KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.
Form N-CSR
January 25, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER 811-22467

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

(Exact name of registrant as specified in charter)

811 Main Street, 14th Floor, Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

David Shladovsky, Esq.

KA Fund Advisors, LLC, 811 Main Street, 14th Floor, Houston, Texas 77002

(Name and address of agent for service)

Registrant s telephone number, including area code: (713) 493-2020

Date of fiscal year end: November 30, 2018

Date of reporting period: November 30, 2018

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

Item 1. Reports to Stockholders.

The report of Kayne Anderson Midstream/Energy Fund, Inc. (the Registrant) to stockholders for the fiscal year ended November 30, 2018 is attached below.

Midstream/Energy Fund

KMF Annual Report

November 30, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: This report of Kayne Anderson Midstream/Energy Fund, Inc. (the Fund) contains forward-looking statements as defined under the U.S. federal securities laws. Generally, the words believe, expect, intend, estimate, anticipate, project, will and similar expressions identify forward-looking statements, which generally are not hist in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to materially differ from the Fund s historical experience and its present expectations or projections indicated in any forward-looking statement. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; MLP industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Fund s filings with the Securities and Exchange Commission (SEC). You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. The Fund undertakes no obligation to publicly update or revise any forward-looking statements made herein. There is no assurance that the Fund s investment objectives will be attained.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

ADOPTION OF AN OPTIONAL DELIVERY METHOD FOR SHAREHOLDER REPORTS

Rule 30e-3 Notice

Beginning on January 1, 2021, as permitted by regulations adopted by the Securities and Exchange Commission, paper copies of Kayne Anderson Midstream/Energy Fund, Inc. s (the Fund or KMF) annual and semi-annual shareholder reports like this one will no longer be sent by mail, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary, such as a broker-dealer or bank. Instead, the reports will be made available on the Fund s website (www.kaynefunds.com), and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the Fund or your financial intermediary electronically by calling the Fund at 1-877-657-3863 or contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. You can inform the Fund or your financial intermediary that you wish to continue receiving paper copies of your shareholder reports by calling the Fund at 1-877-657-3863 or contacting your financial intermediary. Your election to receive reports in paper will apply to all funds managed by KA Fund Advisors, LLC or held with your financial intermediary.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

LETTER TO STOCKHOLDERS

January 23, 2019

Dear Fellow Stockholders:

Earlier this month, I announced that I plan to step down as CEO this summer, so this will be my final annual letter to stockholders. I am transitioning into a new role at Kayne Anderson, serving as Vice Chairman of the firm and a member of its Executive Committee. I am pleased to have served the stockholders of KMF for the last eight years and the legacy KYE stockholders for the last 14 years. While the downturn in the broader energy sector over the last four years has been challenging, I believe the Fund is currently very well positioned to execute on its business plan for many years to come achieving high total returns by investing in MLPs, Midstream Companies and other Energy Companies.

When I think back to when I joined Kayne Anderson in 2004, it is amazing to think about how much the domestic energy sector has changed. The development of unconventional resources, or the Shale Revolution as we often call it, impacted the American energy industry and the broader economy in ways that were almost unimaginable 15 years ago. The most attention-grabbing statistic, arguably, is the growth in domestic crude oil production. Production has grown by more than 100% since 2004, and currently the United States produces more oil than any other country in the world. While growth in domestic production of natural gas and natural gas liquids, or NGLs, does not attract as many headlines, those statistics are equally impressive. Largely as a result of the Shale Revolution, the market backdrop today could not be more different than it was back then. In the mid-2000s, domestic production had declined for several decades and was believed to be in terminal decline. As a result, the United States had become increasingly reliant on imports to satisfy its growing demand a trend that was expected to continue. Today, domestic production is at an all-time high (with more growth projected), and the United States now exports a growing amount of its production to the rest of the world. America has changed from being dependent on other countries to satisfy its energy needs to being one of the world s leading suppliers of energy commodities. It has been an incredibly eventful 15-year period!

Midstream MLPs were instrumental in enabling this production growth the Shale Revolution would not have been nearly as revolutionary if the MLP industry were not there to build the pipelines, terminals, processing plants, fractionators and countless other logistics assets that ensured these products flowed from the wellhead to the end user. The ingenuity and resourcefulness of the sector s management teams to respond to this incredibly dynamic environment is impressive, as is the attractiveness of the MLP structure, which helped these companies raise the capital needed to fund this multi-decade build-out of midstream assets.

Undoubtedly, you realize that the last four years have been very challenging for the MLP space. Many MLP management teams made mistakes and took actions that caused many investors to lose confidence in the structure as we have discussed extensively in recent annual letters. That said, as we will review in this year s letter, tremendous progress has been made over the last few years, and today s MLP sector is very different from the one of five years ago. We believe the sector has taken the right steps to improve its financial health and address many investor concerns. Further, we believe MLPs are attractively valued and well positioned to generate strong returns for investors.

In addition to MLPs, it is important to include Midstream Companies in any discussion involving the domestic midstream industry. As a result of many simplification transactions (more on this topic in a bit), an increasing amount of midstream assets are held by entities structured as taxable corporations. This is very different than the midstream landscape when we took the Fund public in late 2010. At that time, the predominant trend was to transfer midstream assets from corporations into MLPs, primarily via drop down transactions. Additionally, investors desired ways to get exposure to the midstream industry through owning the general partner of the MLPs, which had levered exposure to the growth in the partnership s cash flow through the ownership of the MLP s incentive distribution rights, or IDRs (we typically referred to these companies as GPs). From 2010 to 2017, there were more than ten publicly traded GPs formed either through an IPO or a

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restructuring of an existing public entity. The Fund was designed to take advantage of these trends and be a unique way for investors to get exposure to the midstream sector. The Fund s portfolio has evolved since inception (in part in response to the recent wave of simplification transactions), but its investment focus on the midstream industry has remained unchanged. While the simplification transactions have changed the investment landscape for instance there are no longer any publicly traded GPs we could not be more pleased about the various ways to invest in the midstream sector that exist today.

Before turning to KMF s performance during fiscal 2018, I would like to comment on recent market volatility. Both the broader equity markets as well as the energy markets have been extremely volatile over the last few months. Crude oil prices declined by almost 45% this fall and MLPs declined by over 25% from their August highs. Fortunately, both have started to recover with MLPs up 15% from their December lows. We enter 2019 with many questions, including the state of the domestic economy, as well as the potential impact of a trade war between the U.S. and China. It is likely that volatility levels will remain elevated that is the world we live in today. Fortunately, the Fund is well positioned to deal with this environment. Our leverage ratios are near target levels, providing a buffer against the impact of stock price declines. As has been the case since inception, our investment process is focused on delivering attractive returns over multi-year periods, not reacting to day-to-day price swings.

Performance Review

Fiscal 2018 was a challenging year for the Fund. We primarily measure the Fund s performance based on its Net Asset Value Return, which is equal to the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment program). Although KMF performed better than the average of its peer Midstream closed end funds during fiscal 2018, the Fund s performance was still disappointing, as its Net Asset Value Return was negative 2.6% (vs. a peer average of negative 3.1%). During the same time period, the total return of the Alerian Midstream Energy Select Index, or AMEI, was negative 5.5%. The AMEI is an index designed to track the performance of North American energy infrastructure companies, including MLPs and Midstream Companies. Though it is challenging to compare the Fund s performance to a benchmark due to the fact that KMF invests in multiple energy-related subsectors, we believe the AMEI is a good benchmark given the Fund s focus on the midstream sector. In particular, we believe the AMEI is the best benchmark for the Fund because it caps the weighting of MLPs in the index at 25% which is consistent with KMF s maximum weighting in MLPs.

The Fund s Market Return (share price change plus reinvested dividends) during fiscal 2018 was negative 6.7%, as the Fund s discount to NAV per share widened during the year. The trading relationship of the Fund s stock price to NAV is something we monitor closely, and we were disappointed that it ended the fiscal year at a discount to NAV of 12.8%. To the extent the discount remains greater than 10%, we will review the merits of a stock buyback program with the Board of Directors.

In response to the Fund s projection for net distributable income, or NDI, in calendar year 2019, which has been negatively impacted by the simplification transactions announced during 2018, the Fund s Board of Directors decided at our December board meeting to reduce the monthly distribution from $0.10 per share ($0.30 per share on a quarterly basis) to $0.075 per share ($0.225 per share on a quarterly basis) starting with the distribution that will be paid at the end of this month. Given our view that the majority of material simplification transactions have been announced, we felt it was the appropriate time to reset the distribution to a level that is in line with our revised NDI projections. At the same time that the new distribution was announced, we provided guidance that we intend to maintain this distribution level for the 12-month period ending December 31, 2019. Going forward, each December we intend to reassess our distribution level in light of our NDI and provide distribution guidance for the next twelve months. We understand that our distribution is a key piece of the value

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LETTER TO STOCKHOLDERS

proposition for our investors, and the goal of this policy is to provide more visibility for our investors while ensuring that we maintain a distribution that is supported by the NDI generated from our portfolio investments.

Changing Midstream Landscape

The most impactful trend in the midstream industry over the last few years has been the simplification transactions between MLPs and Midstream Companies, a topic we have covered in great detail in prior annual letters. These transactions have come in three principal varieties: a roll-up of a subsidiary MLP into its parent, often a Midstream Company; the purchase of the general partner and IDRs by an MLP from its parent; and the merger of two affiliate MLPs that share the same general partner. This trend continued in 2018, with several large simplifications taking place, including Energy Transfer s roll-up of its MLP into its general partner, the roll up of Williams Partners by Williams and the roll-up of Spectra Energy Partners and Enbridge Energy Partners into Enbridge Inc. There were a half dozen other simplification transactions announced or completed during 2018, but rather than recap all of these transactions, we want to take a step back and review these transactions in the context of the broader changes that have been occurring in the sector over the last several years.

Since Kinder Morgan completed the roll-up of its MLPs in November 2014, over 30 MLPs have pursued simplification transactions. These transactions have been good for the sector in that they have eliminated IDRs for the vast majority of MLPs and, as a consequence, created better economic alignment between general partners and limited partners. At the same time, however, most of these transactions were accomplished by the lower-yielding entity purchasing the higher-yielding entity, which resulted in back-door distribution cuts for the unitholders of the acquired MLP.

In hindsight, it is easier to see that these simplification transactions were one facet of a broader shift in the midstream sector. As some MLPs pursued simplification transactions, others reduced their distributions or either slowed or stopped distribution growth. The effect of all of these actions is to preserve more internally generated cash flow in order for it to be used to reduce leverage and fund capital expenditures. Similar to what we have seen in the upstream sector, investors have been demanding more capital discipline from companies in the midstream sector. This trend has manifested itself through a more challenging capital markets environment in which it has become much more difficult to issue new common equity. As a result, companies have responded by retaining more internally generated cash flow, as well as pursuing a combination of asset sales, partnering with other companies on projects, structured or preferred financing and (hopefully) eliminating marginal growth projects.

While painful at times for equity holders, these changes are good for the midstream industry over the longer term. Today companies are much healthier, with stronger balance sheets and higher distribution coverage ratios than they had in 2014. Further, a substantial majority of midstream assets are held either by Midstream Companies or MLPs that have eliminated their IDRs, which is very different from a few years ago when IDRs were much more prevalent.

Admittedly, this transformation has taken a toll on investors in the short term, including KMF. Given the large number of back-door distribution cuts from simplifications, along with a few distribution cuts by large MLPs, current distributions being paid to MLP unitholders are well below where they were at the peak in 2014. For example, a portfolio that tracked the Alerian MLP Index, or AMZ, would have experienced a 29% decline in distributions from the fourth quarter of 2014 to today. For long-time MLP unitholders, this decline in distributions was a particularly bitter pill to swallow because many of the simplification transactions that contributed to this reduction also resulted in a tax bill for these investors.

Midstream Industry Update

In last year s letter, we predicted that 2018 would be the year that we would see volume growth and new projects going into service translate into strong financial results for MLPs and Midstream Companies, and that certainly came to pass. It has been a year of record earnings for the industry, exceeding even the most bullish

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estimates, including ours. Domestic crude oil production growth also exceeded expectations during 2018, surpassing the previous record set in 1970. This time last year, the U.S was producing approximately 10.0 million barrels per day. Currently, domestic production is estimated to be around 11.9 million barrels per day, and the EIA is projecting that the U.S. will exit 2019 at approximately 12.2 million barrels per day. It is worth pointing out that just 12 months ago, the EIA was projecting that the U.S would exit 2019 at 11.0 million barrels per day of production.

During 2018, crude oil prices averaged $65 per barrel, but at the end of the year, prices fell sharply as concerns of oversupply from (a) greater than expected U.S. production and (b) higher-than-expected production levels from OPEC coincided with concerns of a slowing global economy and weaker-than-expected demand growth. After falling to the low $40s (a decline of over $30 per barrel), oil prices have recovered and are currently in the low $50 per barrel area.

This recent volatility highlights how sensitive oil prices are to domestic production levels in a world where improving drilling and completion technologies have enabled U.S. upstream companies to grow production to levels that were not thought possible just a few years ago. It is amazing to think that domestic crude production was less than 6 million barrels per day when the Fund went public in November 2010, and that now the U.S. has more than doubled production and surpassed Russia and Saudi Arabia to be the top producer of oil in the world. Equally amazing is the fact that U.S. exports of crude oil averaged 2.0 million barrels per day to world markets during 2018. Until as recently as December 2015, it was against the law to export oil from the U.S.! The world has certainly changed since I joined Kayne Anderson 15 years ago, when the biggest concern was how to reduce the country s dependence on imports of foreign oil.

The same phenomenon has occurred in natural gas and NGLs production as well both are also at record levels. The U.S. is now exporting 2.9 billion cubic feet per day of liquefied natural gas, or LNG, which is expected to continue to grow. Cheniere Energy Partners currently exports the substantial majority of this domestic LNG from its Sabine Pass facility. Interestingly, when this MLP went public in 2007, this facility was under construction and was being built to import LNG just another data point that illustrates the transformation in the energy industry as a result of the Shale Revolution.

Growth in domestic NGL production, which has more than doubled since 2011, has revitalized the domestic petrochemical industry. Plentiful supply and competitive prices have positioned the Gulf Coast as one of the lowest cost producers of petrochemicals in the world. As domestic production has increased, the U.S. has become one of the largest exporters of NGLs in the world, as production levels far outstrip domestic demand. To help put in perspective how important exports of NGLs are to balance the market, we expect that over one-third of domestic NGL production will be exported in 2019.

Midstream MLPs and Midstream Companies own the pipelines, terminals and docks that make exports of these commodities possible, and more infrastructure will be needed to accommodate expected production growth. As a result, we believe that the midstream sector is well positioned to grow cash flows over the next few years.

While the Shale Revolution has unquestionably changed the domestic energy industry, in many instances the production growth over the last 15 years has not translated into attractive returns for the companies stockholders. As a result, investors are demanding companies in all facets of the energy industry change the way they do business. In particular, investors want companies to pivot away from a growth at all costs mindset to one that is focused on capital efficiency and return on capital employed. We echo this sentiment. While this may slow the rate of growth of cash flow and cash distributions, it should make activity levels more sustainable, help stabilize commodity prices, and help dampen the industry s boom and bust cycles. I think it is worth noting that the midstream industry has historically been more disciplined than its upstream peers. We believe the MLP structure, which requires a majority of the free cash flow be paid to investors in the form of quarterly distributions, helped instill this discipline.

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Before reviewing our outlook for fiscal 2019, it is also important to point out some of the challenges the sector faces. Currently, one of the biggest impediments to development in the midstream sector is growing opposition to fossil fuels. Over the last few years, environmental groups have increasingly targeted pipeline construction under the theory that if natural gas and oil cannot get to market, it will not get drilled and produced, and their tactics have become increasingly sophisticated. We have seen challenges to pipelines at local, state and federal levels in the courts, from challenging FERC and Army Corps procedures to questioning the propriety of a local air or water permit. These tactics have worked and caused meaningful delays and cost increases for many pipeline projects. Further, environmental groups have been active on the legislative front with ballot initiatives to curb oil and gas development. In Colorado, for example, a proposal to increase setbacks from occupied buildings made the ballot that would have had a material impact on oil and gas development in Colorado. Although the initiative failed, we expect more attempts like this in Colorado and elsewhere. This is the new world order, and in order to navigate it, the energy industry needs to rigidly adhere to existing regulations and procedures, prioritize safety and environmental stewardship and look for ways to compromise where possible in order to gain support from concerned citizens.

Outlook

Our outlook for the midstream industry for the next few years is very positive. We believe MLPs and Midstream Companies are attractively valued and well positioned to generate strong returns for investors. The operating environment for the sector is robust, with continued volume growth driving improved financial results. Further, the sector s transformation is largely complete, as we believe that most of the material simplification transactions have already been announced. If commodity prices were to fall back to their December lows, and activity levels slow more than expected, the midstream sector with lower leverage levels and higher distribution coverage ratios is very well positioned to deal with this scenario. For these reasons, we expect the substantial majority of the Fund s investments to be MLPs and Midstream Companies for the foreseeable future and a smaller portion of our portfolio to be allocated to marine transportation and fixed income For example, at the time of KMF s IPO, our model portfolio was targeting a 70% allocation to Midstream MLPs and Midstream Companies and a 30% allocation to marine transportation and fixed income. Currently, we are targeting those allocations to be 85% and 15%, respectively. Of course, we can modify KMF s target portfolio allocations to the extent that market conditions change and our outlook for the midstream sector becomes less bullish.

In response to the recent decline in commodity prices since early October, we expect upstream companies to moderate their spending levels during 2019. We believe the upstream sector is listening carefully to investor demands that companies spend within cash flows. Even after taking these lower spending levels into account, we expect domestic production to continue to grow this year. Importantly, we believe that oil prices in the mid $50 per barrel area (very close to where we are today) is a goldilocks price for domestic production growth not too slow, not too fast.

In addition to a supportive fundamental outlook, we believe that midstream valuations are very attractive. Let me provide some facts that support our thesis: The MLPs and Midstream Companies in KMF s portfolio (on a weighted average basis) trade a multiple of 11x Enterprise Value to 2019 EBITDA, have a current yield of 7.0% and a distribution coverage ratio of 1.5x. We anticipate distribution growth rates on these investments will average 5% to 7% over the next few years. Further, these companies have an average debt to 2019 EBITDA ratio of 4.2x In our opinion, this is an impressive combination of attractive valuations, nice yields and high quality balance sheets.

We appreciate your investment in the Fund and know that the downturn over the last few years has not been a pleasant experience. We believe the midstream sector will continue to perform well operationally, and that stock prices will eventually begin to better reflect the value of these businesses leading to strong returns. For these reasons, we believe that patient long-term investors in the Fund will be rewarded with very attractive returns over the next three to five years.

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On a personal note, I would like to thank the employees of Kayne Anderson, the Board of Directors of the Fund and, most importantly, our investors for eight wonderful years as CEO. I look forward to continuing as chairman of the board for the next year and a half and am excited about my new role at Kayne Anderson. The Board of Directors and I have complete confidence in Jim Baker, who has been my colleague for 22 years, and we are certain when he steps up to the role of CEO in June the Fund will be in good hands as it continues to execute on its business plan of achieving high total returns by investing in MLPs, Midstream Companies and other Energy Companies. We invite you to visit our website at www.kaynefunds.com for the latest updates.

Sincerely,

Kevin S. McCarthy

Chairman of the Board of Directors

and Chief Executive Officer

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

PORTFOLIO SUMMARY

(UNAUDITED)

Portfolio of Long-Term Investments by Category[(1)]

November 30, 2018 **November 30, 2017**

Top 10 Holdings by Issuer

	Holding	Category[(1)]	Percent of Long Term Investments as of November 30, 2018	Percent of Long Term Investments as of November 30, 2017
1.	ONEOK, Inc.	Midstream Company	9.5%	7.8%
2.	The Williams Companies, Inc.	Midstream Company	7.5	6.0
3.	Targa Resources Corp.	Midstream Company	7.5	7.1
4.	Plains GP Holdings, L.P.[(2)]	Midstream Company	7.1	6.6
5.	Enbridge Energy Management, L.L.C.[(3)]	Midstream Company	5.1	5.9
6.	Kinder Morgan, Inc.	Midstream Company	4.6	1.1
7.	Pembina Pipeline Corporation	Midstream Company	4.3	1.6
8.	Capital Product Partners L.P. Class B Units[(4)]	Midstream Company	3.9	1.1
9.	KNOT Offshore Partners LP	Midstream Company	3.8	3.7
10.	Energy Transfer LP	Midstream MLP	3.6	3.8

(1) See Glossary of Key Terms for definitions. Midstream Company category includes Midstream Companies engaged in marine transportation (15% as of November 30, 2018 and 16% as of November 30, 2017).

(2) Our investment includes our holdings of Plains GP Holdings, L.P. (PAGP) and our interest in Plains AAP, L.P. (PAGP-AAP). Our ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. units at our option.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

PORTFOLIO SUMMARY

(UNAUDITED)

(3) On December 20, 2018, Enbridge Inc. (ENB) completed its previously announced acquisition of Enbridge Energy Management, L.L.C. (EEQ) in a stock-for-stock exchange. As of November 30, 2018 and 2017, our ownership of ENB represented 2.6% and 3.7% of long-term investments.

(4) On November 27, 2018, Capital Product Partners L.P. (CPLP) and DSS Holdings L.P. (DSS), entered into a definitive agreement pursuant to which CPLP has agreed to spin off its crude and product tanker business into a separate publicly listed company, which will merge with DSS. In connection with this transaction, all of our CPLP Class B Units will be redeemed for cash at $9.00 per unit. The transaction is expected to close in the first quarter of 2019.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Fund Overview

Kayne Anderson Midstream/Energy Fund, Inc. (KMF) is a non-diversified, closed-end fund that commenced operations in November 2010. Our investment objective is to provide a high level of total return with an emphasis on making cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary of Key Terms for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

On August 6, 2018, we completed our merger with Kayne Anderson Energy Total Return Fund, Inc. (KYE). Pursuant to the terms of the merger agreement approved by stockholders of KYE, we acquired all of the net assets of KYE ($405 million) in exchange for an equal net asset value of newly issued KMF common stock (26.8 million shares). Our results of operations for the three months and fiscal year ended November 30, 2018 are not directly comparable to prior periods as these results include income and earnings associated with assets acquired in connection with the merger (included as of the date such merger was completed). See Note 1 Organization.

As of November 30, 2018, we had total assets of $0.9 billion, net assets applicable to our common stockholders of $615 million (net asset value of $12.57 per share), and 49 million shares of common stock outstanding. As of November 30, 2018, we held $884 million in equity investments and $25 million in debt investments.

Recent Events

January, February and March Distributions and Guidance for 2019

On December 17, 2018, we announced a monthly distribution of $0.075 per share for each of January, February and March of 2019. This distribution was a reduction of $0.025 per share from the prior monthly rate of $0.10 per share.

Over the past two years, there has been an ongoing trend of MLPs streamlining their ownership structures through simplification transactions. These transactions were designed to eliminate conflicts, strengthen balance sheets and improve distribution coverage ratios. While these transactions have accomplished those goals, they also have had the effect of materially reducing our net distributable income (NDI). During our fourth fiscal quarter, this activity accelerated, as several more of these simplifications were announced. Once these transactions are completed, we believe the midstream sector will be substantially finished with the simplification process. As a result, we have much better visibility as to what our NDI will be in 2019. In light of this, the Board of Directors elected to reduce the monthly distribution to $0.075 per share with respect to the January, February and March 2019 distributions. This distribution level is in line our projected NDI over the next 12 months, after giving effect to all of the transactions that have been announced or are expected to be announced in the near term.

We plan to maintain the monthly distribution of $0.075 per share for the next 12 months (through the distribution to be paid in December 2019). To the extent there is a material change in projected NDI for 2019, the Board of Directors will reassess the distribution level at such time. We also plan to reassess the distribution level each December and provide guidance for the following 12 months.

Results of Operations For the Three Months Ended November 30, 2018

Investment Income. Investment income totaled $5.8 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received $15.3 million of dividends and distributions, of which $10.4 million was treated as return of capital. Interest income was $0.1 million. We also received $1.4 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Operating Expenses. Operating expenses totaled $6.4 million, including $3.0 million of investment management fees, $2.2 million of interest expense, $0.8 million of preferred stock distributions and $0.4 million of other operating expenses. Interest expense includes $0.2 million of non-cash amortization of debt issuance costs. Preferred stock distributions include $0.05 million of non-cash amortization.

Net Investment Loss. Our net investment loss totaled $0.5 million.

Net Realized Losses. We had net realized losses of $1.6 million, which included $0.1 million of net realized gains from option activity.

Net Change in Unrealized Gains. We had a net decrease in unrealized gains of $93.6 million from investments.

Net Decrease in Net Assets Resulting from Operations. We had a decrease in net assets resulting from operations of $95.7 million. This decrease was comprised of net investment loss of $0.5 million, net realized losses of $1.6 million and a net decrease in unrealized gains of $93.6 million, as noted above.

Results of Operations For the Fiscal Year Ended November 30, 2018

Investment Income. Investment income totaled $12.4 million for the year and consisted primarily of net dividends and distributions and interest income on our investments. We received $37.6 million of dividends and distributions, of which $29.1 million was treated as return of capital. Return of capital was increased by $2.2 million due to 2017 tax reporting information that was received in fiscal 2018. Interest income was $3.9 million. We also received $4.8 million of paid-in-kind dividends during the year, which are not included in investment income, but are reflected as an unrealized gain.

Operating Expenses. Operating expenses totaled $17.0 million, including $7.7 million of investment management fees, $5.7 million of interest expense, $2.0 million of preferred stock distributions and $1.6 million of other operating expenses (including $0.1 million of merger expenses and a non-cash write-off of shelf offering costs of $0.1 million). Interest expense includes $0.6 million of non-cash amortization of debt issuance costs. Preferred stock distributions includes $0.1 million of non-cash amortization.

Net Investment Loss. Our net investment loss totaled $4.6 million.

Net Realized Losses. We had net realized losses of $8.3 million, which includes $0.3 million of net realized gains from option activity.

Net Change in Unrealized Gains. We had a net decrease in unrealized gains of $55.0 million from investments.

Net Decrease in Net Assets Resulting from Operations. We had a decrease in net assets resulting from operations of $67.9 million. This decrease was comprised of net investment loss of $4.6 million, net realized losses of $8.3 million and net decrease in unrealized gains of $55.0 million, as noted above.

Distributions to Common Stockholders

Our distributions are funded generally by net distributable income (NDI) generated from our portfolio investments. NDI is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. NDI is not a financial measure under the accounting principles generally accepted in the United States of America (GAAP). Refer to the Reconciliation of NDI to GAAP section below for a reconciliation of this measure to our results reported under GAAP.

Income from portfolio investments includes (a) cash dividends and distributions, (b) paid-in-kind dividends received (*i.e.*, stock dividends), (c) interest income from debt securities and commitment fees from private investments in public equity (PIPE investments) and (d) net premiums received from the sale of covered calls.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Operating expenses include (a) investment management fees paid to our investment adviser (KAFA), (b) other expenses (mostly comprised of fees paid to other service providers), (c) accrual for estimated excise taxes (if any) and (d) interest expense and preferred stock distributions.

Net Distributable Income (NDI)

(amounts in millions, except for per share amounts)

	Three Months Ended November 30, 2018[1]	Fiscal Year Ended November 30, 2018[1]
Distributions and Other Income from Investments		
Dividends	$ 15.3	$ 37.6
Paid-In-Kind Dividends[2]	1.4	4.8
Interest and Other Income	1.0	4.1
Net Premiums Received from Call Options Written	0.1	0.4
Total Distributions and Other Income from Investments	17.8	46.9
Expenses		
Investment Management Fee	(3.0)	(7.7)
Other Expenses[3]	(0.4)	(1.3)
Interest Expense	(2.1)	(5.1)
Preferred Stock Distributions	(0.7)	(1.9)
Net Distributable Income (NDI)	**$ 11.6**	**$ 30.9**
Weighted Shares Outstanding[4]	48.9	30.6
NDI per Weighted Share Outstanding	**$ 0.238**	**$ 1.011**
Distributions paid per Common Share[5]	**$ 0.250**	**$ 1.15**
	Quarterly Rate	
Distribution Guidance per Common Share for 2019[6]	$ 0.225	

(1) NDI for the three months and fiscal year ended November 30, 2018, includes income and earnings associated with assets acquired in connection with our merger with KYE (included as of August 6, 2018, the date such merger was completed).

(2) See Note 2 Significant Accounting Policies to the Financial Statements for additional information regarding paid-in-kind and non-cash dividends and distributions.

(3) For the fiscal year ended November 30, 2018, excludes $0.2 million of one-time merger related expenses.

(4)

Weighted shares outstanding for the fiscal year reflects 26.8 million of new KMF shares issued August 6, 2018 in connection with our merger with KYE.

(5) For the three months ended November 30, 2018, consists of distributions paid, or to be paid, December 31, 2018, January 31, 2019 and February 28, 2019. For the fiscal year ended November 30, 2018, consists of quarterly distributions paid on April 20, 2018 and July 13, 2018, and monthly distributions paid, or to be paid, September 28, 2018, October 31, 2018, November 30, 2018, December 31, 2018, January 31, 2019 and February 28, 2019.

(6) Based on a monthly distribution of $0.075 per common share ($0.90 per common share annualized).

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants on our debt agreements and terms of our preferred stock. The Fund has provided guidance on the expected distribution level for 2019 (monthly distribution rate of $0.075 per common share). The Fund plans to reassess its distribution level each December and provide guidance for the following twelve months. In determining this amount, management and the Board of Directors gives a significant amount of consideration to the NDI the portfolio is expected to generate during the twelve month guidance period.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

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Reconciliation of NDI to GAAP

The difference between distributions and other income from investments in the NDI calculation and total investment income as reported in our Statement of Operations is reconciled as follows:

GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from investment income, whereas the NDI calculation includes the return of capital portion of such distributions.

NDI includes the value of paid-in-kind dividends and distributions whereas such amounts are not included as investment income for GAAP purposes, but rather are recorded as unrealized gains upon receipt.

NDI includes commitment fees from PIPE investments, whereas such amounts are generally not included in investment income for GAAP purposes, but rather are recorded as a reduction to the cost of the investment.

Certain of our investments in debt securities were purchased at a discount or premium to the par value of such security. When making such investments, we consider the security s yield to maturity, which factors in the impact of such discount (or premium). Interest income reported under GAAP includes the non-cash accretion of the discount (or amortization of the premium) based on the effective interest method. When we calculate interest income for purposes of determining NDI, in order to better reflect the yield to maturity, the accretion of the discount (or amortization of the premium) is calculated on a straight-line basis to the earlier of the expected call date or the maturity date of the debt security.

We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the call premium that we received, thereby generating a profit. The premium we receive from selling call options, less (i) the amount that we pay to repurchase such call option contracts and (ii) the amount by which the market price of an underlying security is above the strike price at the time a new call option is written (if any), is included in NDI. For GAAP purposes, premiums received from call option contracts sold are not included in investment income. See Note 2 Significant Accounting Policies for a full discussion of the GAAP treatment of option contracts.

The treatment of expenses included in NDI also differs from what is reported in the Statement of Operations as follows:

The non-cash amortization or write-offs of capitalized debt issuance costs and preferred stock offering costs related to our financings is included in interest expense and distributions on preferred stock for GAAP purposes, but is excluded from our calculation of NDI.

NDI also includes recurring payments (or receipts) on interest rate swap contracts or the amortization of termination payments on interest rate swap contracts entered into in anticipation of an offering of unsecured notes (Notes) or mandatory redeemable preferred stock (MRP Shares). The termination payments on interest rate swap contracts are amortized over the term of the Notes or MRP Shares issued. For GAAP purposes, these amounts are included in the realized gains/losses section of the Statement of Operations.

Under GAAP, excise taxes are accrued when probable and estimable. For NDI, we exclude excise tax that is unrelated to the current fiscal period.

For GAAP purposes, offering costs incurred related to the issuance of common stock reduce paid-in capital when stock is issued. Certain costs related to registration statements or shelf offerings may be written off once the registration statement or prospectus usefulness has expired. The non-cash amortization or write-off of these offering costs is included in operating expense for GAAP purposes, but is excluded from our calculation of NDI.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Liquidity and Capital Resources

At November 30, 2018, we had total leverage outstanding of $300 million, which represented 33% of total assets. Total leverage was comprised of $201 million of Notes, $24 million of borrowings outstanding under our unsecured revolving credit facility (the Credit Facility) and $75 million of MRP Shares. At November 30, 2018, we did not have any borrowings outstanding under our unsecured revolving term loan (the Term Loan), and we had $4 million of cash and cash equivalents. As of January 18, 2018, we had $7 million of borrowings outstanding under our Credit Facility and no borrowings outstanding under our Term Loan, and we had $1 million of cash and cash equivalents.

Our $75 million Credit Facility has a 364-day term maturing on February 15, 2019. The interest rate varies between LIBOR plus 1.30% and LIBOR plus 1.95%, depending on the Fund s asset coverage ratios. The Fund pays a fee of 0.20% per annum on any unused amounts. We assumed the Credit Facility from KYE in connection with our merger with KYE on August 6, 2018. On the same date, we terminated our pre-merger $75 million unsecured revolving credit facility (the KMF Credit Facility) that was scheduled to mature on November 9, 2018. We have initiated a process to renew our Credit Facility prior to its maturity date and expect to complete this renewal process in early February. As part of this process, we intend to increase the size of this facility in connection with the upcoming maturity of our Term Loan.

Our Term Loan has a total commitment of $35 million and matures on July 25, 2019. Borrowings under the Term Loan have an interest rate of LIBOR plus 1.50%. Amounts borrowed under the Term Loan may be repaid and subsequently borrowed. We pay a fee of 0.25% per annum on any unused amount of the Term Loan.

At November 30, 2018, we had $201 million of Notes outstanding that mature between 2020 and 2025 and we had $75 million of MRP Shares outstanding that are subject to mandatory redemption between 2021 and 2024.

As part of the merger with KYE, we issued Series F, G, H, I and J Notes with terms identical to the previous KYE Series I, J, K, L, and M Notes, respectively. On August 8, 2018 we redeemed all of the Series F Notes. On August 6, 2018, we also issued Series D and Series E MRP Shares ($40 million liquidation value) with terms identical to the previous KYE Series C and Series D MRP Shares, respectively.

At November 30, 2018, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act), were 407% for debt and 305% for total leverage (debt plus preferred stock). As of January 18, 2019, our asset coverage ratios were 440% for debt and 323% for total leverage. Our target asset coverage ratio with respect to our debt is 430%. At times we may be above or below this target depending on market conditions as well as certain other factors, including our target total leverage asset coverage ratio of 320% and the basic maintenance amount as stated in our rating agency guidelines.

As of November 30, 2018, our total leverage consisted 92% of fixed rate obligations and 8% of floating rate obligations. At such date, the weighted average interest/dividend rate on our total leverage was 3.71%.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2018

(amounts in 000 s, except number of option contracts)

Description	No. of Shares/Units	Value
Long-Term Investments 147.9%		
Equity Investments[1] 143.9%		
United States 129.9%		
Midstream Companies[2] 90.4%		
Antero Midstream GP LP[3][4]	409	$ 6,057
Capital Product Partners L.P. Class B Units[4][5][6][7]	3,939	35,455
Enbridge Energy Management, L.L.C.[8][9]	4,259	46,423
EnLink Midstream, LLC[10]	239	2,726
GasLog Partners LP[4]	1,289	29,653
Golar LNG Partners LP[4]	1,197	14,541
Höegh LNG Partners LP[4]	1,062	18,218
Kinder Morgan, Inc.	2,469	42,145
KNOT Offshore Partners LP[4]	1,709	34,255
ONEOK, Inc.	1,412	86,713
Plains GP Holdings, L.P.[4][11]	2,205	48,804
Plains GP Holdings, L.P. Plains AAP, L.P.[4][5][11][12]	690	15,881
SemGroup Corporation	558	9,053
Tallgrass Energy, LP[4]	1,358	29,015
Targa Resources Corp.	1,527	68,160
The Williams Companies, Inc.	2,696	68,270
		555,369
Midstream MLPs[2][13] 35.3%		
Andeavor Logistics LP	208	7,762
BP Midstream Partners LP	317	5,344
Buckeye Partners, L.P.[11]	745	22,035
Cheniere Energy Partners, L.P.	284	10,690
CNX Midstream Partners LP	225	4,071
Crestwood Equity Partners LP	218	6,472
DCP Midstream, LP	513	17,467
Enable Midstream Partners, LP	140	1,868
Energy Transfer LP	2,256	32,870
EnLink Midstream Partners, LP[10]	337	4,458
Enterprise Products Partners L.P.	1,011	26,551
EQT Midstream Partners, LP	77	3,684
Global Partners LP	556	9,611
Magellan Midstream Partners, L.P.	143	8,643
MPLX LP	625	20,706
Noble Midstream Partners LP	1	23
Phillips 66 Partners LP	161	7,572
Shell Midstream Partners, L.P.	346	6,517
Summit Midstream Partners, LP	395	4,855
Western Gas Partners, LP[14]	354	15,741
		216,940

Other Energy Companies 4.2%		
Marathon Petroleum Corporation[15]	51	3,336
NextEra Energy Partners, LP	150	6,990
Phillips 66	40	3,722

See accompanying notes to financial statements.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2018

(amounts in 000 s, except number of option contracts)

Description			**No. of Shares/Units**	**Value**
Other Energy Companies (continued)				
Sempra Energy			50	$ 5,761
Viper Energy Partners LP			198	5,937
				25,746
Total United States (Cost $798,884)				798,055
Canada 14.0%				
Midstream Companies[2] 14.0%				
Enbridge Inc.[9]			716	23,434
Pembina Pipeline Corporation			1,172	39,468
TransCanada Corporation			571	23,349
Total Canada (Cost $88,756)				86,251
Total Equity Investments (Cost $887,640)				884,306
	Interest Rate	**Maturity Date**	**Principal Amount**	
Debt Instruments 4.0%				
United States 2.9%				
Upstream 2.9%				
California Resources Corporation[5][11]	8.000%	12/15/22	$ 12,500	9,641
Eclipse Resources Corporation	8.875	7/15/23	8,600	8,428
Total United States (Cost $18,009)				18,069
Canada 1.1%				
Upstream 1.1%				
Jupiter Resources Inc.[5][16][17] (Cost $17,561)	8.500	10/1/22	21,460	6,599
Total Debt Investments (Cost $35,570)				24,668
Total Long-Term Investments (Cost $923,210)				908,974
			No. of Shares/Units	
Short-Term Investment 0.3%				
Money Market Fund 0.3%				
JPMorgan 100% U.S. Treasury Securities Money Market Fund Capital Shares, 2.08%[18] (Cost $1,887)			1,887	1,887
Total Investments 140.1% (Cost $925,097)				910,861

	Strike Price	Expiration Date	No. of Contracts	Notional Amount[19]	
Liabilities					
Call Option Contracts Written[17]					
United States					
Other Energy Company					
Marathon Petroleum Company (Premiums Received $29)	$ 69.50	12/21/18	300	$ 1,955	(30)
Debt					(224,923)
Mandatory Redeemable Preferred Stock at Liquidation Value					(75,000)
Other Assets in Excess of Other Liabilities					3,695
Net Assets Applicable to Common Stockholders					$ 614,603

See accompanying notes to financial statements.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2018

(amounts in 000 s, except number of option contracts)

(1) Unless otherwise noted, equity investments are common units/common shares.