

# Kayne Anderson

*Energy Total Return Fund*



**KYE Annual Report**  
November 30, 2014

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

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**LETTER TO STOCKHOLDERS**

January 14, 2015

Dear Fellow Stockholders:

As we have discussed in previous annual letters, the “Shale Revolution” has created both challenges and opportunities for energy companies. One key challenge that we have highlighted in the past is the potential for increased production to put pressure on commodity prices, and at the end of this year we saw that dynamic play out pretty dramatically in the crude oil market. Over the last several months, crude and natural gas liquids (“NGL”) prices have fallen by over 50% from summer 2014 levels. As a result, the energy market became extremely challenging at the end of our fiscal year and those challenges have continued during the first two months of fiscal 2015. While we expect that the prices of these commodities will continue to be under pressure during the first half of the year, we do not believe these low prices are sustainable, and we anticipate a recovery during the second half of calendar 2015.

Falling energy prices had a negative impact on our portfolio during the last quarter of fiscal 2014 and have continued to negatively impact our portfolio during the first quarter of fiscal 2015. Most affected by the declining prices was our portfolio of equity securities of Canadian and U.S. Income Trusts, where cash flows and dividends are directly impacted by lower commodity prices. The market downturn also caused a significant decline in the prices for energy debt securities, especially the debt of Upstream Companies (which produce oil, NGLs and natural gas). Market sentiment for anything related to energy has become quite negative, and even energy-related Marine Transportation Companies, whose revenues are tied to long-term contracts, have performed poorly.

While all energy segments were negatively impacted, it is important to note that Midstream MLPs and Midstream Companies, which represented 63% of our portfolio at year-end, were much less impacted by lower commodity prices than any other segment of the energy industry, because many of these companies have fee-based activities and very little volume risk. That being said, there are certain Midstream MLPs and Midstream Companies that are impacted directly and indirectly by lower commodity prices, in particular those companies with gathering and processing assets concentrated in the unconventional basins. In general, we think that the biggest impact for these companies will be that volume growth on their assets will moderate, but volume will not decline.

Each of the sectors in which we invest will have a different reaction to the eventual recovery in commodity prices, and we are constantly re-evaluating our models on these companies to ensure that the Fund’s portfolio is appropriately positioned. Our team of investment professionals has a long track record of navigating all types of commodity price environments, and we believe we are well- positioned to identify the companies that are best able to capitalize on opportunities as they develop.

During fiscal 2014, we believe the Fund performed well despite the year-end market sell-off in the energy space. 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 2014, the Fund delivered a Net Asset Value Return of 8.1%. Another metric by which we measure the Fund’s performance is Market Return, which is equal to the change in share price plus the cash distributions paid during the period, assuming reinvestment through our dividend reinvestment program. Our Market Return was 15.3% for fiscal 2014. This measure exceeded our Net Asset Value Return, as our share price went from trading at a discount to NAV of 3.2% on November 30, 2013 to a premium to NAV of 3.2% on November 30, 2014.

### **Energy Market Update**

Currently, the biggest story in the energy market is the precipitous drop in crude oil prices. As of this writing, West Texas Intermediate (“WTI”), which is the domestic crude oil benchmark, is trading between \$45 and \$48 per barrel, down more than 50% from its high in July of \$108 per barrel. This steep decline is principally

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a result of a shift in the market's expectation for crude oil supply over the next 12 months. In particular, when OPEC decided not to reduce production at its November meeting, the market was confronted with the reality that the crude oil market will be oversupplied during 2015. As we have highlighted in the past, the continued development of shale plays has caused domestic production of crude oil, NGLs and natural gas to increase significantly over the past several years, and the increase in crude oil production has been the most astounding. The EIA estimates that domestic crude oil production averaged 8.7 million barrels per day in calendar 2014, up an unbelievable 3.7 million barrels per day, or 73%, since production troughed in 2008. Substantially all of this production growth came from the development of unconventional oil reserves in plays such as the Bakken Shale, the Eagle Ford Shale and the Permian Basin, and the development of these reserves was encouraged by crude oil prices that were high relative to natural gas prices. Currently, domestic crude oil production is estimated to be approximately 9.2 million barrels per day – slightly less than the level the EIA is projecting for calendar 2015.

At current prices, many of the “non-core” areas in the shale plays generate inadequate returns for upstream companies. In response to falling prices, we have seen domestic upstream companies dramatically cut their capital budgets for 2015 relative to 2014 spending levels, often choosing to focus only on their highest return opportunities. Based on a group of over 50 upstream companies that we track, the average reduction in capex is almost 35%. Many of these companies are still predicting that production will grow in 2015 on a year-over-year basis, even with the slowdown in drilling, but we expect growth to be much more modest when you compare production in the fourth quarter of 2015 to current levels.

On the demand side, the economy is growing at its fastest rate in years, and lower energy costs are expected to be a net benefit for consumers and businesses. We also expect incremental demand to materialize at current price levels, and so the current downdraft in crude oil prices is a classic, self-correcting commodity price cycle. While we do not expect to see WTI return to \$100 per barrel any time in the foreseeable future, we do expect that prices will rise significantly over the course of the year and continue to strengthen into 2016 as both supply and demand respond.

The natural gas market was the first mover in the Shale Revolution and so has experienced lower prices for a longer period of time than the crude oil market. Nonetheless, production continues to grow, as producers continue to drive down costs as technology and drilling techniques improve. In fact, the EIA estimates that natural gas production averaged 70 billion cubic feet per day in 2014, up 5% over 2013, which is the second largest increase in production in the last 20 years. This continued production growth and the resulting low natural gas prices has been a godsend for domestic manufacturers, and by early 2016, the first exports of LNG are expected to ship from the U.S. Gulf Coast. There are a number of MLPs and Midstream Companies that are evaluating these LNG liquefaction projects, which are multi-billion dollar capital projects. While we do not believe that all of the announced projects will be built, the fact that we are about to begin exporting natural gas is a prime example of new demand emerging in response to low prices. Further, the projects that are built will be beneficial for MLPs and Midstream Companies, as well as those Marine Transportation companies that will ship the LNG. We also believe that these projects will provide support to domestic natural gas prices over the long-term.

What many people do not realize is that NGL prices are at least as important to the MLP and Midstream sectors as crude oil and natural gas prices. Like crude oil and natural gas production, NGL production has increased significantly over the last several years (up 66% since 2008), and prices have fallen by over 50% in the last 12 months. Similar to the crude oil and natural gas markets, we expect to see demand growth in the short-term as a result of increased exports of ethane and propane, and in the long-term from newly constructed petrochemical plants that use NGLs as feedstocks.

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**LETTER TO STOCKHOLDERS**

**Market Update**

The domestic economy continued to improve during calendar 2014, and the broader equity markets recorded a third consecutive year of double-digit returns, with the S&P 500 index generating a 14% total return. The MLP market, as measured by the Alerian MLP index, also set several new all-time highs during the year, but declined sharply after Thanksgiving as crude oil prices fell and sentiment in the energy sector turned decidedly more negative. While MLPs generated a strong total return of 12.9% during the fiscal year, the MLP market declined along with crude oil prices at the end of November and in December. As a result, MLPs delivered a more modest 4.8% total return for calendar 2014. While MLPs underperformed the broader equity markets last year, they have significantly outperformed over the longer-term. Over the last 10 calendar years, MLPs have generated a total return of 265% versus 109% for the S&P 500 index. As we have noted over the years, we believe the primary reason for this strong relative performance is the unique combination of current yield and attractive distribution growth that MLPs, as a group, provide.

During 2014, MLPs also became more attractively valued relative to other income-oriented investments. At the beginning of the fiscal year, the average MLP yield was 5.90%, which represented a 316 basis point premium to the 2.74% yield on 10-year U.S. Treasury Bonds. Contrary to widely held expectations, interest rates fell during the year, despite the Federal Reserve's termination of its quantitative easing program, and 10-year U.S. Treasury Bonds were yielding 2.19% by November 30, 2014. Over this same time period, the average MLP yield declined to 5.73%, resulting in an expansion in the MLP "spread to Treasuries" from 316 basis points to 353 basis points. So far in fiscal 2015, the spread to Treasuries has widened further and now stands at 456 basis points (as of January 14, 2015).

As noted above, the other driver of MLP total returns is distribution growth. MLPs have consistently increased distributions over time, and we expect they will continue to do so for many years to come. In 2014, distributions grew 7.5% compared to 7.1% in 2013 and 7.3% in 2012. Due to the rapid fall in commodity prices, there is more uncertainty with respect to the amount of distribution growth that can be expected in 2015, but we are relatively confident it will exceed 5%. Even after taking a lower rate of distribution growth into consideration, MLPs look very attractive at current prices relative to other income alternatives.

Capital expenditures, including both acquisitions and new growth projects, drive MLP distribution growth, and calendar 2014 was another strong year. In last year's letter, we indicated that conditions could be ripe for further consolidation after a flurry of merger and acquisition activity in 2013, and 2014 did not disappoint in this regard. We estimate that MLPs announced a record \$171 billion in acquisitions during calendar 2014, including a record five MLP-to-MLP mergers and the \$71 billion acquisition by Kinder Morgan, Inc. of its related MLPs (Kinder Morgan Energy Partners and El Paso Pipeline Partners). In addition, we estimate that MLPs spent in excess of \$30 billion on organic capital projects during calendar 2014 to construct and expand the midstream infrastructure required to handle growing oil, natural gas and NGL production from the development of unconventional reserves.

During calendar 2014, MLPs continued to have excellent access to capital, which is critical to funding the significant capital expenditures in the sector. MLPs raised \$13 billion in follow-on equity offerings, over \$6 billion in at-the-market equity offerings and \$37 billion in debt during the year. Calendar 2014 was also another robust year for IPOs in the sector, with 18 IPOs raising \$6.4 billion. As a result, there are currently 125 MLPs trading, more than half of which went public in the last four years. In our opinion, the expansion of the sector has been facilitated by the significant inflows of institutional capital into the MLP sector. We estimate that in the last three years nearly \$50 billion of new money has come into the sector – a significant sum when considering that the total market capitalization of the MLP sector currently stands at approximately \$475 billion.

Midstream Companies performed very well during fiscal 2014, generating a total return of 21.1% based on an index of 23 companies that we track. This return was significantly better than the S&P 500's return of 16.9% over the same time period, and this performance comes on the heels of five straight years of double digit returns.

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**LETTER TO STOCKHOLDERS**

Increasingly, the Midstream Companies in which we invest are more closely tied to the MLP sector, as seven of our largest 10 Midstream Company investments are the general partner of an MLP. We are proud that our portfolio of Midstream Company investments did even better than the overall group, as stock selection was particularly important during the year.

The Marine Transportation sector generated a disappointing total return of negative 8.7% during fiscal 2014 (based on a market weighted index of 28 companies). Much of this performance was driven by a steep decline across all of the Marine Transportation subsectors in our fiscal fourth quarter, as negative sentiment towards energy companies seemed to drag down the entire space indiscriminately. We continue to avoid subsectors that have the most volatile charter rates and weak contract coverage and prefer to concentrate our investments in entities structured like MLPs with refined product tankers, LNG tankers and specialized offshore vessels. As a result, our Marine Transportation holdings did not perform as poorly as the sector index during fiscal 2014.

Sentiment in the Energy Debt market shifted dramatically as crude oil prices fell, and the fixed income securities issued by Upstream Companies were impacted the most. Several of the debt securities we own have fallen in value by over 30% since the beginning of our fiscal fourth quarter. We have reduced our allocation to Energy Debt (7% of long-term investments as of year-end), as we continue to trim our holdings in names where we are concerned about the ability of those companies to be profitable in a sustained low-price environment. On the other hand, we continue to hold the debt securities of several Upstream Companies where the market prices are severely discounted and we believe the company has the wherewithal to survive the current environment for an extended period of time. We are watching the energy debt markets very closely as we believe the sell-off in bonds issued by Upstream Companies has created some very attractive opportunities to invest in companies whose debt is well supported by asset value.

The decline in commodity prices also had a negative impact on Income Trusts in both Canada and the United States. These entities are engaged in the production of crude oil, NGLs and natural gas and, as a result, have direct exposure to changes in commodity prices. An index of 14 Canadian trusts generated a total return of negative 26.3% during fiscal 2014. Our portfolio in this subsector is very concentrated, as we continue to invest only in those companies that we believe have the strongest asset bases and most disciplined management teams. While we continue to believe in the long-term prospects of our Income Trust holdings and that the trusts are an appropriate part of the Fund's strategy of owning a diversified portfolio of energy-related investments, we are reducing our exposure in names where we believe the distribution is not sustainable.

## **2015 Outlook**

Despite our expectation for a challenging energy market this year (most notably due to lower crude oil prices), our outlook for 2015 and beyond is positive. We expect that distribution growth of at least 5% will position the MLP sector to post another year of low double-digit total returns in calendar 2015. We believe the potential exists for MLPs and Midstream Companies to generate substantially higher returns in 2015 if the commodity market improves as expected and the negative market sentiment towards energy companies abates.

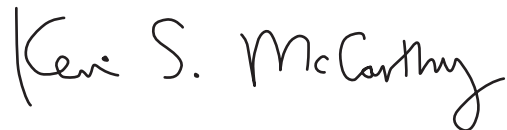
We believe the Fund is very well positioned to navigate a challenging energy market. The portfolio is well diversified with a strong bias towards midstream MLPs and Midstream Companies, and our investments in Income Trusts and Energy Debt will benefit significantly from a recovery in commodity prices. The Fund's leverage ratios are at target levels, and virtually all of its leverage is long-term, fixed-rate financings. We plan to remain prudent, long-term investors, but have the ability to capitalize on market disruptions. We also continue to believe that the development of unconventional reserves is a multi-decade story and that the development of these reserves will create plentiful growth opportunities for MLPs and Midstream Companies, as well as Marine Transportation Companies and Income Trusts. Nonetheless, we have seen that this secular growth story may have setbacks along the way, and we believe it is more important than ever to have a team that can discern which companies are best positioned over the long-term.



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**LETTER TO STOCKHOLDERS**

We look forward to executing on our business plan of achieving high after-tax total returns by investing in a diversified portfolio of MLPs, Midstream Companies, Marine Transportation, Income Trusts and other energy companies. We invite you to visit our website at [kaynefunds.com](http://kaynefunds.com) for the latest updates.

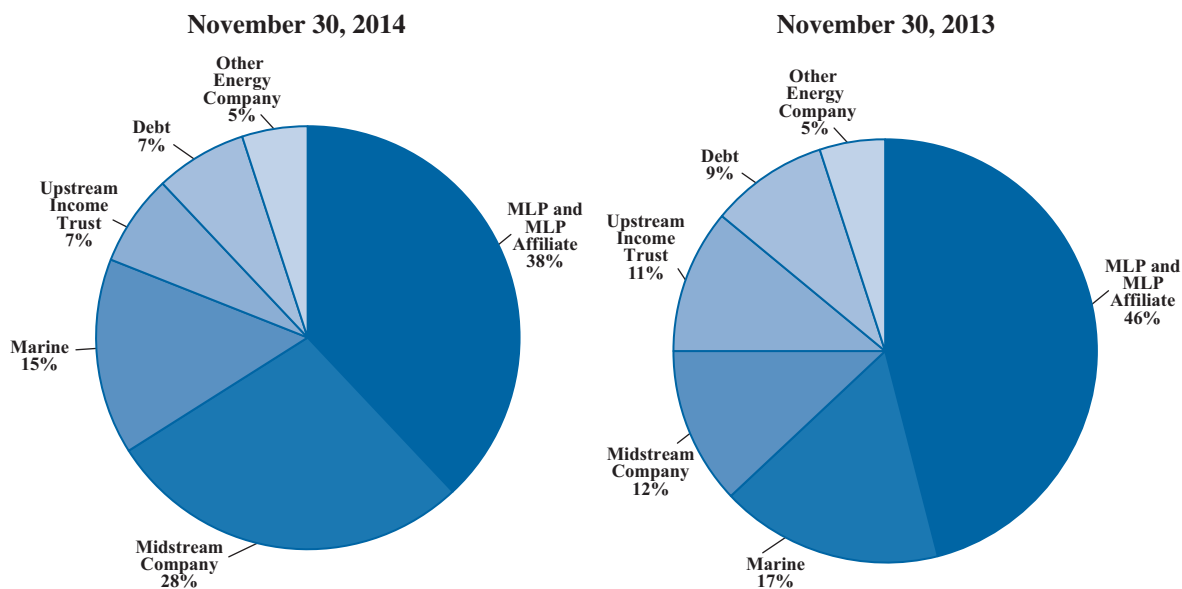
Sincerely,

A handwritten signature in black ink that reads "Kevin S. McCarthy". The signature is written in a cursive style with a large initial "K" and a long, sweeping underline.

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

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**PORTFOLIO SUMMARY**  
**(UNAUDITED)**

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



**Top 10 Holdings by Issuer**

Holding	Sector <sup>(1)</sup>	Percent of Long-Term Investments as of November 30,	
		2014	2013
1. Kinder Morgan, Inc. <sup>(2)</sup>	Midstream Company	17.5%	11.9%
2. Enbridge Energy Management, L.L.C.	MLP Affiliate	12.9	10.0
3. Golar LNG Partners LP	Marine	4.3	4.3
4. The Williams Companies, Inc.	Midstream Company	3.0	2.7
5. Plains All American Pipeline, L.P.	Midstream MLP	3.0	4.2
6. Capital Product Partners L.P.	Marine	3.0	4.4
7. Regency Energy Partners LP <sup>(3)</sup>	Midstream MLP	2.7	1.7
8. Teekay Offshore Partners L.P.	Marine	2.4	3.5
9. Plains GP Holdings, L.P.	Midstream Company	1.9	0.7
10. Energy Transfer Partners, L.P.	Midstream MLP	1.8	1.0

(1) See Glossary of Key Terms for definitions.

(2) On November 26, 2014, Kinder Morgan, Inc. (“KMI”) completed its acquisition of the outstanding equity securities of Kinder Morgan Management, LLC (“KMR”). As of November 30, 2013, our investments in KMI and KMR represented 14.2% of long-term investments on a combined basis.

(3) On March 21, 2014, PVR Partners, L.P. (“PVR”) completed its merger with and into Regency Energy Partners LP (“Regency”). As of November 30, 2013, our investments in Regency and PVR represented 2.5% of long-term investments on a combined basis.



**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

**Fund Overview**

Kayne Anderson Energy Total Return Fund, Inc. is a non-diversified, closed-end fund. Our investment objective is to obtain a high total return with an emphasis on current income. We intend to achieve this objective by investing in a portfolio of companies in the Energy Sector, which focuses on securities of Energy Companies, with the majority of our investments in equity securities of Master Limited Partnerships, MLP Affiliates, Marine Transportation Companies, Midstream Companies, Other Energy Companies and upstream Income Trusts. Please see the Glossary of Key Terms on page 45 for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

As of November 30, 2014, we had total assets of \$1.6 billion, net assets applicable to our common stock of \$1.1 billion (net asset value of \$29.17 per share), and 36.0 million shares of common stock outstanding. As of November 30, 2014, we held \$1.4 billion in equity investments and \$110 million in debt investments.

**Results of Operations — For the Three Months Ended November 30, 2014**

*Investment Income.* Investment income totaled \$14.2 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received \$16.8 million of dividends and distributions, of which \$5.3 million was treated as a return of capital and \$0.04 was treated as distributions in excess of cost basis. Return of capital was decreased by \$4.5 million during the quarter due to 2013 tax reporting information that was received during fiscal 2014. Interest income was \$2.8 million. We received \$6.3 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain.

*Operating Expenses.* Operating expenses totaled \$10.5 million, including \$5.2 million of investment management fees, \$3.2 million of interest expense (including non-cash amortization of debt issuance costs of \$0.2 million), \$0.4 million of other operating expenses and \$1.7 million of preferred stock distributions (including non-cash amortization of offering costs of \$0.1 million).

*Net Investment Income.* Our net investment income totaled \$3.7 million.

*Net Realized Loss.* We had a net realized loss of \$4.1 million. The net realized loss included \$5.7 million of losses from our investments, \$1.7 million of gains from option activity and \$0.1 million of loss from foreign currency transactions.

*Net Change in Unrealized Gains.* We had a net decrease in unrealized gains of \$244.7 million. The net change consisted of a \$247.7 million decrease to our unrealized gains on investments and \$3.0 million increase from option activity.

*Net Decrease in Net Assets Resulting from Operations.* We had a decrease in net assets resulting from operations of \$245.1 million. This decrease was comprised of net investment income of \$3.7 million, a net realized loss of \$4.1 million and a net decrease in unrealized gains of \$244.7 million, as noted above.

**Results of Operations — For the Fiscal Year Ended November 30, 2014**

*Investment Income.* Investment income totaled \$45.3 million for the fiscal year and consisted primarily of net dividends and distributions and interest income on our investments. We received \$67.3 million of dividends and distributions, of which \$32.7 million was treated as a return of capital and \$0.04 was treated as distributions in excess of cost basis. Return of capital was decreased by \$4.5 million due to 2013 tax reporting information that was received during fiscal 2014. Interest income was \$10.7 million. We received \$24.3 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 \$40.3 million, including \$20.2 million of investment management fees, \$11.8 million of interest expense (including non-cash amortization of debt issuance costs of \$0.7 million), \$1.6 million of other operating expenses and \$6.7 preferred stock distributions (including non-cash amortization of offering costs of \$0.3).

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

*Net Investment Income.* Our net investment income totaled \$5.0 million.

*Net Realized Gains.* We had net realized gains of \$70.7 million. Net realized gains include \$66.3 million of gains from our investments, \$4.5 million of gains from option activity and \$0.1 million of losses from foreign currency transactions.

*Net Change in Unrealized Gains.* We had a net increase in unrealized gains of \$4.0 million. The net change consisted of a \$3.3 million increase to our unrealized gains on investments and \$0.7 million increase from option activity.

*Net Increase in Net Assets Resulting from Operations.* We had an increase in net assets resulting from operations of \$79.7 million. This increase was comprised of a net investment income of \$5.0 million, net realized gains of \$70.7 million and net increase in unrealized gains of \$4.0 million, as noted above.

**Distributions to Common Stockholders**

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

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

Operating expenses include (a) investment management fees paid to our investment adviser, (b) other expenses (mostly comprised of fees paid to other service providers) and (c) interest expense and preferred stock distributions.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

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

	<b>Three Months Ended November 30, 2014</b>	<b>Fiscal Year Ended November 30, 2014</b>
<b>Distributions and Other Income from Investments</b>		
Dividends and Distributions <sup>(1)</sup> .....	\$ 16.8	\$ 67.3
Paid-In-Kind Dividends <sup>(1)</sup> .....	6.3	24.3
Interest Income .....	2.8	10.7
Net Premiums Received from Call Options Written .....	1.5	8.2
Total Distributions and Other Income from Investments .....	27.4	110.5
<b>Expenses</b>		
Investment Management Fee .....	(5.2)	(20.2)
Other Expenses .....	(0.4)	(1.6)
Interest Expense .....	(3.0)	(11.1)
Preferred Stock Distributions .....	(1.6)	(6.4)
<b>Net Distributable Income (NDI)</b> .....	<b><u>\$ 17.2</u></b>	<b><u>\$ 71.2</u></b>
Weighted Shares Outstanding .....	36.0	36.0
<b>NDI per Weighted Share Outstanding</b> .....	<b><u>\$0.477</u></b>	<b><u>\$1.977</u></b>
<b>Adjusted NDI per Weighted Share Outstanding<sup>(2)</sup></b> .....	<b><u>\$0.477</u></b>	<b><u>\$1.977</u></b>
<b>Distributions paid per Common Share<sup>(3)</sup></b> .....	<b><u>\$0.485</u></b>	<b><u>\$1.930</u></b>

(1) See Note 2 (Investment Income) to the Financial Statements for additional information regarding paid-in-kind and non-cash dividends and distributions.

(2) There were no adjustments to NDI during the three months and year ended November 30, 2014.

(3) The distribution of \$0.485 per share for the fourth quarter of fiscal 2014 was paid on January 16, 2015. Distributions for fiscal 2014 include the distributions paid in April 2014, July 2014, October 2014 and January 2015.

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our debt agreements and terms of our preferred stock. In determining our quarterly distribution to common stockholders, our Board of Directors considers a number of factors that include, but are not limited to:

- NDI and adjusted NDI generated in the current quarter;
- Expected NDI over the next twelve months; and
- Realized and unrealized gains generated by the portfolio.

**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.
- GAAP recognizes distributions received from MLPs that exceed the cost basis of our securities to be realized gains and are therefore excluded from investment income, whereas the NDI calculation includes these distributions.

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**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

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

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

- The non-cash amortization or write-offs of capitalized debt issuance costs and preferred stock offering costs related to our financings is included in interest expense and distributions on preferred stock for GAAP purposes, but is excluded from our calculation of NDI.
- NDI may also include recurring payments (or receipts) on interest rate swap contracts or the amortization of termination payments on interest rate swap contracts entered into in anticipation of an offering of unsecured notes ("Notes") or mandatory redeemable preferred shares ("MRP Shares"). The termination payments on interest rate swap contracts are amortized over the term of the Notes or MRP Shares issued. For GAAP purposes, these amounts are included in the realized gains/losses section of the Statement of Operations.

### **Liquidity and Capital Resources**

Total leverage outstanding at November 30, 2014 of \$493 million was comprised of \$345 million of Notes, \$28 million outstanding under our unsecured revolving term loan ("Term Loan") and \$120 million of MRP Shares. At November 30, 2014, we did not have any borrowings outstanding under our unsecured revolving credit facility (the "Credit Facility"). Total leverage represented 32% of total assets at November 30, 2014. As of January 27, 2015, we did not have any borrowings outstanding under our Credit Facility and Term Loan and we had \$51 million of cash.

Our Credit Facility has total commitments of \$100 million and matures on March 4, 2016. The interest rate on outstanding loan balances may vary between LIBOR plus 1.60% and LIBOR plus 2.25%, depending on our asset coverage ratios. Outstanding loan balances accrue interest daily at a rate equal to one-month LIBOR plus 1.60% based on current asset coverage ratios. We pay a fee of 0.30% per annum on any unused amounts of the Credit Facility.

Our Term Loan has a total commitment of \$50 million. The initial term of the Term Loan extends through June 13, 2017, at which time we have the option to convert any borrowings outstanding at the time into a one-year

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**MANAGEMENT DISCUSSION**  
**(UNAUDITED)**

term loan. The interest rate on outstanding loan balances may vary between LIBOR plus 1.30% and LIBOR plus 1.75%, depending on our asset coverage ratios. We pay a commitment fee equal to a rate of 0.25% per annum on any unused amounts of the Term Loan. Borrowings under the Term Loan accrue interest daily at a rate equal to LIBOR plus 1.30% based on our current asset coverage ratios. The Term Loan is repayable at par at any time.

We had \$345 million of Notes outstanding at November 30, 2014. On October 7, 2014, we completed a private placement of \$70 million of Notes. The Notes were issued under a 3-year, \$175 million uncommitted private shelf facility provided by an institutional investor. Proceeds from the issuance were used to refinance existing indebtedness, to make new portfolio investments and for general corporate purposes. We have \$85 million of Notes that mature in March 2015 that we expect to refinance early in fiscal 2015. The remaining Notes mature between 2016 and 2025. As of November 30, 2014, we had \$120 million of MRP Shares outstanding, that are subject to mandatory redemption in 2017 and 2018.

At November 30, 2014, our asset coverage ratios under the Investment Company Act of 1940, as amended (the "1940 Act"), were 414% for debt and 313% for total leverage (debt plus preferred stock). We currently target an asset coverage ratio with respect to our debt of 410%, but at times we may be above or below our target depending upon market conditions.

As of November 30, 2014, our total leverage consisted of both fixed rate (83%) and floating rate (17%) obligations. As of such date, the weighted average interest/dividend rate on our total leverage was 3.81%.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except number of option contracts)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>
<b>Long-Term Investments — 146.4%</b>		
<b>Equity Investments<sup>(1)</sup> — 135.9%</b>		
<b>United States — 124.7%</b>		
<b>Midstream Company — 38.2%</b>		
Kinder Morgan, Inc. <sup>(2)</sup> .....	6,506	\$ 269,014
National Fuel Gas Company .....	103	7,114
NiSource Inc. <sup>(2)</sup> .....	116	4,845
ONEOK, Inc. ....	362	19,603
Plains GP Holdings, L.P. <sup>(3)(4)</sup> .....	1,096	28,465
Spectra Energy Corp. <sup>(2)</sup> .....	319	12,080
Targa Resources Corp. <sup>(5)</sup> .....	35	3,974
The Williams Companies, Inc. <sup>(2)</sup> .....	890	46,033
VTI Energy Partners LP <sup>(4)</sup> .....	394	9,628
		<u>400,756</u>
<b>MLP<sup>(6)(7)</sup> — 36.3%</b>		
Access Midstream Partners, L.P. <sup>(2)(8)</sup> .....	123	7,737
Alliance Holdings GP, L.P. ....	43	2,880
Antero Midstream Partners LP <sup>(9)</sup> .....	162	4,494
Arc Logistics Partners LP .....	82	1,808
Atlas Pipeline Partners, L.P. <sup>(5)</sup> .....	99	3,261
BreitBurn Energy Partners L.P. ....	329	4,345
Buckeye Partners, L.P. <sup>(2)</sup> .....	165	12,669
Compressco Partners, L.P. ....	54	1,111
CONE Midstream Partners LP <sup>(9)</sup> .....	22	601
Crestwood Equity Partners LP .....	291	2,623
Crestwood Midstream Partners LP .....	842	16,910
DCP Midstream Partners, LP .....	480	22,982
Enable Midstream Partners, LP .....	53	1,066
Energy Transfer Equity, L.P. ....	121	7,180
Energy Transfer Partners, L.P. <sup>(10)</sup> .....	430	28,004
EnLink Midstream Partners LP .....	321	8,963
Enterprise Products Partners L.P. <sup>(10)</sup> .....	517	19,287
EV Energy Partners, L.P. ....	242	6,845
Exterran Partners, L.P. ....	431	10,665
Foresight Energy LP .....	434	7,635
Global Partners LP .....	273	11,432
Holly Energy Partners, L.P. <sup>(2)</sup> .....	66	2,230
Legacy Reserves L.P. ....	105	1,872
LRR Energy, L.P. ....	306	3,493
MarkWest Energy Partners, L.P. <sup>(2)(3)</sup> .....	185	13,131
Midcoast Energy Partners, L.P. ....	69	1,055
Mid-Con Energy Partners, LP .....	520	6,111
Niska Gas Storage Partners LLC .....	37	170
ONEOK Partners, L.P. ....	422	18,616
Plains All American Pipeline, L.P. <sup>(3)</sup> .....	887	45,655
QEP Midstream Partners, LP .....	222	3,563
Regency Energy Partners LP .....	1,464	41,710
Shell Midstream Partners, L.P. <sup>(9)</sup> .....	130	4,748

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except number of option contracts)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>
<b>MLP<sup>(6)(7)</sup> (continued)</b>		
Sprague Resources LP . . . . .	73	\$ 1,634
Summit Midstream Partners, LP . . . . .	108	4,909
SunCoke Energy Partners, L.P. . . . .	305	8,285
Sunoco Logistics Partners L.P. . . . .	42	2,007
Targa Resources Partners LP <sup>(5)</sup> . . . . .	56	3,049
USA Compression Partners, LP . . . . .	52	987
USD Partners LP <sup>(9)</sup> . . . . .	149	2,217
Western Gas Equity Partners, LP . . . . .	20	1,237
Western Gas Partners, LP <sup>(2)</sup> . . . . .	120	8,487
Williams Partners L.P. <sup>(8)</sup> . . . . .	462	23,908
		<u>381,572</u>
<b>Marine — 21.5%</b>		
Capital Product Partners L.P. <sup>(4)</sup> . . . . .	2,058	16,093
Capital Product Partners L.P. — Class B Units <sup>(4)(11)(12)</sup> . . . . .	3,333	29,467
Dynagas LNG Partners LP <sup>(4)</sup> . . . . .	1,077	19,289
Golar LNG Partners LP <sup>(4)</sup> . . . . .	1,985	65,306
Höegh LNG Partners LP <sup>(4)</sup> . . . . .	222	4,079
KNOT Offshore Partners LP <sup>(4)</sup> . . . . .	894	19,766
Navios Maritime Holdings Inc. — 8.625% Series H Preferred Shares . . . . .	140	3,075
Navios Maritime Midstream Partners L.P. <sup>(4)(9)</sup> . . . . .	385	5,040
Navios Maritime Partners L.P. <sup>(4)</sup> . . . . .	565	7,328
Nordic American Offshore Ltd. . . . .	291	3,811
Seaspan Corporation — 7.95% Series D Preferred Shares . . . . .	400	10,208
Seaspan Corporation — 8.25% Series E Preferred Shares . . . . .	200	5,162
Teekay Offshore Partners L.P. <sup>(4)</sup> . . . . .	1,162	29,888
Teekay Offshore Partners L.P. — Series A Preferred Units <sup>(4)</sup> . . . . .	300	7,245
		<u>225,757</u>
<b>MLP Affiliate — 18.9%</b>		
Enbridge Energy Management, L.L.C. <sup>(13)</sup> . . . . .	5,433	197,766
<b>Other Energy Company — 7.2%</b>		
Abengoa Yield plc . . . . .	264	7,439
CONSOL Energy Inc. <sup>(2)</sup> . . . . .	519	20,297
Dominion Resources, Inc. — Series A Equity Units . . . . .	13	647
EQT Corporation <sup>(2)</sup> . . . . .	28	2,547
HollyFrontier Corporation . . . . .	97	3,939
LinnCo, LLC <sup>(4)</sup> . . . . .	707	11,599
Marathon Petroleum Corporation <sup>(2)</sup> . . . . .	64	5,793
NRG Yield, Inc. . . . .	42	1,986
Phillips 66 <sup>(2)</sup> . . . . .	123	8,974
Seadrill Partners LLC <sup>(4)</sup> . . . . .	381	6,445
Transocean Partners LLC <sup>(4)</sup> . . . . .	139	2,179
Valero Energy Corporation <sup>(2)</sup> . . . . .	88	4,278
		<u>76,123</u>
<b>Upstream Income Trust — 2.6%</b>		
Enduro Royalty Trust . . . . .	1,679	11,851
Pacific Coast Oil Trust . . . . .	1,339	10,869

See accompanying notes to financial statements.



**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except number of option contracts)

<u>Description</u>	<u>No. of Shares/Units</u>	<u>Value</u>		
<b>Upstream Income Trust (continued)</b>				
VOC Energy Trust .....	311	\$ 2,383		
Whiting USA Trust II .....	278	2,467		
		<u>27,570</u>		
<b>Total United States (Cost — \$804,622) .....</b>		<u>1,309,544</u>		
<b>Canada — 11.2%</b>				
<b>Upstream Income Trust — 7.6%</b>				
ARC Resources Ltd. <sup>(10)</sup> .....	488	11,541		
Baytex Energy Corp. ....	451	9,603		
Bonavista Energy Corporation .....	1,348	11,340		
Bonterra Energy Corp. ....	48	1,813		
Crescent Point Energy Corp. <sup>(10)</sup> .....	1,068	27,718		
Pengrowth Energy Corporation <sup>(10)</sup> .....	5,440	18,279		
		<u>80,294</u>		
<b>Midstream Company — 3.6%</b>				
AltaGas Ltd. <sup>(2)</sup> .....	60	2,223		
Enbridge Inc. ....	253	11,614		
Gibson Energy Inc. <sup>(10)</sup> .....	47	1,125		
Inter Pipeline Ltd. ....	120	3,411		
Pembina Pipeline Corporation .....	406	14,056		
TransCanada Corporation <sup>(2)</sup> .....	100	4,816		
		<u>37,245</u>		
<b>Total Canada (Cost — \$162,512) .....</b>		<u>117,539</u>		
<b>Total Equity Investments (Cost — \$967,134) .....</b>		<u>1,427,083</u>		
	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Value</u>
<b>Debt Instruments — 10.5%</b>				
<b>United States — 9.8%</b>				
<b>Upstream — 8.9%</b>				
American Eagle Energy Corporation .....	11.000%	9/1/19	\$ 4,800	4,320
American Energy-Woodford, LLC .....	9.000	9/15/22	1,500	1,163
BlackBrush Oil & Gas, L.P. ....	(14)	7/30/21	12,700	11,748
Canbriam Energy Inc. ....	9.750	11/15/19	2,250	2,149
Chief Oil & Gas LLC .....	(15)	5/16/21	4,000	3,810
Goodrich Petroleum Corporation .....	8.875	3/15/19	4,950	3,217
Halcón Resources Corporation .....	9.750	7/15/20	9,760	7,515
Jupiter Resources Inc. ....	8.500	10/1/22	10,000	7,800
Magnum Hunter Resources Corporation .....	9.750	5/15/20	11,150	10,202
Midstates Petroleum Company, Inc. ....	10.750	10/1/20	5,150	3,682
Midstates Petroleum Company, Inc. ....	9.250	6/1/21	6,750	4,759
Parsley Energy Inc. ....	7.500	2/15/22	6,025	5,596
Resolute Energy Corporation .....	8.500	5/1/20	4,900	3,215
RKI Exploration & Production, LLC .....	8.500	8/1/21	12,500	11,938
RSP Permian, Inc. ....	6.625	10/1/22	1,200	1,092
Teine Energy Ltd. ....	6.875	9/30/22	2,500	2,188
Triangle USA Petroleum Corporation .....	6.750	7/15/22	800	604

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except number of option contracts)

<u>Description</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Value</u>
<b>Upstream (continued)</b>				
Vantage Energy, LLC .....	(16)	12/31/18	\$ 8,952	\$ 8,236
				<u>93,234</u>
<b>Other Energy Company — 0.7%</b>				
Arch Coal, Inc. ....	7.250%	6/15/21	13,500	4,995
Ocean Rig UDW Inc. ....	7.250	4/1/19	2,500	1,975
				<u>6,970</u>
<b>Marine — 0.2%</b>				
Navios Maritime Holdings Inc. ....	7.375	1/15/22	2,500	2,422
<b>Total United States (Cost — \$127,272)</b> .....				<u>102,626</u>
<b>Canada — 0.7%</b>				
<b>Upstream — 0.7%</b>				
Athabasca Oil Corporation (Cost — \$9,836) .....	7.500	11/19/17	(17)	7,650
<b>Total Debt Investments (Cost — \$137,108)</b> .....				<u>110,276</u>
<b>Total Long-Term Investments (Cost — \$1,104,242)</b> .....				<u>1,537,359</u>
	<u>Strike Price</u>	<u>Expiration Date</u>	<u>No. of Contracts</u>	<u>Value</u>
<b>Liabilities</b>				
<b>Call Option Contracts Written <sup>(18)</sup></b>				
<b>United States</b>				
<b>Midstream Company</b>				
Kinder Morgan, Inc. ....	\$40.00	12/19/14	1,100	(207)
Kinder Morgan, Inc. ....	42.50	1/16/15	1,500	(127)
NiSource Inc. ....	42.00	1/16/15	250	(23)
NiSource Inc. ....	43.00	1/16/15	250	(10)
Spectra Energy Corp. ....	39.00	12/19/14	800	(28)
The Williams Companies, Inc. ....	57.50	12/19/14	600	(6)
				<u>(401)</u>
<b>MLP</b>				
Access Midstream Partners, L.P. ....	65.00	12/19/14	600	(25)
Buckeye Partners, L.P. ....	80.00	12/19/14	550	(48)
Holly Energy Partners, L.P. ....	35.00	12/19/14	450	(17)
MarkWest Energy Partners, L.P. ....	75.00	12/19/14	200	(8)
MarkWest Energy Partners, L.P. ....	77.50	12/19/14	200	(6)
Western Gas Partners, LP .....	75.00	12/19/14	550	(32)
				<u>(136)</u>
<b>Other Energy Company</b>				
CONSOL Energy Inc. ....	42.00	12/19/14	1,200	(28)
EQT Corporation .....	95.00	12/19/14	280	(39)
Marathon Petroleum Corporation .....	95.00	12/19/14	550	(52)
Marathon Petroleum Corporation .....	97.50	12/19/14	70	(5)
Phillips 66 .....	77.50	12/19/14	200	(19)
Phillips 66 .....	80.00	12/19/14	200	(9)
Phillips 66 .....	82.50	12/19/14	400	(6)
Valero Energy Corporation .....	52.50	12/19/14	850	(22)
				<u>(180)</u>
<b>Total United States (Premium Received — \$1,075)</b> .....				<u>(717)</u>

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except number of option contracts)

<u>Description</u>	<u>Strike Price</u>	<u>Expiration Date</u>	<u>No. of Contracts</u>	<u>Value</u>
<b>Canada</b>				
<b>Midstream Company</b>				
AltaGas Ltd. ....	\$48.00	12/19/14	600	\$ (3)
TransCanada Corporation .....	50.00	12/19/14	500	(32)
TransCanada Corporation .....	55.00	12/19/14	500	(8)
<b>Total Canada (Premium Received — \$117) .....</b>				<u>(43)</u>
<b>Total Call Option Contracts Written (Premium Received — \$1,192) .....</b>				<u>(760)</u>
<b>Debt .....</b>				(373,000)
<b>Mandatory Redeemable Preferred Stock at Liquidation Value .....</b>				(120,000)
<b>Other Assets in Excess of Other Liabilities .....</b>				6,753
<b>Net Assets Applicable To Common Stockholders .....</b>				<u>\$1,050,352</u>

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Security or a portion thereof is segregated as collateral on option contracts written.
- (3) The Fund believes that it is an affiliate of MarkWest Energy Partners, L.P., Plains All American Pipeline, L.P. and Plains GP Holdings, L.P. See Note 5 — Agreements and Affiliations.
- (4) This company is structured like an MLP, but is not treated as a publicly-traded partnership for regulated investment company (“RIC”) qualification purposes.
- (5) On October 13, 2014, Targa Resources Partners LP and Targa Resources Corp. entered into agreements to acquire Atlas Pipeline Partners, L.P. and Atlas Energy, L.P., respectively. The acquisitions are expected to close in the first quarter of 2015.
- (6) Securities are treated as a publicly-traded partnership for RIC qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had 24.6% of its total assets invested in publicly-traded partnerships at November 30, 2014. It is the Fund’s intention to be treated as a RIC for tax purposes.
- (7) Includes limited liability companies.
- (8) On October 24, 2014, Williams Partners L.P. entered into a merger agreement with and into Access Midstream Partners, L.P. The merger is expected to close in early 2015.
- (9) Security is not currently paying cash distributions but is expected to pay cash distributions within the next 12 months.
- (10) In lieu of cash distributions, the Fund has elected to receive distributions in additional units/stock through the issuer’s dividend reinvestment program.
- (11) Fair valued security, restricted from public sale. See Notes 2, 3 and 7 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 of \$0.21375 per unit and are convertible at any time at the option of the holder. If CPLP increases the quarterly cash distribution per common unit, the distribution per Class B Unit will increase by an equal amount. If CPLP does not redeem the Class B Units by May 2022, then the distribution increases by 25% per quarter to a maximum of \$0.33345 per unit. CPLP may require that the Class B Units convert into common units after May 2015 if the common unit price exceeds \$11.70 per unit, and the Class B Units are callable after May 2017 at a price of \$9.27 per unit and after May 2019 at \$9.00 per unit.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**SCHEDULE OF INVESTMENTS**  
**NOVEMBER 30, 2014**  
**(amounts in 000's, except number of option contracts)**

- (13) Dividends are paid-in-kind.
- (14) Floating rate second lien secured term loan. Security pays interest at a rate of LIBOR + 650 basis points with a 1.00% LIBOR floor (7.50% as of November 30, 2014).
- (15) Floating rate second lien secured term loan. Security pays interest at a rate of LIBOR + 650 basis points with a 1.00% LIBOR floor (7.50% as of November 30, 2014).
- (16) Floating rate second lien secured term loan. Security pays interest at a rate of LIBOR + 750 basis points with a 1.00% LIBOR floor (8.50% as of November 30, 2014).
- (17) Principal amount is 10,000 Canadian dollars.
- (18) Security is non-income producing.

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**STATEMENT OF ASSETS AND LIABILITIES**  
**NOVEMBER 30, 2014**  
(amounts in 000's, except share and per share amounts)

**ASSETS**

Investments, at fair value:	
Non-affiliated (Cost — \$1,066,124) .....	\$1,450,108
Affiliated (Cost — \$38,118) .....	<u>87,251</u>
Total investments (Cost — \$1,104,242) .....	1,537,359
Cash .....	1,380
Deposits with brokers .....	244
Receivable for securities sold (Cost — \$4,179) .....	4,178
Interest, dividends and distributions receivable (Cost — \$4,644) .....	4,637
Deferred debt and preferred stock offering costs and other assets .....	<u>3,160</u>
<b>Total Assets</b> .....	<u><u>1,550,958</u></u>

**LIABILITIES**

Payable for securities purchased (Cost — \$24) .....	23
Investment management fee payable .....	1,633
Call option contracts written (Premiums received — \$1,192) .....	760
Accrued directors' fees and expenses .....	41
Accrued expenses and other liabilities .....	5,149
Term loan .....	28,000
Notes .....	345,000
Mandatory redeemable preferred stock, \$25.00 liquidation value per share (4,800,000 shares issued and outstanding) .....	<u>120,000</u>
<b>Total Liabilities</b> .....	<u><u>500,606</u></u>

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

\$1,050,352

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

Common stock, \$0.001 par value (36,075,492 shares issued, 36,002,427 shares outstanding and 195,200,000 shares authorized) .....	\$ 36
Paid-in capital in excess of taxable income .....	632,433
Accumulated net investment loss less distributions not treated as tax return of capital .....	(15,089)
Accumulated net realized gains less distributions not treated as tax return of capital .....	(564)
Net unrealized gains .....	<u>433,536</u>

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

\$1,050,352

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

\$ 29.17

See accompanying notes to financial statements.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**  
(amounts in 000's)

**INVESTMENT INCOME**

**Income**

Dividends and distributions:	
Non-affiliated investments .....	\$ 63,332
Affiliated investments .....	4,001
Total dividends and distributions (after foreign taxes withheld of \$976) .....	67,333
Return of capital .....	(32,723)
Distributions in excess of cost basis .....	(40)
Net dividends and distributions .....	34,570
Interest .....	10,729
Total Investment Income .....	<u>45,299</u>

**Expenses**

Investment management fees .....	20,225
Professional fees .....	437
Administration fees .....	393
Reports to stockholders .....	215
Directors' fees and expenses .....	144
Custodian fees .....	131
Insurance .....	68
Other expenses .....	209
Total Expenses — before interest expense and preferred distributions .....	21,822
Interest expense and amortization of offering costs .....	11,776
Distributions on mandatory redeemable preferred stock and amortization of offering costs .....	6,738
Total Expenses .....	<u>40,336</u>
<b>Net Investment Income</b> .....	<u>4,963</u>

**REALIZED AND UNREALIZED GAINS (LOSSES)**

**Net Realized Gains**

Investments — non-affiliated .....	49,797
Investments — affiliated .....	16,532
Foreign currency transactions .....	(95)
Options .....	4,530
Net Realized Gains .....	<u>70,764</u>

**Net Change in Unrealized Gains**

Investments — non-affiliated .....	19,782
Investments — affiliated .....	(16,448)
Foreign currency translations .....	(3)
Options .....	676
Net Change in Unrealized Gains .....	<u>4,007</u>
<b>Net Realized and Unrealized Gains</b> .....	<u>74,771</u>

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

<b>RESULTING FROM OPERATIONS</b> .....	<u>\$ 79,734</u>
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See accompanying notes to financial statements.

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

	For the Fiscal Year Ended November 30,	
	2014	2013
<b>OPERATIONS</b>		
Net investment income (loss) <sup>(1)</sup> .....	\$ 4,963	\$ (10,225)
Net realized gains .....	70,764	75,098
Net change in unrealized gains .....	4,007	127,708
<b>Net Increase in Net Assets Resulting from Operations</b> .....	<b>79,734</b>	<b>192,581</b>
<b>DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS<sup>(1)(2)</sup></b>		
Dividends .....	(57,387)	(1,759)
Distributions — net long-term capital gains .....	(11,875)	(43,970)
Distributions — return of capital .....	—	(22,745)
<b>Dividends and Distributions to Common Stockholders</b> .....	<b>(69,262)</b>	<b>(68,474)</b>
<b>CAPITAL STOCK TRANSACTIONS</b>		
Issuance of 160,816 shares of common stock .....	—	4,845
Underwriting discounts and offering expenses associated with the issuance of common stock .....	—	(109)
Issuance of 201,917 and 309,882 shares of common stock from reinvestment of dividends and distributions, respectively .....	5,326	8,246
Common stock purchased under the share repurchase program (137,222 shares) ...	(4,322)	—
<b>Net Increase in Net Assets Applicable to Common Stockholders from Capital Stock Transactions</b> .....	<b>1,004</b>	<b>12,982</b>
<b>Total Increase in Net Assets Applicable to Common Stockholders</b> .....	<b>11,476</b>	<b>137,089</b>
<b>NET ASSETS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>		
Beginning of year .....	1,038,876	901,787
End of year .....	<b>\$1,050,352</b>	<b>\$1,038,876</b>

- (1) Distributions on the Fund's mandatory redeemable preferred stock ("MRP Shares") are treated as an operating expense under GAAP and are included in the calculation of net investment income. See Note 2 — Significant Accounting Policies. Distributions in the amount of \$6,471 paid to holders of MRP Shares for the fiscal year ended November 30, 2014 were characterized as dividends (\$5,382) and as long-term capital gains (\$1,089). Distributions in the amount of \$6,471 paid to holders of MRP Shares for the fiscal year ended November 30, 2013 were characterized as dividends (\$2,316) and as long-term capital gains (\$4,155). A portion of the distributions characterized as dividends (for both fiscal 2014 and fiscal 2013) was eligible to be treated as qualified dividend income. This characterization is based on the Fund's earnings and profits.
- (2) Distributions paid to common stockholders for the fiscal years ended November 30, 2014 and 2013, respectively, were characterized as either dividends (a portion of which was eligible to be treated as qualified dividend income) or distributions (long-term capital gains or return of capital). This characterization is based on the Fund's earnings and profits.

See accompanying notes to financial statements.



**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014**  
(amounts in 000's)

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net increase in net assets resulting from operations .....	\$ 79,734
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Return of capital distributions .....	32,723
Distributions in excess of cost basis .....	40
Net realized gains (excluding foreign currency transactions) .....	(70,859)
Unrealized gains (excluding foreign currency translations) .....	(4,010)
Accretion of bond discounts, net .....	(34)
Purchase of long-term investments .....	(607,980)
Proceeds from sale of long-term investments .....	609,402
Decrease in deposits with brokers .....	294
Decrease in receivable for securities sold .....	928
Decrease in interest, dividends and distributions receivable .....	1,082
Amortization of deferred debt offering costs .....	698
Amortization of mandatory redeemable preferred stock offering costs .....	267
Decrease in other assets .....	41
Decrease in payable for securities purchased .....	(2,233)
Increase in investment management fee payable .....	109
Decrease in premiums received on call option contracts written .....	(1,197)
Decrease in accrued directors' fees and expenses .....	(5)
Increase in accrued expenses and other liabilities .....	407
<b>Net Cash Provided by Operating Activities</b> .....	<u>39,407</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Decrease in borrowings under credit facility .....	(70,000)
Increase in borrowings under term loan .....	28,000
Costs associated with issuance of term loan .....	(190)
Shares of common stock repurchased .....	(4,322)
Proceeds from offering of notes .....	70,000
Costs associated with issuance of notes .....	(104)
Cash distributions paid to common stockholders .....	<u>(63,937)</u>
<b>Net Cash Used in Financing Activities</b> .....	<u>(40,553)</u>

<b>NET DECREASE IN CASH</b> .....	(1,146)
<b>CASH — BEGINNING OF YEAR</b> .....	<u>2,526</u>
<b>CASH — END OF YEAR</b> .....	<u>\$ 1,380</u>

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consisted of reinvestment of distributions of \$5,326 pursuant to the Fund's dividend reinvestment plan.

During the fiscal year ended November 30, 2014, interest paid was \$10,763, and there were no income taxes paid.

During the fiscal year ended November 30, 2014, the Fund received \$28,955 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 TOTAL RETURN FUND, INC.**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000's, except share and per share amounts)

	For the Fiscal Year Ended										For the Period June 28, 2005 <sup>(1)</sup> through November 30, 2005
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	
<b>Per Share of Common Stock<sup>(2)</sup></b>											
Net asset value, beginning of period	\$ 28.91	\$ 25.43	\$ 25.25	\$ 26.53	\$ 20.04	\$ 13.43	\$ 29.01	\$ 25.44	\$ 24.13	\$ 23.84 <sup>(3)</sup>	
Net investment income (loss) <sup>(4)</sup>	0.14	(0.28)	(0.04)	(0.08)	0.16	0.31	0.88	1.09	1.17	0.23	
Net realized and unrealized gains (losses)	2.06	5.68	2.14	0.71	8.24	8.26	(14.09)	4.82	2.34	0.33	
Total income (loss) from operations	2.20	5.40	2.10	0.63	8.40	8.57	(13.21)	5.91	3.51	0.56	
Dividends and distributions — auction rate preferred <sup>(4)(5)</sup>	—	—	—	—	—	—	(0.34)	(0.50)	(0.44)	—	
Common dividends — dividend income <sup>(5)</sup>	(1.60)	(0.05)	(0.71)	—	(1.92)	(0.62)	(0.38)	(1.36)	(1.67)	(0.27)	
Common distributions — long-term capital gains <sup>(5)</sup>	(0.33)	(1.23)	—	(1.92)	—	—	—	(0.48)	—	—	
Common distributions — return of capital <sup>(5)</sup>	—	(0.64)	(1.21)	—	(1.34)	(1.34)	(1.68)	—	(0.03)	—	
Total dividends and distributions — common	(1.93)	(1.92)	(1.92)	(1.92)	(1.92)	(1.96)	(2.06)	(1.84)	(1.70)	(0.27)	
Effect of common stock repurchased	0.01	—	—	—	—	—	—	—	0.05	—	
Effect of issuance of common and preferred stock	—	0.01	—	—	—	—	—	—	(0.11)	—	
Gain on 765 shares of Series B Preferred Stock redeemed at a discount to liquidation value	—	—	—	—	—	—	0.03	—	—	—	
Effect of shares issued in reinvestment of distributions	(0.02)	(0.01)	—	0.01	0.01	—	—	—	—	—	
Total capital stock transactions	(0.01)	—	—	0.01	0.01	—	0.03	—	(0.06)	—	
Net asset value, end of period	\$ 29.17	\$ 28.91	\$ 25.43	\$ 25.25	\$ 26.53	\$ 20.04	\$ 13.43	\$ 29.01	\$ 25.44	\$ 24.13	
Market value per share of common stock, end of period	\$ 30.10	\$ 27.99	\$ 25.02	\$ 23.82	\$ 28.34	\$ 22.28	\$ 10.53	\$ 25.79	\$ 25.00	\$ 21.10	
Total investment return based on common stock market value <sup>(6)</sup>	15.3%	20.2%	13.0%	(9.7)%	37.9%	139.9%	(55.2)%	10.2%	27.2%	(14.6)% <sup>(7)</sup>	

See accompanying notes to financial statements.

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

	For the Fiscal Year Ended							For the Period June 28, 2005 <sup>(1)</sup> through November 30, 2005		
	2014	2013	2012	2011	2010	2009	2008		2007	2006
<b>Supplemental Data and Ratios<sup>(6)</sup></b>										
Net assets applicable to common stockholders, end of period . . . . .	\$ 1,050,352	\$ 1,038,876	\$ 901,787	\$ 883,967	\$ 915,064	\$ 677,678	\$ 437,946	\$ 934,434	\$ 806,063	\$ 776,963
Ratio of expenses to average net assets										
Management fees . . . . .	1.8%	1.8%	1.8%	1.8%	1.7%	1.7%	1.7%	1.7%	1.7%	1.3%
Other expenses . . . . .	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.4
Subtotal . . . . .	1.9	2.0	2.0	2.0	2.0	2.0	1.9	2.0	2.0	1.7
Interest expense and distributions on mandatory redeemable preferred stock <sup>(4)</sup> . . . . .	1.7	2.1	2.4	2.3	2.3	2.6	0.7	0.2	0.1	—
Management fee waivers . . . . .	—	—	—	—	—	—	—	(0.1)	(0.3)	(0.2)
Total expenses . . . . .	3.6%	4.1%	4.4%	4.3%	4.3%	4.6%	2.6%	2.1%	1.8%	1.5%
Ratio of net investment income (loss) to average net assets <sup>(4)</sup> . . . . .	0.4%	(1.0)%	(0.2)%	(0.3)%	0.7%	2.0%	3.1%	3.8%	4.6%	2.3%
Net increase (decrease) in net assets applicable to common stockholders resulting from operations to average net assets . . . . .	7.1%	19.5%	7.8%	2.3%	37.2%	55.8%	(47.7)%	19.1%	12.3%	2.4% <sup>(7)</sup>
Portfolio turnover rate . . . . .	37.7%	46.0%	57.2%	57.6%	62.0%	88.8%	65.0%	52.1%	63.8%	23.2% <sup>(7)</sup>
Average net assets . . . . .	\$ 1,129,602	\$ 987,463	\$ 934,388	\$ 940,587	\$ 771,297	\$ 512,647	\$ 915,456	\$ 906,692	\$ 802,434	\$ 759,550
Notes outstanding, end of period . . . . .	345,000	275,000	273,000	301,000	250,000	165,000	225,000	—	—	—
Credit facility outstanding, end of period . . . . .	0	70,000	40,000	—	67,000	47,000	—	41,000	—	40,000
Term loan outstanding, end of period . . . . .	28,000	—	—	—	—	—	—	—	—	—
Auction rate preferred stock, end of period . . . . .	—	—	—	—	—	—	—	300,000	300,000	—
Mandatory redeemable preferred stock, end of period . . . . .	120,000	120,000	120,000	120,000	90,000	—	—	—	—	—
Average shares of common stock outstanding . . . . .	36,004,074	35,708,710	35,222,412	34,742,802	34,177,249	33,272,958	32,258,146	32,036,996	31,809,344	32,204,000
Asset coverage of total debt <sup>(8)</sup> . . . . .	413.8%	435.9%	426.4%	433.5%	417.1%	419.7%	294.6% <sup>(10)</sup>	—	—	—
Asset coverage of total leverage (debt and preferred stock) <sup>(11)</sup> . . . . .	313.1%	323.4%	308.3%	310.0%	324.8%	419.7%	294.6% <sup>(10)</sup>	374.0%	368.7%	—
Average amount of borrowings per share of common stock during the period . . . . .	\$ 10.16	\$ 9.04	\$ 8.70	\$ 8.92	\$ 7.71	\$ 5.18	\$ 3.53	\$ 0.53	\$ 0.08	—

See accompanying notes to financial statements.

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

- 
- (1) Commencement of operations.
  - (2) Based on average shares of common stock outstanding.
  - (3) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.125 per share and offering costs of \$0.04 per share.
  - (4) Distributions on the Fund's MRP Shares are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 — Significant Accounting Policies.
  - (5) The information presented for each period is a characterization of the total distributions paid to the preferred stockholders and common stockholders as either a dividend (a portion of which was eligible to be treated as qualified dividend income) or a distribution (long-term capital gains or return of capital) and is based on the Fund's earnings and profits.
  - (6) Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Fund's dividend reinvestment plan.
  - (7) Not annualized.
  - (8) Unless otherwise noted, ratios are annualized.
  - (9) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by unsecured notes ("Notes") or any other senior securities representing indebtedness and MRP Shares divided by the aggregate amount of Notes and any other senior securities representing indebtedness. Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it incur additional indebtedness if at the time of such declaration or incurrence its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  - (10) At November 30, 2008, the Fund's asset coverage ratio on total debt pursuant to the 1940 Act was less than 300%. However, on December 2, 2008, the Fund entered into an agreement to repurchase \$60,000 of its Notes, which closed on December 5, 2008. Upon the closing of the repurchase of the Notes, the Fund was in compliance with the 1940 Act and with its covenants under the Notes agreements.
  - (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 Notes, any other senior securities representing indebtedness and MRP Shares divided by the aggregate amount of Notes, any other senior securities representing indebtedness and MRP Shares. Under the 1940 Act, the Fund may not declare or make any distribution on its common stock nor can it issue additional preferred stock if at the time of such declaration or issuance, its asset coverage with respect to all senior securities would be less than 200%. In addition to the limitations under the 1940 Act, the Fund, under the terms of its MRP Shares, would not be able to declare or pay any distributions on its common stock if such declaration would cause its asset coverage with respect to all senior securities to be less than 225%. For purposes of these asset coverage ratio tests, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.

See accompanying notes to financial statements.

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

**1. Organization**

Kayne Anderson Energy Total Return Fund, Inc. (the "Fund") was organized as a Maryland corporation on March 31, 2005 and commenced operations on June 28, 2005. The Fund is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a non-diversified closed-end investment company. The Fund's investment objective is to obtain a high total return with an emphasis on current income. The Fund intends to achieve this investment objective by investing in a portfolio of companies in the Energy Sector. The majority of the Fund's investments include investments in equity securities of Master Limited Partnerships, MLP Affiliates, Marine Transportation Companies, Midstream Companies, Other Energy Companies and upstream Income Trusts. The Fund's shares of common stock are listed on the New York Stock Exchange, Inc. ("NYSE") under the symbol "KYE."

**2. Significant Accounting Policies**

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

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

*B. Reclassifications* — Certain prior year amounts in the accompanying financial statements have been reclassified to conform to the current year's presentation.

*C. 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.

*D. Calculation of Net Asset Value* — The Fund determines its net asset value no less frequently than as of the last day of each month based on the most recent close of regular session trading on the NYSE, and makes its net asset value available for publication monthly. Currently, the Fund calculates its net asset value on a weekly basis. Net asset value is computed by dividing the value of the Fund's assets (including accrued interest and distributions), less all of its liabilities (including accrued expenses, distributions payable and any borrowings) and the liquidation value of any outstanding preferred stock by the total number of common shares outstanding.

*E. 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. 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 are not available, fair market value will be based on prices of comparable securities. Any securities for which (a) reliable market quotations are not available in the

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

judgment of KA Fund Advisors, LLC (“Kafa”), or (b) the pricing service does not provide a valuation or provides a valuation 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. In certain cases, the Fund may not be able to purchase or sell debt securities at the quoted prices due to the lack of liquidity for these securities.

On November 27, 2014, OPEC met and decided to maintain its crude oil production quotas. As a result of this decision, on November 28, 2014, the price of crude oil (as measured by the price of West Texas Intermediate, or WTI) declined \$7.54 per barrel, or 10.2%, compared to the close of business on November 26, 2014. The U.S. financial markets were open on November 28, 2014, but experienced light trading volume. On November 28, 2014 (the last trading day of the Fund’s fiscal year), Kafa observed that prices, provided by an independent pricing service pursuant to the Fund’s Valuation Procedures, for certain of the fixed income securities in the Fund’s portfolio, were unchanged from prices provided as of November 26, 2014. Kafa believes that the unchanged prices did not represent the fair value for these debt securities. Kafa concluded that the prices provided by the independent pricing service on December 1, 2014 reflected the fair value for these securities as of November 30, 2014. Consequently, Kafa reduced the value of these debt securities by \$5,091 or approximately 4.4%.

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

The Fund holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Fund for which reliable market quotations are not readily available, valuations are determined in a manner that most accurately reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

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



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

As of November 30, 2014, the Fund held 2.8% of its net assets applicable to common stockholders (1.9% 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, 2014 was \$29,467. See Note 3 — Fair Value and Note 7 — Restricted Securities.

*F. Repurchase Agreements* — From time to time, the Fund 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 Fund 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 Fund to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities. As of November 30, 2014, the Fund did not have any repurchase agreements.

*G. Short Sales* — A short sale is a transaction in which the Fund 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 Fund may arrange through a broker to borrow the securities to be delivered to the buyer. The proceeds received by the Fund for the short sale are retained by the broker until the Fund replaces the borrowed securities. In borrowing the securities to be delivered to the buyer, the Fund becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever the price may be.

The Fund's short sales, if any, are fully collateralized. The Fund 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 Fund is liable for any dividends or distributions paid on securities sold short.

The Fund may also sell short "against the box" (*i.e.*, the Fund enters into a short sale as described above while holding an offsetting long position in the security which it sold short). If the Fund enters into a short sale "against the box," the Fund would segregate an equivalent amount of securities owned as collateral while the short sale is outstanding. During the fiscal year ended November 30, 2014, the Fund did not engage in any short sales.

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

**Interest rate swap contracts.** The Fund may use hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of the Fund's leverage. Such interest rate swaps would principally be used to protect the Fund against higher costs on its leverage resulting from increases in interest rates. The Fund does not hedge any interest rate risk associated with portfolio holdings. Interest rate transactions the Fund uses for hedging purposes expose it to certain risks that differ from the risks associated with its portfolio holdings. A decline in interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Fund. In addition, if the counterparty to an interest rate swap defaults, the Fund would not be able to use the anticipated net receipts under the interest rate swap to offset its cost of financial leverage.

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



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

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

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

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

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

I. *Security Transactions* — Security transactions are accounted for on the date these securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis.

J. *Return of Capital Estimates* — Dividends and distributions received from the Fund's investments are comprised of income and return of capital. The payments made by MLPs (and other entities treated as partnerships for federal income tax purposes) are categorized as "distributions" and payments made by corporations are categorized as "dividends." At the time such dividends and distributions are received, the Fund estimates the amount of such payments that is considered investment income and the amount that is considered a return of capital. The Fund estimates that 84% of the MLP distributions received will be treated as a return of capital. Such estimates for MLPs and other investments are based on historical information available from each investment and other industry sources. These estimates may subsequently be revised based on information received from investments after their tax reporting periods are concluded.

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

The Fund includes all cash distributions received on its Statement of Operations and reduces its investment income by (i) the estimated return of capital and (ii) the distributions in excess of cost basis. For the fiscal year ended November 30, 2014, the Fund had \$32,723 of return of capital and \$40 of cash distributions that were in excess of cost basis. The cash distributions that were in excess of basis were treated as realized gains.

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

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

	<u>For the Fiscal Year Ended November 30, 2014</u>
Dividends from investments .....	\$44,296
Distributions from investments .....	<u>24,013</u>
Total dividends and distributions from investments (before foreign taxes withheld of \$976) .....	<u>\$68,309</u>
Dividends — % return of capital .....	39%
Distributions — % return of capital .....	84%
Total dividends and distributions — % return of capital .....	48%
Return of capital — attributable to net realized gains (losses) .....	\$ 3,071
Return of capital — attributable to net change in unrealized gains (losses) .....	<u>29,652</u>
Total return of capital .....	<u>\$32,723</u>

For the fiscal year ended November 30, 2014, the Fund estimated the return of capital portion of distributions received to be \$37,245 (55%). This amount was decreased by \$4,522 attributable to the 2013 tax reporting information received by the Fund in fiscal 2014. As a result, the return of capital percentage for the fiscal year ended November 30, 2014 was 48%.

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

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

The Fund 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. Non-cash dividends and distributions are reflected in investment income because the Fund has the option to

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receive its dividend in cash or in additional shares and units of the security. During the fiscal year ended November 30, 2014, the Fund received the following paid-in-kind and non-cash dividends and distributions.

	<u>For the Fiscal Year Ended November 30, 2014</u>
<b><u>Paid-in-kind dividends</u></b>	
Enbridge Energy Management, L.L.C. ....	\$11,609
Kinder Morgan Management, LLC .....	<u>12,708</u>
	24,317
<b><u>Non-cash dividends and distributions</u></b>	
ARC Resources Ltd. ....	308
Bonavista Energy Corporation .....	374
Crescent Point Energy Corp. ....	1,350
Enbridge Inc. ....	95
Energy Transfer Partners, L.P. ....	1,281
Enterprise Products Partners L.P. ....	790
Gibson Energy Inc. ....	68
Pengrowth Energy Corporation .....	<u>372</u>
	<u>4,638</u>
Total paid-in-kind and non-cash dividends and distributions .....	<u>\$28,955</u>

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

The characterization of the distributions paid to holders of MRP Shares and common stock for the fiscal year ended November 30, 2014 as either a dividend (eligible to be treated as qualified dividend income) or a distribution (long term capital gains or return of capital) is determined after the end of the fiscal year based on the Fund's actual earnings and profits and, therefore, the characterization may differ from the preliminary estimates.

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

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

The Fund must pay distributions equal to 90% of its investment company taxable income (ordinary income and short-term capital gains) to qualify as a RIC and it must distribute all of its taxable income (ordinary income, short-term capital gains and long-term capital gains) to avoid federal income taxes. The Fund will be subject to federal income tax on any undistributed portion of income. For purposes of the distribution test, the Fund may elect to treat as paid on the last day of its taxable year all or part of any distributions that are declared after the end of its taxable year if such distributions are declared before the due date of its tax return, including any extensions (August 15<sup>th</sup>). See Note 6 — Taxes.

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

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

Dividend income received by the Fund from sources within Canada is subject to a 15% foreign withholding tax. For non-cash dividends received from ARC Resources Ltd., Bonavista Energy Corporation, Crescent Point Energy Corp. and Gibson Energy Inc. during the fiscal year ended November 30, 2014, there was no foreign withholding tax. Interest income, on Canadian corporate debt obligations, paid or payable to a non-resident entity that deals at arm's length with the Canadian resident should generally be exempt from withholding tax on interest, with a few exceptions (e.g., a profit participating debt interest).

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

The Fund'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. For the fiscal year ended November 30, 2014, the Fund did not have any interest or penalties associated with the underpayment of any income taxes. Tax years subsequent to fiscal year 2010 remain open and subject to examination by the federal and state tax authorities.

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

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

Net realized foreign exchange gains or losses represent gains and losses from transactions in foreign currencies and foreign currency contracts, foreign exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Fund's books and the U.S. dollar equivalent of such amounts on the payment date.

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

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

Q. *Offering and Debt Issuance Costs* — Offering costs incurred by the Fund related to the issuance of its common stock reduce additional paid-in capital when the stock is issued. Costs incurred by the Fund related to the issuance of its debt (revolving credit facility, term loan or 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 Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination. Inputs are the assumptions, along with considerations of risk, that a market participant would use to value an asset or a liability. In general, observable inputs are based on market data that is readily available, regularly distributed and verifiable that the Fund obtains from independent, third-party sources. Unobservable inputs are developed by the Fund based on its own assumptions of how market participants would value an asset or a liability.

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 Fund to determine fair value. Specifically, for assets measured at fair value using significant unobservable inputs (Level 3), ASU No. 2011-04 requires that the Fund (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 Fund has access at the date of measurement.
- *Level 2* — Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.
- *Level 3* — Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

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The following table presents the Fund's assets and liabilities measured at fair value on a recurring basis at November 30, 2014, and the Fund presents these assets and liabilities 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>Unobservable Inputs (Level 3)</u>
<b>Assets at Fair Value</b>				
Equity investments . . . . .	\$1,427,083	\$1,397,616	\$ —	\$29,467
Debt investments . . . . .	<u>110,276</u>	<u>—</u>	<u>110,276</u>	<u>—</u>
Total assets at fair value . . . . .	<u>\$1,537,359</u>	<u>\$1,397,616</u>	<u>\$110,276</u>	<u>\$29,467</u>
<b>Liabilities at Fair Value</b>				
Call option contracts written . . . . .	\$ 760	\$ —	\$ 760	\$ —

For the fiscal year ended November 30, 2014, there were no transfers between Level 1 and Level 2.

As of November 30, 2014, the Fund had Notes outstanding with aggregate principal amount of \$345,000 and 4,800,000 shares of MRP Shares outstanding with a total liquidation value of \$120,000. The Notes and MRP Shares were issued in private placements to institutional investors and are not listed on any exchange or automated quotation system. See Note 11 — Notes and Note 12 — Preferred Stock. As a result, the Fund categorizes the Notes and MRP Shares as Level 3 securities and determines the fair value of these instruments based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure.

The Fund records the Notes and MRP Shares on its Statement of Assets and Liabilities at principal amount or liquidation value. As of November 30, 2014, the estimated fair values of these leverage instruments are as follows.

<u>Security</u>	<u>Principal Amount / Liquidation Value</u>	<u>Fair Value</u>
Notes . . . . .	\$345,000	\$355,900
MRP Shares . . . . .	\$120,000	\$128,500

The following table presents the Fund's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the fiscal year ended November 30, 2014.

	<u>Equity Investments</u>
Balance — November 30, 2013 . . . . .	\$31,767
Purchases . . . . .	—
Issuances . . . . .	—
Transfers out to Level 1 and 2 . . . . .	—
Realized gains (losses) . . . . .	—
Unrealized losses, net . . . . .	<u>(2,300)</u>
Balance — November 30, 2014 . . . . .	<u>\$29,467</u>

The \$2,300 of net unrealized losses relate to an investment held at November 30, 2014, and the Fund includes these unrealized losses in the Statement of Operations — Net Change in Unrealized Gains (Losses).



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**Valuation Techniques and Unobservable Inputs**

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

The Fund owns a private investment in Class B Units of Capital Product Partners L.P. (“CPLP”). The Class B Units are convertible Class B Units (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 Fund’s Board of Directors has determined that it is appropriate to value the Class B Units using a convertible pricing model. This model takes into account the attributes of the Class B Units, including the preferred dividend, conversion ratio and call features, to determine the estimated value of such units. In using this model, the Fund estimates (i) the credit spread for CPLP’s Class B Units, which is based on credit spreads for 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 Fund 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 unit will be used for the Class B Units.

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

The following table summarizes the significant unobservable inputs that the Fund used to value its portfolio investments categorized as Level 3 as of November 30, 2014:

**Quantitative Table for Valuation Techniques**

Assets at Fair Value	Fair Value	Valuation Technique	Unobservable Inputs	Range		Average
				Low	High	
Equity securities of public companies – valued based on pricing model	\$29,467	- Convertible pricing model	- Credit spread	7.5%	8.0%	7.8%
			- Volatility	27.5%	32.5%	30.0%
			- Discount for marketability	8.0%	8.0%	8.0%

**4. Concentration of Risk**

The Fund’s investments are concentrated in the Energy Sector. The focus of the Fund’s portfolio within the Energy Sector may present more risks than if the Fund’s portfolio were broadly diversified across numerous sectors of the economy. A downturn in the Energy Sector would have a larger impact on the Fund than on an investment company that does not focus on the Energy Sector. The performance of securities in the Energy Sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the Fund invests a relatively high percentage of its assets in the securities of a limited number of issuers, the



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Fund may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence. At November 30, 2014, the Fund had the following investment concentrations.

<u>Category</u>	<u>Percent of Long-Term Investments</u>
Securities of Energy Companies <sup>(1)</sup> .....	97.6%
Equity securities .....	92.8%
Debt securities .....	7.2%
Securities of MLPs <sup>(1)</sup> .....	37.7%
Largest single issuer .....	17.5%
Restricted securities .....	6.6%

(1) Refer to the “Glossary of Key Terms” (page 45) for the definitions of Energy Companies and MLPs.

**5. Agreements and Affiliations**

A. *Administration Agreement* — The Fund has an administration and accounting agreement with Ultimus Fund Solutions, LLC (“Ultimus”), that may be amended from time to time. Pursuant to the agreement, Ultimus will provide certain administrative and accounting services for the Fund. The agreement has an initial term of two years (expiring on November 14, 2015) and has automatic one-year renewals unless earlier terminated by either party as provided under the terms of the agreement.

B. *Investment Management Agreement* — The Fund has entered into an investment management agreement with KAFA under which KAFA, subject to the overall supervision of the Fund’s Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Fund. For providing these services, KAFA receives an investment management fee from the Fund. On September 17, 2014, the Fund renewed its agreement with KAFA for a period of one year. The agreement will expire on October 2, 2015 and may be renewed annually thereafter upon the approval of the Fund’s Board of Directors (including a majority of the Fund’s directors who are not “interested persons” of the Fund, as such term is defined in the 1940 Act). For the fiscal year ended November 30, 2014, the Fund paid management fees at an annual rate of 1.25% of average monthly total assets of the Fund.

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

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

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

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

There is no assurance that the SEC staff will not consider that other limited partnership securities that the Fund owns and does not treat as voting securities are, in fact, voting securities for the purposes of Section 17 of the 1940 Act. If such determination were made, the Fund will be required to abide by the restrictions on “control” or “affiliate” transactions as proscribed in the 1940 Act. The Fund or any portfolio company that it controls, and its affiliates, may from time to time engage in certain of such joint transactions, purchases, sales and loans in reliance upon and in compliance with the conditions of certain exemptive rules promulgated by the SEC. The Fund cannot make assurances, however, that it would be able to satisfy the conditions of these rules with respect to any particular eligible transaction, or even if the Fund were allowed to engage in such a transaction, that the terms would be more or as favorable to the Fund or any company that it controls as those that could be obtained in arm’s length transaction. As a result of these prohibitions, restrictions may be imposed on the size of positions that may be taken for the Fund or on the type of investments that it could make.

As of November 30, 2014, the Fund believes that MarkWest Energy Partners, L.P. meets the criteria described above and is therefore considered an affiliate of the Fund.

*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 Fund, 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 Fund believes that it is an affiliate of Plains GP and PAA under the 1940 Act by virtue of (i) the Fund’s and other affiliated Kayne Anderson funds’ ownership interests in Plains GP and PAA GP and (ii) Mr. Sinnott’s participation on the boards of Plains GP and Plains All American GP.

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**6. Taxes**

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

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

As of November 30, 2014, the principal temporary differences between income for GAAP purposes and taxable income were (a) realized losses that were recognized for GAAP purposes, but disallowed for tax purposes due to wash sale rules; (b) disallowed partnership losses related to the Fund's MLP investments; and (c) other basis adjustments in the Fund's MLPs and other investments.

During the fiscal year ended November 30, 2014, the Fund reclassified \$250 from accumulated net investment income and accumulated capital gains to paid-in capital primarily due to taxable net investment income in excess of distributions, partially offset by the permanent differences between GAAP and tax treatment of the amortization of MRP shares offering costs. The Fund also reclassified \$26,090 of accumulated realized gains to accumulated net investment income due to permanent differences between GAAP and tax treatment of certain net realized gains.

The tax basis of the components of distributable earnings can differ from the amounts reflected in the Statement of Assets and Liabilities due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At November 30, 2014, the Fund had \$1,990 of undistributed ordinary income and long-term capital gains. The following table sets forth the components of accumulated income for the Fund.

	<u>As of November 30, 2014</u>
Undistributed ordinary income (including short-term gains) . . . . .	\$ 833
Undistributed long-term capital gains . . . . .	1,157
Capital loss carryforward . . . . .	—
Unrealized appreciation of investments . . . . .	<u>418,224</u>
Total accumulated income . . . . .	<u><u>\$420,214</u></u>

For the fiscal year ended November 30, 2014, the tax character of the total \$69,262 distributions paid to common stockholders was \$57,387 of dividend income and \$11,875 of long-term capital gains. The tax character of the total \$6,471 distributions paid to holders of MRP shares was \$5,382 of dividend income and \$1,089 of long-term capital gains.

For the fiscal year ended November 30, 2013, the tax character of the total \$68,474 distributions paid to common stockholders was \$1,759 of dividend income, \$43,970 of long-term capital gains and \$22,745 of return of capital. The tax character of the total \$6,471 distributions paid to holders of MRP shares was \$2,316 of dividend income and \$4,155 of long-term capital gains.

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

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

At November 30, 2014, the cost basis of investments for federal income tax purposes was \$1,119,555 and the premiums received on outstanding option contracts written were \$1,192. At November 30, 2014, gross unrealized appreciation and depreciation of investments and options for federal income tax purposes were as follows:

Gross unrealized appreciation of investments (including options) . . . . .	\$ 556,676
Gross unrealized depreciation of investments (including options) . . . . .	(138,441)
Net unrealized appreciation of investments before foreign currency related translations . . . . .	418,235
Unrealized depreciation on foreign currency related translations . . . . .	(11)
Net unrealized appreciation of investments . . . . .	<u>\$ 418,224</u>

**7. Restricted Securities**

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

At November 30, 2014, the Fund held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units, Principal (\$) (in 000s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 2 Investments<sup>(1)</sup></b>								
American Eagle Energy Corporation . . . . .	8/13/14	(2)	4,800	\$ 4,755	\$ 4,320	n/a	0.5%	0.3%
American Energy-Woodford, LLC . . . . .	9/11/14	(3)	1,500	1,439	1,163	n/a	0.1	0.1
Athabasca Oil Corporation . . . . .	(4)	(5)		9,836	7,650	n/a	0.7	0.5
BlackBrush Oil & Gas, L.P. . . . .	7/21/14	(3)	12,700	12,609	11,748	n/a	1.1	0.8
Canbriam Energy Inc. . . . .	11/10/14	(3)	2,250	2,116	2,149	n/a	0.2	0.1
Chief Oil & Gas LLC . . . . .	5/12/14	(3)	4,000	3,962	3,810	n/a	0.4	0.2
Jupiter Resources Inc. . . . .	9/11/14	(3)	10,000	9,585	7,800	n/a	0.7	0.5
Navios Maritime Holdings Inc. . . . .	(4)	(2)	2,500	2,590	2,422	n/a	0.2	0.2
Ocean Rig UDW Inc. . . . .	7/17/14	(2)	2,500	2,462	1,975	n/a	0.2	0.1
Parsley Energy Inc. . . . .	(4)	(2)	6,025	6,141	5,596	n/a	0.5	0.4
RKI Exploration & Production, LLC . . . . .	(4)	(3)	12,500	12,679	11,938	n/a	1.1	0.8
RSP Permian, Inc. . . . .	9/23/14	(2)	1,200	1,200	1,092	n/a	0.1	0.1
Teine Energy Ltd. . . . .	9/9/14	(3)	2,500	2,481	2,188	n/a	0.2	0.1
Triangle USA Petroleum Corporation . . . . .	7/15/14	(3)	800	800	604	n/a	0.1	0.0
Vantage Energy, LLC . . . . .	(4)	(3)	8,952	8,894	8,236	n/a	0.8	0.5
Total . . . . .				<u>\$ 81,549</u>	<u>\$ 72,691</u>		<u>6.9%</u>	<u>4.7%</u>
<b>Level 3 Investments<sup>(6)</sup></b>								
Capital Product Partners L.P.								
Class B Units . . . . .	5/21/12	(2)	3,333	\$ 25,244	\$ 29,467	8.84	2.8%	1.9%
Total of all restricted securities . . . . .				<u>\$106,793</u>	<u>\$102,158</u>		<u>9.7%</u>	<u>6.6%</u>

- (1) These securities have a fair market value determined by the mean of the bid and ask prices provided by an agent or a syndicate bank, a principal market maker or an independent pricing service as more fully described in Note 2 — Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.
- (2) Unregistered or restricted security of a publicly-traded company.
- (3) Unregistered security of a private company.

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

- (4) Security was acquired at various dates during the fiscal year ended November 30, 2014 and/or in prior fiscal years.
- (5) Principal amount is 10,000 Canadian dollars.
- (6) Securities are valued using inputs reflecting the Fund's own assumptions as more fully described in Note 2 — Significant Accounting Policies and Note 3 — Fair Value.

**8. Derivative Financial Instruments**

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

*Option Contracts* — Transactions in option contracts for the fiscal year ended November 30, 2014 were as follows:

	<u>Number of Contracts</u>	<u>Premium</u>
<b>Call Options Written</b>		
Options outstanding at November 30, 2013 .....	24,501	\$ 2,389
Options written .....	91,511	9,508
Options subsequently repurchased <sup>(1)</sup> .....	(20,525)	(2,354)
Options exercised .....	(51,413)	(5,377)
Options expired .....	<u>(31,674)</u>	<u>(2,974)</u>
Options outstanding at November 30, 2014 <sup>(2)</sup> .....	<u>12,400</u>	<u>\$ 1,192</u>

(1) The price at which the Fund subsequently repurchased the options was \$801, which resulted in net realized gains of \$1,553.

(2) The percentage of total investments subject to call options written was 4.2% at November 30, 2014.

*Interest Rate Swap Contracts* — The Fund may enter into interest rate swap contracts to partially hedge itself from increasing expense on its leverage resulting from increasing interest rates. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement transaction would not be as favorable as on the expiring transaction. In addition, if the Fund is required to terminate any swap contract early, then the Fund could be required to make a termination payment. As of November 30, 2014, the Fund did not have any interest rate swap contracts outstanding.

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

<u>Derivatives Not Accounted for as Hedging Instruments</u>	<u>Statement of Assets and Liabilities Location</u>	<u>Fair Value as of November 30, 2014</u>
Call options written .....	Call option contracts written	\$(760)

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

The following table sets forth the effect of the Fund's derivative instruments on the Statement of Operations:

Derivatives Not Accounted for as Hedging Instruments	Location of Gains/(Losses) on Derivatives Recognized in Income	For the Fiscal Year Ended November 30, 2014	
		Net Realized Gains/(Losses) on Derivatives Recognized in Income	Net Change in Unrealized Gains/(Losses) on Derivatives Recognized in Income
Call options written . . . . .	Options	\$4,530	\$676

**9. Investment Transactions**

For the fiscal year ended November 30, 2014, the Fund purchased and sold securities in the amounts of \$607,980 and \$609,402 (excluding short-term investments and options).

**10. Credit Facility and Term Loan**

At November 30, 2014, the Fund had a \$100,000 unsecured revolving credit facility ("Credit Facility"). The Credit Facility has a three-year term, maturing on March 4, 2016. Under the Credit Facility, the interest rate on outstanding loan balances may vary between LIBOR plus 1.60% and LIBOR plus 2.25%, depending on the Fund's asset coverage ratios. The Fund pays a fee of 0.30% per annum on any unused amounts of the Credit Facility. See Financial Highlights for the Fund's asset coverage ratios under the 1940 Act.

For the fiscal year ended November 30, 2014, the average amount outstanding under the Credit Facility was \$58,493 with a weighted average interest rate of 1.80%. As of November 30, 2014, the Fund had no outstanding borrowings under the Credit Facility.

On June 13, 2014, the Fund entered into a \$50,000 unsecured revolving term loan ("Term Loan"). The initial term of the Term Loan extends through June 13, 2017, at which time the Fund has the option to convert any borrowings outstanding at the time into a one-year term loan. The interest rate may vary between LIBOR plus 1.30% and LIBOR plus 1.75%, depending on the Fund's asset coverage ratios. The Fund pays a commitment fee equal to a rate of 0.25% per annum on any unused amounts of the Term Loan. Borrowings under the Term Loan accrue interest daily at a rate equal to LIBOR plus 1.30% based on the Fund's current asset coverage ratios. The Term Loan is repayable at par at any time.

From the initial borrowing on June 19, 2014 through November 30, 2014, the average amount outstanding under the Term Loan was \$48,079 with a weighted average interest rate of 1.46%. As of November 30, 2014, the Fund had \$28,000 outstanding under the Term Loan at an interest rate of 1.46%.

As of November 30, 2014, the Fund was in compliance with all financial and operational covenants required by the Credit Facility and Term Loan.

**11. Notes**

At November 30, 2014, the Fund had \$345,000 aggregate principal amount of Notes outstanding. On October 7, 2014, the Fund completed a private placement of \$70,000 of Notes. The Notes were issued under a 3-year, \$175,000 uncommitted private shelf facility provided by an institutional investor. Proceeds from the



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

issuance were used to refinance existing indebtedness, to make new portfolio investments and for general corporate purposes. The table below sets forth the key terms of each series of Notes at November 30, 2014.

Series	Principal Outstanding, November 30, 2013	Principal Issued	Principal Outstanding, November 30, 2014	Estimated Fair Value November 30, 2014	Fixed/Floating Interest Rate	Maturity Date
D .....	\$ 58,000	\$ —	\$ 58,000	\$ 59,200	4.150%	3/5/15
E .....	27,000	—	27,000	27,100	3-month LIBOR + 155bps	3/5/15
F .....	30,000	—	30,000	30,200	3-month LIBOR + 145bps	5/10/16
G .....	20,000	—	20,000	20,900	3.710%	5/10/16
H .....	10,000	—	10,000	10,900	4.380%	5/10/18
I .....	6,000	—	6,000	6,100	2.590%	8/8/18
J .....	29,000	—	29,000	29,800	3.070%	8/8/20
K .....	50,000	—	50,000	52,500	3.720%	8/8/23
L .....	45,000	—	45,000	47,400	3.820%	8/8/25
M .....	—	70,000	70,000	71,800	3.360%	10/7/21
	<u>\$275,000</u>	<u>\$70,000</u>	<u>\$345,000</u>	<u>\$355,900</u>		

Holders of the fixed rate Notes are entitled to receive cash interest payments semi-annually (on August 13 and February 13) at the fixed rate. Holders of the floating rate Notes are entitled to receive cash interest payments quarterly (on February 13, May 13, August 13 and November 13) at the floating rate. For the fiscal year ended November 30, 2014, the weighted average interest rate on the outstanding Notes was 3.35%.

As of November 30, 2014, each series of Notes was rated “AAA” by FitchRatings. In the event the credit rating on any series of Notes falls below “A-”, the interest rate on such series will increase by 1% during the period of time such series is rated below “A-”. The Fund is required to maintain a current rating from one rating agency with respect to each series of Notes.

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

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

The Notes are unsecured obligations of the Fund and, upon liquidation, dissolution or winding up of the Fund, will rank: (1) senior to all of the Fund’s outstanding preferred shares; (2) senior to all of the Fund’s outstanding common shares; (3) on a parity with any unsecured creditors of the Fund and any unsecured senior securities representing indebtedness of the Fund; and (4) junior to any secured creditors of the Fund.

At November 30, 2014, the Fund was in compliance with all covenants under the agreements of the Notes.



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

**12. Preferred Stock**

At November 30, 2014, the Fund had 4,800,000 shares of MRP Shares outstanding with a total liquidation value of \$120,000 (\$25.00 per share).

The table below sets forth the key terms of each series of MRP Shares at November 30, 2014.

Series	Shares Outstanding, November 30, 2014	Liquidation Value, November 30, 2014	Estimated Fair Value, November 30, 2014	Rate	Mandatory Redemption Date
A .....	3,600,000	\$ 90,000	\$ 96,200	5.48%	3/05/17
B .....	1,200,000	30,000	32,300	5.13%	5/10/18
	<u>4,800,000</u>	<u>\$120,000</u>	<u>\$128,500</u>		

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

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

	Series A and B
Rating as of November 30, 2014 (FitchRatings) .....	"AA"
Ratings Threshold .....	"A"
Method of Determination .....	Lowest Credit Rating
Increase in Annual Dividend Rate .....	0.5% to 4.0%

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

Under the terms of the MRP Shares, the Fund may not declare dividends or make other distributions on shares of its common stock or make purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to total leverage would be less than 225%.

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

At November 30, 2014, the Fund was in compliance with the asset coverage and basic maintenance requirements of its MRP Shares.

**13. Common Stock**

At November 30, 2014, the Fund had 195,200,000 shares of common stock authorized and 36,002,427 shares outstanding. On June 23, 2014, the Fund announced that its Board of Directors approved a program to purchase up to \$20,000 of the Fund's common stock. The repurchase program was to continue until the earlier of (i) the repurchase of \$20,000 of common stock or (ii) December 31, 2014. Under this program, the Fund authorized its agents to make purchases in the open market when shares were trading at a discount of at least 8%

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

to the Fund's net asset value ("NAV") per share and the Fund had sufficient borrowing capacity relative to its target leverage ratios. As of November 30, 2014, the Fund had repurchased 137,222 shares (\$4,322) of its common stock at an average price of \$31.49, which represented an average discount to the Fund's NAV per share of approximately 8.6%. Transactions in common shares for the fiscal year ended November 30, 2014 were as follows:

Shares outstanding at November 30, 2013 .....	35,937,733
Shares issued through reinvestment of distributions .....	201,916
Shares repurchased .....	<u>(137,222)</u>
Shares outstanding at November 30, 2014 .....	<u>36,002,427</u>

**14. Subsequent Events**

On December 16, 2014, the Fund declared its quarterly distribution of \$0.485 per common share for the fourth quarter of fiscal 2014 for a total quarterly distribution payment of \$17,461. The distribution was paid on January 16, 2015. Of this total, pursuant to the Fund's dividend reinvestment plan, \$1,756 was reinvested into the Fund through the issuance of 73,061 shares of common stock.

On December 31, 2014, the Fund's common stock repurchase program ended. On June 23, 2014, the Fund announced that its Board of Directors approved a program to purchase up to \$20,000 of the Fund's common stock. The repurchase program was to continue until the earlier of (i) the repurchase of \$20,000 of common stock or (ii) December 31, 2014. Under the program, the Fund authorized its agents to make purchases in the open market when shares were trading at a discount of at least 8% to the Fund's net asset value ("NAV") per share and the Fund had sufficient borrowing capacity relative to its target leverage ratios. During the program, the Fund repurchased 137,222 shares (\$4,322) of its common stock at an average price of \$31.49, which represented an average discount to its NAV per share of approximately 8.6%.

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

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Kayne Anderson Energy Total Return Fund, Inc.

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments in securities, 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 Total Return Fund, Inc. (the “Fund”) at November 30, 2014, the results of its operations and its cash flows for the year then ended, the changes in its net assets 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 Fund’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, 2014 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Los Angeles, California

January 28, 2015

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**GLOSSARY OF KEY TERMS**  
**(UNAUDITED)**

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

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

*“Energy Companies”* means companies that own and operate Energy Assets or provide energy-related services. To be considered an Energy Company, such company must derive at least 50% of its revenues from operating Energy Assets or providing services for the operation of such Energy Assets.

*“Energy Marine Transportation Companies”* means Marine Transportation Companies that are Energy Companies.

*“Energy Sector”* consists of (a) MLPs, (b) Energy Marine Transportation Companies, (c) Income Trusts and (d) Other Energy Companies.

*“Income Trusts”* means U.S. royalty trusts and Canadian dividend-paying corporations that formerly operated as royalty trusts or income trusts. These companies own and operate Energy Assets, with the majority of such companies’ assets focused on the upstream portion of the energy industry.

*“Marine Transportation Companies”* means companies that provide transportation and distribution services through the operation of several types of marine vessels, including (i) crude oil tankers; (ii) refined products tankers; (iii) LNG tankers; (iv) drybulk vessels; (v) other tank vessels, including tank barges and other tankers; and (vi) tugboats. Marine Transportation Companies include (i) Energy Marine Transportation Companies and (ii) companies that operate marine vessels, such as drybulk vessels and containerships, which serve other industries.

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

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

*“Midstream Companies”* means companies, that own and operate Midstream Assets that are not structured as Master Limited Partnerships and are taxed as corporations. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenue or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.

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

*“MLPs”* means Energy Companies that are structured as Master Limited Partnerships and their affiliates and includes MLP Affiliates.

*“Other Energy Companies”* means Energy Companies, excluding MLPs, Energy Marine Transportation Companies and Income Trusts.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.  
 PRIVACY POLICY NOTICE  
 (UNAUDITED)**

Rev. 01/2011

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

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

Who we are	
<b>Who is providing this notice?</b>	KYE
What we do	
<b>How does KYE 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. KYE has adopted internal policies to protect your non-public personal information.</p>
<b>How does KYE 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>KYE 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>KYE 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>KYE doesn't jointly market.</i></li> </ul>
Other important information	
<b>None.</b>	

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

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

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

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

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

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

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

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

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



**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

and a check for any fractional share less a broker commission on the sale of such fractional shares. If a request to terminate a Participant's participation in the Plan is received less than three (3) days before the payable date, dividends and distributions for that payable date will be reinvested. However, subsequent dividends and distributions will be paid to the Participant in cash.

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

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

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

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

12. Each Participant may terminate his or its account under the Plan by so notifying the Plan Administrator via the Plan Administrator's website at [www.amstock.com](http://www.amstock.com), by filling out the transaction request form located at the bottom of the Participant's Statement and sending it to American Stock Transfer and Trust Company, P.O. Box 922, Wall Street Station, New York, NY 10269-0560 or by calling the Plan Administrator at (866) 669-9899. Such termination will be effective immediately. The Plan may be terminated by the Fund upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund. Upon any termination, the Plan Administrator will cause a certificate or certificates to be issued for the full shares held for the Participant under the Plan and a cash adjustment for any fractional share to be delivered to the Participant without charge to the Participant. If a Participant elects by his or its written notice to the Plan Administrator in advance of termination to have the Plan Administrator sell part or all of his or its shares and remit the proceeds to the Participant, the Plan Administrator is authorized to deduct a \$15.00 transaction fee plus a \$0.10 per share brokerage commission from the proceeds.

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

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**DIVIDEND REINVESTMENT PLAN**  
**(UNAUDITED)**

Participant's name or under the Plan for retention or application by such successor agent as provided in these terms and conditions.

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: June 15, 2005

Amended: December 13, 2005

Amended: March 12, 2009

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

The Fund's Board of Directors on September 29, 2014 approved the continuation of the Fund's Investment Management Agreement (the "Agreement") with KA Fund Advisors, LLC (the "Adviser") for an additional one-year term through October 19, 2015.

During the course of each year and in connection with its consideration of the Agreement, the Board of Directors received various materials from the Adviser, including, but not limited to, (i) information on the advisory personnel of the Adviser; (ii) information on the internal compliance procedures of the Adviser; (iii) comparative information showing how the Fund's fees and expenses compare to other registered investment companies that follow investment strategies similar to those of the Fund; (iv) information regarding brokerage and portfolio transactions; (v) comparative information showing how the Fund's performance compares to other registered investment companies that follow investment strategies similar to those of the Fund, as well as applicable indexes; and (vi) information on any legal proceedings or regulatory audits or investigations affecting the Fund or the Adviser.

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

The Independent Directors reviewed various factors, detailed information provided by the Adviser at the meeting and at other times throughout the year, and other relevant information and factors including the following, no single factor 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 Independent Directors considered the scope and quality of services that have been provided by the Adviser under the Agreement. The Independent Directors considered the quality of the investment research capabilities of the Adviser and the other resources the Adviser has dedicated to performing services for the Fund, including the high caliber of portfolio managers and research analysts involved, the large and experienced team of investment, accounting, administrative, legal, trading and compliance professionals at the Adviser dedicated to the Fund, and the continued addition of professionals at the Adviser to broaden its research and coverage efforts. The quality of other services, including the Adviser's assistance in the coordination of the activities of some of the Fund's other service providers, the provision of certain administrative, compliance, reporting and financial services by the Adviser, the use of call options and the responsible handling of the leverage target, also was considered. The Independent Directors took note of the Adviser's excellent track record in identifying and executing on key investment themes and in sourcing and negotiating private investments in public equity ("PIPE") and other private investments for the Fund as well as the Fund's best-in-class access to investments, financing and capital markets due in part to the Adviser's credibility with institutional investors. The Independent Directors also considered the nature and quality of the services provided by the Adviser to the Fund in light of their experience as Directors of the Fund and another registered investment company managed by the Adviser, 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 Independent Directors noted the high quality of services provided by the Adviser when the market faced significant turmoil a few years ago and continued to experience various challenges as well as the Adviser's efforts to maximize returns and its leadership position in the markets in which it invests. 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 that the nature and the proposed cost of such advisory services are fair and reasonable in light of the services provided.

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

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

The Independent Directors reviewed information pertaining to the performance of the Fund. This data compared the Fund's performance to the performance of certain other registered investment companies that follow investment strategies similar to those of the Fund as well as various indexes specialized in energy-related investments. The comparative information showed that the performance of the Fund compares favorably to other similar closed-end funds and the specialized indexes whether in terms of long-term performance (approximately 4-year period), intermediate-term performance (approximately 2-year period), or short-term performance (most recently completed fiscal quarter). The Independent Directors also considered the fact that the Fund has consistently outperformed its peer closed-end funds and the specialized indexes over the last four years. Based upon their review, the Independent Directors concluded that the Fund's investment performance over time has been consistently satisfactory compared to other closed-end funds that focus on investments in midstream and energy companies and that the Fund has generated strong returns for investors. The Independent Directors noted that in addition to the information received for this meeting, the Independent Directors also receive detailed performance information for the Fund at each regular meeting of the Board of Directors during the year. The Independent Directors considered the investment performance of other registered investment companies managed by the Adviser but noted that they are of limited value because of various differences in strategy and structure between the Fund and the other registered investment companies. The Independent Directors did not consider the performance of other accounts of the Adviser as there were no accounts similar enough to be relevant for performance purposes.

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

The Independent Directors considered the Fund's management fee under the Agreement in comparison to the management fees of funds within the Fund's peer group and believed such comparisons to be acceptable to the Fund. The Independent Directors observed that the fee rate for the Fund is generally higher when compared to that of its peer funds but believe that various factors, including the Fund's favorable performance, the significant amount of resources dedicated to the Fund, and the Fund's access to PIPE transactions, justify the management fee. 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 Board of Directors considered the greater risks and burdens associated with managing the Fund and noted that the comparison to the Other Accounts had limited value given the differences in strategy between, and the substantial differences in services provided to, the Fund and such Other Accounts. The Adviser's successful handling of the past market downturn and related leverage challenges, the Fund's lower level of operating expenses (other than management fees), the Fund's participation in private investments, 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 Fund were also noted by the Independent Directors as relevant considerations in evaluating the reasonableness of the management fee. Based on those comparisons, the Independent Directors concluded that the management fee remains reasonable.

The Independent Directors also considered certain benefits the Adviser realizes due to its relationship with the Fund. In particular, they noted that the Adviser has soft dollar arrangements under which certain brokers may provide industry research to the Adviser's portfolio managers through the use of a portion of the brokerage commissions generated from the Adviser's trading activities on behalf of the Fund. The Independent Directors acknowledged that the Fund's stockholders also benefit from these soft dollar arrangements because the Adviser is able to receive this research, which is used in the management of the Fund's portfolio, by aggregating securities trades.

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

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

The Independent Directors considered economies of scale that are being enjoyed by stockholders of the Fund. In this regard, they noted the 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 Fund. The Independent Directors acknowledged the Adviser's various efforts to control and reduce operating expenses of the Fund, which in part are related to the scale of all the affiliated registered investment companies managed by the Adviser. They considered the anticipated asset levels of the Fund, the information provided by the Adviser relating to its estimated costs and profitability, and information comparing the fee rate to be 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 was reasonable in view of the information provided by the Adviser. The Independent Directors also noted that the fee structure currently does not provide for a sharing of any economies of scale that might be experienced from substantial future growth of the Fund. The Independent Directors also noted that they would monitor and review further growth of the Fund to remain comfortable with the applicable sharing of future economies of scale.

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 Fund and its stockholders received reasonable value in return for the management fees and other amounts paid to the Adviser by the Fund under the Agreement, that stockholders could expect to receive reasonable value in return for the management fees and other amounts proposed to be paid to the Adviser by the Fund under the Agreement and that the approval of the continuation of the Agreement was in the best interests of stockholders of the Fund.

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

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

<b>Name (Year Born)</b>	<b>Position(s) Held with Fund, 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>
Anne K. Costin (born 1950)	Director. 3-year term (until the 2016 Annual Meeting of Stockholders)/ served since inception	Professor at the Amsterdam Institute of Finance from 2007 to 2013. Adjunct Professor in the Finance and Economics Department of Columbia University Graduate School of Business in New York from 2004 through 2007. As of March 1, 2005, Ms. Costin retired after a 28-year career at Citigroup. During the seven years prior to her retirement, Ms. Costin was Managing Director and Global Deputy Head of the Project & Structured Trade Finance product group within Citigroup's Investment Banking Division.	Current: <ul style="list-style-type: none"> <li>• Kayne Anderson MLP Investment Company ("KYN")</li> <li>• St. Matthew's Music Guild (not-for-profit organization)</li> </ul>
Steven C. Good (born 1942)	Director. 3-year term (until the 2015 Annual Meeting of Stockholders)/ served since inception	Independent consultant since February 2010, when he retired from CohnReznick LLP, where he had been an active partner since 1976. CohnReznick LLP offers accounting, tax and business advisory services to middle market private and publicly-traded companies, their owners and their management. Founded Block, Good and Gagerman in 1976, which later evolved in stages into CohnReznick LLP.	Current: <ul style="list-style-type: none"> <li>• KYN</li> <li>• OSI Systems, Inc. (specialized electronic products)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• California Pizza Kitchen, Inc. (restaurant chain)</li> <li>• Arden Realty, Inc. (real estate investment trust)</li> </ul>
Gerald I. Isenberg (born 1940)	Director. 3-year term (until the 2017 Annual Meeting of Stockholders)/ served since inception	Professor Emeritus at the University of Southern California School of Cinema-Television since 2007. Chief Financial Officer of Teeccino Caffe Inc., a privately owned beverage manufacturer and distributor.	Current: <ul style="list-style-type: none"> <li>• KYN</li> <li>• Teeccino Caffe Inc. (beverage manufacturer and distributor)</li> <li>• Caucus for Television Producers, Writers &amp; Directors Foundation (not-for-profit organization)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• Kayne Anderson Rudnick Mutual Funds<sup>(2)</sup> from 1998 to 2002</li> </ul>
William H. Shea, Jr. (born 1954)	Director. 3-year term (until the 2016 Annual Meeting of Stockholders)/ served since 2008	Chief Executive Officer and President of Niska Gas Storage Partners LLC since May 2014. Chief Executive Officer of the general partner of PVR Partners, L.P. (PVR) from March 2010 to March 2014. Chief Executive Officer and President of the general partner of Penn Virginia GP Holdings, L.P. (PVG) from March 2010 to March 2011. Private investor from June 2007 to March 2010. From September 2000 to June 2007, President, Chief Executive Officer and Director (Chairman from May 2004 to June 2007) of Buckeye Partners L.P. (BPL). From May 2004 to June 2007, President, Chief Executive Officer and Chairman of Buckeye GP Holdings L.P. (BGH) and its predecessors.	Current: <ul style="list-style-type: none"> <li>• KYN</li> <li>• Niska Gas Storage Partners LLC (natural gas storage)</li> <li>• USA Compression Partners, LP (natural gas compression MLP)</li> </ul> Prior: <ul style="list-style-type: none"> <li>• BGH (general partner of BPL)</li> <li>• BPL (midstream MLP)</li> <li>• Gibson Energy ULC (midstream energy)</li> <li>• PVG (owned general partner of PVR)</li> <li>• PVR (midstream MLP)</li> <li>• Penn Virginia Corporation (oil and gas exploration and production company)</li> </ul>

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

**Interested Director and Non-Director Officers**

<b>Name (Year Born)</b>	<b>Position(s) Held with Fund, 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>(3)</sup> (born 1959)	Chairman of the Board of Directors, President and Chief Executive Officer. 3-year term as a director (until the 2015 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 KYN; Kayne Anderson Energy Development Company ("KED") and Kayne Anderson Midstream/Energy Fund, Inc. ("KMF") since inception. (KYN inception in 2004; KED inception in 2006 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>• KED</li> <li>• KMF</li> <li>• Emerge Energy Services LP (frac sand MLP)</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 Fuels Partners, L.P. (transmix refining and fuels distribution)</li> <li>• International Resource Partners LP (coal mining)</li> <li>• K-Sea Transportation Partners LP (shipping MLP)</li> <li>• ProPetro Services, Inc. (oilfield services)</li> </ul>
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, Portfolio Manager, Vice President, Assistant Secretary and Assistant Treasurer of KYN since 2004 and of KED since 2006. Executive Vice President of KYN and KED since June 2008, and of KMF since August 2010.	None
James C. Baker (born 1972)	Executive Vice President. Elected annually/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 from 2005 to 2008 and of KED from 2006 to 2008. Executive Vice President of KYN and KED since June 2008 and of KMF since August 2010.	Current: <ul style="list-style-type: none"> <li>KED</li> </ul> Prior: <ul style="list-style-type: none"> <li>• K-Sea Transportation Partners LP (shipping MLP)</li> <li>• Petris Technology, Inc. (data management for energy companies)</li> <li>• ProPetro Services, Inc. (oilfield services)</li> </ul>
Terry A. Hart (born 1969)	Chief Financial Officer and Treasurer. Elected annually/served since 2005	Chief Financial Officer and Treasurer of KYN since December 2005; of KED since September 2006 and of KMF since November 2010. Director of Structured Finance, Assistant Treasurer, Senior Vice President and Controller of Dynegey, Inc. from 2000 to 2005.	Current: <ul style="list-style-type: none"> <li>• The Source for Women (not-for-profit organization)</li> </ul>



**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**INFORMATION CONCERNING DIRECTORS AND CORPORATE OFFICERS**  
**(UNAUDITED)**

**Interested Director and Non-Director Officers**

<b>Name (Year Born)</b>	<b>Position(s) Held with Fund, 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>
Ron M. Logan, Jr. (born 1960)	Senior Vice President. Elected annually/served since 2012	Senior Managing Director of KACALP and KAFA since February 2014. Managing Director of KACALP and KAFA from September 2006 to February 2014. Senior Vice President of KED since September 2006. Senior Vice President of KMF since June 2012. Senior Vice President of KYN 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 MLP)
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 from 2011 to February 2014. Vice President of KACALP from 2007 to 2011. Associate of KACALP and KAFA since 2005 and 2006. Vice President of KYN, KED and KMF since 2011.	None
Michael O'Neil (born 1983)	Chief Compliance Officer. Elected annually/served since 2013	Chief Compliance Officer of KACALP and KAFA since March 2012 and of KYN, KED, 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; of KED since 2006 and of KMF since August 2010.	None

- (1) The 1940 Act requires the term “Fund Complex” to be defined to include registered investment companies advised by KAFA, the Fund’s investment adviser, and the Fund Complex includes the Fund, KYN, KED and KMF. Each Independent Director oversees two registered investment companies in the Fund Complex, the Fund and KYN, as noted above.
- (2) The investment adviser to the Kayne Anderson Rudnick Mutual Funds, Kayne Anderson Rudnick Investment Management, LLC, formerly was an affiliate of KACALP.
- (3) Mr. McCarthy is an “interested person” of the Fund as defined by the 1940 Act by virtue of his employment relationship with KAFA.

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

**KAYNE ANDERSON ENERGY TOTAL RETURN FUND, INC.**  
**ANNUAL CERTIFICATION**  
**(UNAUDITED)**

The Fund'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 Fund of the NYSE's corporate governance listing standards.

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

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

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

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

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

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

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

## **Directors and Corporate Officers**

Kevin S. McCarthy

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

Anne K. Costin

Director

Steven C. Good

Director

Gerald I. Isenberg

Director

William H. Shea, Jr.

Director

Terry A. Hart

Chief Financial Officer and Treasurer

David J. Shladovsky

Secretary

Michael O'Neil

Chief Compliance Officer

J.C. Frey

Executive Vice President,  
Assistant Secretary and Assistant Treasurer

James C. Baker

Executive Vice President

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**

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