Kayne Anderson

Energy Infrastructure Fund, Inc.

KYN Q2'21 Stockholder Letter

July 22, 2021

KAYNE ANDERSON ENERGY INFRASTRUCTURE FUND, INC.
LETTER TO STOCKHOLDERS

July 22, 2021

Dear Fellow Stockholders:

We hope this letter finds you and your families healthy and beginning to return to a more normal life. Thanks to the miraculous development and distribution of effective vaccines, we are cautiously optimistic that the worst of the pandemic is behind us in the United States. That said, the spread of variants and numerous “hot spots” around the world remind us that the global battle against COVID is far from over. Notwithstanding these concerns, we believe there is reason for optimism about our ability to contain the virus and resume more normal day-to-day activities. This confidence was certainly expressed in the financial markets during the first six months of fiscal 2021, with broad equity indices continuing to set new record highs and commodities trading higher on bullish demand expectations. Energy infrastructure equities performed well during the first half of fiscal 2021, and the midstream sector, in particular, was exceptionally strong.

In this letter, we discuss the energy infrastructure markets and highlight KYN’s strong performance thus far during fiscal 2021. We also discuss the rationale behind our recent decision to increase KYN’s quarterly distribution by 17% to 17.5¢ per share.

Market Conditions

The broader equity markets traded higher during KYN’s second quarter, setting several new record highs. The S&P 500 ended the quarter up 11%[1] and increased 17% during the first six months of fiscal 2021. Market optimism about the global recovery has generally outweighed numerous concerns, ranging from greater than expected inflation and higher interest rates, on one hand, to potentially resurgent COVID cases and lower growth rates on the other. The result has been a broad market narrative focused on “growth” versus “recovery” stocks, with sentiment changing frequently. It is worth noting that interest rates – as measured by the yield on 10-year U.S. Treasury bonds – have declined materially over the past few months, with the yield currently around 1.3% versus a high of 1.7% in late March. Volatility in interest rates is another symptom of the market’s struggle to gauge the strength of the recovery versus underlying inflationary pressures, growth expectations, and the Federal Reserve’s expected policy.

Energy equities and energy commodities also continued to trade higher during KYN’s second quarter of fiscal 2021. WTI crude oil prices were up 8% during the quarter to $66 per barrel and continued to rally after quarter-end to over $75 per barrel before trading back down to approximately $70 per barrel. We discussed the potential for a short-term price spike in last quarter’s letter based on plans for a measured increase in production by OPEC+ in a market where inventories are rapidly declining back to normal levels. More supply is expected to reach the market in the coming months, however, which should ease the upward pressure on spot prices. In the meantime, U.S. producers – as a result of higher commodity prices – are enjoying better than expected revenues, and companies are using this incremental cash flow primarily to de-lever and return cash to shareholders. Forward prices for crude oil have also increased, with calendar 2022 WTI over $60 per barrel, allowing U.S. producers an opportunity to hedge next year’s production at very attractive prices, in our opinion. Similarly, natural gas prices have increased dramatically, with Henry Hub now trading near $4 per million Btu on strong demand domestically and globally. While our expectations for U.S. oil and gas production growth have increased somewhat, we continue to expect public upstream companies to set modest growth targets for 2022 and be disciplined in adhering to those plans. As we discussed last quarter, we believe this is

[1] Performance metrics in this letter represent total returns unless specifically noted otherwise.

an extremely positive backdrop for the midstream sector because of a better capitalized upstream industry focused on moderate, sustainable growth.

On the political and regulatory fronts, we are sanguine about the current backdrop. We continue to believe federal and state policies will be extremely supportive of energy transition investments, and we remain cautiously optimistic that the current administration recognizes the important role of traditional energy sources in bridging to a lower-carbon future. We also see early indications that investments in carbon capture and sequestration will be another key component of the effort to reduce carbon emissions. We believe KYN is positioned to benefit from each of these themes with a clear emphasis on midstream and a material allocation to renewable infrastructure and utilities.

Each of KYN's energy infrastructure sectors – midstream, utilities, and renewable infrastructure – were up during the second quarter of fiscal 2021.

- Midstream performance was very strong for the second consecutive quarter, with the Alerian Midstream Energy Index (AMNA) up 22% – outperforming the S&P 500 by approximately 11%.
- Utilities rebounded nicely, with the PHLX Utility Index (UTY) returning 12% after declining 6% in the first quarter.
- Renewable infrastructure returned 4%[2] for the quarter after a relatively flat first quarter.

For the first six months of fiscal 2021, the AMNA returned 37%, which is approximately 20% greater than the S&P 500's return over the same time period. While returns for utilities and renewable infrastructure have been more modest (both sectors up 5%), we believe investments in these sectors are very complementary to KYN's long-term performance. Both sectors offer attractive return expectations with growing exposure to energy transition and electrification. At the same time, investments in these equities provide diversification benefits in KYN's portfolio because they tend to be less correlated with midstream equities.

Portfolio and Performance

KYN's sector allocations remain largely unchanged compared to the end of the first quarter. KYN's portfolio is heavily weighted to midstream equities, representing approximately 75% of the Company's long-term investments. Within KYN's allocation to midstream equities, we continue to favor larger, diversified midstream companies because of their superior risk/return profile. We believe these companies are better capitalized and better positioned to generate sustainable free cash flow over the long term. While certain smaller midstream companies outperformed their large-cap peers during the first six months of fiscal 2021, we do not consider this outperformance to be sustainable. Further, we think these companies are riskier, with less diversified businesses, more commodity price exposure, and weaker balance sheets. We also believe the larger, more diversified midstream companies are taking important steps to focus on sustainability and capitalize on potential energy transition investment opportunities. The remainder of KYN's portfolio is invested in high-quality utility and renewable infrastructure equities as well as midstream credit/preferred securities. As we mentioned earlier, these investments provide important diversification benefits in addition to their attractive return potential. They also provide enhanced liquidity to the portfolio because most of our utility and renewable infrastructure holdings are larger, highly liquid names.

---

[2] Based on a composite total return for 38 domestic and international renewable infrastructure companies (calculated on a weighted market-cap basis).

KAYNE ANDERSON ENERGY INFRASTRUCTURE FUND, INC.
LETTER TO STOCKHOLDERS

We are pleased that KYN continued its recent strong performance in the second quarter with a Net Asset Return of 19.2%[3] and a Market Return of 22.3%[4]. Since the start of our fiscal year, KYN's Net Asset Return was 38.2%, and KYN's Market Return was 43.7% as of July 22nd. This continued strong performance has also come with lower portfolio volatility than many other energy infrastructure and midstream focused funds because of the diversity and high-quality nature of KYN's holdings.

Distribution Philosophy

We are optimistic about the outlook for each of the energy infrastructure sectors in KYN's portfolio based on the fundamentals that will drive cash flows and investment in each sector. We also 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. 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 of 17% to 17.5¢ per share for the second quarter of fiscal 2021 (paid on July 13th). We believe this distribution is sustainable based on our outlook, and it is consistent with our stated philosophy of considering the income we receive from our holdings, as well as capital appreciation in the portfolio, in determining KYN's distribution. We also want to make clear that nothing has changed with respect to KYN's leverage policies. We continue to target leverage levels equal to 25% to 30% of KYN's total assets and a "downside cushion" of roughly 30% to 40% to KYN's leverage covenants. We believe the prudent use of leverage will enhance shareholder returns over the long term, but we have designed our leverage policies to position KYN to withstand periods of volatility in the financial markets.

We encourage investors to visit our website at www.kaynefunds.com for more information about the Company, including the podcasts posted within the "Insights" page that discuss performance and key industry trends. We appreciate your investment in KYN and look forward to providing future updates.

KA Fund Advisors, LLC

---

[3] 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).

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