

Friday, September 30, 2005

## **OP's Tortoise will shell out a third fund**

By James Dornbrook – Staff Writer

Tortoise Capital Advisors LLC, which operates two funds totaling \$1.3 billion in the energy infrastructure sector, plans to launch a third fund.

The Overland Park fund adviser filed a registration statement with the Securities and Exchange Commission on Sept. 19 for Tortoise North American Energy Corp., a fund that would invest in publicly traded Canadian income and royalty trusts, as well as U.S. master limited partnerships (MLPs). The fund, expected to be traded on the New York Stock Exchange using the ticker symbol TYN, will invest at least 80 percent of its assets in North American companies in the energy sector, the filing said.

The firm's two existing funds, Tortoise Energy Infrastructure Corp. (NYSE: TYG) and Tortoise Energy Capital Corp. (NYSE: TYY), invest mostly in MLPs and their affiliates. By investing in Canadian trusts, Tortoise North American seeks to capitalize on an expected increase in U.S. reliance on oil and natural gas imports from Canada.

The Canadian trusts generally are structured to own the debt and equity of an active business or to own royalties in revenue generated by that business. Canada doesn't assess a corporate tax if the trusts pass along taxable income to shareholders, according to the SEC filing.

Elizabeth Arora of Tortoise Capital's investor relations department declined to comment because the firm is in a quiet period until after the initial public offering. The fund's SEC filing did not state when an IPO would take place. Industry sources said it can take four to six weeks to receive SEC approval.

Tortoise North American Energy said it will offer an unspecified number of common shares, at \$25 a share, through a group of underwriters led by RBC Capital Markets and Stifel Nicolaus & Co. Inc. Investors must buy at least 100 shares to participate in the IPO.

The fund is a new wrinkle in Tortoise Capital's investment strategy, said William Rorie, a securities analyst for AG Edwards & Sons Inc. in St. Louis.

"As they move forward into new offerings, I think they're looking for other areas to include in their investment portfolio," he said.

Formed in 2002 as a joint venture between Kansas City Equity Partners and Overland Park bond adviser Fountain Capital Management LLC, Tortoise Capital is credited with creating a niche in the securities market that sources said now totals more than \$3 billion in assets.

Tortoise Energy Infrastructure went public in February 2004 as the first closed-end fund to invest in public and private energy infrastructure MLPs. Similar funds quickly followed.

Energy MLPs have grown in popularity during the bear market because of their unusually high yields and because they pay income directly to investors.

The sector includes Kansas City-based Energy LP (Nasdaq: NRGY) and Overland Park-based Ferrellgas Partners LP (NYSE: FGP).

John McGannon, managing director of Overland Park investment banking firm Frontier Partners, called the initial Tortoise fund one of his favorite local deals. As a vice president of Oppenheimer & Co. Inc., he helped the company co-underwrite the fund's \$275 million IPO.

"It was something that a lot of people didn't think would work, but it proved a lot of people wrong," he said. "It was very well-received by the market."

The Tortoise funds appeal to investors because they provide access to professionally managed portfolios of public and private MLPs, McGannon said.

They also provide tax advantages: Investors get the tax deferral of investing in an MLP but at tax time receive a 1099 form instead of complicated K-1 schedules that come with investing in individual MLPs.