

Kayne Anderson

Energy Infrastructure Fund, Inc.



**KYN Quarterly Commentary &
Performance Data: Q3'22**

September 30, 2022

Dear Fellow Stockholders:

As we publish this letter, financial markets around the globe are unsettled and struggling to recalibrate given a growing list of uncertainties. Currencies and government bonds are experiencing unprecedented short-term moves and volatility in the equity market remains elevated. While these events do not alter our longer-term outlook for KYN's portfolio (which is positive), we have taken a more defensive stance in light of this market backdrop.

Energy costs and access to supply play a prominent role in current market conditions, with a renewed appreciation for the importance of traditional hydrocarbons in our energy systems. In the U.S. and around the globe, we are seeing a push to invest in technologies to reduce carbon emissions from traditional energy sources as well as accelerating investments in renewable energy projects. These developments also highlight the importance of the energy infrastructure sector and its critical role in our economy and day-to-day lives. In North America, our vast network of infrastructure assets is the critical link in providing low-cost, abundant, and secure sources of energy throughout the economy. Our standard of living in America – which is one of the greatest achievements in modern history – would be very different without the contributions from our domestic energy and energy infrastructure industries.

Things are very different in other parts of the world. As we will discuss in this quarterly update, Europe is currently dealing with a severe energy crisis. For many developing economies, energy poverty is the unfortunate way of life. Consider the following statistic – nearly two billion people worldwide use less electricity than the average American refrigerator.⁽¹⁾ Access to affordable and reliable sources of electricity goes hand-in-hand with economic development and a higher standard of living. Our exports of domestically produced hydrocarbons (and related byproducts) to global markets are not only good for the U.S. economy, but they also provide developed and developing economies across the globe access to much needed energy. This, in turn, helps raise living standards and reduces dependence on energy supplies from unreliable or unfriendly sources. We are very proud of the role KYN's portfolio companies play in making this happen.

In this letter, we discuss the energy infrastructure markets, KYN's portfolio positioning, and the Company's quarterly performance. In summary:

- While KYN's Net Asset Return for the quarter was negative 1.1%, KYN significantly outperformed its benchmark return of negative 3.7% and the S&P 500 return of negative 3.9%;⁽²⁾⁽³⁾⁽⁴⁾
- Maintained conservative leverage levels with ample downside cushion;⁽⁵⁾ and
- Announced a quarterly distribution of \$0.20 per share.

Market Conditions

The S&P 500 declined 3.9% during KYN's fiscal third quarter (ended August 31st) and was down 12.4% during the first nine months of fiscal 2022. Volatility remained high as the market continued to assess the trajectory of future interest rates, the likely duration of “elevated” rates, and the potential for a global recession. The prospect of a prolonged economic downturn remains front of mind for investors. We continue to expect above-average volatility in the equity markets and have positioned our portfolios and leverage levels accordingly.

The prevailing U.S. yield curve inversion (the spread of the 2-year Treasury yield over the 10-year yield) – generally considered to be one of the most reliable predictors of recession – now exceeds levels seen in early 2007, which preceded the Global Financial Crisis. Yields on the 10-year U.S. Treasury bond continued their upward march, ending the quarter at 3.1% (more than double the yield at the start of fiscal 2022) and briefly exceeded 4.0% during September.

(1) Source: EIA 2019 global data, Energy Star.

(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) See footnote (8) for information on KYN's Composite Energy Infrastructure benchmark.

(4) Performance metrics in this letter represent total returns unless specifically noted otherwise.

(5) Downside cushion reflects the decrease in total asset value that could be sustained while maintaining compliance with 1940 Act leverage levels and KYN's financial covenants.

Energy commodity prices turned in a mixed performance during the quarter. WTI crude oil prices declined 21% to \$90 per barrel as the unprecedented release of oil from our Strategic Petroleum Reserve helped improve the supply/demand balance and moderate prices. Offsetting our government's actions, OPEC+ announced a largely symbolic 100,000 barrels/day supply cut in September, signaling a desire to keep crude oil prices near current levels. Iranian deal talks also continued to ebb and flow, with the prospects of an agreement looking less likely. In the near term, the oil market may continue to be pressured by the specter of a weaker economic outlook, particularly in the EU and China. Longer term, we believe moderate U.S. supply growth, steady global demand growth, cost inflation, under-investment, and limited global spare capacity, could support oil prices above "mid-cycle" levels for the next few years.

The narrative around natural gas and liquified natural gas(LNG) prices has evolved in recent months from economic talking points to preventing a potential humanitarian crisis. Europe's demand for LNG has driven U.S. natural gas prices to their highest sustained level since 2008, with Henry Hub ending the quarter at \$8.93 per million British thermal units (MMBtu) after averaging \$7.97/MMBtu during the quarter. The domestic knock-on effects of this increase are not insignificant; the U.S. household electricity price index increased 16% year-over-year in August, the largest annual increase since 1981.⁽⁶⁾ While painful, this pales in comparison to the plight of European consumers, who were forced to pay more than \$1,000 per barrel of oil equivalent for power at certain points during the third quarter. Russia continues to weaponize its gas flows – with recent actions causing market participants to question if those volumes will ever return. The European market remains fundamentally short gas and power, and everything from demand rationing, price caps, consumer subsidies, windfall profit taxes, and even restarting decommissioned thermal generation are on the table in many jurisdictions. The U.S. continues to export LNG at full capacity, and new contracting momentum is accelerating as the world scrambles to procure reliable gas supply. Unfortunately, incremental U.S. LNG exports are not a near-term solution for Europe's energy woes, and we expect a challenging winter lies ahead for EU economies.

Domestically, the Inflation Reduction Act (IRA) was signed into law on August 16th, constituting the most impactful piece of legislation for our sector in recent memory. This act includes a host of new energy tax credits, a corporate minimum tax, and methane emissions reduction initiatives. Investment tax credit (ITC) and production tax credit (PTC) extensions until at least 2032 are a significant win for wind and solar developers, and new long-term subsidies for renewable natural gas, carbon capture and sequestration, hydrogen and biofuels should accelerate the development of new energy infrastructure subsectors. With respect to fossil fuels, the negative aspects of the former bill were "walked back" over the course of negotiations between Democratic leadership and Senator Manchin, and the positives clearly outweigh the negatives. In our view, this broadly supportive outcome reflects the growing awareness that affordable traditional energy sources will continue to be a vital, long-term component of the global energy equation. Looking at the IRA in its totality, the bill is an overwhelming positive for operators and long-term investors in the U.S. energy infrastructure sector. We expect the IRA to drive incremental investor interest in companies throughout KYN's portfolio and cement the U.S. as the preferred destination for the deployment of lower-carbon technologies for years to come.

Portfolio and Performance

Returns across KYN's three energy infrastructure sectors – midstream, U.S. utilities, and renewable infrastructure – were mixed during the third fiscal quarter of 2022.

- Midstream energy, our largest sector, outperformed the broader market with the Alerian Midstream Energy Index (AMNA) down 3.6%, beating the S&P 500 by approximately 30 basis points (bps).
- U.S. utilities were up for the quarter, with the Utilities Select Sector SPDR Fund (XLU) returning 0.8% – its third consecutive quarter of outperformance vs. the S&P 500.
- Renewable infrastructure returns were negative 7.3%, largely attributable to the headwinds in Europe, as mentioned earlier.⁽⁷⁾

These quarterly results mask large market swings during the quarter, including a steep decline during June through early July and subsequent recovery. Over 20 trading days (from June 7th through July 6th), the AMNA,

(6) Source: U.S. Bureau of Labor Statistics

(7) Based on a composite total return for 37 domestic and international renewable infrastructure and utility companies (calculated on a market-cap weighted basis with individual constituents capped at a 10% weighting).

XLU and renewable infrastructure composite declined 18.6%, 5.9%, and 9.8%, respectively. KYN's diversified portfolio and conservative leverage gave us the flexibility to withstand this downturn.

As shown below, KYN's sector allocations remain skewed toward midstream compared to the weightings that make up KYN's Composite Energy Infrastructure benchmark. As a reminder, the benchmark is a blend of midstream, U.S. utilities, and renewable infrastructure sectors, as measured by the AMNA, XLU, and our renewable infrastructure composite, respectively.⁽⁸⁾

Sector Allocations		
	Weightings as of 8/31/22	
	KYN	Benchmark⁽⁸⁾
Midstream	82%	75%
Renewable Infrastructure	7%	15%
U.S. Utilities	9%	10%
Other	2%	-
Fiscal Q3 Total Returns	(1.1%)	(3.7%)

KYN's NAV Return of negative 1.1% was approximately 260 bps better than the benchmark return of negative 3.7%, primarily due to KYN's sector holdings' outperformance vs. their corresponding midstream and renewable infrastructure benchmarks (230 bps and 1,290 bps of outperformance, respectively). KYN's Market Return was negative 1.2% for the quarter, or approximately 10 bps lower than NAV Return.⁽⁹⁾

Taking a longer view, the AMNA returned 85% over the last 24 months (September 2020 to August 2022), which is approximately 6,900 bps greater than the S&P 500's return of 16% over the same time period. U.S. utilities returned 33% over this period, and renewable infrastructure was roughly flat. As evidenced by this quarter's relative performance, KYN's portfolio diversification reduces overall risk without unduly sacrificing returns. We continue to believe each sector's fundamental long-term prospects are very favorable, and our team actively monitors near-term prospects for each in pursuit of maximizing total returns.

Distribution

The Company declared a quarterly distribution of \$0.20 per share in September.⁽¹⁰⁾ Based on our current outlook, we believe this distribution level is sustainable and consistent with our distribution policy, which considers net distributable income as well as realized and unrealized gains from KYN's portfolio investments. While we are cognizant of the heightened risks in broader markets, we remain optimistic about the long-term outlook for energy infrastructure companies and their role in the energy transition and in facilitating increased energy security for our allies across the globe.

We encourage investors to visit our website at kaynefunds.com for more information about the Company, including the podcasts posted on the "Insights" page that discuss performance and key industry trends. For more details on KYN's performance, please refer to our website's "Quarterly Performance" section at kaynefunds.com/kyn. We appreciate your investment in KYN and look forward to providing future updates.

KA Fund Advisors, LLC

(8) The sub-sector allocations for KYN's Composite Energy Infrastructure benchmark were established by Kayne Anderson at the beginning of fiscal 2022 and are expected to change on an annual basis based on the estimated sub-sector allocations of the Company's assets during that year. The benchmark for the midstream sector is the Alerian Midstream Energy Index (AMNA). The benchmark for the U.S. utilities 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. The benchmark for the renewable infrastructure sector is the composite total return defined in footnote (7).

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

(10) Distribution payable October 7, 2022.

KYN Total Returns

KYN Total Returns	Fiscal Q3'22	Fiscal 2022 (YTD)
Net Asset Return ⁽¹⁾	(1.1%)	27.4%
Market Return ⁽²⁾	(1.2%)	24.9%
KYN Composite Energy Infrastructure Benchmark ⁽³⁾	(3.7%)	19.5%

KYN Portfolio Sector Returns

Portfolio Returns - Fiscal Q3'22	KYN ⁽⁴⁾	Benchmark ⁽⁵⁾
Midstream ⁽⁶⁾	(1.3%)	(3.6%)
Renewable Infrastructure	5.6%	(7.3%)
U.S. Utilities ⁽⁷⁾	(1.4%)	0.8%

Note: Performance as of August 31, 2022.

(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 benchmark is comprised of a 75% weighting to the midstream sector, 15% weighting to the renewable infrastructure sector and 10% weighting to the utility sector. Returns for each period are total returns. The sub-sector allocations for this composite index were established by Kayne Anderson at the beginning of fiscal 2022 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) Benchmark returns are total returns. The benchmark for the midstream sector is the Alerian Midstream Energy Index (AMNA). The benchmark for the renewable infrastructure sector is a composite total return for 37 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 Fund (XLU), which is an ETF linked to the Utilities Select Sector Index (IXU), a subset of the S&P 500.

(6) Excludes preferred and credit investments.

(7) Includes TransAlta Corporation (TA CN).

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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