# Ecofin Sustainable and Social Impact Term Fund **(TEAF)**

As of March 31 2024

### Investment strategy

TEAF seeks to provide a high level of total return with an emphasis on current distributions. TEAF provides investors access to a combination of public and direct investments in essential assets that are making an impact on clients and communities.

### Fund performance

TEAF's NAV return for the quarter was 0.57% and market return was 3.26%. This compares to global infrastructure (measured by S&P Global Infrastructure Index) which returned 3.44%.

- Listed Sustainable Infrastructure – The listed sustainable infrastructure sleeve performed slightly down, at -2.4% during the quarter. However, we believe decarbonization and electrification trends have strong momentum. GenAI and datacenters are supporting the expectation for power demand growth and, moreover, datacenter owners are showing a willingness to pay a premium for reliable and clean electricity.
- Listed Energy Infrastructure - The fund's return was primarily driven by listed energy infrastructure investments which performed well during the quarter, up 12%. This sector's stocks improved following continued allocation of free cash flow toward share repurchases and dividends, as well as higher energy commodity prices.
- Private Social Infrastructure – Most of our private investments have performed positively generating stable cash flows in-line with our expectations during the period. Our social infrastructure sleeve completed one investment in a senior living facility during the period.
- Private Sustainable Infrastructure - As of April 4, 2024, One Energy will begin controlled restarts of its fleet of wind turbines. The portfolio of other operating solar assets has had mixed performance with some assets suffering from age related and interconnection issues which are all being worked on to reenergize. Other private sustainable assets continued to perform well and as expected during the quarter.
- Private Energy Infrastructure – TEAF did not make any new direct investments in the energy infrastructure sector during the quarter.

We continue to progress on transitioning the portfolio to the targeted allocation of 60% direct investments. As of March 31, 2024, TEAF's total direct investment commitments were approximately $128 million or approximately 57% of the portfolio.

Please see below for more detail.

### Listed Sustainable Infrastructure

After the relief of some buoyancy in the listed sustainable infrastructure sleeve's sectors and holdings in the final months of 2023, utilities and broader infrastructure lagged significantly again in January and February 2024 while equity market momentum was centred around tech-oriented sectors rather than long duration and essential assets. With early 2024 rate cut expectations being reigned in, given sticky inflation data and still healthy growth coming from the U.S. in particular, 10-year benchmark bond yields moved higher, back above 4% in the U.S. (from December lows of 3.79%). Equally pertinently for this strategy, warm-ish winter temperatures and ample supplies led to significant declines in natural gas, carbon and 2024 forward power prices, especially in Europe, which was a headwind for power generators' share prices. No amount of 'in line' or even positive news for companies in the utilities/renewables sector, with respect to results, guidance, dividend growth or capex plans, was able to comfort investors about earnings prospects with economies and power demand weak across Europe and energy markets deemed over-supplied.

In the U.S. the power demand dynamics were stronger (AI, data centres, EVs, economy generally) and by February the U.S. part of the portfolio was showing strength with strong NAV contributions. March marked a broader upturn in sentiment for the strategy's sectors and the fund's NAV which outperformed. Some greater confidence that the inflation outlook would permit policy rate reductions before too long was helpful, even if longer term benchmark bond yields, a major driver for infrastructure sectors lately, swung around and effectively moved sideways over the month. Energy commodity and European carbon prices, which had been weaker year-to-date YTD, staged partial recoveries, leading to a small rally in forward power prices. The U.S. part of the portfolio was the strongest NAV driver as U.S. utilities recovered some ground after prolonged underperformance and the portfolio's large U.S. holdings outperformed.

Uncertainty about the course for interest rates and energy prices continued to weigh on infrastructure valuations, especially for high-growth renewables developers where little value is being ascribed to growth. Although March delivered a small recovery for listed infrastructure share valuations, most remained decoupled from the underlying prospects for growth in demand for electricity and from the drivers for infrastructure renewal. These sectors will likely need more reassurance about lower levels ahead for inflation and interest rates and greater conviction about longer term power price levels to calm the headwinds and kindle investor optimism.

Nonetheless, with the earnings outlook we're observing, we believe there are compelling investment opportunities at current levels with relative valuations at historic lows. Utilities in the portfolio should deliver predictable non-cyclical earnings growth. GenAI and datacenters are supporting the expectation for power demand growth and, moreover, datacenter owners are showing a willingness to pay a premium for reliable and clean electricity, recognizing that green electrons are scarce, and that uninterrupted clean energy is not a commodity. The growth the sector should experience will also reflect the quantum increase in investments in electricity networks/grids we are witnessing. Power network operators are demonstrably more confident in the growth to come from the renewable's capacity build-out, electrification of economies and the associated need for grid upgrades. Beyond power utilities, we continue to look for opportunities amongst companies operating and investing to upgrade water management and environmental services, and transportation infrastructure.

### Listed Energy Infrastructure

TEAF's listed energy infrastructure outperformed the S&P 500 Index in the first quarter. Energy infrastructure sector stocks improved following continued allocation of free cash flow toward share repurchases and dividends. Further, the sector benefitted from higher crude oil prices that increased 22% during the quarter after Organization of the Petroleum Exporting Countries Plus (OPEC+) extended production cuts and vowed ever more supply discipline, tension in the Middle East remained, and demand remained resilient. Further, Artificial Intelligence is expected to improve domestic natural gas demand over the coming years, requiring a substantial supply boost. We remain positive on the 2024 energy outlook due to expectations of continued production volume increases, constructive energy demand, and growing free cash flow that is allocated toward shareholders.

### Social Infrastructure

TEAF closed one debt investment during the quarter.

- In March of the period, the team closed a deal on Celebration Senior Living of Denison ("Celebration" or "Denison"), a not-for-profit corporation, which is acquiring a stabilized senior living facility in Denison, Texas (north of Dallas). The facility has 82 units consisting of 66 assisted living units and 16 memory care units. The building was constructed in 2019 and is well-appointed and modern in design and finishes. Denison has been managed by Restoration Senior Living, LLC since opening in late 2019, which will continue to manage the community following the acquisition. The Manager also operates numerous other senior living communities in Texas, Louisiana, South Carolina, Georgia, and Florida, and has over 25 years of management experience. The investment will be used for subordinated secured bond financing which, combined with senior debt and deeply subordinated junior debt, will allow for the acquisition of the operating facility and funding of multiple reserve funds, including a working capital reserve, liquidity support fund, and a debt service reserve fund specific to these subordinated bonds. The liquidity support fund is further enhanced by personal guarantees.

## Private Energy Infrastructure

TEAF did not make any new direct investments in the energy infrastructure sector during the quarter.

## Private Sustainable Infrastructure

TEAF did not invest in any additional private sustainable infrastructure projects during the period. TEAF's investment in EF WWW Holdings, LLC, the debt funding of World Water Works Holdings, Inc., has continued to timely pay its annualized interest rate of 10.5% and report strong credit covenants. The company has exceeded its operating budget in every year since the investment, driven by strong backlog and revenue growth.

As of April 4, 2024, One Energy will begin controlled restarts of its fleet of wind turbines. On January 22, 2024, a single blade fell from a wind turbine at one of the company's projects in Findlay, Ohio. No one was injured by the event and no part of the blade or debris field left the company's property. The fleet has not been operating while the company conducted, with the aid of independent engineers and research institutions, a root cause assessment of the incident and a systematic evaluation of every turbine in its fleet. The company has determined that there was an abnormality with the bolted flange assembly that connects the blade to the hub. The issue was not caused by the blade, the internals of the bearing, or the blade bolts. The flange abnormality led to a higher than intended load transfer to the blade bolts which resulted in them fatiguing much faster than designed. The fatigue loads eventually led multiple bolts to have a cascading failure that resulted in the blade completely separating from the turbine and falling to the ground. The company has inspected every major bolted flange in each of its wind turbines as part of the investigation. Every single field-installed bolt has had, or will have, its torque rechecked before each turbine begins operating again.

One Energy will begin restarting the turbines in its fleet that do not have the abnormality. The company is replacing every single blade bolt in the turbines that have or may have an abnormality. The company is also correcting the abnormality in affected turbines. This bolt replacement will restart the fatigue life of the bolts, and this correction in the flanges assemblies will ensure that the bolts are properly loaded going forward.

In conjunction with the independent engineers and research institutions' support, the company has developed new monitoring programs and testing programs that it plans to implement and share with the wind industry. These new methods will allow the company to gain industry-leading insights into the real-time loads on its bolts and the conditions of its flanges going forward. TEAF is an investor in One Energy's 9.00% convertible preferred stock at the corporate/holdco level. One Energy does not expect this event to have a material effect on its financial performance.

### Solar Assets

<u>Renewable Holdco I, LLC Solar (DG Solar - Portfolio of 14 solar assets across 4 states: CO, FL, NJ and PR)</u> – Energy production at various operating distributed generation ("DG") solar assets in the Renewable Holdco I, LLC portfolio have underperformed expectations, primarily caused by inverter issues and certain communications equipment failures inherent in the age of the assets and have required corrective maintenance attention. Certain of the small rooftop projects in Puerto Rico within the Renewable Holdco I, LLC portfolio are expected to be reenergized in early 2024 after experiencing downtime related to required corrective maintenance. Various third-party inspections and off taker approval are required for these to be reenergized. As such, Ecofin's internal asset management team is taking an active role in monitoring efforts to restore full energy production and returning the portfolio to stable cash flow generation.

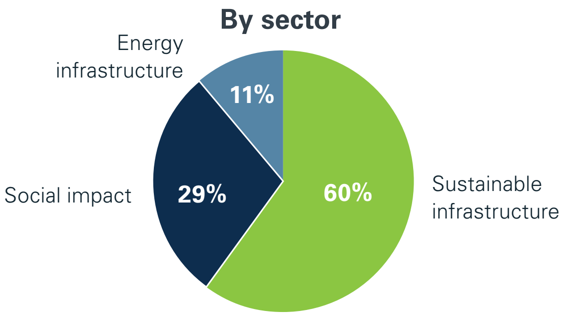
<u>Renewable Holdco II, LLC Solar - (Portfolio of 2 solar projects in MA and CA)</u> - Energy production at the operating DG solar assets in the Renewable Holdco II, LLC portfolio have continued to generate stable cash flow as expected.

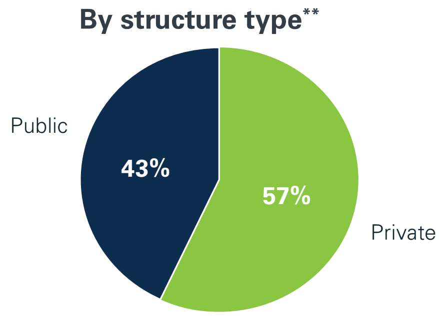
<u>Renewable Holdco, LLC (Blackstone Milk Street)</u> - The final solar project under construction, held in Renewable

Holdco, LLC, has continued to experience delays due to interconnection redesign, additional permitting and road construction caused by the utility and is expected to be ready for commissioning and commercial operation in H1 2024.

Saturn Solar Bermuda 1 - The construction note has continued to pay its annualized interest rate of 10% on time. The payments are supported by cash flow of the now operational solar project since the project completed construction and began full operations in November 2021. The note has remained in place as the owner of the solar facility is seeking to sell the solar project to a new long-term owner/operator.

## **Portfolio allocation*** as of 3/31/2024 (unaudited)




*Due to rounding, totals may not equal 100%*

*Percentages based on total investment portfolio
** 'Private' or 'Public' identifier made at time of investment; 'private' may include securities that are freely tradable but acquired in a private investment in public equity (PIPE) transaction

## **Performance[1]** as of 3/31/2024

| | QTD | Calendar YTD | 1 year | 3 year | 5 year | Since inception[2] |
|---|---|---|---|---|---|---|
| Market price total return | 3.26% | 3.26% | -0.44% | 1.25% | -2.71% | -2.71% |
| NAV total return | 0.57% | 0.57% | -0.12% | 3.22% | 0.42% | 0.42% |

[1]Performance is annualized for periods longer than one year. Source: Bloomberg. Assumes reinvestment of distributions into security. Total return does not reflect brokerage commissions. [2]3/26/2019. ***Performance data quoted represents past performance; past performance does not guarantee future results. As with any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost. Due to market volatility, current performance may be lower or higher than the figures shown. For current performance information, visit www.ecofininvest.com.***

TCA Advisors is the adviser to the Ecofin Sustainable and Social Impact Term Fund, and Ecofin Advisors Limited is the fund's sub-adviser. For additional information, please call 866-362-9331 or email info@ecofininvest.com.

***All investments involve risk, including possible loss of principal. You should consider the investment objective, risk factors, fees and expenses of the fund carefully before investing. For this and other important information please refer to the fund's most recent prospectus and read it carefully before investing. Past performance is no guarantee of future results.***

Closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange. Shares of closed-end funds frequently trade at a market price that is below their net asset value. Leverage creates risks which may adversely affect return, including the likelihood of greater volatility of net asset value and market value.

The fund's ability to achieve its investment objective is directly related to the investment strategies of its adviser and sub-adviser. If expected results are not achieved, the value of the fund's investment could be diminished or even lost entirely, and it could underperform the market or other funds with similar investment objectives. The Investment Committee of the fund's advisor allocates and reallocates assets among the various asset classes and security types in which the fund may invest. Such allocation decisions could cause the fund's investments to be allocated to asset classes and security types that perform poorly or underperform other asset classes and security types or available investments. The fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the fund is more exposed to individual stock volatility than a diversified fund. The fund will have a limited period of existence and will dissolve 12 years from the effective date of the initial registration statement. Its investment policies are not designed to return to common shareholders their original net asset value or purchase price. Investing in specific sectors such as social infrastructure, sustainable infrastructure and energy infrastructure may involve greater risk and volatility than less concentrated investments. Risks include, but are not limited to, risks associated with commodity price volatility, supply and demand, reserve and depletion, operating, regulatory and environmental, renewable energy, gas, water, public infrastructure, and education. Equity securities may fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions, and include the possibility of sudden or prolonged market declines. The fund invests in small and mid-cap companies, which involve additional risks such as limited liquidity and greater volatility than larger companies. The tax benefits received by an investor investing in the fund differ from that of a direct investment in an MLP by an investor. The value of the fund's investment in an MLP will depend largely on the MLP's treatment as a partnership for U.S. federal income tax purposes. If the MLP is deemed to be a corporation then its income would be subject to federal taxation, reducing the amount of cash available for distribution to the fund, which could result in a reduction of the fund's value. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities. The fund invests in municipal-related securities. Litigation, legislation or other political events, local business or economic conditions or the bankruptcy of the issuer could have a significant effect on the ability of an issuer of municipal bonds to make payments of principal and/or interest. Changes related to taxation, legislation or the rights of municipal security holders can significantly affect municipal bonds. Investments may be subject to liquidity risk, adversely impacting the fund's ability to sell particular securities at advantageous prices or in a timely manner. Investments in non-U.S. issuers (including Canadian issuers) involve risks not ordinarily associated with investments in securities and instruments of U.S. issuers, including risks related to political, social and economic developments abroad, differences between U.S. and foreign regulatory and accounting requirements, tax risk and market practices, as well as fluctuations in foreign currencies. The fund also writes call options which may limit the fund's ability to profit from increases in the market value of a security, but cause it to retain the risk of loss should the price of the security decline. The fund may utilize leverage, which is a speculative technique that may adversely affect common shareholders if the return on investments acquired with borrowed fund or other leverage proceeds does not exceed the cost of the leverage, causing the fund to lose money. The fund may invest in derivative securities, which derive their performance from the performance of an underlying asset, index, interest rate or currency exchange rate. Derivatives can be volatile and involve various types and degrees of risks. Depending on the characteristics of the particular derivative, it could become illiquid.

The S&P 500® Index is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance. The S&P Global Infrastructure Index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

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