Tortoise Essential Assets Income Term Fund (TEAF)

As of March 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

We were generally pleased with the overall performance of the portfolio in the first fiscal quarter. The public sustainable and private sustainable and energy allocations continued to perform well during the quarter. However, public energy continued to be a drag on NAV during the period.

Following the fiscal quarter end, we have witnessed extremely challenging market conditions driven by personal and financial fear from COVID-19. More specific to the public energy allocation, actions by Saudi Arabia and Russia created the perfect storm by putting extreme pressure on already depressed crude oil prices due to demand concerns from COVID-19. Despite our public energy portfolio being solely focused on natural gas infrastructure, the market has not differentiated between natural gas and crude oil and has been punishing all energy related stocks.

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 Feb. 29, 2020, TEAF's total direct investment commitments were approximately $90 million or approximately 34% of the portfolio. Additionally, we are very pleased to have completed the fund's allocation to direct sustainable and energy infrastructure investments. The direct investment pipeline remains robust.

Public energy infrastructure

- Energy infrastructure equities remained an underperformer during the first fiscal quarter, as commodity prices were under pressure driven by global demand concerns due to COVID-19.
- Natural gas prices remained under pressure as global LNG prices faltered and associated gas production in the U.S. was expected to continue robust growth
- Gathering and processing companies in the natural gas sector were the main performance detractors in the energy infrastructure sleeve as a result of the weaker gas prices and concerns around volume growth in 2020
- Valuations of energy infrastructure companies are at all-time lows and we see pockets of compelling value in the natural gas infrastructure sub-sector

Private energy infrastructure

- TEAF closed a term loan debt facility in New Fortress Energy LLC (NFE). NFE was formed primarily to construct LNG re-gas and power generation facilities in underserved markets. The company aims to increase natural gas demand and displace higher cost fuel oil in areas with low levels of natural gas penetration. Their strategy includes sourcing cheap natural gas from the U.S. and transporting it to regions where it can economically compete with more carbon-intense fuel sources, such as fuel oil. Over the longer term, NFE plans to reach net-zero emissions by supplying hydrogen as an additional power source.
- TEAF closed a convertible debt financing in Sunnova Energy International Inc. (NOVA). NOVA is a leading residential solar and energy storage service provider, serving customers in more than 20 U.S. states and territories. Access to this capital will allow NOVA to fund its continued growth in customer count and battery storage sales, as well as fund the purchase of inventory that the company intends to use to allow related solar energy systems to qualify for a 30% Federal investment tax credit (ITC) by satisfying the 5% safe harbor method. We think this deal provides opportunity to capitalize on cost reductions and increased solar installations in the U.S. residential market.

Public sustainable infrastructure

- The fund's global listed sustainable infrastructure securities performed well during the fiscal quarter providing NAV stability
- Regulated utilities and waste/environmental services companies performed well during the fiscal quarter due to strong underlying fundamentals
- Additionally, renewable-focused securities performed well, supported by continued value creation in the renewable value chain

Private sustainable infrastructure

- TEAF did not make any additional private sustainable infrastructure investments during the quarter as the fund previously reached its target allocation in private sustainable deals
- To date, the fund has invested approximately $44 million in three entities

Social infrastructure

- TEAF did not make any additional social infrastructure investments during the quarter
- Social Infrastructure backlog remains robust and the team believes it is on track to achieve its allocation target over the next 4 – 6 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.

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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