

# Kayne Anderson

*Energy Development Company*



**KED Annual Report**  
November 30, 2015

## CONTENTS

	<u>Page</u>
Letter to Stockholders . . . . .	1
Portfolio Summary . . . . .	6
Management Discussion . . . . .	8
Schedule of Investments . . . . .	13
Statement of Assets and Liabilities . . . . .	16
Statement of Operations . . . . .	17
Statement of Changes in Net Assets Applicable to Common Stockholders . . . . .	18
Statement of Cash Flows . . . . .	19
Financial Highlights . . . . .	20
Notes to Financial Statements . . . . .	24
Report of Independent Registered Public Accounting Firm . . . . .	42
Privacy Policy Notice . . . . .	43
Dividend Reinvestment Plan . . . . .	45
Investment Management Agreement Approval Disclosure . . . . .	48
Information Concerning Directors and Corporate Officers . . . . .	51
Annual Certification . . . . .	54
Proxy Voting and Portfolio Holdings Information . . . . .	54
Repurchase Disclosure . . . . .	54

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS:** This report of Kayne Anderson Energy Development Company (the “Company”) 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 Company’s historical experience and its present expectations or projections indicated in any forward-looking statements. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; master limited partnership (“MLP”) industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Company’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 Company undertakes no obligation to update or revise any forward-looking statements made herein. There is no assurance that the Company’s investment objectives will be attained.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**LETTER TO STOCKHOLDERS**

January 22, 2016

Dear Fellow Stockholders:

This is the most difficult letter I have written since the Company's inception, in part due to the worst downturn I have seen in my 32 years in the energy business and in part because the market continues to change so rapidly. In just the first three weeks of January, we have seen the MLP market decline 30% and then rally 19% from its lows. This volatility is both unbelievable and unprecedented. I can say with certainty that, with respect to the energy and MLP markets, this downturn is far, far worse than the financial crisis of 2008–2009.

While fiscal 2015 was an extremely challenging year for the Company, the MLP market and the broader energy space, we firmly believed that 2016 would be a year when market sentiment started to reflect the improving fundamentals. Unfortunately, the beginning of fiscal 2016 has seen an acceleration of the challenges we saw in 2015. Low crude oil prices, the removal of Iranian sanctions and concerns about the health of China and the broader global economy have resulted in weakness in the broader equity markets (the Dow Jones Industrial Average is currently off to one of the worst starts of any year on record). As we write this letter, crude oil prices are trading near \$30 per barrel, down more than 70% over the last 18 months, and natural gas prices are trading near \$2.00 per Mcf. Weak commodity prices have created strong headwinds for exploration & production companies and, more importantly for the Company, have created extremely negative sentiment among energy investors generally and MLP investors in particular.

As we will explain in this letter, while we think the MLP sector has been oversold, the sector does face certain challenges. In particular, there are legitimate questions that investors are now asking about future levels of domestic crude oil and natural gas production, whether MLPs will be able to access the capital markets and even the viability of the MLP as a vehicle to finance the continued energy infrastructure build-out in North America. We are respectful of these concerns, but we firmly believe the MLP sector is positioned to deal with these challenges and will be well positioned to benefit from the long-term infrastructure needs created by the Shale Revolution. Before elaborating on these points, we would like to first review the Company's performance during fiscal 2015, as well as the circumstances that led to the reduction in the Company's quarterly distribution from \$0.53 per share to \$0.48 per share.

**Performance Review**

Simply put, it was a terrible year for the Company. One of the measures we employ to evaluate our performance is Net Asset Value Return, which is equal to the change in net asset value per share plus the cash distributions paid during the period, assuming reinvestment through our dividend reinvestment program. For fiscal 2015, the Company's Net Asset Value Return was negative 38% – the Company's worst performance since fiscal 2008. During the same period, the total return of the Alerian MLP index, or AMZ, was negative 34%. The Company's performance relative to the AMZ was negatively impacted by (i) poor returns for many of its investments in large cap, investment grade rated Midstream MLPs (ii) greater exposure to Gathering and Processing MLPs, which have more sensitivity to commodity prices and (iii) the fact that the Company utilizes leverage (whereas the AMZ is an unlevered index). We are very disappointed with our performance, but believe the Company's portfolio is positioned to outperform as market conditions stabilize. For fiscal 2015, our Market Return (share price changes plus reinvested dividends) was negative 46%, reflecting both the decline in NAV and a move in our stock price from a 6% premium to NAV to a 8% discount to NAV.

Over the last year, the Company has continued to evaluate investments in private midstream companies. We got very close to making one investment during fiscal 2015, but ultimately ended up not going forward with the transaction. We will continue to review investment opportunities in private companies but expect to focus the Company's portfolio on public MLPs and Midstream Companies over the next 12-18 months. Given the current

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**LETTER TO STOCKHOLDERS**

market dislocation, we believe we can generate returns in public securities commensurate with private company investments. We believe our stockholders interests are well served by the Company having this flexibility.

As the market declined, the Company modestly reduced its leverage. During fiscal 2015, the Company repaid \$43 million of revolver borrowings, but this reduction in leverage was partially offset by issuing \$25 million of mandatory redeemable preferred stock. The Company issued the preferred stock in anticipation of making the private midstream company investment discussed above. While that transaction did not occur, the preferred stock deal strengthened the Company's balance sheet and, together with securities sold to fund the private transaction, provided additional cushion against market declines. As a result, the Company did not need to monetize securities during the downturn to manage its leverage ratios.

Over the last 15 months, there have been several significant mergers that were announced or completed that negatively impacted our net distributable income, or NDI, and thus contributed to our decision to reduce the Company's distribution. In general, these mergers involved the acquisition of a higher-yielding MLP by a lower-yielding entity. To the extent that the Company owned the higher-yielding MLP, the merger resulted in a reduction in the distributions received by the Company. Recent examples of transactions of this kind include: Access Midstream's acquisition of Williams Partners (renamed Williams Partners); Energy Transfer's acquisition of Regency; Crestwood Equity Partners' acquisition of Crestwood Midstream; MPLX's acquisition of MarkWest; and the proposed consolidation of Targa's MLP and general partner. As large holders of each of the acquired MLPs, these transactions have impacted our NDI due to the lower distributions received from the combined entity.

In addition, Kinder Morgan's dividend cut was a major blow to our outlook for NDI. On December 8, 2015, Kinder Morgan announced a 75% reduction in its dividend. Kinder Morgan's actions surprised both us and the market, and we have been vocal in our view that investors would have been better served by exploring other financial alternatives in lieu of cutting the dividend. Although we sold an aggregate \$14 million of Kinder Morgan during fiscal 2015 prior to the dividend cut, it was still a significant holding at the Company. Given the magnitude of the cut, it had a material impact on the Company's NDI. Importantly, we do not currently expect to see any additional distribution cuts in any of our significant holdings. However, if market conditions continue to deteriorate, it is possible that some large cap MLPs will reduce their distribution levels. We also believe that many MLPs that have been growing their distributions over the past year will slow or suspend growth during 2016 to rebuild coverage. We expect MLPs to consider a variety of financing alternatives (including preferred equity, joint ventures and asset sales) to finance new capital projects. We also expect MLPs to reduce their capital spending levels during 2016 in light of the current market conditions.

**State of the MLP Market**

When we wrote to you last year, crude oil prices were in the \$46 to \$48 per barrel range, a decline of more than 50% from July 2014. Many believed, including us, that prices would recover slowly during the year, but instead, prices fell significantly further during 2015. The decline in crude oil prices, and the non-stop coverage of the subject by the financial press, has been by far the single biggest contributor to the extreme negative sentiment among investors in the MLP sector. However, as we have written in previous annual letters, Midstream MLPs have much less direct exposure to commodity prices, especially crude oil, than companies in other energy sectors such as exploration & production and oilfield services. Despite this fact, during fiscal 2015, the AMZ fell 38%, while the S&P exploration & production and oilfield services subsector indices fell just 24% and 12%, respectively. There were certainly technical factors that exacerbated the selling pressure in the MLP market, including open-end mutual fund outflows, sales by closed-end funds to manage leverage, tax-loss selling and aggressive shorting by hedge funds. Largely as a result of these technical factors, we believe the selling, as often happens in bear markets, has gone beyond what can be justified by the fundamentals of the underlying businesses.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**LETTER TO STOCKHOLDERS**

While we believe that the market will continue to experience downward pressure in the first half of the year, we remain convinced that the MLP market will recover strongly over the next 12-18 months for several reasons. First, we strongly believe that current crude oil prices are simply not sustainable. In last year's letter, we asserted that the downturn in crude oil prices is a classic, self-correcting commodity price cycle, and although we did not get the timing of the recovery right, we still believe in our thesis, as it has been largely playing out as predicted. In particular, demand has responded to low prices (up by almost twice what was predicted at the beginning of 2015) and is expected to continue to grow by approximately 1%–2% per year. On the supply side, upstream capital investment has declined materially, and as a result, domestic production peaked in April and is now estimated to be down nearly 500,000 barrels per day and projected to be down by at least another 500,000 barrels per day in 2016. This is significant because global oversupply is only estimated to be between 500,000 to 1.5 million barrels per day, depending on the agency making the estimate. At the midpoint, that suggests oversupply of less than 1% on a global market of approximately 96 million barrels per day. In addition to declines in domestic upstream capital expenditures, we have seen substantial delays and deferrals in major upstream projects globally, including long lead time development projects. These delays will change the global supply growth profile for a number of years, and therefore, these developments are perhaps even more significant than the declines in domestic shale production. Ultimately, however, the changes to both domestic and international supply are being driven by the same fundamental reality: the sources of new production that will be required to meet global demand in the medium to long term, whether it be the U.S. shale plays, the Canadian oil sands, the deep water or the Arctic, need crude oil prices well in excess of current levels to be developed economically.

Furthermore, it is worth reiterating that Midstream MLPs do not produce energy — they deliver it from producers to consumers, so direct exposure to crude oil prices is minimal. In addition, a substantial portion of the assets owned by Midstream MLPs are focused on natural gas transportation and storage, and those assets that are in crude service often have take-or-pay commitments. Accordingly, the cash flows that are most at risk are limited to a smaller subset of MLPs that (i) are commodity sensitive, with cash flows derived from gathering and processing assets that do not have fixed-fee contracts and (ii) are subject to volumetric risk (i.e. do not have take-or-pay contracts).

Among Gathering and Processing MLPs, most have a substantial portion of their cash flows contracted on a fixed-fee basis, often times with either acreage dedications or a minimum volume commitment. For the portion of cash flows that are commodity sensitive, they are primarily exposed to natural gas liquids, or NGL, prices and, to a lesser extent, natural gas prices. NGL prices have been weak, as have natural gas prices. The resulting impact on Gathering and Processing MLPs has caused cash flows to decline at certain MLPs, but certainly not in proportion to the decline in equity prices.

With respect to volumetric risk, demand is growing for all energy commodities, and domestic natural gas and NGL production are expected to continue to grow over the next 10 years. In fact, the U.S. has become a major exporter of NGLs and will soon be a major exporter of liquefied natural gas. MLPs will continue to facilitate (and benefit from) those exports, as well as crude oil exports as they ramp up. Longer-term, we firmly believe that North American production of crude oil will start growing again in order to meet global demand — it has to — otherwise we are going to see crude oil prices correct too far to the upside.

We factor all of these dynamics into our models for the MLPs in which the Company invests, and it is important to note that we do not expect aggregate cash flows for Midstream MLPs to be down in 2016 relative to either 2015 or 2014 levels. More importantly, for the top 10 constituents in the AMZ (which represent 65% of the index), we expect Distributable Cash Flow per Unit to be higher in 2016 than 2014 for five MLPs, down less than 5% for four MLPs and down between 10-15% for one MLP. This is in stark contrast to the 55% decline that the AMZ has experienced from its 2014 high.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**LETTER TO STOCKHOLDERS**

If cash flows of the underlying assets have held up much better than equity prices, then you would expect that valuations have become significantly more attractive, and that is exactly what has happened. During fiscal 2015, the yield of the AMZ increased from 5.7% as of November 30, 2014 to 8.5% as of November 30, 2015. At the same time, the yield on 10-year U.S. Treasury Bonds barely changed, increasing from 2.19% to 2.22%. As a result, the MLP “spread to Treasuries” increased from 353 basis points to 626 basis points during fiscal 2015. The long-term average for this spread is around 325 basis points, and the current spread to Treasuries now stands at 809 basis points (as of January 22, 2016). During the last 20 years, there have been only six other periods where the spread was over 500 bps, and each turned out to be a very good time to buy MLPs. Furthermore, MLPs also look attractive on traditional valuation metrics such as Enterprise Value to EBITDA multiples (EV/EBITDA) and Price to Distributable Cash Flow per Unit (P/DCF) multiples. Historically, MLPs trade in the 14 to 16 times range on an EV/EBITDA multiple and 16 to 18 times range on a P/DCF multiple. Currently, the top 10 constituents in the AMZ are trading at an average EV/EBITDA multiple of approximately 11 times and an average P/DCF multiple of approximately 11 times.

Nonetheless, despite attractive valuations, sentiment remains negative, as many investors are concerned about MLPs’ ability to access capital, and as we noted at the start of this letter, some investors are even questioning whether the MLP model is “broken.” There is no doubt that the capital markets have become more challenging for MLPs, but the MLP model has been around for more than 30 years – this is not the first time that investors have questioned its viability. In fact, investors had the same concerns in 2008–2009, when the capital markets actually did shut down for a very short period of time. In contrast, we have seen MLPs continue to raise money, and we expect quality issuers to be able to continue to access capital markets in 2016. For example, Plains All American Pipeline recently raised \$1.6 billion in preferred equity from institutional investors, including Kayne Anderson. We expect to see additional deals with similar structures for higher quality MLPs because, in contrast to 2008–2009, there is an incredible amount of private equity capital on the sidelines looking to make midstream investments. Admittedly, the cost of capital will be higher (and deals for lower quality issuers will be more challenging), but we do not believe that the capital markets will completely shut down for any material amount of time. Today’s market conditions are challenging, but we continue to believe the MLP model will remain the structure of choice for midstream assets.

**Outlook**

Over the last several years, we have discussed the “Shale Revolution” (the development of domestic unconventional reserves) extensively in our annual letters and how it represents a multi-decade, secular growth story. As we have seen, this growth story has had some setbacks, but we continue to believe that both production of and demand for crude oil, natural gas and NGLs will be higher five years from today and that MLPs and other midstream companies will benefit from this growth. Furthermore, we believe our team is well situated to identify the opportunities and challenges that MLPs and other midstream companies will face as the Shale Revolution continues to unfold.

The last 15 months have certainly been extremely challenging, and we expect the investing environment to remain challenging for at least the first half of 2016. However, we believe as MLPs and other midstream companies report solid results, announce distributions and raise capital for growth projects, confidence in the model will return and sentiment will improve. In addition, the Company is well positioned to take advantage of this difficult investment environment by making PIPE investments and, when appropriate, investments in private midstream companies.

We believe in this sector, and we expect very attractive returns over the next three to five years for patient investors with the ability to withstand near-term volatility. As evidence of that conviction, the principals at Kayne Anderson invested \$14 million across all four closed end funds that we manage during December. This amount was funded, in part, with all of the management fees we received (after tax) during the fourth quarter.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY  
LETTER TO STOCKHOLDERS**

Thank you for your investment in the Company. We look forward to executing on our business plan of achieving high after-tax total returns by investing in public MLPs and private midstream companies. We invite you to visit our website at [kaynefunds.com](http://kaynefunds.com) for the latest updates.

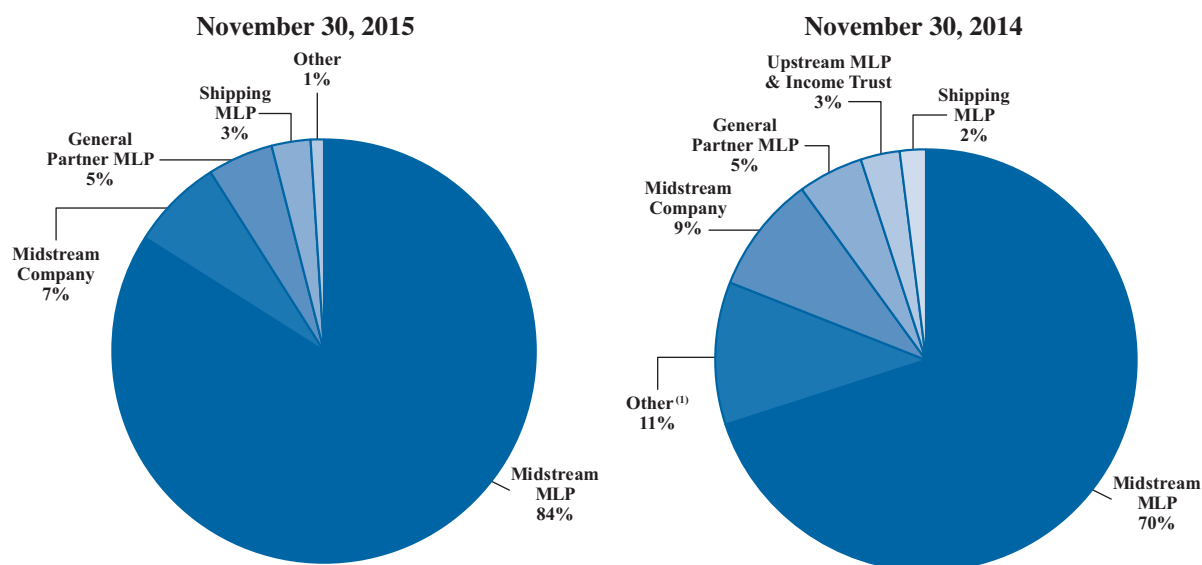
Sincerely,

A handwritten signature in black ink that reads "Kevin S. McCarthy". The signature is written in a cursive, flowing style.

Kevin S. McCarthy  
Chairman of the Board of Directors,  
President and Chief Executive Officer

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**PORTFOLIO SUMMARY**  
**(UNAUDITED)**

**Portfolio of Long-Term Investments by Category**



(1) Includes investments in Emerge Energy Services LP and Natural Resource Partners L.P. which represented a combined 8% of long-term investments.

**Top Ten Holdings by Issuer**

Holding	Category	Percent of Long-Term Investments as of November 30,	
		2015	2014
1. Energy Transfer Partners, L.P. <sup>(1)</sup>	Midstream MLP	12.9%	8.6%
2. Enterprise Products Partners L.P.	Midstream MLP	9.7	5.3
3. ONEOK Partners, L.P.	Midstream MLP	9.5	3.5
4. Williams Partners L.P. <sup>(2)(3)</sup>	Midstream MLP	6.8	6.6
5. Kinder Morgan, Inc.	Midstream Company	6.2	8.4
6. Western Gas Partners, L.P.	Midstream MLP	5.5	3.4
7. MarkWest Energy Partners, L.P. <sup>(4)</sup>	Midstream MLP	5.2	4.9
8. DCP Midstream Partners, LP	Midstream MLP	4.0	4.2
9. Plains GP Holdings, L.P. <sup>(5)</sup>	General Partner MLP	3.8	4.3
10. Plains All American Pipeline, L.P.	Midstream MLP	2.9	1.9

- (1) On April 30, 2015, Energy Transfer Partners, L.P. (“ETP”) completed its merger with Regency Energy Partners LP (“RGP”). As of November 30, 2014, our investments in ETP and RGP represented 16.9% of long-term investments on a combined basis.
- (2) On February 2, 2015, Williams Partners L.P. (“WPZ”) completed its merger with Access Midstream Partners, L.P. (“ACMP”). As of November 30, 2014, our investments in WPZ and ACMP represented 9.2% of long-term investments on a combined basis.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**PORTFOLIO SUMMARY**  
**(UNAUDITED)**

- (3) On September 28, 2015, Energy Transfer Equity, L.P. (“ETE”) announced an agreement to combine with The Williams Companies, Inc. (“WMB”). WMB is the general partner of WPZ. As of November 30, 2015 and 2014, we did not own any WMB shares.
- (4) On December 4, 2015, MarkWest Energy Partners, L.P. (“MWE”) and MPLX LP (“MPLX”) completed its merger whereby MWE became a wholly owned subsidiary of MPLX. As of November 30, 2015, our investment in MPLX represented 0.4% of long-term investments, and we did not own any MPLX units as of November 30, 2014.
- (5) We hold an interest in Plains AAP, L.P. (“PAA GP”), which controls the general partner of Plains All American, L.P. Our ownership of PAA GP is exchangeable into shares of Plains GP Holdings, L.P. (which trades on the NYSE under the ticker “PAGP”) on a one-for-one basis at our option.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Company Overview**

Kayne Anderson Energy Development Company is a non-diversified, closed-end fund that commenced operations on September 21, 2006. We are a taxable corporation, paying federal and applicable state taxes on our taxable income. Our investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. We seek to achieve this objective by investing at least 80% of our total assets in securities of Energy Companies. A key focus area for our investments is equity and debt investments in private and public entities structured as limited partnerships (“MLPs”). We also own equity and debt investments in Upstream, Midstream and Other Energy Companies (as such terms are defined in Note 1 – Organization).

As of November 30, 2015, we had total assets of \$310 million, net assets applicable to our common stock of \$200 million (net asset value of \$18.89 per share), and 10.6 million shares of common stock outstanding. As of November 30, 2015, we held \$299 million in equity investments and no debt investments.

**Recent Events**

On December 17, 2015, our investment advisor, KA Fund Advisors, LLC (“KAFA”), and its principals announced that they had agreed to purchase newly issued shares of KYN, KYE, KMF and KED, funded in part with the after-tax management fees received during the fiscal fourth quarter. These purchases totaled \$14 million across all four closed-end funds managed by KAFA, and of this amount, \$0.7 million was invested in KED. The new shares were purchased at our net asset value as of the close of business on December 18, 2015 (\$15.46 per share) which represents a 14.2% premium to the closing market price.

On December 17, 2015, our Board of Directors elected to reduce our quarterly distribution from \$0.53 per share to \$0.48 per share. Please see Management Discussion – Distributions to Common Stockholders for a discussion of the factors that the Board of Directors considers in determining our quarterly distribution.

**Results of Operations — For the Three Months Ended November 30, 2015**

*Investment Income.* Investment income totaled \$1.3 million for the quarter. We received \$7.1 million of dividends and distributions during the quarter, of which \$5.8 million was treated as a return of capital. We also received \$0.03 million of paid-in-kind dividends, which are not included in investment income but are reflected as an unrealized gain.

*Operating Expenses.* Operating expenses totaled \$2.0 million, including \$1.1 million of investment management fees (net of a \$0.5 million fee waiver), \$0.5 million of interest expense (including non-cash amortization of debt issuance costs of \$0.2 million) and \$0.2 million of other operating expenses. Preferred stock distributions during the quarter were \$0.2 million (including non-cash amortization of offering costs of \$0.01 million).

*Net Investment Loss.* Our net investment loss totaled \$0.4 million and included a current tax benefit of \$1.3 million and a deferred tax expense of \$1.1 million.

*Net Realized Losses.* We had net realized losses from investments of \$12.4 million, consisting of realized losses of \$19.7 million, a current income tax benefit of \$5.1 million and a deferred tax benefit of \$2.2 million.

*Net Change in Unrealized Losses.* We had a net decrease in unrealized gains of \$29.8 million. The net decrease consisted of a \$47.0 million decrease in our unrealized gains on investments and a deferred tax benefit of \$17.2 million.

*Net Decrease in Net Assets Resulting from Operations.* We had a decrease in net assets resulting from operations of \$42.6 million. This decrease was comprised of a net investment loss of \$0.4 million, net realized losses of \$12.4 million and a decrease in unrealized gains of \$29.8 million, as noted above.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Results of Operations — For the Fiscal Year Ended November 30, 2015**

*Investment Income.* Investment income totaled \$5.8 million for the year. We received \$28.8 million of dividends and distributions during the year, of which \$23.0 million was treated as a return of capital. Return of capital was decreased by \$0.1 million due to 2014 tax reporting information that we received in the third quarter of fiscal 2015. We also received \$0.2 million of paid-in-kind dividends, which are not included in investment income but are reflected as an unrealized gain.

*Operating Expenses.* Operating expenses totaled \$9.5 million, including \$5.6 million of investment management fees (net of a \$2.0 million fee waiver), \$2.3 million of interest expense (including non-cash amortization of debt issuance costs of \$0.6 million) and \$1.1 million of other operating expenses. Preferred stock distributions during the year were \$0.5 million (including non-cash amortization of offering costs of \$0.02 million).

*Net Investment Loss.* Our net investment loss totaled \$2.2 million and included a current tax benefit of \$0.6 million and a deferred tax benefit of \$0.9 million.

*Net Realized Losses.* We had net realized losses from investments of \$16.1 million, consisting of realized losses of \$25.7 million, a current income tax benefit of \$3.9 million and a deferred tax benefit of \$5.7 million.

*Net Change in Unrealized Losses.* We had a net decrease in unrealized gains of \$109.7 million. The net decrease consisted of a \$174.8 million decrease in our unrealized gains on investments and a deferred tax benefit of \$65.1 million.

*Net Decrease in Net Assets Resulting from Operations.* We had a decrease in net assets resulting from operations of \$128.0 million. This decrease was comprised of a net investment loss of \$2.2 million, net realized losses of \$16.1 million and a decrease in unrealized gains of \$109.7 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 or non-cash distributions received, and (c) interest income from debt securities and commitment fees from private investments in public equity (“PIPE investments”).

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) and (c) interest expense and preferred stock distributions.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

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

	<b>Three Months Ended November 30, 2015</b>	<b>Fiscal Year Ended November 30, 2015</b>
<b>Distributions and Other Income from Investments</b>		
Dividends and Distributions <sup>(1)</sup> .....	\$ 7.1	\$ 28.8
Paid-In-Kind Dividends <sup>(1)</sup> .....	0.1	0.2
Other Income .....	—	0.1
Total Distributions from Investments .....	7.2	29.1
<b>Expenses</b>		
Net Investment Management Fee .....	(1.1)	(5.6)
Other Expenses .....	(0.2)	(1.1)
Interest Expense .....	(0.4)	(1.7)
Preferred Stock Distributions .....	(0.2)	(0.5)
<b>Net Distributable Income (NDI)</b> .....	<b><u>\$ 5.3</u></b>	<b><u>\$ 20.2</u></b>
Weighted Shares Outstanding .....	10.6	10.5
<b>NDI per Weighted Share Outstanding</b> .....	<b><u>\$0.505</u></b>	<b><u>\$1.913</u></b>
<b>Adjusted NDI per Weighted Share Outstanding<sup>(2)(3)</sup></b> .....	<b><u>\$0.531</u></b>	<b><u>\$2.018</u></b>
<b>Distributions paid per Common Share<sup>(4)</sup></b> .....	<b><u>\$0.480</u></b>	<b><u>\$2.070</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) For the quarter and fiscal year ended November 30, 2015, Adjusted NDI includes \$0.3 million and \$0.9 million, respectively, of consideration received in two recent mergers that was intended to offset lower quarterly distributions as a result of such transactions (\$1.1 million of total consideration amortized over a 12 month period following completion of these two mergers). The two transactions were the mergers of Access Midstream Partners, L.P. and Williams Partners L.P., and Energy Transfer Partners, L.P. and Regency Energy Partners LP. Because the acquiring entity has deemed part of the merger consideration to be compensation to help offset the lower quarterly distribution that unitholders of the acquired entity would receive after closing, we believe it to be appropriate to include these amounts in Adjusted NDI. This merger consideration is not included in investment income for GAAP purposes, but rather is treated as additional consideration when calculating the realized or unrealized gain (loss) that results from the merger transaction.
- (3) For the fiscal year ended November 30, 2015, Adjusted NDI excludes \$0.2 million of legal costs related to a private transaction that did not close in the third quarter.
- (4) The distribution of \$0.48 per share for the fourth quarter of fiscal 2015 was paid on January 15, 2016. Distributions for fiscal 2015 include the distributions paid in April 2015, July 2015, October 2015 and January 2016.

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our credit facility 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.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

On December 17, 2015, our Board of Directors elected to reduce our quarterly distribution from \$0.53 per share to \$0.48 per share in light of a decline in our Adjusted NDI that we expect our portfolio to generate in fiscal 2016. Our net distributable income has declined over the past twelve months due to a variety of factors. First, there have been a number of mergers involving investments in our portfolio that involved the acquisition of a higher-yielding entity by a lower-yielding entity. These types of transactions result in a lower distribution for holders of the acquired, higher-yielding entity. In addition, our estimate of Adjusted NDI for fiscal 2016 was negatively impacted by Kinder Morgan, Inc.'s announcement in December 2015 that it intends to reduce its dividend by 75%. Following this announcement, we became more convinced that management teams will slow their distribution growth rates in 2016, and many will opt for no growth in order to build distribution coverage.

**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.
- NDI includes the value of paid-in-kind dividends and distributions, whereas such amounts are not included as investment income for GAAP purposes during the period received, 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.
- We may hold debt securities from time to time. Certain of our investments in debt securities may be 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.

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 mandatory redeemable preferred stock for GAAP purposes, but is excluded from our calculation of NDI.

**Liquidity and Capital Resources**

At November 30, 2015, we had total leverage outstanding of \$96 million, which represented 31% of total assets and was comprised of \$25 million of Mandatory Redeemable Preferred Shares (the "MRP Shares") and \$71 million outstanding under our senior secured credit facility (the "Credit Facility"). The Credit Facility includes a \$70 million secured term loan (the "Term Loan") and a \$120 million secured revolving credit facility (the "Revolving Credit Facility"). As of November 30, 2015, we had \$70 million outstanding under the Term Loan and \$1 million outstanding under the Revolving Credit Facility. As of such date, we had \$2 million of cash.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

The Term Loan matures on August 28, 2018, and the maturity date of the Revolving Credit Facility is August 28, 2017. Outstanding loan balances on the Term Loan accrue interest daily at a rate equal to LIBOR plus 1.35%. The interest rate of the Revolving Credit Facility is equal to LIBOR plus 1.60%, and we pay a commitment fee of 0.30% per annum on any unused amounts. If total borrowings under the Credit Facility exceed the borrowing base attributable to “quoted” securities (generally defined as equity investments in securities traded on an exchange and investments in bank debt and high yield bonds that are traded), the interest rate on the Term Loan and Revolving Credit Facility will increase to LIBOR plus 2.00% and LIBOR plus 3.00%, respectively, and the commitment fee on the Revolving Credit Facility will increase to 0.50%.

The maximum amount that we can borrow under our Credit Facility is limited to the lesser of \$190 million (\$70 million on the Term Loan and the \$120 million commitment on the Revolving Credit Facility) and our borrowing base. Our borrowing base, subject to certain limitations, is generally calculated by multiplying the fair value of each of our investments by an advance rate. The total contribution to our borrowing base from private MLPs is limited to no more than 25% of the total borrowing base, and the contribution to our borrowing base from any single issuer of quoted securities and non-quoted securities is limited to no more than 12.5% and 7.5%, respectively, of the total borrowing base.

As of November 30, 2015, our total borrowings of \$71 million represented 50% of the borrowing base of \$142 million (51% of the borrowing base of \$140 million attributable to quoted securities). As of January 28, 2016, we had \$70 million borrowed on the Term Loan (at an interest rate of 1.78%) and no borrowings under the Revolving Credit Facility (\$120 million of undrawn capacity). Our total borrowings of \$70 million represented 62% of the borrowing base of \$113 million (63% of the borrowing base of \$111 million attributable to quoted securities). As of this same date, we had \$10 million of cash.

Our MRP Shares were issued in a private placement with an institutional investor on April 10, 2015. The MRP Shares have a five-year term and pay quarterly dividends at a rate of 3.37% per annum. The issuance of the MRP Shares was the first issuance under a three-year, \$100 million uncommitted private shelf facility provided by the institutional investor. On December 16, 2015, FitchRatings downgraded the rating on our MRP Shares to “A” from “AA”.

At November 30, 2015, our asset coverage ratios under the Investment Company Act of 1940, as amended (the “1940 Act”), were 417% for debt and 308% for total leverage (debt plus preferred stock). Our long-term target asset coverage ratio with respect to our debt is 385%, but at times we may be above or below our target depending upon market conditions as well as certain other factors, including our total leverage asset coverage ratio and the basic maintenance amount as stated in our rating agency guidelines.

At November 30, 2015, our total leverage consisted of both fixed rate (26%) and floating rate (74%) obligations. At such date, the weighted average interest/dividend rate on our total leverage was 2.43%.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2015**  
(amounts in 000's)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>
<b>Long-Term Investments — 149.7%</b>		
<b>Equity Investments<sup>(1)</sup> — 149.7%</b>		
<b>United States — 149.7%</b>		
<b>Midstream MLP<sup>(2)</sup> — 125.9%</b>		
Antero Midstream Partners LP .....	36	\$ 809
Arc Logistics Partners LP .....	502	6,875
Buckeye Partners, L.P. ....	117	7,912
Columbia Pipeline Partners LP .....	145	2,187
Crestwood Equity Partners LP .....	198	3,700
DCP Midstream Partners, LP .....	473	12,003
Enbridge Energy Management, L.L.C. <sup>(3)</sup> .....	49	1,225
Energy Transfer Partners, L.P. <sup>(4)</sup> .....	1,007	38,474
EnLink Midstream Partners, LP .....	236	3,521
Enterprise Products Partners L.P. <sup>(4)</sup> .....	1,147	29,113
EQT Midstream Partners, LP .....	50	3,383
Global Partners LP .....	205	5,088
Magellan Midstream Partners, L.P. ....	55	3,464
MarkWest Energy Partners, L.P. <sup>(5)(6)</sup> .....	325	15,614
Midcoast Energy Partners, L.P. ....	390	4,396
MPLX LP <sup>(6)</sup> .....	26	1,129
ONEOK Partners, L.P. <sup>(7)</sup> .....	935	28,256
PBF Logistics LP .....	30	592
PennTex Midstream Partners, LP .....	35	493
Phillips 66 Partners LP .....	20	1,160
Plains All American Pipeline, L.P. <sup>(5)</sup> .....	356	8,810
Shell Midstream Partners, L.P. ....	176	6,120
Spectra Energy Partners, LP .....	26	1,106
Sprague Resources LP .....	191	4,383
Summit Midstream Partners, LP .....	219	4,079
Sunoco Logistics Partners L.P. ....	267	7,433
Tallgrass Energy Partners, LP .....	160	6,897
Targa Resources Partners LP <sup>(8)</sup> .....	237	5,421
USD Partners LP .....	102	1,026
Western Gas Partners, LP .....	345	16,581
Williams Partners L.P. <sup>(9)</sup> .....	737	20,205
		<u>251,455</u>
<b>Midstream Company — 10.5%</b>		
Kinder Morgan, Inc. ....	791	18,637
Spectra Energy Corp .....	86	2,259
		<u>20,896</u>
<b>General Partner MLP — 7.1%</b>		
Energy Transfer Equity, L.P. <sup>(9)</sup> .....	132	2,504
EQT GP Holdings, LP .....	8	185
Plains GP Holdings, L.P. <sup>(5)(10)</sup> .....	918	11,255
Western Gas Equity Partners, LP .....	8	343
		<u>14,287</u>

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2015**  
**(amounts in 000's)**

Description	No. of Shares/Units	Value
<b>Shipping MLP — 3.9%</b>		
Capital Product Partners L.P. ....	143	\$ 904
Capital Product Partners L.P. — Class B Units <sup>(11)(12)</sup> .....	606	4,327
Dynagas LNG Partners LP .....	93	1,182
Golar LNG Partners LP .....	94	1,348
		7,761
<b>Other — 2.3%</b>		
Archrock Partners, L.P. ....	122	1,960
Natural Resource Partners L.P. — held in escrow <sup>(11)(13)</sup> .....	205	372
SunCoke Energy Partners, L.P. ....	134	938
USA Compression Partners, LP .....	84	1,283
		4,553
<b>Total Long-Term Investments — 149.7% (Cost — \$307,175) .....</b>		<b>298,952</b>
<b>Debt .....</b>		<b>(71,000)</b>
<b>Mandatory Redeemable Preferred Stock at Liquidation Value .....</b>		<b>(25,000)</b>
<b>Deferred Income Tax Liability .....</b>		<b>(12,541)</b>
<b>Income Tax Receivable .....</b>		<b>6,966</b>
<b>Other Assets in Excess of Other Liabilities .....</b>		<b>2,352</b>
<b>Net Assets Applicable to Common Stockholders .....</b>		<b>\$199,729</b>

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Includes limited liability companies.
- (3) All or a portion of dividends or distributions are paid-in-kind.
- (4) In lieu of cash distributions, the Company has elected to receive distributions in additional units through the partnership's dividend reinvestment program.
- (5) The Company believes that it is an affiliate of MarkWest Energy Partners, L.P., Plains GP Holdings, L.P. ("Plains GP") and Plains All American Pipeline, L.P. See Note 5 — Agreements and Affiliations.
- (6) On December 4, 2015, MarkWest Energy Partners, L.P. ("MWE") and MPLX LP ("MPLX") completed its merger whereby MWE became a wholly owned subsidiary of MPLX.
- (7) Kevin S. McCarthy, the Chief Executive Officer of the Company, began serving as a director of ONEOK, Inc. during December of 2015. ONEOK, Inc. is the general partner of ONEOK Partners, L.P. The Company does not believe that it is an affiliate of ONEOK, Inc. or ONEOK Partners, L.P.
- (8) On November 3, 2015, Targa Resources Corp. ("TRGP") and Targa Resources Partners LP ("NGLS") announced that TRGP will acquire all of the outstanding common units of NGLS in an all stock-for-unit transaction at a ratio of 0.62 TRGP common share per common unit of NGLS.
- (9) On September 28, 2015, Energy Transfer Equity, L.P. ("ETE") announced an agreement to combine with The Williams Companies, Inc. ("WMB"). WMB is the general partner of Williams Partners L.P.
- (10) The Company holds an interest in Plains AAP, L.P. ("PAA GP"), which controls the general partner of Plains All American, L.P. The Company's ownership of PAA GP is exchangeable into shares of Plains GP (which trades on the NYSE under the ticker "PAGP") on a one-for-one basis at the Company's option. See Note 3 — Fair Value and Note 9 — Restricted Securities.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2015**  
**(amounts in 000's)**

- (11) Fair valued security, restricted from public sale. See Notes 2, 3 and 9 in Notes to Financial Statements.
- (12) 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. 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 \$0.21975 per unit for the fourth quarter of fiscal 2015.
- (13) On October 1, 2014, the Company received 1,983 Natural Resource Partners L.P. (“NRP”) common units as consideration for its equity interests in VantaCore Partners LP, a private MLP. Of the 1,983 common units received as consideration, 410 common units were placed in escrow to cover potential indemnification claims. On October 1, 2015, 205 common units (50% of the amount held in escrow) were released, with the balance (205 common units) to be released six months thereafter. See Notes 3, 9 and 13 in Notes to Financial Statements.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**NOVEMBER 30, 2015**  
(amounts in 000's, except share and per share amounts)

**ASSETS**

Investments, at fair value:	
Non-affiliated (Cost — \$284,672) .....	\$ 263,273
Affiliated (Cost — \$22,503) .....	<u>35,679</u>
Total investments (Cost — \$307,175) .....	298,952
Cash .....	1,935
Receivable for securities sold .....	830
Dividends and distributions receivable .....	210
Debt and preferred stock offering costs, prepaid expenses and other assets .....	1,561
Income tax receivable .....	<u>6,966</u>
<b>Total Assets</b> .....	<u><u>310,454</u></u>

**LIABILITIES**

Payable for securities purchased .....	497
Investment management fee payable .....	1,065
Accrued directors' fees and expenses .....	53
Accrued expenses and other liabilities .....	569
Deferred income tax liability .....	12,541
Revolving credit facility .....	1,000
Term loan .....	70,000
Mandatory redeemable preferred stock, \$25.00 liquidation value per share (1,000,000 shares issued and outstanding) .....	<u>25,000</u>
<b>Total Liabilities</b> .....	<u>110,725</u>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** .....

\$ 199,729

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

Common stock, \$0.001 par value (199,000,000 shares authorized; 10,574,539 shares issued and outstanding) .....	\$ 11
Paid-in capital .....	205,525
Accumulated net investment loss, net of income taxes, less dividends .....	(103,354)
Accumulated net realized gains on investments, net of income taxes .....	102,420
Net unrealized losses on investments, net of income taxes .....	<u>(4,873)</u>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** .....

\$ 199,729

**NET ASSET VALUE PER COMMON SHARE** .....

\$ 18.89

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015**  
(amounts in 000's)

**INVESTMENT INCOME**

**Income**

Dividends and distributions:	
Non-affiliated investments .....	\$ 25,722
Affiliated investments .....	3,063
Total dividends and distributions .....	28,785
Return of capital .....	(22,987)
Net dividends and distributions .....	5,798
Total Investment Income .....	<u>5,798</u>

**Expenses**

Investment management fees, before investment management fee waiver .....	7,532
Professional fees .....	594
Directors' fees and expenses .....	185
Administration fees .....	121
Insurance .....	65
Custodian fees .....	25
Other expenses .....	141
Total Expenses — before waiver and interest expense .....	8,663
Investment management fee waiver .....	(1,978)
Interest expense and amortization of offering costs .....	2,272
Distributions on mandatory redeemable preferred stock and amortization of offering costs .....	561
Total Expenses .....	<u>9,518</u>

<b>Net Investment Loss — Before Income Taxes</b> .....	(3,720)
Current income tax benefit .....	635
Deferred income tax benefit .....	927
<b>Net Investment Loss</b> .....	<u>(2,158)</u>

**REALIZED AND UNREALIZED GAINS (LOSSES)**

**Net Realized Losses**

Investments — non-affiliated .....	(38,788)
Investments — affiliated .....	13,053
Current income tax benefit .....	3,898
Deferred income tax benefit .....	5,693
Net Realized Losses .....	<u>(16,144)</u>

**Net Change in Unrealized Gains (Losses)**

Investments — non-affiliated .....	(134,325)
Investments — affiliated .....	(40,518)
Deferred income tax benefit .....	65,158
Net Change in Unrealized Losses .....	<u>(109,685)</u>
<b>Net Realized and Unrealized Gains (Losses)</b> .....	<u>(125,829)</u>

**NET DECREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

<b>RESULTING FROM OPERATIONS</b> .....	<u><u>\$(127,987)</u></u>
--	---------------------------

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**  
(amounts in 000's, except share amounts)

	For the Fiscal Year Ended November 30,	
	2015	2014
<b>OPERATIONS</b>		
Net investment loss, net of tax <sup>(1)</sup> .....	\$ (2,158)	\$ (1,578)
Net realized gains (losses), net of tax .....	(16,144)	51,102
Net change in unrealized gains (losses), net of tax .....	(109,685)	5,302
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b> .....	<b>(127,987)</b>	<b>54,826</b>
<b>DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS<sup>(2)</sup></b>		
Dividends .....	(22,284)	(21,440)
Distributions — return of capital .....	—	—
<b>Dividends and Distributions</b> .....	<b>(22,284)</b>	<b>(21,440)</b>
<b>CAPITAL STOCK TRANSACTIONS</b>		
Issuance of 58,549 and 56,079 shares of common stock from reinvestment of dividends and distributions .....	1,504	1,706
<b>Total Increase (Decrease) in Net Assets Applicable to Common Stockholders</b> .....	<b>(148,767)</b>	<b>35,092</b>
<b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>		
Beginning of year .....	348,496	313,404
End of year .....	<b>\$ 199,729</b>	<b>\$348,496</b>

- (1) Distributions on the Company's mandatory redeemable preferred stock ("MRP Shares") are treated as an operating expense under GAAP and are included in the calculation of net investment loss. See Note 2 – Significant Accounting Policies. Distributions in the amount of \$543 paid to holders of MRP Shares during the fiscal year ended November 30, 2015 were characterized as dividends (eligible to be treated as qualified dividend income). This characterization is based on the Company's earnings and profits. There were no distributions paid to holders of MRP Shares for the fiscal year ended November 30, 2014, as the Company issued the MRP Shares on April 10, 2015.
- (2) Distributions paid to common stockholders for the fiscal years ended November 30, 2015 and 2014 were characterized as dividends (eligible to be treated as qualified dividend income). This characterization is based on the Company's earnings and profits.

See accompanying notes to financial statements.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015**  
(amounts in 000's)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net decrease in net assets resulting from operations .....	\$(127,987)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities:	
Return of capital distributions .....	22,987
Net realized losses .....	25,735
Net change in unrealized losses .....	174,843
Purchase of long-term investments .....	(90,620)
Proceeds from sale of long-term investments .....	115,112
Increase in receivable for securities sold .....	(523)
Increase in dividends and distributions receivable .....	(118)
Amortization of deferred debt and mandatory redeemable preferred stock offering costs .....	635
Increase in prepaid expenses and other assets .....	(47)
Increase in income tax receivable .....	(6,966)
Increase in payable for securities purchased .....	486
Decrease in investment management fee payable .....	(1,145)
Decrease in accrued directors' fees and expenses .....	(28)
Increase in accrued expenses and other liabilities .....	22
Decrease in current income tax liability .....	(1,649)
Decrease in deferred income tax liability .....	(71,778)
<b>Net Cash Provided by Operating Activities</b> .....	<u>38,959</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Decrease in borrowings under credit facility .....	(43,000)
Proceeds from offering on mandatory redeemable preferred stock .....	25,000
Costs associated with offering of mandatory redeemable preferred stock .....	(117)
Cash distributions paid to common stockholders .....	(20,780)
<b>Net Cash Used in Financing Activities</b> .....	<u>(38,897)</u>

<b>NET INCREASE IN CASH</b> .....	62
<b>CASH — BEGINNING OF YEAR</b> .....	<u>1,873</u>
<b>CASH — END OF YEAR</b> .....	<u>\$ 1,935</u>

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consisted of reinvestment of distributions pursuant to the Company's dividend reinvestment plan of \$1,504.

During the fiscal year ended November 30, 2015, there were \$3,188 of federal income taxes paid and \$894 of state income taxes paid, net of income tax refunds. The Company paid interest of \$1,654 on its debt obligations.

During the fiscal year ended November 30, 2015, the Company received \$5,984 of paid-in-kind and non-cash dividends and distributions. See Note 2 — Significant Accounting Policies.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**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	\$ 33.14	\$ 29.96	\$ 23.74
Net investment income (loss) <sup>(2)</sup>	(0.20)	(0.15)	(0.14)
Net realized and unrealized gain (loss) on investments	(11.94)	5.38	8.13
Net change in unrealized losses — conversion to taxable corporation	—	—	—
Total income (loss) from investment operations	(12.14)	5.23	7.99
Common dividends <sup>(3)</sup>	(2.11)	(2.04)	(1.76)
Common distributions from net realized long-term capital gains <sup>(3)(4)</sup>	—	—	—
Common distributions — return of capital <sup>(3)</sup>	—	—	—
Total dividends and distributions — common	(2.11)	(2.04)	(1.76)
Effect of common shares issued in reinvestment of distributions	—	(0.01)	(0.01)
Net asset value, end of period	<u>\$ 18.89</u>	<u>\$ 33.14</u>	<u>\$ 29.96</u>
Market value per share of common stock, end of period	<u>\$ 17.39</u>	<u>\$ 34.99</u>	<u>\$ 28.70</u>
Total investment return based on common stock market value <sup>(5)</sup>	(46.1)%	30.2%	18.1%
Total investment return based on net asset value <sup>(6)</sup>	(38.1)%	18.1%	35.1%
<b>Supplemental Data and Ratios<sup>(7)</sup></b>			
Net assets applicable to common stockholders, end of period	\$ 199,729	\$ 348,496	\$ 313,404
Ratio of expenses to average net assets:			
Management fees	2.7%	2.7%	2.5%
Other expenses	0.4	0.4	0.5
Subtotal	3.1	3.1	3.0
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	1.0	0.7	0.8
Management fee waivers	(0.7)	(0.4)	(0.1)
Expenses (excluding tax expense)	3.4	3.4	3.7
Tax expense <sup>(8)</sup>	—	9.0	17.1
Total expenses <sup>(9)</sup>	<u>3.4%</u>	<u>12.4%</u>	<u>20.8%</u>
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	(0.8)%	(0.4)%	(0.5)%
Net increase (decrease) in net assets to common stockholders resulting from operations to average net assets	(45.4)%	15.2%	29.2%
Portfolio turnover rate	21.4%	31.4%	38.4%
Average net assets	\$ 282,058	\$ 360,463	\$ 284,880
Credit facility and term loan outstanding, end of period	\$ 71,000	\$ 114,000	\$ 85,000
Mandatory redeemable preferred stock, end of period	\$ 25,000	n/a	n/a
Average shares of common stock outstanding	10,542,233	10,489,146	10,430,618
Average amount of borrowings outstanding under the revolving credit facility and term loan	\$ 80,290	\$ 96,063	\$ 77,786
Asset coverage of total debt <sup>(10)</sup>	416.5%	405.7%	468.7%
Asset coverage of total leverage (debt and preferred stock) <sup>(11)</sup>	308.1%	405.7%	468.7%
Average amount of borrowings outstanding per share of common stock during the period	\$ 7.62	\$ 9.16	\$ 7.46

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Fiscal Year Ended November 30,			
	2012	2011	2010	2009
<b>Per Share of Common Stock<sup>(1)</sup></b>				
Net asset value, beginning of period	\$ 23.01	\$ 20.56	\$ 16.58	\$ 16.10
Net investment income (loss) <sup>(2)</sup>	0.08	0.25	(0.18)	0.10
Net realized and unrealized gain (loss) on investments	2.27	3.60	5.39	1.68
Net change in unrealized losses — conversion to taxable corporation	—	—	—	—
Total income (loss) from investment operations	2.35	3.85	5.21	1.78
Common dividends <sup>(3)</sup>	(1.62)	(1.37)	(0.51)	—
Common distributions from net realized long-term capital gains <sup>(3)(4)</sup>	—	—	—	—
Common distributions — return of capital <sup>(3)</sup>	—	—	(0.69)	(1.30)
Total dividends and distributions — common	(1.62)	(1.37)	(1.20)	(1.30)
Effect of common shares issued in reinvestment of distributions	—	(0.03)	(0.03)	—
Net asset value, end of period	\$ 23.74	\$ 23.01	\$ 20.56	\$ 16.58
Market value per share of common stock, end of period	\$ 26.01	\$ 20.21	\$ 18.21	\$ 13.53
Total investment return based on common stock market value <sup>(5)</sup>	37.8%	19.3%	45.8%	56.0%
Total investment return based on net asset value <sup>(6)</sup>	10.5%	20.3%	34.3%	14.4%
<b>Supplemental Data and Ratios<sup>(7)</sup></b>				
Net assets applicable to common stockholders, end of period	\$ 247,017	\$ 238,030	\$ 211,041	\$ 168,539
Ratio of expenses to average net assets:				
Management fees	2.4%	2.4%	2.1%	2.0%
Other expenses	0.6	0.7	1.0	1.3
Subtotal	3.0	3.1	3.1	3.3
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	0.9	0.8	0.9	0.8
Management fee waivers	—	—	—	—
Expenses (excluding tax expense)	3.9	3.9	4.0	4.1
Tax expense <sup>(8)</sup>	5.6	10.0	16.3	6.9
Total expenses <sup>(9)</sup>	9.5%	13.9%	20.3%	11.0%
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	0.3%	1.1%	(1.0)%	0.7%
Net increase (decrease) in net assets to common stockholders				
resulting from operations to average net assets	9.9%	17.1%	28.3%	11.3%
Portfolio turnover rate	34.6%	68.1%	33.4%	20.9%
Average net assets	\$ 246,183	\$ 231,455	\$ 188,307	\$ 160,847
Credit facility and term loan outstanding, end of period	\$ 72,000	\$ 77,000	\$ 57,000	\$ 56,000
Mandatory redeemable preferred stock, end of period	n/a	n/a	n/a	n/a
Average shares of common stock outstanding	10,372,215	10,301,878	10,212,289	10,116,071
Average amount of borrowings outstanding under the revolving credit facility and term loan	\$ 78,180	\$ 62,559	\$ 54,956	\$ 53,422
Asset coverage of total debt <sup>(10)</sup>	443.1%	409.1%	470.2%	n/a
Asset coverage of total leverage (debt and preferred stock) <sup>(11)</sup>	443.1%	409.1%	470.2%	n/a
Average amount of borrowings per share of common stock during the period	\$ 7.54	\$ 6.07	\$ 5.38	\$ 5.28

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Fiscal Year Ended November 30,		For the Period September 21, 2006 through November 30, 2006
	2008	2007	
<b>Per Share of Common Stock<sup>(1)</sup></b>			
Net asset value, beginning of period	\$ 23.95	\$ 24.03	\$ 23.32
Net investment income (loss) <sup>(2)</sup>	0.09	0.08	(0.07)
Net realized and unrealized gain (loss) on investments	(5.89)	1.18	0.78
Net change in unrealized losses — conversion to taxable corporation	(0.38)	—	—
Total income (loss) from investment operations	(6.18)	1.26	0.71
Common dividends <sup>(3)</sup>	—	(0.95)	—
Common distributions from net realized long-term capital gains <sup>(3)(4)</sup>	—	(0.15)	—
Common distributions — return of capital <sup>(3)</sup>	(1.67)	(0.24)	—
Total dividends and distributions — common	(1.67)	(1.34)	—
Effect of common shares issued in reinvestment of distributions	—	—	—
Net asset value, end of period	<u>\$ 16.10</u>	<u>\$ 23.95</u>	<u>\$ 24.03</u>
Market value per share of common stock, end of period	<u>\$ 9.63</u>	<u>\$ 23.14</u>	<u>\$ 22.32</u>
Total investment return based on common stock market value <sup>(5)</sup>	(54.8)%	9.3%	(10.7)% <sup>(12)</sup>
Total investment return based on net asset value <sup>(6)</sup>	(27.0)%	5.1%	3.0 % <sup>(12)</sup>
<b>Supplemental Data and Ratios<sup>(7)</sup></b>			
Net assets applicable to common stockholders, end of period	\$ 162,687	\$ 240,758	\$ 240,349
Ratio of expenses to average net assets:			
Management fees	0.4%	3.1%	2.4%
Other expenses	1.1	0.9	1.3
Subtotal	1.5	4.0	3.7
Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>	2.0	1.0	—
Management fee waivers	—	(0.4)	(0.5)
Expenses (excluding tax expense)	3.5	4.6	3.2
Tax expense <sup>(8)</sup>	—	0.8	—
Total expenses <sup>(9)</sup>	<u>3.5%</u>	<u>5.4%</u>	<u>3.2%</u>
Ratio of net investment income (loss) to average net assets <sup>(2)</sup>	0.4%	0.3%	(0.3)%
Net increase (decrease) in net assets to common stockholders resulting from operations to average net assets	(29.5)%	5.1%	3.0% <sup>(12)</sup>
Portfolio turnover rate	27.0%	28.8%	5.6% <sup>(12)</sup>
Average net assets	\$ 211,531	\$ 246,468	\$ 234,537
Credit facility and term loan outstanding, end of period	\$ 57,000	\$ 99,000	n/a
Mandatory redeemable preferred stock, end of period	n/a	n/a	n/a
Average shares of common stock outstanding	10,073,398	10,014,496	10,000,060
Average amount of borrowings outstanding under the revolving credit facility and term loan	\$ 75,563	\$ 32,584	—
Asset coverage of total debt <sup>(10)</sup>	n/a	n/a	n/a
Asset coverage of total leverage (debt and preferred stock) <sup>(11)</sup>	n/a	n/a	n/a
Average amount of borrowings per share of common stock during the period	\$ 7.50	\$ 3.25	—

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**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 Company'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 information presented for each period is a characterization of the total distributions paid to common stockholders as either a dividend (eligible to be treated as qualified dividend income) or a distribution (long-term capital gains or return of capital) and is based on the Company's earnings and profits.
- (4) For the fiscal year ended November 30, 2007 and prior periods, the Company was treated as a regulated investment company under the U.S. Internal Revenue Code of 1986, as amended. Since December 1, 2007, the Company has been taxed as a corporation, and, as a result, the categorization of distributions from net realized long-term capital gains is no longer applicable.
- (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, if any, at actual prices pursuant to the Company's dividend reinvestment plan.
- (6) 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 Company's dividend reinvestment plan.
- (7) Unless otherwise noted, ratios are annualized.
- (8) For the fiscal years ended November 30, 2015 and 2008, the Company reported a net income tax benefit of \$76,311 (27.1% of average net assets) and \$33,264 (15.5% of average net assets), respectively, primarily related to unrealized losses on investments. The income tax expense is assumed to be 0% because the Company reported a net income tax benefit during the year.
- (9) For the fiscal year ended November 30, 2008, total expenses exclude 0.4% relating to bad debt expense for the ratio of expenses to average net assets.
- (10) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by senior securities representing indebtedness divided by senior securities representing indebtedness. Under the 1940 Act, the Company 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 Revolving Credit Facility and Term Loan are considered senior securities representing indebtedness. Prior to July 7, 2010, the Company was a business development company under the 1940 Act and not subject to the requirements of section 18(a)(1)(A) for the asset coverage of total debt disclosure.
- (11) Calculated pursuant to section 18(a)(2)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by any other senior securities representing indebtedness and MRP Shares divided by the aggregate amount of any other senior securities representing indebtedness and MRP Shares. Under the 1940 Act, the Company 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 Company, 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 tests, the Credit Facility and the Term Loan are considered senior securities representing indebtedness. Prior to July 7, 2010, the Company was a business development company under the 1940 Act and not subject to the requirements of section 18(a)(2)(A) for the asset coverage of total debt and preferred stock disclosure.
- (12) Not annualized.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

**1. Organization**

Kayne Anderson Energy Development Company (the "Company") was organized as a Maryland corporation on May 24, 2006. The Company is an externally managed, non-diversified closed-end management investment company. The Company commenced investment operations on September 21, 2006. The Company's shares of common stock are listed on the New York Stock Exchange ("NYSE") under the symbol "KED." The Company is taxed as a corporation. See Note 6 — Income Taxes.

The Company's investment objective is to generate both current income and capital appreciation primarily through equity and debt investments. The Company seeks to achieve this objective by investing at least 80% of its total assets in securities of companies that derive the majority of their revenue from activities in the energy industry ("Energy Companies"), including: (a) Midstream Energy Companies, which are businesses that operate assets used to gather, transport, process, treat, terminal and store natural gas, natural gas liquids, propane, crude oil or refined petroleum products; (b) Upstream Energy Companies, which are businesses engaged in the exploration, extraction and production of natural resources, including natural gas, natural gas liquids and crude oil, from onshore and offshore geological reservoirs; and (c) Other Energy Companies, which are businesses engaged in owning, leasing, managing, producing, processing and selling of coal and coal reserves; the marine transportation of crude oil, refined petroleum products, liquefied natural gas, as well as other energy-related natural resources using tank vessels and bulk carriers; and refining, marketing and distributing refined energy products, such as motor gasoline and propane, to retail customers and industrial end-users. A majority of the Company's investments are in entities structured as master limited partnerships ("MLPs"), including both publicly-traded MLPs and private MLPs, which are structured much like publicly-traded MLPs.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies that the Company uses to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company 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 at 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 Company determines its net asset value no less frequently than as of the last day of each quarter based on the most recent close of regular session trading on the NYSE, and makes its net asset value available for publication quarterly. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and distributions and current and deferred income tax assets), less all of its liabilities (including accrued expenses, distributions payable, current and deferred accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock by the total number of common shares outstanding.

The Company provides adjusted net asset value on a weekly basis. The Company's adjusted net asset value is a non-GAAP measure and is intended to provide investors with a weekly update on the impact of price changes for the public securities in the Company's portfolio. Adjusted net asset value is calculated based on the same methodology as net asset value and incorporates updated values for the publicly-traded equity securities (including private investments in public equity or "PIPE investments") and quoted debt investments in the Company's portfolio, including any related income tax impact. The Company's adjusted net



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

asset value calculation incorporates the Company's weekly balance sheet, but does not update the value of any non-traded securities in private companies in its portfolio.

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 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 KA Fund Advisors, LLC ("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 Company'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 Company 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, shall each 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 Company'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.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

At November 30, 2015, the Company held 2.4% of its net assets applicable to common stockholders (1.5% of total assets) in securities that were fair valued pursuant to the procedures adopted by the Board of Directors. The aggregate fair value of these securities at November 30, 2015 was \$4,699. See Note 3 — Fair Value and Note 9 — Restricted Securities.

*E. Repurchase Agreements* — From time to time, the Company has agreed to purchase securities from financial institutions subject to the seller's agreement to repurchase them at an agreed-upon time and price ("repurchase agreements"). The financial institutions with whom the Company enters into repurchase agreements are banks and broker/dealers which Kafa considers creditworthy. The seller under a repurchase agreement is required to maintain the value of the securities as collateral, subject to the agreement, at not less than the repurchase price plus accrued interest. Kafa monitors daily the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities, so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Company to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities. As of November 30, 2015, the Company did not have any repurchase agreements.

*F. Short Sales* — A short sale is a transaction in which the Company sells securities it does not own (but has borrowed) in anticipation of or to hedge against a decline in the market price of the securities. To complete a short sale, the Company may arrange through a broker to borrow the securities to be delivered to the buyer. The proceeds received by the Company for the short sale are retained by the broker until the Company replaces the borrowed securities. In borrowing the securities to be delivered to the buyer, the Company becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever the price may be.

The Company's short sales, if any, are fully collateralized. The Company is required to maintain assets consisting of cash or liquid securities equal in amount to the liability created by the short sale. These assets are adjusted daily to reflect changes in the value of the securities sold short. The Company is liable for any dividends or distributions paid on securities sold short.

The Company may also sell short "against the box" (*i.e.*, the Company enters into a short sale as described above while holding an offsetting long position in the security which it sold short). If the Company enters into a short sale "against the box," the Company would segregate an equivalent amount of securities owned as collateral while the short sale is outstanding. During the fiscal year ended November 30, 2015, the Company did not engage in any short sales.

*G. 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. Since the Company's inception, it has also utilized the specific identification cost basis method for tax purposes. On July 13, 2015, the Company filed a request with the Internal Revenue Service (the "IRS") to change the tax accounting method used to compute the adjusted tax cost basis of its MLP securities to the average cost method. On January 5, 2016, the Company received notification that the IRS has approved the tax accounting method change effective December 1, 2014. The tax accounting method change does not change the accounting method utilized for GAAP purposes. See Note 6 — Income Taxes.

*H. Derivative Financial Instruments* — The Company may utilize derivative financial instruments in its operations.

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

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

In addition, if the counterparty to an interest rate swap or cap defaults, the Company would not be able to use the anticipated net receipts under the interest rate swap or cap 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 interest rate swap agreements are recorded as realized gains or losses in the Statement of Operations. The Company generally values 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.

**Option contracts.** The Company is exposed to financial market risks including changes in the valuations of its investment portfolio. The Company 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 Company 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 Company would realize either no gain or a loss on the purchased call option. The Company 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 Company.

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

When the Company writes a call option, an amount equal to the premium received by the Company 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 Company on the expiration date as realized gains from investments. If the Company 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 Company has realized a gain or loss. The Company, 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 7 — Derivative Financial Instruments.

**I. Return of Capital Estimates** — Dividends and distributions received from the Company'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 Company estimates the amount of such payments that is considered investment income and the amount that is considered a return of capital. The Company generally estimates that 90% of the distributions received from its public MLPs will be treated as a return of capital.

The return of capital portion of the dividends and distributions received is a reduction to investment income, 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). In accordance with GAAP, the return of capital cost basis reductions for the Company'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 Company's MLP investments typically exceed cash distributions received from such investments due to allocated losses from these investments. See Note 6 — Income Taxes. The following table sets forth the estimated total return of capital

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

portion of the dividends and distributions received that are attributable to net realized gains (losses) and net change in unrealized gains (losses).

	<b>Fiscal Year Ended November 30, 2015</b>
Return of capital portion of dividends and distributions received .....	80%
Return of capital — attributable to net realized gains (losses) .....	\$ 4,400
Return of capital — attributable to net change in unrealized gains (losses) .....	18,587
Total return of capital .....	<u>\$22,987</u>

For the fiscal year ended November 30, 2015, the Company estimated the return of capital portion of dividends and distributions received to be \$23,080. This amount was decreased by \$93 due to 2014 tax reporting information received by the Company in the third quarter of fiscal 2015. As a result, the return of capital percentage for the fiscal year ended November 30, 2015 was \$22,987 (80%).

*J. Investment Income* — The Company 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 to the extent that such amounts are expected to be collected. When investing in securities with payment in-kind interest, the Company 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. During the fiscal year ended November 30, 2015, the Company did not hold any debt securities and did not earn any interest income.

Certain of the Company's debt securities may be 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 Company'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 Company discontinues accruing the non-cash accretion of the discount to par value of the debt security.

The Company receives paid-in-kind and non-cash dividends and distributions in the form of additional units or shares from the investments listed in the table below. 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. In connection with the purchase of units directly from Arc Logistics Partners LP ("ARCX") in a private investment in public equity ("PIPE investment") transaction, the Company was entitled to the distribution paid to unitholders of record on May 11, 2015, even though such investment had not closed at such date. Pursuant to the purchase agreement, the purchase price for the ARCX units was reduced by the amount of such dividend, which had the effect of paying such distribution in additional units. Non-cash distributions are reflected in investment income because the Company has the option to receive its distributions in cash or in additional units of the security.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

During the fiscal year ended November 30, 2015, the Company received the following paid-in-kind and non-cash dividends and distributions.

	<b>Fiscal Year Ended November 30, 2015</b>
<b><u>Paid-in-kind dividends</u></b>	
Arc Logistics Partners LP .....	\$ 107
Enbridge Energy Management, L.L.C. ....	<u>109</u>
	216
<b><u>Non-cash distributions</u></b>	
Energy Transfer Partners, L.P. ....	4,332
Enterprise Products Partners L.P. ....	<u>1,436</u>
	<u>5,768</u>
Total paid-in-kind and non-cash dividends and distributions .....	<u><u>\$5,984</u></u>

*K. 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 11 — Preferred Stock. As required by the Distinguishing Liabilities from Equity topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC 480), the Company 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 holders of the Company’s MRP Shares are treated as dividends or distributions.

The characterization of the distributions paid to holders of MRP Shares and common stockholders as either a dividend (eligible to be treated as qualified dividend income) or a distribution (return of capital) is determined after the end of the fiscal year based on the Company’s actual earnings and profits and, therefore, the characterization may differ from the preliminary estimates.

*L. Income Taxes* — The Company is taxed as a corporation and pays federal and applicable state corporate taxes on its taxable income. The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLPs’ taxable income in computing its own taxable income. Current income taxes reflect the amount of income taxes that the Company expects to be payable as of a measurement date applying the provisions of the enacted tax laws. Deferred income taxes reflect (i) taxes on unrealized gains (losses), which are attributable to the difference between fair market value and tax cost basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating and capital losses. To the extent the Company has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on the Income Tax Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (ASC 740), that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In the assessment for a valuation allowance, consideration is given to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are highly dependent on future cash distributions from the Company’s MLP holdings), the duration of statutory carryforward periods and the associated risk that operating and capital loss carryforwards may expire unused.

The Company may rely to some extent on information provided by MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated current or deferred tax liability. Such estimates are made in good faith. From time to time, as new information



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

becomes available, the Company modifies its estimates or assumptions regarding the current or deferred tax liability.

Since the Company's inception, it has utilized the specific identification tax accounting method to compute the adjusted tax cost basis of its MLP securities and for selection of lots to be sold. On July 13, 2015, the Company filed a request with the IRS to change the tax accounting method used to compute the adjusted tax cost basis of its MLP securities to the average cost method. On January 5, 2016, the Company received notification that the IRS has approved the tax accounting method change effective December 1, 2014. See Note 6 — Income Taxes.

The Company'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 the fiscal year end November 30, 2011 remain open and subject to examination by the federal and state tax authorities.

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

*N. Foreign Currency Translations* — The books and records of the Company 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 Company 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 settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Company'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 Company's books from the value of the assets and liabilities (other than investments) on the valuation date.

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

### **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 Company has performed an analysis of all assets and liabilities (other than deferred taxes) measured at fair value to determine the significance and character of all inputs to their fair value determination. Inputs are the

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

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 Company obtains from independent, third-party sources. Unobservable inputs are developed by the Company based on its own assumptions of how market participants would value an asset or a liability.

Accounting Standards Update (“ASU”) No. 2011-04 “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” amends ASC 820. The amended guidance clarifies the wording used to describe many requirements in accounting literature for fair value measurement and disclosure to establish consistency between U.S. GAAP and International Financial Reporting Standards (“IFRSs”).

ASU No. 2011-04 requires the inclusion of additional disclosures on assumptions used by the Company to determine fair value. Specifically, for assets measured at fair value using significant unobservable inputs (Level 3), ASU No. 2011-04 requires that the Company (i) describe the valuation process, (ii) disclose quantitative information about unobservable inputs and (iii) provide a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and inter-relationships between the inputs.

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 Company 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 Company’s own assumptions that market participants would use to price the asset or liability based on the best available information.

The following table presents the Company’s assets measured at fair value on a recurring basis at November 30, 2015, and the Company presents these assets by security type and description on its Schedule of Investments or on its Statement of Assets and Liabilities. 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>One or More Unobservable Inputs (Level 3)</u>
<b>Assets at Fair Value</b>				
Equity investments . . . . .	\$298,952	\$282,998	\$11,255 <sup>(1)</sup>	\$4,699

(1) The Company’s investment in Plains AAP, L.P. (“PAA GP”) is exchangeable into shares of Plains GP Holdings, L.P. (“Plains GP”) on a one-for-one basis at the Company’s option. Plains GP trades on the NYSE under the ticker “PAGP”. The Company values its investment in PAA GP on an “as exchanged” basis based on the public market value of Plains GP and categorizes its investment as a Level 2 security for fair value reporting purposes.

The Company did not have any liabilities that were measured at fair value on a recurring basis at November 30, 2015. For the fiscal year ended November 30, 2015, there were no transfers between Level 1 and Level 2.

As of November 30, 2015, the Company had 1,000,000 shares of MRP Shares outstanding with a total liquidation value of \$25,000. The MRP Shares were issued in a private placement to an institutional investor, are



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

not registered under the Securities Act of 1933 and are not listed on any exchange or automated quotation system. As such, the Company categorizes the MRP Shares as Level 3 and determines fair value of this instrument based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure. The Company records these MRP Shares on its Statement of Assets and Liabilities at principal amount or liquidation value. As of November 30, 2015, the estimated fair value of the MRP Shares was \$24,600. See Note 11 – Preferred Stock.

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended November 30, 2015.

	<u>Equity Investments</u>
Balance — November 30, 2014 .....	\$50,996
Purchases .....	9,444
Issuances .....	107
Transfers out to Level 1 and 2 .....	(53,050)
Realized gains (losses) .....	—
Unrealized gains (losses), net .....	<u>(2,798)</u>
Balance — November 30, 2015 .....	<u>\$ 4,699</u>

The purchases of \$9,444 relate to the Company's PIPE investments in Arc Logistics Partners LP ("ARCX") and Shell Midstream Partners, L.P. ("SHLX") that were both made in May 2015. The issuances of \$107 relate to additional units received from ARCX. The \$53,050 of transfers out relate to ARCX, SHLX, PAA GP and Natural Resource Partners L.P. ("NRP"). It is the Company's policy to recognize transfers between levels at the beginning of the period.

ARCX and SHLX became marketable during the third quarter of fiscal 2015 when the respective companies filed effective shelf registrations. PAA GP became marketable during the first quarter of fiscal 2015 when its 15-month lock-up expired. The 1,573,573 common units of NRP became marketable during the second quarter of fiscal 2015 when its six-month lock-up expired, and on October 1, 2015, 204,809 common units of NRP (50% of the amount held in escrow) were released, with the balance to be released six months thereafter.

The \$2,798 of unrealized losses relate to investments that are still held at the end of the reporting period. The Company includes these unrealized losses on the Statement of Operations – Net Change in Unrealized Gains.

**Valuation Techniques and Unobservable Inputs**

Unless otherwise determined by the Board of Directors, the Company values its 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 Company 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 Company's investment in Natural Resource Partners L.P. ("NRP") consists of common units representing limited partner interests in NRP that it received as consideration for its equity interests in VantaCore Partners LP when the two entities merged on October 1, 2014. At the closing of the merger, 409,617 common units were placed in escrow to cover potential indemnification claims. On October 1, 2015, 204,809 common units (50% of the units in escrow) were released, with the balance to be released six months thereafter. For the period of time the Company has units held in escrow, the Company reduces the value of the investment based on the Company's estimate of potential claims against the escrow.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

The Company owns Class B Units of Capital Product Partners L.P. (“CPLP”) that were issued in a private placement. The Class B Units are convertible on a one-for-one basis into common units and are senior to CPLP’s common units in terms of liquidation preference and priority of distributions. The Company’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 Company estimates (i) the credit spread for CPLP’s Class B Units, which is based on credit spreads for companies in a similar line of business as CPLP and (ii) the expected volatility for CPLP’s common units, which is based on CPLP’s historical volatility. The Company applies a discount to the value derived from the convertible pricing model to account for an expected discount in market prices for convertible securities relative to the values calculated using pricing models. 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 units 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 Company’s investments may fluctuate from period to period. Additionally, the fair value of the Company’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 Company may ultimately realize.

The following table summarizes the significant unobservable inputs that the Company used to value its portfolio investments categorized as Level 3 as of November 30, 2015:

**Quantitative Table for Valuation Techniques**

Assets at Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	Range		Average
				Low	High	
Equity securities of public companies (PIPE) — valued based on market value and estimated claims	\$ 372	- Estimated claims against escrow	- Share of estimated claims against escrow	\$201	\$201	\$201
Equity securities of public companies — valued based on pricing model	4,327	- Convertible pricing model	- Credit spread - Volatility - Discount for marketability	9.8% 35.0% 10.0%	10.3% 40.0% 10.0%	10.0% 37.5% 10.0%
Total	<u>\$4,699</u>					

**4. Concentration of Risk**

The Company’s investments are concentrated in the energy sector. The focus of the Company’s portfolio within the energy sector may present more risks than if the Company’s portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Company 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 Company invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Company may be more susceptible than a more widely diversified investment company to any single

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

economic, political or regulatory occurrence. At November 30, 2015, the Company had the following investment concentrations:

<u>Category</u>	<u>Percent of Long-Term Investments</u>
Securities of energy companies .....	99.7%
Equity securities .....	100.0%
Securities of MLPs <sup>(1)</sup> .....	90.4%
Largest single issuer .....	12.9%
Restricted securities .....	5.3%

(1) Securities of MLPs consist of preferred and common units of private entities structured as limited partnerships and publicly traded energy-related master limited partnerships and limited liability companies that are treated as partnerships for federal income tax purposes and their affiliates.

**5. Agreements and Affiliations**

A. *Administration Agreement* — The Company 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 Company. 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 Company has entered into an investment management agreement with KA Fund Advisors, LLC (“KAFA”) under which KAFA, subject to the overall supervision of the Company’s Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, KAFA receives an investment management fee from the Company. Effective December 1, 2014, the Company and KAFA entered into a new fee waiver agreement with the Company that provides for a fee waiver that could reduce the management fee by up to 0.50% (resulting in an annual fee of 1.25%) based on the percentage of the Company’s long-term investments that is not publicly traded (*i.e.*, Level 3 investments). If the Company’s public investments (*i.e.*, Level 1 and Level 2 investments) exceed 25% of its total long-term investments, then for every 1% by which those public investments exceed 25% of the Company’s total long-term investments, the management fee would be reduced by 0.0067%. The maximum waiver of 0.50% will apply if the Company holds 100% public investments. For example, if the Company’s public investments are 50% of its total investments, the fee waiver would be 0.17%, and the management fee would be 1.58% after such fee waiver. This fee waiver will be determined quarterly based on the Company’s average percentage of public investments using beginning and ending investment values for the preceding fiscal quarter for which the management fee is applied. The investment management agreement and fee waiver agreement expire on March 31, 2016 (the term was recently extended from November 30, 2015 by the Company’s Board of Directors). For the fiscal year ended November 30, 2015, the Company paid management fees at an annual rate of 1.29% of the Company’s average quarterly total assets (as defined in the investment management agreement).

For purposes of calculating the management fee, the “average total assets” for each quarterly period are determined by averaging the total assets at the last day of that quarter with the total assets at the last day of the prior quarter. Total assets (excluding deferred taxes) shall equal gross asset value (which includes assets attributable to the use of leverage instruments), minus the sum of accrued and unpaid dividends and distributions on common and preferred stock and accrued liabilities (other than liabilities associated with leverage and deferred taxes). Liabilities associated with leverage include the principal amount of any borrowings, commercial paper or notes that the Company may issue, the liquidation preference of outstanding preferred stock, and other liabilities from other forms of leverage such as short positions and put or call options held or written by the Company.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

*C. Portfolio Companies* — From time to time, the Company 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 Company would be presumed to “control” a portfolio company if the Company and its affiliates owned 25% or more of its outstanding voting securities and would be an “affiliate” of a portfolio company if the Company 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 Company’s investment adviser), principal underwriters and affiliates of those affiliates or underwriters.

The Company 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 Company invests. The Company also notes that 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 Company 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 Company holds in certain limited partnerships to be voting securities. If such a determination were made, the Company 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 Company holds as a voting security, the Company 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 Company 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 Company has treated those securities as voting securities. If the Company does not consider the security to be a voting security, it will not consider such partnership to be an “affiliate” unless the Company 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 Company 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 Company 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 Company will be required to abide by the restrictions on “control” or “affiliate” transactions as proscribed in the 1940 Act. The Company or any portfolio company that it controls, and 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 Company 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 Company were allowed to engage in such a transaction, that the terms would be more or as favorable to the Company 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 Company or on the type of investments that it could make.

As of November 30, 2015, the Company believes that MarkWest Energy Partners, L.P. (“MWE”) meets the criteria described above and is therefore considered an affiliate of the Company. On December 4, 2015, MWE and MPLX LP (“MPLX”) completed its merger whereby MWE became a wholly owned subsidiary of MPLX. Subsequent to the merger, the Company does not believe it is an affiliate of MPLX.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

*Emerge Energy Services LP* — Kevin S. McCarthy is Chairman of the Board of Directors and President and Chief Executive Officer of the Company. Mr. McCarthy also served as a director on the board of *Emerge Energy Services GP LLC* (“Emerge GP”), the general partner of *Emerge Energy Services LP* (“Emerge”). On July 27, 2015, Mr. McCarthy resigned as a director of the board of *Emerge GP*. The Company believes that it was an affiliate of *Emerge* under the 1940 Act by virtue of Mr. McCarthy’s participation on the board of *Emerge GP*.

*Plains GP Holdings, L.P., Plains AAP, L.P. and Plains All American Pipeline, L.P.* — Robert V. Sinnott is Chief Executive Officer of *Kayne Anderson Capital Advisors L.P.* (“KACALP”), the managing member of *KAFA*. Mr. Sinnott also serves as a director of (i) *PAA GP Holdings LLC*, which is the general partner of *Plains GP Holdings, L.P.* (“Plains GP”) and (ii) *Plains All American GP LLC* (“Plains All American GP”), which controls the general partner of *Plains All American Pipeline, L.P.* (“PAA”). Members of senior management of *KACALP* and *KAFA* and various affiliated funds managed by *KACALP*, including the Company, own shares of *Plains GP* as well as interests in *Plains AAP, L.P.* (“PAA GP”) (which are exchangeable into shares of *Plains GP*). The Company believes that it is an affiliate of *Plains GP* and *PAA* under the 1940 Act by virtue of (i) the Company’s and other affiliated *Kayne Anderson* funds’ ownership interest in *Plains GP* and *PAA GP* and (ii) Mr. Sinnott’s participation on the boards of *Plains GP* and *Plains All American GP*.

**6. Income Taxes**

The Company’s taxes include current and deferred income taxes. Current income taxes reflect the estimated income tax liability of the Company as of a measurement date. Deferred income taxes reflect (i) taxes on unrealized gains (losses), which are attributable to the difference between fair market value and tax cost basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating and capital losses, if any.

During the fiscal year ended November 30, 2015, the Company paid \$3,188 of federal income taxes and \$894 of state income taxes. During the third quarter of fiscal 2015, the Company changed its state tax rate from 2.15% to 1.60% (net of federal benefit) based on updated information on the application of state tax law. At November 30, 2015, components of the Company’s current and deferred tax assets and liabilities are as follows.

Income tax receivable .....	\$ 6,966
Deferred tax asset:	
Organizational costs .....	\$ 10
Net operating loss carryforward — State .....	362
Deferred tax liabilities:	
Net unrealized gains on investment securities .....	<u>(12,913)</u>
Total net deferred tax liability .....	<u>\$(12,541)</u>

During the fiscal year ended November 30, 2015, the Company generated a federal taxable loss of approximately \$18,267 which can be carried back to the two preceding tax years. It is anticipated that this federal taxable loss will be carried back to offset prior taxable income which would result in a refund of approximately \$6,393. Similarly, it is anticipated that the state taxable losses will be carried back to the states that allow such provisions and would result in a refund of approximately \$89. It is anticipated the carryback claims will be filed upon the filing of the November 30, 2015 federal and state tax returns in August 2016. At November 30, 2015, the Company had an additional state income tax receivable of \$484.

At November 30, 2015, the Company did not have a federal net operating loss carryforward. The Company has an estimated state net operating loss carryforward, which totals approximately \$14,781 (deferred tax asset of



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

\$362). Realization of the deferred tax assets and net operating loss carryforward is dependent, in part, on generating sufficient taxable income prior to expiration of the loss carryforward. The majority of the state net operating loss carryforward expires in 2035.

Although the Company currently has a net deferred tax liability, it periodically reviews the recoverability of its deferred tax assets based on the weight of available evidence. When assessing the recoverability of its deferred tax assets, significant weight is given to the effects of potential future realized and unrealized gains on investments and the period over which these deferred tax assets can be realized, as the expiration dates for the federal capital and operating loss carryforwards range from five to twenty years.

Based on the Company's assessment, it has determined that it is more likely than not that its deferred tax assets will be realized through future taxable income of the appropriate character. Accordingly, no valuation allowance has been established for the Company's deferred tax assets. The Company will continue to assess the need for a valuation allowance in the future. Significant declines in the fair value of its portfolio of investments may change the Company's assessment regarding the recoverability of its deferred tax assets and may result in a valuation allowance. If a valuation allowance is required to reduce any deferred tax asset in the future, it could have a material impact on the Company's net asset value and results of operations in the period it is recorded.

Total income taxes were different from the amount computed by applying the federal statutory income tax rate of 35% to the net investment loss and realized and unrealized gains (losses) on investments before taxes as follows:

	<u>Fiscal Year Ended November 30, 2015</u>
Computed federal income tax benefit at 35% .....	\$71,505
State income tax benefit, net of federal tax .....	3,333
Effect of change in state tax rate (0.55% decrease) .....	1,218
Non-deductible distributions on MRP Shares, dividend received deductions and other, net .....	<u>255</u>
Total income tax benefit .....	<u>\$76,311</u>

The Company primarily invests in equity securities issued by MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner of MLPs, the Company includes its allocable share of such MLPs' income or loss in computing its own taxable income or loss. Additionally, for income tax purposes, the Company reduces the cost basis of its MLP investments by the cash distributions received, and increases or decreases the cost basis of its MLP investments by its allocable share of the MLP's income or loss. During the fiscal year ended November 30, 2015, the Company reduced its tax cost basis by \$21,709 due to its fiscal 2014 net allocated losses from its MLP investments.

On July 13, 2015, the Company filed a request with the IRS to change the tax accounting method used to compute the adjusted tax cost basis of its MLP securities to the average cost method. The two tax accounting methods that are generally used by owners of MLP securities are the average cost method and specific identification method. Since the Company's inception, based on the advice of its tax adviser, it has utilized the specific identification tax accounting method to compute the adjusted tax cost basis of its MLP securities and for selection of lots to be sold. Although there is varied industry practice and no direct, clear guidance regarding the correct tax accounting method, the Company has recently come to the conclusion that the average cost method is a more certain tax position.

On January 5, 2016, the Company received notification that the IRS has approved the tax accounting method change effective for the fiscal year beginning December 1, 2014. Had the Company utilized the average cost method since its inception, the Company would have reported a greater amount of taxable income. Accordingly, the tax accounting method change may result in a reclassification of approximately \$1,679 of the Company's deferred tax liability to a current tax liability. Pursuant to IRS regulations, the Company will

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

recognize the effect of the tax accounting method change over four years beginning in fiscal 2015, which results in previously unrealized gains being recognized in taxable income (potential current tax liability of approximately \$420 each year). The change in tax accounting method may not result in a current tax liability if the Company has a taxable loss in each of the four years or has sufficient net operating loss carryforwards to offset the income attributable to the change in tax accounting method. During the fiscal year ended November 30, 2015, the Company generated a taxable loss, and as such, was not subject to a current year tax liability. The tax accounting method change does not change the Company's net asset value. See Note 2 — Significant Accounting Policies.

As of November 30, 2015, the identified cost of investments for federal income tax purposes was \$267,718. The cost basis for federal income tax purposes is \$39,457 lower than the cost basis for GAAP reporting purposes primarily due to the additional basis adjustments attributable to the Company's share of the allocated losses from its MLP investments. Gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

	<u>As of</u> <u>November 30, 2015</u>
Gross unrealized appreciation of investments .....	\$ 58,253
Gross unrealized depreciation of investments .....	<u>(27,019)</u>
Net unrealized appreciation of investments .....	<u>\$ 31,234</u>

**7. Derivative Financial Instruments**

As of November 30, 2015, the Company held no derivative instruments, and during the fiscal year ended November 30, 2015, the Company did not have any activity involving derivative instruments. See Note 2 — Significant Accounting Policies.

**8. Investment Transactions**

For the fiscal year ended November 30, 2015, the Company purchased and sold securities in the amounts of \$90,620 and \$115,112 (excluding short-term investments).

**9. Restricted Securities**

From time to time, certain of the Company's investments may be restricted as to resale. 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 Company's investments have restrictions such as lock-up agreements that preclude the Company from offering these securities for public sale.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

At November 30, 2015, the Company held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units (in 000s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 2 Investments</b>								
Plains GP Holdings, L.P. <sup>(1)</sup>								
Partnership Interests	(2)	(3)	918	\$2,941	\$11,255	\$12.26	5.6%	3.6%
<b>Level 3 Investments<sup>(4)</sup></b>								
Capital Product Partners L.P.								
Class B Units	(2)	(5)	606	\$3,974	\$ 4,327	\$ 7.14	2.2%	1.4%
Natural Resource Partners L.P. <sup>(6)</sup>								
Common Units — held in escrow	10/1/14	(5)	205	<u>2,771</u>	<u>372</u>	1.82	<u>0.2</u>	<u>0.1</u>
Total				<u>\$6,745</u>	<u>\$ 4,699</u>		<u>2.4%</u>	<u>1.5%</u>
Total of all restricted securities				<u>\$9,686</u>	<u>\$15,954</u>		<u>8.0%</u>	<u>5.1%</u>

(1) The Company values its investment in Plains AAP, L.P. (“PAA GP”) on an “as exchanged” basis based on the public market value of Plains GP Holdings, L.P. (“Plains GP”). See Note 3 – Fair Value.

(2) Security was acquired at various dates during the fiscal year ended November 30, 2015 and/or in prior fiscal years.

(3) The Company’s investment in PAA GP is exchangeable into shares of Plains GP on a one-for-one basis at the Company’s option. Upon exchange, the shares of Plains GP will be free of any restriction.

(4) Securities are valued using inputs reflecting the Company’s own assumptions as more fully described in Note 2 — Significant Accounting Policies and Note 3 — Fair Value.

(5) Unregistered or restricted security of a publicly-traded company.

(6) The Company’s investment in NRP includes 204,808 NRP common units that are in escrow to cover potential indemnification claims. On October 1, 2015, 204,809 common units (50% of the units held in escrow) were released, with the balance to be released six months thereafter.

## 10. Credit Facility and Term Loan

The Company’s senior secured credit facility (the “Credit Facility”) includes a \$70,000 secured term loan (the “Term Loan”) and a \$120,000 secured revolving credit facility (the “Revolving Credit Facility”). The Term Loan matures on August 28, 2018, and the maturity date of the Revolving Credit Facility is August 28, 2017.

As of November 30, 2015, outstanding loan balances on the Term Loan accrue interest daily at a rate equal to LIBOR plus 1.35%. The interest rate of the Revolving Credit Facility is equal to LIBOR plus 1.60%, and the Company pays a commitment fee of 0.30% per annum on any unused amounts. If total borrowings under the Credit Facility exceed the borrowing base attributable to “quoted” securities (generally defined as equity investments in securities traded on an exchange and investments in bank debt and high yield bonds that are traded), the interest rate on the Term Loan and Revolving Credit Facility will increase to LIBOR plus 2.00% and LIBOR plus 3.00%, respectively, and the commitment fee on the Revolving Credit Facility will increase to 0.50%.

The maximum amount that the Company can borrow under the Credit Facility is limited to the lesser of \$190,000 (\$70,000 on the Term Loan and the \$120,000 commitment on the Revolving Credit Facility) and the Company’s borrowing base. The borrowing base, subject to certain limitations, is generally calculated by multiplying the fair value of each of the Company’s investments by an advance rate. The total contribution to the borrowing base from private MLPs is limited to no more than 25% of the total borrowing base, and the contribution to the borrowing base from any single issuer of quoted securities and non-quoted securities is limited to no more than 12.5% and 7.5%, respectively, of the total borrowing base.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**(amounts in 000's, except share and per share amounts)**

The obligations under the Credit Facility are collateralized by substantially all of the Company's assets. The Credit Facility contains affirmative and reporting covenants and certain financial ratio and restrictive covenants, including: (a) maintaining a ratio, of total assets less liabilities (other than indebtedness and preferred stock) to aggregate indebtedness of the Company of not less than 3.0:1.0, (b) maintaining a ratio, of total assets less liabilities (other than indebtedness and preferred stock) to aggregate indebtedness and preferred stock of the Company of not less than 2.25:1.0 and (c) maintaining the value of the portion of the Company's portfolio that can be converted into cash within specified time periods and valuations at no less than 10% of the principal amount outstanding under the Credit Facility during any period when adjusted outstanding principal amounts exceed a specified threshold percentage of the Company's adjusted borrowing base. The Credit Facility also contains customary representations and warranties and events of default.

Under the terms of the Credit Facility, if an investment becomes non-performing, it will reduce the Company's borrowing base. Public MLP equity investments are generally characterized as non-performing if they have not paid a distribution in the most recent quarter, private MLP equity investments are generally characterized as non-performing if such investments fail to pay cash distributions, in their most recent fiscal quarter, that are greater than 80% of their minimum quarterly distribution amount and debt investments are generally characterized as non-performing if such investments are in default of any payment obligations.

Under the terms of the Credit Facility, the Company is restricted from paying distributions to stockholders if, after giving effect to the distribution, the Company would be in default of the Credit Facility.

As of November 30, 2015, \$70,000 was borrowed on the Term Loan (at an interest rate of 1.59%) and \$1,000 was borrowed on the Revolving Credit Facility (\$119,000 of undrawn capacity). Total borrowings of \$71,000 represented 50% of the borrowing base of \$142,110 (51% of the borrowing base of \$140,127 attributable to quoted securities).

As of November 30, 2015, the Company was in compliance with all financial and operational covenants required by the Credit Facility. See Financial Highlights for the Fund's asset coverage ratios under the 1940 Act.

## **11. Preferred Stock**

On April 10, 2015, the Company completed a private placement of \$25,000 of Series A MRP Shares with an institutional investor. The Series A MRP Shares pay quarterly dividends at a rate of 3.37% per annum and mature on April 10, 2020. The issuance of the Series A MRP Shares was the first issuance under a three-year, \$100,000 uncommitted private shelf facility provided by the institutional investor. At November 30, 2015, the Company had 1,000,000 shares of MRP Shares outstanding with a total liquidation value of \$25,000 (\$25.00 per share) and an estimated fair value of \$24,600.

As of November 30, 2015, the Series A MRP Shares were rated "AA" by FitchRatings. On December 16, 2015, FitchRatings downgraded the rating on the Company's MRP Shares to "A". The dividend rate on the Company's MRP Shares will increase between 0.5% to 4.0% if the credit rating is downgraded below "A" by FitchRatings. Further, the annual dividend rate for the MRP Shares will increase by 4.0% if no ratings are maintained, and the annual dividend rate will increase by 5.0% if the Company fails to make dividend or certain other payments. The Company 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 Company'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 Company and are also subject to a mandatory redemption if the Company 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 Company's rating agency guidelines.

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
(amounts in 000's, except share and per share amounts)

Under the terms of the MRP Shares, the Company may not declare dividends or pay 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 Company would fail to maintain its basic maintenance amount as stated in the Company'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 Company.

At November 30, 2015, the Company was in compliance with the asset coverage and basic maintenance requirements of its MRP Shares.

**12. Common Stock**

The Company has 199,000,000 shares of common stock authorized. Transactions in common shares for the fiscal year ended November 30, 2015 were as follows:

Shares outstanding at November 30, 2014	10,515,990
Shares issued through reinvestment of distributions	<u>58,549</u>
Shares outstanding at November 30, 2015	<u>10,574,539</u>

**13. Subsequent Events**

On December 16, 2015, FitchRatings downgraded the rating on the Company's MRP Shares to "A" from "AA".

On December 17, 2015, KAFA and its principals announced an agreement to purchase \$670 of newly issued shares of the Company funded in part with 100% of the after-tax management fees received during the fiscal fourth quarter. The new shares were purchased at the net asset value as of the close of business on December 18, 2015 (\$15.46 per share) which represents a 14.2% premium to the closing market price.

On December 17, 2015, the Company declared its quarterly distribution of \$0.48 per common share for the fiscal fourth quarter of 2015. The total distribution of \$5,097 was paid January 15, 2016. Of this total, pursuant to the Company's dividend reinvestment plan \$358 was reinvested into the Company through the issuance of 27,519 shares of common stock.

The Company 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 ENERGY DEVELOPMENT COMPANY**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Kayne Anderson Energy Development Company

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets applicable to common stockholders, and of cash flows and the financial highlights present fairly, in all material respects, the financial position of the Kayne Anderson Energy Development Company (the “Company”) at November 30, 2015, the results of its operations and its cash flows for the year then ended, the changes in its net assets applicable to common stockholders for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as “financial statements”) are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at November 30, 2015 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Los Angeles, California

January 28, 2016

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY  
 PRIVACY POLICY NOTICE  
 (UNAUDITED)**

Rev. 01/2011

<b>FACTS</b>	<b>WHAT DOES KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY (“KED”) DO WITH YOUR PERSONAL INFORMATION?</b>
--------------	---

<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.
-------------	--

<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>
--------------	--

<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 KED chooses to share; and whether you can limit this sharing.
-------------	--

Reasons we can share your personal information	Does KED 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>
-------------------	--

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY  
 PRIVACY POLICY NOTICE  
 (UNAUDITED)**

Who we are	
<b>Who is providing this notice?</b>	KED
What we do	
<b>How does KED 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. KED has adopted internal policies to protect your non-public personal information.</p>
<b>How does KED collect my personal information?</b>	<p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>■ Open an account or 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>KED 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>KED 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>KED doesn't jointly market.</i></li> </ul>
Other important information	
None.	

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

Kayne Anderson Energy Development Company, a Maryland corporation (the “Company”), 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 Company, 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 Company 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 Company’s Common Stock one day prior to the dividend payment date.

4. The Board may, in its sole discretion, instruct the Company to purchase shares of its Common Stock in the open market in connection with the implementation of the Plan as follows: If the Company’s Common Stock is trading below net asset value at the time of valuation, upon notice from the Company, 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 Company 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 Company 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 Company, 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 Company issues the 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 Company because the Company 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 Company.

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 Company’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 ENERGY DEVELOPMENT COMPANY**  
**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 Company, 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 Company's shares at the time of termination.

9. The Plan Administrator will forward to each Participant any Company related proxy solicitation materials and each Company 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 Company.

10. In the event that the Company 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 Company.

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 (866) 627-2675. Such termination will be effective immediately. The Plan may be terminated by the Company 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 Company. 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 Company 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 Company will be authorized to pay to such successor agent, for each Participant's account, all dividends and distributions payable on shares of the Company 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 ENERGY DEVELOPMENT COMPANY**  
**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: September 5, 2006

Amended: July 9, 2007

Amended: April 2, 2009

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

The Company's Board of Directors (the "Board") on September 30, 2015 approved the continuation of the Company's Investment Management Agreement (the "Agreement") with KA Fund Advisors, LLC (the "Adviser") through March 31, 2016.

The Board approved a new investment management agreement at an in-person meeting held on July 8, 2015. That new agreement would have taken effect upon the termination of the current Agreement as a result of a technical change of control of the Adviser resulting from the announced business combination of the Adviser with another investment management organization. Because that business combination was terminated before it could be consummated, the current Agreement remains in effect. The Board, including the Independent Directors, approved the continuation of the current Agreement based on information presented to them on various prior occasions, including information presented at their meeting on July 8, 2015. The description provided below explains the basis for the Board's approval of the new agreement as previously included in a proxy statement seeking stockholder approval of that new agreement. Because the terms of the new agreement would have been substantially the same as the current Agreement, the Board's approval of the continuation of the current Agreement was substantially based on the same considerations and factors.

During the course of each year and in connection with its 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 Company's fees and expenses compare to other registered investment companies that follow investment strategies similar to those of the Company; (iv) information regarding brokerage and portfolio transactions; (v) comparative information showing how the Company's performance compares to other registered investment companies that follow investment strategies similar to those of the Company; and (vi) information on any material legal proceedings or regulatory audits or investigations affecting the Company or 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 Company, 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 Company, and the continued addition of professionals at the Adviser to broaden its coverage efforts. 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 Company's other service providers, the provision of certain administrative, compliance, reporting and financial services by the Adviser, the use of call options and the responsible handling of the leverage target. The Board, including the

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

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 Company as well as the Company's best-in-class access to investments and capital markets due in part to the Adviser's credibility with institutional investors. The Board, including the Independent Directors, also considered the nature and quality of the services provided by the Adviser to the Company in light of their experience as Directors of the Company, 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 Company's performance under the management of the Adviser***

The Independent Directors reviewed information pertaining to the performance of the Company. These data compared the Company's performance to the performance of certain other registered investment companies that follow investment strategies similar to those of the Company as well as its benchmark. The comparative information showed that the performance of the Company 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 Company'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") and other energy companies, as applicable, and that the Company has generated strong returns for investors during various periods. The Independent Directors also reviewed information comparing the performance of the Company with alternative fund structures following similar strategies, including exchange-traded funds and open-end funds, and concluded that the comparative information showed that the performance of the Company compares favorably for many periods to alternative MLP and comparable energy company fund structures. The Independent Directors noted that in addition to the information received for this meeting, the Independent Directors also receive detailed performance information for the Company at each regular meeting of the Board of Directors 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 Company's management fee under the Agreement in comparison to the management fees of funds within the Company's peer group. The Independent Directors also compared the fee structure under the Agreement with that of various private funds and separately managed accounts (the "Other Accounts") advised by the Adviser or its affiliates and concluded that the fee rate under the Agreement is lower than many of the Other Accounts because the Adviser charges a performance fee for many of the Other Accounts. The Independent Directors also considered the greater risks and burdens associated with managing the Company. The Adviser's successful handling of past market downturns and related leverage challenges, the administrative burden resulting from the Company's tax complexities, the Company's lower level of operating expenses (other than management fees), the Company's participation in private investments, particularly "PIPE"

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INVESTMENT MANAGEMENT AGREEMENT APPROVAL DISCLOSURE**  
**(UNAUDITED)**

transactions, the Adviser's long standing relationships with management teams in the energy space, and the Adviser's successful pricing and timing strategies related to the capital raising for the Company 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 Company and other closed-end companies managed by the Adviser given differences in strategies and investments, and related differences in difficulties and complexities. The Board also believes the differences in contractual fees are reasonable because of the contractual fee waiver that applies to the Company based on portfolio holdings. Based on those comparisons, the Independent Directors concluded that the management fee for the Company remain reasonable.

***The extent to which economies of scale would be realized as the Company 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 Company. In this regard, they noted the extent to which operating expenses declined over the past several years and noted that the Adviser added professionals to its already robust and high-quality team, both of which 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 Company. They considered the information provided by the Adviser relating to the Company'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 also considered the Adviser's commitment to retaining its current professional staff in a competitive environment for investment and compliance professionals. The Independent Directors concluded that the fee structure for the Company 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 Company in order to remain comfortable with the fee structure after any applicable future economies of scale.

***Conclusion***

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

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

**Independent Directors<sup>(1)</sup>**

<b>Name (Year Born)</b>	<b>Position(s) Held with Company, Term of Office/ Time of Service</b>	<b>Principal Occupations During Past Five Years</b>	<b>Other Directorships Held by Director/Officer During Past Five Years</b>
William R. Cordes (born 1948)	Director. 3-year term (until the 2017 Annual Meeting of Stockholders)/ served since 2008	Retired from Northern Border Pipeline Company in March 2007 after serving as President from October 2000 to March 2007. Chief Executive Officer of Northern Border Partners, L.P. from October 2000 to April 2006. President of Northern Natural Gas Company from 1993 to 2000. President of Transwestern Pipeline Company from 1996 to 2000.	Current: <ul style="list-style-type: none"> <li>• Kayne Anderson Midstream/ Energy Fund, Inc. (“KMF”)</li> <li>• Boardwalk Pipeline Partners, LP (midstream MLP)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• Northern Border Partners, L.P. (midstream MLP)</li> </ul>
Barry R. Pearl (born 1949)	Director. 3-year term (until the 2017 Annual Meeting of Stockholders)/ served since 2006	Executive Vice President of Kealine, LLC, a private developer and operator of petroleum infrastructure facilities (and its affiliate WesPac Midstream LLC, an energy infrastructure developer), since February 2007. Provided management consulting services from January 2006 to February 2007. President of Texas Eastern Products Pipeline Company, LLC (“TEPPCO”) (the general partner of TEPPCO Partners, L.P.) from February 2001 to December 2005. Chief Executive Officer and director of TEPPCO from May 2002 to December 2005; and Chief Operating Officer from February 2001 to May 2002.	Current: <ul style="list-style-type: none"> <li>• KMF</li> <li>• Targa Resources Partners LP (midstream MLP)</li> <li>• Magellan Midstream Partners, L.P. (midstream MLP)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• Peregrine Midstream Partners LLC (natural gas storage)</li> <li>• Seaspan Corporation (containership chartering)</li> <li>• TEPPCO Partners, L.P. (midstream MLP)</li> </ul>
Albert L. Richey (born 1949)	Director. 3-year term (until the 2016 Annual Meeting of Stockholders)/ served since 2006	Senior Vice President Finance and Treasurer of Anadarko Petroleum Corporation since 2012; Vice President Special Projects from 2009 to 2012; Vice President Corporate Development from 2006 to 2008; Vice President and Treasurer from 1995 to 2005 and Treasurer from 1987 to 1995.	Current: <ul style="list-style-type: none"> <li>• KMF</li> <li>• Boys &amp; Girls Clubs of Houston</li> <li>• Boy Scouts of America</li> </ul>
William L. Thacker (born 1945)	Director. 3-year term (until the 2018 Annual Meeting of Stockholders)/ served since 2006	Retired from the Board of TEPPCO in May 2002 after serving as Chairman from March 1997 to May 2002; Chief Executive Officer from January 1994 to May 2002; and President, Chief Operating Officer and Director from September 1992 to January 1994. Chairman of the Board of Directors of Copano Energy, L.L.C. from 2009 to 2013.	Current: <ul style="list-style-type: none"> <li>• KMF</li> </ul> Prior: <ul style="list-style-type: none"> <li>• Copano Energy, L.L.C. (midstream MLP)</li> <li>• Pacific Energy Partners, L.P. (midstream MLP)</li> <li>• GenOn Energy, Inc. (electricity generation and sales)</li> <li>• TEPPCO Partners, L.P. (midstream MLP)</li> </ul>

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

**Interested Directors and Non-Director Officers**

<b>Name (Year Born)</b>	<b>Position(s) Held with Company, Term of Office/ Time of Service</b>	<b>Principal Occupations During Past Five Years</b>	<b>Other Directorships Held by Director/Officer During Past Five Years</b>
Kevin S. McCarthy <sup>(2)</sup> (born 1959)	Chairman of the Board of Directors, President and Chief Executive Officer of the Company since inception. 3-year term as a director (until the 2018 Annual Meeting of Stockholders), elected annually as an officer/served since inception	Senior Managing Director of KACALP since June 2004 and of KAFA since 2006. President and Chief Executive Officer of Kayne Anderson MLP Investment Company (“KYN”); Kayne Anderson Energy Total Return Fund, Inc. (“KYE”); and KMF since inception (KYN inception in 2004; KYE inception in 2005 and KMF inception in 2010). Global Head of Energy at UBS Securities LLC from November 2000 to May 2004.	Current: <ul style="list-style-type: none"> <li>• KYN</li> <li>• KYE</li> <li>• KMF</li> <li>• ONEOK, Inc. (midstream company)</li> <li>• Range Resources Corporation (oil and gas exploration and production company)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• Clearwater Natural Resources, L.P. (coal mining)</li> <li>• Direct Fuel Partners, L.P. (transmix refining and fuels distribution)</li> <li>• Emerge Energy Services LP (frac sand MLP)</li> <li>• International Resource Partners LP (coal mining)</li> <li>• K-Sea Transportation Partners LP (marine transportation MLP)</li> <li>• ProPetro Services, Inc. (oilfield services)</li> </ul>
James C. Baker <sup>(2)</sup> (born 1972)	Director, Executive Vice President. 3-year term as a director (until the 2016 Annual Meeting of Stockholders)/served since 2013. Elected annually as an officer/served as Vice President from June 2005 to June 2008; served as Executive Vice President since June 2008	Senior Managing Director of KACALP and KAFA since February 2008, Managing Director of KACALP and KAFA since December 2004 and 2006, respectively. Vice President of KYN and KYE from 2005 to 2008. Executive Vice President of KYN and KYE since June 2008 and KMF since August 2010.	Prior: <ul style="list-style-type: none"> <li>• K-Sea Transportation Partners LP (marine transportation MLP)</li> <li>• Petris Technology, Inc. (data management for energy companies)</li> <li>• ProPetro Services, Inc. (oilfield services)</li> </ul>

- (1) The 1940 Act requires the term “Fund Complex” to be defined to include registered investment companies advised by KAFA, the Company’s investment adviser, and the Fund Complex includes KYN, KYE, KED and KMF. Each Independent Director oversees two registered investment companies in the Fund Complex, the Company and KMF, as noted above.
- (2) Mr. McCarthy, Mr. Baker and Mr. Hart each are “interested persons” of the Company as defined in the 1940 Act by virtue of their employment relationship with KAFA.

Additional information regarding the Company’s directors is contained in the Company’s Statement of Additional Information, the most recent version of which can be found on the Company’s website at <http://www.kaynefunds.com> or is available without charge, upon request, by calling (877) 657-3863.



**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

**Interested Directors and Non-Director Officers**

<b>Name (Year Born)</b>	<b>Position(s) Held with Company, Term of Office/ Time of Service</b>	<b>Principal Occupations During Past Five Years</b>	<b>Other Directorships Held by Director/Officer During Past Five Years</b>
J.C. Frey (born 1968)	Executive Vice President, Assistant Treasurer and Assistant Secretary. Elected annually/served as Assistant Treasurer and Assistant Secretary since inception; served as Executive Vice President since June 2008	Senior Managing Director of KACALP since 2004 and of KAFA since 2006 and Managing Director of KACALP since 2000. Portfolio Manager of KACALP since 2000, Co-Portfolio Manager, Vice President, Assistant Secretary and Assistant Treasurer of KYN since 2004 and of KYE since 2005. Executive Vice President of KYN and KYE since June 2008 and KMF since August 2010.	None
Terry A. Hart <sup>(2)</sup> (born 1969)	Director, Chief Financial Officer and Treasurer. Elected annually/served since inception. 3-year term as director (until the 2017 Annual Meeting of Stockholders, served since 2015)	Managing Director of KACALP since December 2005 and KAFA since 2006. Chief Financial Officer and Treasurer of KYN and KYE since December 2005 and KMF since August 2010. Director of Structured Finance, Assistant Treasurer, Senior Vice President and Controller of Dynegy, Inc. from 2000 to 2005.	Current: • The Source for Women (not-for-profit organization)
Ron M. Logan, Jr. (born 1960)	Senior Vice President Elected annually/served since September 2006	Senior Managing Director of KACALP and KAFA since February 2014. Managing Director of KACALP and KAFA since September 2006. Senior Vice President of KED since September 2006. Senior Vice President of KYN and KYE since September 2012. Independent consultant to several leading energy firms. Senior Vice President of Ferrellgas Inc. from 2003 to 2005. Vice President of Dynegy Midstream Services from 1997 to 2002.	Prior: • VantaCore Partners LP (aggregates)
Jody C. Meraz (born 1978)	Vice President. Elected annually/served since 2011	Managing Director of KACALP and KAFA since February 2014. Senior Vice President of KACALP and KAFA since 2011. Vice President of KACALP from 2007 to 2011. Associate of KACALP and KAFA from 2005 to 2006. Vice President of KYN, KYE and KMF since 2011.	None
Michael O'Neil (born 1983)	Chief Compliance Officer. Elected annually/served since 2014	Chief Compliance Officer of KACALP and KAFA since March 2012 and of KYN, KYE, KMF since December 2013 and of KA Associates, Inc. (broker-dealer) since January 2013. A compliance officer at BlackRock Inc. from January 2008 to February 2012.	None
David J. Shladovsky (born 1960)	Secretary. Elected annually/served since inception	Managing Director and General Counsel of KACALP since 1997 and of KAFA since 2006. Secretary and Chief Compliance Officer (through December 2013) of KYN since 2004; KYE since 2005 and KMF since August 2010.	None

**KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY**  
**ANNUAL CERTIFICATION**  
**(UNAUDITED)**

The Company's Chief Executive Officer has filed an annual certification with the NYSE that, as of the date of the certification, he was unaware of any violation by the Company of the NYSE's corporate governance listing standards.

**PROXY VOTING AND PORTFOLIO HOLDINGS INFORMATION**  
**(UNAUDITED)**

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

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

Information regarding how the Company 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, and on the SEC's website at <http://www.sec.gov> (see Form N-PX).

The Company files a complete schedule of its portfolio holdings for the first and third quarters of its fiscal year with the SEC on Form N-Q and Form N-30B-2. The Company'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 Company 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 Company may from time to time purchase shares of its common and preferred stock in the open market or in privately negotiated transactions.

## **Directors and Corporate Officers**

Kevin S. McCarthy

Chairman of the Board of Directors,  
President and Chief Executive Officer

William R. Cordes

Director

Barry R. Pearl

Director

Albert L. Richey

Director

William L. Thacker

Director

James C. Baker

Director and Executive Vice President

Terry A. Hart

Director, Chief Financial Officer and Treasurer

David J. Shladovskiy

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

Jody C. Meraz

Vice President

### **Investment Adviser**

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

### **Administrator**

Ultimus Fund Solutions, LLC  
225 Pictoria Drive, Suite 450  
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  
55 Second Street, 24th Floor  
San Francisco, CA 94105

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

**KED**  
**LISTED**  
**NYSE**

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