MERIDIAN
PASSAGE

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Master Limited Partnerships

A plain-language guide to what an MLP is, and what owning one entails.

The short version

A Master Limited Partnership (an *MLP*) is a high-yielding investment in the infrastructure that moves America's energy: the pipelines, terminals, and storage that carry it across the country. The catch is in the wrapper: it is organized as a *partnership*, not a company, and that one difference changes what you own, how you get paid, and what arrives at tax time.

Buy into an MLP and you hold *units* rather than shares. The cash it pays you is called a *distribution*, not a dividend, and it is often larger and steadier than a typical stock's. In exchange, you take on more paperwork: instead of the familiar tax form, you receive a Schedule K-1. It comes with a notable upside: because these assets depreciate, much of each distribution is **tax-deferred**, not taxed the year you receive it. That trade is the whole story in miniature: generous, tax-advantaged income in return for added complexity and a heavy tilt toward the energy sector. Just how generous? It helps to look at the benchmark.

≈7%

Recent yearly cash distribution yield of the **Alerian MLP Index**, the main benchmark for energy-infrastructure MLPs, against roughly 1.3% for the S&P 500.*

* Approximate, as of early 2026. Distribution yields move with unit prices and are not guaranteed; past yields do not predict future results.

The pages that follow unpack how that income works, and what it asks of you.

OVERVIEW

What's inside

Seven short sections, in plain terms.

ITEM 01

What an MLP actually is

Most investments you already know are corporations. You buy a share, you own a tiny piece of the company, and the company pays tax on its profits before anything reaches you. An MLP is built differently. It is a *partnership*, a structure with two kinds of owners working together.

The *general partner* runs the business day to day: it makes the decisions, manages the assets, and handles operations. The *limited partners* supply the capital and share in the profits, but they do not run anything. When you invest in a publicly traded MLP, you are a limited partner. Your ownership is measured in *units*, and you are called a *unitholder*.

Because the MLP trades on an exchange, you can buy and sell those units through an ordinary brokerage account, just like a stock. What makes the partnership special is how it is taxed.

> THE KEY IDEA
>
> *A corporation is taxed on its profits, and then you are taxed again on the dividends it pays you. An MLP generally skips that first layer: its profits "pass through" directly to the owners.*

This is why MLPs are often called *pass-through entities*. The partnership itself usually owes little or no income tax; its income and deductions flow straight through to unitholders, who account for them on their own returns. Less tax lost along the way can mean more cash available to pay out.

UNIT

One share of ownership in a partnership. MLPs are measured in units, not shares; the difference is mostly in the name and the tax treatment.

PASS-THROUGH

A business not taxed on its own profits. Income passes to the owners, who pay the tax. This avoids the "double taxation" of a corporation.

GP VS. LP

The general partner runs the business. Limited partners (that's you) provide capital and share profits, with little day-to-day control.

ITEM 02

Where you find them

MLPs are not spread evenly across the market. The great majority operate in energy infrastructure, and most of those in the part of the industry known as *midstream*: the pipelines, storage tanks, processing plants, and terminals that move oil and natural gas from where it is produced to where it is used. Almost all of these are physical assets located here in the United States, so the geopolitical worries that come with overseas holdings are largely not part of the picture.

There is a reason for the concentration. U.S. tax law only lets a business use the publicly traded partnership structure if most of its income comes from qualifying activities, largely natural resources and energy. That rule effectively steers the MLP form toward pipelines and the businesses around them.

> A HELPFUL WAY TO PICTURE IT
>
> *Think of a pipeline as a toll road. It charges for how much oil or gas passes through, not for what that oil or gas is worth. The fee is tied to volume, so whether prices are high or low that day, the toll on a full pipeline is much the same.*

That toll-road quality is why investors are drawn to these businesses. A company that collects fees on volume rather than betting on price can produce relatively steady, predictable cash flow, which is exactly what funds those generous distributions. It is one step removed from the daily swings in energy prices.

MIDSTREAM

The "middle" of the energy business: transporting and storing oil and gas. It sits between production (upstream) and refining or selling (downstream).

WHY MOSTLY ENERGY?

Tax law reserves the publicly traded partnership structure for businesses earning most of their income from natural resources, so the form clusters in energy.

MOSTLY U.S. ASSETS

The pipelines and terminals sit on American soil, which keeps overseas political risk largely out of the picture.

ITEM 03

How you earn a return

Money comes back to you from an MLP in two ways. The first is *price appreciation*: your units may become worth more than you paid. The second, and usually the main attraction, is the *distribution*: a regular cash payment, most often made every quarter.

A distribution looks a lot like a dividend, and people use the words loosely, but they are not the same thing. MLP distributions are frequently larger than typical stock dividends, and they are treated differently for tax. Investors often measure them as a *yield*, the annual payout compared with the unit's price.

> THE PART THAT SURPRISES PEOPLE
>
> *A good portion of an MLP distribution is often treated as a "return of capital," not as income you owe tax on today.*

Because pipelines carry large accounting deductions like depreciation, part of the cash you receive is treated as the partnership handing back some of your own investment rather than paying a profit. That portion is not taxed right away. Instead it lowers your *cost basis* (your recorded cost in the units) and the tax is generally deferred until you sell.

One honest caveat: distributions are set by the partnership and are not guaranteed. They can be raised, held flat, or cut, depending on how the business performs.

DISTRIBUTION

The cash an MLP pays its unitholders, usually quarterly. The partnership's version of a dividend, often larger and taxed differently.

YIELD

The annual payout divided by the price. A simple way to compare how much income an investment pays relative to its cost.

RETURN OF CAPITAL

A payout treated as giving back part of your original investment. It isn't taxed now; it lowers your cost basis and is settled when you sell.

ITEM 04

How an MLP differs from a stock

Side by side, the two look similar: both trade on an exchange and both can pay you cash. The differences sit underneath, in ownership, taxes, and paperwork.

	A REGULAR STOCK	AN MLP
What you own	Shares of a corporation	**Units** of a partnership
Who runs it	A board and management answer to shareholders	A general partner runs it; you have limited say
The cash you receive	A dividend	A **distribution**, often larger
Company-level tax	Taxed at the company, then again on your dividend	Generally none; profits pass through to you
Your tax form	A 1099 from your broker	A Schedule **K-1** from the partnership
Where they're common	Every industry	Mostly U.S. energy pipelines & storage
In a retirement account	Simple and routine	Can get complicated; ask first

ITEM 05

Taxes and the K-1

This is where an MLP asks a little more of you. Hold an ordinary stock and your broker sends a tidy 1099 each year. Hold an MLP and instead you receive a *Schedule K-1*, a form that reports your personal share of the partnership's income, deductions, and other tax items.

The K-1 is not difficult to use, but it has quirks worth knowing in advance:

- **It often arrives late.** K-1s tend to show up in February or March, sometimes later than other tax forms, which can affect when you are ready to file.
- **It can reach across state lines.** Because a pipeline runs through many states, you may have a small filing obligation in more than one.
- **Retirement accounts add a wrinkle.** Holding an MLP inside an IRA can trigger special tax rules. It is worth a conversation first.

> THE UPSIDE OF THE PAPERWORK
>
> *Because of depreciation and return of capital, a meaningful share of your distributions may be tax-deferred, so you often aren't taxed on all of the cash the year you receive it.*

That deferral is a genuine benefit, but it has a tail: each year of return-of-capital lowers your cost basis, so when you finally sell, a larger gain may be waiting. None of this is a reason to avoid MLPs, only a reason to coordinate with a tax professional.

SCHEDULE K-1

The tax form a partnership sends each owner, reporting their share of its income and deductions. It replaces the 1099 from a normal stock.

1099 VS. K-1

A 1099 is simple and arrives early. A K-1 carries more detail, can arrive later, and may touch more than one state.

COST BASIS

Your recorded cost in an investment. Return-of-capital distributions reduce it over time, which can mean a larger taxable gain when you sell.

ITEM 06

Risks worth understanding

The income is the draw; these are the trade-offs that come with it. None should be disqualifying on its own; together they explain why an MLP suits some portfolios and not others.

- **Energy concentration.** Even though the fees are tied to volume rather than commodity prices, MLPs are still clustered in one industry. Their unit prices can move with energy-sector sentiment, and a prolonged downturn that slows drilling and shipping would eventually mean less volume to carry.
- **Distributions can be cut.** The payout is set by the partnership and is not guaranteed; a weaker year can mean a smaller check.
- **Sensitivity to interest rates.** Income investments can lose favor when rates rise and safer yields become available elsewhere.
- **Added complexity at tax time.** K-1s, possible multi-state filings, and retirement-account rules all ask more of you than a simple stock.
- **Size and liquidity.** Some MLPs are smaller and trade thinly, which can make units harder to buy or sell at a good price.
- **Structure can change.** Some partnerships have converted into corporations, which changes both the tax picture and the payout.

ITEM 07

A sketch of one MLP

Enterprise Products Partners (ticker: EPD) is the textbook case: one of the largest and oldest publicly traded MLPs, on the New York Stock Exchange since 1998. Its business is exactly what this primer has described: more than 50,000 miles of pipelines moving natural gas, natural gas liquids, crude oil, and refined products, with some 300 million barrels of storage and Gulf Coast export terminals.

It is also a giant. The combined value of its units is roughly $80 billion, and about two million units change hands on a typical day, so the thin-trading concern on the previous page is not much of an issue here.

> THE TRACK RECORD
>
> *Enterprise has raised its distribution every year since its 1998 listing, 27 straight years, through the 2008 financial crisis, two energy downturns, and a pandemic.**

The income follows the pattern you now know. The payout is about $2.20 per unit per year, a yield of roughly 5.9%. For much of the past decade the units yielded between 6 and 8 percent; in the 2020 downturn the yield briefly ran into double digits, not because the payout rose but because unit prices fell. Today's yield sits near a decade low for the opposite reason: prices recovered faster than the payout grew.

MARKET CAP

≈ $80 billion (June 2026). The market value of all units combined, which places Enterprise among the very largest MLPs.

LIQUIDITY

≈ 2 million units trade daily on the NYSE, so orders of ordinary size are filled quickly at market prices. Many smaller MLPs trade far more thinly.

YIELD TREND

Roughly 6 to 8% for much of the past decade; above 10% briefly in 2020; about 5.9% in mid-2026 as unit prices recovered.

* Example provided for education and illustration only; it is not a recommendation to buy, sell, or hold any security. Figures are approximate, drawn from company reports and public market data as of June 2026, and will change. Distribution streaks describe the past and do not guarantee future payouts.

IN CLOSING

The bottom line

An MLP can offer attractive, relatively steady income and favorable tax treatment, in exchange for added complexity and a concentrated bet on energy infrastructure. It is worth being clear about what that bet is: because most MLPs earn fees on the volume that flows through their pipelines and storage, you are largely paid for moving energy, not for wagering on the day-to-day price of oil or gas itself.

Whether one belongs in your portfolio depends on your income needs, your tax situation, the accounts you hold, and your appetite for that complexity. That is precisely the kind of trade-off we are here to weigh with you.

IMPORTANT DISCLOSURES

This primer is provided by Meridian Passage, LLC for educational purposes only. It is general in nature, is not investment, tax, or legal advice, and is not a recommendation to buy or sell any security or to adopt any investment strategy. It does not take into account your individual circumstances. References to specific securities, including Enterprise Products Partners L.P., are for illustration only and are not recommendations; clients of Meridian Passage may hold positions in securities mentioned.

Master Limited Partnerships involve risk, including the possible loss of principal, and their tax treatment is complex and may change. Distributions are not guaranteed. Holding MLPs in tax-advantaged accounts may have additional tax consequences. You should consult your advisor and a qualified tax professional before investing.

Meridian Passage, LLC is a Registered Investment Adviser. Additional information is available at adviserinfo.sec.gov.

ABOUT US

The firm

Meridian Passage exists to close a gap. The standard of disciplined, measured portfolio management and financial planning that the wealthiest families take for granted is rarely available to those below that threshold. We founded Meridian Passage to bring you the same framework, the same care, and the same long-term perspective, wherever you stand.

At its best, wealth management is not a collection of disconnected services. Investments, planning, taxes, and major financial decisions should inform one another. That coordination is often available to the wealthiest families through a family office structure; Meridian Passage applies the same principle through a direct relationship with a single advisor who understands your full financial picture. The portfolio and the plan are designed together, reviewed together, and recalibrated as your life changes.

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ABOUT US

The founder

MARTÍN GUERRERO

PRINCIPAL · CFA® · MBA

15 years
INVESTMENT MANAGEMENT

Multi-asset
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$600M+
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FINANCIAL SERVICES & CONSUMER GOODS

Meridian Passage was founded by Martín Guerrero, CFA®. He has spent his career on both sides of the table — investing capital for wealthy families and building companies of his own. Most advisors know one side or the other; the work here draws from both.

On the investment side, Martín has managed portfolios at scale for more than fifteen years. He spent eight years as Director at SunChase Holdings, a Scottsdale-based single-family office, overseeing a portfolio spanning stocks and bonds, private lending, private equity, and real estate development. He later co-founded Courtyard Advisors, a registered investment advisor serving wealthy families and their portfolio companies. In all, he has led more than $600 million in direct debt and equity investments.

As an operator, he founded Rhythm Beverage Group and built it into a consumer goods brand with national reach. Building a company from the inside teaches the mechanics behind the numbers: what it takes to win a customer and keep one, what working capital demands week to week, and how much of a business's real condition lives between the lines.

That combination, the investor's discipline and the operator's instinct, is the perspective behind every decision we make for you.