Tortoise Energy Podcast

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Welcome to the Tortoise QuickTake Podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Greg Murphy – Hello, I'm Tortoise Director Greg Murphy and joining me today for a special closed-end fund update is Brad Adams, Tortoise Managing Director and CEO of the Tortoise closed-end funds. Tortoise has been busy the last few days issuing a number of podcasts talking about the historic market volatility. We won't repeat everything that was covered in those previous podcasts, but suffice it to say that we at Tortoise see no reason why midstream should have underperformed broader energy. Our funds are predominantly invested in midstream assets that earn fee-based revenues for moving commodities from one location to another. In fact, the majority of the funds' investments are tied to natural gas rather than oil. When we wake up tomorrow, people will still need to heat their homes and use electricity. These investments in infrastructure and natural gas infrastructure have nothing to do with the price of crude oil. In our opinion, midstream companies are priced at 2008 prices levels, but these companies in the midstream industry are in a much stronger position today. With that, we'll take a closer look at how the market volatility is impacting our closed-end funds. So Brad, thanks for joining us today. And I'll start off. With all of the volatility that we are experiencing, we've been receiving a number of questions in regards to how the funds' leverage is structured and the leverage requirements for the funds. Can you help us address that?

Brad Adams – Absolutely Greg and thanks for having me join you today. Each of the closed-end funds employs some form of leverage, which is governed by the Investment Company Act of 1940. The 40 Act requires asset coverage of 300% for debt and 200% for total leverage. It's common for closed-end funds that issue private preferred stock for the coverage requirement to be 225% and indeed that's the case for our funds as well. The funds must be in compliance with the 40 Act test at the time it declares distributions also at the time it declares leverage. The funds that have outstanding notes and preferreds, which we do in three of our funds, the 40 Act tests are measured for compliance at month end.

Greg Murphy – Thanks Brad. Let me make sure I understand the calculations you just mentioned. So the total assets of the fund have to cover the debt by 300% or 3x, and the total assets have to cover the debt plus the preferred stock by 225% or 2.25x. Is that roughly the way to think about the coverage calculations?

Brad Adams – Yeah, you're spot on Greg.

Greg Murphy – Great. And you mentioned that at month end, if the fund is not in compliance, what does that mean it's not in compliance?

Brad Adams – So, if the fund is out of compliance at month end, then that begins a 30-day cure period to get back into compliance. And again, this is for the funds that have outstanding notes and have outstanding preferreds. The fund can get back into compliance really in two different ways, one being market appreciation of the investments within the fund and the other obviously being reducing the amount of leverage outstanding. So leverage can be reduced quickly by paying down on the bank credit facilities. Leverage can also be reduced by redeeming outstanding notes and preferred stock.

Greg Murphy – That's great Brad. So how do we report on leverage and asset coverage especially after a day like yesterday?

Brad Adams – So we report the coverage ratios each week on our website as well as the unaudited balance sheet information each month on the website.

Greg Murphy – Thanks Brad. Another question that we get is if the fund board is updated routinely and if there are any specific plans that have been formulated to address the current situation.

Brad Adams – Yeah, and I get that question as well, and I'll tell you we work extremely hard to keep our board always well informed, but as you can imagine especially during volatile times like these. The board is always considering a variety of data points, including the 40 Act compliance we talked about, including the level of distributions that the funds are currently paying, always looking at the underlying fundamentals, etc. I can assure you that the board is looking at all of the right things with the ultimate goal of protecting long-term shareholder value. That is always their primary focus.

Greg Murphy – That's helpful. Another question we've gotten from a number of investors is if the fund were to sell something now and recognize a loss, is that a permanent loss to the fund?

Brad Adams – Not necessarily. As any future market appreciation will increase the net assets of the fund as well as the NAV of the fund. So I wouldn't consider it necessarily a permanent loss.

Greg Murphy – That's great. Maybe we can change gears and focus a little on distributions. Will the funds have to cut distributions again or suspend distributions?

Brad Adams – Yeah, that's a great question, and again I'll kind of reference this, and I think we've talked about this in previous podcasts. Each quarter, our board completes a very thorough review of a number of inputs in determining distribution levels, including distribution coverage and the cushion. The goal is always to pay a distribution that is sustainable over the long term. So I can't really speak to distributions again or suspend distributions. Just know that our board is focusing on this each and every time they declare a distribution.

Greg Murphy – Thank you, that's helpful. Just another follow-up question to that, that we've gotten from a number of investors: Is there some sort of estimated distribution coverage with the volatility over the last few days of where the funds stand?

Brad Adams – You know, there are so many factors that go into the distribution and distributable cash flow calculation that I couldn't begin to speculate today on where those numbers are.

Greg Murphy – Well Brad that addresses the questions we had to review for today. I appreciate you joining us and helping us shed some light on those. I would want to direct any investors if they need more information or if they want to review that leverage report that Brad was referencing to join us at tortoiseadvisors.com on the web. Thanks Brad.

Brad Adams – Thanks to you.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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