Fiduciary/Claymore Energy Infrastructure Fund

May 1, 2020

In March, the combined impact of demand destruction from a global pandemic matched with a surge in supply in an already oversupplied oil market led to significant challenges for the energy industry, including the midstream assets that the fund focuses on.

The four worst trading days in the history of the Alerian MLP Index all occurred in March. The rapid market downturn significantly diminished the fund's assets and increased the fund's yield. Many of the fund's underlying holdings responded by reducing their distributions to unitholders, thereby reducing the amount available to distribute to fund unitholders.

Due to the extremely high volatility in the market, the fund also reduced its leverage during the downturn and has a leverage level of 11.8% as of April 28, 2020. The reduction in leverage also reduced the amount available to distribute to fund unitholders.

In our estimation, the fund's holdings are well positioned to survive this unprecedented energy market. We believe these companies are going to be able to service their debt and have adequate cashflow to support their operations. Many companies are trading at yields that suggest financial distress. While we think security prices are well below the financial reality of the underlying operations, management teams may continue to take this opportunity to reduce distributions and dividends to preserve cash and liquidity.

We expect that the economy will gradually recover, oil markets will balance supply and demand, and the transportation and storage of energy commodities will be necessary for both things to happen. Recent announcements from OPEC, Russia, and other countries suggest supply and demand balancing will begin in the coming months, although the dislocation could take more than a year to cure. The market reaction has been swift and painful, but ultimately, we believe that current valuations discount a worse outcome than is likely.

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