 390 on April 28th
- ◆ Since the peak, the Alerian Index is down 6% (as of May 20th)
 - As a result of this decline, AMZ's yield has increased 39 bps (from 5.9% to 6.2%)
 - The index is now down 0.6% year-to-date (up 3.6% on a total return basis)

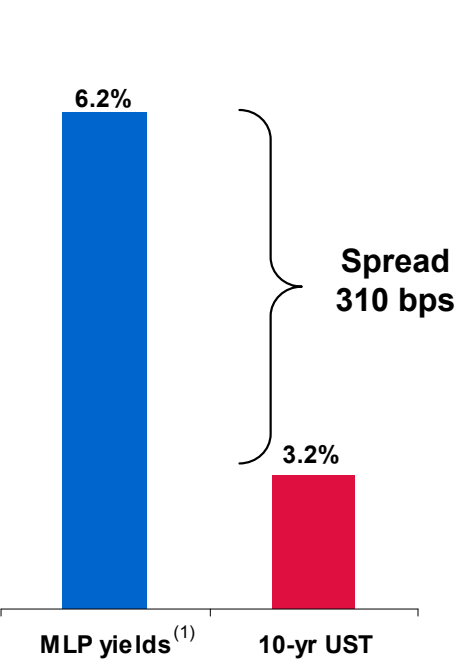
AMZ Performance 2011 YTD



As of 4/28/11



As of 5/20/11



Note: As of 5/20/11.
 (1) Yield of Alerian MLP Index.

Possible Reasons for Recent Selling Pressure

- ◆ There are several plausible reasons why MLPs have sold off this month
 - Declining commodity prices / underperformance of energy sector

Energy Index Performance			
	Return (price change)		
	12/31/10 -	4/28/11 -	YTD
	4/28/11	5/20/11	
S&P 500	8.2%	(2.0%)	6.0%
E&P Index ⁽¹⁾	13.0%	(5.2%)	7.1%
Oilfield Service Index ⁽²⁾	13.2%	(7.6%)	4.6%
Alerian Index	7.3%	(6.2%)	0.6%

Commodity Price Performance				
	Price			Decline since
	12/31/10	4/28/11	5/20/11	
				4/28/11
Crude Oil (\$/Bbl)	\$91.38	\$112.86	\$100.10	(11.3%)
Natural Gas (\$/Mcf)	4.42	4.63	4.29	(7.4%)

Source: FactSet Research Systems.

(1) S&P Oil & Gas Exploration & Production Composite (SPN31).

(2) S&P Oil & Gas Equipment & Services Composite (SPN17).

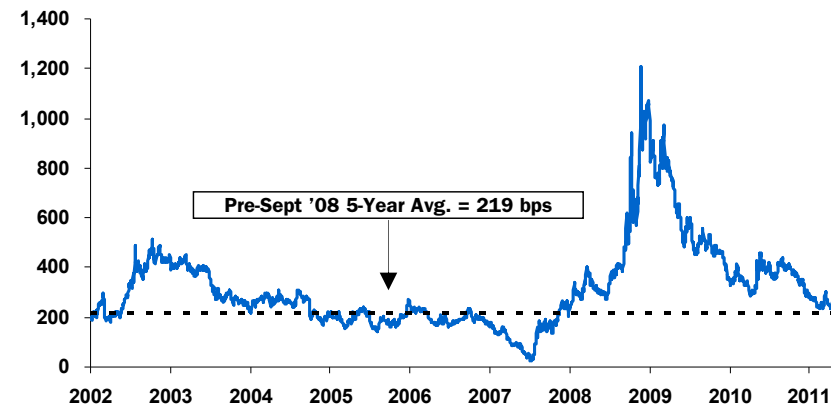
- Concerns about changes to taxation of “pass through” entities
 - We believe it is unlikely that the tax treatment of MLPs will be changed
 - Capitol Hill seems to understand that MLPs build/manage critical energy infrastructure and create domestic jobs
- Seasonal weakness for MLPs (dividend capture trades)
 - Strongest performance months follow quarter-end in advance of ex-distribution dates
 - The months following tend to sell-off as this particular trade unwinds

Yield Spreads Remain Above Historical Averages

MLP Yield Spread to 10-Year Treasury

- ◆ Current spread of 310 bps ⁽¹⁾
- ◆ 91 bps above the 5-year average prior to September 2008

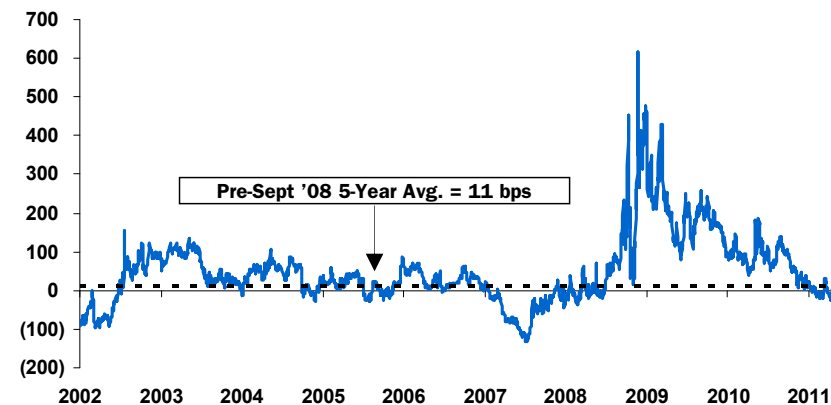
MLP Spread to 10-Year Treasury



MLP Yield Spread to Investment Grade Bonds

- ◆ Current spread of 47 bps ⁽¹⁾
- ◆ 36 bps above the 5-year average prior to September 2008

MLP Spread to Investment Grade Bonds



Source: FactSet Research Systems.

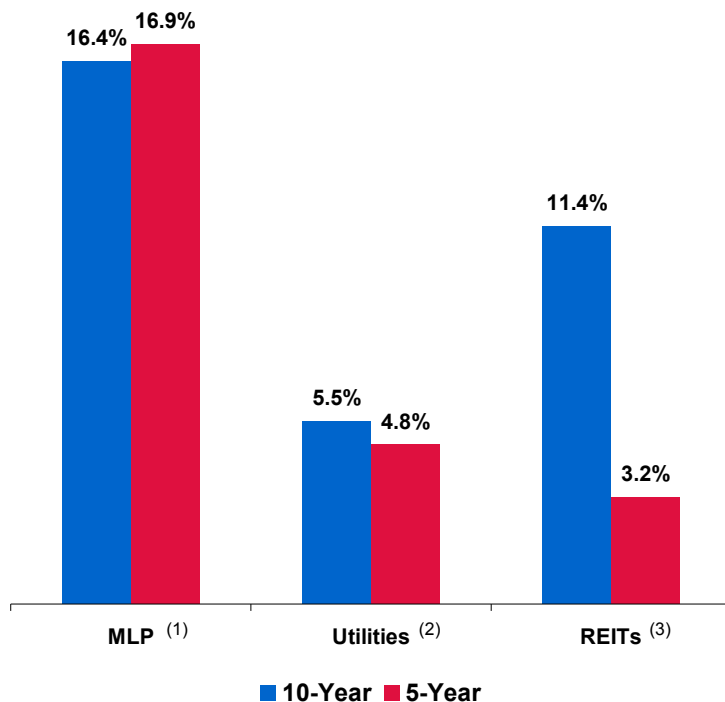
(1) As of 5/20/11.

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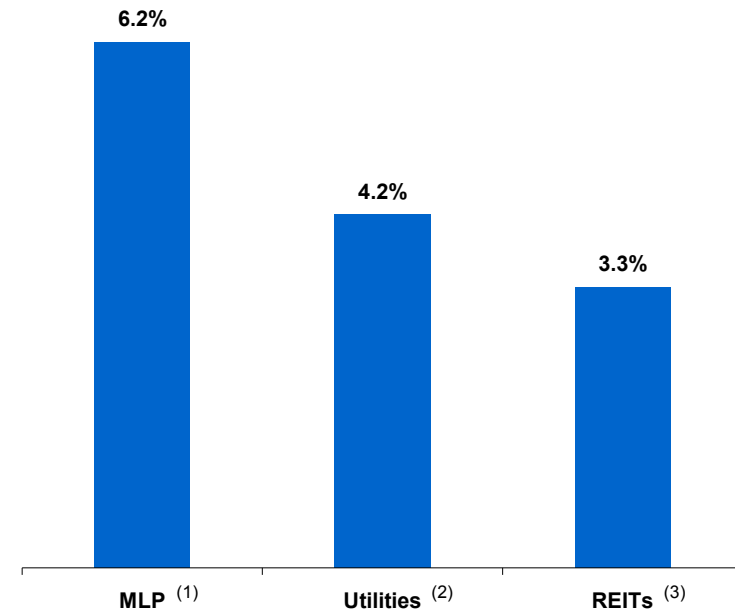
Compelling Valuation Relative to Yield Alternatives

- ◆ In addition to very attractive cash yields, MLPs have a track record of returns that is far superior to both utilities and REITs
- ◆ MLPs trade at higher yields and have had higher historical growth rates and therefore have provided stronger total returns to investors

Annual Total Return



Current Yields

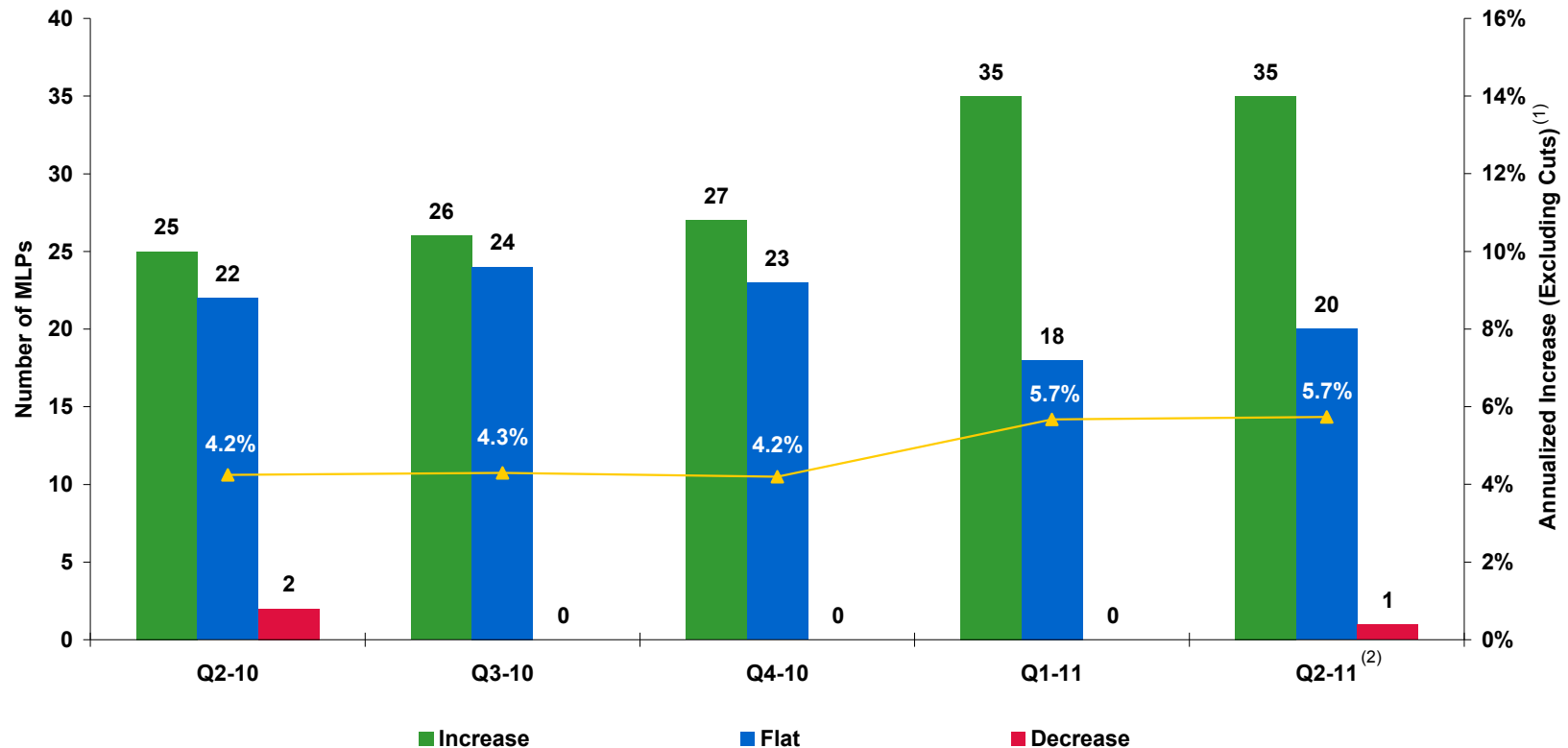


Note: Current yields as of 5/20/11. 10-year and 5-year returns as of 4/29/11.
 (1) Reflects the Alerian MLP Index (AMZ)
 (2) Philadelphia Utility Index (UTY)
 (3) MSCI US REIT Index (RMS).

MLP Distribution Trends

- ◆ Distribution growth increased during 2010 as market conditions improved and has accelerated in 2011
- ◆ The number of MLPs raising distributions has increased meaningfully over the past two quarters
 - Many MLPs have been increasing distributions for the first time since 2008

Quarterly MLP Distributions



(1) Annualized simple average of distribution increases for the quarter.

(2) As of 5/20/11.

Return of the PIPE Market

- ◆ Activity in the PIPE market has picked up significantly in the last five months
 - Five MLPs have raised \$1.6 billion via PIPE deals

(\$ in millions)

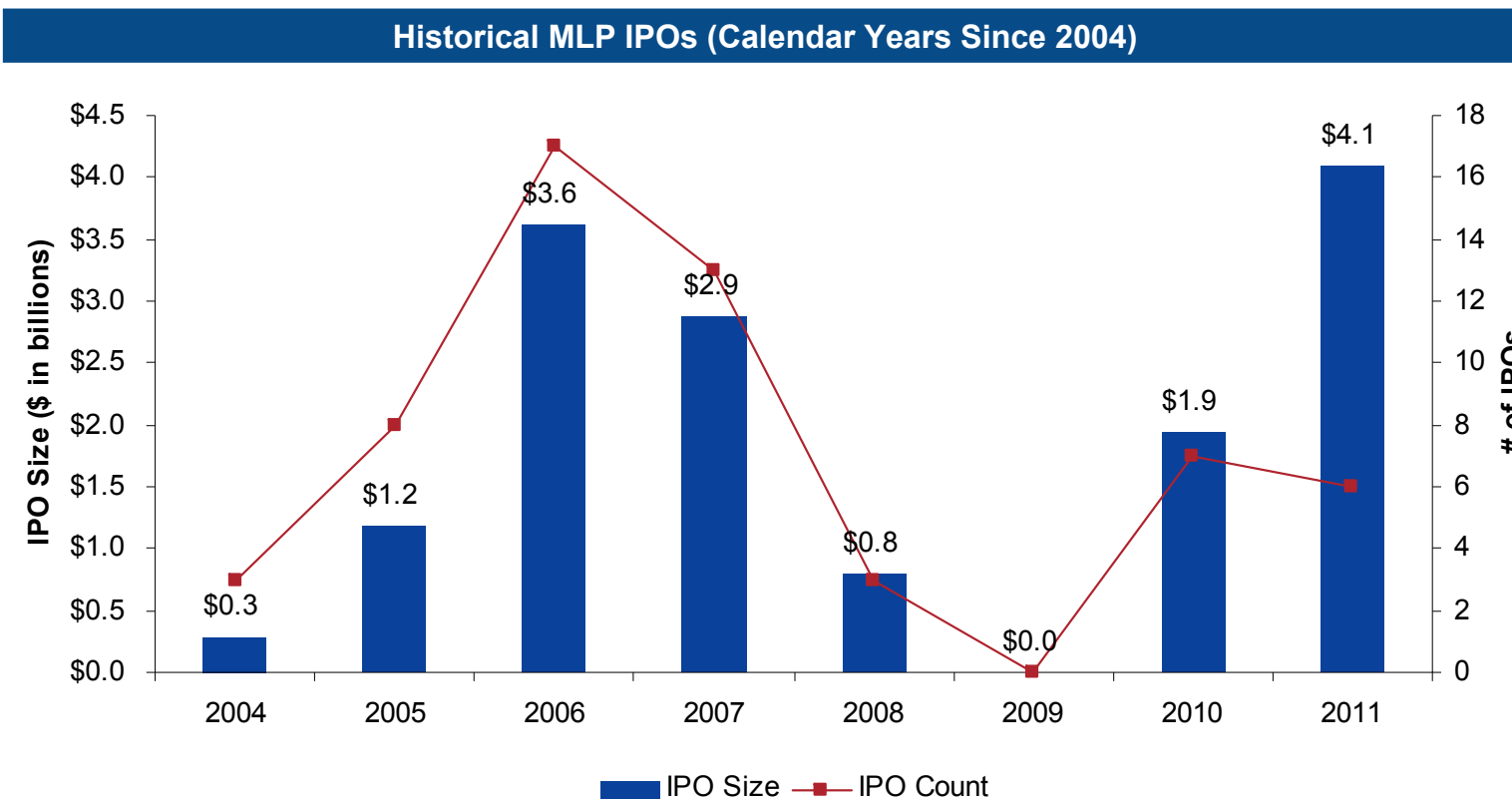
Partnership	Total Deal Size	Kayne Anderson Allocation	Kayne Position
Buckeye Partners	\$425	\$120	Lead
PAA Natural Gas Storage	600	69	Lead
Crestwood Midstream Partners	153	33	Lead
Regency Energy Partners	204	79	Lead
Enterprise Products Partners ⁽¹⁾	169	90	Lead
Total	\$1,551	\$392	

(1) Agreed to sell 4.45 million Energy Transfer Equity common units.

- ◆ Kayne served as the lead investor on all five transactions
 - Brought in early to structure deal and conduct due diligence
- ◆ The market is similar to the 2005-2006 time period
 - Deals are used to finance acquisitions
 - CEFs and other “long only” funds are the main investors
 - Expected returns of these PIPE transactions are 300-500 bps higher than average MLP

Renewed IPO Activity

- ◆ IPO activity peaked in 2006, but ground to a halt in the second half of 2008 and through 2009
- ◆ After a two-year absence, MLP IPOs have returned, reflecting confidence in the market
 - 13 IPOs since 2010, totaling \$6.0 billion



Source: UBS MLP Weekly Updates.

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Recent IPO Transactions

- Recently, there has been a significant number of IPOs across a broad spectrum of assets

(\$ in millions)

Ticker	Name	Sector	Pricing		Return Since IPO ⁽¹⁾
			Date	Size	
PNG	PAA Natural Gas Storage	Natural Gas Storage	04/29/10	\$252	5.5%
NKA	Niska Gas Storage Partners	Natural Gas Storage	05/12/10	359	(4.0%)
OXF	Oxford Resource Partners	Coal	07/13/10	162	30.5%
CHKM	Chesapeake Midstream Partners	Gathering & Processing	07/28/10	446	25.0%
RNO	Rhino Resource Partners	Coal	09/29/10	67	18.2%
TRGP	Targa Resources Corp.	General Partner	12/06/10	360	46.6%
QRE	QR Energy	Upstream	12/16/10	300	3.9%
KMI	Kinder Morgan Inc.	General Partner	02/10/11	2,864	(5.6%)
SDT	SandRidge Mississippian Trust I	Royalty Trust	04/06/11	315	23.6%
UAN	CVR Partners	Fertilizer	04/07/11	307	12.6%
GMLP	Golar LNG Partners	LNG Transportation	04/07/11	270	20.6%
TLLP	Tesoro Logistics	Crude Gathering and Storage	04/20/11	273	10.4%
NGL	NGL Energy Partners	Propane and Distribution	05/12/11	74	2.4%
Total/Average				\$6,048	14.6%

(1) Return through 5/20/11.

- Given the success of the recent offerings, the IPO pipeline remains robust

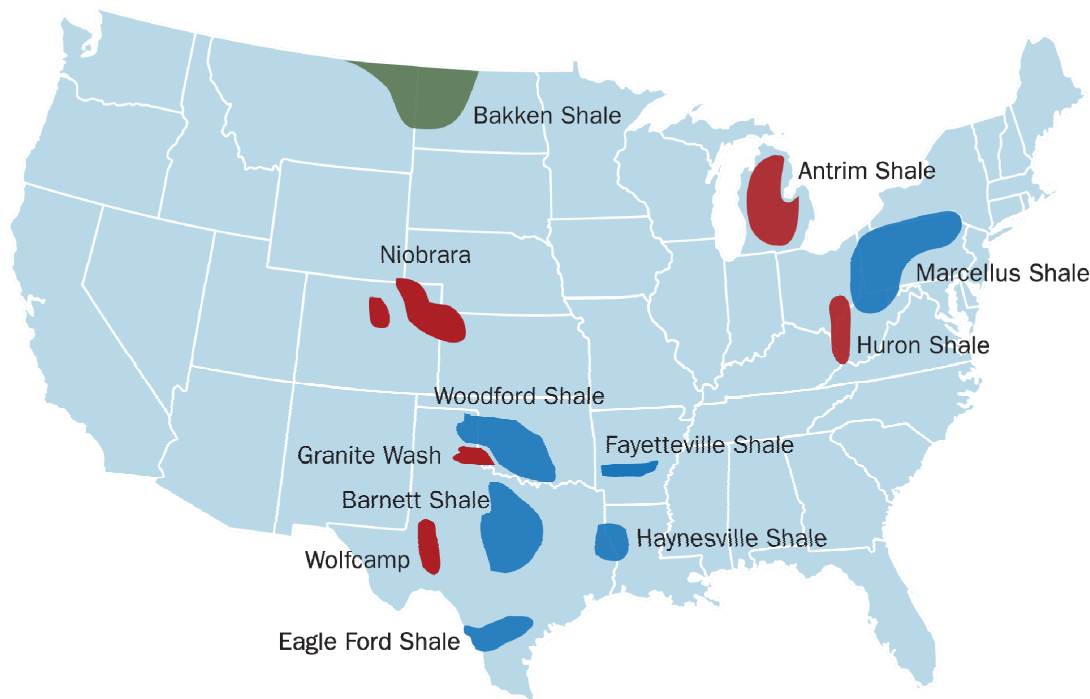
Ticker	Name	Sector
GSJK	Compressco Partners	Natural Gas Compression
[TBD]	American Midstream Partners	Gathering & Processing
OTLP	Oiltanking Partners	Crude Oil and Refined Products
SXC	SunCoke Energy, Inc.	Metallurgical Coke

Source: SEC filings.

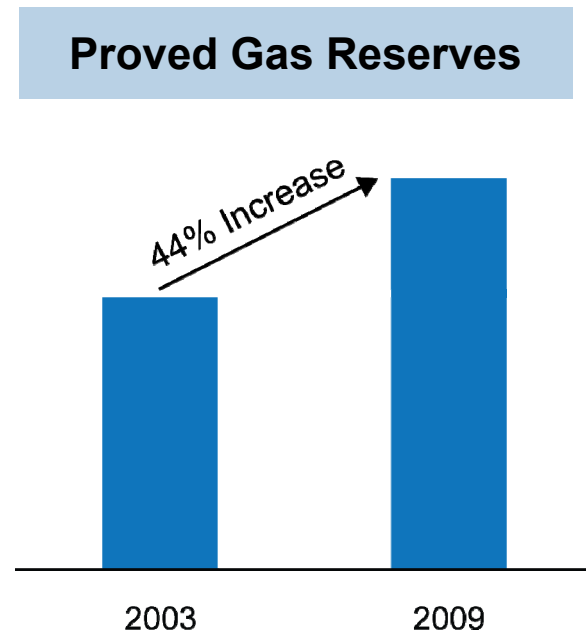
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Unconventional Reserves - Biggest Story in U.S. Energy

- ◆ “Unconventional” reserves refers to oil and natural gas produced using advanced techniques
 - Examples include natural gas and oil bearing shale and tight gas reservoirs
- ◆ Technology is key to making unconventional reserves economic
- ◆ Unconventional reserves are a “game changer” for the domestic energy industry



Source: EIA

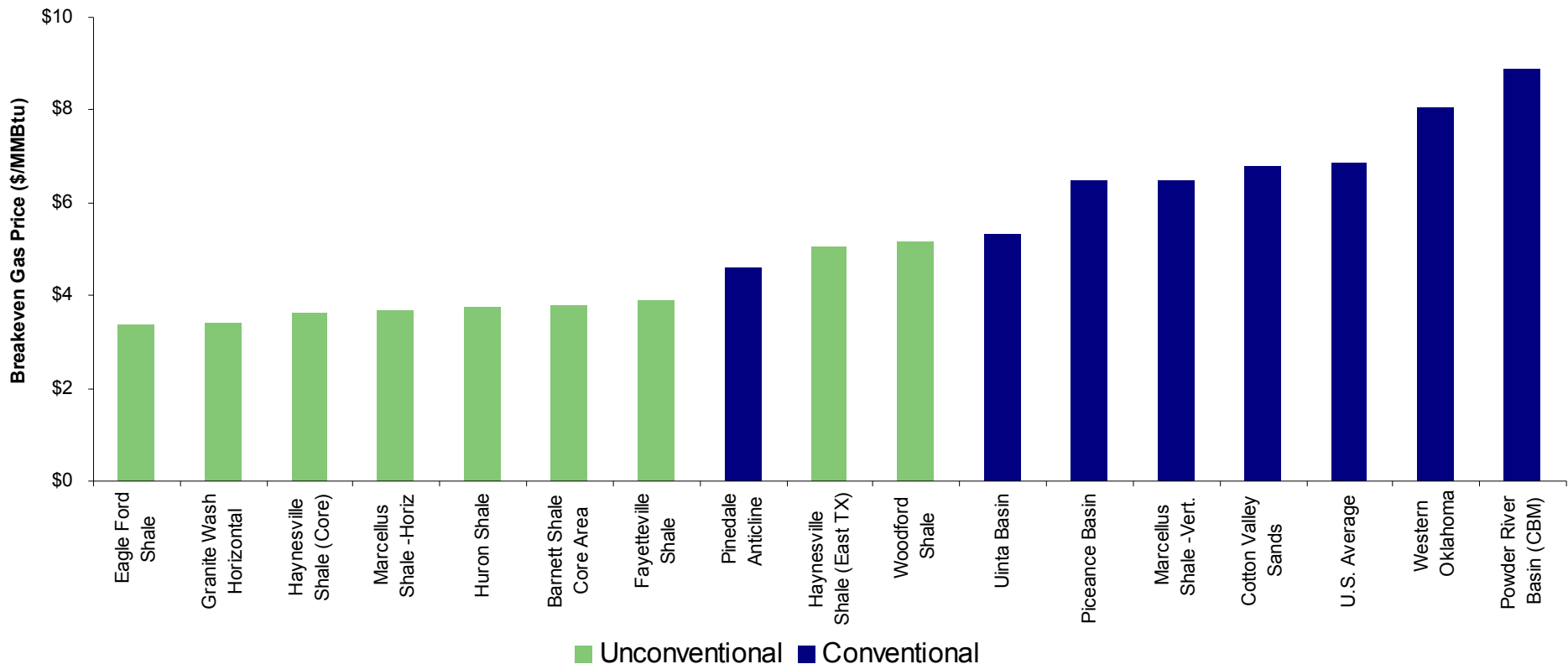


Source: EIA

Unconventional Reserves - Lowest Cost Wins

- ◆ In a period of low gas prices, the production will shift to the lowest cost fields
- ◆ Nine of the ten lowest-cost fields in the country are unconventional
 - These fields are economic even at lower gas prices

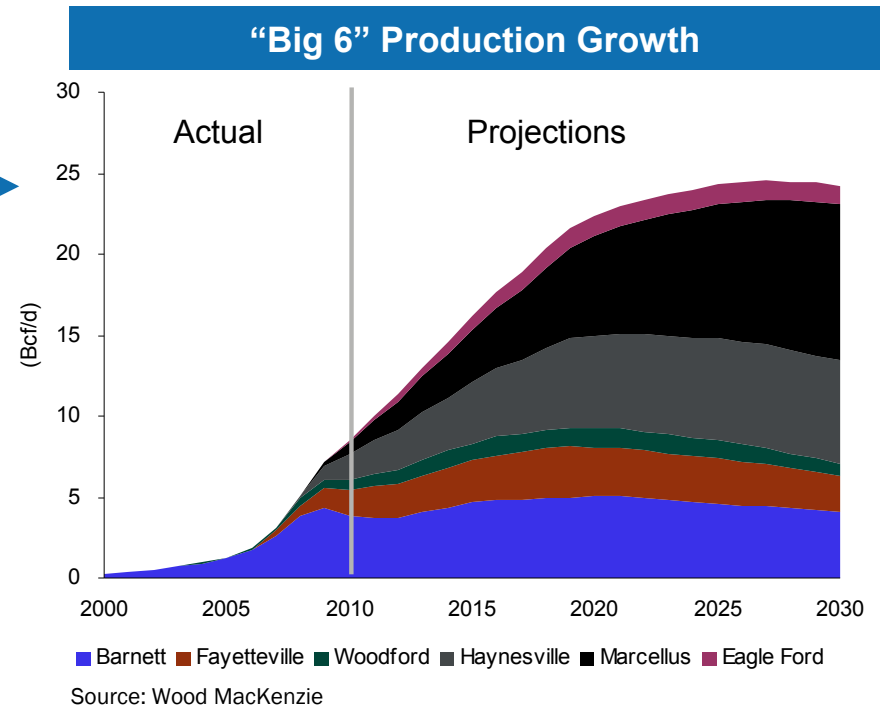
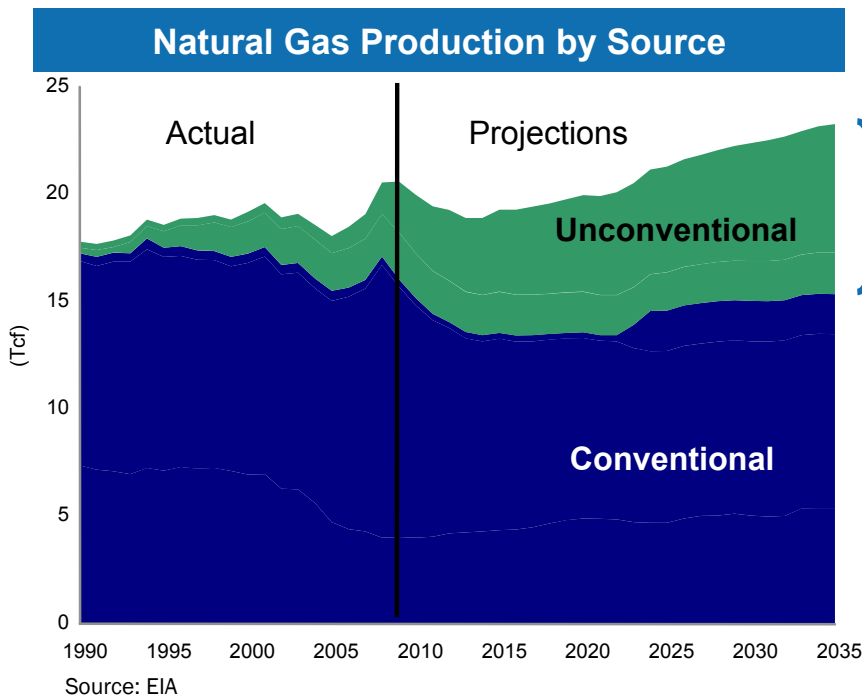
Natural Gas Well Breakeven Cost (10% IRR)



Source: Credit Suisse.

Unconventional Reserves Creating Supply Shift

- ◆ Production from “Big 6” shale plays is expected to triple over the next 10 years
- ◆ The majors, as well as foreign and national oil companies, are already committing significant capital to the development of these types of reserves
- ◆ Shifting sources of supply will create tremendous opportunities for MLPs and Midstream Companies to build infrastructure assets to facilitate production



Shifting Supply = Up to \$210 billion in Midstream Capex⁽¹⁾

(1) Source: Interstate Natural Gas Association of America (INGAA), 10/20/09 press release.

Unconventional Reserves Are in High Demand



Korea National Oil Corporation

\$2 billion Eagle Ford JV



"KNOOC Buys Texas Shale-Oil Stake"
-Bloomberg



bhpbilliton

pays \$5 billion for Fayetteville assets



"BHP Billiton Joins Shale Gas Rush"
-National Post



\$1 billion Niobrara JV
\$2 billion Eagle Ford JV



"CNOOC Bids High to Extend U.S. Shale Footprint"
-Rig Zone



pays \$4 billion for



"Chevron Bets on Shale Gas with Atlas Buy"
-Reuters

MLPs Provide Exposure to Unconventional Reserves

- ◆ We believe shale play infrastructure build out will be a catalyst for future distribution growth
- ◆ The shifting supply from conventional reserves to unconventional reserves will create substantial demand for additional midstream assets
- ◆ MLPs are the most direct way to capitalize on the construction of the required infrastructure over the next 5-10 years
- ◆ Multiple MLPs are involved in each of the “Big 6” Natural Gas Shale Plays

Unconventional Shale Play	MLP
Barnett	EPD, ETP, EEP, RGNC
Fayetteville	KMP, ETP, BWP, SEP, CMLP
Eagle Ford	KMP, EPD CPNO, WPZ
Marcellus	WPZ, MWE, BPL, PVR
Haynesville	KMP, EPD, MWE, RGNC
Woodford	MWE, BWP, ETP, RGNC

- ◆ Development of unconventional reserves will require substantial amounts of new natural gas midstream assets to be built
 - Estimate \$133 - \$210 billion in new midstream assets by 2030 ⁽¹⁾

(1) Source: INGAA Study.