Feb. 22, 2019

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

Hello, and welcome to Tortoise's social infrastructure podcast. I'm Maneesh Jhunjhunwala, Vice President of Credit Research. In today's podcast, I will describe our approach to origination and underwriting, and explain how this helps mitigate risks for our investors. We believe that one of the best ways to mitigate risk is to underwrite our directly-originated securities in a way that balances the interests of our investors and the borrowers.

So let's start with our origination process. Typically, the originator is the first person at Tortoise to see a potential deal, and has the initial responsibility for assessing the suitability of an investment by Tortoise, in consultation with the Credit Research team. Our originators' focus on specific industries allows us to stay up-to-date on the most current shifts in the market. By understanding how a senior living facility, school, energy efficiency, or project finance opportunity fits into its specific market area and regulatory environment, we can unearth potential risks that might go unnoticed with a less-targeted analysis. We can also find hidden strengths in a deal that a generalist investor might overlook. Ultimately, the goal is to find and invest in well-managed assets that are highly-essential to their markets and make a strong impact in their communities, which means a higher likelihood of success.

Once a deal passes the initial screen, our next step is to structure these investments to balance the needs of our borrowers while still accomplishing the goals of our investors. Our approach is to put together the terms and conditions of social infrastructure transactions that we believe will provide each facility with the best opportunity to succeed. For example, instead of requiring a school to start making full bond payments right away, we might tailor the repayment terms to coincide with the expected ramp up of student enrollment over time - which ties to the growth in funding and their ability to make bond payments. This kind of flexibility requires a stronger level of commitment from the facility. That typically means a pledge of all of the assets of the facility, including real estate, and possibly personal guarantees from key individuals. By striking a balance between the needs of the facility and the interests of our investors, we can offer a unique solution that benefits both parties.

As part of the deal structuring, we also have to create a customized framework for the borrower to be accountable to Tortoise and its investors - also known as covenant construction. As with deal structuring, we don't have a one-size-fits-all approach to covenants - which are the requirements and performance targets that a facility has to meet over time to stay in compliance with the agreement. For example, we track enrollment and occupancy numbers for our schools and senior living facilities to ensure that they are growing at the rate that we initially expected. We tailor these covenants based on the projected performance of the facility, which allows us to monitor progress without creating unachievable targets. While it might be ideal to require a senior living facility to reach 90% occupancy within six months of its grand opening, for example, putting that as a covenant in the contract could be setting the facility up for failure - which benefits neither the facility nor our investors. In any case, we always require regular updates from a facility on its financial performance, progress towards stabilization and any other changes that could impact the success of the project - so that we can proactively address any potential bumps in the road.

So what happens if a bump in the road should occur? While we are confident in our upfront due diligence, we also recognize that goals can be missed - which can result in a contractual covenant violation. Because these projects are essential and impactful to the community, a covenant violation or default is often the result of poor management, rather than a lack of need. With our deep and concentrated focus on specific industries, we have significant experience with successful management companies and operators who we can bring in to help get the project back on track and protect our investment. This ties into the social infrastructure platform's long-term, active approach to making the project work, rather than a shorter-term view that would result in the closure of the facility.

I'm sure all of this customization sounds like a lot of effort, but in reality, we have a fairly standard set of tools for each sector-- the structures and covenants that I mentioned - that we can use to put together what we view as the best deal for the facility and for our investors. We may get a little creative in how we deploy and combine these tools on each deal, but our sector-specific experience allows us to hone in on a solution without making it a drawn-out process or requiring a substantial amount of resources. As we continue to grow Tortoise's social infrastructure platform offerings, we plan to continue to build out the team to support the growth, while maintaining a concentrated focus for each of the sectors within social infrastructure.

Hopefully, this discussion of our origination and underwriting process has provided some insight into our approach in balancing the risks of our investors while focusing on the needs of our borrowers. Thanks for listening! Stay tuned for future social infrastructure podcasts.

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.