Tortoise

Closed-end fund update

March 11, 2020

Below are our thoughts on how the current market volatility may affect Tortoise's energy-focused closed-end funds and an update on TEAF.

Energy closed-end funds

Summary points

- Under the terms of the Funds' borrowing agreements, the Funds must have an asset coverage ratio of 300% on debt and 225% on total leverage (debt and preferred) at the end of each month.
- If a Fund is out of compliance, then the Fund has a 30-day period to "cure" the non-compliance.
- If the Fund needs to sell securities to delever the Fund, we believe there is adequate liquidity to do so. For example, yesterday (March 10), the cumulative daily trading value of the TYG portfolio was $4.7 billion, so a hypothetical $100 million of sales represents 2% of the daily trading value.
- During the financial crisis of 2008/2009, closed-end funds went through this same deleveraging exercise.
- The underlying midstream investments have value. Midstream assets are critical. Cash flow is resilient. New investors recognize the value of cash flow generating businesses.

Why do we believe that our closed end funds (TYG for example) are not going to zero?
During the financial crisis in 2008/2009, the world was on the brink of economic collapse, liquidity was limited, capital markets were closed and commodity prices plunged. MLP stock prices were under tremendous pressure and like now, closed-end funds were forced to reduce leverage. TYG's share price touched $10 per share on October 10, 2008, but by December 31, 2008 hit $16.97, and up to $50 per share in 2013. We are now seeing the first part of this equation again – forced deleveraging, coronavirus panic (instead of financial panic), and extremely low commodity prices. It remains to be seen what will happen going forward, yet we know forced deleveraging will stop, and are confident that the coronavirus will pass and that commodity prices will improve. There is no oil producer (the U.S., Russia, or Saudi Arabia) that is happy with current prices and at some point, Russia and Saudi Arabia will run out of financial reserves.

While we don't believe it is likely, it is technically possible for the funds to go to zero. Yet for that to happen, the energy sector would have to trade at a small fraction of its all-time low. The companies in the fund transport natural gas, gasoline, diesel, and crude oil for a fee. For the sector to move lower, the outlook for volumes transported would need to be one of significantly lower volumes over a long-time. Yet even in the worst of times, like 2008/2009, oil volumes transported were only marginally lower and that was for a relatively short period. Generally, volumes remain as people lead their normal lives (drive cars, take hot showers, heat their homes) and increase as the economy grows.

Are we reducing leverage, and taking it to zero, like Goldman Sachs MLP Income Opportunities Fund (GMZ)?
Given the recent market volatility, we have been taking measures to reduce leverage. We have generally taken a more conservative approach to leverage and it has historically been lower than GMZ. When we reduce leverage, we have historically done so in a prudent manner. We have 30 days to cure our leverage

tests if we report a covenant violation at any month's end. We will continue to monitor the funds and the market environment alongside the funds' Board of Directors.

It was a positive for the rest of the midstream sector that GMZ took leverage to zero. That could result in less downside volatility in the future and more upside (and indeed the sector index moved higher by 10% on Tuesday March 10, 2020).

Clearly, the midstream market has been volatile. Billions of dollars trade in the midstream market daily. Yesterday, for example, the cumulative value traded for securities that TYG owns was $4.7 billion. We feel confident that there is sufficient liquidity in the underlying securities should we choose to reduce leverage. Generally, our traders indicate we can represent 10% of the daily volume and not impact the share price.

Multi-asset closed-end fund (TEAF)

What has happened?
As you can see on the recently published fact sheet, and deal summaries, we continue to make progress on private deals. We completed a ~$5MM deal in January 2020. 35% of the portfolio is invested in private securities. We continue to progress towards the 60% target allocation in direct investments and feel good about many upcoming opportunities. As previously disclosed, we have already reached our target for private sustainable infrastructure investments.

What's next?
We plan to fund additional private transactions in social infrastructure and energy infrastructure. As outlined previously, we will reduce the public sustainable and public energy positions to fund this. Along the way, we will be cognizant of current market conditions when selling public securities to fund private transactions. If market conditions warrant it, we could also sell some fixed income positions that have held on better than equities.

The portfolio's focus on natural gas is expected to benefit over the long term from the recent decline in oil prices. Lower U.S. oil production would result in lower associated gas (gas that is produced in oil-directed drilling). This would allow the over-supplied gas market to return balance at a quicker pace than previously expected and would be supportive of gas prices. We would expect this reaction to improve the health of gas producers and decrease credit party risk in gas-focused midstream companies.

What is the status of the social Infrastructure pipeline?
We continue to have a robust pipeline for the social infrastructure platform and we expect that TEAF will benefit from it.

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