

TORTOISE PIPELINE & ENERGY FUND, INC.
Form N-CSRS
July 21, 2015

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 **811-22585**

Tortoise Pipeline & Energy 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, 2015**

Item 1. Reports to Stockholders.

Quarterly Report | May 31, 2015

2015 2nd Quarter Report

Closed-End Funds

Tortoise Capital Advisors

2015 2nd Quarter Report to Stockholders

This combined report provides you with a comprehensive review of our funds that span the entire energy value chain.

Tortoise Capital Advisors is one of the largest managers of energy investments, including closed-end funds, open-end funds, private funds and separate accounts.

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TTP and TPZ distribution policies

Tortoise Pipeline & Energy Fund, Inc. (TTP) and Tortoise Power and Energy Infrastructure Fund, Inc. (TPZ) are relying on exemptive relief permitting them to make long-term capital gain distributions throughout the year. Each of TTP and 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 TTP and 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 TTP and TPZ during such year. In accordance with its Policy, TTP distributes a fixed amount per common share, currently \$0.45, each quarter to its common shareholders and TPZ distributes a fixed amount per common share, currently \$0.1375, each month to its common shareholders. These amounts are subject to change from time to time at the discretion of the Board. Although the level of distributions is independent of TTP's and TPZ's performance, TTP and TPZ expect such distributions to correlate with its performance over time. Each quarterly and monthly distribution to shareholders is expected to be at the fixed amount established by the Board, except for extraordinary distributions in light of TTP's and TPZ's performance for the entire calendar year and to enable TTP and 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 TTP, TPZ and their respective shareholders. For example, the Board might take such action if the Policy had the effect of shrinking TTP's or TPZ's assets to a level that was determined to be detrimental to TTP or TPZ shareholders. The suspension or termination of the Policy could have the effect of creating a trading discount (if TTP's or TPZ's stock is trading at or above net asset value), widening an existing trading discount, or decreasing an existing premium. You should not draw any conclusions about TTP's or TPZ's investment performance from the amount of the distribution or from the terms of TTP's or TPZ's distribution policy. TTP 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 TTP is paid back to you. A return of capital distribution does not necessarily reflect TTP'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 TTP's and TPZ's investment experience during the remainder of their fiscal year and may be subject to changes based on tax regulations. TTP and 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.

Tortoise Capital Advisors

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Closed-end fund comparison

Name/Ticker	Primary focus	Structure	Total assets (\$ millions) ¹	Portfolio mix by asset type ²	Portfolio mix by structure ²
Tortoise Energy Independence Fund, Inc. NYSE: NDP Inception: 7/2012	North American oil & gas producers	Regulated investment company	\$357		
Tortoise Energy Infrastructure Corp. NYSE: TYG Inception: 2/2004	Midstream MLPs	C-corp	\$3,801		
Tortoise MLP Fund, Inc. NYSE: NTG Inception: 7/2010	Natural gas infrastructure MLPs	C-corp	\$1,932		
Tortoise Pipeline & Energy Fund, Inc. NYSE: TTP Inception: 10/2011	North American pipeline companies	Regulated investment company	\$396		
Tortoise Power and Energy Infrastructure Fund, Inc. NYSE: TPZ Inception: 7/2009	Power & energy infrastructure companies (Fixed income & equity)	Regulated investment company	\$242		

¹ As of 6/30/2015² As of 5/31/2015**Tortoise Capital Advisors**

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Tortoise Capital Advisors

Second quarter 2015 report to closed-end fund stockholders

Dear fellow stockholders,

The broad energy sector seemed to find more balance during the second fiscal quarter ending May 31, 2015. The S&P Select Sector Energy[®] Index was essentially flat for the three- and six-month periods, returning -0.1% and -0.4%, respectively. Oil prices moved higher during the quarter, appearing to stabilize in May.

The second fiscal quarter started on an upbeat note for the broader market, with better-than-expected first quarter earnings reports and economic data showing strength in new home construction, improving employment and marginal economic growth. Though it ended essentially flat with equities performing slightly better than fixed-income securities, as the S&P 500[®] Index posted a 0.6% return and the Barclays U.S. Aggregate Bond Index, posted a -0.1% return.

Upstream

Upstream oil and gas producers, as represented by the Tortoise North American Oil & Gas Producers IndexSM, returned -4.2% for the fiscal year-to-date, compared to -0.3% for the second fiscal quarter, reflecting what appears to be an improving environment in this segment of the energy value chain. Crude oil prices were less volatile in the second fiscal quarter than the first, opening the fiscal quarter at \$49.76 per barrel, dropping to a quarter low of \$43.46 on March 17, peaking at \$60.93 on May 6, then closing the quarter at \$60.30. With the Organization of Petroleum Exporting Countries (OPEC) expected to continue to produce at least its 30 million barrels per day (MMbbl/d) quota in order to maintain market share a plan the organization confirmed at its June 5 meeting in Vienna U.S. oil producers have reined in spending, reduced headcounts and idled rigs. However, production continues to benefit from improved efficiencies, and current U.S. production is at its highest level since the early 1970s, averaging 9.6 MMbbl/d in May.¹ It is expected that production generally will decline during the second half of 2015 and into 2016 before resuming growth.

Natural gas rigs also declined during the fiscal quarter.² Nonetheless, production and inventories remain robust, which we think should keep prices at relatively low levels throughout the remainder of 2015. Increasingly efficient drilling likely will support growing production despite low natural gas prices. The bulk of growth is expected to come from the Marcellus, as uncompleted wells are finished and new infrastructure comes online to deliver gas to markets in the Northeast and the Gulf Coast. U.S. natural gas net imports decreased 9% in 2014, continuing an eight-year downward trajectory, with net natural gas imports (imports minus exports) reaching the lowest level since 1987.¹

For the week ending May 29, storage levels surpassed the five-year (2010-2014) level. The week's injection of 132 billion cubic feet was the largest net injection in more than a decade.¹ Natural gas prices opened the fiscal quarter at \$2.75 per million thermal units (MMBtu) and peaked at \$3.27 MMBtu on March 5 as colder weather ravaged much of the nation, particularly the East Coast. Prices hit their low for the period at \$2.48 on April 27 and then closed the fiscal quarter at \$2.64 per MMBtu.

Midstream

Following a somewhat challenging first fiscal quarter, master limited partnerships (MLPs), as represented by the Tortoise MLP Index[®] posted a -0.3% return for the second fiscal quarter and -4.8% for fiscal year-to-date through May 31, 2015. Midstream MLPs dramatically outperformed upstream MLPs for the fiscal year to date, as investors continued to demonstrate their preference for midstream MLPs, which generally have less direct commodity price risk than their upstream counterparts.

Broader pipeline companies fared better than MLPs (which includes companies across the energy value chain) during the second fiscal quarter, as evidenced by the 1.1% return posted by the Tortoise North American Pipeline IndexSM. Even as rig counts have come down dramatically, North American production has continued to be strong, underscoring the sustained need for greater pipeline takeaway capacity. Investment within the segment remains strong, with new midstream projects placed in service during the second quarter and additional projects scheduled to commence later in 2015 and into 2016. Our projection for capital investment in MLP, pipeline and related organic growth projects from 2015 through 2017 remains strong at approximately \$160 billion.

Downstream

Low oil prices have benefited refineries, reducing their costs and increasing demand for refined products, such as gasoline and diesel fuel. Meanwhile, continued strong natural gas production is supporting the rapid expansion of petrochemical companies that use natural gas as a

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feedstock to make many household products. Over the last three years the Environmental Protection Agency and state agencies have issued draft or final permits to build or expand more than 100 oil, gas or chemical facilities along the Gulf Coast, with a dozen more applications pending.³ Inexpensive, abundant natural gas also is driving new construction of fertilizer plants in various sections of the country.

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Capital markets

Capital markets remained supportive during the period, continuing to demonstrate their confidence in companies across the energy value chain. Total E&P capital raised was nearly \$21 billion, with nearly \$9 billion of that in equity. Capital markets also remained supportive for MLPs, which raised approximately \$7 billion in equity and more than \$11 billion in debt. Other pipeline companies added approximately \$1.5 billion each in both debt and equity offerings. Power companies in the downstream segment raised more than \$17 billion total capital for the fiscal quarter.

There were three MLP initial public offerings (IPOs) (including a supplier of wood pellets used for power generation; one of the largest owners of oil and gas mineral interests in the U.S.; and an owner of natural gas pipelines) and one C-corporation pipeline IPO during the second fiscal quarter, together totaling approximately \$2.4 billion. Merger and acquisition activity was also healthy during the second fiscal quarter, although less robust than in the first fiscal quarter, with MLP and pipeline transactions totaling approximately \$25 billion.

Concluding thoughts

Despite some current headwinds, we continue to believe the North American energy sector presents long-term investment opportunities. It appears that oil prices have somewhat stabilized as compared to the volatility experienced earlier in the year, and we believe the second half of 2015 will bring a more balanced supply/demand equation, supporting higher crude oil prices over time.

Sincerely,

The Managing Directors at
Tortoise Capital Advisors, L.L.C.

The Tortoise North American Oil & Gas Producers IndexSM is a float-adjusted, capitalization weighted index of North American energy companies engaged primarily in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The S&P 500[®] index is an unmanaged market-value-weighted index of stocks, which is widely regarded as the standard for measuring large-cap U.S. stock market performance. The Tortoise North American Pipeline IndexSM is a float-adjusted, capitalization-weighted index of energy pipeline companies domiciled in the United States and Canada.

The Tortoise MLP Index[®] is a float-adjusted, capitalization-weighted index of energy master limited partnerships (MLPs). The Tortoise Midstream MLP Index[®], a sub-index of the Tortoise MLP Index[®], is comprised of all constituents included in the following sub sectors: Crude Oil Pipelines, Gathering & Processing, Natural Gas Pipelines and Refined Products Pipelines. The Tortoise Upstream IndexSM is comprised of all constituents included in the Tortoise MLP Index's Coal and Oil & Gas Productions sub sector indices.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) (S&P Dow Jones Indices) to calculate and maintain the Tortoise MLP Index, Tortoise North American Pipeline IndexSM and Tortoise North American Oil and Gas Producers IndexSM. S&P[®] is a registered trademark of Standard & Poor's Financial Services LLC (SPFS); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and, these trademarks have been licensed to S&P Dow Jones Indices. Calculated by S&P Dow Jones Indices and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

It is not possible to invest directly in an index.

Performance data quoted represents past performance: past performance does not guarantee future results. Like any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost.

¹ Energy Information Administration, June 2015

² Baker Hughes, June 2015

³ Environmental Integrity Project, December 2014

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Tortoise Capital Advisors

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Tortoise

Energy Independence Fund, Inc. (NDP)

Fund description

NDP is a closed-end fund that invests primarily in equity securities of upstream North American energy companies that engage in the exploration and production of crude oil, condensate, natural gas and natural gas liquids that generally have a significant presence in North American oil and gas fields, including shale reservoirs. NDP seeks a high level of total return with an emphasis on current distributions paid to stockholders.

Fund performance review

The fund's market-based and NAV-based total returns for the second fiscal quarter ending May 31, 2015 were -6.3% and -0.1%, respectively (including the reinvestment of distributions), compared to the Tortoise North American Oil and Gas Producers IndexSM, which returned -0.3%. Though negative, the fund's performance reflects a relatively improved market backdrop as oil prices appeared to have somewhat stabilized. The discount of the fund's stock price relative to its NAV widened during the quarter, ending at -9.9%.

2nd fiscal quarter performance highlights

Market-based total return	(6.3)%
NAV-based total return	(0.1)%
Premium (discount) to NAV (as of 5/31/2015)	(9.9)%
Distributions paid per share	\$0.4375
Distribution rate (as of 5/31/2015)	9.0%
Quarter-over-quarter distribution increase	0.0%
Year-over-year distribution increase	0.0%

Key asset performance drivers

A number of factors influenced the fund's asset performance during the second fiscal quarter.

The fund's strategic focus on crude oil and natural gas producers in premier basins, particularly the Marcellus for natural gas and the Permian for crude oil, contributed positively to the fund's absolute and relative performance. An overweight exposure to the Mid-Continent region also helped in both absolute and relative terms.

Natural gas producers contributed more in absolute terms due to continued development in the Marcellus, although the fund's larger exposure to liquids producers boosted relative performance, as gas prices moved lower and oil rebounded slightly during the quarter.

The fund's holdings in midstream transporters of oil and gas had little effect on performance during the fiscal quarter, with the exception of refined product pipeline companies. Those refined pipeline companies with exposure to crude oil assets detracted the most due to market concern that slowing production may result in fewer pipeline projects.

The fund's covered call strategy continued to generate current income. In higher-volatility environments, we typically extend the out-of-the-money percentage while seeking to generate the same monthly income. The notional amount of the fund's covered calls averaged approximately 65% of total assets, and their out-of-the-money percentage at the time written averaged approximately 9.2% during the quarter.

Index returns are pre-expenses and taxes.

Performance data quoted represents past performance; past performance does not guarantee future results. Like any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost.

(unaudited)

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Tortoise Capital Advisors

Leverage update

The fund's leverage utilization increased slightly during 2nd quarter 2015. The fund utilizes all floating rate leverage that had an interest rate of 0.98% at May 31, 2015. Leverage represented 16.3% of total assets at quarter-end, slightly above the long-term target level of 15% of total assets. The interest rate on the fund's leverage will vary in the future along with changing floating rates.

Distributable cash flow and distributions

Distributable cash flow (DCF) is income from investments less expenses. Income from investments includes the amount we receive as cash or paid-in-kind distributions from common stock, master limited partnerships (MLPs) or affiliates of MLPs in which we invest and dividend payments on short-term investments we own. Income also includes the premiums received from sales of covered call options, net of amounts paid to buy back out-of-the-money options. The total expenses include current or anticipated operating expenses and leverage costs.

Distributions received from investments increased approximately 1.4% as compared to 1st quarter 2015. This was primarily due to an increase in net premiums on options written, offset by the impact of various portfolio trading and merger activity. Operating expenses, consisting primarily of fund advisory fees, increased slightly during the quarter due to increased asset-based fees. Total leverage costs rose slightly during the quarter, primarily due to increased leverage utilization. As a result of the changes in income and expenses, DCF increased by approximately 0.7% as compared to 1st quarter 2015.

We maintained our quarterly distribution of \$0.4375 per share during 2nd quarter 2015. We may designate a portion of our quarterly distributions as capital gains and we may also distribute additional capital gains in the last calendar quarter of the year if necessary to meet minimum annual distribution requirements and to avoid being subject to excise taxes.

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) U.S. generally accepted accounting principles (GAAP) recognizes that a significant portion of the cash distributions received from our investments are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; (2) 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 (3) net premiums on options written (premiums received less amounts paid to buy back out-of-the-money options) with expiration dates during our fiscal quarter are included in the DCF calculation, whereas GAAP recognizes the net effect of options written as realized and unrealized gains (losses).

Net Investment Loss on the Statement of Operations is adjusted as follows to reconcile to DCF for 2015 fiscal year-to-date and 2nd quarter 2015 (in thousands):

	2015 YTD	2nd Qtr 2015
Net investment loss	\$ (860)	\$ (552)
Adjustments to reconcile to DCF:		
Net premiums on options written	10,573	5,354
Distributions characterized as		
return of capital	2,094	1,121
Dividends paid in stock	515	259
DCF	\$ 12,322	\$ 6,182

Please see the Financial Statements and Notes to Financial Statements for additional detail regarding our critical accounting policies, results of operations, leverage and other important fund information.

For further information regarding the calculation of distributable cash flow and distributions to stockholders, as well as a discussion of the tax impact on our distributions, please visit our Web site at www.tortoiseadvisors.com.

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Tortoise Capital Advisors

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NDP 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.

	2014			2015	
	Q2 ⁽¹⁾	Q3 ⁽¹⁾	Q4 ⁽¹⁾	Q1 ⁽¹⁾	Q2 ⁽¹⁾
Total Income from Investments					
Distributions and dividends from investments, net of foreign taxes withheld	\$ 2,844	\$ 2,949	\$ 2,901	\$ 1,882	\$ 1,846
Dividends paid in stock	391	404	412	256	259
Net premiums on options written	4,425	4,316	4,148	5,219	5,354
Total from investments	7,660	7,669	7,461	7,357	7,459
Operating Expenses Before Leverage Costs					
Advisory fees, net of fees waived	1,138	1,216	1,074	916	969
Other operating expenses	171	168	158	160	160
	1,309	1,384	1,232	1,076	1,129
Distributable cash flow before leverage costs	6,351	6,285	6,229	6,281	6,330
Leverage costs ⁽²⁾	150	151	144	141	148
Distributable Cash Flow⁽³⁾	\$ 6,201	\$ 6,134	\$ 6,085	\$ 6,140	\$ 6,182
Net realized gain (loss) on investments and foreign currency translation, for the period	\$ 5,732	\$ 20,857	\$ 650	\$ (10,099)	\$ (4,028)
As a percent of average total assets⁽⁴⁾					
Total from investments	6.34 %	5.96 %	6.90 %	7.78 %	7.64 %
Operating expenses before leverage costs	1.08 %	1.08 %	1.14 %	1.14 %	1.16 %
Distributable cash flow before leverage costs	5.26 %	4.88 %	5.76 %	6.64 %	6.48 %
As a percent of average net assets⁽⁴⁾					
Total from investments	7.26 %	6.75 %	7.57 %	9.32 %	9.10 %
Operating expenses before leverage costs	1.24 %	1.22 %	1.25 %	1.36 %	1.38 %
Leverage costs	0.14 %	0.13 %	0.15 %	0.18 %	0.18 %
Distributable cash flow	5.88 %	5.40 %	6.17 %	7.78 %	7.54 %
Selected Financial Information					
Distributions paid on common stock	\$ 6,351	\$ 6,350	\$ 6,351	\$ 6,351	\$ 6,351
Distributions paid on common stock per share	0.4375	0.4375	0.4375	0.4375	0.4375
Total assets, end of period	504,254	513,378	400,082	383,729	376,856
Average total assets during period ⁽⁵⁾	479,402	510,328	433,686	383,526	387,144
Leverage ⁽⁶⁾	60,600	58,600	56,200	61,200	61,400
Leverage as a percent of total assets	12.0 %	11.4 %	14.0 %	15.9 %	16.3 %
Net unrealized appreciation (depreciation), end of period	107,413	105,653	(12,132)	(8,127)	(1,556)
Net assets, end of period	441,064	450,516	330,458	321,029	313,685
Average net assets during period ⁽⁷⁾	418,875	450,971	395,268	319,994	325,287
Net asset value per common share	30.38	31.04	22.76	22.12	21.61
Market value per common share	26.78	27.32	21.29	21.25	19.47
Shares outstanding (000 s)	14,516	14,516	14,516	14,516	14,516

(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.

(2) Leverage costs include interest expense and other recurring leverage expenses.

(3) Net investment income (loss) on the Statement of Operations is adjusted as follows to reconcile to Distributable Cash Flow (DCF): increased by net premiums on options written, the return of capital on distributions, and the value of paid-in-kind distributions.

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

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

(6) Leverage consists of outstanding borrowings under the revolving credit facility.

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

Tortoise

Energy Infrastructure Corp. (TYG)

Fund description

TYG is a closed-end fund that invests primarily in equity securities of master limited partnerships (MLPs) and their affiliates that transport, gather, process or store natural gas, natural gas liquids (NGLs), crude oil and refined petroleum products. TYG seeks a high level of total return with an emphasis on current distributions paid to stockholders.

Fund performance review

The fund's market-based and NAV-based total returns for the second fiscal quarter ending May 31, 2015 were -2.5% and -1.9%, respectively (including the reinvestment of distributions), compared to the Tortoise MLP Index®, which returned -0.3%. Though negative, the fund's performance reflects a relatively improved market backdrop as oil prices appeared to have somewhat stabilized. Nonetheless, concern about rising interest rates and low oil prices continued to be headwinds for midstream MLPs. The discount of the fund's stock price relative to its NAV widened during the quarter, ending at -7.1%.

2nd fiscal quarter performance highlights

Market-based total return	(2.5)%
NAV-based total return	(1.9)%
Premium (discount) to NAV (as of 5/31/2015)	(7.1)%
Distributions paid per share	\$0.645
Distribution rate (as of 5/31/2015)	6.1%
Quarter-over-quarter distribution increase	0.8%
Year-over-year distribution increase	11.2%

Key asset performance drivers

A number of factors influenced the fund's asset performance during the second fiscal quarter.

Crude oil pipeline MLPs detracted the most from absolute performance during the fiscal quarter. Although crude oil pipeline MLPs were less negatively affected by falling oil prices earlier in the year than other segments of the energy value chain, they have also been slower to rebound due to market concern in the short term that slowing production may result in fewer pipeline projects. The fund's overweight stake resulted in relative underperformance in this arena.

Refined product pipeline MLPs hurt absolute and relative performance. The names that retreated the most were those with exposure to crude oil pipeline assets, along with previously strong performers that pulled back during the fiscal quarter.

Natural gas pipeline MLPs restrained absolute and relative performance, despite the continuing need for additional pipeline infrastructure.

Gathering and processing MLPs helped in absolute terms. The top contributor in this group was Williams Partners, L.P., which became an acquisition candidate by Williams Companies in a deal valued at approximately \$14 billion, news that was well received by the market. In June, Williams Companies announced a broader strategic review, putting the pending transaction in doubt, which tempered performance for Williams Partners, L.P. However, the fund's stake in companies with NGL exposure hurt relative performance as NGL prices remained low.

The fund's performance was once again helped by its midstream focus, which steered it away from upstream MLPs that continued to struggle in a low commodity price environment.

Index returns are pre-expenses and taxes.

Performance data quoted represents past performance; past performance does not guarantee future results. Like any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost.

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Tortoise

Energy Infrastructure Corp. (TYG) (continued)

Leverage update

The fund increased leverage utilization by \$13.8 million during the 2nd quarter 2015, with proceeds primarily used to fund additional portfolio investments. During the quarter, \$110 million of debt with a fixed rate of 6.11% matured and was refinanced with a blend of fixed and floating rate debt at a lower all-in interest rate and certain interest rate swap contracts were terminated. Leverage represented 24.4% of total assets at May 31, 2015, slightly below the long-term target level of 25% of total assets. At quarter-end, including the impact of interest rate swaps, approximately 72% of the leverage cost was fixed, the weighted-average maturity was 5.9 years and the weighted-average annual rate on our leverage was 3.24%. These rates will vary in the future as a result of changing floating rates, utilization of our credit facilities and as our leverage and swaps mature or are redeemed.

Distributable cash flow and distributions

Distributable cash flow (DCF) is distributions received from investments, less expenses. The total distributions received from our investments include the amount received by us as cash distributions from investments, paid-in-kind distributions, and dividend and interest payments. The total expenses include current or anticipated operating expenses, leverage costs and current income taxes. Current income taxes include taxes paid on our net investment income, in addition to foreign taxes, if any. Taxes incurred from realized gains on the sale of investments, expected tax benefits and deferred taxes are not included in DCF.

Distributions received from investments decreased approximately 0.9% as compared to 1st quarter 2015 due to increased distribution rates on our investments that was more than offset by the impact of various portfolio trading and merger activity. Operating expenses, consisting primarily of fund advisory fees, increased slightly during the quarter due to more days in the period, even though asset levels declined. Overall leverage costs decreased during the quarter as the impact of refinancing activity more than offset the impact of the increase in total leverage outstanding.

As a result of the changes in income and expenses, DCF decreased approximately 1.3% as compared to 1st quarter 2015. We paid a quarterly distribution of \$0.645 per share, which represents an increase of 0.8% over the prior quarter and an increase of 11.2% over the 2nd quarter 2014 distribution. A majority of the increased distribution rate over the prior year is due to the fund mergers that took place in 3rd quarter 2014 and served to reduce overall expenses in the combined entity.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between distributions received from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: the Statement of Operations, in conformity with U.S. generally accepted accounting principles (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; GAAP recognizes that a significant portion of the cash distributions received from MLPs and other investments are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; and distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock or MLP units), whereas such amounts are not included as income for GAAP purposes, and includes distributions related to direct investments when the purchase price is reduced in lieu of receiving cash distributions. 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 fee waiver, as disclosed in the Statement of Operations, the DCF calculation reflects interest expense, realized and unrealized gains (losses) on interest rate swap settlements, distributions to preferred stockholders, other recurring leverage expenses, as well as taxes paid on net investment income. Non-recurring expenses related to the mergers are excluded from DCF. For 3rd quarter 2014, our DCF includes DCF from TYY and TYN for the portion of the quarter prior to the mergers (June 1, 2014 through June 22, 2014).

Net Investment Loss, before Income Taxes on the Statement of Operations is adjusted as follows to reconcile to DCF for 2015 fiscal year-to-date and 2nd quarter 2015 (in thousands):

	2015 YTD	2nd Qtr 2015
Net investment loss, before		
income taxes	\$ (20,449)	
Investment income:		
Net appreciation in fair value of investments	\$ 118,119	

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Interest	948
Dividends	334,510
Contributions:	
Participant salary deferrals	95,258
Participant rollovers	106,214
Employer	698,962
ESOP loan payments	101,740
Fund transfers	(36,984)
Loan payments	2,988
 Total additions	 1,421,755
Deductions:	
Benefits paid to participants	145,020
Administrative expenses	43,035
Interest expense	67,086
 Total deductions	 255,141
 Net increase	 1,166,614
Net assets available for benefits, beginning of year	9,477,228
 Net assets available for benefits, end of year	 \$ 10,643,842

The information related to the Heritage Financial Corporation Common Stock Fund included in the statements of net assets available for benefits and the above disclosure includes both participant and nonparticipant directed investments. These amounts cannot be separately determined. As allowed under Statement of Position 99-3, the entire investment is deemed to be nonparticipant directed for purposes of this disclosure.

(6) Plan Termination

The Company reserves the right to terminate the Plan at any time, subject to Plan provisions. Upon termination of the Plan, participant accounts become fully vested and will be distributed to the participant or his or her beneficiary at the time prescribed by the Plan terms and the IRC. Upon termination of the Plan, the trustee will direct the Plan administrator to pay all liabilities and expenses of the trust fund and to sell shares of unallocated stock to the extent it determines such sale necessary to repay the loan. Remaining unallocated shares will be allocated to participants.

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HERITAGE FINANCIAL CORPORATION

401(k) EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

Notes to financial Statements

December 31, 2006 and 2005

(7) Tax Status

The Plan obtained its latest determination letter on October 25, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the IRC. Although the Plan has been amended since receiving the determination letter, the Plan administrator and the Plan's counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

(8) Related Party and Party in Interest Transactions

The Plan's assets, which consist primarily of shares of Company stock, registered investment company funds, and U.S. Bank money market fund, are held by U.S. Bank, the trustee of the Plan. The Company's contributions are held and managed by the trustee, which invests cash received, interest and dividend income, and makes distributions to participants. The record keeper administers the payment of interest and principal on the loan, which is reimbursed to the trustee through contributions determined by the Company.

Certain administrative functions are performed by officers or employees of the Company. No officer or employee receives compensation from the Plan.

For the year ended December 31, 2006, the Plan paid U.S. Bank \$47,636 for services as trustee and asset custodian of the Plan. For the year ended December 31, 2006, the Plan paid \$54,065 to other service providers that are defined as a Party in Interest under ERISA.

(9) Subsequent Events

Effective January 1, 2007, administrative changes were made to reduce vesting of contributions from seven years to six years and the diversification of Heritage Financial Corporation stock funds to comply with the requirements of the Pension Protection Act of 2006.

(10) Reconciliation of Financial Statements to Schedule H of Form 5500

The following is a reconciliation of net assets available for benefits per the financial statements to Schedule H of Form 5500:

	2006	2005
Net assets available for benefits per the financial statements	\$ 20,702,649	17,560,874
Amounts allocated to withdrawing participants	(135,839)	(10,453)
Net assets available for benefits per Schedule H of Form 5500	\$ 20,566,810	17,550,421

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Notes to financial Statements

December 31, 2006 and 2005

The following is a reconciliation of benefits paid to participants per the financial statements to Schedule H of Form 5500:

	Year ended December 31, 2006
Benefits paid to participants per the financial statements	\$ 227,470
Less amounts allocated to withdrawing participants at end of prior year	(10,453)
Add amounts allocated to withdrawing participants at year-end	135,839
 Benefits paid to participants per Schedule H of Form 5500	 \$ 352,856

The following is a reconciliation of investment income per the financial statements to Schedule H of Form 5500:

	Year ended December 31, 2006
Per financial statements:	
Net appreciation in fair value of investments	\$ 1,090,574
Interest and dividends	524,637
	\$ 1,615,211
 Per Schedule H of Form 5500:	
Interest	\$ 49,074
Dividends	334,510
Net gain on sale of assets	50,757
Unrealized appreciation of assets	67,363
Net investment income from registered investment companies	1,113,507
	\$ 1,615,211

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EIN: 91-1618099

Plan Number: 003

Form 5500, Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)

December 31, 2006

		(c)		
(b)		Description of investment		
Identity of issue, borrower,		including maturity date, rate of interest, collateral,		
		(d)	(e)	
(a)	lessor, or similar party	par or maturity value	Cost	Current value
	Participant directed investments:			
	Registered investment company funds:			
	Frank Russell Fixed Income I Fund, Class I	31,085 shares	\$ 667,915	641,288
	Frank Russell Fixed Income III Fund, Class I	61,963 shares	641,413	642,554
	Frank Russell Equity I Fund, Class I	37,616 shares	1,061,003	1,241,700
	Frank Russell Equity II Fund, Class I	9,714 shares	309,824	276,854
	Frank Russell International Fund, Class I	27,008 shares	956,598	1,278,267
	Frank Russell Emerging Markets Fund, Class S	12,428 shares	165,150	258,002
	Frank Russell Real Estate Securities Fund, Class S	5,626 shares	222,080	307,292
	Frank Russell Equity Q Fund, Class I	34,073 shares	1,114,727	1,274,677
	Fidelity Advisory Mid Cap Fund, Class A	66,288 shares	1,465,300	1,635,329
*	First American Equity Index Fund, Class Y	38,031 shares	796,913	998,701
	T. Rowe Price Blue Chip Growth Fund	12,573 shares	387,245	449,219
*	U.S. Bank First American Prime Obligation Fund	978,175 units	978,175	978,175
*	Participant loans	Interest rates of 4.25% - 6.50%, maturing through March 2014	54,033	54,033
			8,820,376	10,036,091
	Nonparticipant directed investments:			
*	Heritage Financial Corporation common stock	439,362 shares	5,389,846	10,900,571
*	U.S. Bank First American Prime Obligation Fund	4,386 units	4,386	4,386
			5,394,232	10,904,957
			\$ 14,214,608	20,941,048

* A party-in-interest as defined by ERISA.

See accompanying report of independent registered public accounting firm.

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HERITAGE FINANCIAL CORPORATION

401(k) EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST

EIN: 91-1618099

Plan Number: 003

Form 5500, Schedule H, Line 4(j) Schedule of Reportable Transactions

Year ended December 31, 2006

(a)	(b)	(c)	(d)	(d)	(f)	(d)	(h)
Identity of party involved	Description of assets	Number of purchases	Purchase price	Number of sales or disbursements	Selling price	Book value at sale	Net gain (loss)
Category (iii) Series of transactions in excess of 5% of plan assets at January 1, 2006:							
First American Prime Obligation	Money Market Fund	143	\$ 1,247,256	117	1,244,288	1,244,288	
Heritage Financial Corporation	Company Stock	47	1,014,232	41	102,243	51,488	50,755

Note: Participant and nonparticipant directed transactions are included in the company stock as it is not possible to segregate the transactions.

See accompanying report of independent registered public accounting firm.