The Evolution of Closed-End Funds

As a long-term closed-end fund manager, Tortoise not only understands the potential structural benefits that closed-end funds can provide investors, but also the potential limitations of the structure. In order to continue to provide these potential benefits to investors, the closed-end fund structure needed to evolve along with the investing landscape.

Tortoise has a history of thoughtful product structuring to fill market voids that we believe satisfy investor needs. This passion is driven by the desire to provide all investors access to investment strategies that could benefit their portfolios, then deliver those assets in the most efficient product structure. Tortoise has been an innovator in the closed-end fund industry for 15 years, forming the first listed MLP closed-end fund in 2004 as an efficient alternative to investing directly in MLPs with simplified tax reporting.

As an innovator in closed-end fund structuring, Tortoise believes in the potential benefits closed-end funds can provide investors:

- Potentially higher yielding strategies and enhanced returns through modest leverage
- Lower minimums and fees and greater liquidity than traditional private funds
- Greater ability to invest in illiquid securities and a more stable capital base than mutual funds

"At Tortoise, we put clients first," said Brad Adams, CEO of Tortoise's closed-end funds. "We believe that structure really matters in providing investors the most efficient access to essential assets. We recognize the evolving needs of clients and have enhanced the closed-end fund structure to create even more shareholder value."

Evolution of the closed-end fund (CEF) structure

CEF 1.0	CEF 2.0
• Underwriting and offering fees paid by the fund	• Underwriting and offering fees paid by the Adviser
• Financial Advisor commissions paid by the fund	• Financial Advisor commissions paid by the Adviser
• High upfront fees causing immediate NAV decline following IPO	• NAV pricing
• Perpetual - no link to NAV results in potential discounts	• Term structure - NAV realized at end of term
• $20.00 investment=$19.06 invested in the fund*	• $20.00 investment=$20.00 invested in the fund

*For illustrative purposes only. Assumes 4.7% for all upfront fees, which was industry standard.

One aspect of closed-end funds that is different from other types of funds is that capital is generally raised through an initial public offering (IPO). Historically, characteristic offering fees and expenses caused an immediate decline in the fund's net asset value (NAV) following the IPO. To resolve this issue, some advisers now pay all offering expenses to preserve the NAV. This also means that every dollar raised is invested in the fund.

Another distinguishing characteristic between closed-end funds and open-end funds is that closed-end funds trade on the secondary market, generating a market price and an NAV. This creates the potential of trading at a premium or a discount to NAV. To encourage market price trading closer to NAV, some advisers offer limited term funds. Term funds have a stated end date, allowing investors to tender at NAV at the end of the term if they choose. The term structure is designed to help reduce market price volatility to NAV, thus helping to reduce premium and discount risk. We believe the term structure makes sense for underlying assets with a long time horizon, while providing investors a known path to NAV. Of course there can be no assurance that a closed-end fund will not trade at a discount to NAV.

Investors have expressed a desire for higher yielding products and access to differentiated assets. Closed-end funds can assist in providing both of these key benefits through the use of modest leverage (which entails additional risks) and the ability to invest in less liquid securities without the need to fund daily redemptions. We believe the closed-end fund structure is more cost effective, liquid and transparent than a traditional LP fund, and has greater flexibility to access direct investments unlike a traditional mutual fund.

At Tortoise, we believe that these enhancements to the closed-end fund structure will create new interest in the vehicle. We think that investors will recognize the potential value that closed-end funds can offer and the commitment by advisers to make the vehicle more attractive.