

# Coronavirus (COVID-19): KBRA Comments on Kayne Anderson MLP

Funds

Research

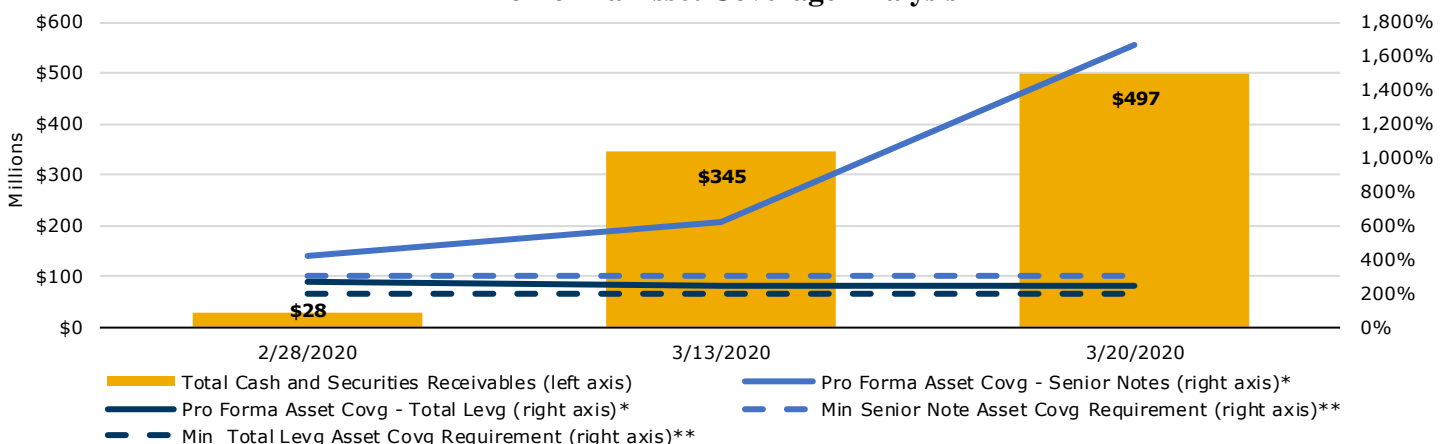
Kroll Bond Rating Agency (KBRA) continues to closely monitor the disruption and economic shocks driven by the coronavirus (COVID-19) outbreak’s impact on the credit markets. This report examines the negative ramifications of the virus-related market volatility on Kayne Anderson MLP/Midstream Investment Company (the “Fund”). The Fund is registered under the Investment Company Act of 1940 and sponsored by Kayne Anderson Capital Advisors (the “Fund Sponsor”). The Fund commenced operations in September 2004 and its common shares are listed on the New York Stock Exchange under the symbol KYN.

KBRA currently maintains AAA and A+ long-term ratings on the senior notes and preferred shares (“MRPS”) of the Fund, respectively. At this time, KBRA is not taking any action on the outstanding ratings assigned to the senior notes and MRPS. However, we will continue to closely monitor the Fund as events unfold in the market.

As a fund registered under the Investment Company Act of 1940, regulatory requirements dictate minimum asset coverage ratios of 300% on senior debt and 200% on total leverage. Furthermore, distributions to common shareholders are not allowed unless asset coverage relative to total leverage exceeds 225%. This highly incentivizes the Fund’s management to maintain its asset coverage cushion. Based on conversations with the Fund Sponsor, it is the Company’s intention to comply with all applicable 1940 Act leverage tests as well as the covenants on its debt agreements and the terms of its preferred shares.

The Fund has taken proactive steps to increase its liquidity position, including the postponement of a \$0.12/share dividend to shareholders scheduled for March 31, 2020. Further, over the last several weeks, the Fund has already reduced its outstanding indebtedness substantially, paying off more than \$60 million of outstanding balances on its revolving credit facility and term loan, as well as \$65 million of senior notes.

**Figure 1: Kayne Anderson MLP/Midstream Investment Company  
Pro Forma Asset Coverage Analysis**



\* Pro Forma Asset Coverage calculates the resulting asset coverage on the Senior Notes and Total Indebtedness of the Fund assuming all available cash is used to repay the Senior Notes and Preferred Shares sequentially

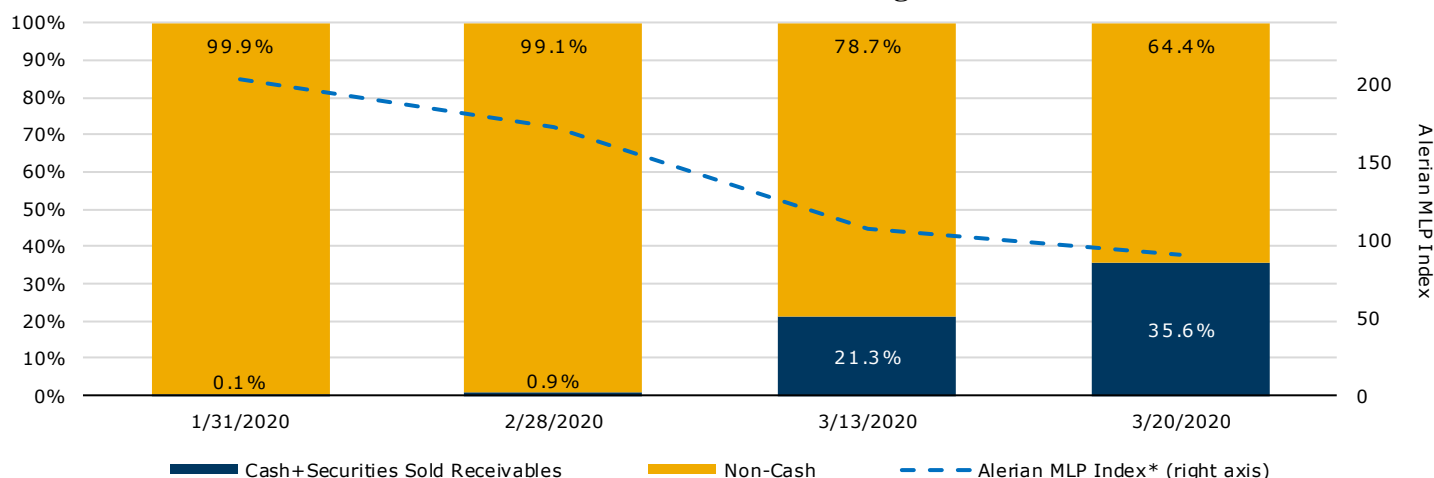
\*\* Min required Asset Coverage levels for the Senior Notes and Preferred Shares, respectively, based on the Investment Company Act of 1940 guidelines

Source: Kayne Anderson MLP/Midstream Investment Company

The Fund Sponsor has demonstrated a willingness and ability to sell securities to generate cash in order to de-lever and remain in compliance with asset coverage requirements on the senior notes and MRPS. As of March 20, 2020, the Fund now has approximately \$497 million of cash, including cash to be received from securities sold receivables resulting in cash coverage of the senior notes and total leverage of 93.6% and 56.9%, respectively. Based on KBRA’s pro forma analysis, if all available cash was used to reduce the Company’s indebtedness and there are no further declines to NAV, asset coverage levels would increase from 271% to 1665% for the senior notes and from 165% to 239% for total leverage (see Figure 1).

Figure 2 details how the Fund has increased its liquidity position to offset declines in oil prices. Additional allocations to cash will further immunize the Fund from further price shocks and will likely result in more stable loan-to-value (LTV) levels going forward.

**Figure 2: Kayne Anderson MLP/Midstream Investment Company  
Fund Asset Allocation Relative to Shifting Market Value**



Source: Kayne Anderson MLP/Midstream Investment Company / Alerian MLP Index

\*Alerian MLP Index is a real-time index tracking the performance of Master Limited Partnerships. The Fund Sponsor did not provide KBRA with this data.

As KBRA continues to monitor the Fund, the occurrence of any or all of the following could trigger a rating action:

- Demonstrated unwillingness or inability, due to market dynamics, to sell securities in amounts sufficient to de-lever the Fund on a timely basis.
- Payment of dividends to common equity shareholders without adequate repayment of debt obligations and stabilization of midstream markets.
- Continued declines in oil prices, with resulting declines in asset coverage.

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