Tortoise Essential Assets Income Term Fund (TEAF)

As of May 31, 2020

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 description

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Fund performance

Performance of the portfolio during the second fiscal quarter was impacted by uncertainty around COVID-19, which created an overhang for commodity prices and resulted in broader equity market volatility. The portfolio's negative performance during the period was primarily driven by the fund's energy infrastructure allocation. The downward pressure on commodity prices, as a result of COVID-19 and OPEC's decision in early March, negatively impacted the fund's energy infrastructure holdings. Energy infrastructure did rebound in April and May as commodity prices recovered from the lows, however is still down materially from fair value, in our view. Both the sustainable and social infrastructure sleeves held up relatively well during the COVID-19 driven market volatility. The direct and public sustainable portfolios outperformed broader equity markets, due to the regulated nature and contract structures of those companies and projects. The social infrastructure portfolio also performed relatively well in the second fiscal quarter as the portfolio saw minimal disruption as a result of COVID-19.

Despite the challenging market environment, we continue to have conviction in TEAF's investment strategy. True to the underlying investment thesis of the portfolio, the essential assets we own are critical to a successfully functioning society and we believe as market uncertainty around COVID-19 subsides, the value of our investments will be recognized in the market.

We have made progress in transitioning the portfolio to the targeted allocation of 60% direct investments. As of May 31, 2020, TEAF's total direct investment commitments were approximately $90 million or approximately 43% of the portfolio. Additionally, we are very pleased to have completed the fund's allocation to direct sustainable and energy infrastructure investments. The fund anticipates reaching the targeted allocation for direct investments in the next three to four months.

Public energy infrastructure

- As mentioned above, the negative impact to global energy demand due to COVID-19 and the lack of an agreement between OPEC and Russia in early March put significant downward pressure on commodity prices. As a result, the energy infrastructure equities in the portfolio faced a significant drawdown in value.
- The sell-off in the equities was driven largely by the decrease in commodity prices, but also several unknowns in the market regarding the pace of recovery in global energy demand and the resulting impact on U.S. energy supply, which our portfolio companies transport, store and export on a daily basis.
- We do believe global energy demand will recover as the global economies emerge from COVID-19 driven shut-downs, which we have already started to see in several countries around the world. As energy demand recovers, we expect U.S. energy production to increase benefitting the holdings in the portfolio
- Importantly, we believe the drawdown in energy infrastructure equities is overdone and have confidence long-term energy demand will rebound from depressed levels driving the need for energy infrastructure companies to transport supply to demand markets.
- Lastly, despite our expectation for near-term volatility, we believe current valuations present upside in the energy infrastructure equities, which we believe will be recognized over time.

Private energy infrastructure

- TEAF rolled its previously announced convertible notes investment in Sunnova Energy International Inc. to a new issuance. The coupon on the new convertible notes increased to 9.75%.

Public sustainable infrastructure

- Listed sustainable infrastructure equities demonstrated solid defensive characteristics during the March 2020 downfall in global equity markets. Utilities resisted better than broad equity indices thanks to a good proportion of regulated business models, largely immune from short-term economic fluctuations. The stocks that suffered most in the fund were those with industrial exposure.
- April witnessed aggressive moves in commodity markets and bullish rallies in equities. Longer term government bond yields traded in a tight range, finishing the month almost flat in the US (10-year Treasury yield closed at 0.6%) and some 10bps lower in the UK and across northern Europe, despite grim economic data everywhere. Utilities underperformed other infrastructure shares for the first time in a while but both participated in the equity market rebound, as did the fund overall. We slightly adjusted the holdings to lighten industrial exposure and focus on those names where we anticipated the most solid dividend cover and growth prospects.
- In May, rallies took hold in many equity markets as lockdowns began to be eased and further massive stimulus measures raised hopes for the recovery phase. Growth became a critical driving factor behind equities' performance. Interestingly, the MSCI World Utilities Index (+4.3%) kept pace with the MSCI World Index (+4.9%). The fund's dominant exposure to names that benefit from renewable energy's secular growth trends allowed us to capture significant upside. With companies gradually updating their guidance, we became increasingly confident that our investment universe and portfolio holdings would

prove resilient in the global context. Dividend prospects notably looked solid.

- Overall, the fund appears well positioned to both resist the economic downturn and participate in the equity markets' recovery, thanks to limited exposure to short-term economic cycles, secular growth trends related to the development of renewables worldwide and sustainable dividend flows.

Private sustainable infrastructure

- TEAF did not invest in any additional private sustainable infrastructure projects during the quarter as the fund previously reached its target allocation in private sustainable deals.
- To date, the fund has invested approximately $49 million in three entities.
- Operating assets held at TEAF continued to operate as expected with cash flow generation profiles driven by long term contracted cash flows.
- Projects that remained under construction did not have to make any material changes to their construction plans or cash flow profiles that would impact the expected returns to be generated by TEAF.

Social infrastructure

- TEAF completed a debt investment in Pioneer Technology & Arts Academy (PTAA). PTAA is an open enrollment charter school currently operating three campuses around the Dallas, TX area. Proceeds from the financing were used to fund the acquisition of PTAA's fourth campus. The campus will enroll will enroll students in kindergarten through eighth grade beginning in 2020-2021and expand by one grade level each year until reaching K-12 in the school year 2024-2025. PTAA has a three-year track record, achieving an "A" rating by the Texas Education Agency in each of its first two years, with the third year not yet available.
- TEAF completed a debt investment in C2NC Holdings (C2NC), also known as Carbon Cycle North Carolina. C2NC is constructing a biomethane-producing waste-to-energy anaerobic digester plant in North Carolina. The project will convert waste from local animal processing plants and food processing operations into renewable natural gas. The facility will help local energy companies meet a state level mandate under which a portion of their fuel must be obtained from animal sources. This mandate is in place because of the significant waste generated by pork and poultry production in North Carolina.
- So far, the fund has seen limited and manageable exposure to COVID-19. In terms of senior living facilities, TEAF has focused on independent and assisted living facilities rather than nursing homes. Nursing homes house individuals with more acute health risks that are more susceptible to the risks of COVID-19. These nursing homes are not part of TEAF's portfolio. That being said we continue to carefully monitor the situation with routine interaction and are taking proactive measures to ensure the facilities in which TEAF has invested practice all proper precautions.
- While education facilities have seen significant operational changes in the short term, we expect the investment profile of charter schools to remain relatively unchanged moving forward. While schools may move towards a blended classroom and online experience, having a safe and reliable school building is expected to remain very important to the long term value proposition of schooling. We also believe this shift could provide additional investment opportunities for TEAF.
- The backlog of opportunities in Social Infrastructure remains robust and the team believes it is on track to achieve its allocation target over the next three to four months.

Tortoise Capital Advisors, L.L.C. is the adviser to the Tortoise Essential Assets Income Term Fund, and Tortoise Advisors UK Limited is the fund's sub-adviser. For additional information, please call 866-362-9311 or email info@tortoiseadvisors.com.

The MSCI World Utilities Index is a free float-adjusted market capitalization-weighted index that is designed to measure the equity market performance of developed markets in the utilities sector. It is not possible to invest directly in an index.

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.

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