KAYNE ANDERSON
» ENERGY INFRASTRUCTURE

KAYNE ANDERSON ENERGY INFRASTRUCTURE FUND, INC. (NYSE: KYN): FISCAL Q3 2024 LETTER

October 2, 2024

Dear Fellow Stockholders,

As we conclude the third quarter of fiscal 2024, we are pleased to provide an update on the Company's performance. In this letter, we will also review KYN's portfolio positioning, the Company's distribution policy, and the current energy infrastructure market landscape. In short, KYN has performed very well through the first nine months of fiscal 2024, and we remain excited about the prospects for the Company's investments. As it relates to fiscal Q3:

- KYN's Net Asset Return was 10.8%;[1]
- KYN underperformed the Alerian Midstream Energy Index (AMNA) by 140 basis points (10.8% vs. 12.2%);[2]
- KYN outperformed the broader energy sector (measured by the XLE) by 1,210 basis points (10.8% vs. -1.3%);[3] and
- KYN recently announced a distribution of $0.24 per share, which represents an increase of 9.1% over the prior quarter's distribution[4]

Performance

It was another strong quarter for KYN's midstream equity investments. This performance is particularly noteworthy given recent weakness in energy-related commodities and other energy subsectors. It is encouraging to see investors differentiate between midstream and other energy subsectors and recognize that midstream cash flows are largely driven by underlying volumes, not commodity prices. Regarding KYN's top holdings, Targa Resources (TRGP) was up 24.9% for the fiscal quarter (total return basis) and was KYN's best performing investment. TRGP was followed by Cheniere Energy (LNG) (up 17.7% during fiscal Q3) and ONEOK (OKE) (up 15.4%). Some of the laggards this quarter were Enterprise Products (EPD) (up 4.8%), Energy Transfer (ET) (up 4.8%) and Western Midstream (WES) (up 5.7%). In general, large-cap midstream corporations outperformed their MLP counterparts, a continuation of the prior quarter's trend.

As discussed in prior communications, we expect that the vast majority of KYN's portfolio will be allocated to midstream companies, with the remainder allocated to other energy companies, utilities, and renewable infrastructure companies. During the quarter, utilities and renewable infrastructure companies built upon their positive year-to-date performance, with the XLU and KRII up 5.7% and 1.5%, respectively. Utilities continue to signal significant increases in expected load growth and grid investment opportunities driven by surging demand from data centers and industrial re-shoring. Favorable demand growth trends, in conjunction with positive regulatory outcomes in key regions, continue to support and de-risk utilities and their long-term capital plans.

KYN's Net Asset Return is up 28.3% fiscal year-to-date.[1] KYN's Market Return, which is based on stock price performance rather than net asset value, is up 34.1% fiscal year-to-date.[5] KYN's Market Return exceeded its Net Asset Return as KYN's stock price traded at a 14.8% discount to NAV at fiscal quarter-end compared to a 18.5% discount at the beginning of the fiscal year. We do not believe this "mid-teens" discount is appropriate given KYN's many favorable attributes and the positive market backdrop for the Company's core midstream investments. We continue to believe that consistent performance, a significant return of cash to stockholders (through attractive distributions), and strategic actions that are accretive to our stockholders will be rewarded over time in the form of a narrowing discount.

Note: Footnotes can be found on page 6.

Market Review

Broader equity markets experienced another strong quarter with the S&P 500, Dow Jones and NASDAQ up 6.0% to 8.0% on a total return basis; however, this was not without higher volatility. The S&P 500 and NASDAQ both set record highs in July before a sudden market selloff occurred in the first five trading days of August. The selloff, which was largely attributable to fears regarding the unwind of the "yen carry trade," proved to be temporary as markets rebounded in the latter half of August on encouraging commentary from the Federal Reserve on the direction of short-term interest rates.

Interest rate volatility remained elevated throughout the quarter, but rates have trended significantly lower, with the yield on the 10-year U.S. Treasury down 57 basis points for the period. As we exited the quarter, the U.S. 10-year Treasury yield was 3.9% – roughly in line with the yield on the 2-year U.S. Treasury.

Importantly, on September 18th (after the end of the fiscal quarter), the Federal Reserve announced a 50 basis point decrease in the federal funds rate – their first interest rate cut since 2020. Commentary from Fed officials indicated they are seeking to strike a balance between fighting inflation and the economic risks of sustained restrictive monetary policy. The Fed is signaling additional rate cuts over the next two years and, as a result, performance of rate-sensitive subsectors such as real estate, financials and utilities benefitted from this commentary. We believe lower short-term interest rates will be a tailwind for midstream equities.

Notably, the energy sector underperformed the broader market during the quarter; however, there was a noticeable dispersion in performance amongst energy subsectors. The XLE (broader energy) was down 1.3% for the quarter while the AMNA and XLU were up 12.2% and 5.7%, respectively. As long-term rates have moderated, the market has seemingly rewarded stable, cash flowing equity investments such as midstream and utilities. Other drivers of this performance dispersion included weakening crude prices, persistently low natural gas prices, falling refining crack spreads, weaker-than-expected crude demand growth, and the risk-off market posture in August.

Total Returns

	Equity Market Indices			Energy Indices				KYN[1]
	S&P 500	DJIA	NASDAQ	AMNA[9]	XLU[10]	KRII[11]	XLE[3]	
Fiscal Q3[6]	7.4%	7.9%	6.0%	12.2%	5.7%	1.5%	(1.3%)	10.8%
Fiscal 2024 YTD[7]	25.0%	17.3%	25.2%	25.9%	24.7%	8.5%	10.7%	28.3%
Last Twelve Months[8]	27.1%	22.1%	27.1%	33.8%	25.3%	6.0%	6.1%	35.2%

Midstream continues to be the best performing energy subsector over the last twelve months and has outperformed the major equity market indices over this period. KYN's Net Asset Return has outperformed each of the indices, as can be seen in the table above. Within midstream, there was an upward bias to earnings estimates, with several guidance raises during the quarter. Results for gas-weighted names were relatively weaker, but this was well understood coming into the quarter – and those releases serve as another indication that activity cuts and curtailments were largely reflected in full year guidance. Capital spending edged higher, but the market appears to have become more comfortable with the sector's prospects for growth – so long as incremental spending is geared towards highly accretive (and lower risk) projects. Going forward, we believe companies will differentiate themselves by executing on their return of capital strategies and per share growth metrics.

Note: Footnotes can be found on page 6.

Consolidation in the midstream sector continued, with several transactions announced during the quarter. The largest of these was OKE's acquisition of Global Infrastructure Partners' (GIP) 43% interest in EnLink Midstream (ENLC) and Medallion Midstream. We expect to see the midstream sector (as well as broader energy) continue to consolidate over the next few years, as companies look to expand their asset footprints in core areas and capture operational and financial synergies.

It has been a great run for the midstream sector over the last few years. That said, we believe the sector's attractive attributes – the mission critical nature of these assets, the tremendous opportunity to benefit from A.I.-led demand growth, its highly-contracted businesses with strong balance sheets and significant free cash flow generation – set the stage for several years of solid returns for investors.

Crude prices traded within a $70 to $90 per barrel range for the entirety of the quarter. This range has generally held since the fourth quarter of 2022. Since quarter end, however, prices dipped below $70 as the market remains focused on the potential return of incremental OPEC+ production that was previously curtailed. Despite upside risk from conflicts in the Middle East, we are more cautious about the outlook for crude prices over the next 12-18 months, as slower global demand growth and increased production are expected to result in inventory builds. Supply restraint has become increasingly difficult for OPEC+ to effectively manage, with pressure building to start phasing out curtailments. The drag on demand growth, meanwhile, stems from the sluggish Chinese economy, which accounted for over half of global oil demand growth last year. China's recently announced stimulus efforts were well received and should bolster economic growth, but the net impact to crude markets remains to be seen.

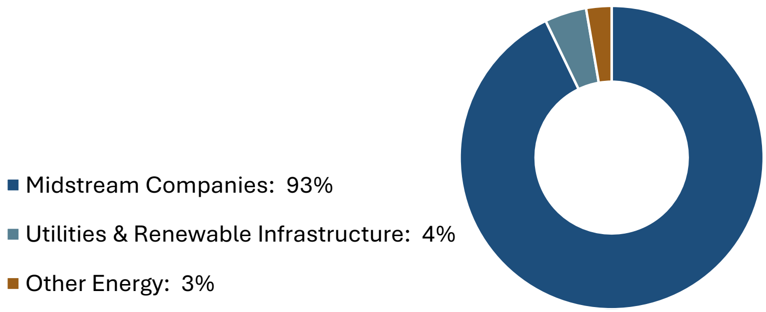
Domestic natural gas prices rebounded briefly during the quarter, spiking to $3.00/mmbtu in early June in response to deep supply curtailments. However, prices quickly declined back to ~$2.00/mmbtu as producers rushed to return supply in response to higher prices. The gas market remains delicately balanced for the time being, with supply curtailments functioning as the main defense against low prices. Even so, we see the fundamentals for natural gas prices improving into next year with strong projected demand growth from the reshoring of industrial activities, A.I.-led data center development and incremental liquefied natural gas ("LNG") demand as new export facilities begin to come online. A relatively weaker setup for global crude markets is paired with a stronger outlook for domestic natural gas.

Portfolio

As of August 31st, KYN's portfolio was comprised of 28 investments (94% in publicly traded securities and 6% in privately held investments). The overwhelming majority of KYN's portfolio is invested in publicly traded midstream companies. The remainder is a mix of investments in other energy and power subsectors and privately held midstream companies. We have an overweight allocation towards larger capitalization midstream companies with integrated suites of assets that we believe are well positioned to benefit from growing domestic production and increased exports. We believe the portfolio is also well positioned to benefit from growing natural gas demand driven by data center development and the reshoring of industrial activities.

Note: Footnotes can be found on page 6.

KYN's Exposure by Subsector as of August 31, 2024



Distribution

On September 19th, we were pleased to announce an increase to KYN's quarterly distribution to $0.24 per share, which is an increase of $0.02 per share or 9.1% as compared to the prior quarter's distribution.[4] This distribution is payable to common stockholders on October 7, 2024 and represents an 8.9% distribution rate based on KYN's stock price as of August 31st.[12] We understand how important distributions are to our investors, and our goal is to steadily increase KYN's distribution over time as supported by the Company's operating results. Over the past year, we have increased KYN's distribution by 14.3%.[13]

Outlook

We are very pleased with KYN's year-to-date performance driven largely by the strong results of its equity investments in the midstream sector. Midstream trading multiples have expanded moderately over the past twelve months as the sector continues to come back in favor with investors. Nonetheless, current valuation levels compare favorably to the broader market (and other value sectors), as well as historical averages for the midstream sector – especially when measured on free cash flow yields. We continue to believe that midstream equities are well positioned to generate mid-teens total returns over the next few years without the benefit of further multiple expansion.

Our macroeconomic outlook is best described as cautious. Interest rate normalization was well received, and lower short-term rates should be a modest tailwind for utilities and other defensive dividend-paying equities. While we can paint a very constructive backdrop for energy infrastructure equities, there are also identifiable tail risks looming, including (i) the potential for a surprise result in the U.S. election leading to uncertainty about tax, energy or trade policies, (ii) a harder-than-expected "landing" in the U.S. or global economy resulting in global and/or regional recession, (iii) the inability or unwillingness of OPEC+ to maintain production curtailments resulting in over-production and a meaningful decline in crude prices, (iv) the expansion of conflicts in Ukraine and/or the Middle East and (v) the possible escalation of tensions between China and Taiwan. Given these uncertainties, our bias is to continue to lean conservative with respect to KYN's portfolio positioning and maintain lower leverage levels with ample downside cushion.[14] On the margin, we recently harvested profits from some of our portfolio positions and rotated those proceeds into larger capitalization, more diversified companies which tend to be considered defensive or "utility-like."

We believe KYN – with its flexible investment mandate, permanent capital base, and expertise providing capital solutions to both public and private companies – provides very attractive exposure to the North American energy infrastructure sector in an income-producing vehicle. The Company provides this exposure in an easy-to-own structure – daily liquidity via its NYSE listing, an attractive distribution rate, and the tax simplicity of a single Form 1099. Lastly, conservative leverage and active portfolio and risk management from an experienced portfolio management team set the stage for a successful 2024 and beyond.

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We encourage investors to visit our website at kaynefunds.com for more information about the Company, including the commentary posted on the "Insights" page that discusses key industry trends and other noteworthy topics.

We appreciate your investment in KYN and look forward to executing on our investment objective of achieving high after-tax total returns with an emphasis on making cash distributions to stockholders. Please do not hesitate to contact us with any questions or comments.

Sincerely,

James C. Baker, Jr.
Chairman of the Board
President and Chief Executive Officer

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www.kaynefunds.com

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[1]Net Asset Return is defined as the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment plan).

[2]Relative performance commentary based on the difference between the Company's Net Asset Return and the total return of the Alerian Midstream Energy Index (AMNA).

[3]The benchmark for the broad U.S. energy sector is the Energy Select Sector SPDR Fund (XLE), which is an exchange-traded fund ("ETF") linked to the Energy Select Sector Index (IXE), a subset of the S&P 500.

[4]Based on KYN's $0.24/share distribution payable October 7, 2024 compared to the $0.22/share distribution paid July 8, 2024. Payment of future distributions is subject to approval by KYN's Board of Directors.

[5]Market Return is defined as the change in share price plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment program).

[6]Fiscal Q3 2024 (6/1/24 – 8/31/24).

[7]Fiscal 2024 YTD (12/1/23 – 8/31/24).

[8]Last Twelve Months (9/1/23 – 8/31/24)

[9]The benchmark for the midstream sector is the AMNA.

[10]The benchmark for the U.S. utility sector is the Utilities Select Sector SPDR Fund (XLU), which is an ETF linked to the Utilities Select Sector Index (IXU), a subset of the S&P 500.

[11]The benchmark for the renewable infrastructure sector is the Kayne Anderson Renewable Infrastructure Index (KRII), a market-cap weighted index of 35 domestic and international renewable infrastructure companies with individual constituents capped at a 5% weighting.

[12] Based on KYN's $0.24/share distribution ($0.96/share annualized) and KYN's stock price of $10.74/share as of August 31, 2024.

[13]Based on KYN's $0.24/share distribution payable October 7, 2024 compared to $0.21/share distribution paid October 10, 2023.

[14]Downside cushion reflects the decrease in total asset value that could be sustained while maintaining compliance with leverage levels under the Investment Company Act of 1940, as amended, and KYN's financial covenants.

All investments involve risk, including possible loss of principal. An investment in the fund could suffer loss.

Kayne Anderson Energy Infrastructure Fund, Inc. (NYSE: KYN) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended, whose common stock is traded on the NYSE. The Company's investment objective is to provide a high after-tax total return with an emphasis on making cash distributions to stockholders. KYN intends to achieve this objective by investing at least 80% of its total assets in securities of Energy Infrastructure Companies. See Glossary of Key Terms in the Company's most recent quarterly report for a description of these investment categories and the meaning of capitalized terms.

This communication contains statements reflecting assumptions, expectations, projections, intentions, or beliefs about future events. These and other statements not relating strictly to historical or current facts constitute forward-looking statements as defined under the U.S. federal securities laws. Forward-looking statements involve a variety of risks and uncertainties. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; energy industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in detail in the Company's filings with the Securities and Exchange Commission ("SEC"), available at www.kaynefunds.com or www.sec.gov. Actual events could differ materially from these statements or from our present expectations or projections. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. Kayne Anderson undertakes no obligation to publicly update or revise any forward-looking statements made herein. There is no assurance that the Company's investment objectives will be attained.

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Past performance is no guarantee of future results. Closed-end funds, unlike open-end funds, are not continuously offered. After the initial public offering, shares are sold on the open market through a stock exchange. As with any other stock, total return and market value will fluctuate so that an investment, when sold, may be worth more or less than its original cost. Shares of closed-end funds frequently trade at a market price that is below their net asset value.