PROSPECTUS

30,000,000 Shares

Kayne Anderson
Energy Total Return Fund

Common Stock

$25.00 per share

Investment Objective. We are a non-diversified, closed-end management investment company with no operating history. Our investment objective is to obtain a high total return with an emphasis on current income. We will seek to achieve this objective by investing primarily in securities of companies engaged in the energy industry, principally including publicly-traded energy-related master limited partnerships and limited liability companies taxed as partnerships (''MLPs''), MLP affiliates, energy-related U.S. and Canadian royalty trusts and income trusts (collectively, ''royalty trusts'') and other companies that derive at least 50% of their revenues from operating assets used in, or providing energy-related services for, the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining or marketing of natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal (collectively with MLPs, MLP affiliates and royalty trusts, ''Energy Companies'').

Investment Adviser. We will be managed by Kayne Anderson Capital Advisors, L.P. (''Kayne Anderson''), a leading investor in Energy Companies. Since 1984, Kayne Anderson has managed alternative assets with a focus on achieving absolute returns (as opposed to relative performance against a benchmark index) on a risk-adjusted basis (where estimated total returns and yields are quantified in light of associated risks) through a disciplined investment process. As of April 30, 2005, Kayne Anderson managed approximately $3.7 billion, including $2.8 billion in the securities of Energy Companies.

(continued on following page)

Investing in our common stock may be speculative and involves a high degree of risk and should not constitute a complete investment program. Before buying any shares, you should read the discussion of the material risks of investing in our common stock in ''Risk Factors'' beginning on page 13 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total (1)
Public Offering Price	$25.000	$750,000,000
Sales Load (2)	$ 1.125	$ 33,750,000
Proceeds, Before Expenses, To Us (3)	$23.875	$716,250,000

(1) The underwriters also may purchase up to an additional 3,860,144 shares at the public offering price, less sales load, within 45 days from the date of this prospectus to cover over-allotments. If all such shares are purchased, the total public offering price will be $846,503,600, the total sales load will be $38,092,662 and the total proceeds, before expenses, to us will be $808,410,938.

(2) In addition to the sales load, Kayne Anderson (and not us) has agreed to pay a structuring fee to Citigroup Global Markets Inc. and UBS Securities LLC and an after-market services fee to Merrill Lynch, Pierce, Fenner & Smith Incorporated. Such amounts (other than the sales load) will not exceed 4.5% of the total price to the public of the common stock sold in this offering. See ''Underwriting.''

(3) We estimate that we will incur approximately $1,158,000 in expenses in connection with this offering.

The underwriters expect to deliver the shares to purchasers on or about June 30, 2005.

Citigroup **Merrill Lynch & Co.** **UBS Investment Bank**

A.G. Edwards **Advest, Inc.**

Robert W. Baird & Co. **H&R Block Financial Advisors, Inc.**

Crowell, Weedon & Co. **Deutsche Bank Securities**

Ferris, Baker Watts Incorporated **Friedman Billings Ramsey**

Janney Montgomery Scott LLC **KeyBanc Capital Markets**

Legg Mason Wood Walker Incorporated **RBC Capital Markets**

Wedbush Morgan Securities Inc. **Wells Fargo Securities**

June 27, 2005

(continued from previous page)

Investment Policies. Under normal market conditions, we will invest at least 80% of the aggregate of our net assets and borrowings (our ''total assets'') in securities of Energy Companies. We will invest in equity securities such as common stocks, preferred stocks, convertible securities, warrants, depository receipts, and equity interests in MLPs, MLP affiliates, royalty trusts and other Energy Companies. Additionally, we may invest up to 30% of our total assets in debt securities of Energy Companies. We may directly invest up to 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of MLPs. We may invest up to 50% of our total assets in unregistered or otherwise restricted securities of Energy Companies. We will not invest more than 15% of our total assets in any single issuer. We will not invest directly in commodities.

Our common stock has no history of public trading. Shares of closed-end investment companies frequently trade at discounts to their net asset value. If our common stock trades at a discount to our net asset value, the risk of loss may increase for purchasers in this offering. This risk may be greater for investors who expect to sell their common stock in a relatively short period after completion of the public offering. Our common stock has been approved for listing on the New York Stock Exchange, subject to notice of official issuance, under the symbol ''KYE''.

We generally will seek to enhance our total returns through the use of financial leverage, which may include the issuance of preferred stock, commercial paper or notes and other forms of borrowing, in an aggregate amount that is not expected to exceed 33⅓% of our total assets, inclusive of such financial leverage. There is no assurance that we will utilize financial leverage or, if financial leverage is utilized, that it will be successful in enhancing the level of our total return. The net asset value of our common stock will be reduced by the fees and issuance costs of any financial leverage. We do not intend to use financial leverage until the proceeds of this offering are substantially invested in accordance with our investment objective. We anticipate that we will invest the majority of the net proceeds of the offering within three months, and may thereafter use financial leverage. See ''Use of Financial Leverage — Effects of Leverage'' on page 41, ''Risk Factors — Leverage Risk'' on page 19, and ''Description of Capital Stock'' on page 51.

Shares of our common stock do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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This prospectus sets forth concisely the information about us that a prospective investor ought to know before investing. You should read this prospectus before deciding whether to invest and retain it for future reference. A statement of additional information, dated June 27, 2005, containing additional information about us, has been filed with the Securities and Exchange Commission and is incorporated by reference in its entirety into this prospectus. You may request a free copy of our stockholder reports and our statement of additional information, the table of contents of which is on page 67 of this prospectus, by calling (877) 657-3863, by accessing our web site (*http://www.kayneetr.com*), or by writing to us. You may also obtain copies of these documents (and other information regarding us) from the SEC's web site (*http://www.sec.gov*).

Through and including July 22, 2005 (the 25th day after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common stock. You should carefully read the entire prospectus, including the documents incorporated by reference into it, particularly the section entitled ''Risk Factors'' beginning on page 13, and our statement of additional information. Except where the context suggests otherwise, the terms ''we,'' ''us,'' and ''our'' refer to Kayne Anderson Energy Total Return Fund; ''Kayne Anderson'' refers to Kayne Anderson Capital Advisors, L.P.; ''MLPs'' refers to energy-related master limited partnerships or limited liability companies which are taxed as partnerships and are treated as ''publicly traded partnerships'' under the Internal Revenue Code; ''MLP affiliates'' refers to entities that own i-units, limited liability company interests, limited partner interests, or general partner interests in an MLP, or otherwise control an MLP; ''royalty trusts'' refers to energy-related U.S. and Canadian royalty trusts and income trusts; and ''Energy Companies'' means MLPs, MLP affiliates, royalty trusts and other companies that derive at least 50% of their revenues from operating assets used in, or providing energy-related services for, the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining or marketing of natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal.

Kayne Anderson Energy Total Return Fund

We are a non-diversified, closed-end investment company registered under the Investment Company Act of 1940, as amended (the ''1940 Act''), with no operating history.

The Offering

We are offering 30,000,000 shares of common stock at $25.00 per share through a group of underwriters (the ''Underwriters'') led by Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC. The shares of common stock are called ''common stock'' in the rest of this prospectus. You must purchase at least 100 shares of common stock ($2,500) in order to participate in this offering. We have given the Underwriters an option to purchase up to 3,860,144 additional shares of common stock to cover over-allotments. See ''Underwriting'' on page 62.

Investment Adviser

We will be managed by Kayne Anderson Capital Advisors, L.P. Kayne Anderson is a leading investor in Energy Companies. Since 1984, Kayne Anderson has managed alternative assets with a focus on achieving absolute returns (as opposed to relative performance against a benchmark index) on a risk-adjusted basis through a disciplined investment process (where estimated total returns and yields are quantified in light of associated risks). Its investment strategies seek to identify and exploit investment niches that it believes are less understood and generally not followed by the broader investor community. As of April 30, 2005, Kayne Anderson managed approximately $3.7 billion, including $2.8 billion in the securities of Energy Companies. We believe that Kayne Anderson's market knowledge and industry relationships will enable it to identify and capitalize on investment opportunities in Energy Companies. We have agreed to pay Kayne Anderson, as compensation for the services rendered by it, a management fee equal on an annual basis to 1.25% of our average monthly total assets. During the first year of our investment activities (from June 30, 2005 until June 29, 2006), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.25% of our average monthly total assets. During our second year of investment activities (from June 30, 2006 until June 29, 2007), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.125% of our average monthly total assets. See ''Kayne Anderson Energy Total Return Fund — Investment Philosophy'' on page 31 and ''Management — Investment Adviser'' on page 45.

Investment Objective

Our investment objective is to obtain a high total return with an emphasis on current income. We will seek to achieve this objective by investing primarily in securities of companies engaged in the energy industry, including MLPs, MLP affiliates, royalty trusts and other Energy Companies. No assurance can be given that our investment objective will be achieved. See ''Kayne Anderson Energy Total Return Fund — Investment Objective'' on page 29.

Investment Policies

Under normal market conditions:

- We will invest at least 80% of our total assets in securities of Energy Companies. We will provide stockholders with sixty (60) days' notice prior to effecting any change to this policy.
- We will invest in equity securities such as common stocks, preferred stocks, convertible securities, warrants, depository receipts, and equity interests in MLPs, MLP affiliates, royalty trusts and other Energy Companies.
- We may directly invest up to 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of MLPs. This limit does not apply to securities issued by MLP affiliates, such as I-shares or general partner interests or other entities that may own interests of MLPs.
- We may invest up to 50% of our total assets in unregistered or otherwise restricted securities of Energy Companies. For purposes of this limitation, ''restricted securities'' include (i) registered securities of public companies subject to a lock-up period greater than 30 days, (ii) unregistered securities of public companies with registration rights, or (iii) unregistered securities of public companies that become freely tradable with the passage of time. However, no more than 25% of our total assets may be invested in (a) subordinated units or (b) securities of public companies which, in the reasonable judgment of Kayne Anderson, are not likely to become or convert into securities freely tradable by us within two years of purchase. Further, no more than 10% of our total assets may be invested in private equity securities of privately held companies. Based on current market and regulatory considerations, we anticipate that our investments in restricted securities will generally represent approximately 10% to 20% of our total assets.
- We may invest up to 30% of our total assets in debt securities of Energy Companies, including up to 20% of our total assets in below-investment-grade debt securities of publicly traded Energy Companies which are rated, at the time of investment, at least (i) B3 by Moody's Investors Service, Inc., (ii) B- by Standard & Poor's or Fitch Ratings, or (iii) a comparable rating by another rating agency. Up to one-sixth of our permitted investments in debt securities (or up to 5% of our total assets) may include unrated debt securities of Energy Companies.
- We will not invest more than 15% of our total assets in any single issuer.
- We will not invest directly in commodities.

Unless specifically noted otherwise, the percentage limitations applicable to our portfolio described in this prospectus apply only at the time of investment, and we will not be required to sell securities due to subsequent changes in the value of securities we own. We will invest primarily in companies located in North America, but may invest in companies located anywhere in the world. We will invest in companies of any market capitalization.

Our investments in unregistered equity securities and unregistered securities convertible into or exercisable for equity securities, of companies (whether publicly traded or privately held) principally engaged in the oil and gas exploration and production business, will be limited to those that (i) are issued under Rule 144A of the Securities Act of 1933, as amended, or (ii) represent less than 5% of the value of an investment we make primarily in debt securities (*e.g.*, a warrant issued in connection with a debt security).

We generally will seek to enhance our total returns through the use of financial leverage, which may include the issuance of shares of preferred stock, commercial paper or notes and other borrowings (each a ''Leverage Instrument'' and collectively, the ''Leverage Instruments'') in an aggregate amount of up to 33⅓% of our total assets, which includes assets obtained through such financial leverage. We may not be leveraged at all times and the amount of leverage, if any, may vary depending on a variety of factors, including the costs that we would incur as a result of leverage, market conditions and available investment opportunities. Leverage creates a greater risk of loss, as well as potential for more gain, for our common stock than if leverage is not used. Leverage Instruments will have seniority over our common stock. If we use Leverage Instruments, associated costs will be borne immediately by common stockholders and result in a reduction of the net asset value of our common stock. We do not intend to use Leverage Instruments until the proceeds of this offering are substantially invested in accordance with our investment objective. See ''Use of Financial Leverage'' on page 40. Because Kayne Anderson's management fee is based upon a percentage of our total assets, Kayne Anderson's fee will be higher if we employ leverage. Therefore, Kayne Anderson will have a financial incentive to use leverage, which may create a conflict of interest between Kayne Anderson and our common stockholders. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is used. The use of leverage involves significant risks. See ''Risk Factors — Leverage Risk'' on page 19.

We may use derivative investments to hedge against interest rate and market risks. We may engage in various interest rate and currency hedging transactions, including buying or selling options or entering into other transactions including forward contracts, swaps and other derivatives transactions. In particular, to the extent that we use leverage, we expect to utilize hedging techniques such as swaps and caps on a portion of our leverage to mitigate potential interest rate risk. We may also engage in certain transactions intended to hedge our exposure to currency risks due to Canadian dollar denominated investments in royalty trusts.

We may use short sales, arbitrage and other strategies to try to generate additional return. As part of such strategies, we may engage in paired long-short trades to arbitrage pricing disparities in securities issued by Energy Companies; write (or sell) covered call options on the securities of Energy Companies or other securities held in our portfolio; purchase call options or enter into swap contracts to increase our exposure to Energy Companies; or sell securities short. We expect to use these strategies on a limited basis. Paired trading consists of taking a long position in one security and concurrently taking a short position in another security within the same or an affiliated issuer. With a long position, we purchase a stock outright; whereas with a short position, we would sell a security that we do not own and must borrow to meet our settlement obligations. We will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when we replace the borrowed security. Our use of ''naked'' short sales of equity securities (*i.e.*, where we have no opposing long position in the securities of the same or an affiliated issuer) will be limited, so that, (i) measured on a daily basis, the market value of all such short sale positions does not exceed 15% of our total assets, and (ii) at the time of entering into any such short sales, the market value of all such short sale positions immediately following such transaction shall not exceed 10% of our total assets. On a daily basis, we do not intend to have a net short sale position in any individual sector (*e.g.*, the MLP sector or the royalty trust sector) that exceeds 2% of total assets. See ''Risk Factors — Short Sales Risk'' on page 23.

We intend to be treated as a regulated investment company (''RIC'') for tax purposes. Under the current tax diversification rules applicable to RICs, we may directly invest up to 25% of our total assets in equity or debt securities of MLPs treated as publicly traded partnerships. To the extent permissible by such rules, we may indirectly invest a higher amount of our assets in equity or debt securities of MLPs. In addition, in the future we may form a taxable subsidiary to make and hold investments in accordance with our investment objective. For purposes of determining our compliance with the percentage limits in the investment policies discussed above in this section, we will include the underlying portfolio securities in our investments in such a subsidiary. However, our investment in such a subsidiary would not be subject to our policy limiting our investments in any single issuer to 15% of our total assets. See ''Kayne Anderson Energy Total Return Fund — Investment Practices — Corporate Subsidiary'' on page 39. For a more complete discussion of our portfolio composition, see ''Kayne Anderson Energy Total Return Fund — Portfolio Composition'' on page 32.

Investment Philosophy

Kayne Anderson manages approximately $3.7 billion in investments through a publicly traded MLP fund and a number of private partnerships and separate accounts using multiple strategies, including structured investments, absolute rate-of-return investing, and private equity investments. Since 1984, Kayne Anderson has managed investment assets with a focus on achieving absolute returns (as opposed to relative performance against a benchmark index) on a risk-adjusted basis (where estimated total returns and yields are quantified in light of associated risks) through a disciplined investment process. It achieves this objective through a disciplined investment process that identifies niche opportunities providing a significant current income component and the potential for capital appreciation. Kayne Anderson's securities selection process includes a comparison of quantitative, qualitative, and relative value factors that are developed through its proprietary analysis and valuation models. To determine whether an investment meets its criteria, Kayne Anderson generally will look for, among other things, sound business fundamentals, a strong record of cash flow growth, a solid business strategy and a respected management team.

A portion of the publicly traded securities in our portfolio is expected to be comprised of a set of longer-term core holdings reflecting Kayne Anderson's views of issuer fundamentals based on the application of the selection process described above. The balance of the portfolio's publicly traded securities may consist of shorter-term investments reflecting Kayne Anderson's views of the anticipated impact of near-term catalysts such as pending equity issuances, pending acquisitions, rating agency actions, research analyst commentary and other issuer-specific developments.

Kayne Anderson has completed numerous transactions with both public and private companies in various forms, including secured debt, convertible preferred and direct equity investments. Its private equity strategy is to assist management owners of growth companies realize their full potential by providing flexible financing to help execute their expansion plans. Kayne Anderson intends to pursue opportunities to make negotiated direct investments in issuers where its analysis indicates a need for additional capital. It will also seek opportunities to purchase outstanding securities on favorable terms from holders who have a desire, but a limited ability, to monetize their holdings. Kayne Anderson will identify potential private investments through its dialogue with management teams, members of the financial community and energy industry participants. These investments generally include restricted public securities (such as public securities subject to a lock-up period), private securities of public companies with registration rights, private securities of public companies with no conversion or registration rights, and private securities of privately held companies.

We believe that Kayne Anderson is particularly qualified and positioned both to identify appropriate publicly traded market investment opportunities and to source and structure private investments in Energy Companies due to the following:

- *Market Knowledge and Industry Relationships.* Through its activities as an experienced investor in Energy Companies, Kayne Anderson has developed both expertise and important relationships with industry managers. We believe that this combination of knowledge and relationships will enable us to recognize and capitalize on long-term trends in the industry and to identify differences in value among individual companies.

- *Extensive Transaction Structuring Expertise and Capability.* Kayne Anderson has extensive experience identifying and structuring investments in Energy Companies. This experience, combined with Kayne Anderson's ability to engage in regular dialogue with industry participants and other large holders of Energy Company securities to better understand the capital needs of prospective portfolio companies, give it an advantage in structuring transactions mutually attractive to us and the portfolio company. Further, our ability to fund a meaningful amount of the capital needs of prospective portfolio companies provides us an advantage over other potential investors with less capital to employ in the sector.

- *Technical Expertise.* Kayne Anderson's investment team includes individuals with extensive technical, industry and reserve engineering experience. The technical team further distinguishes Kayne Anderson from other investors by enabling it to assess the underlying asset quality and business fundamentals of its investments. We believe this technical expertise enables Kayne Anderson to select investments that offer superior potential for income and capital appreciation.

Use of Proceeds

The net proceeds of this offering will be approximately $715,092,000 ($807,252,938 if the underwriters exercise the over-allotment option in full) after payment of the offering costs of $1,158,000 and the deduction of the underwriting discount. We currently anticipate that we will be able to invest primarily in equity securities that meet our investment objective and policies within three months after the completion of this offering, and we may thereafter use financial leverage.

Dividends

Commencing with our initial dividend, we intend to make regular quarterly cash distributions to our common stockholders. Such dividends will be authorized by our Board of Directors and declared by us out of funds legally available therefor. We expect to declare our initial quarterly dividend within approximately 45 days after, and to pay such dividend approximately 90 to 120 days after, completion of this offering. There is no assurance we will continue to pay regular dividends or that we will do so at a particular rate.

We expect that only a portion of the cash payments we receive from our investments will constitute investment company taxable income. The balance will be return of capital from such investments. We cannot predict with respect to a given quarter how much of our investment company taxable income will be included in the distribution we make for that quarter. However, we intend to pay to common stockholders on an annual basis at least 90% of our investment company taxable income. Quarterly distributions may also include cash received as return of capital from our portfolio investments or return of our investors' capital.

Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require us to provide a written statement accompanying payment from any source other than our income that adequately discloses the source or sources of such payment. Thus, if our capital were the source of a distribution, and the payment amounted to a return of capital, we would be required to provide written notice to that effect. Nevertheless, stockholders who periodically receive distributions from us may be under the impression that such payments are made from our income, when, in fact, they are not. Accordingly, stockholders should carefully read any written disclosure accompanying a distribution and should not assume that the source of payment is our income.

Various factors will affect the levels of cash we receive from our investments, as well as the amounts of income and return of capital represented by such cash. To permit us to maintain a more stable quarterly distribution, we may distribute less or more than the entire amount of cash we receive from our investments in a particular period. Any undistributed cash would be available to supplement future distributions, and until distributed would add to our net asset value. Correspondingly, once distributed, such amounts will be deducted from our net asset value. See ''Dividends'' on page 28.

Dividend Reinvestment Plan

We have a dividend reinvestment plan for our common stockholders. This is an ''opt out'' dividend reinvestment plan. As a result, if we declare a dividend, then our common stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically elect to receive cash dividends. Common stockholders who receive dividends in the form of stock will be subject to the same federal, state and local tax consequences as common stockholders who elect to receive their dividends in cash. See ''Dividend Reinvestment Plan'' on page 50.

Risk Considerations

An investment in our common stock involves substantial risks, including the risks summarized below.

Interest Rate Risk. Rising interest rates could cause the yield of our common stock to be less attractive to investors. Moreover, the prices of equity and debt securities of Energy Companies we expect to hold in our portfolio are susceptible in the short-term to decline when interest rates rise. Accordingly, the market price of our common stock may decline when interest rates rise. Rising interest rates could adversely impact the financial performance of Energy Companies by increasing their costs of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner. In addition, the costs associated with our anticipated use of leverage are likely to increase when interest rates rise.

Supply and Demand Risk. A decrease in the production of natural gas, natural gas liquids, crude oil, coal or other energy commodities, a decrease in the volume of such commodities available for transportation, mining, processing, storage or distribution, or a sustained decline in demand for such commodities, may adversely impact the financial performance of Energy Companies.

Depletion and Exploration Risk. To maintain or grow their revenues, Energy Companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions, or through long-term contracts to acquire reserves. The financial performance of Energy Companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline.

Acquisition Risk. The ability of Energy Companies to grow and, where applicable, to increase distributions to their equity holders can be highly dependent on their ability to make acquisitions that result in an increase in adjusted operating surplus. In the event that such companies are unable to make such accretive acquisitions because they are unable to identify attractive acquisition candidates, negotiate acceptable purchase contracts, raise financing for such acquisitions on economically acceptable terms, or are outbid by competitors, their future growth and ability to raise distributions will be limited and their ability to repay their debt holders may be weakened.

Industry Concentration Risk. Our energy industry concentration may present more risks than if we were broadly diversified over numerous industries and sectors of the economy. Therefore, a downturn in the energy industry would have a larger impact on us than on an investment company that does not concentrate in such industry. Investing in various types of Energy Companies involves certain special risks, which are discussed in more detail in this prospectus. See ''Risk Factors — Energy Company Risk'' on page 13, ''— MLP Risks'' on page 14, ''— Royalty Trust Risks'' on page 14, and ''— Marine Transportation Companies Risks'' on page 15.

Commodity Pricing Risk. The return on our investments in Energy Companies will be dependent on the prices received by those companies or other Energy Companies for the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal. These prices may fluctuate widely in response to a variety of factors. Volatility of commodity prices may also make it more difficult for Energy Companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices.

No Operating History. We have no operating history and we are subject to all of the business risks and uncertainties associated with any new business. An investment in our common stock is subject to investment risk, including the possible loss of the entire amount that you invest.

Investment and Market Risk. Your investment in our common stock represents an indirect investment in the securities owned by us, some of which will be publicly traded securities, which, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which we invest will affect the value of our common stock. Your investment in our common stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of our dividends.

Cash Flow Risk. A substantial portion of the cash flow received by us will be derived from our investment in equity securities of Energy Companies. The amount of cash that an Energy Company has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the Energy Company's operations. Cash available for distribution will vary from quarter to quarter and is largely dependent on factors affecting the Energy Company's operations and factors affecting the energy industry in general.

Delay in Use of Proceeds. Although we intend to invest the proceeds of this offering in accordance with our investment objective as soon as practicable, such investments, particularly those in privately placed securities, may be delayed if suitable investments are unavailable at the time or if we are unable to secure firm commitments for direct placements.

Equity Securities Risk. The equity securities in which we invest may be subject to general movements in the stock market. Equity securities prices fluctuate for several reasons, including changes in the financial condition of a particular issuer, investors' perceptions of the issuers' industry, the general condition of the relevant stock market, changes in interest rates, or when political or economic events affecting the issuers occur.

Small-Cap and Mid-Cap Company Risk. We may invest in Energy Companies with small or medium-sized market capitalizations, which may have limited product lines and markets, as well as shorter operating histories, less experienced management and more limited financial resources than larger Energy Companies and may be more vulnerable to adverse general market or economic developments. Stocks of these Energy Companies may be less liquid and may experience greater price fluctuations than those of larger Energy Companies.

Market Discount Risk. Shares of closed-end investment companies frequently trade at discounts to their net asset value. The possibility that our common stock may trade at a discount to our net asset value is separate and distinct from the risk that our common stock's net asset value may decline.

Leverage Risk. We anticipate that we will invest the majority of the net proceeds of this offering in Energy Company securities within three months, and may thereafter use financial leverage. Although our use of leverage may create an opportunity for increased returns for our common stock, it also results in additional risks and can magnify the effect of any losses.

Liquidity Risk. Certain of the publicly-traded securities in our portfolio may trade less frequently than other securities. Securities with limited trading volumes may display volatile or erratic price movements, and it may be more difficult for us to buy and sell significant amounts of such securities without an unfavorable impact on prevailing market prices. Also, restricted securities in our portfolio may be more difficult to value and we may have difficulty disposing of such assets either in a timely manner or for a reasonable price.

Interest Rate Hedging Risk. To the extent there is a decline in interest rates, the value of interest rate swaps or caps that we enter into to hedge against interest rate risk could decline, and result in a decline in the net asset value of our common stock.

Non-Diversification Risk. Despite being a non-diversified, closed-end investment company, in order to qualify as a RIC for federal income tax purposes we must diversify our holdings so that, at the end of each quarter of each taxable year, we meet certain diversification requirements. To the extent we invest a relatively high percentage of our assets in the obligations of a limited number of issuers, we may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence.

Valuation Risk. As market prices may not be readily available for certain of our investments, the value of such investments will ordinarily be determined based on fair valuations determined by the Board of Directors or its designee pursuant to procedures adopted by the Board of Directors. Due to the difficulty in valuing these securities and the absence of an active trading market for these investments, we may not be able to realize these securities' true value or may have to delay their sale in order to do so.

Derivatives Risk. The use of derivatives, such as buying or selling options, writing covered calls, or entering into swaps, may result in losses greater than if they had not been used, may require us to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation we can realize on an investment or may cause us to hold a security that we might otherwise sell. Additionally, amounts paid by us as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to us for investment purposes.

Short Sales Risk. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. Our obligation to replace the borrowed security will be secured by collateral deposited with the broker-dealer, and we may not receive any payments (including interest) on our collateral deposited with such broker-dealer.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of our common stock and dividends can decline.

Terrorism/Market Disruption Risk. Any future terrorist attacks or threats of attacks may have an adverse effect on the economy and the securities markets, and may impact Energy Company operations in unpredictable ways. In addition, changes in the insurance markets have made certain types of insurance more difficult, if not impossible, to obtain and have generally resulted in increased premium costs.

Debt Securities Risks. Debt securities are subject to many of the risks described in this section. In addition, they are subject to credit risk, prepayment risk and, depending on their quality, other special risks.

Management Risk. We are dependent upon Kayne Anderson's key personnel for our future success and upon their access to certain individuals and investments in the midstream energy industry.

Conflicts of Interest. Conflicts of interest may arise because Kayne Anderson and its affiliates generally will be carrying on substantial investment activities for other clients, in which we will have no interest. Notwithstanding these potential conflicts of interest, our Directors and officers have a fiduciary obligation to act in our best interest.

Anti-Takeover Provisions. Our Charter, Bylaws and the Maryland General Corporation Law include provisions that could limit the ability of other entities or persons to acquire control of us, to convert us to open-end status, or to change the composition of our Board of Directors. These provisions could have the effect of discouraging, delaying, deferring or preventing a transaction or a change in control that might otherwise be in the best interests of our stockholders.

Portfolio Turnover Risk. We anticipate that our annual portfolio turnover rate will be approximately 25%, but that rate may vary greatly from year to year. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us.

Non-U.S. Securities Risks. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: fluctuations in currency exchange rates; future foreign economic, financial, political and social developments; different legal systems; the possible imposition of exchange controls or other foreign governmental laws or restrictions; lower trading volume; greater price volatility and illiquidity; different trading and settlement practices; less governmental supervision; high and volatile rates of inflation; fluctuating interest rates; less publicly available information; and different accounting, auditing and financial recordkeeping standards and requirements.

Failure to Qualify as a Regulated Investment Company. If, in any year, we fail to qualify as a RIC under the applicable tax laws, we would be taxed as an ordinary corporation. In such circumstances, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC that is accorded special tax treatment. In such case, distributions to our common stockholders generally would be eligible (i) for treatment as qualified dividend income in the case of individual stockholders (for taxable years beginning on or before December 31, 2008), and (ii) for the dividends-received deduction in the case of corporate stockholders.

Additional Tax Risks. An investment in our common stock will involve certain additional tax risks, including, but not limited to, the following: the risk that MLPs in which we invest will be classified as corporations rather than as partnerships for federal income tax purposes, which may reduce our return and negatively affect the net asset value of our common stock; the risk associated with our monitoring of the individual underlying items of income that we receive from U.S. royalty trusts that are taxed as grantor trusts and determining how to characterize such income for purposes of meeting the income distribution requirements applicable to RICs; the risk of changes in tax laws or regulations, or interpretations thereof, which could adversely affect us or the MLPs and royalty trusts in which we invest. Tax matters are very complicated, and the federal, state, local and foreign tax consequences of an investment in and holding of our common stock will depend on the facts of each investor's situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect such investors.

See ''Risk Factors'' beginning on page 13 and the other information included in this prospectus for information on these and other risks, all of which you should carefully consider before deciding whether to invest in our common stock.

Listing

Our common stock is approved for listing on the New York Stock Exchange, subject to notice of official issuance, under the symbol ''KYE.''

Other Service Providers

The Custodial Trust Company will act as custodian of our securities and other assets. See ''Custodian'' on page 66. American Stock Transfer & Trust Company will act as our transfer agent and dividend paying agent. See ''Transfer Agent and Dividend-Paying Agent'' on page 66. Bear Stearns Funds Management Inc. will provide us with certain administrative services. See ''Administrator'' on page 66. Ultimus Fund Solutions, LLC will act as our fund accountant. See ''Fund Accountant'' on page 66.

Market Price of Our Common Stock

The shares of common stock of closed-end investment companies frequently trade at prices lower than their net asset value. We cannot assure you that our common stock will trade at a price higher than or equal to our net asset value. Also, our net asset value will be reduced immediately following this offering by the underwriting discount and our organizational expenses and offering costs. In addition to net asset value, the market price of our common stock may be affected by such factors as dividend levels, which are in turn affected by expenses, dividend stability, liquidity and market supply and demand. See ''Risk Factors,'' ''Description of Capital Stock'' and ''Our Structure; Common Stock Repurchases and Change In Our Structure.'' Our common stock is designed primarily for long-term investors and you should not purchase our common stock if you intend to sell it shortly after purchase.

FEES AND EXPENSES

The following table assumes the use of Leverage Instruments in an amount equal to 33⅓% of our total assets (after their issuance) and shows our expenses as a percentage of net assets attributable to our common stock.

Stockholder Transaction Expenses:	
Sales Load Paid by You (as a percentage of offering price)(1)	4.50%
Offering Expenses Borne by Us (as a percentage of offering price)	0.15%
Dividend Reinvestment Plan Fees(2)	None

	Percentage of Net Assets Attributable to Common Stock (Assumes Leverage Instruments are Used)(4)
Annual Expenses:	
Management Fees	1.87%
Leverage Costs(3)	2.50%
Other Expenses(5)	0.27%
Total Annual Expenses	4.64%
Less Fee and Expense Reimbursement (Year 1)(6)	(0.38)%
Net Annual Expenses	4.26%

(1) Kayne Anderson has agreed to pay structuring or after-market service fees to Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and UBS Securities LLC. See ''Underwriting.''

(2) You will pay brokerage charges if you direct American Stock Transfer & Trust Company, as agent for our common stockholders (the ''Plan Agent''), to sell your common stock held in a dividend reinvestment account.

(3) If we use Leverage Instruments, the offering expenses to be borne by us in connection with the issuance of leverage, estimated to be 1.0% of the total dollar amount of the leverage, and the ongoing costs associated with such leverage (such as interest expenses or dividend payments), estimated to be 4.0% of such leverage, will be borne by our common stockholders and result in a reduction of the net asset value of our common stock. Leverage Costs in the table, expressed as a percentage of our net assets, reflect such estimated offering expenses and ongoing annual leverage costs.

(4) The table presented below in this footnote estimates what our annual expenses would be stated as percentages of our net assets attributable to common stock. This table assumes we issue the same number of shares of common stock, but unlike the table above, assumes that no Leverage Instruments are used by us. This will be the case, for instance, in the period prior to our expected use of Leverage Instruments. In accordance with these assumptions, our expenses would be estimated to be as follows:

	Percentage of Net Assets Attributable to Common Stock (Assumes No Leverage Instruments are Used)
Annual Expenses:	
Management Fees(6)	1.25%
Other Expenses(5)	0.26%
Total Annual Expenses	1.51%
Less Fee and Expense Reimbursement (Year 1)(6)	(0.25)%
Net Annual Expenses	1.26%

(5) The costs of this offering are not included in the expenses shown in this table.

(6) During the first year of our investment activities (from June 30, 2005 until June 29, 2006), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.25% of our average monthly total assets. During our second year of investment activities (from June 30, 2006 until June 29, 2007), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.125% of our average monthly total assets. Management fees and waivers are expressed as a percentage of net assets in

the table. Because holders of any Leverage Instruments do not bear management fees and other expenses, the cost to stockholders increases as leverage increases.

The purpose of the table above and the example below is to help you understand all fees and expenses that you would bear directly or indirectly as a holder of our common stock. The expenses shown in the table under ''Other Expenses'' and ''Total Annual Expenses'' are based on estimated amounts for our first full year of operations and assume that we issue $750,000,000 in common stock. See ''Management'' on page 43 and ''Dividend Reinvestment Plan'' on page 50.

The following example illustrates the expenses (including the underwriting discount of 4.50% or $1.125 per share of common stock, estimated offering expenses of this offering of $1,158,000, or $0.039 per share of common stock, and the estimated offering costs of issuing Leverage Instruments assuming we issue Leverage Instruments representing 33 1/3% of our total assets (after their issuance) of approximately $0.125 per share of common stock) that you would pay on a $1,000 investment in our common stock, assuming total annual expenses of 4.26% in year 1, 3.94% in year 2, and 4.13% in the years thereafter, of net assets attributable to our common stock and a 5% annual return, as required by Securities and Exchange Commission (''SEC'') regulations:

1 Year	3 Years	5 Years	10 Years
$89	$171	$255	$472

THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES. The example assumes that the estimated ''Other Expenses'' set forth in the Annual Expenses table are accurate and that all dividends and distributions are reinvested at net asset value. ACTUAL EXPENSES MAY BE GREATER OR LESS THAN THOSE SHOWN. Moreover, our actual rate of return may be greater or less than the hypothetical 5% return shown in the example. In the event that we do not use any leverage, an investor would pay the following expenses based on the assumptions in the example: 1 Year, $59; 3 Years, $89; 5 Years, $123; and 10 Years, $219.

The example assumes the waiver or reimbursement of fees and expenses of 0.25% on an annual basis of our average monthly total assets in year one, and 0.125% on an annual basis of our average monthly total assets in year two. Kayne Anderson has not agreed to reimburse us for any year beyond the second year.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under ''Risk Factors'' in this prospectus and our statement of additional information. In this prospectus, we use words such as ''anticipates,'' ''believes,'' ''expects,'' ''intends'' and similar expressions to identify forward-looking statements.

The forward-looking statements contained in this prospectus include statements as to:

- our operating results;
- our business prospects;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- our ability to source favorable private investments;
- the ability of the Energy Companies in which we invest to achieve their objectives;
- our expected financings and investments;
- our use of financial leverage;
- our tax status and the tax status of the Energy Companies in which we intend to invest;
- the adequacy of our cash resources and working capital; and
- the timing and amount of distributions and dividends from the Energy Companies in which we intend to invest.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including our annual reports. We acknowledge that, notwithstanding the foregoing statement, the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 does not apply to investment companies such as us and statements made in connection with initial public offerings such as this.

RISK FACTORS

General

Risk is inherent in all investing. The following discussion summarizes some of the risks that a potential investor should consider before deciding to purchase our common stock. For additional information about the risks associated with investing in our common stock, see ''Investment Objective and Policies'' and ''Investment Policies and Techniques'' in our statement of additional information.

Energy Company Risk

We will invest primarily in Energy Companies, which are subject to certain special risks, including the following:

Interest Rate Risk. Rising interest rates could cause the yield of our common stock to be less attractive to investors. Moreover, the prices of equity and debt securities of Energy Companies we expect to hold in our portfolio are susceptible in the short-term to decline when interest rates rise. Accordingly, the market price of our common stock may decline when interest rates rise. Rising interest rates could adversely impact the financial performance of Energy Companies by increasing their costs of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner. In addition, the costs associated with our anticipated use of leverage are likely to increase when interest rates rise.

Supply and Demand Risk. A decrease in the production of natural gas, natural gas liquids, crude oil, coal or other energy commodities, a decrease in the volume of such commodities available for transportation, mining, processing, storage or distribution, or a sustained decline in demand for such commodities, may adversely impact the financial performance of Energy Companies. Energy Companies are subject to supply and demand fluctuations in the markets they serve which will be impacted by a wide range of factors, including fluctuating commodity prices, weather, increased conservation or use of alternative fuel sources, increased governmental or environmental regulation, depletion, rising interest rates, declines in domestic or foreign production, accidents or catastrophic events, and economic conditions, among others.

Depletion and Exploration Risk. Energy reserves naturally deplete as they are produced over time. Many Energy Companies are either engaged in the production of natural gas, natural gas liquids, crude oil, refined petroleum products or coal, or are engaged in transporting, storing, distributing and processing these items on behalf of shippers. To maintain or grow their revenues, these companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions, or through long-term contracts to acquire reserves. The financial performance of Energy Companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline. If an Energy Company fails to add reserves by acquiring or developing them, its reserves and production will decline over time as they are produced. If an Energy Company is not able to raise capital on favorable terms, it may not be able to add to or maintain its reserves. This is especially true for royalty trusts which pay out a significant portion of their cash flow and require reinvestment to replace reserves.

Acquisition Risk. The ability of Energy Companies to grow and, where applicable, to increase distributions to their equity holders can be highly dependent on their ability to make acquisitions that result in an increase in adjusted operating surplus. In the event that such companies are unable to make such accretive acquisitions because they are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts, because they are unable to raise financing for such acquisitions on economically acceptable terms, or because they are outbid by competitors, their future growth and ability to raise distributions will be limited and their ability to repay their debt holders may be weakened. Furthermore, even if these companies do consummate acquisitions that they believe will be accretive, the acquisitions may instead result in a decrease in adjusted operating surplus.

Regulatory Risk. Energy Companies are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including how facilities are constructed, maintained and operated, environmental and safety controls, and the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect the financial performance of Energy Companies.

Industry Concentration Risk. Our investments will be concentrated in the energy industry. The focus of our portfolio on a specific industry may present more risks than if our portfolio were broadly diversified over numerous industries and sectors of the economy. A downturn in the energy industry would have a larger impact on us than on an investment company that does not concentrate in such industry. At times, the performance of securities of companies in the energy industry will lag the performance of other industries or the broader market as a whole.

Commodity Pricing Risk. The return on our investments in Energy Companies will be dependent on the prices received by those companies or other Energy Companies for the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal. These prices may fluctuate widely in response to a variety of factors including global and domestic economic conditions, weather conditions, the supply and price of imported energy commodities, the production and storage levels of energy commodities in certain regions or in the world, political stability, transportation facilities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Volatility of commodity prices may also make it more difficult for Energy Companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices.

Affiliated Party Risk. Certain Energy Companies are dependent on their parents or sponsors for a majority of their revenues. Any failure by an Energy Company's parents or sponsors to satisfy its payments or obligations would impact the Energy Company's revenues and cash flows and ability to make distributions.

Catastrophe Risk. The operations of Energy Companies are subject to many hazards inherent in the transporting, processing, storing, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, coal, refined petroleum products or other hydrocarbons, or in the exploring, managing or producing of such commodities, including: damage to pipelines, storage tanks or related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters or by acts of terrorism; inadvertent damage from construction and farm equipment; leaks of natural gas, natural gas liquids, crude oil, refined petroleum products or other hydrocarbons; and fires and explosions. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in the curtailment or suspension of their related operations. Not all Energy Companies are fully insured against all risks inherent to their businesses. If a significant accident or event occurs that is not fully insured, it could adversely affect the Energy Company's operations and financial condition.

MLP Risks

MLPs are exposed to many of the same risks as other Energy Companies, as summarized above. In addition, an investment in MLP units involves some risks which differ from an investment in the common stock of a corporation. Holders of MLP units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units (see ''Tax Risks — MLP Tax Risks'') and conflicts of interest exist between common unit holders and the general partner. For example, conflicts of interest may arise from incentive distribution payments paid to the general partner, or referral of business opportunities by the general partner or one of its affiliates to an entity other than the MLP.

Royalty Trust Risks

Royalty trusts are exposed to many of the same risks as other Energy Companies, as summarized above. In addition, the value of the equity securities of the royalty trusts in which we invest may fluctuate in accordance with changes in the financial condition of those royalty trusts, the condition of equity markets generally, commodity prices, and other factors. Distributions on royalty trusts in which we may invest will depend upon the declaration of distributions from the constituent royalty trusts, but there can be no assurance that those royalty trusts will pay distributions on their securities. The declaration of such distributions generally depends upon various factors, including the operating performance and financial condition of the royalty trust and general economic conditions.

In many circumstances, the royalty trusts in which we may invest may have limited operating histories. The value of royalty trust securities in which we invest will be influenced by factors that are not within our control, including the financial performance of the respective issuers, interest rates, exchange rates, and commodity prices (that will vary and are determined by supply and demand factors including weather and general economic and political conditions), the hedging policies employed by such issuers, issues relating to the regulation of the energy industry and operational risks relating to the energy industry.

Canadian limited liability protection laws with regard to Canadian royalty trusts are generally determined by the domicile of the royalty trust. Certain Canadian provinces have passed legislation limiting the liability of investors in Canadian royalty trusts while other provinces have not passed this legislation. This legislation should better assure the limited liability of investors, however, the legislation does not address potential liabilities arising prior to the date of the implementation of this legislation. In addition, this legislation has not yet been judicially considered and it is possible that reliance on this legislation by an investor could be successfully challenged on jurisdictional or other grounds. It is also unclear whether investors investing in royalty trusts domiciled in Canadian provinces that have not passed this legislation may be held liable for any default, liability or obligation of the royalty trust over and above the net underlying assets of the royalty trust. While the likelihood of an investor in a royalty trust domiciled in any Canadian province being held liable beyond their original investment is remote, there can be no assurance that we will have limited liability with respect to our investments in Canadian royalty trusts.

Marine Transportation Companies Risks

Marine transportation (or ‘‘tanker’’ companies) are exposed to many of the same risks as other Energy Companies, as summarized above. In addition, the highly cyclical nature of the tanker industry may lead to volatile changes in charter rates and vessel values, which may adversely affect the earnings of tanker companies in our portfolio. Fluctuations in charter rates and vessel values result from changes in the supply and demand for tanker capacity and changes in the supply and demand for oil and oil products. Historically, the tanker markets have been volatile because many conditions and factors can affect the supply and demand for tanker capacity. Changes in demand for transportation of oil over longer distances and supply of tankers to carry that oil may materially affect revenues, profitability and cash flows of tanker companies.

The successful operation of vessels in the charter market depends upon, among other things, obtaining profitable spot charters and minimizing time spent waiting for charters and traveling unladen to pick up cargo. The value of tanker vessels may fluctuate and could adversely affect the value of tanker company securities in our portfolio. Declining tanker values could affect the ability of tanker companies to raise cash by limiting their ability to refinance their vessels, thereby adversely impacting tanker company liquidity.

Tanker company vessels are at risk of damage or loss because of events such as mechanical failure, collision, human error, war, terrorism, piracy, cargo loss and bad weather. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes, boycotts and government requisitioning of vessels. These sorts of events could interfere with shipping lanes and result in market disruptions and a significant loss of tanker company earnings.

No Operating or Trading History

We are a non-diversified, closed-end management investment company and have no operating or public trading history. Being a recently organized company, we are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of your investment could decline substantially.

Investment and Market Risk

An investment in our common stock is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in our common stock represents an indirect investment in the securities owned by us, some of which will be traded on a national securities exchange or in the over-the-counter markets. The value of the publicly traded securities in our portfolio, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which we invest will affect the value of our common stock. Your common stock at any point in time may be worth less than your original investment, even after taking into account the reinvestment of our dividends. We are primarily a long-term investment vehicle and should not be used for short-term trading. An investment in our common stock is not intended to constitute a complete investment program and should not be viewed as such.

Cash Flow Risk

A substantial portion of the cash flow received by us will be derived from our investment in equity securities of Energy Companies. The amount of cash that an Energy Company has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the Energy Company's operations. Cash available for distribution will vary from quarter to quarter and is largely dependent on factors affecting the Energy Company's operations and factors affecting the energy industry in general. In addition to the risk factors described above, other factors which may reduce the amount of cash an Energy Company has available for distribution include increased operating costs, maintenance capital expenditures, acquisition costs, expansion, construction or exploration costs and borrowing costs.

Tax Risks

In addition to other risk considerations, an investment in our common stock will involve certain tax risks, including, but not limited to, the risks summarized below and discussed in more detail in this prospectus. Tax matters are very complicated, and the federal, state, local and foreign tax consequences of an investment in and holding of our common stock will depend on the facts of each investor's situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect such investors.

We cannot assure you what percentage of the distributions paid on our common stock, if any, will be treated as qualified dividend income or long-term capital gain or what the tax rates on various types of income or gain will be in future years. The favorable rates on qualified dividend income and long-term capital gains are currently scheduled to increase for certain income received or gains realized for taxable years beginning after December 31, 2008.

There are tax proposals in Canada that would impose a 15% tax on the return of capital portion of the distributions paid or credited after 2004 by certain types of royalty trusts that are mutual fund trusts. There is a risk as to whether such tax would qualify as a foreign income tax eligible for the U.S. foreign tax credit. We will invest in royalty trusts that are ''mutual fund trusts'' for Canadian income tax purposes. The Canadian Department of Finance has recently indicated that it is pursuing discussions with the private sector concerning the appropriate Canadian tax treatment of non-residents investing in resource property through mutual fund trusts. Accordingly, changes in the income tax considerations described above are possible.

MLP Tax Risks. Our ability to meet our investment objective will depend on the level of taxable income and distributions we receive from the securities in which we invest, a factor over which we have no control. The benefit we derive from our investment in MLPs is largely dependent on the MLPs being treated as partnerships for federal income tax purposes. If, as a result of a change in current law or a change in an MLP's business, an MLP were treated as a corporation for federal income tax purposes, such MLP would be obligated to pay federal income tax on its income at a maximum corporate tax rate of 35%. Therefore, if an MLP were classified as a corporation for federal income tax purposes, the amount of cash available for distribution from such MLP would be reduced. As a result, treatment of an MLP as a corporation for federal income tax purposes would result in a reduction in the after-tax return of our investment in such MLP, which would likely cause a reduction in the net asset value of our common stock.

Canadian Royalty Trusts Tax Risks. There are certain tax risks associated with the Canadian royalty trusts in which we may invest. These tax risks include the possibility that Canadian taxing authorities may challenge the deductibility of certain interest payments and certain other costs and expenses inherent in the structure of certain royalty trusts. These tax risks, and any adverse determination with respect thereto, could have a negative impact on the value of our investments, as well as on the after-tax income available for distribution by the royalty trusts, which in turn would reduce the cash available to us for distribution to common stockholders. See ''Tax Matters — Certain Canadian Federal Income Tax Considerations'' on page 59.

U.S. Royalty Trusts Tax Risks. There are certain tax risks associated with the U.S. royalty trusts in which we may invest. In particular, certain U.S. royalty trusts are treated as grantor trusts for federal income tax purposes and generally pass through tax items such as income, gain or loss. In such cases, we will be required to monitor the individual underlying items of income that we receive from such grantor trusts to determine how we will characterize such income for purposes of meeting the income distribution requirements applicable to RICs. See ''Tax Matters — U.S. Federal Income Taxation'' on page 56.

Failure to Qualify as a Regulated Investment Company. If, in any year, we fail to qualify as a RIC under the applicable tax laws, we would be taxed as an ordinary corporation. In such circumstances, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC that is accorded special tax treatment. In such case, distributions to our common stockholders generally would be eligible (i) for treatment as qualified dividend income in the case of individual stockholders (for taxable years beginning on or before December 31, 2008), and (ii) for the dividends-received deduction in the case of corporate stockholders. See ''Tax Matters — Qualification as a RIC'' on page 56.

Tax Law Change Risk. Changes in tax laws or regulations, or interpretations thereof in the future, could adversely affect us or the Energy Companies in which we invest. Any such changes could negatively impact our common stockholders. For example, new legislation could negatively impact the amount and tax characterization of dividends received by our common stockholders.

Interest Rate Hedging Risk

We may in the future hedge against interest rate risk resulting from our leveraged capital structure. We do not intend to hedge interest rate risk of portfolio holdings. Interest rate transactions that we may use for hedging purposes will expose us to certain risks that differ from the risks associated with our portfolio holdings. There are economic costs of hedging reflected in the price of interest rate swaps, caps and similar techniques, the cost of which can be significant. In addition, our success in using hedging instruments is subject to Kayne Anderson's ability to predict correctly changes in the relationships of such hedging instruments to our leverage risk, and there can be no assurance that Kayne Anderson's judgment in this respect will be accurate. Depending on the state of interest rates in general, our use of interest rate hedging instruments could enhance or decrease investment company taxable income available to the holders of our common stock. To the extent there is a decline in interest rates, the value of interest rate swaps or caps could decline, and result in a decline in the net asset value of our common stock. In addition, if the counterparty to an interest rate swap or cap defaults, we would not be able to use the anticipated net receipts under the interest rate swap or cap to offset our cost of financial leverage.

Risks Associated with an Investment in Non-U.S. Companies

Non-U.S. Securities Risk. Investing in non-U.S. securities involves certain risks not involved in domestic investments, including, but not limited to: fluctuations in currency exchange rates; future foreign economic, financial, political and social developments; different legal systems; the possible imposition of exchange controls or other foreign governmental laws or restrictions; lower trading volume; greater price volatility and illiquidity; different trading and settlement practices; less governmental supervision; high and volatile rates of inflation; fluctuating interest rates; less publicly available information; and different accounting, auditing and financial recordkeeping standards and requirements.

Non-U.S. Currency Risk. Because we intend to invest in securities denominated or quoted in non-U.S. currencies, changes in the non-U.S. currency/United States dollar exchange rate may affect the value of our securities and the unrealized appreciation or depreciation of investments.

Currency Hedging Risk. We may in the future hedge against currency risk resulting from investing in non-U.S. Energy Companies valued in non-U.S. currencies. Currency hedging transactions in which we may engage include buying or selling options or futures or entering into other foreign currency transactions including forward foreign currency contracts, currency swaps or options on currency and currency futures and other derivatives transactions. Hedging transactions can be expensive and have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use hedging transactions depends on Kayne Anderson's ability to predict pertinent market movements, which cannot be assured. Thus, the use of hedging transactions may result in losses greater than if they had not been used, may require us to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation we can realize on an investment, or may cause us to hold a security that we might otherwise sell. The use of hedging transactions may result in us incurring losses as a result of matters beyond our control. For example losses may be incurred because of the imposition of exchange controls, suspension of settlements or our inability to deliver or receive a specified currency.

Delay in Use of Proceeds

Although we intend to invest the proceeds of this offering in accordance with our investment objective as soon as practicable, such investments, particularly those in unregistered or otherwise restricted securities, may be delayed if suitable investments are unavailable at the time or if we are unable to secure firm commitments for direct placements. We anticipate that our portfolio initially will be more heavily weighted toward publicly traded securities of Energy Companies than it will be on a long-term basis. As a result, we anticipate that we will be fully invested in accordance with our investment objective within three months after the completion of the offering. Prior to the time we are fully invested, the proceeds of the offering may temporarily be invested in cash, cash equivalents, or in debt securities that are rated AA or higher.

Income received by us from these securities would likely be less than returns sought pursuant to our investment objective and policies. For these reasons and because a significant portion of our distributions may consist of a return of capital, the return on our common stock in the first year of our investment operations is expected to be lower than when we are fully invested in accordance with our investment objective and policies. See ''Use of Proceeds'' on page 27.

Equity Securities Risk

The equity securities of the Energy Companies in which we invest may be subject to general movements in the stock market, and a significant drop in the stock market may depress the price of securities to which we have exposure. Equity securities prices fluctuate for several reasons, including changes in the financial condition of a particular issuer (generally measured in terms of distributable cash flow in the case of MLPs and royalty trusts), investors' perceptions of Energy Companies, the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, the prices of MLP and royalty trust units and other Energy Company equity securities may be sensitive to rising interest rates given their yield-based nature. Also, while not precise, the price of I-Shares and their volatility tend to correlate to the price of common units.

Small-Cap and Mid-Cap Company Risk

Certain of the Energy Companies in which we may invest may have small or medium-sized market capitalizations (''small-cap'' and ''mid-cap'' companies respectively). Investing in the securities of small-cap or mid-cap Energy Companies presents some unique investment risks. These Energy Companies may have limited product lines and markets, as well as shorter operating histories, less experienced management and more limited financial resources than larger Energy Companies and may be more vulnerable to adverse general market or economic developments. Stocks of these Energy Companies may be less liquid than those of larger Energy Companies and may experience greater price fluctuations than larger Energy Companies. In addition, small-cap or mid-cap company securities may not be widely followed by the investment community, which may result in reduced demand.

Market Discount From Net Asset Value Risk

Shares of closed-end investment companies frequently trade at discounts to their net asset value. This characteristic is a risk separate and distinct from the risk that our net asset value could decrease as a result of our investment activities and may be greater for investors expecting to sell their shares in a relatively short period following completion of this offering. The net asset value of our common stock will be reduced immediately following the offering as a result of the payment of certain offering costs. Although the value of our net assets is generally considered by market participants in determining whether to purchase or sell shares, whether investors will realize gains or losses upon the sale of our common stock will depend entirely upon whether the market price of our common stock at the time of sale is above or below the investor's purchase price for our common stock. Because the market price of our common stock will be affected by factors such as net asset value, dividend or distribution levels (which are dependent, in part, on expenses), supply of and demand for our common stock, stability of dividends or distributions, trading volume of our common stock, general market and economic conditions, and other factors beyond the control of us, we cannot predict whether our common stock will trade at, below or above net asset value or at, below or above the initial public offering price.

Leverage Risk

Although our use of leverage may create an opportunity for increased returns for our common stock, it also results in additional risks and can magnify the effect of any losses. If the income and gains from the investments purchased with leverage, net of increased expenses associated with such leverage, do not cover the cost of such leverage, the return to our common stock will be less than if leverage had not been used. There is no assurance that a leveraging strategy will be used or will be successful. Leverage involves other risks and special considerations for common stockholders including: the likelihood of greater volatility of net asset value and market price of our common stock than a comparable portfolio without leverage; the risk of fluctuations in dividend rates or interest rates on Leverage Instruments; that the dividends paid on the preferred stock may reduce the returns to our common stockholders or result in fluctuations in the dividends paid on our common stock; the effect of leverage in a declining market, which is likely to cause a greater decline in the net asset value of our common stock than if we were not leveraged, which may result in a greater decline in the market price of our common stock; and when we use financial leverage, the investment management fee payable to Kayne Anderson may be higher than if we did not use leverage.

The funds borrowed pursuant to a leverage borrowing program (such as a credit line or commercial paper program), or obtained through the issuance of shares of preferred stock, constitute a substantial lien and burden by reason of their prior claim against our income and against our net assets in liquidation. The rights of lenders to receive payments of interest on and repayments of principal of any borrowings made by us under a leverage borrowing program are senior to the rights of holders of common stock and preferred stock, with respect to the payment of dividends or upon liquidation. We may not be permitted to declare dividends or other distributions, including dividends and distributions with respect to common stock or preferred stock or purchase common stock or preferred stock unless at such time, we meet certain asset coverage requirements and no event of default exists under any leverage borrowing program. In addition, we may not be permitted to pay dividends on common stock unless all dividends on the preferred stock and/or accrued interest on borrowings have been paid, or set aside for payment. In an event of default under a leverage borrowing program, the lenders have the right to cause a liquidation of collateral (*i.e.*, sell our assets) and, if any such default is not cured, the lenders may be able to control the liquidation as well. Certain types of leverage may result in our being subject to covenants relating to asset coverage and our portfolio composition and may impose special restrictions on our use of various investment techniques or strategies or in our ability to pay dividends and other distributions on common stock in certain instances. We may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the preferred stock or other Leverage Instruments issued by us. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Kayne Anderson does not believe that these covenants or guidelines will impede it from managing our portfolio in accordance with our investment objective and policies.

While we may from time to time consider reducing leverage in response to actual or anticipated changes in interest rates in an effort to mitigate the increased volatility of current income and net asset value associated with leverage, there can be no assurance that we will actually reduce leverage in the future or that any reduction, if undertaken, will benefit our common stockholders. Changes in the future direction of interest rates are very difficult to predict accurately. If we were to reduce leverage based on a prediction about future changes to interest rates, and that prediction turned out to be incorrect, the reduction in leverage would likely operate to reduce the income and/or total returns to common stockholders relative to the circumstance if we had not reduced leverage. We may decide that this risk outweighs the likelihood of achieving the desired reduction to volatility in income and the price of our common stock if the prediction were to turn out to be correct, and determine not to reduce leverage as described above.

Finally, the 1940 Act provides certain rights and protections for preferred stockholders which may adversely affect the interests of our common stockholders. See ''Description of Capital Stock — Preferred Stock'' on page 51.

Liquidity Risk

Although the equity securities of the Energy Companies in which we invest generally trade on major stock exchanges, certain securities may trade less frequently, particularly those with smaller capitalizations. Securities with limited trading volumes may display volatile or erratic price movements. Also, we may be one of the largest investors in certain sub-sectors of the Energy Company sector. Thus, it may be more difficult for us to buy and sell significant amounts of such securities without an unfavorable impact on prevailing market prices. Larger purchases or sales of these securities by us in a short period of time may cause abnormal movements in the market price of these securities. As a result, these securities may be difficult to dispose of at a fair price at the times when we believe it is desirable to do so. These securities are also more difficult to value, and Kayne Anderson's judgment as to value will often be given greater weight than market quotations, if any exist. Investment of our capital in securities that are less actively traded or over time experience decreased trading volume may restrict our ability to take advantage of other market opportunities.

We also expect to invest in unregistered or otherwise restricted securities. The term ''restricted securities'' refers to securities that are unregistered or are held by control persons of the issuer and securities that are subject to contractual restrictions on their resale. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act of 1933, as amended (the ''Securities Act''), unless an exemption from such registration is available. Restricted securities may be more difficult to value and we may have difficulty disposing of such assets either in a timely manner or for a reasonable price. In order to dispose of an unregistered security, we, where we have contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that we could sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquiror of the securities. We would, in either case, bear the risks of any downward price fluctuation during that period. The difficulties and delays associated with selling restricted securities could result in our inability to realize a favorable price upon disposition of such securities, and at times might make disposition of such securities impossible.

We expect our investments in restricted securities to include investments in private companies. These securities may not be registered under the Securities Act for sale by us until the company becomes a public company. Accordingly, in addition to the risks described above, our ability to dispose of such securities on favorable terms may be limited until the portfolio company becomes a public company.

Non-Diversification Risk

We are a non-diversified, closed-end investment company under the 1940 Act. Although we may invest a relatively high percentage of our assets in a limited number of issuers, in order to qualify as a RIC for federal income tax purposes, we must diversify our holdings so that, at the end of each quarter of each taxable year (i) at least 50% of the value of our total assets is represented by cash and cash items, U.S. Government securities, the securities of other RICs and other securities, with such other securities limited for purposes of such calculation, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of our total assets is invested in the securities of any one issuer (other than U.S. Government securities or the securities of other RICs), the securities (other than the securities of other RICs) of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses, or the securities of one or more qualified publicly traded partnerships. To the extent we invest a relatively high percentage of our assets in the obligations of a limited number of issuers, we may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence.

Valuation Risk

Market prices may not be readily available for certain of our investments, and the value of such investments will ordinarily be determined based on fair valuations determined by the Board of Directors or its designee pursuant to procedures adopted by the Board of Directors. Restrictions on resale or the absence of a liquid secondary market may adversely affect our ability to determine our net asset value. The sale price of securities that are not readily marketable may be lower or higher than our most recent determination of their fair value.

Additionally, the value of these securities typically requires more reliance on the judgment of Kayne Anderson than that required for securities for which there is an active trading market. Due to the difficulty in valuing these securities and the absence of an active trading market for these investments, we may not be able to realize these securities' true value or may have to delay their sale in order to do so. See ''Net Asset Value'' on page 48.

Portfolio Turnover Risk

We anticipate that our annual portfolio turnover rate will be approximately 25%, but that rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in Kayne Anderson's execution of investment decisions. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us. See ''Kayne Anderson Energy Total Return Fund — Investment Practices — Portfolio Turnover'' on page 39.

Derivatives Risk

We may purchase and sell derivative investments such as exchange-listed and over-the-counter put and call options on securities, equity, fixed income and interest rate indices, and other financial instruments, enter into various interest rate transactions such as swaps, caps, floors or collars or credit transactions and credit default swaps. We also may purchase derivative investments that combine features of these instruments. The use of derivatives has risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative investments. Furthermore, the ability to successfully use these techniques depends on our ability to predict pertinent market movements, which cannot be assured. Thus, their use may result in losses greater than if they had not been used, may require us to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation we can realize on an investment or may cause us to hold a security that we might otherwise sell. Additionally, amounts paid by us as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to us for investment purposes.

We may write covered call options. As the writer of a covered call option, during the option's life we give up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but we retain the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. There can be no assurance that a liquid market will exist when we seek to close out an option position. If trading were suspended in an option purchased by us, we would not be able to close out the option. If we were unable to close out a covered call option that we had written on a security, we would not be able to sell the underlying security unless the option expired without exercise.

Depending on whether we would be entitled to receive net payments from the counterparty on a swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, a default by a counterparty could negatively impact the performance of our common stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that we would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of our common stock. If we fail to maintain any required asset coverage ratios in connection with any use by us of Leverage Instruments, we may be required to redeem or prepay some or all of the Leverage Instruments. Such redemption or prepayment would likely result in our seeking to terminate early all or a portion of any swap or cap transactions. Early termination of a swap could result in a termination payment by or to us. Early termination of a cap could result in a termination payment to us.

We intend to segregate liquid assets against or otherwise cover our future obligations under such swap or cap transactions, in order to provide that our future commitments for which we have not segregated liquid assets against or otherwise covered, together with any outstanding Leverage Instruments, will not exceed $33\frac{1}{3}\%$ of our total assets. In addition, such transactions and other use of Leverage Instruments by us will be subject to the asset coverage requirements of the 1940 Act, which generally restrict us from engaging in such transactions unless the value of our total assets less liabilities (other than the amount of such Leverage Instruments) is at least 300% of the principal amount of such Leverage Instruments. In other words, the principal amount of such Leverage Instruments may not exceed $33\frac{1}{3}\%$ of our total assets.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on market conditions in general, our use of swaps or caps could enhance or harm the overall performance of our common stock. For example, we may use interest rate swaps and caps in connection with any use by us of Leverage Instruments. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of our common stock. In addition, if short-term interest rates are lower than our fixed rate of payment on the interest rate swap, the swap will reduce common stock net earnings. Buying interest rate caps could decrease the net earnings of our common stock in the event that the premium paid by us to the counterparty exceeds the additional amount we would have been required to pay had we not entered into the cap agreement.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that we are contractually obligated to make. If the counterparty defaults, we would not be able to use the anticipated net receipts under the swap or cap to offset any declines in the value of our portfolio assets being hedged or the increase in our cost of financial leverage. Depending on whether we would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of the market rates at that point in time, such a default could negatively impact the performance of our common stock.

Short Sales Risk

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the short seller to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Our obligation to replace the borrowed security will be secured by collateral deposited with the broker-dealer, usually cash, U.S. government securities or other liquid securities similar to those borrowed. We also will be required to segregate similar collateral to the extent, if any, necessary so that the value of both collateral amounts in the aggregate is at all times equal to at least 100% of the current market value of the security sold short. Depending on arrangements made with the broker-dealer from which we borrowed the security regarding payment over of any payments received by us on such security, we may not receive any payments (including interest) on our collateral deposited with such broker-dealer.

Inflation Risk

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of our common stock and dividends can decline.

Management Risk

Our portfolio is subject to management risk because it will be actively managed. Kayne Anderson will apply investment techniques and risk analyses in making investment decisions for us, but there can be no guarantee that they will produce the desired results.

Terrorism/Market Disruption Risk

The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the economy and the securities markets. United States military and related action in Iraq is ongoing and events in the Middle East could have significant adverse effects on the U.S. economy and the stock market. Uncertainty surrounding such events may affect Energy Company operations in unpredictable ways, including disruptions of fuel supplies and markets, and transmission and distribution facilities could be direct targets, or indirect casualties, of an act of terror. The U.S. government has issued warnings that energy assets, specifically the United States' pipeline infrastructure, may be the future target of terrorist organizations. In addition, changes in the insurance markets have made certain types of insurance more difficult, if not impossible, to obtain and have generally resulted in increased premium costs.

Debt Securities Risks

Debt securities are subject to many of the risks described elsewhere in this section. In addition, they are subject to credit risk, prepayment risk and, depending on their quality, other special risks.

Credit Risk. An issuer of a debt security may be unable to make interest payments and repay principal. We could lose money if the issuer of a debt obligation is, or is perceived to be, unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of a security may further decrease its value.

Prepayment Risk. Certain debt instruments, particularly below investment grade securities, may contain call or redemption provisions which would allow the issuer thereof to prepay principal prior to the debt instrument's stated maturity. This is known as prepayment risk. Prepayment risk is greater during a falling interest rate environment as issuers can reduce their cost of capital by refinancing higher yielding debt instruments with lower yielding debt instruments. An issuer may also elect to refinance their debt instruments with lower yielding debt instruments if the credit standing of the issuer improves. To the extent debt securities in our portfolio are called or redeemed, we may be forced to reinvest in lower yielding securities.

Below Investment Grade and Unrated Debt Securities Risk. Below investment grade debt securities in which we may invest are rated from B3 to Ba1 by Moody's Investors Service, Inc., from B– to BB+ by Fitch Ratings or Standard & Poor's, or comparably rated by another rating agency. Below investment grade and unrated debt securities generally pay a premium above the yields of U.S. government securities or debt securities of investment grade issuers because they are subject to greater risks than these securities. These risks, which reflect their speculative character, include the following: greater yield and price volatility; greater credit risk and risk of default; potentially greater sensitivity to general economic or industry conditions; potential lack of attractive resale opportunities (illiquidity); and additional expenses to seek recovery from issuers who default.

In addition, the prices of these below investment grade and unrated debt securities are more sensitive to negative developments, such as a decline in the issuer's revenues, downturns in profitability in the energy industry or a general economic downturn, than are the prices of higher grade securities. Below investment grade and unrated debt securities tend to be less liquid than investment grade securities and the market for below investment grade and unrated debt securities could contract further under adverse market or economic conditions. In such a scenario, it may be more difficult for us to sell these securities in a timely manner or for as high a price as could be realized if such securities were more widely traded. The market value of below investment grade and unrated debt securities may be more volatile than the market value of investment grade securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than investment grade securities, which primarily reflect fluctuations in general levels of interest rates. In the event of a default by a below investment grade or unrated debt security held in our portfolio in the payment of principal or interest, we may incur additional expense to the extent we are required to seek recovery of such principal or interest.

For a further description of below investment grade and unrated debt securities and the risks associated therewith, see ''Investment Policies and Techniques'' in our statement of additional information. For a description of the ratings categories of certain rating agencies, see Appendix A to our statement of additional information.

Dependence on Key Personnel of Kayne Anderson

We are dependent upon Kayne Anderson's key personnel for our future success and upon their access to certain individuals and investments in the midstream energy industry. In particular, we will depend on the diligence, skill and network of business contacts of our portfolio managers, who will evaluate, negotiate, structure, close and monitor our investments. These individuals do not have long-term employment contracts with Kayne Anderson, although they do have equity interests and other financial incentives to remain with Kayne Anderson. For a description of Kayne Anderson, see ''Management — Investment Adviser'' on page 45. We will also depend on the senior management of Kayne Anderson. The departure of either of our portfolio managers or the senior management of Kayne Anderson could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Kayne Anderson will remain our investment adviser or that we will continue to have access to Kayne Anderson's industry contacts and deal flow.

Conflicts of Interest of Kayne Anderson

Conflicts of interest may arise because Kayne Anderson and its affiliates generally will be carrying on substantial investment activities for other clients, in which we will have no interest. Kayne Anderson or its affiliates may have financial incentives to favor certain of such accounts over us. Any of their proprietary accounts and other customer accounts may compete with us for specific trades. Kayne Anderson or its affiliates may buy or sell securities for us which differ from securities bought or sold for other accounts and customers, even though their investment objectives and policies may be similar to ours. Situations may occur when we could be disadvantaged because of the investment activities conducted by Kayne Anderson and its affiliates for their other accounts. Such situations may be based on, among other things, legal or internal restrictions on the combined size of positions that may be taken for us and the other accounts, thereby limiting the size of our position, or the difficulty of liquidating an investment for us and the other accounts where the market cannot absorb the sale of the combined position. Notwithstanding these potential conflicts of interest, our Directors and officers have a fiduciary obligation to act in our best interest.

Our investment opportunities may be limited by affiliations of Kayne Anderson or its affiliates with Energy Companies. Additionally, to the extent that Kayne Anderson sources and structures private investments in Energy Companies, certain employees of Kayne Anderson may become aware of actions planned by Energy Companies, such as acquisitions, that may not be announced to the public. It is possible that we could be precluded from investing in an Energy Company about which Kayne Anderson has material non-public information; however, it is Kayne Anderson's intention to ensure that any material non-public information available to certain Kayne Anderson employees not be shared with those employees responsible for the purchase and sale of publicly traded Energy Company securities.

Kayne Anderson manages Kayne Anderson MLP Investment Company (''KAMIC''), another closed-end investment company registered under the 1940 Act as well as several private investment funds (''Affiliated Funds''). Some of the Affiliated Funds have investment objectives that are similar to or overlap with ours. Further, Kayne Anderson may at some time in the future, manage other investment funds with the same investment objective as ours.

Kayne Anderson and its affiliates generally will be carrying on substantial investment activities for other clients, including Affiliated Funds, in which we will have no interest. Investment decisions for us are made independently from those of such other clients; however, from time to time, the same investment decision may be made for more than one fund or account. When two or more clients advised by Kayne Anderson or its affiliates seek to purchase or sell the same publicly traded securities, the securities actually purchased or sold will be allocated among the clients on a good faith equitable basis by Kayne Anderson in its discretion in accordance with the clients' various investment objectives and procedures adopted by Kayne Anderson and approved by our Board of Directors. In some cases, this system may adversely affect the price or size of the position we may obtain. In other cases, however, our ability to participate in volume transactions may produce better execution for us.

Under the 1940 Act, we and our affiliates, including Affiliated Funds, may be precluded from co-investing in private placements of securities. Kayne Anderson has applied to the SEC for exemptive relief to permit us to co-invest in Energy Company private placements with Affiliated Funds. If our application is granted, we may co-invest in such opportunities with Affiliated Funds on the basis of the suitability of and capital available for the investment, subject to certain conditions. We cannot assure you that the requested relief will be granted by the SEC. In the absence of exemptive relief, we will not invest (but Affiliated Funds other than KAMIC may invest) in Energy Company private placements that relate to the general partner of Plains All-American Pipeline, L.P. Kayne Anderson will allocate private investment opportunities among its clients, including us, based on allocation policies that take into account several suitability factors, including the size of the investment opportunity, the amount each client has available for investment and the client's investment objectives. These allocation policies (even giving effect to any exemptive order that we may receive from the SEC) may result in the allocation of investment opportunities to an Affiliated Fund rather than to us.

The management fee payable to Kayne Anderson is based on the value of our assets, as periodically determined. A significant percentage of our assets may be illiquid securities acquired in private transactions for which market quotations will not be readily available. Although we will adopt valuation procedures designed to determine valuations of illiquid securities in a manner that reflects their fair value, there typically is a range of prices that may be established for each individual security. Senior management of Kayne Anderson, our Board of Directors and its Valuation Committee will participate in the valuation of our securities. See ''Net Asset Value'' on page 48.

Certain Affiliations

We are currently affiliated with KA Associates, Inc., an NASD member broker-dealer. Absent an exemption from the SEC or other regulatory relief, we are generally precluded from effecting certain principal transactions with affiliated brokers, and our ability to utilize affiliated brokers for agency transactions is subject to restrictions. This could limit our ability to engage in securities transactions and take advantage of market opportunities. In addition, until completion of the initial public offering of our common stock, we will be precluded from effecting principal transactions with brokers who are members of the syndicate. KA Associates, Inc. is a member of the selling group of this offering. See ''Underwriting'' on page 62.

Anti-Takeover Provisions

Our Charter, Bylaws and the Maryland General Corporation Law include provisions that could limit the ability of other entities or persons to acquire control of us, to convert us to open-end status, or to change the composition of our Board of Directors. We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our Charter classifying our Board of Directors in three classes serving staggered three-year terms, and provisions authorizing our Board of Directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our Charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our Charter and Bylaws, could have the effect of discouraging, delaying, deferring or preventing a transaction or a change in control that might otherwise be in the best interests of our stockholders. As a result, these provisions may deprive our common stockholders of opportunities to sell their common stock at a premium over the then current market price of our common stock. See ''Description of Capital Stock'' on page 51.

USE OF PROCEEDS

The net proceeds of this offering will be approximately $715,092,000 ($807,252,938 if the underwriters exercise the over-allotment option in full) after payment of the offering costs of $1,158,000 and the deduction of the underwriting discount. Our net asset value will be reduced immediately following the offering by the amount of the underwriting discount and organizational and offering expenses paid by us. We will invest the net proceeds of the offering in accordance with our investment objective and policies as stated in this prospectus.

We currently anticipate that we will be able to invest primarily in equity securities that meet our investment objective and policies within three months after the completion of this offering, and we may thereafter use financial leverage. Pending such investment, it is anticipated that the proceeds will be invested in cash, cash equivalents, or in debt securities that are rated AA or higher. As a result, the return on our common stock in the first year of our investment operations is expected to be lower than when we are fully invested in accordance with our investment objective and policies.

DIVIDENDS

Commencing with our initial dividend, we intend to make regular quarterly cash distributions to our common stockholders. Such dividends will be authorized by our Board of Directors and declared by us out of funds legally available therefor. We expect to declare our initial quarterly dividend within approximately 45 days after, and to pay such dividend approximately 90 to 120 days after, completion of this offering. There is no assurance we will continue to pay regular dividends or that we will do so at a particular rate.

We expect that only a portion of the cash payments we receive from our investments will constitute investment company taxable income. The balance will be return of capital from such investments. We cannot predict with respect to a given quarter how much of our investment company taxable income will be included in the distribution we make for that quarter. However, we intend to pay to common stockholders on an annual basis at least 90% of our investment company taxable income. Quarterly distributions may also include cash received as return of capital from our portfolio investments or return of our investors' capital.

Various factors will affect the levels of cash we receive from our investments, as well as the amounts of income and return of capital represented by such cash. To permit us to maintain a more stable quarterly distribution, we may distribute less or more than the entire amount of cash we receive from our investments in a particular period. Any undistributed cash would be available to supplement future distributions, and until distributed would add to our net asset value. Correspondingly, once distributed, such amounts will be deducted from our net asset value.

A portion of our dividends may consist of a return of investors' capital and would be treated as such for federal income tax purposes. See ''Tax Matters'' on page 56.

The 1940 Act generally limits our long-term capital gain distributions to one per year, although under some circumstances Section 19(b) and Rule 19b-1 of the 1940 Act allow us up to three distributions per year that we may designate in whole or in part as capital gain distributions. This limitation does not apply to that portion of our distributions that is not characterized as long-term capital gain (*e.g.*, return of capital or distribution of income). We intend to apply to the SEC for an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting us to make periodic distributions of long-term capital gains provided that our distribution policy with respect to our common stock calls for periodic (*e.g.*, quarterly) distributions in an amount equal to a fixed percentage of our average net asset value over a specified period of time or market price per common share at or about the time of distribution or pay-out of a level dollar amount. The exemption also would permit us to make distributions with respect to any shares of preferred stock that we may issue in accordance with such shares' terms. We cannot assure you that the requested relief will be granted by the SEC in a timely manner, if at all.

Unless you elect to receive your common stock dividends in cash, they will automatically be reinvested into additional common stock pursuant to our Dividend Reinvestment Plan. See ''Dividend Reinvestment Plan'' on page 50.

KAYNE ANDERSON ENERGY TOTAL RETURN FUND

About Us

Kayne Anderson Energy Total Return Fund, Inc. is a non-diversified, closed-end investment company registered under the 1940 Act, formed as a Maryland corporation on March 31, 2005 and conducting business as Kayne Anderson Energy Total Return Fund. As a recently organized entity, we have no operating or public trading history. Our principal office is located at 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067, and our telephone number is (877) 657-3863.

Investment Objective

Our investment objective is to obtain a high total return with an emphasis on current income. We will seek to achieve this objective by investing primarily in securities of companies engaged in the energy industry, including MLPs, MLP affiliates, royalty trusts and other Energy Companies.

Our investment objective is considered a fundamental policy and therefore may not be changed without the approval of the holders of a ''majority of the outstanding'' voting securities. When used with respect to our voting securities, a ''majority of the outstanding'' voting securities means (i) 67% or more of the shares present at a meeting, if the holders of more than 50% of the voting securities are present or represented by proxy, or (ii) more than 50% of the voting securities, whichever is less. There can be no assurance that we will achieve our investment objective. Unless otherwise stated, all investment restrictions apply at the time of purchase and we will not be required to reduce a position due solely to market value fluctuations. Also, we may, but are not required to, use derivative investments and engage in short sales to hedge against interest rate, currency or market risks. For a more complete discussion of our portfolio composition, see ''— Portfolio Composition'' on page 32.

Investment Policies

Under normal market conditions:

- We will invest at least 80% of our total assets in securities of Energy Companies. We will provide stockholders with sixty (60) days' notice prior to effecting any change to this policy.
- We will invest in equity securities such as common stocks, preferred stocks, convertible securities, warrants, depository receipts, and equity interests in MLPs, MLP affiliates, royalty trusts and other Energy Companies.
- We may directly invest up to 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of MLPs. This limit does not apply to securities issued by MLP affiliates, such as I-shares or general partner interests or other entities that may own interests of MLPs.
- We may invest up to 50% of our total assets in unregistered or otherwise restricted securities of Energy Companies. For purposes of this limitation, ''restricted securities'' include (i) registered securities of public companies subject to a lock-up period greater than 30 days, (ii) unregistered securities of public companies with registration rights, or (iii) unregistered securities of public companies that become freely tradable with the passage of time. However, no more than 25% of our total assets may be invested in (a) subordinated units or (b) securities of public companies which, in the reasonable judgment of Kayne Anderson, are not likely to become or convert into securities freely tradable by us within two years of purchase. Further, no more than 10% of our total assets may be invested in private equity securities of privately held companies. Based on current market and regulatory considerations, we anticipate that our investments in restricted securities will generally represent approximately 10% to 20% of our total assets.
- We may invest up to 30% of our total assets in debt securities of Energy Companies, including up to 20% of our total assets in below-investment-grade debt securities of publicly traded Energy Companies

which are rated, at the time of investment, at least (i) B3 by Moody's Investors Service, Inc., (ii) B- by Standard & Poor's or Fitch Ratings, or (iii) a comparable rating by another rating agency. Up to one-sixth of our permitted investments in debt securities (or up to 5% of our total assets) may include unrated debt securities of Energy Companies.

- We will not invest more than 15% of our total assets in any single issuer.
- We will not invest directly in commodities.

Unless specifically noted otherwise, the percentage limitations applicable to our portfolio described in this prospectus apply only at the time of investment, and we will not be required to sell securities due to subsequent changes in the value of securities we own. We will invest primarily in companies located in North America, but may invest in companies located anywhere in the world. We will invest in companies of any market capitalization.

Our investments in unregistered equity securities and unregistered securities convertible into or exercisable for equity securities, of companies (whether publicly traded or privately held) principally engaged in the oil and gas exploration and production business, will be limited to those that (i) are issued under Rule 144A of the Securities Act of 1933, as amended, or (ii) represent less than 5% of the value of an investment we make primarily in debt securities (*e.g.*, a warrant issued in connection with a debt security).

We generally will seek to enhance our total returns through the use of financial leverage, which may include the issuance of shares of preferred stock, commercial paper or notes and other borrowings (each a ''Leverage Instrument'' and collectively, the ''Leverage Instruments'') in an aggregate amount of up to 33⅓% of our total assets, which includes assets obtained through such financial leverage. We may not be leveraged at all times and the amount of leverage, if any, may vary depending on a variety of factors, including the costs that we would incur as a result of leverage, market conditions and available investment opportunities. Leverage creates a greater risk of loss, as well as potential for more gain, for our common stock than if leverage is not used. Leverage Instruments will have seniority over our common stock. If we use Leverage Instruments, associated costs will be borne immediately by common stockholders and result in a reduction of the net asset value of our common stock. We do not intend to use Leverage Instruments until the proceeds of this offering are substantially invested in accordance with our investment objective. See ''Use of Financial Leverage'' on page 40. Because Kayne Anderson's management fee is based upon a percentage of our total assets, Kayne Anderson's fee will be higher if we employ leverage. Therefore, Kayne Anderson will have a financial incentive to use leverage, which may create a conflict of interest between Kayne Anderson and our common stockholders. There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is used. The use of leverage involves significant risks. See ''Risk Factors — Leverage Risk'' on page 19.

We may use derivative investments to hedge against interest rate and market risks. We may engage in various interest rate and currency hedging transactions, including buying or selling options, entering into other transactions including forward contracts, swaps and other derivatives transactions. In particular, to the extent that we use leverage, we expect to utilize hedging techniques such as swaps and caps on a portion of our leverage to mitigate potential interest rate risk. We may also engage in certain transactions intended to hedge our exposure to currency risks due to Canadian dollar denominated investments in royalty trusts.

We may use short sales, arbitrage and other strategies to try to generate additional return. As part of such strategies, we may engage in paired long-short trades to arbitrage pricing disparities in securities issued by Energy Companies; write (or sell) covered call options on the securities of Energy Companies or other securities held in our portfolio; purchase call options or enter into swap contracts to increase our exposure to Energy Companies; or sell securities short. Paired trading consists of taking a long position in one security and concurrently taking a short position in another security within the same or an affiliated issuer. With a long position, we purchase a stock outright; whereas with a short position, we would sell a security that we do not own and must borrow to meet our settlement obligations. We will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when we replace the borrowed security. Our use of ''naked'' short sales of equity securities (i.e., where we have no opposing long position in the securities of the same or an affiliated issuer) will be limited, so that, (i) measured on a daily basis, the market value of all such short sale positions does not exceed 15% of our total assets, and (ii) at the time of entering into any such short sales, the market value of all such short sale positions immediately following such transaction shall not exceed 10% of our total assets. On a daily basis, we do not intend to have a net short sale position in any individual sector (e.g., the MLP sector or the royalty trust sector) that exceeds 2% of total assets. See ''Risk Factors — Short Sales Risk'' on page 23.

We may write (or sell) covered call options on the securities of Energy Companies or other securities held in our portfolio. We will not write uncovered calls. To increase our exposure to certain issuers, we may purchase call options or use swap agreements. We expect to use these strategies on a limited basis. See ''Risk Factors — Derivatives Risk'' on page 21.

We intend to be treated as a RIC for tax purposes. Under the current tax diversification rules applicable to RICs, we may directly invest up to 25% of our total assets in equity or debt securities of MLPs treated as publicly traded partnerships. To the extent permissible by such rules, we may indirectly invest a higher amount of our assets in equity or debt securities of MLPs. In addition, in the future we may form a taxable subsidiary to make and hold investments in accordance with our investment objective. For purposes of determining our compliance with the percentage limits in the investment policies discussed above in this section, we will include the underlying portfolio securities in our investments in such a subsidiary. However, our investment in such a subsidiary would not be subject to our policy limiting our investments in any single issuer to 15% of our total assets. See ''— Investment Practices — Corporate Subsidiary'' on page 39.

For a more complete discussion of our portfolio composition, see ''— Portfolio Composition'' on page 32.

Investment Philosophy

Kayne Anderson manages approximately $3.7 billion in investments through a publicly traded MLP fund and a number of private partnerships and separate accounts using multiple strategies, including structured investments, absolute rate-of-return investing, and private equity investments. Since 1984, Kayne Anderson has managed investment assets with a focus on achieving absolute returns (as opposed to relative performance against a benchmark index) on a risk-adjusted basis (where estimated total returns and yields are quantified in light of associated risks) through a disciplined investment process. It achieves this objective through a disciplined investment process that identifies niche opportunities providing a significant current income component and the potential for capital appreciation. Kayne Anderson's securities selection process includes a comparison of quantitative, qualitative, and relative value factors that are developed through its proprietary analysis and valuation models. To determine whether an investment meets its criteria, Kayne Anderson generally will look for, among other things, sound business fundamentals, a strong record of cash flow growth, a solid business strategy and a respected management team.

A portion of the publicly traded securities in our portfolio is expected to be comprised of a set of longer-term core holdings reflecting Kayne Anderson's views of issuer fundamentals based on the application of the selection process described above. The balance of the portfolio's publicly traded securities may consist of shorter-term investments reflecting Kayne Anderson's views of the anticipated impact of near-term catalysts such as pending equity issuances, pending acquisitions, rating agency actions, research analyst commentary and other issuer-specific developments.

Kayne Anderson has completed numerous transactions with both public and private companies in various forms, including secured debt, convertible preferred and direct equity investments. Its private equity strategy is to assist management owners of growth companies realize their full potential by providing flexible financing to help execute their expansion plans. Kayne Anderson intends to pursue opportunities to make negotiated direct investments in issuers where its analysis indicates a need for additional capital. It will also seek opportunities to purchase outstanding securities on favorable terms from holders who have a desire, but a limited ability, to monetize their holdings. Kayne Anderson will identify potential private investments through its dialogue with management teams, members of the financial community and energy industry participants. These investments generally include restricted public securities (such as public securities subject to a lock-up period), private securities of public companies with registration rights, private securities of public companies with no conversion or registration rights, and private securities of privately held companies.

We believe that Kayne Anderson is particularly qualified and positioned both to identify appropriate publicly traded market investment opportunities and to source and structure private investments in Energy Companies due to the following:

- *Market Knowledge and Industry Relationships.* Through its activities as an experienced investor in Energy Companies, Kayne Anderson has developed both expertise and important relationships with industry managers. We believe that this combination of knowledge and relationships will enable us to recognize and capitalize on long-term trends in the industry and to identify differences in value among individual companies.

- *Extensive Transaction Structuring Expertise and Capability.* Kayne Anderson has extensive experience identifying and structuring investments in Energy Companies. This experience, combined with Kayne Anderson's ability to engage in regular dialogue with industry participants and other large holders of Energy Company securities to better understand the capital needs of prospective portfolio companies, give it an advantage in structuring transactions mutually attractive to us and the portfolio company. Further, our ability to fund a meaningful amount of the capital needs of prospective portfolio companies provides us an advantage over other potential investors with less capital to employ in the sector.

- *Technical Expertise.* Kayne Anderson's investment team includes individuals with extensive technical, industry and reserve engineering experience. The technical team further distinguishes Kayne Anderson from other investors by enabling it to assess the underlying asset quality and business fundamentals of its investments. We believe this technical expertise enables Kayne Anderson to select investments that offer superior potential for income and capital appreciation.

Portfolio Composition

Our portfolio will be composed principally of the investments discussed in this section. A more detailed description of our investment policies and restrictions and more information about our portfolio investments are contained in this prospectus and our statement of additional information.

Equity Securities. We intend to invest in equity securities, including common stocks, preferred shares, convertible securities, warrants, depository receipts, equity interests in MLPs, MLP affiliates, royalty trusts and other Energy Companies. Common stocks generally represent an equity ownership interest in an issuer. Although common stocks have historically generated higher average total returns than fixed-income securities over the long term, common stocks also have experienced significantly more volatility in those returns and may under-perform relative to fixed-income securities during certain periods. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock held by us. Also, prices of common stocks are sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stocks to which we have exposure. Common stock prices fluctuate for several reasons including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

Restricted/Unregistered Securities. We also expect to invest in unregistered or otherwise restricted securities. The term ''restricted securities'' refers to (i) registered securities of public companies subject to a lock-up period greater than 30 days, (ii) unregistered securities of public companies with registration rights, or (iii) unregistered securities of public companies that become freely tradable with the passage of time. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act unless an exemption from such registration is available. Restricted securities may be more difficult to value and we may have difficulty disposing of such assets either in a timely manner or for a reasonable price. In order to dispose of an unregistered security, we, where we have contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that we could sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquiror of the securities. We would, in either case, bear the risks of any downward price fluctuation during that period. The difficulties and delays associated with selling restricted securities could result in our inability to realize a favorable price upon disposition of such securities, and at times might make disposition of such securities impossible.

We expect our investments in restricted securities to include investments in private companies. These securities may not be registered under the Securities Act for sale by us until the company becomes a public company. Accordingly, in addition to the risks described above, our ability to dispose of such securities on favorable terms may be limited until the portfolio company becomes a public company.

Energy Companies. Under normal market conditions, we will invest at least 80% of our total assets in securities of Energy Companies, principally including MLPs, MLP affiliates, royalty trusts and other companies that operate assets used in, or provide energy-related services for, the exploration, development, production, gathering, transportation, processing, storing, refining, distribution, mining or marketing of natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal.

Master Limited Partnerships. We will directly invest up to 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of MLPs that are treated as publicly traded partnerships for federal income tax purposes. This limit does not apply to (1) securities issued by MLP affiliates, such as I-shares or general partner interests, (2) our indirect investments in MLPs, such as an investment in another issuer with investments in MLPs.

MLPs are limited partnerships or limited liability companies, whose partnership units or limited liability interests are listed and traded on a U.S. securities exchange, and are treated as publicly traded partnerships for federal income tax purposes. To qualify to be treated as a partnership for tax purposes, an MLP must receive at least 90% of its income from qualifying sources as set forth in Section 7704(d) of the Internal Revenue Code of 1986, as amended (the ''Code''). These qualifying sources include activities such as the exploration, development, mining, production, processing, refining, transportation, storage and marketing of mineral or natural resources. MLPs generally have two classes of owners, the general partner and limited partners. MLPs that are formed as limited liability companies generally have two analogous classes of owners, the managing member and the members. For purposes of this section, references to general partners also apply to managing members and references to limited partners also apply to members. The general partner is typically owned by a major energy company, an investment fund, the direct management of the MLP or is an entity owned by one or more of such parties. The general partner may be structured as a private or publicly traded corporation or other entity. The general partner typically controls the operations and management of the MLP through an equity interest of as much as 2% in the MLP plus, in many cases, ownership of common units and subordinated units. Limited partners own the remainder of the MLP through ownership of common units and have a limited role in the MLP's operations and management.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount (''minimum quarterly distributions'' or ''MQD''). Common and general partner interests also accrue arrearages in distributions to the extent the MQD is not paid. Once common and general partner interests have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. The general partner is also eligible to receive incentive distributions if the general partner operates the business in a manner which results in distributions paid per common unit surpassing specified target levels. As the general partner increases cash distributions to the limited partners, the general partner receives an increasingly higher percentage of the incremental cash distributions. A common arrangement provides that the general partner can reach a tier where it receives 50% of every incremental dollar paid to common and subordinated unit holders. These incentive distributions encourage the general partner to streamline costs, increase capital expenditures and acquire assets in order to increase the partnership's cash flow and raise the quarterly cash distribution in order to reach higher tiers. Such results benefit all security holders of the MLP.

General partner interests of MLPs are typically retained by an MLP's original sponsors, such as its founders, corporate partners, entities that sell assets to the MLP and investors such as us. A holder of general partner interests can be liable under certain circumstances for amounts greater than the amount of the holder's investment in the general partner interest. General partner interests often confer direct board participation rights and in many cases, operating control, over the MLP. These interests themselves are not publicly traded, although they may be owned by publicly traded entities. General partner interests receive cash distributions, typically 2% of the MLP's aggregate cash distributions, which are contractually defined in the partnership agreement. In addition, holders of general partner interests typically hold incentive distribution rights (''IDRs''), which provide them with a larger share of the aggregate MLP cash distributions as the distributions to limited partner unit holders are increased to prescribed levels. General partner interests generally cannot be converted into common units. The general partner interest can be redeemed by the MLP if the MLP unitholders choose to remove the general partner, typically with a supermajority vote by limited partner unitholders.

I-Shares represent an ownership interest issued by an affiliated party of an MLP. The MLP affiliate uses the proceeds from the sale of I-Shares to purchase limited partnership interests in the MLP in the form of i-units. I-units have similar features as MLP common units in terms of voting rights, liquidation preference and distributions. However, rather than receiving cash, the MLP affiliate receives additional i-units in an amount equal to the cash distributions received by MLP common units. Similarly, holders of I-Shares will receive additional I-Shares, in the same proportion as the MLP affiliates receipt of i-units, rather than cash distributions. I-Shares themselves have limited voting rights which are similar to those applicable to MLP common units. The MLP affiliate issuing the I-Shares is structured as a corporation for federal income tax purposes. I-Shares are traded on the NYSE.

MLPs in which we will invest are currently classified by us as pipeline MLPs, propane MLPs, coal MLPs and shipping MLPs.

- Pipeline MLPs are engaged in (a) the treating, gathering, compression, processing, transmission and storage of natural gas and the transportation, fractionation and storage of natural gas liquids (primarily propane, ethane, butane and natural gasoline); (b) the gathering, transportation, storage and terminalling of crude oil; and (c) the transportation (usually via pipelines, barges, rail cars and trucks), storage and terminalling of refined petroleum products (primarily gasoline, diesel fuel and jet fuel) and other hydrocarbon by-products. MLPs may also operate ancillary businesses including the marketing of the products and logistical services.

- Propane MLPs are engaged in the distribution of propane to homeowners for space and water heating and to commercial, industrial and agricultural customers. Propane serves approximately 3% of the household energy needs in the United States, largely for homes beyond the geographic reach of natural gas distribution pipelines. Volumes are weather dependent and a majority of annual cash flow is earned during the winter heating season (October through March).

- Coal MLPs are engaged in the owning, leasing, managing, production and sale of coal and coal reserves. Electricity generation is the primary use of coal in the United States. Demand for electricity and supply of alternative fuels to generators are the primary drivers of coal demand.

- Shipping MLPs are engaged in the marine transportation and distribution of crude oil, refined petroleum products, liquefied natural gas (''LNG'') and other energy-related natural resources as well as the provision of logistics services associated with such activities. Shipping MLPs generally own and operate tankers, tank barges and tug boats that transport such commodities on a charter, or fee, basis.

Royalty Trusts and Income Trusts. Royalty trusts are generally structured to own debt and equity of an underlying entity that carries on an active business, or a royalty in revenues generated by the assets thereof. The royalty trust structure was developed to facilitate distributions to investors on a tax-efficient basis. Under

Canadian tax laws, a royalty trust generally can reduce its taxable income to zero by paying (or making payable) all of its taxable income (including net realized capital gains) to unitholders, thus avoiding a layer of taxation associated with corporate entities. The royalty trust structure is typically adopted by businesses that require a limited amount of capital in maintaining their property, plant and equipment and that generate stable cash flows. The projected life of distributions and the sustainability of distribution levels tend to vary with the nature of the business underlying a royalty trust. The variety of businesses upon which royalty trusts have been created is broad, both in the nature of the underlying industry and assets and in geographic location.

Royalty trusts in which we will invest will generally be ''grantor trusts'' for U.S. income tax purposes and ''mutual fund trusts'' for Canadian income tax purposes and can generally be classified in the categories described below.

Canadian Pipeline Trusts. Canadian pipeline trusts have as their principal underlying business the ownership and operation of pipelines or other energy distribution assets. These trusts typically generate stable cash flow through the levy of fixed rate transportation tolls based on product throughput. The amount of the distributions paid by these trusts varies with the market demand for transportation of product or their distributions systems. While they are generally not as commodity price sensitive as oil and gas trusts, they may be affected by fluctuations in commodity prices in the longer term and are sensitive to the prevailing interest rate levels.

Canadian Power Trusts. Canadian power trusts have as their principal underlying business the generation and sale of electricity. These trusts generate electricity from a variety of power facilities, including hydro-electric, natural gas and waste heating facilities, and typically sell the electricity produced under long-term fixed price contracts with commercial users of the power or public utilities. As a result, these trusts generally have stable cash flow and distributions, although fluctuations in water flow can impact trusts generating the bulk of their electricity from hydroelectric facilities.

Oil and Gas Trusts. There are two types of oil and gas trusts: oil and gas royalty trusts having the right to receive royalty income from oil and gas properties and oil and gas income trusts typically having a direct or indirect interest in oil and gas properties (which are only available in Canada). Ideally, long lived hydrocarbon reserves are selected for inclusion in oil and gas trusts due to their modest production decline curves and substantial economic lives. Despite being modest, such production declines tend to be greater in terms of material degradation of the underlying trust asset as compared to the assets included in MLPs and other Canadian royalty trusts. This degradation in the underlying asset base can many times be offset by increasing commodity prices, and, despite such declines in the underlying reserves, certain U.S. oil and gas trusts have been in existence for almost three decades.

- *Canadian Oil and Gas Trusts.* Canadian oil and gas trusts are able to replace reserves through reserve additions resulting from investment in development drilling activities and/or acquisitions of producing companies with proven reserves of oil and gas. Such investments and acquisitions are funded through the issuance of additional equity or, where the trust is able, the issuance of debt. Successfully replacing reserves enables an oil and gas trust to offset natural production declines to extend the life of the trust and maintain distribution levels and unit prices over time.
- *U.S. Oil and Gas Trusts.* By their terms, these trusts pay out to unitholders substantially all of the cash flow they receive from the production and sale of underlying crude oil and natural gas reserves. The amount of distributions paid on oil and gas trust units will vary from time to time based on production levels, commodity prices, royalty rates and certain expenses, deductions and costs and, accordingly, can be highly volatile. Moreover, as the underlying oil and gas reserves are produced, the remaining reserves available to the oil and gas trust are depleted and the production declines. U.S. royalty trusts have very little drilling development activity associated with them and do not purchase additional reserves or producing assets. Thus, U.S. royalty trusts last as long as the underlying reserves prove economic to some minimum threshold. Consequently, in many cases, the distributions from U.S. royalty trusts are treated as return of capital to the investor, providing current tax benefits but reducing an investor's tax basis in the units.

Other Energy Companies. We may invest in other companies that are engaged in the business of producing, exploring, transporting, processing, storing, distributing or marketing natural gas, natural gas liquids, electricity, coal, crude oil or refined petroleum products, or exploring, developing, managing or producing such commodities, or derive 50% or more of their revenue from such activities or from the provision of energy related services to such companies. Such other Energy Companies include, but are not limited to, exploration and production, marine energy companies and coal companies.

Marine Energy Companies. Marine energy companies are engaged in providing two primary services: (i) the marine transportation and distribution of crude oil, refined petroleum products, liquefied natural gas (''LNG'') and other energy-related natural resources as well as the provision of logistics services associated with such activities and (ii) the provision of offshore service vessels used to support offshore oil and gas exploration, development and production and to provide other marine services.

Marine energy transportation companies provide transportation and distribution services through the ownership and operation of several types of vessels: (i) crude oil tankers; (ii) LNG tankers; (iii) other tank vessels, including tank barges and other tankers; and (iv) tugboats.

Crude oil tankers are operated by major oil companies (including state-owned companies) that generally operate captive fleets (which are not separately publicly traded) and independent operators (some of which are publicly traded) that charter out their vessels for voyage or time charter use. With the majority of the world's crude oil supply located in the Middle East, seaborne transportation is necessary to meet the demands of other regions. Independent operators' charter rates are extremely sensitive to tanker supply and demand which is a function of locations of oil production, refining, consumption, world oil demand and supply and the distance that oil is transported.

LNG tankers provide a cost-effective means for transporting natural gas overseas. After natural gas is transported by pipeline from production fields to a liquefaction facility, it is supercooled to a temperature of approximately -260 degrees Fahrenheit, whereby its volume is reduced to approximately 1/600th of its volume in a gaseous state. The reduced volume facilitates economical storage and transportation by LNG tankers over long distances, enabling countries with limited natural gas reserves or limited access to long-distance transmission pipelines to meet their demand for natural gas. The LNG is transported overseas to a receiving terminal, where it is offloaded and stored in heavily insulated tanks. In regasification facilities at the receiving terminal, the LNG is returned to its gaseous state and then shipped by pipeline for distribution to natural gas customers.

Other tank vessels are used frequently to continue the transportation of refined petroleum products and other energy-related natural resources along the distribution chain after such products have first been transported by another method of transportation, such as a pipeline. Many coastal areas in the U.S. have access to refined petroleum products only by using marine transportation as the last link in their distribution chain. In addition, tank vessel transportation is generally a more cost-effective and energy-efficient means of transporting bulk commodities such as refined petroleum products than transportation by rail car or truck. The carrying capacity of a 100,000 barrel tank barge is the equivalent of approximately 162 average-size rail tank cars and approximately 439 average-size tractor trailer tank trucks. Other tank vessels consist of tankers, which have internal propulsion systems, and tank barges, which do not have propulsion systems and are instead pushed or towed by a tugboat, which are equipped to push, pull or tow tank barges alongside.

Offshore service vessels are generally used to support offshore oil and gas exploration, development and production and to provide other marine services. The largest class of offshore service vessels are supply vessels (also called workboats), which are capable of transporting drillpipe, drilling fluids and construction materials. Other service vessels include tug/supply vessels, which have more powerful engines and are capable of towing and positioning offshore rigs; crewboats, which transport personnel; special service vessels, including geophysical boats which perform offshore seismic testing functions; and safety vessels, which are available for emergency response services related to oil and gas exploration, drilling and production. Although vessels servicing the offshore oil and gas industry are used to support existing production platforms, incremental vessel demand is largely dependent on new offshore drilling activity associated with new wells or the workover of older wells. Therefore, the demand for offshore service vessels generally correlates with oil and gas prices.

Coal Companies. Coal companies are engaged in the owning, leasing, managing, production, processing and sale of coal and coal reserves. The primary use for coal is to fuel electric power generation. In calendar year 2002, it is estimated that coal generated 50% of the electricity produced in the U.S. according to the Energy Information Administration, a statistical agency of the U.S. Department of Energy. Coal is also used by steel companies to make products with blast furnaces and by a variety of industrial users to heat and power foundries, cement plants, paper mills, chemical plants and other manufacturing and processing facilities.

Oil and Gas Exploration and Production (''E&P'') Companies. Oil and gas E&P companies are engaged in the extraction and development of oil and gas from onshore and offshore geological reservoirs. As with oil and gas trusts, as an E&P company's underlying oil and gas reserves are produced, the remaining reserves available to the oil and gas trust are depleted and the production declines. Unlike oil and gas trusts, however, E&P companies typically do not distribute much, if any, of their cash flow to investors, instead utilizing such cash flows to explore for, develop and produce additional oil and gas reserves. This exploration and development activity requires drilling new oil and gas wells, which carries the risk of drilling unproductive wells, or dry holes. As a result, E&P companies are exposed to significant operational risk in addition to being exposed to commodity price risks, which affect the price at which they are able to sell the oil and gas they produce, as well as depletion and decline risks. To offset commodity price risks, many E&P companies engage in oil and gas hedging strategies on a regular basis.

Utility Companies. Utility companies are involved in providing products, services or equipment for the generation, transmission, distribution or sale of electricity, gas or water. Electric utilities, gas utilities (also called local distribution companies or ''LDCs'') and water utilities deliver electricity, natural gas and water, respectively, to residential, industrial and commercial customers within specific geographic regions and are generally subject to the rules and regulations of federal and/or state agencies. Pursuant to their regulation, electric, gas and water utilities generate profits based on formulas as prescribed by the regulating agency or agencies and, as such, are less sensitive to movements in commodity prices and other macroeconomic factors than non-regulated entities. However, electric utilities and LDCs do generally generate less profits and cash flows during certain periods of abnormal weather conditions (*i.e.*, warmer winters or cooler summers than typical) as the amount of electricity or gas they distribute is negatively affected by such weather events. Additionally, electric, water and gas utilities may own certain non-regulated businesses, including electric generation, oil and gas exploration and production, gas gathering and processing, water and wastewater contract management, and commodity marketing businesses. Electric, gas and water utilities are either owned by public investors or are public systems owned by local governments.

Non-U.S. Securities. We may invest in non-U.S. securities, which may include securities denominated in U.S. dollars or in non-U.S. currencies. Because evidences of ownership of such securities usually are held outside the United States, we would be subject to additional risks if we invested in non-U.S. securities, which include possible adverse political and economic developments, seizure or nationalization of foreign deposits and adoption of governmental restrictions which might adversely affect or restrict the payment of principal and interest on the non-U.S. securities to investors located outside the country of the issuer, whether from currency blockage or otherwise. Since non-U.S. securities may be purchased with and payable in foreign currencies, the value of these assets as measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations.

Debt Securities. The debt securities in which we may invest may provide for fixed or variable principal payments and various types of interest rate and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment-in-kind and auction rate features. Certain debt securities are ''perpetual'' in that they have no maturity date. Certain debt securities are zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligations or for an initial period after the issuance of the obligation. To the extent that we invest in below investment grade or unrated debt securities, such securities will be rated, at the time of investment, at least B3 by Moody's Investors Service, Inc., B- by Fitch Ratings or Standard & Poor's, a comparable rating by another rating agency or, if unrated, determined by Kayne Anderson to be of comparable quality. If a security satisfies our minimum rating criteria at the time of purchase and is subsequently downgraded below such rating, we will not be required to dispose of such security. Securities rated Ba by Moody's Investors Service, Inc. are judged to have speculative elements, their future cannot be considered as well assured and often the protection of interest and principal payments may be very moderate. Securities rated BB by S&P or Fitch Ratings are regarded as having predominantly speculative characteristics and, while such obligations have less near-term vulnerability to default than other speculative grade debt, they face major ongoing uncertainties or exposure to adverse business, financial or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments.

Short-Term Debt Securities; Temporary Defensive Position; Invest-Up Period. During the period in which the net proceeds of this offering are being invested, during periods in which Kayne Anderson determines that it is temporarily unable to follow our investment strategy or that it is impractical to do so or pending re-investment of proceeds received in connection with the sale of a security, we may deviate from our investment strategy and invest all or any portion of our assets in cash or cash equivalents or high quality debt securities. Kayne Anderson's determination that it is temporarily unable to follow our investment strategy or that it is impractical to do so will generally occur only in situations in which a market disruption event has occurred and where trading in the securities selected through application of our investment strategy is extremely limited or absent. In such a case, our common stock may be adversely affected and we may not pursue or achieve our investment objective.

Investment Practices

In addition to holding the portfolio investments described above, we may, but are not required to, use the following investment practices.

Use of Derivatives. We may use derivative investments to hedge against interest rate and market risks. We may engage in various interest rate and currency hedging transactions, including buying or selling options or futures, entering into other transactions including forward contracts, swaps or options on futures and other derivatives transactions.

We may purchase and sell derivative investments such as exchange-listed and over-the-counter put and call options on securities, equity, fixed income and interest rate indices, and other financial instruments, and enter into various interest rate transactions, such as swaps, caps, floors or collars, or credit transactions and credit default swaps. We also may purchase derivative investments that combine features of these instruments. We generally seek to use these instruments as hedging strategies to seek to manage our effective interest rate exposure, including the effective yield paid on any Leverage Instruments issued or used by us, protect against possible adverse changes in the market value of securities held in or to be purchased for our portfolio, or otherwise protect the value of our portfolio. See ''Risk Factors — Derivatives Risk'' on page 21 in the prospectus and ''Investment Policies'' in our statement of additional information for a more complete discussion of these transactions and their risks.

In addition, we may engage in transactions intended to hedge the currency risk to which we may be exposed because we will be making Canadian dollar denominated investments in royalty trusts. Currency hedging transactions in which we may engage include buying or selling options or futures or entering into other foreign currency transactions including forward foreign currency contracts, currency swaps or options on currency and currency futures and other derivatives transactions. Hedging transactions can be expensive and have risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative instruments. Furthermore, the ability to successfully use hedging transactions depends on Kayne Anderson's ability to predict pertinent market movements, which cannot be assured. See ''Risk Factors — Risks Associated with an Investment in Non-U.S. Companies — Currency Hedging Risk'' on page 18.

We may also short sell Treasury securities to hedge our interest rate exposure. When shorting Treasury securities, the loss is limited to the principal amount that is contractually required to be repaid at maturity and the interest expense that must be paid at the specified times. See ''Risk Factors — Short Sales Risk'' on page 23.

Use of Arbitrage and Other Strategies. We may use short sales, arbitrage and other strategies to try to generate additional return. As part of such strategies, we may engage in paired long-short trades to arbitrage pricing disparities in securities issued by Energy Companies; write (or sell) covered call options on the securities of Energy Companies or other securities held in our portfolio; purchase call options or enter into swap contracts to increase our exposure to Energy Companies; or sell securities short. With a long position, we purchase a stock outright; whereas with a short position, we would sell a security that we do not own and must borrow to meet our settlement obligations. We will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when we replace the borrowed security. See ''Risk Factors — Short Sales Risk'' on page 23.

We may write (or sell) covered call options on the securities of Energy Companies or other securities held in our portfolio. We will not write uncovered calls. To increase our exposure to certain issuers, we may purchase call options or use swap agreements. We expect to use these strategies on a limited basis. See ''Risk Factors — Derivatives Risk'' on page 21.

Financial Leverage. We generally will seek to enhance our total returns through the use of financial leverage, which may include the use or issuance of Leverage Instruments in an aggregate amount of up to 33⅓% of our total assets after such use or issuance. See ''Use of Financial Leverage'' on page 40.

Portfolio Turnover. We anticipate that our annual portfolio turnover rate will be approximately 25%, but that rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in Kayne Anderson's execution of investment decisions. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us.

Corporate Subsidiary. In the future, we may form a taxable subsidiary to make and hold investments in accordance with our investment objective. For purposes of determining our compliance with our investment policies (see ''— Investment Policies''), we will include the underlying portfolio securities in our investments in such a subsidiary. However, our investment in such a subsidiary would not be subject to our policy limiting our investments in any single issuer to 15% of our total assets.

Under the current tax diversification rules applicable to RICs, we may directly invest up to 25% of our total assets in MLPs treated as publicly traded partnerships. To the extent permissible by such rules, we may indirectly invest through our subsidiary, a higher amount of our assets in equity or debt securities of MLPs.

Securities issued by certain Energy Companies (such as certain U.S. royalty trusts which are taxed as grantor trusts) may not produce ''qualified'' income for purposes of determining our compliance with the tax diversification rules applicable to RICs. Such securities, if held by our taxable subsidiary, may produce ''qualified'' income, but the net return to us on such investments would be reduced to the extent that the subsidiary is subject to corporate income taxes. See ''Tax Matters — U.S. Federal Income Taxation'' on page 56.

Our investment in such a subsidiary will be valued based on the net asset value of the subsidiary. The net asset value of the subsidiary will be computed by dividing the value of all of the subsidiary's assets less all of its liabilities, including but not limited to taxes. The subsidiary's portfolio securities will be valued in accordance with the same valuation procedures applied to our portfolio securities. See ''Net Asset Value'' on page 48.

USE OF FINANCIAL LEVERAGE

We generally will seek to enhance our total returns through the use of financial leverage, which may include the use or issuance of Leverage Instruments in an aggregate amount of up to 33⅓% of our total assets after such use or issuance. Leverage creates a greater risk of loss, as well as potential for more gain, for our common stock than if leverage is not used. The Leverage Instruments would have complete priority upon distribution of assets over common stock. Depending on the type of Leverage Instruments involved, our use of financial leverage may require the approval of our Board of Directors. We expect to invest the net proceeds derived from any use or issuance of Leverage Instruments according to the investment objective and policies described in this prospectus. If shares of preferred stock are issued they would pay adjustable rate dividends based on shorter-term interest rates, which would be redetermined periodically by an auction process. The adjustment period for preferred stock dividends could be as short as one day or as long as a year or more. So long as our portfolio is invested in securities that provide a higher rate of return than the dividend rate or interest rate of the Leverage Instrument after taking our related expenses into consideration, the leverage will cause our common stockholders to receive a higher rate of income than if we were not leveraged. There is no assurance that we will utilize Leverage Instruments or, if Leverage Instruments are utilized, that they will be successful in enhancing the level of our total return. The net asset value of our common stock will be reduced by the fees and issuance costs of any Leverage Instruments. We do not intend to use Leverage Instruments until the proceeds of this offering are substantially invested in accordance with our investment objective. We anticipate that we will invest the majority of the net proceeds of the offering within three months, and may thereafter use Leverage Instruments.

Leverage creates risk for holders of our common stock, including the likelihood of greater volatility of net asset value and market price of the shares, and the risk of fluctuations in dividend rates or interest rates on Leverage Instruments which may affect the return to the holders of our common stock or will result in fluctuations in the dividends paid by us on our common stock. To the extent the return on securities purchased with funds received from the use of leverage exceeds the cost of leverage (including increased expenses to us), our total return will be greater than if leverage had not been used. Conversely, if the return derived from such securities is less than the cost of leverage (including increased expenses to us), our total return will be less than if leverage had not been used, and therefore, the amount available for distribution to our common stockholders will be reduced. In the latter case, Kayne Anderson in its best judgment nevertheless may determine to maintain our leveraged position if it expects that the benefits to our common stockholders of so doing will outweigh the current reduced return. Under normal market conditions, we anticipate that we will be able to invest the proceeds from leverage at a higher rate than the costs of leverage (including increased expenses to us), which would enhance returns to our common stockholders. The fees paid to Kayne Anderson will be calculated on the basis of our total assets including proceeds from Leverage Instruments. During periods in which we use financial leverage, the investment management fee payable to Kayne Anderson will be higher than if we did not use a leveraged capital structure. Consequently, we and Kayne Anderson may have differing interests in determining whether to leverage our assets. The Board of Directors will monitor our use of leverage and this potential conflict.

The use of leverage creates risks and involves special considerations. To the extent that we use leverage, we expect to utilize hedging techniques such as swaps and caps on a portion of our leverage to mitigate potential interest rate risk. See ''Risk Factors — Leverage Risk'' on page 19 and ''Risk Factors — Interest Rate Hedging Risk'' on page 17.

The Maryland General Corporation Law authorizes us, without prior approval of our common stockholders, to borrow money. In this regard, we may issue notes or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such borrowings by mortgaging, pledging or otherwise subjecting as security our assets. In connection with such borrowing, we may be required to maintain minimum average balances with the lender or to pay a commitment or other fee to maintain a line of credit. Any such requirements will increase the cost of borrowing over the stated interest rate. Under the requirements of the 1940 Act, we, immediately after any such borrowings, must have an ''asset coverage'' of at least 300% (33⅓% of our total assets after borrowings). With respect to such borrowing, asset coverage means the ratio which the value of our total assets, less all liabilities and indebtedness not represented by senior securities (as defined in the 1940 Act), bears to the aggregate amount of such borrowing represented by senior securities issued by us.

The rights of our lenders to receive interest on and repayment of principal of any such borrowings will be senior to those of our common stockholders, and the terms of any such borrowings may contain provisions which limit certain of our activities, including the payment of dividends to our common stockholders in certain circumstances. Under the 1940 Act, we may not declare any dividend or other distribution on any class of our capital stock, or purchase any such capital stock, unless our aggregate indebtedness has, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, an asset coverage of at least 300% after declaring the amount of such dividend, distribution or purchase price, as the case may be. Further, the 1940 Act does (in certain circumstances) grant our lenders certain voting rights in the event of default in the payment of interest on or repayment of principal. Since we intend to elect to be treated and to qualify each year as a RIC, such provisions would impair our status as a RIC under the Code. Subject to our ability to liquidate our relatively illiquid portfolio, we intend to repay the borrowings. Any borrowing will likely be ranked senior or equal to all of our other existing and future borrowings.

Certain types of borrowings may result in us being subject to covenants in credit agreements relating to asset coverage and portfolio composition requirements. We may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for the Leverage Instruments issued by us. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. It is not anticipated that these covenants or guidelines will impede Kayne Anderson from managing our portfolio in accordance with our investment objective and policies.

Under the 1940 Act, we are not permitted to issue preferred stock unless immediately after such issuance the value of our total assets is at least 200% of the liquidation value of the outstanding preferred stock (*i.e.*, the liquidation value may not exceed 50% of our total assets). In addition, we are not permitted to declare any cash dividend or other distribution on our common stock unless, at the time of such declaration, the value of our total assets is at least 200% of such liquidation value. If we issue preferred stock, we intend, to the extent possible, to purchase or redeem it from time to time to the extent necessary in order to maintain asset coverage on such preferred stock of at least 200%. In addition, as a condition to obtaining ratings on the preferred stock, the terms of any preferred stock issued are expected to include asset coverage maintenance provisions which will require the redemption of the preferred stock in the event of non-compliance by us and may also prohibit dividends and other distributions on our common stock in such circumstances. In order to meet redemption requirements, we may have to liquidate portfolio securities. Such liquidations and redemptions would cause us to incur related transaction costs and could result in capital losses to us. If we have preferred stock outstanding, two of our Directors will be elected by the holders of preferred stock as a class. Our remaining Directors will be elected by holders of our common stock and preferred stock voting together as a single class. In the event we fail to pay dividends on our preferred stock for two years, holders of preferred stock would be entitled to elect a majority of our Directors.

We may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions which otherwise might require untimely dispositions of our securities. See ''Kayne Anderson Energy Total Return Fund — Other Energy Companies — Short-Term Debt Securities; Temporary Defensive Position; Invest-Up Period'' on page 38.

Effects of Leverage

Assuming that the Leverage Instruments will represent approximately 33$^{1}/_{3}$% of our total assets and we will pay dividends or interest on such Leverage Instruments at an annual combined average rate of 4.0%, the income generated by our portfolio (net of our estimated related expenses) must exceed 1.33% in order to cover such payments. These numbers are merely estimates used for illustration; actual dividend or interest rates on the Leverage Instruments will vary frequently and may be significantly higher or lower than the rate estimated above.

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of leverage on common stock total return, assuming investment portfolio total returns (comprised of income and changes in the value of securities held in our portfolio) of minus 10% to plus 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio returns experienced or expected to be experienced by us. See ''Risk Factors'' on page 13.

The table further reflects the issuance of Leverage Instruments representing 33 1/3% of our total assets, net of expenses, and our currently projected annual Leverage Instrument rate of 4.0%.

Assumed Portfolio Total Return (Net of Expenses)	(10)%	(5)%	0%	5%	10%
Common Stock Total Return	(17.0)%	(9.5)%	(2.0)%	5.5%	13.0%

Common stock total return is composed of two elements: common stock dividends paid by us (the amount of which is largely determined by our net investment income after paying dividends or interest on our Leverage Instruments) and gains or losses on the value of the securities we own. As required by SEC rules, the table above assumes that we are more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0% we must assume that the distributions we receive on our investments is entirely offset by losses in the value of those securities.

MANAGEMENT

Directors and Officers

Our business and affairs will be managed under the direction of our Board of Directors, including supervision of the duties performed by Kayne Anderson. Our Board currently consists of 5 Directors: Anne K. Costin, Steven C. Good, Gerald I. Isenberg, Terrence J. Quinn, and Kevin S. McCarthy. A majority of our Board consists of Directors that are not our ''interested persons'' as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our ''Independent Directors.'' The Board of Directors elects our officers, who will serve at the Board's discretion. The following table includes information regarding our Directors and officers, and their principal occupations and other affiliations during the past five years. The address for all Directors and officers is 1800 Avenue of the Stars, Second Floor, Los Angeles, CA 90067. All of the Directors currently serve on the board of directors of Kayne Anderson MLP Investment Company, a closed-end investment company registered under the 1940 Act that is advised by Kayne Anderson.

Name (Year Born)	Position(s) Held with Registrant	Term of Office/ Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Director/Officer
			Independent Directors	
Anne K. Costin[1] (born 1950)	Director	2-year term/served since May 2005	Ms. Costin is currently an Adjunct Professor in the Finance and Economics Department of Columbia University Graduate School of Business in New York City. As of March 1, 2005, Ms. Costin retired after a 28-year career at Citigroup. From July 2003 to her retirement, she held the position of Managing Director, and for the three years prior to July 2003 she held the position of Managing Director and Global Deputy Head of the Project & Structured Trade Finance product group within Citigroup's Investment Banking Division.	Kayne Anderson MLP Investment Company
Steven C. Good (born 1942)	Director	1-year term/served since May 2005	Mr. Good is a senior partner at Good Swartz Brown & Berns LLP, which offers accounting, tax and business advisory services to middle market private and publicly-traded companies, their owners and their management. Mr. Good founded Block, Good and Gagerman in 1976, which later evolved in stages into Good Swartz Brown & Berns LLP.	Kayne Anderson MLP Investment Company; Arden Realty, Inc.; OSI Systems, Inc.; and Big Dog Holdings, Inc.
Gerald I. Isenberg (born 1940)	Director	3-year term/served since May 2005	Since 1995, Mr. Isenberg has served as a Professor at the University of Southern California School of Cinema-Television. Since 2004 he has been a member of the board of trustees of Partners for Development, a non-governmental organization dedicated to developmental work in third-world countries. From 1998 to 2002, Mr. Isenberg was a board member of Kayne Anderson Rudnick Mutual Funds[2]. From 1989 to 1995, he was President of Hearst Entertainment Productions, a producer of television movies and programming for major broadcast and cable networks.	Kayne Anderson MLP Investment Company; Partners for Development
Terrence J. Quinn (born 1951)	Director	2-year term/served since May 2005	Since 2004, Mr. Quinn has served as Chairman and CEO of Total Capital Corp., a start-up specialty commercial finance company. From 2000 to 2003, Mr. Quinn was a cofounder and managing partner of MTS Health Partners, a private merchant bank providing services to publicly traded and privately held small to mid-sized companies in the healthcare industry.	Kayne Anderson MLP Investment Company

Name (Year Born)	Position(s) Held with Registrant	Term of Office/ Time of Service	Principal Occupations During Past Five Years	Other Directorships Held by Director/Officer
		Interested Director and Officers		
Kevin S. McCarthy[3] . . . (born 1959)	Director; Chief Executive Officer; President	1-year term as a Director/served since May 2005; elected annually as an officer/ served since May 2005	Mr. McCarthy has served as the Chief Executive Officer of Kayne Anderson MLP Investment Company since July 2004 and as a Senior Managing Director of Kayne Anderson since June 2004. Prior to that, Mr. McCarthy was at UBS Securities LLC where he was Global Head of Energy. In this role, he had senior responsibility for all of UBS' energy investment banking activities, including direct responsibility for securities underwriting and mergers and acquisitions in the MLP industry. From 1995 to 2000, Mr. McCarthy led the energy investment banking activities of Dean Witter Reynolds and then PaineWebber Incorporated.	Kayne Anderson MLP Investment Company; Range Resources Corporation
Ralph Collins Walter . . . (born 1946)	Chief Financial Officer	Elected annually/served since May 2005	Mr. Walter has served as the Chief Financial Officer of Kayne Anderson MLP Investment Company since July 2004. Mr. Walter has served as the Chief Operating Officer and Treasurer of Kayne Anderson since 2000. Before joining Kayne Anderson, he was the Chief Administrative Officer at ABN AMRO Inc., the U.S.-based, investment-banking arm of ABN-AMRO Bank.	Knox College
David J. Shladovsky . . . . (born 1960)	Secretary	Elected annually/served since inception	Mr. Shladovsky has served as the Secretary and Chief Compliance Officer of Kayne Anderson MLP Investment Company since September 2004. Mr. Shladovsky has served as a Managing Director and General Counsel of Kayne Anderson since 1997.	None
J.C. Frey . . . . (born 1968)	Vice President, Assistant Treasurer, Assistant Secretary	Elected annually/served since June 2005	Mr. Frey has served as a Senior Managing Director of Kayne Anderson since 2004, and as a Managing Director since 2001. Mr. Frey has served as a Portfolio Manager of Kayne Anderson since 2000 and of Kayne Anderson MLP Investment Company since 2004. From 1998 to 2000, Mr. Frey was a Research Analyst at Kayne Anderson.	None
James C. Baker. . . . . (born 1972)	Vice President	Elected annually/served since June 2005	Mr. Baker has been a Managing Director of Kayne Anderson December 2004. From April 2004 to December 2004, he was a Director in Planning and Analysis at El Paso Corporation. Prior to that, Mr. Baker worked in the energy investment banking group at UBS Securities LLC as a Director from 2002 to 2004 and as an Associate Director from 2000 to 2002. Prior to joining UBS in 2000, Mr. Baker was an Associate in the energy investment banking group at PaineWebber Incorporated.	None

(1) Due to her ownership of securities issued by one of the underwriters in this offering, Ms. Costin is expected to be treated as an ''interested person'' of Kayne Anderson Energy Total Return Fund, as

defined in the 1940 Act, during and until the completion of this offering and, in the future, may be treated as an ''interested person'' during subsequent offerings of our securities if the relevant offering is underwritten by the underwriter in which Ms. Costin owns securities.

(2) The investment adviser to the Kayne Anderson Rudnick Mutual Funds, Kayne Anderson Rudnick Investment Management, LLC, may be deemed an affiliate of Kayne Anderson.

(3) Mr. McCarthy is an ''interested person'' of Kayne Anderson Energy Total Return Fund by virtue of his employment relationship with Kayne Anderson, our investment adviser.

Under our Charter, our Directors are divided into three classes. Each class of Directors will hold office for a three year term. However, the initial directors of the three classes have initial terms of one, two and three years, respectively, and the initial directors will hold office until their successors are duly elected and qualify. At each annual meeting of our stockholders, the successors to the class of Directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each Director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies. Additional information regarding our Board and its committees, is set forth under ''Management'' in our statement of additional information.

Investment Adviser

Kayne Anderson will be our investment adviser. Kayne Anderson will also be responsible for managing our business affairs and providing certain clerical, bookkeeping and other administrative services. Kayne Anderson is a California limited partnership and an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended. Kayne Anderson has one general partner, Kayne Anderson Investment Management, Inc., and a number of individual limited partners. Kayne Anderson Investment Management, Inc. is a Nevada corporation controlled by Richard A. Kayne and John E. Anderson. Kayne Anderson's predecessor was established as an independent investment advisory firm in 1984. As of April 30, 2005, Kayne Anderson managed approximately $3.7 billion. Kayne Anderson has invested in MLPs since 1998 and in royalty trusts since 1992. Kayne Anderson currently manages more than $2.8 billion invested in the securities of MLPs, MLP affiliates, royalty trusts and other Energy Companies.

Kayne Anderson's management of our portfolio will be led by two of its Senior Managing Directors, Kevin S. McCarthy and J.C. Frey. Messrs. McCarthy and Frey will also draw on the research and analytical support of David LaBonte, a Senior Managing Director of Kayne Anderson, as well as the experience and expertise of other professionals at Kayne Anderson, including its Chief Executive Officer, Richard Kayne, and its President and Chief Investment Officer, Robert V. Sinnott. Mr. LaBonte recently joined Kayne Anderson from Citigroup's Smith Barney unit, where he was a Managing Director in the U.S. Equity Research Division responsible for providing research coverage of MLPs and other Midstream Energy Companies. Messrs. Kayne and Sinnott have approximately 70 years of combined investment experience and have been principally responsible for executing Kayne Anderson's energy industry investments in general, and its private investments in MLPs, in particular. Other professionals contributing to the management of our portfolio include Richard J. Farber, James C. Baker, Stephen Smith and Sumit Mathai.

Kevin S. McCarthy will serve as our Chief Executive Officer. Since July 2004, he has served as the Chief Executive Officer and co-portfolio manager of Kayne Anderson MLP Investment Company. Mr. McCarthy has served as a Senior Managing Director at Kayne Anderson since June 2004. Prior to that, he was Global Head of Energy at UBS Securities LLC. In this role, he had senior responsibility for all of UBS' energy investment banking activities, including direct responsibility for securities underwriting and mergers and acquisitions in the energy industry. Mr. McCarthy was with UBS Securities from 2000 to 2004. From 1995 to 2000, Mr. McCarthy led the energy investment banking activities of Dean Witter Reynolds and then PaineWebber Incorporated. He began his investment banking career in 1984. He earned a BA degree in Economics and Geology from Amherst College in 1981, and an MBA degree in Finance from the University of Pennsylvania's Wharton School in 1984.

J.C. Frey is a Senior Managing Director of Kayne Anderson. He is a portfolio manager of Kayne Anderson's funds investing in MLP securities, including service as a co-portfolio manager, Vice President, Assistant Secretary and Assistant Treasurer of Kayne Anderson MLP Investment Company. Mr. Frey began investing in Energy Company securities on behalf of Kayne Anderson in 1998 and has served as portfolio manager for several of Kayne Anderson's Energy Company funds since their inception in 2000. Prior to joining Kayne Anderson in 1997, Mr. Frey was a CPA and audit manager in KPMG Peat Marwick's financial services group, specializing in banking and finance clients, and loan securitizations. Mr. Frey graduated from Loyola Marymount University with a BS degree in Accounting in 1990. In 1991, he received a Master's degree in Taxation from the University of Southern California.

Richard A. Kayne is Chief Executive Officer of Kayne Anderson, its affiliated investment adviser, Kayne Anderson Rudnick Investment Management, LLC, and its affiliated broker-dealer, KA Associates, Inc. He began his career in 1966 as an analyst with Loeb, Rhodes & Co. in New York. Prior to forming Kayne Anderson's predecessor in 1984, Mr. Kayne was a principal of Cantor Fitzgerald & Co., Inc., where he managed private accounts, a hedge fund and a portion of firm capital. Mr. Kayne is a trustee of and the former Chairman of the Investment Committee of the University of California at Los Angeles Foundation, and is a trustee and Co-Chairman of the Investment Committee of the Jewish Community Foundation of Los Angeles. He earned a BS degree in Statistics from Stanford University in 1966 and an MBA degree from UCLA's Anderson School of Management 1968.

Robert V. Sinnott is President, Chief Investment Officer and Senior Managing Director of Energy Investments of Kayne Anderson. Mr. Sinnott is a member of the Board of Directors of Plains All American Pipeline, LP. He joined Kayne Anderson in 1992. From 1986 to 1992, Mr. Sinnott was vice president and senior securities officer of Citibank's Investment Banking Division, concentrating in high-yield corporate buyouts and restructuring opportunities. From 1981 to 1986, he served as director of corporate finance for United Energy Resources, a pipeline company. Mr. Sinnott began his career in the financial industry in 1976 as a vice president and debt analyst for Bank of America in its oil and gas finance department. Mr. Sinnott graduated from the University of Virginia in 1971 with a BA degree in Economics. In 1976, he received an MBA degree in Finance from Harvard University.

David L. LaBonte is a Senior Managing Director of Kayne Anderson, responsible for coordinating and providing research and analytical support in the areas of MLPs and other Energy Company investments. Mr. LaBonte recently joined Kayne Anderson from Citigroup's Smith Barney unit, where he was a Managing Director in the U.S. Equity Research Division responsible for providing research coverage of MLPs and other Energy Companies. Mr. LaBonte worked at Smith Barney from 1998 until March 2005. Prior thereto, he was a vice president in the Investment Management Group of Wells Fargo Bank, where he was responsible for research coverage of the natural gas pipeline industry and managing equity and fixed-income portfolios. In 1993, Mr. LaBonte received his BS degree in Corporate Finance from California Polytechnic University-Pomona.

Richard J. Farber is a Senior Managing Director of Kayne Anderson. Mr. Farber is responsible for proprietary trading and hedging, and serves as Portfolio Manager for arbitrage strategies. He also provides analytical support in the Energy Company area. Mr. Farber joined Kayne Anderson in 1994. From 1990 to 1994, Mr. Farber was vice president of Lehman Brothers' Commodity Risk Management Group, specializing in energy trading. He also worked at Lehman Brothers as an institutional equity trader from 1988 to 1990. From 1985 to 1986, Mr. Farber was employed by Salomon Brothers, Inc. as a mortgage bond analyst. Mr. Farber graduated from Franklin and Marshall College in 1982 with a BA degree in Economics. In 1988, he received his MBA degree in Finance from UCLA's Anderson School of Management.

James C. Baker is a Managing Director of Kayne Anderson, providing analytical support in the Energy Company area. Prior to joining Kayne Anderson in 2004, Mr. Baker was a Director in the energy investment banking group at UBS Securities LLC. At UBS, he focused on securities underwriting and mergers and acquisitions in the energy industry, with a focus on MLPs, MLP affiliates and other Energy Companies. Prior to joining UBS in 2000, Mr. Baker was an Associate in the energy investment banking group at PaineWebber Incorporated. He received a BBA degree in Finance from the University of Texas at Austin in 1995 and an MBA degree in Finance from Southern Methodist University in 1997.

Stephen Smith is a Managing Director of Kayne Anderson. Mr. Smith provides analytical support in the Energy Company area and is responsible for client relations. Mr. Smith joined Kayne Anderson in 2002. From 2000 to 2002, Mr. Smith was an Associate with Goldman, Sachs, Inc.'s Telecommunications, Media and Entertainment investment banking group. In 1999, he was a summer associate in corporate finance with Salomon Smith Barney while attending graduate business school. From 1997 to 1998, Mr. Smith was an analyst with Kayne Anderson. He received a BBA degree in Marketing and Finance from the University of Texas at Austin in 1993 and an MBA degree in Finance from UCLA's Anderson School of Management in 2000.

Sumit Mathai is a research analyst responsible for MLPs, MLP affiliates, royalty trusts, and high-yield Energy Company securities. Prior to joining Kayne Anderson in 2004, Mr. Mathai was an associate with Citicorp in the Energy Global Relationship Bank and an analyst with Salomon Smith Barney in Energy Investment Banking and Acquisition Finance from 1997 to 2004. In 1997, Mr. Mathai was an analyst with Coastal Power Corporation focusing on greenfield power projects and acquisitions in South Asia. Mr. Mathai received a BA degree in Economics in 1997 and an MBA degree in 2004, both from Rice University.

Our statement of additional information provides information about our portfolio managers' compensation, other accounts managed by them, and their ownership of securities issued by us.

Kayne Anderson's principal office is located at 1800 Avenue of the Stars, Second Floor, Los Angeles, California 90067. For additional information concerning Kayne Anderson, including a description of the services to be provided by Kayne Anderson, see ''— Investment Management Agreement'' below.

Investment Management Agreement

Pursuant to an investment management agreement (the ''Investment Management Agreement'') between us and Kayne Anderson, we have agreed to pay Kayne Anderson, as compensation for the services rendered by it, a management fee equal on an annual basis to 1.25% of our average monthly total assets. The management fees are payable for each month within five days after the end of that month. During the first year of our investment activities (from June 30, 2005 until June 29, 2006), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.25% of our average monthly total assets. During our second year of investment activities (from June 30, 2006 until June 29, 2007), Kayne Anderson has contractually agreed to waive or reimburse us for fees and expenses in an amount equal on an annual basis to 0.125% of our average monthly total assets.

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 (or as of the commencement of operations for the initial period if a partial month). Our total assets shall be equal to our average monthly gross asset value (which includes assets attributable to or proceeds from our use of preferred stock, commercial paper or notes issuances and other borrowings), minus the sum of our accrued and unpaid dividends on any outstanding common stock and accrued and unpaid dividends on any outstanding preferred stock and accrued liabilities (other than liabilities associated with borrowing or leverage by us). Liabilities associated with borrowing or leverage include the principal amount of any borrowings, commercial paper or notes that we issue, 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 us.

In addition to Kayne Anderson's management fee, we pay all other costs and expenses of our operations, such as compensation of our directors (other than those employed by Kayne Anderson), custodian, transfer agency, administrative, accounting and dividend disbursing expenses, legal fees, leverage expenses, expenses of independent auditors, expenses of personnel including those who are affiliates of Kayne Anderson reasonably incurred in connection with arranging or structuring portfolio transactions for us, expenses of repurchasing our securities, expenses of preparing, printing and distributing stockholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

Because Kayne Anderson's management fee is based upon a percentage of our total assets, Kayne Anderson's fee is likely to be higher if we employ leverage. In this regard, if we use leverage in the amount equal to $33\frac{1}{3}\%$ of our total assets (after their issuance), the management fee rate payable to Kayne Anderson would be 1.87% of our net assets attributable to common stock. See ''Fees and Expenses'' on page 10.

NET ASSET VALUE

We will determine our net asset value as of the close of regular session trading on the NYSE (normally 4:00 p.m. Eastern time) no less frequently than the last business day of each month, and will make our net asset value available for publication monthly. Net asset value is computed by dividing the value of all of our assets (including accrued interest and dividends), less all of our liabilities (including accrued expenses, dividends payable, current and deferred and other accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock, by the total number of shares outstanding.

We expect that our portfolio will include securities that are privately issued or illiquid. For these securities, as well as any other portfolio security held by us for which reliable market quotations are not readily available in the judgment of Kayne Anderson or the pricing service does not provide a valuation or provides a valuation that in the judgment of Kayne Anderson is stale or does not represent fair value, valuations will be determined in a manner that most fairly reflects fair value of the security on the valuation date. Unless otherwise determined by our Board of Directors, the following valuation process, approved by the Board of Directors, will be used for such securities:

- *Investment Team Valuation.* The applicable investments will initially be valued by Kayne Anderson's investment professionals responsible for the portfolio investments.
- *Investment Team Valuation Documentation.* Preliminary valuation conclusions will be documented and discussed with senior management of Kayne Anderson. Such valuations will be submitted to the Valuation Committee (a committee of our Board of Directors) or our Board of Directors on a monthly basis, and will stand for intervening periods of time.
- *Valuation Committee.* The Valuation Committee shall meet on or about the end of each month to consider new valuations presented by Kayne Anderson, if any, which were made in accordance with the Valuation Procedures in such month. Between meetings of the Valuation Committee, a senior officer of Kayne Anderson is authorized to make valuation determinations. The Valuation Committee's valuations will stand for intervening periods of time unless the Valuation Committee meets again at the request of Kayne Anderson, our Board of Directors or the Committee itself. The Valuation Committee's valuation determinations will be subject to ratification by our Board at its next regular meeting.
- *Valuation Firm.* No less than quarterly, a third-party valuation firm engaged by our Board of Directors will review the valuation methodologies and calculations employed for these securities.
- *Board of Directors Determination.* Our Board of Directors will meet quarterly to consider the valuations provided by Kayne Anderson and the Valuation Committee, if applicable, and ratify valuations for the applicable securities. Our Board of Directors will consider the reports, if any, provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

Unless otherwise determined by our Board of Directors, securities that are convertible into or otherwise will become publicly traded (*e.g.*, through subsequent registration or expiration of a restriction on trading) will be valued through the process described above, using a valuation based on the market value of the publicly traded security less a discount. The discount will initially be equal in amount to the discount negotiated at the time of purchase. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, Kayne Anderson may determine an amortization schedule for the discount in accordance with a methodology approved by the Valuation Committee.

For publicly traded securities with a readily available market price, the valuation will be as described below. Readily marketable portfolio securities listed on any exchange other than the NASDAQ will be 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 asked prices on such day. Securities admitted to trade on the NASDAQ will be valued at the

NASDAQ official closing price. Portfolio securities traded on more than one securities exchange will be 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, will be valued at the closing bid prices. Fixed income securities with a remaining maturity of 60 days or more will be valued by us using a pricing service. When price quotes are not available, fair market value will be based on prices of comparable securities. Fixed income securities maturing within 60 days will be valued on an amortized cost basis.

Any derivative transaction that we enter into may, depending on the applicable market environment, have a positive or negative value for purposes of calculating our net asset value. Any option transaction that we enter into may, depending on the applicable market environment, have no value or a positive value. Exchange traded options and futures contracts will be valued at the closing price in the market where such contracts are principally traded.

We may invest in a taxable subsidiary formed by us to make and hold investments in accordance with our investment objective. Our investment in such a subsidiary will be valued based on the net asset value of the subsidiary. The net asset value of the subsidiary will be computed by dividing the value of all of the subsidiary's assets less all of its liabilities by the total number of the subsidiary's outstanding securities. The subsidiary's portfolio securities will be valued in accordance with the same valuation procedures applied to our portfolio securities and described above in this section.

DIVIDEND REINVESTMENT PLAN

If your common stock is registered directly with us or if you hold your common stock with a brokerage firm that participates in our Dividend Reinvestment Plan, unless you elect to receive your dividends or other distributions in cash, they will be automatically reinvested by the Plan Agent, American Stock Transfer & Trust Company, in additional common stock under the Dividend Reinvestment Plan (the ''Plan''). If you elect to receive your dividends or other distributions in cash, you will receive them in cash paid by check mailed directly to you by American Stock Transfer & Trust Company, as dividend paying agent.

If you decide to participate in the Plan, the number of shares of common stock you will receive will be determined as follows:

(1) If our common stock is trading at or above net asset value at the time of valuation, we will issue new shares at a price equal to the greater of (i) our common stock's net asset value on that date or (ii) 95% of the market price of our common stock on that date.

(2) If our common stock is trading below net asset value at the time of valuation, the Plan Agent will receive the dividend or distribution in cash and will purchase common stock in the open market, on the NYSE or elsewhere, for the participants' accounts. It is possible that the market price for our common stock may increase before the Plan Agent has completed its purchases. Therefore, the average purchase price per share paid by the Plan Agent may exceed the market price at the time of valuation, resulting in the purchase of fewer shares than if the dividend or distribution had been paid in common stock issued by us. The Plan Agent will use all dividends and distributions received in cash to purchase common stock in the open market within 30 days of the valuation date except where temporary curtailment or suspension of purchases is necessary to comply with federal securities laws. Interest will not be paid on any uninvested cash payments.

You may withdraw from the Plan at any time by giving written notice to the Plan Agent, or by telephone in accordance with such reasonable requirements as we and the Plan Agent may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Agent will sell your shares and send you the proceeds, minus a $15.00 transaction fee and brokerage commissions.

The Plan Agent maintains all common stockholders' accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common stock in your account will be held by the Plan Agent in non-certificated form. The Plan Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to us. Any proxy you receive will include all common stock you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in common stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. See ''Tax Matters'' on page 56.

If you hold your common stock with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above. Consult your financial advisor for more information.

There is no direct service charge to participants in the Plan; however, we reserve the right to amend or terminate the Plan if in the judgment of the Board of Directors the change is warranted. We also reserve the right to amend the Plan to include a service charge payable by the participants. Additional information about the Plan may be obtained from American Stock Transfer & Trust Company at 59 Maiden Lane, New York, New York 10038.

DESCRIPTION OF CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and on our Charter and Bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our Charter and Bylaws for a more detailed description of the provisions summarized below.

Capital Stock

Our authorized capital stock consists of 200,000,000 shares of stock, par value $0.001 per share, all of which is initially classified as common stock. There is currently no market for our common stock, and we can offer no assurances that a market for our shares will develop in the future. Our common stock has been approved for listing on the NYSE, subject to notice of official issuance, under the symbol ''KYE''. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our Charter, our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock and authorize the issuance of shares of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our Charter provides that the Board of Directors, without any action by our stockholders, may amend the Charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, dividends and voting and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Dividends may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, appraisal, exchange, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our Charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock, without the approval of the holders of our common stock. Holders of common stock have no preemptive right to purchase any preferred stock that might be issued. We may elect to issue preferred stock as part of our leverage strategy. See ''Description of Preferred Stock'' in our statement of additional information.

Prior to issuance of shares of each class or series, our Board of Directors is required by Maryland law and by our Charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act.

Among other requirements, including other voting rights, the 1940 Act requires that the holders of any preferred stock, voting separately as a single class, have the right to elect at least two Directors at all times. The remaining Directors will be elected by holders of our common stock and preferred stock, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, the holders of any preferred stock have the right to elect a majority of our Directors at any time two years' dividends on any preferred stock are unpaid. See ''Description of Preferred Stock'' in our statement of additional information.

Certain Provisions of the Maryland General Corporation Law and our Charter and Bylaws

The Maryland General Corporation Law and our Charter and Bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors. Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The initial terms of the first, second and third classes will expire in 2006, 2007 and 2008, respectively. Beginning in 2006, upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors. Our Charter and Bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect a director. Pursuant to our Charter, our Board of Directors may amend the Bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal. Our Charter provides that the number of directors will be set only by the Board of Directors in accordance with our Bylaws. Our Bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless our Bylaws are amended, the number of directors may never be less than the minimum number required by the Maryland General Corporation Law nor more than fifteen. Our Charter provides that, at such time as we have at least three independent directors and our common stock is registered under the Exchange Act, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our Charter provides that a director may be removed only for cause, as defined in the Charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders. Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or, unless the charter provides for stockholder action by less than unanimous written consent (which is not the case for our Charter), by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our Bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals. Our Bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of the Bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the Bylaws.

Calling of Special Meetings of Stockholders. Our Bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our Bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws. Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our Charter generally provides for approval of Charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our Charter also provides that certain Charter amendments and any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company or any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by at least 80 percent of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The ''continuing directors'' are defined in our Charter as our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the Board of Directors. Our Charter and Bylaws provide that the Board of Directors will have the exclusive power to adopt, alter or repeal any provision of our Bylaws and to make new Bylaws.

OUR STRUCTURE; COMMON STOCK REPURCHASES AND CHANGE IN OUR STRUCTURE

Closed-End Structure

Closed-end funds differ from open-end management investment companies (commonly referred to as ''mutual funds''). Closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the stockholder. In contrast, mutual funds issue securities redeemable at net asset value at the option of the stockholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund's investment objective and policies. Accordingly, closed-end funds have greater flexibility than open-end funds to make certain types of investments, including investments in illiquid securities.

Shares of closed-end investment companies listed for trading on a securities exchange frequently trade at discounts to their net asset value, but in some cases trade at a premium. The market price may be affected by net asset value, dividend or distribution levels (which are dependent, in part, on expenses), supply of and demand for the shares, stability of dividends or distributions, trading volume of the shares, general market and economic conditions and other factors beyond the control of the closed-end fund. The foregoing factors may result in the market price of our common stock being greater than, less than or equal to net asset value. The Board of Directors has reviewed our structure in light of our investment objective and policies and has determined that the closed-end structure is in the best interests of our stockholders. However, the Board of Directors may review periodically the trading range and activity of our shares with respect to our net asset value and may take certain actions to seek to reduce or eliminate any such discount. Such actions may include open market repurchases or tender offers for our common stock at net asset value or our possible conversion to an open-end mutual fund. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in our common stock trading at a price equal to or close to net asset value per share of our common stock. Based on the determination of the Board of Directors in connection with this initial offering of our common stock that the closed-end structure is desirable in light of our investment objective and policies, it is highly unlikely that the Board would vote to convert us to an open-end investment company.

Repurchase of Common Stock and Tender Offers

In recognition of the possibility that our common stock might trade at a discount to net asset value and that any such discount may not be in the interest of our common stockholders, the Board of Directors, in consultation with Kayne Anderson, from time to time may, but is not required to, review possible actions to reduce any such discount. The Board of Directors also may, but is not required to, consider from time to time open market repurchases of and/or tender offers for our common stock, as well as other potential actions, to seek to reduce any market discount from net asset value that may develop. After any consideration of potential actions to seek to reduce any significant market discount, the Board may, subject to its applicable duties and compliance with applicable state and federal laws, authorize the commencement of a share-repurchase program or tender offer. The size and timing of any such share repurchase program or tender offer will be determined by the Board of Directors in light of the market discount of our common stock, trading volume of our common stock, information presented to the Board of Directors regarding the potential impact of any such share repurchase program or tender offer, general market and economic conditions and applicable law. There can be no assurance that we will in fact effect repurchases of or tender offers for any of our common stock. We may, subject to our investment limitation with respect to borrowings, incur debt to finance such repurchases or a tender offer or for other valid purposes. Interest on any such borrowings would increase our expenses and reduce our net income.

There can be no assurance that repurchases of our common stock or tender offers, if any, will cause our common stock to trade at a price equal to or in excess of their net asset value. Nevertheless, the possibility that a portion of our outstanding common stock may be the subject of repurchases or tender offers may reduce the spread between market price and net asset value that might otherwise exist. Sellers may be less inclined to accept a significant discount in the sale of their common stock if they have a reasonable expectation of being able to receive a price of net asset value for a portion of their common stock in conjunction with an announced repurchase program or tender offer for our common stock.

Although the Board of Directors believes that repurchases or tender offers generally would have a favorable effect on the market price of our common stock, the acquisition of common stock by us will decrease our total assets and therefore will have the effect of increasing our expense ratio and decreasing the asset coverage with respect to any preferred stock outstanding. Because of the nature of our investment objective, policies and portfolio, particularly our investment in illiquid or otherwise restricted securities, it is possible that repurchases of common stock or tender offers could interfere with our ability to manage our investments in order to seek our investment objective. Further, it is possible that we could experience difficulty in borrowing money or be required to dispose of portfolio securities to consummate repurchases of or tender offers for common stock.

Possible Conversion to Open-End Fund Status

Our Charter provides that any proposal for our conversion from a closed-end investment company to an open-end investment company requires the approval of our Board of Directors and the stockholders entitled to cast at least 80 percent of the votes entitled to be cast on such matter. However, if such proposal is also approved by at least 80 percent of our continuing directors (in addition to the approval by our Board of Directors), such proposal may be approved by a majority of the votes entitled to be cast on the matter. See ''Description of Capital Stock'' on page 51 for a discussion of voting requirements applicable to our conversion to an open-end investment company. If we converted to an open-end investment company, we would be required to redeem all preferred stock then outstanding (requiring in turn that we liquidate a portion of our investment portfolio) and our common stock would no longer be listed on the NYSE. Conversion to open-end status could also require us to modify certain investment restrictions and policies. Stockholders of an open-end investment company may require the investment company to redeem their shares at any time (except in certain circumstances as authorized by or permitted under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of redemption. In order to avoid maintaining large cash positions or liquidating favorable investments to meet redemptions, open-end investment companies typically engage in a continuous offering of their shares. Open-end investment companies are thus subject to periodic asset in-flows and out-flows that can complicate portfolio management. Our Board of Directors may at any time propose our conversion to open-end status, depending upon its judgment regarding the advisability of such action in light of circumstances then prevailing.

TAX MATTERS

The following discussion of tax matters is based on the advice of our counsel, Paul, Hastings, Janofsky & Walker LLP.

This section and the discussion in our statement of additional information summarize the material consequences to U.S. taxpayers of owning our common stock. This section is current as of the date of this prospectus. Tax laws and interpretations change frequently, and this summary does not describe all of the tax consequences to all taxpayers. For example, this summary generally does not describe your situation if you are a non-U.S. person, a broker-dealer, or other investor with special circumstances. In addition, this section generally does not describe your state, local or foreign tax consequences. As with any investment, you should consult your own tax professional about your particular consequences. Investors should consult their own tax advisors regarding the tax consequences of investing in our common stock.

U.S. Federal Income Taxation

We intend to elect to be treated as and to qualify each year for special tax treatment afforded a RIC under Subchapter M of the Code. As long as we meet certain requirements that govern our source of income, diversification of assets and distribution of earnings to stockholders, we will not be subject to U.S. federal income tax on income distributed in a timely manner to our stockholders.

We intend to invest in U.S. royalty trusts that are expected to derive income and gains from the production of oil and gas. Unlike Canadian royalty trusts, U.S. royalty trusts are legally precluded from making acquisitions financed by new debt and/or equity. U.S. royalty trusts are generally treated as grantor trusts for U.S. federal income tax purposes, which means that we will be taxed directly for our share of the trust income and will be entitled to our share of the trusts' deductions and tax credits. We would be deemed to directly own the assets of each U.S. royalty trust, and would need to look at the underlying items of income in the U.S. royalty trust to determine whether that income will have an effect on our qualification as a RIC. We intend to monitor our investments in U.S. royalty trusts to maintain our continued qualification as a RIC.

Qualification as a RIC

We intend to qualify for the special tax treatment afforded to RICs under the Code. As long as we qualify, we (but not our stockholders) will not be subject to federal income tax on the part of our net ordinary income and net realized capital gains that we distribute to our stockholders. In order to qualify as a RIC for federal income tax purposes, we must meet three key tests, which are described below. Failure to meet any of the tests at the end of any quarter would disqualify us from RIC tax treatment for the entire year. However, in certain situations we may be able to take corrective action within 30 days of the end of a quarter, which would allow us to remain qualified.

The Income Test. At least 90% of our annual gross income must be derived from dividends, interest, payments with respect to securities loans, gains from the sale of stock or securities, foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to the business of investing in stock, securities or currencies. Net income from a ''qualified publicly traded partnership'' will also be included as qualifying income for purposes of the 90% gross income test. To the extent we hold interests in entities that are taxed as grantor trusts for Federal income tax purposes or are partnerships that are not treated as ''qualified publicly traded partnerships,'' the income derived from such investments may not be treated as qualifying income for purposes of the 90% gross income test.

The Asset Diversification Test. We must diversify our holdings so that, at the end of each quarter of each taxable year (i) at least 50% of the value of our total assets is represented by cash and cash items, U.S. Government securities, the securities of other RICs and other securities, with such other securities limited for purposes of such calculation, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of our total assets is invested in the securities of any one issuer (other than U.S. Government securities or the securities of other RICs), the securities (other than the securities of other RICs) of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses, or the securities of one or more qualified publicly traded partnerships.

The Distribution Test. Our deduction for dividends paid to our stockholders must equal or exceed the sum of 90% of (i) our investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) 90% of our net tax-exempt interest (the excess of our gross tax-exempt interest over certain disallowed deductions). For purposes of this distribution test, we may elect to treat as paid on the last day of the fiscal year all or part of any dividends that we declare after the end of our taxable year. Such dividends must be declared before the due date for filing our tax return, including any extensions.

If, in any taxable year, we fail to qualify as a RIC, we would be taxed in the same manner as an ordinary corporation and distributions from earnings and profits (as determined under U.S. federal income tax principles) to our common stockholders would not be deductible by us in computing our taxable income. In such case, distributions to our common stockholders generally would be eligible (i) for treatment as qualified dividend income in the case of individual stockholders, and (ii) for the dividends-received deduction in the case of corporate stockholders. In addition, we could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial distributions before requalifying as a RIC that is accorded special tax treatment.

Distributions we pay to you from our investment company taxable income or from an excess of net short-term capital gain over net long-term capital losses (together referred to hereinafter as ''ordinary income dividends'') are generally taxable to you as ordinary income to the extent of our earnings and profits. Such distributions (if designated by us) may qualify (provided holding period and other requirements are met) (i) for the dividends received deduction in the case of corporate stockholders to the extent that our income consists of dividend income from U.S. corporations, and (ii) in the case of individual stockholders (effective for taxable years beginning on or before December 31, 2008), as qualified dividend income eligible to be taxed at a maximum rate of generally 15% (5% for individuals in lower tax brackets) to the extent that we receive qualified dividend income. The recently enacted Working Families Tax Relief Act of 2004 clarifies that if our qualified dividend income is less than 95% of our gross income, a stockholder may include as qualifying dividend income only that portion of the dividends that may be and are so designated by us as qualifying dividend income. Qualified dividend income is, in general, dividend income from taxable domestic corporations and certain foreign corporations (*e.g.*, generally, foreign corporations incorporated in a possession of the United States or in certain countries with a qualified comprehensive tax treaty with the United States, or the stock of which is readily tradable on an established securities market in the United States, provided that the dividend is paid in respect of such publicly traded stock). Dividend income from passive foreign investment companies and, in general, dividend income from REITs is not eligible for the reduced rate for qualified dividend income and is taxed as ordinary income. Distributions made to you from an excess of net long-term capital gain over net short-term capital losses (''capital gain dividends''), including capital gain dividends credited to you but retained by us, are taxable to you as long-term capital gain if they have been properly designated by us, regardless of the length of time you have owned our shares. The maximum tax rate on capital gain dividends received by individuals generally is 15% (5% for individuals in lower brackets) for such gain realized for taxable years beginning on or before December 31, 2008. Distributions in excess of our earnings and profits will first reduce the adjusted tax basis of your shares and, after such adjusted tax basis is reduced to zero, will constitute capital gain to you (assuming the shares are held as a capital asset). Generally, not later than 60 days after the close of its taxable year, we will provide you with a written notice designating the amount of any qualified dividend income or capital gain dividends and other distributions.

The sale or other disposition of our shares will generally result in capital gain or loss to you, and will be long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss upon the sale or exchange of our shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you. A loss realized on a sale or exchange of shares will be disallowed if other substantially identical shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such case, the basis of the shares acquired will be adjusted to reflect the disallowed loss. Present law taxes both long-term and short-term capital gain of corporations at the rates applicable to ordinary income. For non-corporate taxpayers, under present law, short-term capital gain will currently be taxed at a maximum rate of 35% applicable to ordinary income while long-term capital gain generally will be taxed at a maximum rate of 15%.

Dividends and other taxable distributions are taxable to you even though they are reinvested in additional shares. If we pay you a dividend in January that was declared in the previous October, November or December to common stockholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by us and received by you on December 31 of the year in which the dividend was declared.

We are required in certain circumstances to backup withhold on taxable dividends and certain other payments paid to non-corporate holders of our shares who do not furnish us with their correct taxpayer identification number (in the case of individuals, their social security number) and certain certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

The recently enacted American Jobs Creation Act of 2004 (the ''2004 Jobs Act''), which was signed by President Bush on October 22, 2004, amends certain rules relating to RICs. The 2004 Jobs Act modifies the 90% gross income test with respect to income of a RIC to include net income derived from interests in ''qualified publicly traded partnerships'' and modifies the asset diversification test of a RIC to include a new limitation on the investment by a RIC in such qualified publicly traded partnership interests. Specifically the 2004 Jobs Act provides that not more than 25% of the value of a regulated investment company's assets can be invested in those securities of any issuer (other than U.S. Government securities and the securities of other RICs) or of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses or the securities of one or more qualified publicly traded partnerships. Generally, a qualified publicly traded partnership includes a partnership, such as the MLPs in which we intend to invest, the interests of which are traded on an established securities market or readily tradable on a secondary market (or the substantial equivalent thereof) and which derives income and gains from, inter alia, the exploration, development, mining or production, processing, refining, transportation, or the marketing of any mineral or natural resource. These provisions generally apply to the taxable years beginning after October 22, 2004.

The 2004 Jobs Act also provides that certain dividends designated by us as ''interest-related dividends'' that are received by most of our foreign investors (generally those that would qualify for the portfolio interest exemptions of Section 871(h) or Section 881(c) of the Code) will be exempt from U.S. withholding tax. Interest-related dividends are those dividends derived from certain interest income (including bank deposit interest and short term original issue discount that is currently exempt from the withholding tax) we earn that would not be subject to U.S. tax if earned by a foreign person directly. The 2004 Jobs Act further provides that certain dividends designated by us as ''short-term capital gain dividends'' that are received by certain foreign investors (generally those not present in the United States for 183 days or more) will be exempt from U.S. withholding tax. In general, short-term capital gain dividends are those that are derived from our short-term capital gains over net long-term capital losses. These provisions generally apply, with certain exceptions, to dividends with respect to taxable years of RICs beginning after December 31, 2004 and before January 1, 2008. Prospective investors are urged to consult their tax advisors regarding the specific tax consequences to them related to the 2004 Jobs Act.

Investments by us in certain ‘‘passive foreign investment companies’’ (‘‘PFICs’’) could subject us to federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments which cannot be eliminated by making distributions to stockholders. Elections may be available to us to mitigate the effect of this provision provided that the PFIC complies with certain reporting requirements, but the elections would generally function to accelerate the recognition of income without a corresponding receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed above applicable to qualified dividend income.

The tax treatment of our investments in U.S. royalty trusts will differ depending on whether such entities are treated as corporations, partnerships, or grantor trusts for federal income tax purposes. In particular, certain U.S. royalty trusts are treated as grantor trusts for federal income tax purposes and generally pass through tax items such as income, gain or loss. In such cases, we would be deemed for tax purposes to directly own the assets of such royalty trusts. As a result, we will be required to monitor the individual underlying items of income that we receive from such grantor trusts to determine how we will characterize such income for tax purposes, including for purposes of meeting the income distribution requirements applicable to RICs.

Securities issued by certain Energy Companies (such as U.S. royalty trusts which are grantor trusts) may not produce ‘‘qualified’’ income for purposes of determining our compliance with the tax diversification rules applicable to RICs. To the extent that we hold such securities indirectly through investments in a taxable subsidiary formed by us, those securities may produce ‘‘qualified’’ income. However, the net return to us on such investments would be reduced to the extent that the subsidiary is subject to corporate income taxes.

State and Local Taxes

Our common stock dividends also may be subject to state and local taxes.

Tax matters are very complicated, and the federal, state, local and foreign tax consequences of an investment in and holding of our common stock will depend on the facts of each investor’s situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect such investors.

Certain Canadian Federal Income Tax Considerations

The following is a summary of the principal Canadian federal income tax considerations generally applicable to us in respect of our proposed investment in royalty trusts. The summary is of a general nature only and is based upon the applicable Canadian tax laws as of the date hereof. There can be no assurance that the tax laws may not be changed or that Canada Revenue Agency (‘‘CRA’’) will not change its administrative policies and assessing practices. This summary reflects specific proposals to amend the Tax Act and the Regulations (the ‘‘Tax Proposals’’) publicly announced by or on behalf of the Canadian Minister of Finance prior to the date hereof. This summary does not take into account provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed herein. This summary assumes that each royalty trust that we will invest in will qualify as a ‘‘mutual fund trust’’ as defined in the Tax Act at all relevant times. If a royalty trust were not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax considerations described below would, in some respects, be materially different.

Any distribution of the income of a royalty trust (excluding any net realized taxable capital gain that the royalty trust has validly designated as a taxable capital gain), that is paid, credited or deemed paid or credited will be subject to Canadian non-resident withholding tax of 15% in accordance with the Canada United States Income Tax Convention (the ‘‘Treaty’’) whether the distribution is made in cash or additional Units.

A royalty trust may designate under the Income Tax Act (Canada) (the ‘‘Canadian Tax Act’’) the portion of taxable income distributed to non-resident unitholders as net realized taxable capital gains of the royalty trust. This capital gain portion of a distribution to a non-resident unitholder such as us will not be subject to tax under the Canadian Tax Act (but see the discussion of the Tax Proposals below).

Draft legislation released by the Canadian Minister of Finance on December 6, 2004 will generally treat distributions to a non-resident unitholder by a royalty trust out of net gains a royalty trust realizes on dispositions of ''taxable Canadian property'' (as defined in the Canadian Tax Act), which includes real property situated in Canada, as taxable distributions of Canadian source trust income. Accordingly, such distributions will be subject to Canadian non-resident withholding tax at 15% under the Treaty.

Also under these tax proposals, distributions made by certain types of royalty trusts to us that would otherwise not be subject to tax (generally distributions in excess of the income and capital gains of the royalty trust, commonly referred to as ''returns of capital'') will be subject to a special tax at the rate of 15%. The types of royalty trusts subject to this special tax are those in respect of which the Units are listed on certain prescribed stock exchanges, which includes the Toronto Stock Exchange, and more than 50% of the fair market value of the Units is attributable to real property situated in Canada, Canadian resource properties or timber resource properties, as defined in the Canadian Tax Act. If applicable, this tax must be withheld from such distributions by a royalty trust. Some or all of this special tax may be refunded to us if we realize a capital loss on the disposition of Units or of other ''Canadian property mutual fund investments'', as defined in these Tax Proposals.

The amount distributed to us in a taxation year by a royalty trust may exceed the income of the royalty trust for tax purposes for that year giving rise to ''returns of capital'' as described above. Subject to the above discussion of the Tax Proposals, such distributions in excess of the royalty trust's income in a year to us will not be subject to Canadian non-resident withholding tax but will reduce the adjusted cost base of the Units we hold. If, as a result, our adjusted cost base of the Units in any taxation year would otherwise be a negative amount, we will be deemed to realize a capital gain in such amount for that year, and our adjusted cost base of the Units will be zero immediately thereafter. The treatment of any such capital gain deemed to be realized by us is described below. The non-taxable portion of net realized capital gains of a royalty trust that is paid or payable to us and the amount of any distribution subject to the proposed special tax on returns of capital described above will not reduce the adjusted cost base of the Units we hold.

We generally will not be subject to tax under the Canadian Tax Act in respect of a capital gain, or entitled to deduct any capital loss, realized upon the disposition or deemed disposition of Units of a royalty trust (whether on redemption, by virtue of our adjusted cost base becoming negative or otherwise) unless the Units represent ''taxable Canadian property'' to us for the purposes of the Canadian Tax Act and we are not entitled to relief under the Treaty. Units of a royalty trust held by us generally will not be considered to be ''taxable Canadian property'' unless (i) at any time during the 60-month period immediately preceding the disposition by us, not less than 25% of the issued Units were owned by us and/or persons with whom we do not deal at arm's length; (ii) at the time of disposition, the royalty trust is not a ''mutual fund trust'' for purposes of the Canadian Tax Act; or (iii) the Units are otherwise deemed to be ''taxable Canadian property''. Where the Units we hold are ''taxable Canadian property'', a capital gain from their disposition or deemed disposition generally will be exempted by the Treaty from tax under the Canadian Tax Act provided the Units do not derive their value principally from real property situated in Canada.

Currently, a royalty trust that is a mutual fund trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada (the ''maintained or established test''), unless all or substantially all of its property is property other than ''taxable Canadian property'' as defined in the Canadian Tax Act. Draft legislation released by the Minister of Finance (Canada) on September 16, 2004 relating to certain measures contained in the March 23, 2004 Canadian federal budget included certain Tax Proposals which would have amended the operation of the ''maintained or established test.'' In addition, these Tax Proposals contained a proposal which would have ensured that, together with other forms of ''taxable Canadian property'', Canadian resource property and timber resource property would also be included in restricting the availability of relief under the ''maintained or established test''. On December 6, 2004, the Department of Finance issued a Notice of Ways and Means Motion and draft legislation which did not include either of the proposed changes just described. In announcing the proposals, the Department of Finance indicated that they will review with the private sector concerning the appropriate Canadian tax treatment of non-residents investing in resource property through mutual funds. Accordingly, further changes in this area are possible, some of which might be material. However, we have no way of predicting what changes, if any, would be made, and any consequence thereof.

We intend to invest in Canadian Royalty Trusts that are expected to derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. Canadian Royalty Trusts are generally treated as either corporations or partnerships for U.S. federal income tax purposes. If the Canadian Royalty Trusts in which we invest are treated as corporations for U.S. federal income tax purposes, our income and gain generated from such investments will generally be qualifying income, and a unit of such a trust will generally be a qualifying asset, for purposes of our qualification as a RIC. Moreover, if the Canadian Royalty Trust is a PFIC (as defined above), we will be subject to additional rules described above relating to tax consequences of an investment in a PFIC.

If the Canadian royalty trusts in which we invest are treated as partnerships for U.S. federal income tax purposes, the effect on our qualification as a RIC will depend on whether the Canadian royalty trust is a qualified publicly traded partnership (as described above) or not. If the Canadian royalty trust is a qualified publicly traded partnership, our investment therein would generally be subject to the rules described above relating to investments in MLPs. If the Canadian royalty trust, however, is not treated as a qualified publicly traded partnership, then the effect on our qualification as a RIC of an investment in such Canadian royalty trust will depend upon the amount and type of income and assets of the Canadian royalty trust allocable to us. We intend to monitor our investments in Canadian royalty trusts to maintain our continued qualification as a RIC.

Tax Risks

Investing in our common stock involves certain tax risks, which are fully described in the section ''Risk Factors — Tax Risks'' on page 16.

Use of Tax Matters Section

As required by U.S. Treasury Regulations governing tax practice, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code.

The advice was prepared to support the promotion or marketing of the transactions or matters addressed by the written advice.

Any person reviewing this discussion should seek advice based on such person's particular circumstances from an independent tax advisor.

UNDERWRITING

Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC are acting as joint book-running managers of the offering and as the representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

Underwriter	Number of shares
Citigroup Global Markets Inc.	12,920,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	3,500,000
UBS Securities LLC	6,500,000
A.G. Edwards & Sons, Inc.	1,500,000
Advest, Inc.	200,000
Robert W. Baird & Co. Incorporated	200,000
H&R Block Financial Advisors, Inc.	200,000
Crowell, Weedon & Co.	200,000
Deutsche Bank Securities Inc.	600,000
Ferris, Baker Watts, Incorporated	200,000
Friedman, Billings, Ramsey & Co., Inc.	200,000
Janney Montgomery Scott LLC	200,000
KeyBanc Capital Markets, A Division of McDonald Investments Inc.	400,000
Legg Mason Wood Walker, Incorporated	400,000
RBC Capital Markets Corporation	1,600,000
Wedbush Morgan Securities Inc.	300,000
Wells Fargo Securities, LLC	300,000
Brookstreet Securities Corporation	200,000
Doft & Co., Inc.	100,000
Oppenheimer & Co. Inc.	50,000
Morgan Keegan & Company, Inc.	50,000
Ryan Beck & Co., Inc.	50,000
Axiom Capital Management, Inc.	20,000
BB&T Capital Markets, a division of Scott & Stringfellow, Inc.	20,000
Mesirow Financial, Inc.	20,000
Southwest Securities, Inc.	20,000
David A. Noyes & Company	10,000
HSBC Securities (USA) Inc.	10,000
Huntleigh Securities Corporation	10,000
Sanders Morris Harris Inc.	10,000
SunTrust Capital Markets, Inc.	10,000
Total	30,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to dealers at the public offering price less a concession not to exceed $0.75 per share. The underwriters may allow, and dealers may reallow, a concession not to exceed $0.10 per share on sales to other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and other selling terms. The representatives have advised us that the underwriters do not intend sales to discretionary accounts to exceed five percent of the total number of shares of our common stock offered by them.

We have granted to the underwriters an option, exercisable for 45 days from the date of this prospectus, to purchase up to 3,860,144 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

Certain officers of Kayne Anderson, including all of our officers, and certain of our directors, are expected to purchase approximately $2 million of our common stock at the public offering price in this offering. We, Kayne Anderson and certain officers of Kayne Anderson, including all of our officers, and certain of our directors, who purchase shares of common stock in this offering have agreed that, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of Citigroup Global Markets Inc., dispose of or hedge any shares of our common stock or any securities convertible into or exchangeable for our common stock. Citigroup Global Markets Inc. in its sole discretion may release any of the securities subject to this lock-up agreement at any time without notice. In the event that either (x) during the last 17 days of the 180-day period referred to above, we issue an earnings release or a press release announcing a significant event or (y) prior to the expiration of such 180 days, we announce that we will release earnings or issue a press release announcing a significant event during the 17-day period beginning on the last day of such 180-day period, the restrictions described above shall continue to apply until the expiration of the 17-day period beginning on the date of the earnings or the press release.

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price for the shares was determined by negotiations between us and the representatives. We cannot assure you, however, that the prices at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our common stock will develop and continue after this offering.

Our common stock has been approved for listing on the NYSE, subject to notice of official issuance, under the symbol ''KYE.'' The underwriters have undertaken to sell shares of common stock to a minimum of 2,000 beneficial owners in lots of 100 or more shares to meet the NYSE distribution requirements for trading.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

	Paid by Us	
	No Exercise	**Full Exercise**
Per share	$ 1.125	$ 1.125
Total	$33,750,000	$38,092,662

In connection with the offering, Citigroup Global Markets Inc., on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. ''Covered'' short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short involve either purchases of the common stock in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make ''naked'' short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of common stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consists of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Citigroup Global Markets Inc. repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Kayne Anderson (and not us) has agreed to pay from its own resources to Citigroup Global Markets Inc. and UBS Securities LLC, a structuring fee for advice relating to our structure, design and organization as well as services related to the sale and distribution of our common stock. Citigroup Global Markets Inc. and UBS Securities LLC will receive a structuring fee in an amount equal to 0.41% and 0.22%, respectively, of the total initial price to the public of our common stock offered hereby.

As additional compensation for acting as a lead underwriter in the initial public offering of our common stock, Kayne Anderson (and not us) has agreed to pay a fee from its own resources to Merrill Lynch, Pierce, Fenner & Smith Incorporated, quarterly at the annual rate of 0.15% multiplied by the number of shares purchased in the offering by Merrill Lynch, Pierce, Fenner & Smith Incorporated divided by the total number of shares sold by us to the underwriters in the offering multiplied by our average monthly total assets (including proceeds from the issuance of any Leverage Instruments), during the continuance of the Investment Management Agreement. In addition to acting as a lead underwriter, Merrill Lynch, Pierce, Fenner & Smith Incorporated has agreed to provide, upon request, certain after-market services to Kayne Anderson designed to maintain our visibility and to provide relevant information, studies or reports regarding us and the closed-end investment company industry on an as-needed basis, as well as information with respect to strategies to address market value discounts.

The total amount of these additional compensation payments will not exceed 4.5% of the total price to the public of our common stock sold in this offering. The sum total of all compensation to underwriters in connection with this public offering of our common stock, including sales loads and all forms of additional compensation to underwriters, will be limited to 9.0% of the total price to the public of our common stock sold in this offering.

We estimate that we will incur approximately $1,158,000 in expenses in connection with this offering.

The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

KA Associates, Inc., an affiliate of ours and Kayne Anderson, is a member of the selling group for this offering.

A prospectus in electronic format may be made available by one or more of the underwriters. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representatives will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We and Kayne Anderson have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

The respective addresses of the representatives are: Citigroup Global Markets Inc., 388 Greenwich Street, New York, New York 10013; Merrill Lynch, Pierce, Fenner & Smith Incorporated, 4 World Financial Center, New York, New York 10080; and UBS Securities LLC, 299 Park Avenue, New York, New York 10171.

CUSTODIAN

The Custodial Trust Company, 101 Carnegie Center, Princeton, New Jersey 08540, an affiliate of our Administrator, acts as custodian of our securities and other assets.

TRANSFER AGENT AND DIVIDEND-PAYING AGENT

American Stock Transfer & Trust Company (''AST'') acts as our transfer agent and dividend-paying agent. Please send all correspondence to AST, which is located at 59 Maiden Lane, New York, New York 10038. For its services, AST receives a fee based on the number of accounts. We will reimburse AST for certain out-of-pocket expenses, which may include payments by AST to entities, including affiliated entities, that provide sub-shareholder services, recordkeeping and/or transfer agency services to our beneficial owners. The amount of reimbursements for these services per benefit plan participant fund account per year will not exceed the per account fee payable by us to AST in connection with maintaining shareholder accounts.

ADMINISTRATOR

Bear Stearns Funds Management Inc. (''Administrator'') has an agreement with us to provide certain administrative services for us. The Administrator is located at 383 Madison Avenue, 23rd Floor, New York, New York 10179. The administrative services the Administrator provides include, but are not limited to, preparing and maintaining books, records, and tax and financial reports, and monitoring compliance with regulatory requirements.

FUND ACCOUNTANT

Ultimus Fund Solutions, LLC (''Ultimus'') acts as our fund accountant. Ultimus will assist in the calculation of our net asset value. Ultimus will also maintain and keep current the accounts, books, records and other documents relating to our financial and portfolio transactions.

LEGAL OPINIONS

Certain legal matters in connection with our common stock will be passed upon for us by Paul, Hastings, Janofsky & Walker LLP, Los Angeles, California, and for the underwriters by Sidley Austin Brown & Wood LLP, New York, New York. Paul, Hastings, Janofsky & Walker LLP and Sidley Austin Brown & Wood LLP may rely as to certain matters of Maryland law on the opinion of Venable LLP, Baltimore, Maryland.

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PRIVACY NOTICE

Kayne Anderson Energy Total Return Fund, Inc. (the ''Company'') considers privacy to be fundamental to our relationship with our stockholders. We are committed to maintaining the confidentiality, integrity and security of the non-public personal information of our stockholders and potential investors. Accordingly, we have developed internal policies to protect confidentiality while allowing stockholders' needs to be met. This notice applies to former as well as current stockholders and potential investors who provide us with nonpublic personal information.

We may collect several types of nonpublic personal information about stockholders or potential investors, including:

- Information from forms that you may fill out and send to us or one of our affiliates or service providers in connection with an investment in the Company *(such as name, address, and social security number)*.

- Information you may give orally to us or one of our affiliates or service providers.

- Information about your transactions with us, our affiliates, or other third parties, such as the amount stockholders have invested in the Company.

- Information about any bank account stockholders or potential investors may use for transfers between a bank account and an account that holds or is expected to hold shares of our stock.

- Information collected through an Internet ''cookie'' (an information collecting device from a web server based on your use of a web site).

We may disclose all of the information we collect, as described above, to certain nonaffiliated third parties such as attorneys, accountants, auditors and persons or entities that are assessing our compliance with industry standards. Such third parties are required to uphold and maintain our privacy policy when handling your nonpublic personal information.

We may disclose information about stockholders or potential investors at their request. We will not sell or disclose your nonpublic personal information to anyone except as disclosed above or as otherwise permitted or required by law.

Within the Company and our affiliates, access to information about stockholders and potential investors is restricted to those personnel who need to know the information to service stockholder accounts. The personnel of the Company and our affiliates have been instructed to follow our procedures to protect the privacy of your information.

We reserve the right to change this privacy notice in the future. Except as described in this privacy notice, we will not use your personal information for any other purpose unless we inform you how such information will be used at the time you disclose it or we obtain your permission to do so.

[This page is not part of the prospectus.]

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30,000,000 Shares

Kayne Anderson

Energy Total Return Fund

Common Stock

PROSPECTUS

June 27, 2005

Citigroup
Merrill Lynch & Co.
UBS Investment Bank
A.G. Edwards
Advest, Inc.
Robert W. Baird & Co.
H&R Block Financial Advisors, Inc.
Crowell, Weedon & Co.
Deutsche Bank Securities
Ferris, Baker Watts
Incorporated
Friedman Billings Ramsey
Janney Montgomery Scott LLC
KeyBanc Capital Markets
Legg Mason Wood Walker
Incorporated
RBC Capital Markets
Wedbush Morgan Securities Inc.
Wells Fargo Securities