

# Kayne Anderson

*Midstream/Energy Fund*



**KMF Semi-Annual Report**  
May 31, 2018

## CONTENTS

	<u>Page</u>
Management Discussion . . . . .	1
Portfolio Summary . . . . .	6
Schedule of Investments . . . . .	7
Statement of Assets and Liabilities . . . . .	11
Statement of Operations . . . . .	12
Statement of Changes in Net Assets Applicable to Common Stockholders . . . . .	13
Statement of Cash Flows . . . . .	14
Financial Highlights . . . . .	15
Notes to Financial Statements . . . . .	19
Glossary of Key Terms . . . . .	37
Privacy Policy Notice . . . . .	38
Dividend Reinvestment Plan . . . . .	40
Investment Management Agreement Approval Disclosure . . . . .	43
Proxy Voting and Portfolio Holdings Information . . . . .	46
Repurchase Disclosure . . . . .	46
Results of Annual Meeting of Stockholders . . . . .	47

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS:** This report of Kayne Anderson Midstream/Energy Fund, Inc. (the “Fund”) contains “forward-looking statements” as defined under the U.S. federal securities laws. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to materially differ from the Fund’s historical experience and its present expectations or projections indicated in any forward-looking statement. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; MLP industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Fund’s filings with the Securities and Exchange Commission (“SEC”). You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Fund undertakes no obligation to publicly update or revise any forward-looking statements made herein. There is no assurance that the Fund’s investment objectives will be attained.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Fund Overview**

Kayne Anderson Midstream/Energy Fund, Inc. is a non-diversified, closed-end fund. We commenced operations on November 24, 2010. Our shares of common stock are listed on the New York Stock Exchange under the symbol “KMF.”

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary of Key Terms for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

As of May 31, 2018, we had total assets of \$443 million, net assets applicable to our common stockholders of \$309 million (net asset value of \$14.02 per share), and 22.0 million shares of common stock outstanding. As of May 31, 2018, we held \$405 million in equity investments and \$22 million in debt investments.

**Recent Events**

*Proposed Merger with Kayne Anderson Energy Total Return Fund, Inc.*

On February 15, 2018, KA Fund Advisors, LLC (“KAFA”) announced the proposed merger of Kayne Anderson Energy Total Return Fund, Inc. (“KYE”) with and into Kayne Anderson Midstream/Energy Fund, Inc. (the “Fund” or “KMF”) (the “Reorganization”). Subject to KYE stockholder approval, KYE common stockholders will be issued KMF common stock, and KMF will acquire substantially all the assets and liabilities of KYE.

The exchange ratio will be based on the relative NAVs per share of each fund immediately prior to the closing of the Reorganization. As of May 31, 2018, KMF’s NAV per share was \$14.02, and KYE’s was \$10.26. For illustrative purposes, if these were the NAVs on the day prior to closing of the Reorganization, then KYE stockholders would be issued approximately 0.73 shares of KMF for each share of KYE. It is currently expected that the merger will be completed in the fiscal quarter ending in August 2018, subject to obtaining stockholder approval, compliance with all regulatory requirements and satisfaction of customary closing conditions. The Reorganization is expected to qualify as a tax-free reorganization for federal income tax purposes, and as a result, the Reorganization is not expected to be taxable to stockholders of either KMF or KYE.

The Board of Directors of KMF and KYE determined that the proposed Reorganization is in the best interests of each fund and its stockholders. The funds have similar investment strategies and portfolios, and the combined fund will pursue an investment objective of obtaining a high total return, with an emphasis on making cash distributions, by investing in Midstream MLPs, Midstream Companies and other Energy Companies.

On June 28, 2018, KYE announced that its special meeting of stockholders was adjourned to July 17, 2018 and on that date the meeting was subsequently adjourned to July 31, 2018. KYE stockholders are being asked to vote on the Reorganization.

A “Frequently Asked Questions” document regarding the Reorganization can be found at [www.kaynefunds.com](http://www.kaynefunds.com). More information on the Reorganization is contained in the definitive joint proxy statement/prospectus filed with the Securities and Exchange Commission (the “SEC”) on May 30, 2018 and mailed to KMF and KYE stockholders.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Results of Operations — For the Three Months Ended May 31, 2018**

*Investment Income.* Investment income totaled \$0.3 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received \$7.1 million of dividends and distributions, of which \$7.6 million was treated as return of capital. Return of capital was increased by \$2.2 million due to 2017 tax reporting information that we received in fiscal 2018. Interest income was \$0.8 million. We also received \$0.9 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain.

*Operating Expenses.* Operating expenses totaled \$3.1 million, including \$1.3 million of investment management fees, \$1.0 million of interest expense, \$0.4 million of preferred stock distributions and \$0.4 million of other operating expenses (including non-cash write-off of shelf offering costs of \$0.04 million). Interest expense includes \$0.2 million of non-cash amortization of debt issuance costs.

*Net Investment Loss.* Our net investment loss totaled \$2.8 million.

*Net Realized Losses.* We had net realized losses of \$4.5 million, which included \$0.1 million of net realized gains from option activity.

*Net Change in Unrealized Gains.* We had a net increase in unrealized gains of \$27.0 million. The net increase consisted of \$27.1 million of unrealized gains from investments and \$0.1 million of unrealized losses from option activity.

*Net Increase in Net Assets Resulting from Operations.* We had an increase in net assets resulting from operations of \$19.7 million. This increase was comprised of net investment loss of \$2.8 million, net realized losses of \$4.5 million and a net increase in unrealized gains of \$27.0 million, as noted above.

**Distributions to Common Stockholders**

We pay quarterly distributions to our common stockholders, funded generally by net distributable income (“NDI”) generated from our portfolio investments. NDI is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. NDI is not a financial measure under the accounting principles generally accepted in the United States of America (“GAAP”). Refer to the “Reconciliation of NDI to GAAP” section below for a reconciliation of this measure to our results reported under GAAP.

Income from portfolio investments includes (a) cash dividends and distributions, (b) paid-in-kind dividends received (*i.e.*, stock dividends), (c) interest income from debt securities and commitment fees from private investments in public equity (“PIPE investments”) and (d) net premiums received from the sale of covered calls.

Operating expenses include (a) investment management fees paid to our investment adviser (KAFA), (b) other expenses (mostly comprised of fees paid to other service providers), (c) accrual for estimated excise taxes (if any) and (d) interest expense and preferred stock distributions.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Net Distributable Income (NDI)**  
(amounts in millions, except for per share amounts)

	<u>Three Months Ended May 31, 2018</u>
<b>Distributions and Other Income from Investments</b>	
Dividends <sup>(1)</sup> .....	\$ 7.1
Paid-In-Kind Dividends <sup>(1)</sup> .....	0.9
Interest and Other Income .....	0.8
Net Premiums Received from Call Options Written .....	<u>0.1</u>
Total Distributions and Other Income from Investments .....	8.9
<b>Expenses</b>	
Investment Management Fee .....	(1.3)
Other Expenses .....	(0.3)
Interest Expense .....	(0.9)
Preferred Stock Distributions .....	<u>(0.4)</u>
<b>Net Distributable Income (NDI)</b> .....	<b><u>\$ 6.0</u></b>
Weighted Shares Outstanding .....	22.0
<b>NDI per Weighted Share Outstanding</b> .....	<b><u>\$0.27</u></b>
<b>Adjusted NDI per Weighted Share Outstanding<sup>(2)</sup></b> .....	<b><u>\$0.25</u></b>
<b>Distributions paid per Common Share<sup>(3)</sup></b> .....	<b><u>\$0.30</u></b>

- (1) See Note 2 — Significant Accounting Policies to the Financial Statements for additional information regarding paid-in-kind and non-cash dividends and distributions.
- (2) Adjusted NDI excludes distributions from Macquarie Infrastructure Corporation and SemGroup Corporation attributable to the first quarter of fiscal 2018 (\$0.4 million in aggregate). Both company's distributions had ex-dividend dates in early March 2018, and were included in Adjusted NDI for the first quarter.
- (3) The distribution of \$0.30 per share for the second quarter of fiscal 2018 was paid on July 13, 2018.

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our debt agreements and terms of our preferred stock. Because our quarterly distributions are funded primarily by NDI generated from our portfolio investments, the Board of Directors, in determining our quarterly distribution to common stockholders, gives a significant amount of consideration to the NDI and Adjusted NDI generated in the current quarter, as well as the NDI that our portfolio is expected to generate over the next twelve months. The Board of Directors also considers other factors, including but not limited to, realized and unrealized gains generated by the portfolio.

Following the completion of the Reorganization, KMF intends to begin paying distributions on a monthly basis beginning in September 2018.

**Reconciliation of NDI to GAAP**

The difference between distributions and other income from investments in the NDI calculation and total investment income as reported in our Statement of Operations is reconciled as follows:

- GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from investment income, whereas the NDI calculation includes the return of capital portion of such distributions.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

- NDI includes the value of paid-in-kind dividends and distributions whereas such amounts are not included as investment income for GAAP purposes, but rather are recorded as unrealized gains upon receipt.
- NDI includes commitment fees from PIPE investments, whereas such amounts are generally not included in investment income for GAAP purposes, but rather are recorded as a reduction to the cost of the investment.
- Certain of our investments in debt securities were purchased at a discount or premium to the par value of such security. When making such investments, we consider the security's yield to maturity, which factors in the impact of such discount (or premium). Interest income reported under GAAP includes the non-cash accretion of the discount (or amortization of the premium) based on the effective interest method. When we calculate interest income for purposes of determining NDI, in order to better reflect the yield to maturity, the accretion of the discount (or amortization of the premium) is calculated on a straight-line basis to the earlier of the expected call date or the maturity date of the debt security.
- We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the call premium that we received, thereby generating a profit. The premium we receive from selling call options, less (i) the amount that we pay to repurchase such call option contracts and (ii) the amount by which the market price of an underlying security is above the strike price at the time a new call option is written (if any), is included in NDI. For GAAP purposes, premiums received from call option contracts sold are not included in investment income. See Note 2 — Significant Accounting Policies for a full discussion of the GAAP treatment of option contracts.

The treatment of expenses included in NDI also differs from what is reported in the Statement of Operations as follows:

- The non-cash amortization or write-offs of capitalized debt issuance costs and preferred stock offering costs related to our financings is included in interest expense and distributions on preferred stock for GAAP purposes, but is excluded from our calculation of NDI.
- NDI also includes recurring payments (or receipts) on interest rate swap contracts or the amortization of termination payments on interest rate swap contracts entered into in anticipation of an offering of unsecured notes ("Notes") or mandatory redeemable preferred stock ("MRP Shares"). The termination payments on interest rate swap contracts are amortized over the term of the Notes or MRP Shares issued. For GAAP purposes, these amounts are included in the realized gains/losses section of the Statement of Operations.
- Under GAAP, excise taxes are accrued when probable and estimable. For NDI, we exclude excise tax that is unrelated to the current fiscal period.
- For GAAP purposes, offering costs incurred related to the issuance of common stock reduce paid-in capital when stock is issued. Certain costs related to registration statements or shelf offerings may be written off once the registration statement or prospectus' usefulness has expired. The non-cash amortization or write-off of these offering costs is included in operating expense for GAAP purposes, but is excluded from our calculation of NDI.

### **Liquidity and Capital Resources**

At May 31, 2018, we had total leverage outstanding of \$126 million, which represented 28% of total assets. At quarter end, total leverage was comprised of \$91 million of Notes and \$35 million of MRP Shares. At May 31, 2018, we did not have any borrowings outstanding under our unsecured revolving credit facility (the "Credit Facility") or our unsecured revolving term loan (the "Term Loan"), and we had \$11 million of cash and cash equivalents. As of July 20, 2018, we had no borrowings outstanding under our Credit Facility or Term Loan, and we had \$1 million of cash and cash equivalents.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

Our Credit Facility has a total commitment of \$75 million and matures on November 9, 2018. The interest rate on outstanding loan balances may vary between LIBOR plus 1.60% and LIBOR plus 2.25%, depending on our asset coverage ratios. We pay a fee of 0.30% per annum on any unused amounts of the Credit Facility.

Our Term Loan has a total commitment of \$35 million and matures on July 25, 2019. Borrowings under the Term Loan have an interest rate of LIBOR plus 1.50%. Amounts borrowed under the Term Loan may be repaid and subsequently borrowed. We pay a fee of 0.25% per annum on any unused amount of the Term Loan.

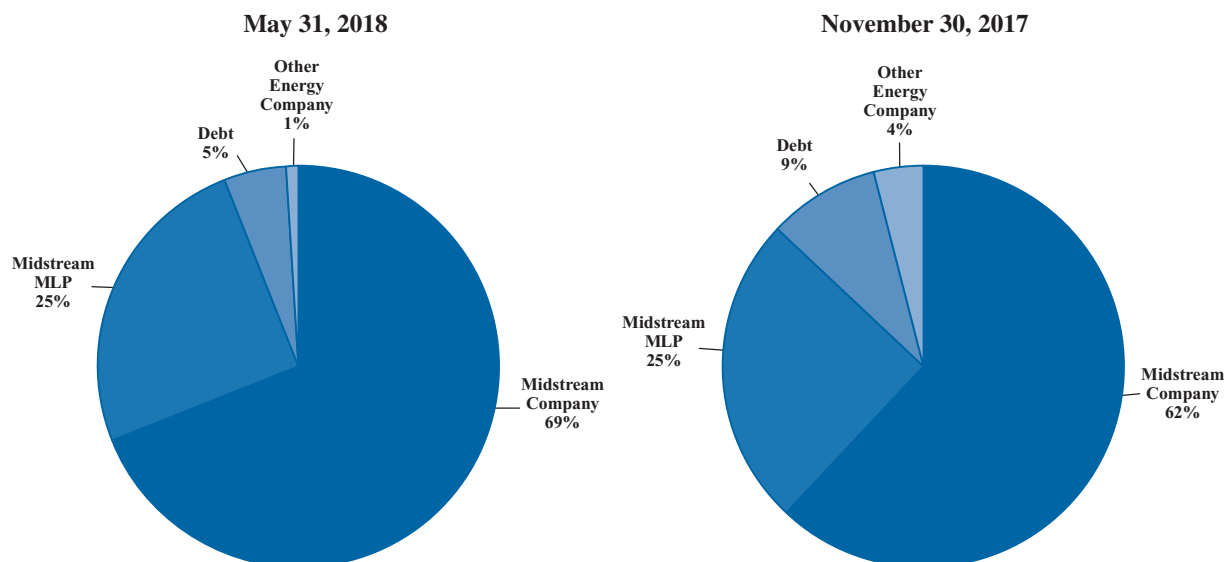
At May 31, 2018, we had \$91 million of Notes outstanding that mature between 2021 and 2023 and we had \$35 million of MRP Shares outstanding that are subject to mandatory redemption in 2021.

At May 31, 2018, our asset coverage ratios under the Investment Company Act of 1940, as amended (the "1940 Act"), were 478% for debt and 345% for total leverage (debt plus preferred stock). Our target asset coverage ratio with respect to our debt is 430%. At times we may be above or below this target depending on market conditions as well as certain other factors, including our target total leverage asset coverage ratio of 320% and the basic maintenance amount as stated in our rating agency guidelines.

As of May 31, 2018, our total leverage consisted entirely of fixed rate obligations. At such date, the weighted average interest/dividend rate on our total leverage was 3.93%.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**PORTFOLIO SUMMARY**  
**(UNAUDITED)**

**Portfolio of Long-Term Investments by Category<sup>(1)</sup>**



**Top 10 Holdings by Issuer**

Holding	Category <sup>(1)</sup>	Percent of Long-Term Investments as of	
		May 31, 2018	November 30, 2017
1. ONEOK, Inc.	Midstream Company	10.5%	7.8%
2. The Williams Companies, Inc. <sup>(2)</sup>	Midstream Company	8.1	6.0
3. Targa Resources Corp.	Midstream Company	8.1	7.1
4. Plains GP Holdings, L.P. <sup>(3)</sup>	Midstream Company	8.0	6.6
5. Pembina Pipeline Corporation	Midstream Company	4.6	1.7
6. Energy Transfer Partners, L.P.	Midstream MLP	4.4	3.8
7. KNOT Offshore Partners LP	Midstream Company	3.8	3.7
8. Kinder Morgan, Inc.	Midstream Company	3.8	1.1
9. MPLX LP	Midstream MLP	3.7	3.6
10. GasLog Partners LP	Midstream Company	3.6	3.8

- (1) See Glossary of Key Terms for definitions. Midstream Company & MLP Affiliate category includes Midstream Companies engaged in marine transportation (13% as of May 31, 2018 and 16% as of November 30, 2017).
- (2) On May 17, 2018, The Williams Companies, Inc. (“WMB”) and Williams Partners L.P. (“WPZ”) announced an agreement under which WMB will acquire all common units of WPZ in a stock-for-unit transaction. As of May 31, 2018 and November 30, 2017, the Fund did not own any WPZ units.
- (3) Our investment includes our holdings of Plains GP Holdings, L.P. (“PAGP”) and our interest in Plains AAP, L.P. (“PAGP-AAP”). Our ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. units at our option.



**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**MAY 31, 2018**  
(amounts in 000's, except number of option contracts)  
(UNAUDITED)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>
<b>Long-Term Investments — 138.3%</b>		
<b>Equity Investments<sup>(1)</sup> — 131.3%</b>		
<b>United States — 118.6%</b>		
<b>Midstream Companies<sup>(2)</sup> — 82.3%</b>		
Capital Product Partners L.P. — Class B Units <sup>(3)(4)(5)(6)</sup> .....	606	\$ 4,800
Enbridge Energy Management, L.L.C. <sup>(7)(8)</sup> .....	1,629	15,476
GasLog Partners LP <sup>(5)</sup> .....	636	15,545
Golar LNG Partners LP <sup>(5)</sup> .....	534	8,962
Höegh LNG Partners LP <sup>(5)</sup> .....	507	8,774
Kinder Morgan, Inc. ....	975	16,265
KNOT Offshore Partners LP <sup>(5)</sup> .....	781	16,405
ONEOK, Inc. <sup>(9)</sup> .....	658	44,850
Plains GP Holdings, L.P. <sup>(5)(10)</sup> .....	703	17,262
Plains GP Holdings, L.P. — Plains AAP, L.P. <sup>(3)(5)(10)(11)</sup> .....	690	16,942
SemGroup Corporation .....	246	6,220
Tallgrass Energy GP, LP <sup>(5)(12)</sup> .....	604	12,992
Targa Resources Corp. ....	714	34,733
The Williams Companies, Inc. <sup>(13)</sup> .....	1,296	34,800
		<u>254,026</u>
<b>Midstream MLPs<sup>(2)(14)</sup> — 34.3%</b>		
Andeavor Logistics LP .....	103	4,406
BP Midstream Partners LP .....	155	3,314
Buckeye Partners, L.P. <sup>(10)</sup> .....	164	5,907
Buckeye Partners, L.P. — Class C Units <sup>(3)(4)(7)(10)(15)</sup> .....	182	5,849
Cheniere Energy Partners, L.P. ....	19	666
Crestwood Equity Partners LP .....	132	4,419
DCP Midstream, LP .....	224	9,372
Energy Transfer Partners, L.P. ....	986	18,727
Enterprise Products Partners L.P. ....	378	10,929
EQT Midstream Partners, LP .....	34	1,881
Global Partners LP .....	284	4,936
Magellan Midstream Partners, L.P. ....	45	3,159
MPLX LP .....	439	15,771
Noble Midstream Partners LP .....	13	645
Oasis Midstream Partners LP .....	14	261
Phillips 66 Partners LP .....	39	2,020
Shell Midstream Partners, L.P. ....	45	1,016
Summit Midstream Partners, LP .....	234	3,794
TC PipeLines, LP .....	89	2,172
Western Gas Partners, LP .....	130	6,694
		<u>105,938</u>

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**MAY 31, 2018**  
(amounts in 000's, except number of option contracts)  
(UNAUDITED)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>		
<b>Other Energy Companies — 2.0%</b>				
Marathon Petroleum Corporation .....	6	\$ 459		
NextEra Energy Partners, LP .....	73	3,264		
Phillips 66 .....	4	489		
Valero Energy Corporation .....	4	521		
Viper Energy Partners LP <sup>(16)</sup> .....	45	1,453		
		<u>6,186</u>		
<b>Total United States (Cost — \$346,931) .....</b>		<u>366,150</u>		
<b>Canada — 12.7%</b>				
<b>Midstream Companies<sup>(2)</sup> — 12.7%</b>				
Enbridge Inc. <sup>(8)</sup> .....	345	10,716		
Pembina Pipeline Corporation .....	566	19,687		
TransCanada Corporation .....	215	8,989		
		<u>39,392</u>		
<b>Total Canada (Cost — \$39,935) .....</b>		<u>39,392</u>		
<b>Total Equity Investments (Cost — \$386,866) .....</b>		<u>405,542</u>		
	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Value</u>
<b>Debt Instruments — 7.0%</b>				
<b>United States — 5.4%</b>				
<b>Upstream — 5.4%</b>				
California Resources Corporation <sup>(3)(10)</sup> .....	8.000%	12/15/22	\$ 7,525	6,679
Eclipse Resources Corporation .....	8.875	7/15/23	9,100	8,599
Jones Energy Holdings, LLC .....	9.250	3/15/23	2,600	1,625
				<u>16,903</u>
<b>Total United States (Cost — \$17,323) .....</b>				<u>16,903</u>
<b>Canada — 1.6%</b>				
<b>Upstream — 1.6%</b>				
Jupiter Resources Inc. <sup>(3)</sup> (Cost — \$9,534) .....	8.500	10/1/22	11,480	4,822
				<u>4,822</u>
<b>Total Debt Investments (Cost — \$26,857) .....</b>				<u>21,725</u>
<b>Total Long-Term Investments (Cost — \$413,723) .....</b>				<u>427,267</u>
			<u>No. of Shares/Units</u>	<u>Value</u>
<b>Short-Term Investment — 2.8%</b>				
<b>Money Market Fund — 2.8%</b>				
JPMorgan 100% U.S. Treasury Securities Money Market Fund — Capital Shares, 1.62% <sup>(17)</sup> (Cost — \$8,687) .....			8,687	8,687
				<u>8,687</u>
<b>Total Investments — 141.1% (Cost — \$422,410) .....</b>				<u>435,954</u>

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**MAY 31, 2018**  
(amounts in 000's, except number of option contracts)  
(UNAUDITED)

	<u>Strike Price</u>	<u>Expiration Date</u>	<u>No. of Contracts</u>	<u>Notional Amount<sup>(18)</sup></u>	<u>Value</u>
<b>Liabilities</b>					
<b>Call Option Contracts Written<sup>(19)</sup></b>					
<b>United States</b>					
<b>Midstream Company</b>					
ONEOK, Inc. ....	\$70.00	7/20/18	350	\$2,386	\$ (42)
ONEOK, Inc. ....	72.50	7/20/18	350	2,386	(17)
<b>Total Call Option Contracts Written (Premiums Received — \$51) .....</b>					<b>(59)</b>
<b>Debt .....</b>					<b>(91,000)</b>
<b>Mandatory Redeemable Preferred Stock at Liquidation Value .....</b>					<b>(35,000)</b>
<b>Other Liabilities in Excess of Other Assets .....</b>					<b>(1,060)</b>
<b>Net Assets Applicable to Common Stockholders .....</b>					<b><u>\$308,835</u></b>

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Refer to the “Glossary of Key Terms” for the definitions of Midstream Companies and Midstream MLPs.
- (3) The Fund’s ability to sell this security is subject to certain legal or contractual restrictions. As of May 31, 2018, the aggregate value of restricted securities held by the Fund was \$39,092 (8.8% of total assets), which included \$28,443 of Level 2 securities and \$10,649 of Level 3 securities. See Note 7 — Restricted Securities.
- (4) Fair valued security. See Notes 2 and 3 in Notes to Financial Statements.
- (5) This company is structured like an MLP, but is not treated as a publicly-traded partnership for regulated investment company (“RIC”) qualification purposes.
- (6) Class B Units are convertible on a one-for-one basis into common units of Capital Product Partners L.P. (“CPLP”) and are senior to the common units in terms of liquidation preference and priority of distributions (liquidation preference of \$9.00 per unit). The Class B Units pay quarterly cash distributions and are convertible at any time at the option of the holder. The Class B Units paid a distribution of \$0.21375 per unit for the second quarter.
- (7) Dividends are paid-in-kind.
- (8) On May 17, 2018, Enbridge Inc. (“ENB”) announced it has made proposals to the respective boards of directors of its sponsored vehicles, Spectra Energy Partners, LP (“SEP”), Enbridge Energy Partners, L.P. (“EEP”), Enbridge Energy Management, L.L.C. (“EEQ”) and Enbridge Income Fund Holdings Inc. (“ENF”), to acquire, with ENB stock, all of the outstanding equity securities of those sponsored vehicles not beneficially owned by ENB.
- (9) Security or a portion thereof is segregated as collateral on option contracts written.
- (10) The Fund believes that it is an affiliate of Buckeye Partners, L.P. (“BPL”), Plains AAP, L.P. (“PAGP-AAP”) and Plains GP Holdings, L.P. (“PAGP”). The Fund does not believe that it is an affiliate of California Resources Corporation. See Note 5 — Agreements and Affiliations.
- (11) The Fund’s ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. (“PAA”) units at the Fund’s option. The Fund values its PAGP-AAP investment on an “as exchanged” basis based on the higher public market value of either PAGP or PAA. As of May 31, 2018, the Fund’s PAGP-AAP investment is valued at PAGP’s closing price. See Notes 3 and 7 in Notes to Financial Statements.
- (12) On June 30, 2018, Tallgrass Energy GP, LP (“TEGP”) and Tallgrass Energy Partners, LP (“TEP”) completed their previously-announced stock-for-unit merger. TEGP acquired all TEP common units, and following completion of the merger, TEGP changed its name to Tallgrass Energy, LP (“TGE”).

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**MAY 31, 2018**  
**(amounts in 000's, except number of option contracts)**  
**(UNAUDITED)**

- (13) On May 17, 2018, The Williams Companies, Inc. (“WMB”) and Williams Partners L.P. (“WPZ”) announced an agreement under which WMB will acquire all common units of WPZ in an all stock-for-unit merger.
- (14) Unless otherwise noted, securities are treated as a publicly-traded partnership for RIC qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had 23.9% of its total assets invested in publicly-traded partnerships at May 31, 2018. It is the Fund’s intention to be treated as a RIC for tax purposes.
- (15) On March 2, 2018, the Fund purchased, in a private placement, Class C Units from BPL. The BPL Class C Units are similar in all respects to the common units except that BPL has elected to pay distributions in-kind in additional BPL Class C Units instead of cash. The paid-in-kind BPL Class C Units are issued at a 12.5% discount to the volume weighted average price (“VWAP”) for the ten (10) days ending the day before the distribution is declared. The BPL Class C Units will convert on a one-for-one basis to BPL common units no later than March 2, 2020.
- (16) On May 10, 2018, Viper Energy Partners LP (“VNOM”) changed its tax status from that of a pass-through partnership to a taxable entity via a “check the box” election.
- (17) The rate indicated is the current yield as of May 31, 2018.
- (18) The notional amount of call option contracts written is the product of (a) the number of contracts written, (b) 100 (each contract entitles the option holder to 100 units/shares) and (c) the market price of the underlying security as of May 31, 2018.
- (19) Security is non-income producing.

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**MAY 31, 2018**  
(amounts in 000's, except share and per share amounts)  
(UNAUDITED)

**ASSETS**

Investments, at fair value:	
Non-affiliated (Cost — \$369,666) .....	\$ 381,307
Affiliated (Cost — \$44,057) .....	45,960
Short-term investments (Cost — \$8,687) .....	<u>8,687</u>
Total investments (Cost — \$422,410) .....	435,954
Cash .....	2,000
Deposits with brokers .....	313
Receivable for securities sold .....	2,653
Interest, dividends and distributions receivable (Cost — \$1,156) .....	1,154
Deferred credit facility and term loan offering costs and other assets .....	<u>513</u>
<b>Total Assets</b> .....	<u><u>442,587</u></u>

**LIABILITIES**

Payable for securities purchased .....	6,124
Investment management fee payable .....	453
Accrued directors' fees and expenses .....	88
Call option contracts written (Premiums received — \$51) .....	59
Accrued expenses and other liabilities .....	1,609
Notes .....	91,000
Unamortized notes issuance costs .....	(361)
Mandatory redeemable preferred stock, \$25.00 liquidation value per share (1,400,000 shares issued and outstanding) .....	35,000
Unamortized mandatory redeemable preferred stock issuance costs .....	<u>(220)</u>
<b>Total Liabilities</b> .....	<u>133,752</u>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** ..... \$ 308,835

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF**

Common stock, \$0.001 par value (22,034,170 shares issued and outstanding and, 198,600,000 shares authorized) .....	\$ 22
Paid-in capital .....	445,109
Accumulated net investment income less distributions not treated as tax return of capital .....	(25,365)
Accumulated net realized losses less distributions not treated as tax return of capital .....	(124,462)
Net unrealized gains .....	<u>13,531</u>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** ..... \$ 308,835

**NET ASSET VALUE PER COMMON SHARE** ..... \$ 14.02

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**STATEMENT OF OPERATIONS**  
(amounts in 000's)  
(UNAUDITED)

	<u>For the Three Months Ended May 31, 2018</u>	<u>For the Six Months Ended May 31, 2018</u>
<b>INVESTMENT INCOME</b>		
<b>Income</b>		
Dividends and distributions:		
Non-affiliated investments .....	\$ 6,446	\$ 12,513
Affiliated investments .....	624	1,249
Money market mutual funds .....	14	25
Total dividends and distributions (after foreign taxes withheld of \$81 and \$143, respectively) .....	7,084	13,787
Return of capital .....	<u>(7,623)</u>	<u>(12,409)</u>
Net dividends and distributions .....	(539)	1,378
Interest income .....	802	1,917
Total Investment Income .....	<u>263</u>	<u>3,295</u>
<b>Expenses</b>		
Investment management fees .....	1,310	2,702
Professional fees .....	107	227
Directors' fees and expenses .....	88	186
Administration fees .....	46	94
Insurance .....	26	53
Reports to stockholders .....	17	47
Custodian fees .....	16	33
Other expenses .....	68	134
Total Expenses — before interest expense and preferred distributions .....	1,678	3,476
Interest expense and amortization of offering costs .....	1,055	2,113
Distributions on mandatory redeemable preferred stock and amortization of offering costs .....	374	746
Total Expenses .....	<u>3,107</u>	<u>6,335</u>
<b>Net Investment Loss</b> .....	<u>(2,844)</u>	<u>(3,040)</u>
<b>REALIZED AND UNREALIZED GAINS (LOSSES)</b>		
<b>Net Realized Gains (Losses)</b>		
Investments — non-affiliated .....	(4,580)	(7,294)
Foreign currency transactions .....	(5)	(3)
Options .....	51	147
Net Realized Losses .....	<u>(4,534)</u>	<u>(7,150)</u>
<b>Net Change in Unrealized Gains (Losses)</b>		
Investments — non-affiliated .....	24,156	16,964
Investments — affiliated .....	2,958	3,447
Foreign currency translations .....	2	—
Options .....	(35)	(8)
Net Change in Unrealized Gains .....	<u>27,081</u>	<u>20,403</u>
<b>Net Realized and Unrealized Gains</b> .....	<u>22,547</u>	<u>13,253</u>
<b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM OPERATIONS</b> .....	<u>\$19,703</u>	<u>\$ 10,213</u>

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**  
(amounts in 000's, except share amounts)

	<u>For the Six Months Ended May 31, 2018 (Unaudited)</u>	<u>For the Fiscal Year Ended November 30, 2017</u>
<b>OPERATIONS</b>		
Net investment income (loss) <sup>(1)</sup> .....	\$ (3,040)	\$ 3,163
Net realized gains (losses) .....	(7,150)	19,067
Net change in unrealized gains (losses) .....	20,403	(65,299)
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b> .....	<u>10,213</u>	<u>(43,069)</u>
<b>DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS <sup>(1)</sup></b>		
Dividends .....	(13,221) <sup>(2)</sup>	(609) <sup>(3)</sup>
Distributions — return of capital .....	<u>—</u> <sup>(2)</sup>	<u>(28,036)</u> <sup>(3)</sup>
<b>Dividends and Distributions to Common Stockholders</b> .....	<u>(13,221)</u>	<u>(28,645)</u>
<b>Total Decrease in Net Assets Applicable to Common Stockholders</b> .....	<u>(3,008)</u>	<u>(71,714)</u>
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>		
Beginning of period .....	<u>311,843</u>	<u>383,557</u>
End of period .....	<u>\$308,835</u>	<u>\$311,843</u>

- (1) Distributions on the Fund's mandatory redeemable preferred stock ("MRP Shares") are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 — Significant Accounting Policies. Distributions in the amount of \$711 paid to holders of MRP Shares during the six months ended May 31, 2018 are characterized as dividend income (a portion of which may be eligible to be treated as qualified dividend income) until after the end of the fiscal year when the Fund can determine its earnings and profits for the full fiscal year, which include gains and losses on the sale of securities for the remainder of the fiscal year. The final tax character may differ substantially from this preliminary information. Distributions in the amount of \$1,421 paid to holders of MRP Shares for the fiscal year ended November 30, 2017 were characterized as dividends. A portion of the distributions characterized as dividends for the fiscal year ended November 30, 2017 was eligible to be treated as qualified dividend income. This characterization is based on the Fund's earnings and profits.
- (2) Distributions paid to common stockholders for the six months ended May 31, 2018 are characterized as dividend income (a portion of which may be eligible to be treated as qualified dividend income) until after the end of the fiscal year when the Fund can determine its earnings and profits for the full fiscal year, which include gains and losses on the sale of securities for the remainder of the fiscal year. The final tax character may differ substantially from this preliminary information.
- (3) Distributions paid to common stockholders for the fiscal year ended November 30, 2017 were characterized as either dividends (a portion of which was eligible to be treated as qualified dividend income) or distributions (long term capital gains or return of capital). This characterization is based on the Fund's earnings and profits.

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED MAY 31, 2018**  
(amounts in 000's)  
(UNAUDITED)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net increase in net assets resulting from operations . . . . .	\$ 10,213
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Return of capital distributions . . . . .	12,409
Net realized losses (excluding foreign currency transactions) . . . . .	7,147
Net change in unrealized gains (excluding foreign currency translations) . . . . .	(20,403)
Accretion of bond discounts, net . . . . .	(276)
Purchase of long-term investments . . . . .	(69,527)
Proceeds from sale of long-term investments . . . . .	77,543
Purchase of short-term investments . . . . .	(8,656)
Increase in deposits with brokers . . . . .	(65)
Increase in receivable for securities sold . . . . .	(2,378)
Decrease in interest, dividends and distributions receivable . . . . .	740
Amortization of deferred debt offering costs . . . . .	316
Amortization of mandatory redeemable preferred stock offering costs . . . . .	35
Increase in other assets . . . . .	(43)
Increase in payable for securities purchased . . . . .	5,992
Decrease in investment management fee payable . . . . .	(10)
Increase in premiums received on call option contracts written . . . . .	51
Increase in accrued directors' fees and expenses . . . . .	4
Increase in accrued expenses and other liabilities . . . . .	129
<b>Net Cash Provided by Operating Activities</b> . . . . .	<u>13,221</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Cash distributions paid to common stockholders . . . . .	(13,221)
<b>Net Cash Used in Financing Activities</b> . . . . .	<u>(13,221)</u>

<b>NET DECREASE IN CASH</b> . . . . .	—
<b>CASH — BEGINNING OF PERIOD</b> . . . . .	<u>2,000</u>
<b>CASH — END OF PERIOD</b> . . . . .	<u>\$ 2,000</u>

Supplemental disclosure of cash flow information:

During the six months ended May 31, 2018, interest paid related to debt obligations was \$1,773.

During the six months ended May 31, 2018, the Fund received \$1,505 of paid-in-kind dividends. See Note 2 — Significant Accounting Policies.

See accompanying notes to financial statements.



**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Six Months Ended May 31, 2018 (Unaudited)	For the Fiscal Year Ended November 30,	
		2017	2016
<b>Per Share of Common Stock<sup>(1)</sup></b>			
Net asset value, beginning of period	\$ 14.15	\$ 17.41	\$ 17.56
Net investment income (loss) <sup>(2)</sup>	(0.14)	0.14	(0.07)
Net realized and unrealized gains (losses)	0.61	(2.10)	1.43
Total income (loss) from operations	0.47	(1.96)	1.36
Common dividends — dividend income <sup>(3)</sup>	(0.60)	(0.03)	(1.50)
Common distributions — long-term capital gains <sup>(3)</sup>	—	—	—
Common distributions — return of capital <sup>(3)</sup>	—	(1.27)	—
Total dividends and distributions — common	(0.60)	(1.30)	(1.50)
Effect of shares issued in reinvestment of distributions	—	—	(0.01)
Effect of issuance of common stock	—	—	—
Effect of common stock repurchased	—	—	—
Net asset value, end of period	<u>\$ 14.02</u>	<u>\$ 14.15</u>	<u>\$ 17.41</u>
Market value per share of common stock, end of period	<u>\$ 13.13</u>	<u>\$ 12.88</u>	<u>\$ 15.33</u>
Total investment return based on common stock market value <sup>(5)</sup>	6.5% <sup>(6)</sup>	(8.7)%	12.7%
Total investment return based on net asset value <sup>(7)</sup>	3.5% <sup>(6)</sup>	(11.7)%	12.7%
<b>Supplemental Data and Ratios<sup>(8)</sup></b>			
Net assets applicable to common stockholders, end of period	\$ 308,835	\$ 311,843	\$ 383,557
Ratio of expenses to average net assets			
Management fees <sup>(9)</sup>	1.8%	1.7%	1.8%
Other expenses	0.5	0.4	0.5
Subtotal	2.3	2.1	2.3
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	1.8	1.7	3.8
Management fee waiver	—	—	—
Excise taxes	—	—	—
Total expenses	<u>4.1%</u>	<u>3.8%</u>	<u>6.1%</u>
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	(2.0)%	0.9%	(0.5)%
Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets	3.3% <sup>(6)</sup>	(11.9)%	10.3%
Portfolio turnover rate	16.2% <sup>(6)</sup>	25.5%	48.2%
Average net assets	\$ 306,885	\$ 360,869	\$ 314,015
Notes outstanding, end of period <sup>(10)</sup>	\$ 91,000	\$ 91,000	\$ 91,000
Credit facility outstanding, end of period <sup>(10)</sup>	—	\$ —	\$ —
Term loan outstanding, end of period <sup>(10)</sup>	—	\$ —	\$ 27,000
Mandatory redeemable preferred stock, end of period <sup>(10)</sup>	\$ 35,000	\$ 35,000	\$ 35,000
Average shares of common stock outstanding	22,034,170	22,034,170	21,975,582
Asset coverage of total debt <sup>(11)</sup>	477.8%	481.1%	454.7%
Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>	345.1%	347.5%	350.7%
Average amount of borrowings per share of common stock during the period <sup>(1)</sup>	\$ 4.22	\$ 5.16	\$ 4.86

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Fiscal Year Ended November 30,		
	2015	2014	2013
<b>Per Share of Common Stock<sup>(1)</sup></b>			
Net asset value, beginning of period	\$ 39.51	\$ 35.75	\$ 29.01
Net investment income (loss) <sup>(2)</sup>	0.30	(0.01)	(0.06)
Net realized and unrealized gains (losses)	(18.42)	5.61	8.61
Total income (loss) from operations	(18.12)	5.60	8.55
Common dividends — dividend income <sup>(3)</sup>	(1.68)	(1.57)	(1.15)
Common distributions — long-term capital gains <sup>(3)</sup>	(2.14)	(0.34)	(0.66)
Common distributions — return of capital <sup>(3)</sup>	—	—	—
Total dividends and distributions — common	(3.82) <sup>(4)</sup>	(1.91)	(1.81)
Effect of shares issued in reinvestment of distributions	(0.01)	(0.02)	—
Effect of issuance of common stock	—	—	—
Effect of common stock repurchased	—	0.09	—
Net asset value, end of period	<u>\$ 17.56</u>	<u>\$ 39.51</u>	<u>\$ 35.75</u>
Market value per share of common stock, end of period	<u>\$ 15.46</u>	<u>\$ 35.82</u>	<u>\$ 32.71</u>
Total investment return based on common stock market value <sup>(5)</sup>	(50.2)%	15.3%	23.5%
Total investment return based on net asset value <sup>(7)</sup>	(48.7)%	16.4%	30.5%
<b>Supplemental Data and Ratios<sup>(8)</sup></b>			
Net assets applicable to common stockholders, end of period	\$ 380,478	\$ 854,257	\$ 788,057
Ratio of expenses to average net assets			
Management fees <sup>(9)</sup>	1.9%	1.7%	1.8%
Other expenses	0.2	0.2	0.2
Subtotal	2.1	1.9	2.0
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	2.5	1.7	1.8
Management fee waiver	—	—	—
Excise taxes	0.4	—	0.1
Total expenses	<u>5.0%</u>	<u>3.6%</u>	<u>3.9%</u>
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	1.0%	(0.0)%	(0.2)%
Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets	(58.3)%	14.0%	25.9%
Portfolio turnover rate	45.3%	45.3%	49.1%
Average net assets	\$ 672,534	\$ 887,585	\$ 726,248
Notes outstanding, end of period <sup>(10)</sup>	\$ 185,000	\$ 235,000	\$ 205,000
Credit facility outstanding, end of period <sup>(10)</sup>	\$ —	\$ —	\$ 50,000
Term loan outstanding, end of period <sup>(10)</sup>	\$ —	\$ 46,000	\$ —
Mandatory redeemable preferred stock, end of period <sup>(10)</sup>	\$ 70,000	\$ 105,000	\$ 65,000
Average shares of common stock outstanding	21,657,943	21,897,671	21,969,288
Asset coverage of total debt <sup>(11)</sup>	343.5%	441.4%	434.5%
Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>	249.2%	321.3%	346.3%
Average amount of borrowings per share of common stock during the period <sup>(1)</sup>	\$ 11.16	\$ 12.84	\$ 10.51

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Fiscal Year Ended November 30,		For the Period November 24, 2010 <sup>(13)</sup> through November 30, 2010
	2012	2011	
<b>Per Share of Common Stock<sup>(1)</sup></b>			
Net asset value, beginning of period	\$ 25.94	\$ 23.80	\$ 23.83 <sup>(14)</sup>
Net investment income (loss) <sup>(2)</sup>	0.17	0.29	(0.02)
Net realized and unrealized gains (losses)	4.64	3.12	(0.01)
Total income (loss) from operations	4.81	3.41	(0.03)
Common dividends — dividend income <sup>(3)</sup>	(1.30)	(1.20)	—
Common distributions — long-term capital gains <sup>(3)</sup>	(0.41)	—	—
Common distributions — return of capital <sup>(3)</sup>	—	—	—
Total dividends and distributions — common	(1.71)	(1.20)	—
Effect of shares issued in reinvestment of distributions	(0.03)	(0.04)	—
Effect of issuance of common stock	—	(0.03)	—
Effect of common stock repurchased	—	—	—
Net asset value, end of period	<u>\$ 29.01</u>	<u>\$ 25.94</u>	<u>\$ 23.80</u>
Market value per share of common stock, end of period	<u>\$ 28.04</u>	<u>\$ 22.46</u>	<u>\$ 25.00</u>
Total investment return based on common stock market value <sup>(5)</sup>	33.3%	(5.5)%	0.0% <sup>(6)</sup>
Total investment return based on net asset value <sup>(7)</sup>	19.4%	14.7%	(0.1)% <sup>(6)</sup>
<b>Supplemental Data and Ratios<sup>(8)</sup></b>			
Net assets applicable to common stockholders, end of period	\$635,226	\$ 562,044	\$ 452,283
Ratio of expenses to average net assets			
Management fees <sup>(9)</sup>	1.7%	1.6%	1.3%
Other expenses	0.3	0.3	0.3 <sup>(15)</sup>
Subtotal	2.0	1.9	1.6
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	1.8	1.3	—
Management fee waiver	—	(0.3)	(0.3)
Excise taxes	—	—	—
Total expenses	<u>3.8%</u>	<u>2.9%</u>	<u>1.3%</u>
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	0.6%	1.1%	(1.3)% <sup>(15)</sup>
Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets	16.8%	13.4%	(0.1)% <sup>(6)</sup>
Portfolio turnover rate	67.6%	74.1%	0.0% <sup>(6)</sup>
Average net assets	\$620,902	\$ 537,044	\$ 452,775
Notes outstanding, end of period <sup>(10)</sup>	\$165,000	\$ 115,000	\$ —
Credit facility outstanding, end of period <sup>(10)</sup>	\$ 48,000	\$ 45,000	\$ —
Term loan outstanding, end of period <sup>(10)</sup>	\$ —	\$ —	\$ —
Mandatory redeemable preferred stock, end of period <sup>(10)</sup>	\$ 65,000	\$ 35,000	\$ —
Average shares of common stock outstanding	21,794,596	21,273,512	19,004,000
Asset coverage of total debt <sup>(11)</sup>	428.7%	473.2%	—
Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>	328.5%	388.2%	—
Average amount of borrowings per share of common stock during the period <sup>(1)</sup>	\$ 8.85	\$ 6.50	—

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**FINANCIAL HIGHLIGHTS**  
**(amounts in 000's, except share and per share amounts)**

- 
- (1) Based on average shares of common stock outstanding.
  - (2) Distributions on the Fund's MRP Shares are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 — Significant Accounting Policies.
  - (3) The actual characterization of the distributions made during the six months ended May 31, 2018 will not be determinable until after the end of the fiscal year when the Fund can determine its actual earnings and profits for the full fiscal year (which include gains and losses on the sale of securities for the remainder of the fiscal year) and may differ substantially from this preliminary information. The information presented for each of the other periods is a characterization of the total distributions paid to the common stockholders as either dividend income (a portion of which was eligible to be treated as qualified dividend income) or distributions (long-term capital gains or return of capital) and is based on the Fund's earnings and profits.
  - (4) Includes special distribution of \$1.80 per share paid in July 2015.
  - (5) Total investment return based on market value is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
  - (6) Not annualized.
  - (7) Total investment return based on net asset value is calculated assuming a purchase of common stock at the net asset value on the first day and a sale at the net asset value on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
  - (8) Unless otherwise noted, ratios are annualized.
  - (9) Ratio reflects total management fee before waiver, if any.
  - (10) Principal/liquidation value.
  - (11) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value) or any other senior securities representing indebtedness and MRP Shares (liquidation value) divided by the aggregate amount of Notes and any other senior securities representing indebtedness. Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it incur additional indebtedness if at the time of such declaration or incurrence its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  - (12) Calculated pursuant to section 18(a)(2)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value), any other senior securities representing indebtedness and MRP Shares divided by the aggregate amount of Notes, any other senior securities representing indebtedness and MRP Shares (liquidation value). Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it issue additional preferred stock if at the time of such declaration or issuance, its asset coverage with respect to all senior securities would be less than 200%. In addition to the limitations under the 1940 Act, the Fund, under the terms of its MRP Shares, would not be able to declare or pay any distributions on its common stock if such declaration would cause its asset coverage with respect to all senior securities to be less than 225%. For purposes of these asset coverage ratio tests, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  - (13) Commencement of operations.
  - (14) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.125 per share and offering costs of \$0.05 per share.
  - (15) For purposes of annualizing other expenses of the Fund, professional fees and reports to stockholders are fees associated with the annual audit and annual report and therefore have not been annualized.

See accompanying notes to financial statements.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

**1. Organization**

Kayne Anderson Midstream/Energy Fund, Inc. (the “Fund” or “KMF”) was organized as a Maryland corporation on August 26, 2010 and commenced operations on November 24, 2010. The Fund is registered under the Investment Company Act of 1940, as amended (the “1940 Act”), as a non-diversified, closed-end investment management company. The Fund’s investment objective is to provide a high level of return with an emphasis on making quarterly cash distributions to its stockholders. The Fund seeks to achieve that investment objective by investing at least 80% of its total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. The Fund’s shares of common stock are listed on the New York Stock Exchange, Inc. (“NYSE”) under the symbol “KMF.”

On February 15, 2018, KA Fund Advisors, LLC (“KAFA”) announced that the Board of Directors of Kayne Anderson Midstream/Energy Fund, Inc. (“KMF”) and the Board of Directors of Kayne Anderson Energy Total Return Fund, Inc. (“KYE”) approved the proposed merger of KYE with and into KMF (the “Reorganization”). Information on the Reorganization is contained in the definitive joint proxy statement/prospectus filed with the Securities and Exchange Commission (the “SEC”) on May 30, 2018 and sent to KMF and KYE stockholders. Subject to KYE stockholder approval, KYE common stockholders will be issued KMF common stock, and KMF will acquire substantially all the assets and liabilities of KYE at an exchange ratio based on the relative Net Asset Value (“NAV”) per share of each fund immediately prior to the closing of the Reorganization. See Note 14 — Subsequent Events.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies that the Fund uses to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The Fund is an investment company and follows accounting and reporting guidance of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC) Topic 946 — “Financial Services — Investment Companies.”

*A. Use of Estimates* — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ materially from those estimates.

*B. Cash and Cash Equivalents* — Cash and cash equivalents include short-term, liquid investments with an original maturity of three months or less and include money market fund accounts.

*C. Calculation of Net Asset Value* — The Fund determines its net asset value on a daily basis and reports its net asset value on its website. Net asset value is computed by dividing the value of the Fund’s assets (including accrued interest and distributions), less all of its liabilities (including accrued expenses, distributions payable and any indebtedness) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

*D. Investment Valuation* — Readily marketable portfolio securities listed on any exchange other than the NASDAQ Stock Market, Inc. (“NASDAQ”) are valued, except as indicated below, at the last sale price on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and ask prices on such day. Securities admitted to trade on the NASDAQ are valued at the NASDAQ official closing price. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities.

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Debt securities that are considered bonds are valued by using the

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

mean of the bid and ask prices provided by an independent pricing service or, if such prices are not available or in the judgment of KAFA such prices are stale or do not represent fair value, by an independent broker. For debt securities that are considered bank loans, the fair market value is determined by using the mean of the bid and ask prices provided by the agent or syndicate bank or principal market maker. When price quotes for securities are not available, or such prices are stale or do not represent fair value in the judgment of KAFA, fair market value will be determined using the Fund's valuation process for securities that are privately issued or otherwise restricted as to resale.

Exchange-traded options and futures contracts are valued at the last sales price at the close of trading in the market where such contracts are principally traded or, if there was no sale on the applicable exchange on such day, at the mean between the quoted bid and ask price as of the close of such exchange.

The Fund holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any security for which (a) reliable market quotations are not available in the judgment of KAFA, or (b) the independent pricing service or independent broker does not provide prices or provides a price that in the judgment of KAFA is stale or does not represent fair value, each shall be valued in a manner that most fairly reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

- **Investment Team Valuation.** The applicable investments are valued by senior professionals of KAFA who are responsible for the portfolio investments. The investments will be valued monthly, with new investments valued at the time such investment was made.
- **Investment Team Valuation Documentation.** Preliminary valuation conclusions will be determined by senior management of KAFA. Such valuations and supporting documentation are submitted to the Valuation Committee (a committee of the Fund's Board of Directors) and the Board of Directors on a quarterly basis.
- **Valuation Committee.** The Valuation Committee meets to consider the valuations submitted by KAFA at the end of each quarter. Between meetings of the Valuation Committee, a senior officer of KAFA is authorized to make valuation determinations. All valuation determinations of the Valuation Committee are subject to ratification by the Board of Directors at its next regular meeting.
- **Valuation Firm.** Quarterly, a third-party valuation firm engaged by the Board of Directors reviews the valuation methodologies and calculations employed for these securities, unless the aggregate fair value of such security is less than 0.1% of total assets.
- **Board of Directors Determination.** The Board of Directors meets quarterly to consider the valuations provided by KAFA and the Valuation Committee and ratify valuations for the applicable securities. The Board of Directors considers the report provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

As of May 31, 2018, the Fund held 3.5% of its net assets applicable to common stockholders (2.4% of total assets) in securities that were fair valued pursuant to the procedures adopted by the Board of Directors (Level 3 securities). The aggregate fair value of these securities at May 31, 2018 was \$10,649. See Note 3 — Fair Value and Note 7 — Restricted Securities.

*E. Derivative Financial Instruments* — The Fund may utilize derivative financial instruments in its operations.

**Interest rate swap contracts.** The Fund may use hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of the Fund's leverage. Such interest rate swaps would principally be used to protect the Fund against higher costs on its leverage resulting from increases in interest rates. The Fund does not hedge any interest rate risk associated with portfolio holdings. Interest rate transactions the Fund may use for

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

hedging purposes may expose it to certain risks that differ from the risks associated with its portfolio holdings. A decline in interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Fund. In addition, if the counterparty to an interest rate swap defaults, the Fund would not be able to use the anticipated net receipts under the interest rate swap to offset its cost of financial leverage.

Interest rate swap contracts are recorded at fair value with changes in value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the Statement of Operations. Monthly cash settlements under the terms of the interest rate swap agreements or termination payments are recorded as realized gains or losses in the Statement of Operations. The Fund generally values its interest rate swap contracts based on dealer quotations, if available, or by discounting the future cash flows from the stated terms of the interest rate swap agreement by using interest rates currently available in the market. See Note 8 — Derivative Financial Instruments.

**Option contracts.** The Fund is also exposed to financial market risks including changes in the valuations of its investment portfolio. The Fund may purchase or write (sell) call options. A call option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the security underlying the option at a specified exercise price at any time during the term of the option.

The Fund would realize a gain on a purchased call option if, during the option period, the value of such securities exceeded the sum of the exercise price, the premium paid and transaction costs; otherwise the Fund would realize either no gain or a loss on the purchased call option. The Fund may also purchase put option contracts. If a purchased put option is exercised, the premium paid increases the cost basis of the securities sold by the Fund.

The Fund may also write (sell) call options with the purpose of generating realized gains or reducing its ownership of certain securities. If the Fund writes a call option on a security, the Fund has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price. The Fund will only write call options on securities that the Fund holds in its portfolio (*i.e.*, covered calls).

When the Fund writes a call option, an amount equal to the premium received by the Fund is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund on the expiration date as realized gains from investments. If the Fund repurchases a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain or loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Fund has realized a gain or loss. The Fund, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. See Note 8 — Derivative Financial Instruments.

**F. Security Transactions** — Security transactions are accounted for on the date the securities are purchased or sold (trade date). Realized gains and losses are calculated using the specific identification cost basis method for GAAP purposes. For tax purposes, the Fund utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

**G. Return of Capital Estimates** — Dividends and distributions received from the Fund's investments are comprised of income and return of capital. Payments made by MLPs (and other entities treated as partnerships for federal income tax purposes) are categorized as "distributions" and payments made by corporations are categorized as "dividends." At the time such dividends and distributions are received, the Fund estimates the amount of such payments that is considered investment income and the amount that is considered a return of capital. The Fund estimates that 94% of distributions received from its MLP investments were return of capital distributions. This estimate is adjusted to actual in the subsequent fiscal year when tax reporting information related to the Fund's MLP investments is received. Such estimates for MLPs and other investments are based on historical information available from each investment and other industry sources.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Reform Bill") was signed into law. The Tax Reform Bill permits immediate expensing of qualified capital expenditures for the next five years, and as a result, the Fund's portfolio companies may pass through more deductions which may result in a higher portion of distributions received to be characterized as return of capital.

The return of capital portion of the distributions is a reduction to investment income that results in an equivalent reduction in the cost basis of the associated investments and increases net realized gains (losses) and net change in unrealized gains (losses). If the distributions received by the Fund exceed its cost basis (*i.e.* its cost basis has been reduced to zero), the distributions are treated as realized gains.

The Fund includes all distributions received on its Statement of Operations and reduces its investment income by (i) the estimated return of capital and (ii) the distributions in excess of cost basis, if any. For the three and six months ended May 31, 2018, the Fund estimated \$7,623 and \$12,409, respectively, of return of capital and there were no distributions that were in excess of cost basis.

In accordance with GAAP, the return of capital cost basis reductions for the Fund's MLP investments are limited to the total amount of the cash distributions received from such investments. For income tax purposes, the cost basis reductions for the Fund's MLP investments typically exceed cash distributions received from such investments due to allocated losses from these investments.

The following table sets forth the Fund's estimated return of capital portion of the distributions received from its investments.

	<b>For the Three Months Ended May 31, 2018</b>	<b>For the Six Months Ended May 31, 2018</b>
Dividends from investments .....	\$4,677	\$ 8,893
Distributions from investments .....	2,488	5,037
Total dividends and distributions from investments (before foreign taxes withheld of \$81 and \$143, respectively) .....	<u>\$7,165</u>	<u>\$13,930</u>
Dividends — % return of capital .....	104%	82%
Distributions — % return of capital .....	110%	101%
Total dividends and distributions — % return of capital .....	106%	89%
Return of capital — attributable to net realized gains (losses) .....	\$1,358	\$ 1,389
Return of capital — attributable to net change in unrealized gains (losses) .....	<u>6,265</u>	<u>11,020</u>
Total return of capital .....	<u>\$7,623</u>	<u>\$12,409</u>

For the three and six months ended May 31, 2018, the Fund estimated the return of capital portion of distributions received to be \$5,377 (75%) and \$10,163 (73%), respectively. These amounts were increased by \$2,246 due to 2017 tax reporting information received by the Fund in fiscal 2018. As a result, the return of capital percentages for the three and six months ended May 31, 2018 were 106% and 89%, respectively.

H. *Investment Income* — The Fund records dividends and distributions on the ex-dividend date. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts. When investing in securities with payment in-kind interest, the Fund will accrue interest income during the life of the security even though it will not be receiving cash as the interest is accrued. To the extent that interest income to be received is not expected to be realized, a reserve against income is established.



**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
(UNAUDITED)

Many of the debt securities that the Fund holds were purchased at a discount or premium to the par value of the security. The non-cash accretion of a discount to par value increases interest income while the non-cash amortization of a premium to par value decreases interest income. The accretion of a discount and amortization of a premium are based on the effective interest method. The amount of these non-cash adjustments can be found in the Fund's Statement of Cash Flows. The non-cash accretion of a discount increases the cost basis of the debt security, which results in an offsetting unrealized loss. The non-cash amortization of a premium decreases the cost basis of the debt security, which results in an offsetting unrealized gain. To the extent that par value is not expected to be realized, the Fund discontinues accruing the non-cash accretion of the discount to par value of the debt security.

The Fund may receive paid-in-kind and non-cash dividends and distributions in the form of additional units or shares from its investments. For paid-in-kind dividends, the additional units are not reflected in investment income during the period received, but are recorded as unrealized gains upon receipt. Non-cash distributions are reflected in investment income because the Fund has the option to receive its distribution in cash or in additional shares or units of the security.

During the three and six months ended May 31, 2018, the Fund received the following paid-in-kind dividends. There were no non-cash distributions received during the three or six months ended May 31, 2018 from any of the Fund's investments.

	<b>For the Three Months Ended May 31, 2018</b>	<b>For the Six Months Ended May 31, 2018</b>
Buckeye Partners, L.P. — Class C Units .....	\$222	\$ 222
Enbridge Energy Management, L.L.C. ....	644	1,283
Total paid-in-kind dividends .....	<u>\$866</u>	<u>\$1,505</u>

I. *Distributions to Stockholders* — Distributions to common stockholders are recorded on the ex-dividend date. Distributions to holders of MRP Shares are accrued on a daily basis as described in Note 12 — Preferred Stock. As required by the Distinguishing Liabilities from Equity topic of the FASB Accounting Standards Codification (ASC 480), the Fund includes the accrued distributions on its MRP Shares as an operating expense due to the fixed term of this obligation. For tax purposes the payments made to the holders of the Fund's MRP Shares are treated as dividends or distributions.

The characterization of the distributions paid to holders of MRP Shares and common stock as either dividend income (eligible to be treated as qualified dividend income) or distributions (long-term capital gains or return of capital) is determined after the end of the fiscal year based on the Fund's actual earnings and profits and, therefore, the characterization may differ from preliminary estimates.

J. *Partnership Accounting Policy* — The Fund records its pro-rata share of the income (loss) to the extent of distributions it has received, allocated from the underlying partnerships and adjusts the cost basis of the underlying partnerships accordingly. These amounts are included in the Fund's Statement of Operations.

K. *Taxes* — It is the Fund's intention to continue to be treated as and to qualify each year for special tax treatment afforded a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). As long as the Fund meets certain requirements that govern its sources of income, diversification of assets and timely distribution of earnings to stockholders, the Fund will not be subject to U.S. federal income tax.

The Fund must pay distributions equal to 90% of its investment company taxable income (ordinary income and short-term capital gains) to qualify as a RIC and it must distribute all of its taxable income (ordinary income, short-term capital gains and long-term capital gains) to avoid federal income taxes. The Fund will be subject to

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

federal income tax on any undistributed portion of income. For purposes of the distribution test, the Fund may elect to treat as paid on the last day of its taxable year all or part of any distributions that are declared after the end of its taxable year if such distributions are declared before the due date of its tax return, including any extensions (August 15th). See Note 6 — Taxes.

All RICs are subject to a non-deductible 4% excise tax on income that is not distributed on a timely basis in accordance with the calendar year distribution requirements. To avoid the tax, the Fund must distribute during each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income for the calendar year, (ii) 98.2% of its net capital gains for the one-year period ending on November 30, the last day of our taxable year, and (iii) undistributed amounts from previous years on which the Fund paid no U.S. federal income tax. A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December, payable to stockholders of record on a date during such months and paid by the Fund during January of the following year. Any such distributions paid during January of the following year will be deemed to be received by stockholders on December 31 of the year the distributions are declared, rather than when the distributions are actually received.

The Fund will be liable for the excise tax on the amount by which it does not meet the distribution requirement and will accrue an excise tax liability at the time that the liability is estimable and probable.

Dividend income received by the Fund from sources within Canada is subject to a 15% foreign withholding tax. Interest income on Canadian corporate debt obligations should generally be exempt from withholding tax on interest, with a few exceptions (e.g., a profit participating debt interest).

The Accounting for Uncertainty in Income Taxes Topic of the FASB Accounting Standards Codification (ASC 740) defines the threshold for recognizing the benefits of tax-return positions in the financial statements as “more-likely-than-not” to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50% likely to be realized.

The Fund utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

The Fund’s policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. Tax years subsequent to fiscal year 2014 remain open and subject to examination by federal and state tax authorities.

Currently, the Fund does not believe the Tax Reform Bill will have a material impact on it given its intention to continue to qualify as a RIC, which is generally not subject to U.S. federal income tax. The Tax Reform Bill includes a limitation on the deductibility of net interest expense. To the extent the Fund’s deductions are limited in any given year, the Fund will be able to utilize such deductions in future periods if it has sufficient taxable income.

*L. Foreign Currency Translations* — The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the rate of exchange as of the valuation date; and (ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of gains and losses on investments in equity and debt securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity and debt securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

Net realized foreign exchange gains or losses represent gains and losses from transactions in foreign currencies and foreign currency contracts, foreign exchange gains or losses realized between the trade date and

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund's books and the U.S. dollar equivalent of such amounts on the payment date.

Net unrealized foreign exchange gains or losses represent the difference between the cost of assets and liabilities (other than investments) recorded on the Fund's books from the value of the assets and liabilities (other than investments) on the valuation date.

M. *Indemnifications* — Under the Fund's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business, the Fund enters into contracts that provide general indemnification to other parties. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred, and may not occur. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

N. *Offering and Debt Issuance Costs* — Offering costs incurred by the Fund related to the issuance of its common stock reduce additional paid-in-capital when the stock is issued. Costs incurred by the Fund related to the issuance of its debt (revolving credit facility, term loan or notes) or its preferred stock are capitalized and amortized over the period the debt or preferred stock is outstanding.

For the purpose of calculating the Fund's asset coverage ratios pursuant to the 1940 Act, deferred issuance costs are not deducted from the carrying value of Notes and MRP Shares.

### **3. Fair Value**

The Fair Value Measurement Topic of the FASB Accounting Standards Codification (ASC 820) defines fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants under current market conditions at the measurement date. As required by ASC 820, the Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination. Inputs are the assumptions, along with considerations of risk, that a market participant would use to value an asset or a liability. In general, observable inputs are based on market data that is readily available, regularly distributed and verifiable that the Fund obtains from independent, third-party sources. Unobservable inputs are developed by the Fund based on its own assumptions of how market participants would value an asset or a liability.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

- *Level 1* — Valuations based on quoted unadjusted prices for identical instruments in active markets traded on a national exchange to which the Fund has access at the date of measurement.
- *Level 2* — Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.
- *Level 3* — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

The following table presents the Fund's assets and liabilities measured at fair value on a recurring basis at May 31, 2018, and the Fund presents these assets and liabilities by security type and description on its Schedule of Investments. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment.

	<u>Total</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Prices with Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
<b>Assets at Fair Value</b>				
Equity investments	\$405,542	\$377,951	\$16,942 <sup>(1)</sup>	\$10,649
Debt investments	21,725	—	21,725	—
Short-term investments	8,687	8,687	—	—
Total assets at fair value	<u>\$435,954</u>	<u>\$386,638</u>	<u>\$38,667</u>	<u>\$10,649</u>
<b>Liabilities at Fair Value</b>				
Call option contracts written	\$ 59	\$ —	\$ 59	\$ —

(1) The Fund's investment in Plains AAP, L.P. ("PAGP-AAP") is exchangeable on a one-for-one basis into either Plains GP Holdings, L.P. ("PAGP") shares or Plains All American Pipeline, L.P. ("PAA") units at the Fund's option. The Fund values its PAGP-AAP investment on an "as exchanged" basis based on the higher public market value of either PAGP or PAA. As of May 31, 2018, the Fund's PAGP-AAP investment is valued at PAGP's closing price. The Fund categorizes its investment as a Level 2 security for fair value reporting purposes.

For the six months ended May 31, 2018, there were no transfers between Level 1 and Level 2.

As of May 31, 2018, the Fund had Notes outstanding with aggregate principal amount of \$91,000 and 1,400,000 shares of MRP Shares outstanding with a total liquidation value of \$35,000. The Notes and MRP Shares were issued in private placements to institutional investors and are not listed on any exchange or automated quotation system. See Note 11 — Notes and Note 12 — Preferred Stock. As a result, the Fund categorizes the Notes and MRP Shares as Level 3 securities and determines the fair value of these instruments based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure.

The Fund records the Notes and MRP Shares on its Statement of Assets and Liabilities at principal amount or liquidation value. As of May 31, 2018, the estimated fair values of these leverage instruments are as follows.

<u>Security</u>	<u>Principal Amount/ Liquidation Value</u>	<u>Fair Value</u>
Notes	\$91,000	\$90,700
MRP Shares	\$35,000	\$34,600

The following tables present the Fund's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended May 31, 2018.

<u>Three Months Ended May 31, 2018</u>	<u>Equity</u>
Balance — February 28, 2018	\$ 4,770
Purchases	7,500
Issuances	222
Transfers out to Level 1 and 2	—
Realized gains (losses)	—
Unrealized gains (losses), net	(1,843)
Balance — May 31, 2018	<u>\$10,649</u>

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
(UNAUDITED)

<u>Six Months Ended May 31, 2018</u>	<u>Equity Investments</u>
Balance — November 30, 2017 .....	\$ 4,752
Purchases .....	7,500
Issuances .....	222
Transfers out to Level 1 and 2 .....	—
Realized gains (losses) .....	—
Unrealized gains (losses), net .....	<u>(1,825)</u>
Balance — May 31, 2018 .....	<u>\$10,649</u>

The purchase of \$7,500 relates to the Fund's investments in Buckeye Partners, L.P. ("BPL"), Class C Units that was made on March 2, 2018. The issuance of \$222 relates to additional BPL Class C Units received from BPL during May 2018.

The \$1,843 and \$1,825 of net unrealized losses for the three and six months ended May 31, 2018, respectively, relate to investments that are still held at the end of the reporting period and the Fund includes these unrealized gains (losses) on the Statement of Operations — Net Change in Unrealized Gains (Losses).

**Valuation Techniques and Unobservable Inputs**

The Fund has a PIPE investment in Buckeye Partners, L.P. Unless otherwise determined by the Board of Directors, the Fund values its private investments in public equity ("PIPE") investments that are convertible into or otherwise will become publicly-tradeable (*e.g.*, through subsequent registration or expiration of a restriction on trading) based on the market value of the publicly-traded security less a discount. This discount is initially equal to the discount negotiated at the time the Fund agrees to a purchase price. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, this discount will be amortized on a straight line basis over such estimated time frame.

The Fund also owns Class B Units of Capital Product Partners L.P. ("CPLP"). The Class B Units are convertible on a one-for-one basis into common units and are senior to the underlying common units in terms of liquidation preference and priority of distributions. The Fund's Board of Directors has determined that it is appropriate to value the Class B Units using a convertible pricing model. This model takes into account the attributes of the Class B Units, including the preferred dividend, conversion ratio and call features, to determine the estimated value of such units. In using this model, the Fund estimates (i) the credit spread for CPLP's Class B Units, which is based on credit spreads for comparable companies for CPLP and (ii) the expected volatility for CPLP's common units, which is based on CPLP's historical volatility. The Fund applies a discount to the value derived from the convertible pricing model to account for an expected discount in market prices for CPLP's convertible securities relative to the values calculated using the pricing model. If this resulting price per Class B Unit is less than the public market price for CPLP's common units at such time, the public market price for CPLP's common unit will be used for the Class B Units.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Fund's investments may fluctuate from period to period. Additionally, the fair value of the Fund's investments may differ from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Fund may ultimately realize.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

The following table summarizes the significant unobservable inputs that the Fund used to value its portfolio investments categorized as Level 3 as of May 31, 2018:

**Quantitative Table for Valuation Techniques**

Assets at Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	Range		Average
				Low	High	
BPL – valued based on a discount to market value	\$ 5,849	- Discount to publicly-traded securities	- Current discount	11.0%	11.0%	11.0%
CPLP – valued based on pricing model	\$ 4,800	- Convertible pricing model	- Credit spread	6.0%	6.5%	6.3%
			- Volatility	27.5%	37.5%	32.5%
			- Discount for marketability	10.0%	10.0%	10.0%
Total	<u>\$10,649</u>					

**4. Concentration of Risk**

The Fund's investments are concentrated in the energy sector. The focus of the Fund's portfolio within the energy sector may present more risks than if the Fund's portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Fund than on an investment company that does not focus on the energy sector. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the Fund invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Fund may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence. At May 31, 2018, the Fund had the following investment concentrations:

<u>Category</u>	<u>Percent of Long-Term Investments</u>
Securities of Energy Companies <sup>(1)</sup>	100.0%
Equity securities	94.9%
Debt securities	5.1%
Securities of MLPs <sup>(1)</sup>	24.8%
Largest single issuer	10.5%
Restricted securities	9.1%

(1) Refer to the "Glossary of Key Terms" for the definitions of Energy Companies and MLPs.

**5. Agreements and Affiliations**

*A. Administration Agreement* — The Fund has an administration and accounting agreement with Ultimus Fund Solutions, LLC ("Ultimus") that may be amended from time to time. Pursuant to the agreement, Ultimus will provide certain administrative and accounting services for the Fund. The agreement has automatic one-year renewals unless earlier terminated by either party as provided under the terms of the agreement.

*B. Investment Management Agreement* — The Fund has entered into an investment management agreement with KA Fund Advisors, LLC ("KAFA") under which KAFA, subject to the overall supervision of the Fund's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Fund. On March 27, 2018, the Fund renewed its investment management agreement with KAFA for a period of one year. The investment management agreement will expire on March 31, 2019 and may be renewed annually thereafter upon approval of the Fund's Board of Directors (including a majority of the Fund's directors who are not "interested persons" of the Fund, as such term is defined in the 1940 Act). For providing these services, KAFA receives an investment management fee from the Fund. For the six months ended May 31, 2018, the Fund paid management fees at an annual rate of 1.25% of the average monthly total assets of the Fund.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

For purposes of calculating the management fee, the “average total assets” for each monthly period are determined by averaging the total assets at the last business day of that month with the total assets at the last business day of the prior month. The total assets of the Fund shall be equal to its average monthly gross asset value (which includes assets attributable to the Fund’s use of debt and preferred stock), minus the sum of the Fund’s accrued and unpaid dividends and distributions on any outstanding common stock and accrued and unpaid dividends and distributions on any outstanding preferred stock and accrued liabilities (other than liabilities associated with borrowing or leverage by the Fund). Liabilities associated with borrowing or leverage include the principal amount of any debt issued by the Fund, the liquidation preference of any outstanding preferred stock, and other liabilities from other forms of borrowing or leverage such as short positions and put or call options held or written by the Fund.

*C. Portfolio Companies* — From time to time, the Fund may “control” or may be an “affiliate” of one or more of its portfolio companies, as each of these terms is defined in the 1940 Act. In general, under the 1940 Act, the Fund would be presumed to “control” a portfolio company if the Fund and its affiliates owned 25% or more of its outstanding voting securities and would be an “affiliate” of a portfolio company if the Fund and its affiliates owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their affiliates (including the Fund’s investment adviser), principal underwriters and affiliates of those affiliates or underwriters.

The Fund believes that there are several factors that determine whether or not a security should be considered a “voting security” in complex structures such as limited partnerships of the kind in which the Fund invests. The Fund also notes that the Securities and Exchange Commission (the “SEC”) staff has issued guidance on the circumstances under which it would consider a limited partnership interest to constitute a voting security. Under most partnership agreements, the management of the partnership is vested in the general partner, and the limited partners, individually or collectively, have no rights to manage or influence management of the partnership through such activities as participating in the selection of the managers or the board of the limited partnership or the general partner. As a result, the Fund believes that many of the limited partnership interests in which it invests should not be considered voting securities. However, it is possible that the SEC staff may consider the limited partner interests the Fund holds in certain limited partnerships to be voting securities. If such a determination were made, the Fund may be regarded as a person affiliated with and controlling the issuer(s) of those securities for purposes of Section 17 of the 1940 Act.

In making such a determination as to whether to treat any class of limited partnership interests the Fund holds as a voting security, the Fund considers, among other factors, whether or not the holders of such limited partnership interests have the right to elect the board of directors of the limited partnership or the general partner. If the holders of such limited partnership interests do not have the right to elect the board of directors, the Fund generally has not treated such security as a voting security. In other circumstances, based on the facts and circumstances of those partnership agreements, including the right to elect the directors of the general partner, the Fund has treated those securities as voting securities. If the Fund does not consider the security to be a voting security, it will not consider such partnership to be an “affiliate” unless the Fund and its affiliates own more than 25% of the outstanding securities of such partnership. Additionally, certain partnership agreements give common unitholders the right to elect the partnership’s board of directors, but limit the amount of voting securities any limited partner can hold to no more than 4.9% of the partnership’s outstanding voting securities (*i.e.*, any amounts held in excess of such limit by a limited partner do not have voting rights). In such instances, the Fund does not consider itself to be an affiliate if it owns more than 5% of such partnership’s common units.

There is no assurance that the SEC staff will not consider that other limited partnership securities that the Fund owns and does not treat as voting securities are, in fact, voting securities for the purposes of Section 17 of the 1940 Act. If such determination were made, the Fund will be required to abide by the restrictions on “control” or “affiliate” transactions as proscribed in the 1940 Act. The Fund or any portfolio company that it controls, and

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

its affiliates, may from time to time engage in certain of such joint transactions, purchases, sales and loans in reliance upon and in compliance with the conditions of certain exemptive rules promulgated by the SEC. The Fund cannot make assurances, however, that it would be able to satisfy the conditions of these rules with respect to any particular eligible transaction, or even if the Fund were allowed to engage in such a transaction, that the terms would be more or as favorable to the Fund or any company that it controls as those that could be obtained in an arm's length transaction. As a result of these prohibitions, restrictions may be imposed on the size of positions that may be taken for the Fund or on the type of investments that it could make.

As of May 31, 2018, the Fund believes that Buckeye Partners, L.P. ("BPL") meets the criteria described above and is therefore considered an affiliate of the Fund.

*Plains AAP, L.P., and Plains GP Holdings, L.P.* — Robert V. Sinnott is Co-Chairman of Kayne Anderson Capital Advisors, L.P. ("KACALP"), the managing member of KAFA. Mr. Sinnott also serves as a director of PAA GP Holdings LLC, which is the general partner of Plains GP Holdings, L.P. ("PAGP"). Members of senior management of KACALP and KAFA and various affiliated funds managed by KACALP own PAGP shares, PAA units and interests in Plains AAP, L.P. ("PAGP-AAP"). The Fund believes that it is an affiliate of PAGP and PAGP-AAP under the 1940 Act by virtue of (i) the Fund's and other affiliated Kayne Anderson funds' ownership interest in PAGP and PAGP-AAP and (ii) Mr. Sinnott's participation on the board of PAA GP Holdings LLC.

*California Resources Corporation* — Mr. Sinnott serves as a director of California Resources Corporation ("CRC"). The Fund's investment in CRC is not a voting security, and as such, the Fund does not believe that it is an affiliate of CRC. Despite Mr. Sinnott's participation on the board of CRC, the Fund does not believe that it is an affiliate of CRC because the Fund's and other Kayne Anderson funds' aggregate ownership does not meet the criteria described above, and because the Fund's investment in CRC is not a voting security.

The following table summarizes the Fund's investments in affiliates as of and for the three and six months ended May 31, 2018:

Investment <sup>(1)</sup>	No. of Shares/Units <sup>(2)</sup> (in 000's)	Value	Dividends/ Distributions Received		Net Change in Unrealized Gains (Losses)	
			Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
Buckeye Partners, L.P. . . . .	164	\$ 5,907	\$207	\$ 414	\$(1,206)	\$(1,586)
Buckeye Partners, L.P. — Class C Units . . . . .	182	5,849	—	—	(1,652)	(1,652)
Plains GP Holdings, L.P. . . . .	703	17,262	210	421	2,859	3,218
Plains GP Holdings, L.P. — Plains AAP, L.P. . . . .	690	16,942	207	414	2,957	3,467
Total . . . . .		<u>\$45,960</u>	<u>\$624</u>	<u>\$1,249</u>	<u>\$ 2,958</u>	<u>\$ 3,447</u>

(1) See Schedule of Investments for investment classification.

(2) During the six months ended May 31, 2018, the Fund purchased 39 units of BPL and purchased 176 units of BPL Class C Units and there were no purchases of PAGP or PAGP-AAP. There were no sales of BPL, BPL Class C Units, PAGP or PAGP-AAP during the six months ended May 31, 2018. In addition, there were 6 units of BPL Class C Units paid in-kind during May 2018.

**6. Taxes**

It is the Fund's intention to continue to be treated as and to qualify as a RIC under Subchapter M of the Code and distribute all of its taxable income. Accordingly, no provision for federal income taxes is required in the financial statements. See Note 2 — Significant Accounting Policies.



**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

Income and capital gain distributions made by RICs often differ from GAAP basis net investment income (loss) and net realized gains (losses). For the Fund, the principal reason for these differences is the return of capital treatment of dividends and distributions from MLPs and certain other of its investments. Net investment income and net realized gains for GAAP purposes may differ from taxable income for federal income tax purposes.

As of May 31, 2018, the principal temporary differences between income for GAAP purposes and taxable income were (a) realized losses that were recognized for GAAP purposes, but disallowed for tax purposes due to wash sale rules; (b) disallowed partnership losses related to the Fund's MLP investments; and (c) other basis adjustments in the Fund's MLPs and other investments.

For the fiscal year ended November 30, 2017, the tax character of the total \$28,645 distributions paid to common stockholders was \$609 of dividend income and \$28,036 of return of capital. The tax character of the total \$1,421 distributions paid to holders of MRP shares was dividend income.

For purposes of determining the tax character of the dividends/distributions to investors, the amounts in excess of the Fund's earnings and profits for federal income tax purposes are treated as a return of capital. Earnings and profits differ from taxable income due principally to adjustments related to the Fund's investments in MLPs.

Under the Regulated Investment Company Modernization Act of 2010, any net capital losses recognized after December 31, 2010 may be carried forward indefinitely, and their character is retained as short-term and/or long-term losses.

The Fund utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

At May 31, 2018, the cost basis of investments for federal income tax purposes was \$432,176, and the premiums received on outstanding option contracts written were \$51. At May 31, 2018, gross unrealized appreciation and depreciation of investments and options, if any, for federal income tax purposes were as follows:

Gross unrealized appreciation of investments (including options, if any) .....	\$ 63,122
Gross unrealized depreciation of investments (including options, if any) .....	<u>(59,351)</u>
Net unrealized depreciation of investments before foreign currency related translations .....	3,771
Unrealized depreciation on foreign currency related translations .....	<u>(5)</u>
Net unrealized appreciation of investments .....	<u>\$ 3,766</u>

**7. Restricted Securities**

From time to time, the Fund's ability to sell certain of its investments is subject to certain legal or contractual restrictions. For instance, private investments that are not registered under the Securities Act of 1933, as amended (the "Securities Act"), cannot be offered for public sale in a non-exempt transaction without first being registered. In other cases, certain of the Fund's investments have restrictions such as lock-up agreements that preclude the Fund from offering these securities for public sale.

At May 31, 2018, the Fund held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units, Principal (\$) (in 000s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 2 Investments</b>								
<b>Equity Investments</b>								
Plains GP Holdings, L.P. — Plains AAP, L.P. <sup>(1)</sup> .....	(2)	(3)	690	\$ 2,923	\$16,942	\$24.57	5.5%	3.8%
<b>Senior Notes<sup>(4)</sup></b>								
California Resources Corporation .....	(2)	(5)	7,525	5,676	6,679	n/a	2.2	1.5
Jupiter Resources, Inc. ....	(2)	(6)	11,480	9,534	4,822	n/a	1.5	1.1
Total .....				<u>\$18,133</u>	<u>\$28,443</u>		<u>9.2%</u>	<u>6.4%</u>

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

Investment	Acquisition Date	Type of Restriction	Number of Units, Principal (\$) (in 000s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 3 Investments<sup>(7)</sup></b>								
<b>Equity Investments</b>								
Buckeye Partners, L.P.								
Class C Units .....	(2)	(5)	182	\$ 7,500	\$ 5,849	\$32.09	1.9%	1.3%
Capital Product Partners L.P.								
Class B Units .....	(2)	(5)	606	<u>3,163</u>	<u>4,800</u>	7.92	<u>1.6</u>	<u>1.1</u>
				<u>\$10,663</u>	<u>\$10,649</u>		<u>3.5%</u>	<u>2.4%</u>
Total of all restricted investments .....				<u>\$28,796</u>	<u>\$39,092</u>		<u>12.7%</u>	<u>8.8%</u>

- (1) The Fund values its investment in Plains AAP, L.P. ("PAGP-AAP") on an "as exchanged" basis based on the higher public market value of either Plains GP Holdings, L.P. ("PAGP") or Plains All American, L.P. ("PAA"). As of May 31, 2018, the Fund's PAGP-AAP investment is valued at PAGP's closing price. See Note 3 — Fair Value.
- (2) Security was acquired at various dates in current and/or prior fiscal years.
- (3) The Fund's investment in PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or PAA units at the Fund's option. Upon exchange, the PAGP shares or PAA units will be freely tradable.
- (4) These securities have a fair market value determined by the mean of the bid and ask prices provided by an agent or a syndicate bank, a principal market maker, an independent pricing service or an independent broker as more fully described in Note 2 — Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.
- (5) Unregistered or restricted security of a publicly-traded company.
- (6) Unregistered security of a private company.
- (7) Securities are valued using inputs reflecting the Fund's own assumptions as more fully described in Note 2 — Significant Accounting Policies and Note 3 — Fair Value.

**8. Derivative Financial Instruments**

As required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification (ASC 815), the following are the derivative instruments and hedging activities of the Fund. See Note 2 — Significant Accounting Policies.

**Option Contracts** — Transactions in option contracts for the three and six months ended May 31, 2018 were as follows:

<b>Three Months Ended May 31, 2018</b>	<b>Number of Contracts</b>	<b>Premium</b>
<b>Call Options Written</b>		
Options outstanding at February 28, 2018 .....	460	\$ 41
Options written .....	1,250	95
Options subsequently repurchased <sup>(1)</sup> .....	(710)	(55)
Options exercised .....	(300)	(30)
Options expired .....	—	—
Options outstanding at May 31, 2018 .....	<u>700</u>	<u>\$ 51</u>

- (1) The price at which the Fund subsequently repurchased the options was \$4, which resulted in realized gains of \$51.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

<u>Six Months Ended May 31, 2018</u>	<u>Number of</u> <u>Contracts</u>	<u>Premium</u>
<b>Call Options Written</b>		
Options outstanding at November 30, 2017 .....	—	\$ —
Options written .....	3,410	261
Options subsequently repurchased <sup>(1)</sup> .....	(2,410)	(180)
Options exercised .....	(300)	(30)
Options expired .....	—	—
Options outstanding at May 31, 2018 <sup>(2)</sup> .....	<u>700</u>	<u>\$ 51</u>

- (1) The price at which the Fund subsequently repurchased the options was \$33, which resulted in net realized gains of \$147.
- (2) The percentage of total long-term investments subject to call options written was 1.09% at May 31, 2018.

**Interest Rate Swap Contracts** — The Fund may enter into interest rate swap contracts to partially hedge itself from increasing expense on its leverage resulting from increasing interest rates. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement transaction would not be as favorable as on the expiring transaction. In addition, if the Fund is required to terminate any swap contract early, then the Fund could be required to make a termination payment. As of May 31, 2018, the Fund did not have any interest rate swap contracts outstanding.

The following table sets forth the fair value of the Fund's derivative instruments on the Statement of Assets and Liabilities:

<u>Derivatives Not Accounted for as</u> <u>Hedging Instruments</u>	<u>Statement of Assets and Liabilities</u> <u>Location</u>	<u>Fair Value as of</u> <u>May 31, 2018</u>
Call options written .....	Call option contracts written	\$(59)

The following tables set forth the effect of the Fund's derivative instruments on the Statement of Operations:

<u>Derivatives Not Accounted for as</u> <u>Hedging Instruments</u>	<u>Location of Gains/(Losses) on</u> <u>Derivatives Recognized in Income</u>	<u>For the Three Months Ended</u> <u>May 31, 2018</u>	
		<u>Net Realized</u> <u>Gains/(Losses) on</u> <u>Derivatives</u> <u>Recognized in</u> <u>Income</u>	<u>Change in</u> <u>Unrealized</u> <u>Gains/(Losses) on</u> <u>Derivatives</u> <u>Recognized in</u> <u>Income</u>
Call options written .....	Options	\$51	\$(35)

<u>Derivatives Not Accounted for as</u> <u>Hedging Instruments</u>	<u>Location of Gains/(Losses) on</u> <u>Derivatives Recognized in Income</u>	<u>For the Six Months Ended</u> <u>May 31, 2018</u>	
		<u>Net Realized</u> <u>Gains/(Losses) on</u> <u>Derivatives</u> <u>Recognized in</u> <u>Income</u>	<u>Change in</u> <u>Unrealized</u> <u>Gains/(Losses) on</u> <u>Derivatives</u> <u>Recognized in</u> <u>Income</u>
Call options written .....	Options	\$147	\$(8)

**9. Investment Transactions**

For the six months ended May 31, 2018, the Fund purchased and sold securities in the amounts of \$69,527 and \$77,543 (excluding short-term investments and options).

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

**10. Credit Facility and Term Loan**

At May 31, 2018, the Fund had a \$75,000 unsecured revolving credit facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility has a two-year term maturing on November 9, 2018. The interest rate on outstanding loan balances may vary between LIBOR plus 1.60% and LIBOR plus 2.25%, depending on the Fund's asset coverage ratios. The Fund pays a fee of 0.30% per annum on any unused amounts of the Credit Facility. For the six months ended May 31, 2018, the Fund had no borrowings under the Credit Facility.

At May 31, 2018, the Fund had a \$35,000 unsecured revolving term loan ("Term Loan"). The Term Loan has a five-year commitment maturing on July 25, 2019, and borrowings under the Term Loan accrue interest at a rate of LIBOR plus 1.50%. The Fund pays a fee of 0.25% per annum on any unused amount of the Term Loan. Amounts borrowed under the Term Loan may be repaid and subsequently reborrowed. For the six months ended May 31, 2018, the average amount outstanding under the Term Loan was \$1,962 with a weighted average interest rate of 3.39%. As of May 31, 2018, the Fund had no outstanding borrowings under the Term Loan.

As of May 31, 2018, the Fund was in compliance with all financial and operational covenants required by the Credit Facility and Term Loan. See Financial Highlights for the Fund's asset coverage ratios under the 1940 Act.

**11. Notes**

At May 31, 2018, the Fund had \$91,000 aggregate principal amount of Notes outstanding. The table below sets forth the key terms of each series of Notes outstanding at May 31, 2018.

<u>Series</u>	<u>Principal Outstanding</u>	<u>Unamortized Issuance Costs</u>	<u>Estimated Fair Value</u>	<u>Fixed Interest Rate</u>	<u>Maturity</u>
C	\$21,000	\$ 68	\$21,300	4.00%	3/22/22
D	40,000	177	39,400	3.34%	5/1/23
E	30,000	116	30,000	3.46%	7/30/21
	<u>\$91,000</u>	<u>\$361</u>	<u>\$90,700</u>		

Holder of the Notes are entitled to receive cash interest payments semi-annually (on September 3 and March 3) at the fixed rate. As of May 31, 2018, the weighted average interest rate on the outstanding Notes was 3.53%.

As of May 31, 2018, each series of Notes was rated "AAA" by FitchRatings. In the event the credit rating on any series of Notes falls below "A-", the interest rate on such series will increase by 1% during the period of time such series is rated below "A-". The Fund is required to maintain a current rating from one rating agency with respect to each series of Notes and is prohibited from having any rating of less than investment grade ("BBB-") with respect to each series of Notes.

The Notes were issued in private placement offerings to institutional investors and are not listed on any exchange or automated quotation system. The Notes contain various covenants related to other indebtedness, liens and limits on the Fund's overall leverage. Under the 1940 Act and the terms of the Notes, the Fund may not declare dividends or make other distributions on shares of its common stock or make purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to senior securities representing indebtedness (including the Notes) would be less than 300%.

The Notes are redeemable in certain circumstances at the option of the Fund. The Notes are also subject to a mandatory redemption to the extent needed to satisfy certain requirements if the Fund fails to meet an asset coverage ratio required by law and is not able to cure the coverage deficiency by the applicable deadline, or fails to cure a deficiency as stated in the Fund's rating agency guidelines in a timely manner.

The Notes are unsecured obligations of the Fund and, upon liquidation, dissolution or winding up of the Fund, will rank: (1) senior to all of the Fund's outstanding preferred shares; (2) senior to all of the Fund's

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except number of option contracts, share and per share amounts)  
**(UNAUDITED)**

outstanding common shares; (3) on a parity with any unsecured creditors of the Fund and any unsecured senior securities representing indebtedness of the Fund; and (4) junior to any secured creditors of the Fund.

At May 31, 2018, the Fund was in compliance with all covenants under the agreements of the Notes.

**12. Preferred Stock**

At May 31, 2018, the Fund had 1,400,000 shares of MRP Shares outstanding, with a total liquidation value of \$35,000 (\$25.00 per share). The table below sets forth the key terms of each series of MRP Shares outstanding at May 31, 2018.

<u>Series</u>	<u>Liquidation Value</u>	<u>Unamortized Issuance Costs</u>	<u>Estimated Fair Value</u>	<u>Rate</u>	<u>Mandatory Redemption Date</u>
C	\$35,000	\$220	\$34,600	4.06%	7/30/21

Holders of the MRP Shares are entitled to receive cumulative cash dividend payments on the first business day following each quarterly period (February 28, May 31, August 31 and November 30).

As of May 31, 2018, the Fund's series C MRP Shares were rated "A" by FitchRatings. The dividend rate on the Fund's MRP Shares will increase between 0.5% and 4.0% if the credit rating is downgraded below "A" by FitchRatings. Further, the annual dividend rate for all series of MRP Shares will increase by 4.0% if no ratings are maintained, and the annual dividend rate will increase by 5.0% if the Fund fails to make quarterly dividend or certain other payments. The Fund is required to maintain a current rating from one rating agency with respect to each series of MRP Shares.

The MRP Shares rank senior to all of the Fund's outstanding common shares and on parity with any other preferred stock. The MRP Shares are redeemable in certain circumstances at the option of the Fund and are also subject to a mandatory redemption if the Fund fails to meet a total leverage (debt and preferred stock) asset coverage ratio of 225% or fails to maintain its basic maintenance amount as stated in the Fund's rating agency guidelines.

Under the terms of the MRP Shares, the Fund may not declare dividends or make other distributions on shares of its common stock or make purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to total leverage would be less than 225% or the Fund would fail to maintain its basic maintenance amount as stated in the Fund's rating agency guidelines.

The holders of the MRP Shares have one vote per share and will vote together with the holders of common stock as a single class except on matters affecting only the holders of MRP Shares or the holders of common stock. The holders of the MRP Shares, voting separately as a single class, have the right to elect at least two directors of the Fund.

At May 31, 2018, the Fund was in compliance with the asset coverage and basic maintenance requirements of its MRP Shares.

**13. Common Stock**

At May 31, 2018, the Fund had 198,600,000 shares of common stock authorized and 22,034,170 shares outstanding. As of May 31, 2018, KACALP and KAFA owned 57,740 and 4,000 shares of the Fund, respectively. During the six months ended May 31, 2018, there were no common stock transactions.

**14. Subsequent Events**

On June 28, 2018, the Fund declared its quarterly distribution of \$0.30 per common share for the second quarter. The total distribution of \$6,610 was paid on July 13, 2018. Of this total, pursuant to the Fund's dividend reinvestment plan \$697 was reinvested into the Fund through open market purchases of common stock.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except number of option contracts, share and per share amounts)**  
**(UNAUDITED)**

On June 28, 2018, KYE announced that its special meeting of stockholders was adjourned to July 17, 2018 and on that date the meeting was subsequently adjourned to July 31, 2018. KYE stockholders are being asked to vote on the proposed merger of Kayne Anderson Energy Total Return Fund, Inc. (“KYE”) with and into KMF.

The Fund has performed an evaluation of subsequent events through the date the financial statements were issued and has determined that no additional items require recognition or disclosure.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**GLOSSARY OF KEY TERMS**  
**(UNAUDITED)**

This glossary contains definitions of certain key terms, as they are used in our investment objective and policies and as described in this report. These definitions may not correspond to standard sector definitions.

*“Energy Assets”* means assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity.

*“Energy Companies”* means companies that own and operate Energy Assets or provide energy-related services. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenues or operating income from operating Energy Assets or providing services for the operation of such Energy Assets or (ii) have Energy Assets that represent the majority of their assets.

*“General Partner MLPs”* means Master Limited Partnerships whose assets consist of ownership interests of an affiliated Master Limited Partnership (which may include general partnership interests, incentive distribution rights, common units and subordinated units).

*“Master Limited Partnerships”* or *“MLPs”* means limited partnerships and limited liability companies that are publicly traded and are treated as partnerships for federal income tax purposes, includes Midstream MLPs and other MLPs.

*“Midstream Assets”* means assets used in energy logistics, including, but not limited to, assets used in transporting, storing, gathering, processing, distributing, or marketing of natural gas, natural gas liquids, crude oil or refined products.

*“Midstream Companies”* means companies that own and operate Midstream Assets and are taxed as corporations for federal income tax purposes, including MLP Affiliates of Midstream MLPs. This includes companies structured like MLPs, but not treated as a publicly-traded partnership for RIC qualification purposes as well as MLP Affiliates of Midstream MLPs. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenue or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.

*“Midstream/Energy Sector”* consists of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies.

*“Midstream Sector”* consists of (a) Midstream MLPs and (b) Midstream Companies.

*“Midstream MLPs”* means MLPs that principally own and operate Midstream Assets including General Partner MLPs whose assets consist of ownership interests of an affiliated Midstream MLP.

*“MLP Affiliates”* means affiliates of Master Limited Partnerships, substantially all of whose assets consist of i-units or other ownership interests in Master Limited Partnerships. MLP Affiliates are not treated as partnerships for federal income tax purposes.

*“Other Energy Companies”* means Energy Companies, excluding MLPs and Midstream Companies.

*“Other MLPs”* consists of (a) upstream MLPs, (b) coal MLPs, (c) propane MLPs and (d) MLPs that operate other energy assets or provide energy-related services.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.  
 PRIVACY POLICY NOTICE  
 (UNAUDITED)**

Rev. 01/2011

<b>FACTS</b>	<b>WHAT DOES KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC. (“KMF”) DO WITH YOUR PERSONAL INFORMATION?</b>
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<b>Why?</b>	Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.
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<b>What?</b>	<p>The types of personal information we collect and share depend on the product or service you have with us. This information can include:</p> <ul style="list-style-type: none"> <li>■ Social Security number and account balances</li> <li>■ Payment history and transaction history</li> <li>■ Account transactions and wire transfer instructions</li> </ul> <p>When you are <i>no longer</i> our customer, we continue to share your information as described in this notice.</p>
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<b>How?</b>	All financial companies need to share customers’ personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customers’ personal information; the reasons KMF chooses to share; and whether you can limit this sharing.
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Reasons we can share your personal information	Does KMF share?	Can you limit this sharing?
<b>For our everyday business purposes —</b> such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus	Yes	No
<b>For our marketing purposes —</b> to offer our products and services to you	No	No
<b>For joint marketing with other financial companies</b>	No	We don’t share
<b>For our affiliates’ everyday business purposes —</b> information about your transactions and experiences	No	We don’t share
<b>For our affiliates’ everyday business purposes —</b> information about your creditworthiness	No	We don’t share
<b>For nonaffiliates to market to you</b>	No	We don’t share

<b>Questions?</b>	Call 877-657-3863 or go to <a href="http://www.kaynefunds.com">http://www.kaynefunds.com</a>
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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.  
 PRIVACY POLICY NOTICE  
 (UNAUDITED)**

Who we are	
<b>Who is providing this notice?</b>	KMF
What we do	
<b>How does KMF protect my personal information?</b>	<p>To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.</p> <p>Access to your personal information is on a need-to-know basis. KMF has adopted internal policies to protect your non-public personal information.</p>
<b>How does KMF collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>■ Provide account information</li> <li>■ Buy securities from us or make a wire transfer</li> <li>■ Give us your contact information</li> </ul> <p>We also collect your personal information from other companies.</p>
<b>Why can't I limit all sharing?</b>	<p>Federal law gives you the right to limit only</p> <ul style="list-style-type: none"> <li>■ sharing for affiliates' everyday business purposes — information about your creditworthiness</li> <li>■ affiliates from using your information to market to you</li> <li>■ sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p>
Definitions	
<b>Affiliates</b>	<p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ <i>KMF does not share with our affiliates.</i></li> </ul>
<b>Nonaffiliates</b>	<p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ <i>KMF does not share with nonaffiliates so they can market to you.</i></li> </ul>
<b>Joint marketing</b>	<p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>■ <i>KMF doesn't jointly market.</i></li> </ul>
Other important information	
<b>None.</b>	

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

Kayne Anderson Midstream/Energy Fund, Inc., a Maryland corporation (the “Fund”), has adopted the following plan (the “Plan”) with respect to distributions declared by its Board of Directors (the “Board”) on shares of its Common Stock:

1. Unless a stockholder specifically elects to receive cash as set forth below, all distributions hereafter declared by the Board shall be payable in shares of the Common Stock of the Fund, and no action shall be required on such stockholder’s part to receive a distribution in stock.

2. Such distributions shall be payable on such date or dates as may be fixed from time to time by the Board to stockholders of record at the close of business on the record date(s) established by the Board for the distribution involved.

3. The Fund may use newly-issued shares of its Common Stock or purchase shares in the open market in connection with the implementation of the plan. The number of shares to be issued to a stockholder shall be based on share price equal to 95% of the closing price of the Fund’s Common Stock one day prior to the dividend payment date.

4. The Board may, in its sole discretion, instruct the Fund to purchase shares of its Common Stock in the open market in connection with the implementation of the Plan as follows: If the Fund’s Common Stock is trading below net asset value at the time of valuation, upon notice from the Fund, the Plan Administrator (as defined below) will receive the dividend or distribution in cash and will purchase Common Stock in the open market, on the New York Stock Exchange or elsewhere, for the Participants’ accounts, except that the Plan Administrator will endeavor to terminate purchases in the open market and cause the Fund to issue the remaining shares if, following the commencement of the purchases, the market value of the shares, including brokerage commissions, exceeds the net asset value at the time of valuation. These remaining shares will be issued by the Fund at a price equal to the greater of (i) the net asset value at the time of valuation or (ii) 95% of the then current market price.

5. In a case where the Plan Administrator has terminated open market purchases and caused the issuance of remaining shares by the Fund, the number of shares received by the participant in respect of the cash dividend or distribution will be based on the weighted average of prices paid for shares purchased in the open market, including brokerage commissions, and the price at which the Fund issues remaining shares. To the extent that the Plan Administrator is unable to terminate purchases in the open market before the Plan Administrator has completed its purchases, or remaining shares cannot be issued by the Fund because the Fund declared a dividend or distribution payable only in cash, and the market price exceeds the net asset value of the shares, the average share purchase price paid by the Plan Administrator may exceed the net asset value of the shares, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund.

6. A stockholder may, however, elect to receive his or its distributions in cash. To exercise this option, such stockholder shall notify American Stock Transfer & Trust Company, the plan administrator and the Fund’s transfer agent and registrar (collectively the “Plan Administrator”), in writing so that such notice is received by the Plan Administrator no later than the record date fixed by the Board for the distribution involved.

7. The Plan Administrator will set up an account for shares acquired pursuant to the Plan for each stockholder who has not so elected to receive dividends and distributions in cash (each, a “Participant”). The Plan Administrator may hold each Participant’s shares, together with the shares of other Participants, in non-certificated form in the Plan Administrator’s name or that of its nominee. Upon request by a Participant, received no later than three (3) days prior to the payable date, the Plan Administrator will, instead of crediting shares to and/or carrying shares in a Participant’s account, issue, without charge to the Participant, a certificate registered in the Participant’s name for the number of whole shares payable to the Participant and a check for any fractional share less a broker commission on the sale of such fractional shares. If a

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

request to terminate a Participant's participation in the Plan is received less than three (3) days before the payable date, dividends and distributions for that payable date will be reinvested. However, subsequent dividends and distributions will be paid to the Participant in cash.

8. The Plan Administrator will confirm to each Participant each acquisition made pursuant to the Plan as soon as practicable but not later than ten (10) business days after the date thereof. Although each Participant may from time to time have an undivided fractional interest (computed to three decimal places) in a share of Common Stock of the Fund, no certificates for a fractional share will be issued. However, dividends and distributions on fractional shares will be credited to each Participant's account. In the event of termination of a Participant's account under the Plan, the Plan Administrator will adjust for any such undivided fractional interest in cash at the market value of the Fund's shares at the time of termination.

9. The Plan Administrator will forward to each Participant any Fund related proxy solicitation materials and each Corporation report or other communication to stockholders, and will vote any shares held by it under the Plan in accordance with the instructions set forth on proxies returned by Participants to the Fund.

10. In the event that the Fund makes available to its stockholders rights to purchase additional shares or other securities, the shares held by the Plan Administrator for each Participant under the Plan will be added to any other shares held by the Participant in certificated form in calculating the number of rights to be issued to the Participant.

11. The Plan Administrator's service fee, if any, and expenses for administering the Plan will be paid for by the Fund.

12. Each Participant may terminate his or its account under the Plan by so notifying the Plan Administrator via the Plan Administrator's website at [www.amstock.com](http://www.amstock.com), by filling out the transaction request form located at the bottom of the Participant's Statement and sending it to American Stock Transfer and Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the Plan Administrator at (888) 888-0317. Such termination will be effective immediately. The Plan may be terminated by the Fund upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund. Upon any termination, the Plan Administrator will cause a certificate or certificates to be issued for the full shares held for the Participant under the Plan and a cash adjustment for any fractional share to be delivered to the Participant without charge to the Participant. If a Participant elects by his or its written notice to the Plan Administrator in advance of termination to have the Plan Administrator sell part or all of his or its shares and remit the proceeds to the Participant, the Plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds.

13. These terms and conditions may be amended or supplemented by the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by each Participant unless, prior to the effective date thereof, the Plan Administrator receives written notice of the termination of his or its account under the Plan. Any such amendment may include an appointment by the Plan Administrator in its place and stead of a successor agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Plan Administrator under these terms and conditions. Upon any such appointment of any agent for the purpose of receiving dividends and distributions, the Fund will be authorized to pay to such successor agent, for each Participant's account, all dividends and distributions payable on shares of the Fund held in the Participant's name or under the Plan for retention or application by such successor agent as provided in these terms and conditions.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

14. The Plan Administrator will at all times act in good faith and use its best efforts within reasonable limits to ensure its full and timely performance of all services to be performed by it under this Plan and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by the Plan Administrator's negligence, bad faith, or willful misconduct or that of its employees or agents.

15. These terms and conditions shall be governed by the laws of the State of Maryland.

Adopted: November 18, 2010

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

The Fund's Board of Directors (the "Board") on March 27, 2018 approved the continuation of the Fund's Investment Management Agreement (the "Agreement") with KA Fund Advisors, LLC (the "Adviser") through March 31, 2019.

During the course of each year and in connection with their consideration of the continuation of the Agreement, the Board received various materials from the Adviser, including (i) information on the advisory personnel of the Adviser; (ii) information on the internal compliance procedures of the Adviser; (iii) comparative information showing how the Fund's fees and expenses compare to other registered investment companies that follow investment strategies similar to those of the Fund; (iv) information regarding brokerage and portfolio transactions; (v) comparative information showing how the Fund's performance compares to other registered investment companies that follow investment strategies similar to those of the Fund; and (vii) information on any material legal proceedings or regulatory audits or investigations affecting the Fund or the Adviser.

After receiving and reviewing these materials, the Board, at an in-person meeting called for such purpose (the "Meeting"), discussed the terms of the Agreement. Representatives from the Adviser attended the Meeting and presented additional oral and written information to the Board to assist in its considerations. The Directors who are not parties to the Agreement or "interested persons" (as defined in the Investment Company Act of 1940, as amended) of any such party (the "Independent Directors") also met in executive session to further discuss the terms of the Agreement and the information provided by the Adviser.

Discussed below are certain of the factors considered by the Board in continuing the Agreement. This discussion is not intended to be all-inclusive. The Board, including the Independent Directors, reviewed a variety of factors and considered a significant amount of information, including information received on an ongoing basis at Board and committee meetings and in various discussions with senior management of the Adviser relating specifically to the Adviser and the Agreement. The approval determination was made on the basis of each Director's business judgment after consideration of all the information taken as a whole. Individual Directors may have given different weight to certain factors and assigned various degrees of materiality to information received in connection with the contract review process.

Taking all of the information and deliberations into account, the Independent Directors reviewed various factors presented to them, the detailed information provided by the Adviser at the Meeting and at other times throughout the year, and other relevant information and the following factors, none of which was dispositive in their decision whether to approve the Agreement:

***The nature, extent, and quality of the services to be provided by the Adviser***

The Board, including the Independent Directors, considered the scope and quality of services that have been provided by the Adviser under the Agreement. The Board, including the Independent Directors, considered the quality of the investment research capabilities of the Adviser and the other resources the Adviser has dedicated to performing services for the Fund, including the high caliber of portfolio managers and research analysts involved, the large and experienced team of investment, accounting, legal, trading and compliance professionals at the Adviser dedicated to the Fund, and the continued maintenance and growth of such team despite the decline in the energy sector and an associated reduction in management fees received by the Adviser. The Board, including the Independent Directors, also considered the quality of other services, including the Adviser's assistance in the coordination of the activities of some of the Fund's other service providers, the provision of certain administrative, compliance, reporting and financial services by the Adviser, the prudent use of call options, the responsible handling of the Fund's leverage ratios and distribution determinations through declining and volatile energy markets, and the efforts to maximize returns and to position the Fund's portfolio to grow as those markets recover. The Board, including the Independent Directors, took note of the Adviser's excellent track records in identifying and executing on key investment themes and in sourcing and negotiating private investments for the Fund as well as the Fund's access to investments and capital markets due in part to the

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

Adviser's credibility with institutional investors. The Board, including the Independent Directors, took further note of the Adviser's prudent and conscientious handling of the proposed reorganization of Kayne Anderson Energy Total Return Fund, Inc. with and into the Fund (the "Reorganization") and the Adviser's diligent approach in structuring the Reorganization to best serve the interests of the Fund's stockholders. The Board, including the Independent Directors, also considered the nature and quality of the services provided by the Adviser to the Fund in light of their experience as Directors of the Fund, their confidence in the Adviser's integrity and competence gained from that experience and the Adviser's responsiveness to questions, concerns or requests for information raised or made by them in the past. The Board, including the Independent Directors, noted the high quality of services provided by the Adviser during periods when the market faces significant turmoil, including various current market challenges as well as the Adviser's efforts to maximize returns and its leadership position in the markets in which it invests. The Board, including the Independent Directors, discussed the scope of responsibilities of, and resources expected to be available to, the key investment management and other personnel of the Adviser. Based on information provided by the Adviser, the Independent Directors concluded that the Adviser has the quality and depth of personnel and investment methods essential to performing its duties under the Agreement, and should be able to sustain that quality and depth, and that the nature and the proposed cost of such advisory services would be fair and reasonable in light of the services expected to be provided.

***The Fund's performance under the management of the Adviser***

The Independent Directors reviewed information pertaining to the performance of the Fund. These data compared the Fund's performance to the performance of certain other registered investment companies that follow investment strategies similar to those of the Fund as well as its benchmark. The comparative information showed that the performance of the Fund is satisfactory on an overall basis compared to other similar closed-end funds for various periods despite certain periods of lower relative performance against applicable peer groups. Based upon their review and consideration of applicable securities price indices, the Independent Directors concluded that the Fund's investment performance over time has been satisfactory compared to other closed-end funds that focus on investments in energy-related master limited partnerships ("MLPs"), midstream companies and other energy companies, as applicable, and that the Fund has generated strong returns for investors over various periods. The Independent Directors noted that in addition to the information received for the Meeting, the Independent Directors also receive detailed performance information for the Fund at each regular meeting of the Board during the year. The Independent Directors considered the investment performance of other closed-end investment companies managed by the Adviser, but noted that they are not directly comparable. The Independent Directors did not consider the performance of other accounts of the Adviser because there were no accounts similar enough to be relevant for performance purposes.

***The reasonability of the management fee and fall-out benefits***

The Independent Directors considered the Fund's management fee under the Agreement in comparison to the management fees of funds within the Fund's peer group. The Independent Directors also considered the greater risks and burdens associated with managing the Fund compared to private funds and separate accounts. The Adviser's successful handling of past and recent market downturns and management of related leverage and distribution challenges, the administrative burden resulting from the Fund's tax complexities, the Fund's participation in private investments, particularly "PIPE" transactions, the Adviser's long standing relationships with management teams in the energy sector, and the Adviser's track record for successful pricing and timing strategies related to capital raising for the Fund were also noted by the Independent Directors as relevant considerations in evaluating the reasonableness of the management fee rate. The Independent Directors also discussed and are comfortable with the different contractual fee rates for the Fund and other closed-end companies managed by the Adviser given differences in strategies and investments, and the relatively stronger

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

and deeper management expertise and resources of the Adviser. Based on those comparisons, the Independent Directors concluded that the management fee for the Fund remains reasonable.

***The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of stockholders***

The Independent Directors considered economies of scale that are being enjoyed by stockholders of the Fund. In this regard, they noted the Adviser's efforts to manage operating expenses, including significant declines in operating expenses over various periods since inception. They noted the increase in operating expenses as a percentage of net assets compared to 2015 and took into account the Adviser's discussion of that increase, including the impact of the decline in the Fund's assets during the market downturn. The Independent Directors also noted that the Adviser had successfully managed to keep the Fund's operating expenses flat compared to 2016. They further noted that the Adviser added professionals to its already robust and high-quality team, which also represented a sharing of those economies of scale. The Independent Directors also considered further possible economies of scale that the Adviser could achieve in its management of the Fund. They considered the information provided by the Adviser relating to the Fund's operating expenses and information comparing the fee rate charged by the Adviser with fee rates charged by other unaffiliated investment advisers to their investment company clients. The Independent Directors considered that the proposed Reorganization, if completed, would enable the Fund to leverage greater economies of scale. The Independent Directors also considered the Adviser's commitment to retaining and growing its professional staff devoted to the Fund in a competitive environment for investment and compliance professionals, and in light of reduced management revenues from weaker energy markets. The Independent Directors concluded that the fee structure for the Fund is reasonable in view of the information provided by the Adviser. The Independent Directors then noted that they would continue to monitor and review further growth of the Fund in order to remain comfortable with the fee structure after any applicable future economies of scale.

***Conclusion***

Based on the review by the Board, including its consideration of each of the factors discussed above and the materials requested from and provided by the Adviser, the Board concluded, in agreement with the recommendation of the Independent Directors, that the Fund and its stockholders received reasonable value in return for the management fees and other amounts paid to the Adviser by the Fund under the Agreement, that stockholders could expect to receive reasonable value in return for the management fees and other amounts proposed to be paid to the Adviser by the Fund under the Agreement and that the approval of the continuation of the Agreement was in the best interests of stockholders of the Fund.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**PROXY VOTING AND PORTFOLIO HOLDINGS INFORMATION**  
**(UNAUDITED)**

The policies and procedures that the Fund uses to determine how to vote proxies relating to its portfolio securities are available:

- without charge, upon request, by calling (877) 657-3863/MLP-FUND;
- on the Fund's website, <http://www.kaynefunds.com>; and
- on the SEC's website, <http://www.sec.gov>.

Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling (877) 657-3863/MLP-FUND, and on the SEC's website at <http://www.sec.gov> (see Form N-PX).

The Fund files a complete schedule of its portfolio holdings for the first and third quarters of each of its fiscal years with the SEC on Form N-Q and Form N-30B-2. The Fund's Form N-Q and Form N-30B-2 are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund also makes its Form N-Q and Form N-30B-2 available on its website at <http://www.kaynefunds.com>.

**REPURCHASE DISCLOSURE**  
**(UNAUDITED)**

Notice is hereby given in accordance with Section 23(c) of the 1940 Act, that the Fund may from time to time purchase shares of its common and preferred stock and its Notes in the open market or in privately negotiated transactions.



**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**RESULTS OF ANNUAL MEETING OF STOCKHOLDERS**  
**(UNAUDITED)**

On June 28, 2018, the Fund held its annual meeting of stockholders where the following matters were approved by stockholders. As of the record date of May 21, 2018 (the “Record Date”), the Fund had 22,034,170 outstanding shares of common stock and 1,400,000 outstanding shares of mandatory redeemable preferred stock, each of which was entitled to cast one vote. Represented in person or by proxy at this meeting were a total of 20,899,031 shares of common stock and mandatory redeemable preferred stock, constituting a quorum.

- (i) The approval of the issuance of additional Fund’s common stock in connection with the Reorganization.

The approval of this proposal required the affirmative vote of a majority of the votes cast by the holders of the Fund’s common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. For purposes of the vote on this proposal, abstentions had the same effect as votes against the issuance of the additional Fund common stock in connection with the Reorganization, since approval was based on the affirmation vote of all votes entitled to be cast. Broker non-votes were counted as votes cast and had no effect on the result of the vote.

On this matter, 9,575,145 shares were cast in favor, 287,654 shares were cast against, 167,733 shares abstained, and there were 10,868,499 broker non-votes.

As a result of the vote on this matter, the proposal was approved.

- (ii) 1. The election of Anne K. Costin and James C. Baker as directors, each to serve for a term of one year until the Fund’s 2019 annual meeting of stockholders and until his or her successor is duly elected and qualified.

(a) The election of Ms. Costin required the affirmative vote of the holders of a majority of the Fund’s common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. On this matter, 20,367,074 shares were cast in favor, 339,987 shares were cast against, and 191,970 withheld authority in the election of Ms. Costin.

(b) The election of Mr. Baker required the affirmative vote of the holders of a majority of the Fund’s mandatory redeemable preferred stock outstanding as of the Record Date. On this matter, 1,398,250 shares were cast in favor, no shares were cast against, and no shares withheld authority in the election of Mr. Baker.

As a result of the vote on this matter, Ms. Costin and Mr. Baker were each elected to serve as director of the Fund for a one-year term.

- (ii) 2. The election of William R. Cordes and Barry R. Pearl as directors, each to serve for a term of two years until the Fund’s 2020 annual meeting of stockholders and until his successor is duly elected and qualified.

(a) The election of Mr. Cordes required the affirmative vote of the holders of a majority of the Fund’s common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. On this matter, 20,359,943 shares were cast in favor, 342,247 shares were cast against, and 196,841 withheld authority in the election of Mr. Cordes.

(b) The election of Mr. Pearl required the affirmative vote of the holders of a majority of the Fund’s common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. On this matter, 20,331,386 shares were cast in favor, 398,748 shares were cast against, and 168,897 withheld authority in the election of Mr. Pearl.

As a result of the vote on this matter, Mr. Cordes and Mr. Pearl were each elected to serve as director of the Fund for a two-year term.

**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**  
**RESULTS OF ANNUAL MEETING OF STOCKHOLDERS**  
**(UNAUDITED)**

- (ii) 3. The election of Kevin S. McCarthy, William L. Thacker and William H. Shea, Jr. as directors, each to serve for a term of three years until the Fund's 2021 annual meeting of stockholders and until his successor is duly elected and qualified.

(a) The election of Mr. McCarthy required the affirmative vote of the holders of a majority of the Fund's common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. On this matter, 20,282,794 shares were cast in favor, 428,075 shares were cast against, and 188,162 withheld authority in the election of Mr. McCarthy.

(b) The election of Mr. Thacker required the affirmative vote of the holders of a majority of the Fund's common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. On this matter, 20,277,128 shares were cast in favor, 432,213 shares were cast against, and 189,690 withheld authority in the election of Mr. Thacker.

(c) The election of Mr. Shea required the affirmative vote of the holders of a majority of the Fund's mandatory redeemable preferred stock outstanding as of the Record Date. On this matter, 1,398,250 shares were cast in favor, no shares were cast against, and no shares withheld authority in the election of Mr. Shea.

As a result of the vote on this matter, Mr. McCarthy, Mr. Thacker and Mr. Shea were each elected to serve as director of the Fund for a three-year term.

- (iii) The ratification of PricewaterhouseCoopers LLP as the Fund's independent registered public accounting firm for the fiscal year ending November 30, 2018.

The approval of this proposal required the affirmative vote of a majority of the votes cast by the holders of the Fund's common stock and mandatory redeemable preferred stock outstanding as of the Record Date, voting together as a single class. For purposes of the vote on this proposal, abstentions and broker non-votes were not counted as votes cast and had no effect on the result of the vote.

On this matter, 20,532,975 shares were cast in favor, 264,436 shares were cast against, 101,620 shares abstained, and there were no broker non-votes.

As a result of the vote on this matter, the proposal was approved.

## **Directors and Corporate Officers**

Kevin S. McCarthy

Chairman of the Board of Directors  
and Chief Executive Officer

William R. Cordes

Director

Anne K. Costin

Director

Barry R. Pearl

Director

Albert L. Richey

Director

William H. Shea, Jr

Director

William L. Thacker

Director

James C. Baker

Director and President

Terry A. Hart

Chief Financial Officer and Treasurer

David J. Shladovsky

Secretary

Michael J. O'Neil

Chief Compliance Officer

J.C. Frey

Executive Vice President, Assistant  
Secretary and Assistant Treasurer

Ron M. Logan, Jr.

Senior Vice President

Alan R. Boswell

Vice President

Jody C. Meraz

Vice President

### **Investment Adviser**

KA Fund Advisors, LLC  
811 Main Street, 14th Floor  
Houston, TX 77002

### **Administrator**

Ultimus Fund Solutions, LLC  
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Cincinnati, OH 45246

1800 Avenue of the Stars, Third Floor  
Los Angeles, CA 90067

### **Stock Transfer Agent and Registrar**

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
(888) 888-0317

### **Custodian**

JPMorgan Chase Bank, N.A.  
14201 North Dallas Parkway, Second Floor  
Dallas, TX 75254

### **Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP  
601 S. Figueroa Street, Suite 900  
Los Angeles, CA 90017

### **Legal Counsel**

Paul Hastings LLP  
101 California Street, Forty-Eighth Floor  
San Francisco, CA 94111

Please visit us on the web at <http://www.kaynefunds.com> or call us toll-free at 1-877-657-3863.

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This report, including the financial statements herein, is made available to stockholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.