Kayne Anderson

Energy Infrastructure Fund, Inc.

KYN Q1'21 Stockholder Letter

April 23, 2021

KAYNE ANDERSON ENERGY INFRASTRUCTURE FUND, INC.
LETTER TO STOCKHOLDERS

April 23, 2021

Dear Fellow Stockholders:

As we have said in our past several updates, we hope this letter finds you and your families healthy and safe. After more than a year, it appears the worst of the pandemic is finally behind us in the United States. We are optimistic about the prospects for the domestic economy and a gradual return to a more normal lifestyle over the next twelve months. That said, we do not want to minimize the suffering and tragic loss of life inflicted by this global health crisis, nor do we want to ignore the fact that many parts of the world are still struggling to control the spread of COVID-19. While we expect a continuation of the recovery in global economic activity during 2021, we also believe it will likely be accompanied by relatively high volatility as financial markets digest a steady flow of new — and sometimes conflicting — data about the pandemic response, fiscal & monetary policies, global trade, and inflation.

This letter focuses on market conditions and KYN's strong performance thus far during fiscal 2021. During the first five months of the new fiscal year, we have seen several policy initiatives from the Biden administration promoting investment in infrastructure, with particular emphasis on the Energy Transition. These initiatives should foster even greater development of domestic renewable energy. We are also optimistic that policies ultimately supported by congress and the administration will acknowledge the important role of traditional energy sources in bridging us to a lower carbon future. We think this is a positive backdrop for KYN, as its portfolio is well positioned to capitalize on the growing enthusiasm for Energy Transition as well as a continued recovery in traditional midstream energy companies.

Market Conditions

While the broader market experienced bouts of volatility during the first three months of fiscal 2021, the S&P 500 ended the quarter up 5.6%[1] and has continued to set record highs during March and April. In our opinion, market optimism is certainly warranted given the recovery from the pandemic, supportive monetary policies, and record fiscal stimulus. Domestic GDP is projected to grow in 2021 at the fastest rate since the 1980s as a result. That said, we also see signs of potential asset bubbles and excess risk appetite by certain market participants. Rapid increases in prices for cryptocurrencies, short squeezes of illiquid stocks, and stunning amounts of capital raised in initial public offerings for SPACs are a few examples. Interest rates have also risen dramatically over the past five months, and many expect rates to rise further as the market weighs the need to finance greater government deficits as well as the potential for inflation to ratchet higher.

We are watching this unfold with a mix of enthusiasm and caution. We believe the Biden administration's support for record stimulus spending and the Federal Reserve's willingness to tolerate a temporary surge in inflation should disproportionately benefit the energy sector as industrial activity and travel rebound. Against that backdrop, we expect that value stocks, including companies in the energy and infrastructure sectors, will continue to attract investors away from technology and other growth stocks in coming quarters. For the reasons mentioned above, however, we would not be surprised to see a temporary correction in the broader equity markets, even in the midst of very strong economic recovery and record growth rates in corporate earnings. The potential for rising interest rates could also be a material headwind for the broader market and valuations for growth equities, but we believe this is a very manageable risk for KYN's portfolio.

---

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

Regarding the sectors in which KYN invests, it was a divergent start to fiscal 2021 for midstream, utilities, and renewable infrastructure equities. The quarter was exceptionally strong for the midstream sector, with the Alerian Midstream Energy Index (AMNA) outperforming the S&P 500 by approximately 700 basis points. Since the end of KYN's fiscal first quarter, this sector has continued to trade well, with the AMNA now up more than 23% this fiscal year. Utilities traded off during the quarter, with the PHLX Utility Index (UTY) down 6.1%, lagging the broader market as investors expressed a preference for stocks in sectors more levered to an economic recovery versus defensive sectors. Utilities have since rebounded, and the UTY is now up 7.7% in fiscal 2021. Finally, the renewable infrastructure sector was roughly flat for the quarter (up 1%)[2]. This does not tell the whole story, however, as renewable infrastructure equities were very strong in the first five weeks of the quarter (up 13.5%), only to give back all those gains in January and February. Rising interest rates and a market rotation from growth into value negatively impacted performance during that period, but performance has stabilized in recent weeks, and the sector is currently up 8.4% for the fiscal year. We would note that the fundamentals driving performance in each of these subsectors is distinct and complementary to KYN's overall performance. Midstream companies have transitioned to harvesting cash flow and returning more cash to shareholders while utilities offer stable, regulated base businesses with the opportunity to invest incrementally in Energy Transition projects. Renewable infrastructure companies add high growth to the mix in businesses supported by the macro tailwinds of Energy Transition and electrification.

Crude oil and related energy commodities have also rallied dramatically over the past four months. WTI is now trading above $60 per barrel, up 50% from mid-November levels on the prospects for rebounding demand. Another important contributor to the rally was the surprise move by Saudi Arabia to invoke incremental production cuts in an effort to reduce excess global crude inventories more quickly. These unanticipated cuts altered the market narrative, which had been focused on concerns about production ramping up too quickly. Meanwhile, we are encouraged that North American producers have continued to be highly disciplined with respect to keeping 2021 capital expenditure plans intact, resisting the urge to ramp spending in the face of higher short-term prices. We are cautiously optimistic that the larger public upstream companies will continue on the path of de-levering and modest production growth through 2022, which will allow curtailed OPEC volumes to return as demand rebounds. In our opinion, this would create a very healthy environment for the midstream sector as volumes begin to grow modestly, prices stabilize, and upstream companies exit this period with much stronger balance sheets. It is worth noting that some forecasters are now predicting that crude oil prices could trade much higher this year (perhaps approaching $80 per barrel). We certainly acknowledge this possibility depending upon how fast demand recovers, but our long-term view of crude prices is still firmly anchored around $60 per barrel, a constructive level for all of the energy infrastructure sectors in which we invest.

KYN's Portfolio and Performance

Midstream energy equities represent roughly 74% of KYN's portfolio and these holdings are biased towards the larger, diversified midstream companies. We believe these companies are best positioned to enjoy the benefits of increasing discretionary free cash flow but are also resilient businesses with strong balance sheets capable of weathering unforeseen economic headwinds. The remaining 26% of our portfolio is invested in high quality utilities, renewable infrastructure, and credit/preferred securities. We are pleased with the diversification benefits of this allocation, in addition to the enhanced liquidity of

[2] Based on a composite total return for 39 domestic and international renewable infrastructure companies (calculated on a market-cap weighted basis).

our total portfolio, which was accomplished by rotating out of several smaller, less liquid midstream energy equities into more liquid utility and renewable infrastructure names over the past several quarters.

While our focus is primarily on long-term, risk-adjusted returns, we believe KYN's performance since the start of the fiscal year reflects the benefits of our diversified portfolio of energy infrastructure investments. As of April 23rd, KYN's Net Asset Return since the start of our fiscal year was 29.1%[3], and KYN's Market Return was 30.5%[4]. We believe our current sector allocations provide a nice balance of diversity and upside exposure to the improving economy over the next several quarters. Our use of leverage at KYN will also continue to have a conservative bias with a target leverage to total asset ratio of 25% to 30%.

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 plan to host a virtual investor presentation during May, which will provide a more in-depth discussion of our outlook for the Company and the energy infrastructure sectors in which we invest. Once the details of this event are finalized, we will issue a press release and post the information on our website. 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).