Closed-end fund update

May 7, 2020

Following the quarterly review of the funds with management and the Board of Directors, Tortoise is today announcing TYG, NTG and NDP are temporarily suspending quarterly distributions through the end of the calendar year, TTP is reducing quarterly distributions, and TEAF is reducing monthly distributions. In June, TPZ will begin to declare distributions monthly and will continue to pay declared distributions monthly.

Summary talking points

- Tortoise is temporarily suspending quarterly distributions for TYG, NTG, and NDP and reducing quarterly distributions for TTP to $0.16 and monthly distributions for TEAF to $0.075
- Currently, management expects the TPZ monthly distributions to be reduced to $0.05
- The past couple of months have been unprecedented with the significant impact on energy demand from "stay at home" policies due to COVID-19, along with actions by Saudi Arabia and Russia in early March to increase oil supply, creating an extremely difficult market environment for the oil sector
- We think it is in the best long-term interest of the funds and stockholders to suspend quarterly distributions for TYG, NTG and NDP through the end of the calendar year, and direct the distributable cash flow ("DCF") of the funds towards growing the net asset value
- We know how important distributions are to stockholders, and we plan to reinstate distributions at what we believe will be sustainable levels when there is a clearer view on the overall economy and energy demand becomes more certain

FAQs

Why suspend instead of reduce the distribution for TYG, NTG and NDP?
Although we know how important distributions are for stockholders, we think it is in the best long-term interest of the funds and stockholders to temporarily suspend quarterly distributions through the end of the calendar year and direct the distributable cash flow ("DCF") of the funds towards growing the net asset value.

How will the DCF be used to grow net asset value?
Based on current fund and market conditions, we would expect to utilize the retained DCF to 1) reduce fund liabilities including leverage and 2) buy additional investments if fund liabilities are satisfactorily reduced.

The funds have been trading at significant discounts. Will some of the DCF be utilized to buy back shares?
Although the Board has authorized a share buyback program, management has not elected to implement it given the current environment. Management and the Board will continue to monitor the trading activity of the funds and take any action believed to be in the best long-term interest of the fund and stockholders.

Why reduce instead of suspend for TTP, TPZ and TEAF?
All three funds experienced distribution reductions from portfolio companies. However, the market volatility and drawdown was less impactful to these funds, therefore, we thought conditions warranted a reduction in distributions rather than a suspension.

I thought TEAF invested in direct investments across essential assets, why has performance been correlated with listed energy infrastructure?
At the funds IPO on March 26, 2019, the fund was ~95% invested in public securities including a sizeable allocation to natural gas infrastructure which was the mandate for the energy infrastructure allocation. The target for the fund was to increase the allocation of direct investments to 60% within the first year. We successfully met the allocation targets in private sustainable and energy infrastructure. However, the social infrastructure allocation has been slower to ramp than we had anticipated and we now anticipate reaching our long-term target allocation by the end of 3Q 2020, which is expected to result in a positive impact to DCF.

Do you plan to reinstate distributions for TYG, NTG and NDP?
At this point, we are temporarily suspending distributions through the end of the calendar year. We know how important distributions are to stockholders, and the Board does not take this action lightly. We believe that suspending the dividend during this period of extraordinary market disruption is the best way to maximize current value in the NAV and ultimately generate more distributable cash flow in the funds in the future. As markets and market valuations normalize and there is a clearer view on the overall economy and energy demand, we plan to reinstate distributions.

How should investors think about future distributions?
The Board considers many factors in determining distributions to stockholders. As markets normalize and we have a clearer picture of energy demand, the Board will review the current and projected DCF of the portfolio in an attempt to set what it believes will be a distribution that the funds' portfolios will be able to support and sustain during future periods.

Have you eliminated leverage in the funds?
While we have significantly reduced leverage across the funds, we have not eliminated it as we think that it can be beneficial when used prudently and is a strong differentiator between closed-end funds and open-end funds. While volatility will likely remain elevated, we do expect the market to continue the recovery that we saw in April and believe leverage is a prudent way for the funds to help recover some of the lost NAV. While the Board is continuously evaluating the policy, the current leverage targets for the funds, as disclosed on our webpage, will normally range between 20% and 30% of total assets.

Do you plan to merge or close any of the Tortoise closed-end funds?
The Board will continue to evaluate the benefits, as well as the risks, to stockholders of merging funds with similar structures and investment objectives. Although Tortoise has merged closed-end funds in the past, there is no guarantee that any of the current funds will be merged. To merge two or more funds, the transaction has to be beneficial for all stockholders and the stockholders of each fund would need to vote to approve the merger. The merger process, including the proxy vote, can take many months. There are currently no plans to close any of the funds.

Why did the Tortoise midstream closed-end funds underperform the midstream indices?
The biggest difference between performance of the closed-end funds and the indices was driven by the closed-end funds utilization of leverage. In a flat or upward trending market, the leverage allows the funds to pay an attractive distribution, while offering an attractive market return. Unfortunately, during down markets and particularly in markets moving as sharply as we saw in March, the leverage magnifies losses in the funds. This explains how the indices losing 50-60% during various points in March equated to greater losses in the funds.

I thought midstream companies have been growing free cash flow (FCF), doesn't that usually lead to growing distributions?

As the midstream sector continues to evolve, many companies are pursuing lower leverage (we are pushing for companies to target 3.5x debt / EBITDA), distribution growth will likely be lower than historical at 3% - 5% and we have already seen a handful of companies introduce share buybacks. We would expect buybacks to be a bigger part of return of capital to shareholders over the next several years as FCF in the sector grows.

What are your thoughts on distribution coverage of midstream energy companies?

In our view, distribution coverage in aggregate is strong, but that is not necessarily true for every company. We have seen some distribution cuts recently and we could see more. It is possible that companies might consider cutting dividends to do share buybacks or preserve capital.