

**Kayne Anderson**

*Capital Advisors, L.P.*

# **KAYNE ANDERSON CLOSED-END FUND UPDATE**

**April 2020**

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- ◆ Update on KYN & KMF's balance sheets
- ◆ Midstream market update

**Note: A podcast accompanying this presentation can be found at [www.kaynefunds.com/insights](http://www.kaynefunds.com/insights)**

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- ◆ **Unprecedented market volatility over the last two months**
- ◆ **Energy industry dealing with simultaneous demand and supply shocks**
- ◆ **KYN & KMF have responded accordingly – selling securities to protect their balance sheets**
- ◆ **Both funds recently repurchased notes and preferred stock, materially reducing leverage levels**
- ◆ **KYN & KMF are in compliance with all leverage tests**

## On April 27<sup>th</sup>, KYN and KMF announced that each fund had meaningfully reduced leverage levels

### KYN

- ◆ Reduced leverage by \$475 million, or 54%. KYN retains \$78 million on its balance sheet
  - ◆ *Notes*: repurchased \$350 million of notes at 101% of par value
  - ◆ *Preferred Stock*: repurchased \$125 million of MRPS at 101% of par value
- ◆ In conjunction with these repurchases, KYN amended the terms of the credit facility to reduce the commitment amount to \$225 million. Currently, KYN has no borrowings on this facility

### KMF

- ◆ Reduced leverage by \$105 million, or 45%. KMF retains \$43 million on its balance sheet
  - ◆ *Notes*: repurchased \$70 million of notes at 101% of par value
  - ◆ *Preferred Stock*: repurchased \$35 million of MRPS at 101% of par value
- ◆ In conjunction with these repurchases, KMF amended the terms of the credit facility to reduce the commitment amount to \$75 million. Currently, KMF has no borrowings on this facility

# KYN Balance Sheet Update

- ◆ After completing the repurchases of notes and preferred stock, KYN's outstanding debt is \$181 million and total leverage is \$398 million
- ◆ As shown below, KYN is in compliance with all its leverage tests

<b>KYN Balance Sheet</b>			
(\$ in millions)	<b>2/29/20</b>	<b>3/31/20</b>	<b>4/24/20</b>
Cash and Cash Equivalents	\$ 12	\$ 560	\$ 78
Credit Facility	-	-	-
Term Loan	60	-	-
Notes	596	531	181
MRP Shares	342	342	217
Total Leverage	\$ 998	\$ 873	\$ 398
Asset Coverage Ratio - Debt (300%)	381%	269%	616%
Asset Coverage Ratio - Total Leverage (225%)	250%	164%	280%
Fitch Test - Debt Coverage (1.0x)	1.20x	1.84x	2.74x
Fitch Test - Total Leverage Coverage (1.0x)	1.20x	1.19x	1.41x

# KMF Balance Sheet Update

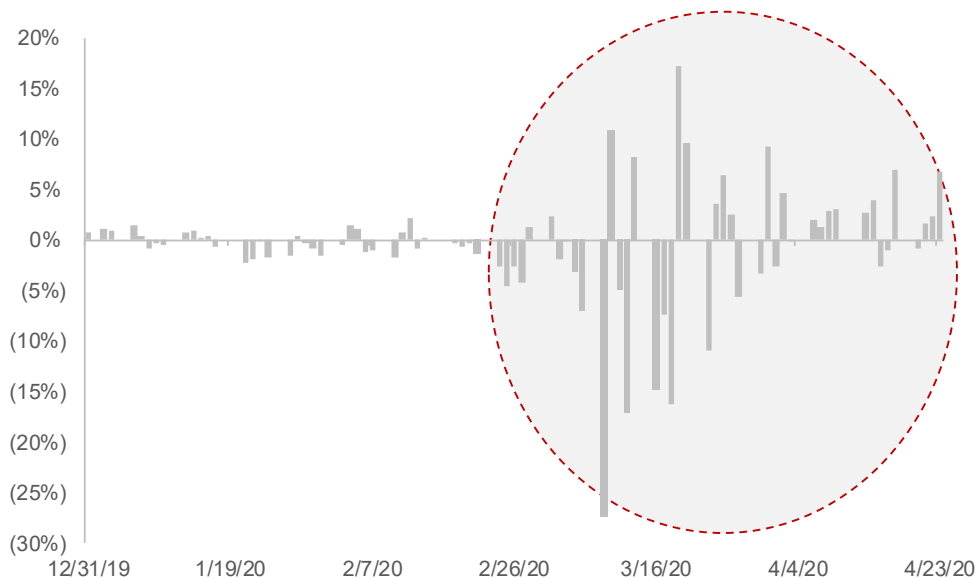
- ◆ After completing the repurchases of notes and preferred stock, KMF's outstanding debt is \$87 million and total leverage is \$127 million
- ◆ As shown below, KMF is in compliance with all its leverage tests

<b>KMF Balance Sheet</b>			
(\$ in millions)	<b>2/29/20</b>	<b>3/31/20</b>	<b>4/24/20</b>
Cash and Cash Equivalents	\$ 28	\$ 148	\$ 43
Credit Facility	-	-	-
Notes	201	157	87
MRP Shares	75	75	40
<b>Total Leverage</b>	<b>\$ 276</b>	<b>\$ 232</b>	<b>\$ 127</b>
Asset Coverage Ratio - Debt (300%)	372%	266%	414%
Asset Coverage Ratio - Total Leverage (225%)	271%	180%	283%
Fitch Test - Debt Coverage (1.0x)	1.32x	1.86x	2.35x
Fitch Test - Total Leverage Coverage (1.0x)	1.44x	1.35x	1.81x

# Unprecedented Market Decline

- ◆ Since March 6th, the AMZ has declined by 21%. At its trough in mid-March, the index had declined 55% in eight trading days
  - **Six** of the AMZ's **ten** worst trading days in history occurred during this period
- ◆ These market declines were more rapid (and larger) than what was experienced during the Global Financial Crisis as well as the sell off during early 2016

**YTD Daily Price Moves (AMZ)**



**Ten Worst Days (Price Return)**

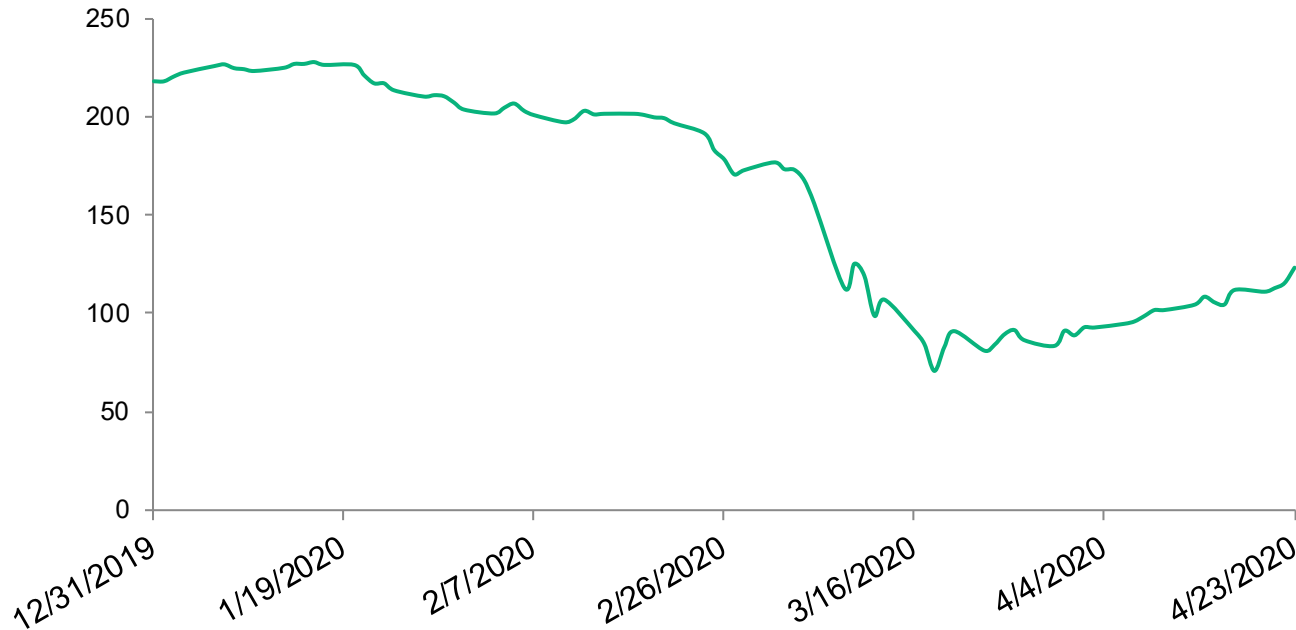
AMZ		AMNA	
Date	Price Change	Date	Price Change
3/9/20	(27%)	3/9/20	(22%)
3/12/20	(17%)	3/12/20	(17%)
3/18/20	(16%)	3/18/20	(16%)
3/16/20	(15%)	3/16/20	(13%)
10/6/08	(11%)	2/8/16	(8%)
11/20/08	(11%)	12/7/15	(7%)
2/8/16	(8%)	9/28/15	(6%)
3/17/20	(7%)	12/11/15	(6%)
3/6/20	(7%)	3/6/20	(6%)
8/8/11	(7%)	8/8/11	(5%)

Source: FactSet as of April 23, 2020.

- ◆ Unprecedented demand shock to many industries, including energy, as a result of the COVID-19 pandemic
- ◆ Experts are forecasting a meaningful reduction in crude oil demand this year
  - Expected to test the limits of global storage capacity during the second quarter
- ◆ Domestic crude oil production is expected to decline by approximately 15% - 20% over the next year
  - E&P companies are materially reducing spending levels to defend balance sheets
- ◆ Midstream companies caught up in the energy downdraft
  - In response to these market conditions, companies have begun to aggressively reduce capex, opex, and in certain instances, dividends



## AMZ: Year-to-date Performance



## Top Midstream Companies<sup>(1)</sup>

	Year-to-Date	Since	
		3/6/2020	3/18/2020
Top Midstream Companies <sup>(1)</sup>	(36%)	(23%)	65%
AMZ	(42%)	(21%)	74%
S&P 500	(13%)	9%	24%

Source: FactSet and Kayne Anderson research estimates as of April 23, 2020.

(1) Total returns. Includes ENB, EPD, ET, KMI, MMP, MPLX, PAA, OKE, SHLX, TRP, and WMB. Portfolio holdings are subject to change without notice. The mention of specific securities is not a recommendation or solicitation to buy, sell or hold any particular security. You can obtain a complete listing of holdings by viewing our quarterly or annual report for the most recently completed period.

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