

TORTOISE POWER & ENERGY INFRASTRUCTURE FUND INC  
Form N-CSRS  
July 29, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-22106

Tortoise Power and Energy Infrastructure Fund, Inc.  
(Exact name of registrant as specified in charter)

11550 Ash Street, Suite 300, Leawood, KS 66211  
(Address of principal executive offices) (Zip code)

Terry Matlack  
Diane Bono  
11550 Ash Street, Suite 300, Leawood, KS 66211  
(Name and address of agent for service)

913-981-1020  
Registrant's telephone number, including area code

Date of fiscal year end: November 30

Date of reporting period: May 31, 2013

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Item 1. Reports to Stockholders.

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## Company at a Glance

*Tortoise Power and Energy Infrastructure Fund, Inc. (NYSE: TPZ) invests in a portfolio of fixed income and equity securities issued by power and energy infrastructure companies. The Fund's goal is to provide stockholders a high level of current income, with a secondary objective of capital appreciation. The Fund seeks to invest in a portfolio of companies that provide stable and defensive characteristics throughout economic cycles.*

## Infrastructure Asset Class

Increasingly, institutions have allocated a portion of their investment portfolio to infrastructure due to its desirable investment characteristics, which include:

- ◆ Long-term stable asset class with low historical volatility
- ◆ Attractive risk-adjusted returns
- ◆ Investment diversification through low historical correlation with other asset classes
- ◆ A potential inflation hedge through equity investments

## For Investors Seeking

- ◆ A fund which invests in the historically stable and defensive power and energy infrastructure sectors
- ◆ Monthly distributions
- ◆ Fund invested in fixed income securities with low volatility and more safety as well as MLPs for growth
- ◆ One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings related to individual MLP partnership investments

## Power and Energy Infrastructure Operations

At the heart of the infrastructure asset class is power and energy infrastructure:

**Power Infrastructure** The ownership and operation of asset systems that provide electric power generation (including renewable energy), transmission and distribution.

**Energy Infrastructure** The ownership and operation of a network of pipeline assets to transport, store, gather, and/or process crude oil, refined petroleum products, natural gas or natural gas liquids (including renewable energy).

**Distribution Policy** *Tortoise Power and Energy Infrastructure Fund, Inc. ( TPZ ), with approval of its Board of Directors (the Board ), has adopted a distribution policy (the Policy ) with the purpose of distributing over the course of each year, through periodic distributions as nearly equal as practicable and any required special distributions, an amount closely approximating the total taxable income of TPZ during such year and, if so determined by the Board, all or a portion of the return of capital paid by portfolio companies to TPZ during such year. In accordance with its Policy, TPZ distributes a fixed amount per common share, currently \$0.125, each month to its common shareholders. This amount is subject to change from time to time in the discretion of the Board. Although the level of distributions is independent of TPZ's performance, TPZ expects such distributions to correlate with its performance over time. Each monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions and potential increases or decreases in the final dividend periods for each year in light of TPZ's performance for the entire calendar year and to enable TPZ to comply with the distribution requirements imposed by the Internal Revenue Code. The Board may amend, suspend or terminate the Policy without prior notice to shareholders if it deems such action to be in the best interests of TPZ and its shareholders. For example, the Board might take such action if the Policy had the effect of shrinking TPZ's assets to a level that was determined to be detrimental to TPZ shareholders. The suspension or termination of the Policy could have the effect of creating a trading discount (if TPZ's stock is trading at or above net asset value), widening an existing trading discount, or decreasing an existing premium.*

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*You should not draw any conclusions about TPZ's investment performance from the amount of the distribution or from the terms of TPZ's distribution policy. TPZ estimates that it has distributed more than its income and net realized capital gains; therefore, a portion of your distribution may be a return of capital. A return of capital may occur, for example, when some or all of the money that you invested in TPZ is paid back to you. A return of capital distribution does not necessarily reflect TPZ's investment performance and should not be confused with yield or income. The amounts and sources of distributions reported are only estimates and are not being provided for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon TPZ's investment experience during the remainder of its fiscal year and may be subject to changes based on tax regulations. TPZ will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.*

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June 18, 2013

Dear Fellow Stockholders,

The economy showed tangible signs of progress during our first fiscal half ending May 31st, including improvement in housing, employment and corporate earnings, with equities enjoying a bullish run. These same factors support the underlying fundamentals of fixed income issuers. However, late in the quarter, concerns that the Federal Reserve may dial back its quantitative easing effort, possibly as soon as this fall, led to a 0.5 percent rise in the 10-year Treasury rate, which weighed on fixed income securities broadly. Despite some macro market headwinds, power and energy infrastructure companies remained anchored by resilient underlying fundamentals.

### Power and Energy Infrastructure Sector Review and Outlook

The TPZ Benchmark Composite\* posted a total return of 0.8 percent and 3.7 percent for the three and six months ending May 31, 2013, respectively. The benchmark composite is comprised of a blend of 70 percent fixed income and 30 percent equity securities issued by companies in the power and energy infrastructure sectors. The composite's equity component was the driving force behind its positive performance for the quarter, while the fixed income portion was affected by the May rise in interest rates.

Increased production growth in oil and natural gas from the nation's unconventional resources has continued to bode well for both the midstream and downstream portions of the energy value chain, in both of which TPZ invests. The pace of growth projects remains strong with more than \$100 billion in pipeline and related growth projects expected over the next three years through 2015 alone. On the downstream side, electric generation has benefitted from low fuel costs and rate base growth from environmental and smart-grid initiatives.

Capital markets have continued to be active across the energy value chain, with power and energy infrastructure companies raising more than \$17 billion in equity and nearly \$34 billion in debt fiscal year-to-date through May 31st.

### Fund Performance Review

Our total assets increased from \$224.1 million on Nov. 30, 2012, to \$228.9 million on May 31, 2013, resulting primarily from market appreciation of our investments. Our market-based total return to stockholders was 2.6 percent and 8.5 percent (both including the reinvestment of distributions) for the three and six months ending May 31, 2013, respectively. Our NAV-based total return was 2.9 percent and 8.0 percent for the same time periods. The difference between our market value returns as compared to our NAV total returns reflected the narrowing in the market's discount of our stock price relative to our NAV during the period.

Our asset performance during the fiscal first half of 2013 was bolstered by positive returns on our equity investments, including holdings in petroleum and natural gas pipelines as well as gathering and processing. These assets continue to benefit from increased volumes being driven by growing production in the nation's shale basins, which is in turn leading to visible distribution growth. Our fixed income securities did provide overall positive returns for the first half of the fiscal year, though not to the extent that our equities did, as they were negatively influenced by rising interest rates late in the second fiscal quarter. Our fixed income securities are predominantly in the power and natural gas pipeline sectors.

We paid monthly distributions of \$0.125 per common share (\$1.50 annualized) throughout the fiscal half of 2013. These distributions represented an annualized yield of 5.6 percent based on our fiscal quarter closing price of \$26.65. For tax purposes, we currently expect 80 to 100 percent of TPZ's distributions to be characterized as dividend income and capital gain. A final determination of the characterization will be made in January 2014. Please refer to the inside front cover of this report for important information about TPZ's distribution policy.

*(Unaudited)*

We ended the period with leverage (bank debt) at 13.8 percent of total assets, below our long-term target of 20 percent. This provides us flexibility in managing the portfolio across market cycles and allows us to add leverage when compelling opportunities arise. As of May 31, 2013, our leverage, which included the impact of interest rate swaps, had a weighted average maturity of 4.3 years and a weighted average cost of 2.25 percent, with approximately 83 percent at fixed rates. We believe TPZ's balance sheet is strong, with rates fixed on the majority of our leverage, laddered due dates and extended average maturities.

Additional information about our financial performance is available in the Key Financial Data and Management's Discussion sections of this report.

### Concluding Thoughts

We continue to be excited about the significant transformation underway in North American energy, with power and energy infrastructure companies playing a key role in the significant build-out underway. We also think it is important to note that while a rising tide may lift all boats, market cycles will separate quality companies from those with weaker business models. We believe this will play out over time, and we look forward to serving you as your professional investment adviser in navigating the course ahead.

As a final note, if you have not yet had a chance to listen to our May webcast, we invite and encourage you to do so at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

Sincerely,

The Managing Directors  
Tortoise Capital Advisors, L.L.C.  
*The adviser to Tortoise Power and Energy Infrastructure Fund, Inc.*

P. Bradley Adams

H. Kevin Birzer

Zachary A. Hamel

Kenneth P. Malvey

Terry Matlack

David J. Schulte

*\*TPZ Benchmark Composite includes the BofA Merrill Lynch US Energy Index (CIEN), the BofA Merrill Lynch US Electricity Index (CUEL) and the Tortoise MLP Index® (TMLPT), a float-adjusted, capitalization-weighted index of energy master limited partnerships (MLPs).*

*(Unaudited)*

2 Tortoise Power and Energy Infrastructure Fund, Inc.

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## Key Financial Data (Supplemental Unaudited Information)

(dollar amounts in thousands unless otherwise indicated)

The information presented below regarding Distributable Cash Flow and Selected Financial Information is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Distributable Cash Flow Ratios include the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. This information is supplemental, is not inclusive of required financial disclosures (e.g. Total Expense Ratio), and should be read in conjunction with our full financial statements.

	2012			2013	
	Q2 <sup>(1)</sup>	Q3 <sup>(1)</sup>	Q4 <sup>(1)</sup>	Q1 <sup>(1)</sup>	Q2 <sup>(1)</sup>
<b>Total Income from Investments</b>					
Interest earned on corporate bonds	\$ 2,075	\$ 2,089	\$ 2,080	\$ 2,066	\$ 2,048
Distributions received from master limited partnerships	803	860	876	881	892
Dividends paid in stock	534	554	561	578	580
Total from investments	3,412	3,503	3,517	3,525	3,520
<b>Operating Expenses Before Leverage Costs and Current Taxes</b>					
Advisory fees, net of fees waived	460	460	470	471	499
Other operating expenses	128	124	117	128	120
	588	584	587	599	619
Distributable cash flow before leverage costs and current taxes	2,824	2,919	2,930	2,926	2,901
Leverage costs <sup>(2)</sup>	305	309	268	227	189
<b>Distributable Cash Flow<sup>(3)</sup></b>	\$ 2,519	\$ 2,610	\$ 2,662	\$ 2,699	\$ 2,712
<b>Net realized gain on investments</b>	\$ 780	\$ 961	\$ 1,494	\$ 355	\$ 870
<b>As a percent of average total assets<sup>(4)</sup></b>					
Total from investments	6.22%	6.39%	6.31%	6.30%	5.99%
Operating expenses before leverage costs and current taxes	1.07%	1.07%	1.05%	1.07%	1.05%
Distributable cash flow before leverage costs and current taxes	5.15%	5.32%	5.26%	5.23%	4.94%
<b>As a percent of average net assets<sup>(4)</sup></b>					
Total from investments	7.49%	7.75%	7.60%	7.58%	7.08%
Operating expenses before leverage costs and current taxes	1.29%	1.29%	1.27%	1.29%	1.24%
Leverage costs and current taxes	0.67%	0.68%	0.58%	0.49%	0.38%
Distributable cash flow	5.53%	5.78%	5.75%	5.80%	5.46%
<b>Selected Financial Information</b>					
Distributions paid on common stock	\$ 2,607	\$ 2,606	\$ 2,607	\$ 2,607	\$ 2,607
Distributions paid on common stock per share	0.375	0.375	0.375	0.375	0.375
Total assets, end of period	213,942	220,693	224,142	230,645	228,896
Average total assets during period <sup>(5)</sup>	218,273	218,005	224,258	226,807	233,060
Leverage <sup>(6)</sup>	35,100	35,000	36,400	36,700	31,500
Leverage as a percent of total assets	16.4%	15.9%	16.2%	15.9%	13.8%
Net unrealized appreciation, end of period	46,722	55,501	57,239	64,877	67,999
Net assets, end of period	175,894	184,208	186,034	192,583	195,336
Average net assets during period <sup>(7)</sup>	181,296	179,903	186,162	188,510	197,344
Net asset value per common share	25.30	26.50	26.76	27.70	28.10
Market value per common share	24.02	25.58	25.26	26.35	26.65
Shares outstanding (actual)	6,951,333	6,951,333	6,951,333	6,951,333	6,951,333

(1) Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.

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(2) Leverage costs include interest expense, interest rate swap expenses and other leverage expenses.

Net investment income on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by the return of capital on MLP distributions, the value of paid-in-kind distributions, amortization of debt issuance costs and the change in methodology

(3) for calculating amortization of premiums or discounts; and decreased by realized and unrealized gains (losses) on interest rate swap settlements.

(4) Annualized for periods less than one full year.

(5) Computed by averaging month-end values within each period.

(6) Leverage consists of long-term debt obligations and short-term borrowings.

(7) Computed by averaging daily net assets within each period.



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## Management's Discussion (Unaudited)

*The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the Risk Factors section of our public filings with the SEC.*

### Overview

Tortoise Power and Energy Infrastructure Fund, Inc.'s (TPZ) primary investment objective is to provide a high level of current income, with a secondary objective of capital appreciation. We seek to provide our stockholders a vehicle to invest in a portfolio consisting primarily of securities issued by power and energy infrastructure companies. Power infrastructure operations use asset systems to provide electric power generation (including renewable energy), transmission and distribution. Energy infrastructure operations use a network of pipeline assets to transport, store, gather and/ or process crude oil, refined petroleum products (including biodiesel and ethanol), natural gas or natural gas liquids. We believe the power and energy infrastructure sectors provide stable and defensive characteristics throughout economic cycles. A majority of the investments are in fixed income securities with the remainder invested in equities which provide growth potential.

TPZ is a registered non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act), and expects to qualify each year as a regulated investment company (RIC) under the U.S. Internal Revenue Code of 1986, as amended (the Code). Tortoise Capital Advisors, L.L.C. (the Adviser) serves as investment adviser.

### Company Update

Market values of our MLP investments increased during the 2nd quarter while the value of our debt investments declined slightly due to rising interest rates. These changes, combined with the exercise of call options within our bond portfolio where proceeds were used to reduce leverage prior to being reinvested, led to an overall decrease of \$1.7 million in total assets during the quarter. Total income received from our investments was relatively unchanged and leverage costs declined as expected following the refinancing activity in 1st quarter 2013. We maintained our monthly distribution of \$0.125 per share. Additional information on the results of our operations is discussed in more detail below.

### Critical Accounting Policies

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

### Determining Distributions to Stockholders

We pay monthly distributions based primarily upon our current and estimated future distributable cash flow (DCF). In addition, and to the extent that the sum of our net investment company taxable income and net realized gains from investments exceed our monthly distributions, we intend to make an additional distribution to common stockholders in the last quarter of the calendar year in order to avoid being subject to U.S. federal income taxes. Our Board of Directors reviews the distribution rate quarterly and may adjust the monthly distributions throughout the year. Our distribution policy is described on the inside front cover of this report.

### Determining DCF

DCF is income from investments less expenses. Income from investments includes the accrued interest from corporate bonds, cash distributions and paid-in-kind distributions from MLPs and related companies and dividends earned from short-term investments. The total expenses include current or anticipated operating expenses and leverage costs.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between income from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: (1) GAAP recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation may reflect distribution income on their pay dates; (2) GAAP recognizes that a significant portion of the cash distributions received from MLPs are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; (3) income from investments in the DCF calculation includes the value of dividends paid-in-kind (additional stock or units), whereas such amounts are not included as income for GAAP purposes; and (4) amortization of premium or discount for all securities is calculated using the yield to worst methodology for GAAP purposes while yield to call is used in calculating amortization for long-dated hybrid securities in the DCF calculation. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses, including expense reimbursement, as disclosed in the Statement of Operations, the DCF calculation reflects interest expense and realized and unrealized gains (losses) on interest rate swap settlements as leverage costs. A reconciliation of Net Investment Income to DCF is included below.

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## **Management's Discussion** *(Unaudited)*

*(Continued)*

### **Income from Investments**

We seek to achieve our investment objectives by investing in income-producing fixed income and equity securities of companies that we believe offer attractive distribution rates. We evaluate each holding based upon its contribution to our investment income and its risk relative to other potential investments.

Total income from investments for the 2nd quarter 2013 was approximately \$3.5 million, a very slight decrease as compared to 1st quarter 2013 and an increase of 3.2 percent as compared to 2nd quarter 2012. These changes reflect increases in per share distribution rates on our MLP investments, the impact of trading activity wherein certain investments with higher current yields and lower expected future growth were sold and replaced with investments that had lower current yields and higher expected future growth, as well as fixed income investments that have been refinanced in a lower interest rate environment.

### **Expenses**

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee, and (2) leverage costs. On a percentage basis, operating expenses before leverage costs were an annualized 1.05 percent of average total assets for 2nd quarter 2013 as compared to 1.07 percent for the 1st quarter 2013 and 2nd quarter 2012. Advisory fees for 2nd quarter 2013 increased by approximately 5.9 percent as compared to 1st quarter 2013 due to increased average monthly managed assets during the quarter. While the contractual advisory fee is 0.95 percent of average monthly managed assets, the Adviser waived an amount equal to 0.10 percent of average monthly managed assets for calendar year 2012, and has agreed to waive 0.10 percent of average monthly managed assets for calendar year 2013. Other operating expenses decreased approximately \$8,000 from 1st quarter 2013, primarily due to decreased directors' fees.

Leverage costs consist of two major components: (1) the direct interest expense, which will vary from period to period as our margin borrowing facility has a variable interest rate, and (2) the realized and unrealized gain or loss on our interest rate swap settlements. Detailed information on our margin borrowing facility is included in the Liquidity and Capital Resources section below.

As indicated in Note 9 of our Notes to Financial Statements, at May 31, 2013, we had \$26 million notional amount of interest rate swap contracts with Wells Fargo Bank in an attempt to reduce a portion of the interest rate risk arising from our leveraged capital structure. TPZ has agreed to pay Wells Fargo Bank a fixed rate while receiving a floating rate based upon the 3-month U.S. Dollar London Interbank Offered Rate (LIBOR). The spread between the fixed swap rate and LIBOR is reflected in our Statement of Operations as a realized or unrealized gain when LIBOR exceeds the fixed rate (Wells Fargo Bank pays TPZ the net difference) or a realized or unrealized loss when the fixed rate exceeds LIBOR (TPZ pays Wells Fargo Bank the net difference). The interest rate swap contracts have a weighted average fixed rate of 1.68 percent and weighted average remaining maturity of approximately 5.1 years. This swap arrangement effectively fixes the cost of approximately 83 percent of our outstanding leverage over the remaining swap period.

Total leverage costs for DCF purposes were approximately \$189,000 for the 2nd quarter 2013, a decrease of \$38,000 as compared to 1st quarter 2013. The decrease in leverage costs reflects the full impact of the leverage refinance and interest rate swap activity that was completed in 1st quarter 2013.

Interest accrues on the margin facility at a rate equal to 3-month LIBOR plus 0.75 percent and unused balances are subject to a fee of 0.25 percent. The annual rate of leverage may vary in future periods as a result of changes in LIBOR, the utilization of our margin facility, and maturity of our interest rate swap contracts. Additional information on our leverage is disclosed below in Liquidity and Capital Resources and in our Notes to Financial Statements.

### **Distributable Cash Flow and Capital Gains**

For 2nd quarter 2013, our DCF was approximately \$2.7 million, a 7.7 percent increase as compared to 2nd quarter 2012 and a 0.5 percent increase as compared to 1st quarter 2013. This increase is the net result of the change in distributions and expenses as outlined above. In addition, we had net realized gains of approximately \$0.9 million from the sale of portfolio investments in the 2nd quarter 2013. On February 11, 2013, we declared monthly distributions for the 2013 2nd fiscal quarter of \$0.125 per share. This is unchanged as compared to 1st quarter 2013.

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Net Investment Income on the Statement of Operations is adjusted as follows to reconcile to DCF for 2013 YTD and 2nd quarter 2013 (in thousands):

	2013 YTD	2nd Qtr 2013
Net Investment Income	\$ 2,532	\$ 1,278
Adjustments to reconcile to DCF:		
Dividends paid in stock	1,158	580
Distributions characterized as return of capital	1,710	885
Amortization of debt issuance costs	73	
Interest rate swap expenses	(181)	(92)
Change in amortization methodology	119	61
DCF	\$ 5,411	\$ 2,712

### Liquidity and Capital Resources

We had total assets of \$228.9 million at quarter-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and receivables and any expenses that may have been prepaid. During the 2nd quarter 2013, total assets decreased by \$1.7 million. This change was primarily the result of a \$2.9 million increase in the value of our investments as reflected by the change in net realized and unrealized gains on investments (excluding return of capital on distributions), net sales (including bond call activity) of \$4.1 million and a net decrease in receivables of approximately \$0.4 million.

Total leverage outstanding at May 31, 2013 was \$31.5 million, a decrease of \$5.2 million as compared to February 28, 2013 which was primarily the result of the trading activity as described above. Total leverage represented 13.8 percent of total assets at May 31, 2013, a decrease from 15.9 percent of total assets at February 28, 2013 and a decrease from 16.4 percent at May 31, 2012. Our leverage as a percent of total assets remains below our long-term target level of 20 percent of total assets. This allows the

## **Management's Discussion** *(Unaudited)*

*(Continued)*

opportunity to add leverage when compelling investment opportunities arise. Temporary increases to up to 25 percent of our total assets may be permitted, provided that such leverage is consistent with the limits set forth in the 1940 Act, and that such leverage is expected to be reduced over time in an orderly fashion to reach our long-term target. Our leverage ratio is impacted by increases or decreases in investment values, issuance of equity and/or the sale of securities where proceeds are used to reduce leverage.

We have used leverage to acquire investments consistent with our investment philosophy. The terms of our leverage are governed by regulatory and contractual asset coverage requirements that arise from the use of leverage. Additional information on our leverage and asset coverage requirements is discussed in Note 11 in the Notes to Financial Statements. Our coverage ratio is updated each week on our Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com).

## **Taxation of our Distributions**

We expect that distributions paid on common shares will generally consist of: (i) investment company taxable income which includes ordinary income net of deductions plus any short-term capital gains in excess of net long-term capital losses; (ii) long-term capital gain (net gain from the sale of a capital asset held longer than 12 months over net short-term capital losses) and (iii) return of capital. The long-term capital gain tax rate is variable based on the taxpayer's taxable income.

We have received exemptive relief from the SEC to distribute capital gains throughout the year and we may also distribute additional capital gains in the last calendar quarter if necessary to meet minimum distribution requirements and to avoid being subject to excise taxes. If, however, we elect to retain any capital gains, we will be subject to U.S. capital gains taxes. The payment of those taxes will flow-through to stockholders as a tax credit to apply against their U.S. income tax payable on the deemed distribution of the retained capital gain.

For tax purposes, distributions paid to common stockholders for the calendar year ended December 31, 2012 were approximately 59 percent ordinary income (none of which is qualified dividend income) and 41 percent long-term capital gain. This information is reported to stockholders on Form 1099-DIV and is available on our Web site at [www.tortoiseadvisors.com](http://www.tortoiseadvisors.com). We currently estimate that 80 to 100 percent of 2013 distributions will be characterized as ordinary income and capital gains, with the remaining percentage, if any, characterized as return of capital. A final determination of the characterization will be made in January 2014.

**Schedule of Investments**

May 31, 2013

*(Unaudited)*

	Principal Amount/Shares	Fair Value
<b>Corporate Bonds 65.7%</b> <sup>(1)</sup>		
<b>Local Distribution Pipelines 7.8%</b> <sup>(1)</sup>		
<b>United States 7.8%</b> <sup>(1)</sup>		
CenterPoint Energy, Inc., 6.500%, 05/01/2018 <sup>(2)</sup>	\$ 4,000,000	\$ 4,829,504
NiSource Finance Corp., 6.400%, 03/15/2018 <sup>(2)</sup>	3,500,000	4,156,782
Source Gas, LLC, 5.900%, 04/01/2017 <sup>(2)(3)</sup>	5,770,000	6,212,744
		15,199,030
<b>Natural Gas/Natural Gas Liquids Pipelines 17.9%</b> <sup>(1)</sup>		
<b>Canada 3.3%</b> <sup>(1)</sup>		
TransCanada Pipelines Limited, 6.350%, 05/15/2067	6,000,000	6,421,548
<b>United States 14.6%</b> <sup>(1)</sup>		
El Paso Corp., 6.500%, 09/15/2020 <sup>(2)</sup>	6,000,000	6,772,932
EQT Corp., 6.500%, 04/01/2018	2,000,000	2,303,652
EQT Corp., 8.125%, 06/01/2019	2,000,000	2,485,350
Florida Gas Transmission Co., LLC, 5.450%, 07/15/2020 <sup>(2)(3)</sup>	1,500,000	1,712,056
Midcontinent Express Pipeline LLC, 6.700%, 09/15/2019 <sup>(3)</sup>	6,000,000	6,322,350
NGPL PipeCo LLC, 9.625%, 06/01/2019 <sup>(3)</sup>	2,000,000	2,230,000
Ruby Pipeline, LLC, 6.000%, 04/01/2022 <sup>(2)(3)</sup>	1,500,000	1,658,921
Southern Star Central Corp., 6.750%, 03/01/2016	2,745,000	2,775,881
Southern Star Central Gas Pipeline, Inc., 6.000%, 06/01/2016 <sup>(2)(3)</sup>	2,000,000	2,193,904
		34,876,594
<b>Natural Gas Gathering/Processing 5.6%</b> <sup>(1)</sup>		
<b>United States 5.6%</b> <sup>(1)</sup>		
DCP Midstream LLC, 9.750%, 03/15/2019 <sup>(2)(3)</sup>	5,000,000	6,594,975
Enogex LLC, 6.250%, 03/15/2020 <sup>(2)(3)</sup>	4,000,000	4,439,192
		11,034,167
<b>Oil and Gas Exploration and Production 7.6%</b> <sup>(1)</sup>		