

# Tortoise Sustainable and Social Impact Term Fund (TEAF)

## 3Q 2024 QUARTERLY COMMENTARY

### 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 4.40% and market return was 15.88%. This compares to global infrastructure (measured by S&P Global Infrastructure Index) which returned 13.19%.

- **Listed Sustainable Infrastructure** – The listed sustainable infrastructure sleeve performed well, at 13.96% during the quarter. 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 listed energy infrastructure investments performed well during the quarter, up 6.74%. 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 in-line with our expectations during the period. Our social infrastructure sleeve completed one investment in a charter school during the period.
- **Private Sustainable Infrastructure** - As of April 4, 2024, One Energy began 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 September 30, 2024, TEAF's total direct investment commitments were approximately \$117 million or approximately 51% of the portfolio.

Please see below for more detail.

### Listed Sustainable Infrastructure

The fund's portfolio continued to build on the performance momentum of the previous quarter.

In July, with progress toward the Federal Reserve's inflation target reviving hopes for a rate cut in the U.S. – if not in July, then in September – to accompany those in the UK and China, the 10-year U.S. Treasury yield fell c. 40 basis points (bps), to close at 4.0%, and equity markets were mostly upbeat. They were, however, coping with elections and changing political agendas in the UK, France and the U.S. and rising tensions in the Middle East, as well as weakness in mega cap technology stocks, which were starting to cause a lot of volatility and dent investor sentiment.

August's equity market advances masked some extreme moves intra-month around U.S. economic data points and an unexpected rate rise by the Bank of Japan which exposed how much leverage has driven markets, all exacerbated by light summer trading volumes. As August markets recovered from an early slump, there was notably better breadth with more sectors participating in the upswing, helped by clear signals that the Federal Reserve was preparing to cut rates in September.

Delivery of the first policy shift by the Federal Reserve since March 2020 preoccupied markets in September. In the event, confident remarks about a soft landing for the economy accompanied a relatively aggressive 0.5% rate reduction. China then set out a multi-pronged stimulus package designed to shore up consumer confidence, economic activity and even markets, igniting an immediate, very strong rally in Chinese and Hong Kong listed equities. Bond yields were declining generally, even if by month-end the benchmark 10-year U.S. Treasury yield had retraced part of its early August drop (it closed the quarter at 3.8%).

This macro backdrop – slower growth, monetary easing, along with an element of risk-off with intensifying war risks – set a supportive tone for this strategy's portfolio given companies were getting noticed for strong earnings momentum and generally positive long-term updates.

The resurgence of U.S. power demand growth, largely driven by AI's datacentres, has been favouring baseload power producers and the transmission & distribution utilities that will hook that power up to final users. The entry into the U.S. presidential race of Vice President Harris added a new twist to the election cycle and injected new momentum into clean energy shares. In Europe as well as in the U.S., earnings results and guidance were in line with or nicely ahead of consensus expectations, helping to fuel share prices with valuations still relatively low.

We remain vigilant of market risks due to intensifying wars, budget constraints and the upcoming U.S. elections which carry significant uncertainties as their outcome could impact the Inflation Reduction Act (IRA), inflation expectations and sentiment around renewables.

Notwithstanding, equity markets continue to be cheered by declining inflation and interest rates, and we are encouraged to see the improvement in market breadth with a wider variety of stocks performing, including listed infrastructure. Whereas equity valuations are high in many markets and sectors given the prolonged rally in equities, especially in the U.S., listed infrastructure valuations are still low by historical standards and relative to broad market averages. The Fund's investment universe comprises essential assets with exciting secular growth trends due to electrification, the energy transition and modernisation of aged infrastructure. Solid fundamentals and infrastructure capex requirements are tailwinds for portfolio company earnings and the interest rate cycle is also turning positive for these long duration businesses.

Utilities in the portfolio will continue to grow their earnings, almost irrespective of the economic backdrop due to the proportions of revenues which are fully contracted or regulated. As well, after years of stagnation, we are seeing an acceleration in power demand growth because of electrification, artificial intelligence and datacentres, EVs and re-shoring. Data centre owners are showing a distinct preference for readily available and clean electricity and the portfolio is positioned to benefit with exposure to nuclear specialists and power grid owner/operators which are accelerating capex plans to accommodate the continually increasing installed base of renewables capacity.

We continue to like the opportunities amongst companies operating and investing to upgrade environmental services and transportation infrastructure. These parts of the portfolio contribute growth, a degree of cyclicity, inflation protection (airports and toll roads, for example, have long term pricing power in relation to inflation) and provide diversification. Very large sums have been raised by private equity since December 2023 to invest in infrastructure globally, adding to already record levels of available cash. In view of the significant gap in valuations between listed and private infrastructure, merger and acquisition activity has returned to this strategy's sectors and should provide support for a re-rating of the growth opportunity.

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## Listed Energy Infrastructure

Listed energy infrastructure were positive drivers of performance in the TEAF portfolio for the period. Good equity performance during the period derived from reported earnings at the high end of expectations, a growing view that data center growth will require more natural gas infrastructure, and prudent allocation of free cash flow toward dividend growth and opportunistic share repurchases. The energy infrastructure equities also benefitted from the continued expectation of U.S. hydrocarbon growth across all energy commodities and the potential for more exports. Further, geopolitical risk in the greater Middle East aided U.S. energy infrastructure at the margin given its reliability and security. Overall, increasing volumes transported, higher international need for US energy, and capital investment tilted toward demand focused customers like utilities is leading to boosted confidence in the longevity of the useful life of energy infrastructure assets. We believe this environment will continue to support valuation through the remainder of 2024 and into 2025.

## Social Infrastructure

TEAF closed one debt investment during the quarter.

- Ivy Classical Academy (“Ivy”) is a new, public charter school in Prattville, Alabama opening in late August 2024. In its first year, it will serve 640 students in grades K-5 and grow by one grade each year until it becomes a K-12 program. Only grades K-8 are contemplated in the initial financing, as the capacity of the two buildings will be capped at around 950 students. An additional building(s) will be needed to add grades 9-12, and the school already has an option to purchase adjacent buildings. The school’s charter is authorized by Elmore County School District, with an initial charter term of 5-years. The property is about a 15-minute drive northwest of Montgomery and located directly west of Interstate 65 and north of Highway 82, making it easily accessible – especially for families traveling outside of Prattville. There are no schools of choice within five miles of the school. Ivy Classical will be the first no-cost classical school in the area. Prior to opening, the school had 899 enrollment applicants, which is approximately 260 students in excess of its first-year enrollment cap. The school is managed by American Classical Education Foundation, which has close ties with Hillsdale College, one of the strongest sources of resources for classical education.

Finally, the fund had one partial realization in Q3 2024.

- In September, TEAF realized a small partial call on Earthcare Bethel Series B. Earthcare Bethel is a new waste transition project located in Bethel, Pennsylvania that will gasify wastewater biosolids and poultry waste, while using energy produced through the gasification process to help circularly power the facility.

## 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.

**One Energy** – 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 100% 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.

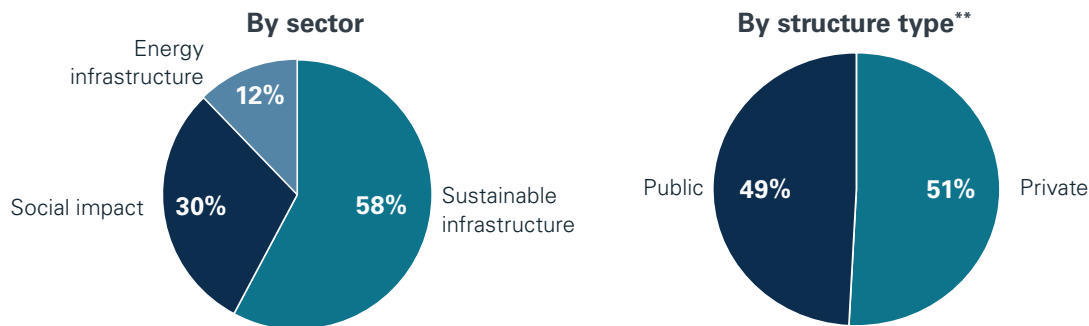
#### **Solar Assets:**

**Renewable Holdco I, LLC Solar (DG Solar - Portfolio of 14 solar assets across 4 states: CO, FL, NJ and PR)** – 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 2025 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, Tortoise Capital'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.

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

**Renewable Holdco, LLC (Blackstone Milk Street)** - 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 2025.

**Saturn Solar Bermuda 1** - The construction note has continued to pay its annualized interest rate of 10.0% 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 9/30/2024 (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<sup>1</sup>** as of 9/30/2024

	QTD	Calendar YTD	1 year	3 year	5 year	Since inception <sup>2</sup>
Market price total return	15.88%	19.37%	19.29%	6.19%	3.21%	0.13%
NAV total return	4.40%	5.29%	8.54%	2.11%	2.62%	1.22%

<sup>1</sup>Performance is annualized for periods longer than one year. Source: Bloomberg. Assumes reinvestment of distributions into security. Total return does not reflect brokerage commissions. <sup>2</sup>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.tortoiseadvisors.com](http://www.tortoiseadvisors.com).**

Tortoise Capital Advisors, L.L.C. is the adviser to Tortoise Sustainable and Social Impact Term Fund. For additional information, please call 866-362-9331 or email [info@tortoiseadvisors.com](mailto:info@tortoiseadvisors.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.**

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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