Does an MLP & Energy Infrastructure Fund Belong in Your Portfolio?

18 April 2019
By **Maria Harman**
Markets Reporter

Every time there is a rise in interest rates due to inflation and higher economic growth, MLPs almost always benefit because there's going to be more energy use and much larger volumes moving through pipelines.

MLPs – master limited partnerships – which invest in US energy infrastructure, have been popular holdings for investors that were income-starved, especially during times when interest rates are historically low and equity markets deliver relatively higher yields.

MLPs can kick off yields of 6-8% or even more depending on your investment – which makes them a solid alternative, especially when American Treasury notes yielded 1% or less. However, with the Federal Reserve increasing interest rates, yields on American Treasury notes are rising too.

Due to rising rates, many market experts believe that the time to "de-bond" your equity portfolio and do away with MLP investments is now. And with rates rising, investors should understand the trade-off between how much yield a security has and the asset class volatility. Even if the yield is there, the net asset value may sink. MLPs can certainly get affected by higher interest rates but they can still distribute a high income level – but the principle will definitely be affected by the current market environment.

However, other experts, share a much different perspective and urge investors not to "overreact". MLPs and energy infrastructure funds may offer investors the yields they are looking for

Investing in an MLP and Energy Infrastructure Fund – Higher Short-term Rates Not a Deal Breaker

What investors really ought to consider when it comes to investing in an MLP and energy infrastructure fund is whether an MLP is vulnerable enough to higher inflation and rising interest rates – in both cases, high enough that the yield becomes unsustainable.

Here's what every investor should come to terms with: higher short-term interest rates are in no way a deal breaker. There's no need to be concerned about the Federal Reserve raising rates because, in fact, short-term rates do not affect MLPs the same way long-term rates do. Many smart investors are adding MLPs as an equity asset to their portfolios.

MLPs today have significantly improved their balance sheets by changing up their dividend payments. Even though this results in reduced distributions, the same money can be used for self-funding capital expenditures.

> "It should be noted that MLPs and energy infrastructure investments do not 'behave' like other income investments"

It should be noted that MLPs and energy infrastructure investments do not 'behave' like other income investments, in that they are usually lumped in with multiple income-producing equity investments including property investment trusts. Therefore, MLPs and energy infrastructure funds respond differently when rates rise.

Every time there is an increase in rates due to higher inflation and economic growth, MLPs and infrastructure funds largely benefit since these two conditions mean greater energy use and movement through pipelines, which, in turn, means higher revenue.

How to Know if You're Investing in the Right MLP & Energy Infrastructure Fund

An MLP and Energy Infrastructure Fund's debt can say a lot about whether the investment is worth it. Determine how much of the debt has a fixed rate or floating rate – the debt cost will rise when rates rise.

MLP and Energy Infrastructure Funds that deliver more growth as opposed to yield are shielded from higher interest rates and/or inflation. If they are growing, then they will continue to do so as a direct result of any negative impact coming from higher interest rates.

Center Coast Brookfield MLP & Energy Infrastructure Fund key objectives include primarily investing in a portfolio of MLPs and energy infrastructure companies. Under typical or normal market conditions, the Fund invests at least 80% of Managed Assets in MLP and energy infrastructure companies' securities, and as much as 20% of Managed Assets in restricted or unregistered securities.

Learn more about what investors should consider in regards to the Fund's risks, investment objectives, expenses and charges.

Disclaimer: The opinions in this article are for informational purposes only and should not be construed as a recommendation to buy or sell the stocks mentioned. Please do your own due diligence before making any investment decision.