Tax Advantages of Owning Alerian MLP ETF (AMLP)

Master Limited Partnerships (MLPs) have historically delivered attractive investment yields relative to other income-oriented asset classes. MLP funds, such as the Alerian MLP ETF (Ticker: AMLP), have the added benefits of issuing a 1099 rather than a K-1 during tax season and should not generate unrelated business taxable income (UBTI). The most notable benefit of an investment in MLPs, whether through an access product or through individual securities, is the tax-deferred nature of distributions.* In this piece, we highlight the beneficial tax treatment of distributions from AMLP relative to dividends from a corporation or coupons from bonds.

* This notice is provided to you for informational purposes only, and should not be considered tax advice. Please consult your tax advisor for further assistance.
What is the tax character of AMLP’s distribution, and what does that mean for holders?

### Historical AMLP Distributions

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Qualified Dividends</th>
<th>Return of Capital (Tax Deferred)</th>
<th>Qualified Dividends</th>
<th>Return of Capital (Tax Deferred)</th>
<th>Total Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010*</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$1.25</td>
<td>$1.25</td>
</tr>
<tr>
<td>2011</td>
<td>14%</td>
<td>86%</td>
<td>$0.70</td>
<td>$4.30</td>
<td>$5.00</td>
</tr>
<tr>
<td>2012</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$5.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>2013</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$5.35</td>
<td>$5.35</td>
</tr>
<tr>
<td>2014</td>
<td>64%</td>
<td>36%</td>
<td>$3.65</td>
<td>$2.00</td>
<td>$5.65</td>
</tr>
<tr>
<td>2015</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$5.95</td>
<td>$5.95</td>
</tr>
<tr>
<td>2016</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$5.10</td>
<td>$5.10</td>
</tr>
<tr>
<td>2017</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$4.30</td>
<td>$4.30</td>
</tr>
<tr>
<td>2018</td>
<td>100%</td>
<td>0%</td>
<td>$4.05</td>
<td>$0.00</td>
<td>$4.05</td>
</tr>
<tr>
<td>2019</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$3.90</td>
<td>$3.90</td>
</tr>
<tr>
<td>2020</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$3.16</td>
<td>$3.16</td>
</tr>
<tr>
<td>2021</td>
<td>0%</td>
<td>100%</td>
<td>$0.00</td>
<td>$2.80</td>
<td>$2.80</td>
</tr>
</tbody>
</table>

* AMLP only paid one distribution in 2010 given its August 2010 inception.

**Total Tax-Deferral on Distributions Since Inception:** 84%

Generally, distributions from AMLP are either considered a qualified dividend (Box 1b on 1099-DIV Form) or a return of capital (Box 3 on 1099-DIV Form). Qualified dividends are taxed at long-term capital gains rates, while any portion of the distribution that is a return of capital is tax deferred. Return of capital distributions reduce an investor’s cost basis in AMLP, and the investor does not have to pay taxes on that portion of the distribution until the investor sells his or her interest in AMLP, assuming the adjusted basis remains above zero. (If an investor’s basis is reduced to zero, then future cash distributions would be taxed at the long-term capital gains rate in the current year.) When an investor sells AMLP, the difference between the sales price and reduced basis will be taxed at long-term capital gains rates for holding periods over one year.

**Example:**

Mary buys one share of AMLP for $10. She receives a total of $3.95 in distributions in the five years she owns AMLP. Of this, $3.56, or 90%, is considered a tax-deferred return of capital distribution. Because of this, Mary has paid a total of less than $0.10 in taxes on $3.95 of distributions received over the five-year period.

After five years, her basis has been reduced to $6.44 and she sells AMLP at $12.50. At sale, Mary will pay capital gains tax on the $6.06 gain ($12.50 selling price - $6.44 basis). If Mary is in the highest tax bracket, she would pay $1.21 in tax (20% for the current long-term capital gains rate x $6.06 gain).

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1. **For illustrative purposes only.**
2. Because of differences in tax and GAAP accounting, a portion of MLP distributions is considered a tax-deferred return of capital. The remaining distribution balance is taxable at ordinary income rates. AMLP’s distributions retain the tax character of the underlying MLP distributions of its constituents, providing the same tax-deferred return of capital benefits.
3. Difference between cost basis and selling price is taxed at capital gains rate at sale: 20% on a $6.06 gain = $1.21.
4. Return of capital is paid from an ETF’s shareholder equity; whereas, dividends are paid from the ETF’s income.

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This example highlights two main benefits of owning AMLP in a taxable account:

1) **Tax Deferral** – The shareholder receives (potential) income in the current year but defers payment of tax on the majority of income received until the sale of the asset. Tax deferral on reinvested distributions can also help achieve better compounding returns over time.

2) **Change in Tax Character** – To the extent the shareholder has owned the asset for more than one year, she should be able to pay long-term capital gains on the difference in basis. Note that for investments in individual MLPs, basis recapture\(^4\) is taxed at ordinary income rates, even for long-term holdings.

It is important to note that tax deferral could result in a higher tax bill at sale due to a reduced cost basis. Individual tax bills could vary significantly, and investors should contact a tax professional for specific advice.

**How does taxation of a distribution from AMLP vary from a bond coupon or stock dividend?**

The portion of MLP distributions that is considered return of capital may vary year-to-year. The below examples show how an AMLP distribution is taxed under 100% and 80% return of capital scenarios (assuming AMLP is not sold in the current year) as compared to the taxation of stock dividends and bond coupons. Because stock dividends and bond coupons typically do not have a return-of-capital component like MLP distributions, 100% of the income an investor receives is taxed in the current year. We assume the investor is in the highest individual tax bracket (37%), which would also imply a 20% qualified dividend tax rate.

Keep in mind that a corporation must pay taxes, so a dividend from a corporation is taxed twice. The first layer of taxation is the 21% corporate tax rate, and the second layer is the 20% qualified dividend tax paid by the individual investor, resulting in an effective tax rate of 36.8%. Note that since AMLP holds more than 25% MLPs, the fund itself is taxed at the 21% corporate tax rate. Because the after-tax distribution for AMLP is higher than for that of a corporation, reinvesting distributions leads to greater compounding for AMLP than reinvesting dividends in a corporation.

<table>
<thead>
<tr>
<th>AMLP Distribution (100% return of capital)</th>
<th>AMLP Distribution (80% return of capital)</th>
<th>Blue Chip Corporation Dividend</th>
<th>Bond Coupon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount Paid for the Year</td>
<td>$1.00</td>
<td>$1.00</td>
<td>$1.00</td>
</tr>
<tr>
<td>Taxable Amount</td>
<td>$0.00</td>
<td>$0.20</td>
<td>$1.00</td>
</tr>
<tr>
<td>Relevant Tax Rate</td>
<td>No tax until sale of AMLP</td>
<td>Qualified Dividend Rate (20%)</td>
<td>Ordinary Income Rate (37%)</td>
</tr>
<tr>
<td>Tax to Pay on Income</td>
<td>$0.00</td>
<td>$0.04</td>
<td>$0.20</td>
</tr>
<tr>
<td>After-Tax Amount</td>
<td>$1.00</td>
<td>$0.96</td>
<td>$0.80</td>
</tr>
</tbody>
</table>

**Comparison of After-Tax Income for Yield Investments**

For illustrative purposes only.

\(^4\) Basis Recapture: the difference between the cost basis (which is adjusted for return of capital) and the actual purchase price.
The purpose of the comparison, and the piece as a whole, is to highlight the advantages of receiving distributions through a C-Corp fund, like AMLP, relative to other yield oriented investments. A distribution from an individual MLP comes with its own considerations and tax characteristics that are not applicable to the piece/AMLP.

**What about estate planning?**

MLPs can also be a useful tool in legacy and estate planning. If an investor passes away while owning AMLP or an individual MLP, the basis for heirs is "stepped up" to the fair market value of AMLP on the date of death, and the gain from basis reductions is not taxed.

**Example:**
John buys one share of AMLP for $10. He holds AMLP for three years and receives $2.31 in distributions, of which $2.08 or 90% is tax-deferred return of capital. John passes away while still owning AMLP. John never pays taxes on the $2.08 of return-of-capital distributions he received, only on the $0.23 in qualified dividends. For his heirs, the basis in AMLP is stepped up to the fair market value on the date of John’s death. In other words, John and his heirs do not pay taxes on 90% of the distributions John received prior to his passing.

*For illustrative purposes only.*

**Bottom line**

Tax advantages are one of the most appealing aspects of an investment in MLPs or MLP products. The potential for tax-deferred income, as well as attractive treatment from an estate planning perspective, makes the asset class appealing to income-oriented investors. In addition, an investment in an MLP access product provides the added benefits of issuing a single Form 1099, rather than K-1s, and will not generate UBTI.
Important Disclosures & Definitions

An investor should consider the investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus containing this and other information, call 1-866-759-5679 or visit www.alpsfunds.com. Read the prospectus carefully before investing.

Shares are not individually redeemable. Investors buy and sell shares on a secondary market. Only market makers or “authorized participants” may trade directly with the Fund, typically in blocks of 5,000, 25,000 or 50,000 shares.

Performance data quoted represents past performance. Past performance is no guarantee of future results; current performance may be higher or lower than performance quoted.

All investments are subject to risks, including the loss of money and the possible loss of the entire principal amount invested. Additional information regarding the risks of this investment is available in the prospectus.

Investments in securities of Master Limited Partnerships (MLPs) involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs.

A portion of the benefits you are expected to derive from the Fund's investment in MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the Fund's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment in the Fund.

The Fund invests primarily in a particular sector and could experience greater volatility than a fund investing in a broader range of industries. The Fund may be subject to risks relating to its investment in Canadian securities. Because the Fund will invest in securities denominated in foreign currencies and the income received by the Fund will generally be in foreign currency, changes in currency exchange rates may negatively impact the Fund's return.

Investments in the energy infrastructure sector are subject to: reduced volumes of natural gas or other energy commodities available for transporting, processing or storing; changes in the regulatory environment; extreme weather and; rising interest rates which could result in a higher cost of capital and drive investors into other investment opportunities.

All K-1s are received and processed by the Alerian MLP ETF. The Alerian MLP ETF distributes a single Form 1099 to its shareholders. This notice is provided to you for informational purposes only, and should not be considered tax advice. Please consult your tax advisor for further assistance.

The Fund is classified for federal income tax purposes as a taxable regular corporation or so-called Subchapter “C” corporation. As a “C” corporation, the Fund accrues deferred tax liability for its future tax liability associated with the capital appreciation of its investments and the distributions received by the Fund on equity securities of master limited partnerships considered to be a return of capital and for any net operating gains. The Fund's accrued deferred tax liability, if any, is reflected each day in the Fund's net asset value per share. The 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) is dependent upon the Fund's net investment income/(loss) and realized and unrealized gains/(losses) on investments and such expenses may vary greatly from year to year and from day to day depending on the nature of the Fund's investments, the performance of those investments and general market conditions. Therefore, any estimate of deferred income tax expense/(benefit) cannot be reliably predicted from year to year.

The Fund employs a “passive management” - or indexing - investment approach and seeks investment results that correspond (before fees and expenses) generally to the performance of its underlying index. Unlike many investment companies, the Fund is not “actively” managed. Therefore, it would not necessarily sell or buy a security unless that security is removed from or added to the underlying index, respectively.

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