Using Tax-Deferred Investments as an Estate Planning Tool

The tax cost basis of an investment is the amount used to evaluate sales proceeds to determine gain or loss for federal income tax purposes. In a simple buy or sale scenario, it would be the difference between the original cost of the investment and the selling price. However, with Master Limited Partnerships (MLPs), the calculation of tax basis starts with the initial cost of the investment and then it is reduced over time for return of capital payments on that investment. In the case of MLP investments, a large portion of the payments received by the investor is, for federal income tax purposes, typically classified as return of capital. Such payments would therefore not be treated as taxable income; rather, they would serve to reduce the federal tax cost basis in the original investment. This could continue until the investors cost basis was zero. This would likely result in deferring an investor's federal tax liability. If an investor's cost basis was at zero, future return of capital payments would become taxable, but the investor would have received all of their investment capital back and yet still own the security.

As a hypothetical example, an MLP is purchased at $10 and over the course of the investment the return of capital totals $8. If the investor then sells the MLP for $11 (its fair market value), it is compared to an adjusted tax cost basis of $2. The difference of $9 would be subject to taxation. (For further information, please consult your tax professional.)

Although this illustration results in only deferring tax, this in and of itself is an effective tax strategy. More importantly, it can also be converted into a permanent tax savings under current federal estate law. As a general rule, the assets held by a person at the date of their death will receive a "step up" from their cost basis to the fair market value that exists on their date of death. MLPs held in a taxable account qualify to receive this step up from their tax cost basis to the fair market value. This effectively eliminates any federal income taxation on unrealized gains, if any, and on return of capital basis adjustments for the investor's beneficiaries, up to that fair market valuation. So in the above example, the beneficiary's tax cost basis would have been $11 if the original owner had died on that fair market value date. Simply put, the income tax deferrals accumulated over time would be eliminated for the beneficiary. The IRS does not recoup the tax-deferred income. Therefore, in addition to providing tax-deferred return of capital during the investor's lifetime, current federal tax law allows the beneficiary of an investor to eliminate the deferred tax liability that may have accumulated throughout the years.

In addition, this estate planning strategy only applies when an investment is held in a taxable account. Currently, there is no step up basis in an IRA or other qualified account.

Before investing you should carefully consider the Center Coast MLP Focus Fund's investment objectives, risks, charges and expenses. This and other information is in the prospectus and summary prospectus, a copy of which may be obtained by calling 877-766-0066 or by visiting the Fund's website at www.libertystreetfunds.com. Please read the prospectus or summary prospectus carefully before investing.

RISK AND OTHER DISCLOSURES:

An investment in the Center Coast MLP Focus Fund is subject to risk, including the possible loss of principal amount invested and including, but not limited to, the following risks, which are more fully described in the prospectus:

- The Fund concentrates its investments in master limited partnerships (MLPs), which involve additional risks compared to those from investments in common stock, including, but not limited to, cash flow risk, tax risk, and risks associated with limited voting rights.
- Unlike most other open-end mutual funds, the Fund will be taxable as a regular corporation, or "C" corporation. Consequently, the Fund will accrue and pay federal, state and local income taxes on its taxable income, if any, at the Fund level, which will ultimately reduce the returns that the shareholder would have otherwise received. Additionally, on a daily basis the Fund's net asset value per share ("NAV") will include a deferred tax expense (which reduces the Fund's NAV) or asset (which increases the Fund's NAV, unless offset by a valuation allowance). To the extent the Fund has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The Fund's deferred tax expense or asset is based on estimates that could vary dramatically from the Fund's actual tax liability/benefit and, therefore, could have a material impact on the Fund's NAV.
- The Fund, unlike the MLPs in which it invests which are treated as partnerships for U.S. federal income tax purposes, is not a pass-through entity. Consequently, the tax characterization of the distributions paid by the Fund, such as dividend income or return of capital, may differ greatly from those of its MLP investments. An investment in the Fund does not provide the same tax benefits as a direct investment in an MLP.
- The Fund currently anticipates paying monthly cash distributions to shareholders at a rate that over time is similar to the distribution rate the Fund receives from the MLPs in which it invests, without offset for the expenses of the Fund. The Fund may maintain cash reserves, borrow or sell certain investments at less desirable prices in order to pay the expenses of the Fund. Because the Fund's distribution policy takes into consideration estimated future cash flows from its underlying holdings, and to permit the Fund to maintain a stable distribution rate, the Fund's distributions may not represent yield or investment return on the Fund's portfolio. To the extent that the distributions paid exceed the distributions the Fund has received, the distributions will reduce the Fund's net assets.
- The Fund is not required to make distributions and in the future could decide not to make such distributions or not to make distributions at a rate that over time is similar to the distribution rate it receives from the MLPs in which it invests.
- It is expected that a portion of the distributions will be considered tax deferred return of capital (ROC). ROC is tax deferred and reduces the shareholder's cost basis (until the cost basis reaches zero); and when the Fund shares are sold, if the result is a gain, it would then be taxable to the shareholder at the capital gains rate. Any portion of distributions that are not considered ROC are expected to be characterized as qualified dividends for tax purposes. Qualified dividends are taxable in the year received and do not serve to reduce the shareholder's cost basis. The portion of the Fund's distributions that may be classified as ROC is uncertain and can be materially impacted by events that are not subject to the control of the Fund's advisor or sub-advisor (e.g. mergers, acquisitions, reorganizations and other capital transactions occurring at the individual MLP level, changes in the tax characterization of distributions received from the MLP investments held by the Fund, or change in tax laws). The ROC portion may also be impacted by the Fund's strategy, which may recognize gains on its holdings. Because of these factors, the portion of the Fund's distributions that are considered ROC may vary materially from year to year. Accordingly, there is no guarantee that future distributions will maintain the same classification for tax purposes as past distributions.
- The MLPs owned by the Fund are subject to regulatory and tax risks, including but not limited to changes in current tax law which could result in MLPs being treated as corporations for U.S. federal income tax purposes or the elimination or reduction of MLPs tax deductions, which could result in a material decrease in the Fund's NAV and/or lower after-tax distributions to Fund shareholders.
- As a non-diversified fund, the Fund may focus its assets in the securities of fewer issuers, which exposes the Fund to greater market risk than if its assets were diversified among a greater number of issuers.
- Equity securities issued by MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling.
- A substantial portion of the MLPs within the Fund are primarily engaged in the energy sector. As a result, any negative development affecting that sector, such as regulatory, environmental, commodity pricing or extreme weather risk, will have a greater impact on the Fund than a fund that is not over-weighted in that sector.

The Fund may not be suitable for all investors. The views in this material are intended to assist readers in understanding certain investment methodology and do not constitute investment or tax advice (please consult your tax professional). The Fund, the Fund's advisor, and the Fund's sub-advisor do not render advice on tax and tax accounting matters. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws. The views in this material were those of the author as of the date of publication and may not reflect his view on the date this material is first published or any time thereafter.

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