# Kayne Anderson

*Energy Infrastructure Fund, Inc.*

KYN Quarterly Commentary
& Performance Data: Q4'21

December 22, 2021

**KAYNE ANDERSON ENERGY INFRASTRUCTURE FUND, INC.**
**LETTER TO STOCKHOLDERS**

December 22, 2021

Dear Fellow Stockholders:

Season's greetings and best wishes for the New Year. We hope that you and your families have been able to remain safe and healthy during this pandemic. We remain hopeful the worst is behind us in the United States, but we acknowledge that the global battle against COVID-19 is far from over.

As economic activity recovered in 2021, demand for energy-related commodities also rebounded, which set the stage for a strong rally in energy infrastructure equities. KYN participated in this recovery, generating exceptional returns over the last 12 months. While our outlook for the new year is optimistic, there will almost undoubtedly be challenges in 2022 — be it from new COVID variants, the knock-on effects of this pandemic on the global economy, or other factors. Importantly, we have taken action over the last 18 months to ensure KYN can withstand periods of heightened market volatility. First, KYN's portfolio is more diversified and is comprised of larger, more liquid energy infrastructure investments. Second, the Company's leverage is lower than pre-pandemic levels.

As a result of actions taken by our team over the last few years, KYN's portfolio now has meaningful exposure to the transition of our global energy system away from traditional carbon-based fuels to a more sustainable mix of lower carbon fuels and renewable energy sources. This is commonly referred to as the "Energy Transition," and we expect this megatrend will influence KYN's portfolio positioning for the foreseeable future. Notwithstanding our conviction on the merits of this push to reduce emissions of carbon dioxide and other greenhouse gasses, the spikes in energy prices and shortages in commodities experienced during 2021 serve as a powerful reminder that fossil fuels will play an essential role in satisfying global energy demand for decades to come. As financial markets realize this, we believe KYN's investments — particularly its midstream holdings — are positioned to benefit.[1]

This letter is designed to provide a concise summary of KYN's performance, portfolio, and outlook. We hope that you find it insightful; in addition, we highly encourage investors to visit our website (kaynefunds.com/kyn) for additional information about the Company and its investments. As an example, we recently posted a podcast that discusses many of the topics covered in this letter in greater detail.

### Why Invest in KYN?

Before reviewing KYN's results during fiscal 2021, we wanted to answer the following question: why invest in KYN? In our opinion, KYN — with its flexible investment mandate, permanent capital base, and expertise providing strategic capital solutions to both public and private companies — is a very attractive vehicle for investors seeking diversified exposure to the energy infrastructure sector. We believe the sector's investment thesis is compelling for many reasons, including:

- Energy infrastructure is critical to the global economy;
- Global demand for energy is expected to steadily increase over the next several decades — driven primarily by growth in developing economies;
- Energy infrastructure companies have stable cash flows, operate businesses with high barriers to entry and, in many cases, have contractual protections to higher levels of inflation; and
- Companies in this sector are very well positioned to capitalize on the Energy Transition.

Footnotes can be found on page 6.

As we will discuss later in this letter, energy infrastructure companies performed very well during 2021 and, in our opinion, have favorable market conditions supporting their outlook for the next five to ten years.

**Performance Review**

KYN generated a total Net Asset Return of 41.0% in fiscal 2021.(2) We were pleased with this performance given KYN's mix of investments, and it was a solid recovery after the challenges experienced during fiscal 2020. KYN outperformed its Composite Energy Infrastructure Index benchmark by 970 basis points in fiscal 2021.(3) As you can see in the table below, midstream companies were the best performing energy infrastructure subsector in 2021, while renewable infrastructure and U.S. utilities generated more modest returns. The podcast referenced earlier in this letter provides more detail on the factors driving performance for each energy infrastructure subsector.

**Comparison of Returns in Fiscal 2021**

| | |
|---|---|
| KYN Net Asset Return(2) | 41.0% |
| KYN Composite Energy Infrastructure Index(4) | 31.3% |
| Midstream(5) | 37.6% |
| Renewable Infrastructure(6) | 5.1% |
| U.S. Utilities(7) | 8.0% |

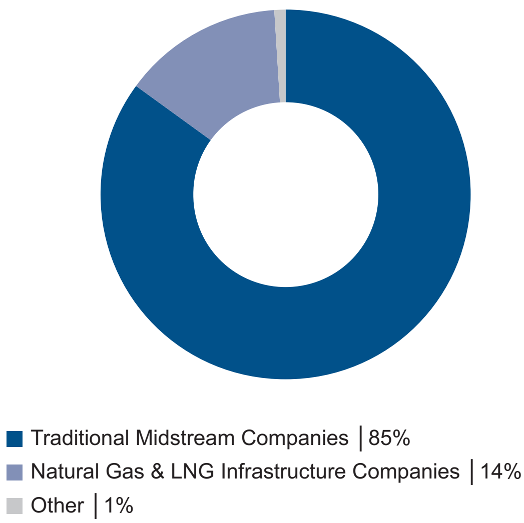
KYN's Market Return, which is based on stock price performance rather than Net Asset Value, was 44.0% for fiscal 2021.(8) This exceeded our Net Asset Return as our stock price traded at a 12.8% discount to NAV at fiscal year-end compared to a 14.6% discount at the beginning of the year. We are pleased to see our discount contract over the last 12 months, but it remains at a wider-than-normal level. While we believe investors have begun to appreciate the changes we announced last summer to KYN's distribution philosophy, we believe they have yet to give KYN full credit for its higher distribution rate. In our opinion, the most effective way to have a sustainable impact on the Company's stock price discount to its NAV is for KYN to pay an attractive distribution and generate consistent returns. We delivered on these two objectives during fiscal 2021 and our team is working hard to build on last year's success.

**Portfolio**

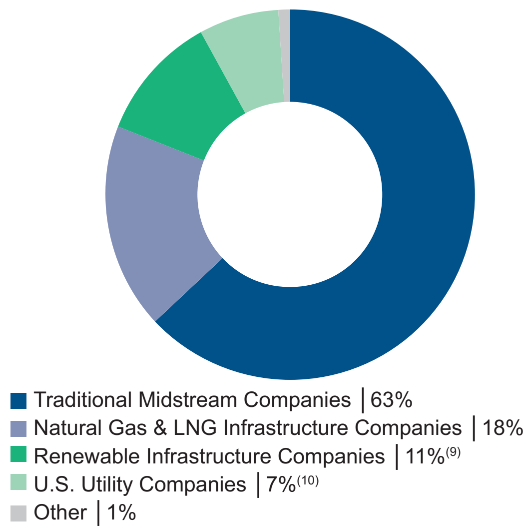
Over the last few years, we have made some meaningful changes to KYN's portfolio — most notably, increasing the Company's holdings of natural gas & liquefied natural gas ("LNG") infrastructure companies, utilities, and renewable infrastructure companies. Today, KYN's portfolio is a diversified mix of energy infrastructure investments. These portfolio changes were made with one goal in mind — to capitalize on the future of energy infrastructure. Importantly, the changes we made in November 2020 to KYN's investment objective provided much more flexibility to diversify the Company's portfolio. While KYN is no longer exclusively focused on the midstream sector, we continue to believe the Company's midstream investments will generate attractive returns. In fact, we expect that traditional midstream companies and natural gas & LNG infrastructure companies will comprise the majority of KYN's portfolio for many years.(1) However, the energy industry and the infrastructure assets that serve as the sector's backbone are evolving, and we intend to allocate KYN's portfolio to reflect this evolution.

Footnotes can be found on page 6.

**November 30, 2018**




**November 30, 2021**




The transition in our portfolio is apparent in the chart above, with traditional midstream representing 63% at the end of fiscal 2021, while the combination of natural gas & LNG infrastructure, utilities, and renewable infrastructure represent 36%, roughly in line with the targets we provided in our summer 2020 Strategic Update. For fiscal 2022, the subsector weightings in KYN's Composite Energy Infrastructure Index have been revised to 75% in midstream (which includes traditional midstream and natural gas & LNG infrastructure), 15% in renewable infrastructure, and 10% in U.S. utilities. We believe these revised allocations best reflect our desire to further increase KYN's portfolio diversification. Notwithstanding these directional targets, the Company's investment objective provides us the flexibility to invest in the most attractive areas within the energy infrastructure industry. Our goal is to generate attractive risk-adjusted returns, and we do not believe rigid portfolio allocation guidelines are in stockholders' best interests.

## Distributions

We understand how important distributions are to our investors, and one of our most important long-term goals is to provide investors with an attractive distribution. We believe that the returns generated by our portfolio companies will accrue to us through a more balanced combination of dividends and capital appreciation compared to historical periods — when most of KYN's holdings employed a high dividend payout model. Midstream companies, in particular, have pivoted to a lower payout model where free cash flow (in excess of dividends and capital expenditures) is used primarily to buy back stock or reduce debt. Renewable infrastructure companies also tend to pay lower dividends as cash flow is used to fund growth. Utilities, which often fund their growth projects with external financing, typically pay dividends based on a target payout ratio of earnings. Recognizing the fundamental change in the character of KYN's expected portfolio returns alongside our desire to pay KYN's shareholders an attractive distribution, we announced an increase in KYN's quarterly distribution to 17.5¢ per share (a 17% increase) in June 2021. We believe this distribution is sustainable based on our outlook and is consistent with our philosophy of considering the income we receive from our investments and capital appreciation in the portfolio in determining KYN's distribution.

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Footnotes can be found on page 6.

### Outlook

As nations across the globe dedicate significant resources to tackle climate change, we are extremely bullish about the prospects for investing in infrastructure supporting the Energy Transition. The tailwinds supporting growth in lower carbon fuels, renewables, electrification, and technologies to reduce emissions are undeniable and gaining momentum. These initiatives support multi-decade growth profiles for our renewable infrastructure and utility investments. Incentives in the proposed Build Back Better plan are one powerful example. Commitments by countries at the recent COP26 Conference are another good example. Yet, despite these initiatives, we are also pragmatic about how quickly the world can pivot. A transition to a low carbon (or “net zero”) energy system will take multiple decades, and in the interim, fossil fuels help provide stability and redundancy that is critical to a society reliant on energy in its day-to-day activities. Natural gas and LNG will play a particularly important long-term role in our view. For those reasons, we remain bullish about the prospects and longevity of midstream infrastructure.

As we look into 2022, the fundamentals in the energy markets are very constructive. Global energy demand has recovered to near pre-COVID levels and is set to grow consistently over the next decade. Energy companies’ balance sheets are healthy, and publicly traded energy companies are much more focused on generating free cash flow and returning capital to shareholders than on growing production. This should result in more stability in commodity prices and help dampen the sector’s “boom and bust” cycles. Domestic production of crude oil, natural gas and natural gas liquids grew during 2021, and this growth is expected to continue for the next few years — in part, fueled by the actions of privately-owned energy companies. The United States has continued to be a major exporter of energy-related commodities (including crude oil, refined products, natural gas liquids, and LNG), and the reason for this is very straightforward — the rest of the world needs these products to satisfy their demand.

Against this very positive fundamental backdrop, the midstream industry is poised to generate record levels of free cash flow in 2022 after undergoing a dramatic transformation over the last few years. In addition to simplifying their corporate structures, companies reduced leverage, slashed capital spending, and reduced operating expenses in response to the pandemic. Importantly, we do not anticipate a large uptick in capital spending over the next few years — the sector already has the operating capacity to handle anticipated production increases. Further, most balance sheets are healthy, with leverage at (or near) target levels. This is a very important point because it means companies can direct this additional free cash flow towards stock buybacks and/or dividend increases. We are also encouraged that midstream companies have enhanced their environmental, social and governance (“ESG”) disclosures, increased emphasis on reducing greenhouse gas emissions, and are selectively considering investments in Energy Transition projects that are complementary to their existing assets.

For many of the reasons discussed in this letter, the backdrop for our renewable infrastructure and utility holdings is very robust. We continue to see record development of new renewable assets and solid guidance updates for 2022 from companies in KYN’s portfolio. Looking beyond next year, growth in renewable infrastructure and increased electrification will support these companies’ growth profiles for the next 10-20 years — we believe both sectors are in the early stages of a period of outsized investment and growth. Given the current income, growth, and capital appreciation potential of these securities, our team remains excited about the total return prospects for our investments in these two subsectors of the energy infrastructure industry.

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Footnotes can be found on page 6.

We have little doubt that the next ten years will bring meaningful changes in the energy infrastructure industry, but our diverse team of industry experts is well-positioned to capitalize on these opportunities. We appreciate your investment in the Company and look forward to executing on our investment objective of achieving high after-tax total returns. 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

Footnotes can be found on page 6.

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(1) Whenever we reference "midstream companies", the "midstream sector" or the "midstream industry" it includes both traditional midstream companies and natural gas & LNG infrastructure companies. Traditional midstream companies are defined as midstream companies that own and/or operate midstream assets related to crude oil, refined products, natural gas liquids or water. Natural gas & LNG infrastructure companies are defined as midstream companies that primarily own and/or operate midstream assets related to natural gas or liquefied natural gas.

(2) 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).

(3) Based on the difference between the Company's Net Asset Return and the total return of KYN's Composite Energy Infrastructure Index.

(4) KYN's Composite Energy Infrastructure Index is comprised of an 80% weighting to the midstream sector, a 12.5% weighting to the renewable infrastructure sector and a 7.5% weighting to the U.S. utility sector. Returns for each period are total returns (assuming reinvestment of dividends). The sub-sector allocations for this composite index were established by Kayne Anderson at the beginning of fiscal 2021 and are expected to change on an annual basis based on the estimated sub-sector allocations of the Company's assets during that year.

(5) The benchmark for the midstream sector is the Alerian Midstream Energy Total Return Index (AMNAX).

(6) The benchmark for the renewable infrastructure sector is a composite total return for 39 domestic and international renewable infrastructure and utility companies (calculated on a market-cap weighted basis with individual constituents capped at a 10% weighting).

(7) The benchmark for the U.S. utilities sector is the Utilities Select Sector SPDR (XLU), which is an exchange-traded fund ("ETF") linked to the Utilities Select Sector Index (IXU), a sub-set of the S&P 500.

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

(9) Includes Algonquin Power & Utilities Corp., EDP - Energias de Portugal, S.A., Enel S.p.A., NextEra Energy Inc. and SSE plc as these are included in the benchmark for the renewable infrastructure sector.

(10) Includes TransAlta Corporation.

# KYN Quarterly Performance

Kayne Anderson

## KYN Total Returns

| KYN Total Returns | Fiscal Q4 2021 | Fiscal 2021 |
|---|---|---|
| Net Asset Return (1) | 2.2% | 41.0% |
| Market Return (2) | (0.0%) | 44.0% |
| KYN Composite Energy Infrastructure Index (3) | 1.0% | 31.3% |

## KYN Portfolio Returns (4)

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| | Fiscal Q4 2021 | | Fiscal 2021 | |
|---|---|---|---|---|
| Portfolio Returns | KYN | Benchmark (5) | KYN | Benchmark (5) |
| Midstream (6) | 3.4% | 2.6% | 44.6% | 37.6% |
| Renewable Infrastructure (7) | 3.0% | (6.4%) | 15.0% | 5.1% |
| U.S. Utility Companies (8) | (6.5%) | (3.3%) | (2.0%) | 8.0% |

*Note: Performance as of November 30, 2021.*

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

*(3) KYN's Composite Energy Infrastructure Index is comprised of an 80% weighting to the midstream sector, a 12.5% weighting to the renewable infrastructure sector and a 7.5% weighting to the utility sector. Returns for each period are total returns (assuming reinvestment of dividends). The sub-sector allocations for this composite index were established by Kayne Anderson at the beginning of fiscal 2021 and are expected to change on an annual basis. Please see footnote 5 for a description of the benchmarks used for each energy infrastructure sub-sector.*

*(4) Portfolio returns reflect KYN's asset level returns for each sub-sector based on KYN's portfolio holdings. Asset level return is calculated as the total return (before leverage and expenses) of KYN's portfolio holdings for each sub-sector.*

*(5) The benchmark for the midstream sector is the Alerian Midstream Energy Total Return Index (AMNAX). The benchmark for the renewable infrastructure sector is a composite total return for 39 domestic and international renewable infrastructure and utility companies (calculated on a market-cap weighted basis with individual constituents capped at a 10% weighting). The benchmark for the U.S. utilities sector is the Utilities Select Sector SPDR (XLU), which is an ETF linked to the Utilities Select Sector Index (IXU), a sub-set of the S&P 500.*

*(6) Excludes preferred and credit investments.*

*(7) Includes Algonquin Power & Utilities Corp., EDP – Energias de Portugal, S.A., Enel SpA, NextEra Energy Inc., and SSE plc as these are all included in the benchmark for the renewable infrastructure sector.*

*(8) Includes TransAlta Corporation.*

# DISCLAIMER & RISK CONSIDERATIONS

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

*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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