

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-Q

April 27, 2018

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**

**Investment Company Act file number 811-22467**

**Kayne Anderson Midstream/Energy Fund, Inc.**

(Exact name of registrant as specified in charter)

**811 Main Street, 14<sup>th</sup> Floor**

**Houston, Texas 77002**

(Address of principal executive offices) (Zip code)

**David Shladovsky, Esq.**

**KA Fund Advisors, LLC**

**811 Main Street, 14<sup>th</sup> 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: February 28, 2018

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Description	No. of Shares/Units	Value
<b>Long-Term Investments 142.5%</b>		
<b>Equity Investments<sup>(1)</sup> 132.3%</b>		
<b>United States 119.6%</b>		
<b>Midstream Companies<sup>(2)</sup> 81.1%</b>		
Capital Product Partners L.P. Class B Units <sup>(3)(4)(5)(6)</sup>	606	\$ 4,770
Cheniere Energy Partners LP Holdings, LLC	208	5,598
Enbridge Energy Management, L.L.C. <sup>(7)</sup>	1,872	22,058
EnLink Midstream, LLC	160	2,354
GasLog Partners LP <sup>(5)</sup>	709	16,654
Golar LNG Partners LP <sup>(5)</sup>	752	13,895
Höegh LNG Partners LP <sup>(5)</sup>	635	11,054
Kinder Morgan, Inc.	421	6,819
KNOT Offshore Partners LP <sup>(5)</sup>	802	15,953
ONEOK, Inc.	688	38,756
Plains GP Holdings, L.P. <sup>(5)(8)</sup>	703	14,613
Plains GP Holdings, L.P. Plains AAP, L.P. <sup>(5)(8)(9)</sup>	690	14,550
SemGroup Corporation	246	5,458
Tallgrass Energy GP, LP <sup>(5)(10)</sup>	514	10,361
Targa Resources Corp.	714	31,890
The Williams Companies, Inc.	900	24,981
		239,764
<b>Midstream MLPs<sup>(2)(11)</sup> 35.1%</b>		
Andeavor Logistics LP	143	6,633
BP Midstream Partners LP	155	2,956
Buckeye Partners, L.P.	164	7,340
Crestwood Equity Partners LP	147	3,930
DCP Midstream, LP	234	8,373
Energy Transfer Partners, L.P.	986	17,958
Enterprise Products Partners L.P.	378	9,613
EQT Midstream Partners, LP	47	2,904
Genesis Energy, L.P.	15	301
Global Partners LP	284	4,651
Magellan Midstream Partners, L.P.	45	2,823
MPLX LP	439	15,165
Noble Midstream Partners LP	35	1,668
Oasis Midstream Partners LP	103	1,697
Phillips 66 Partners LP	39	1,898
Shell Midstream Partners, L.P.	27	640
Summit Midstream Partners, LP	234	3,935

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TC PipeLines, LP	115	5,630	
Western Gas Partners, LP	124	5,779	
			103,894
<b>Other Energy Companies 3.4%</b>			
Macquarie Infrastructure Corporation	181	7,314	
NextEra Energy Partners, LP	73	2,849	
			10,163
<b>Total United States (Cost \$362,201)</b>			<b>353,821</b>

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****FEBRUARY 28, 2018**

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

**(UNAUDITED)**

Description	No. of Shares/Units	Value		
<b>Canada 12.7%</b>				
<b>Midstream Companies<sup>(2)</sup> 12.7%</b>				
Enbridge Inc.	429	\$ 13,651		
Pembina Pipeline Corporation	394	12,666		
TransCanada Corporation	259	11,198		
<b>Total Canada (Cost \$38,741)</b>		37,515		
<b>Total Equity Investments (Cost \$400,942)</b>		391,336		
	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Value</b>
<b>Debt Instruments 10.2%</b>				
<b>United States 6.3%</b>				
<b>Upstream 6.3%</b>				
California Resources Corporation <sup>(3)(8)</sup>	8.000%	12/15/22	\$ 9,525	7,584
Eclipse Resources Corporation	8.875	7/15/23	9,100	9,191
Jones Energy Holdings, LLC	9.250	3/15/23	2,600	1,755
<b>Total United States (Cost \$18,696)</b>				18,530
<b>Canada 3.9%</b>				
<b>Upstream 3.9%</b>				
Athabasca Oil Corporation <sup>(3)</sup>	9.875	2/24/22	6,000	6,030
Jupiter Resources Inc. <sup>(3)</sup>	8.500	10/1/22	11,480	5,482
<b>Total Canada (Cost \$15,310)</b>				11,512
<b>Total Debt Investments (Cost \$34,006)</b>				30,042
<b>Total Long-Term Investments (Cost \$434,948)</b>				421,378

Liabilities	Strike Price	Expiration Date	No. of Contracts	Notional Amount <sup>(12)</sup>	Value

**Call Option Contracts Written<sup>(13)</sup>**

**United States**

**Midstream Company**

ONEOK, Inc. (Premiums Received	\$41)	\$ 60.00	3/16/18	460	\$ 2,591	(14)
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<b>Debt</b>	(92,000)
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<b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>	(35,000)
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<b>Other Assets in Excess of Other Liabilities</b>	1,379
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<b>Net Assets Applicable to Common Stockholders</b>	<b>\$ 295,743</b>
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- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Securities are categorized as Midstream if they (i) derive at least 50% of their revenues or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.
- (3) The Fund's ability to sell this security is subject to certain legal or contractual restrictions. As of February 28, 2018, the aggregate value of restricted securities held by the Fund was \$38,416 (9.0% of total assets), which included \$33,646 of Level 2 securities and \$4,770 of Level 3 securities.
- (4) Fair valued security.

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**KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.**

**SCHEDULE OF INVESTMENTS**

**FEBRUARY 28, 2018**

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

**(UNAUDITED)**

- (5) This company is structured like an MLP, but is not treated as a publicly-traded partnership for regulated investment company ( RIC ) qualification purposes.
- (6) Class B Units are convertible on a one-for-one basis into common units of Capital Product Partners L.P. ( CPLP ) and are senior to the common units in terms of liquidation preference and priority of distributions (liquidation preference of \$9.00 per unit). The Class B Units pay quarterly cash distributions and are convertible at any time at the option of the holder. The Class B Units paid a distribution of \$0.21375 per unit for the first quarter.
- (7) Dividends are paid-in-kind.
- (8) The Fund believes that it is an affiliate of Plains AAP, L.P. ( PAGP-AAP ) and Plains GP Holdings, L.P. ( PAGP ). The Fund does not believe that it is an affiliate of California Resources Corporation.
- (9) The Fund's ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or Plains All American Pipeline, L.P. ( PAA ) units at the Fund's option. The Fund values its PAGP-AAP investment on an as exchanged basis based on the higher public market value of either PAGP or PAA. As of February 28, 2018, the Fund's PAGP-AAP investment is valued at PAA's closing price.
- (10) On March 26, 2018, Tallgrass Energy GP, LP ( TEGP ) and Tallgrass Energy Partners, LP ( TEP ) announced an agreement under which TEGP will acquire all TEP common units in a stock-for-unit merger.
- (11) Unless otherwise noted, securities are treated as a publicly-traded partnership for RIC qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had 24.4% of its total assets invested in publicly-traded partnerships at February 28, 2018. It is the Fund's intention to be treated as a RIC for tax purposes.
- (12) The notional amount of call option contracts written is the product of (a) the number of contracts written, (b) 100 (each contract entitles the option holder to 100 units/shares) and (c) the market price of the underlying security as of February 28, 2018.
- (13) Security is non-income producing.



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From time to time, the Fund's ability to sell certain of its investments is subject to certain legal or contractual restrictions. For instance, private investments that are not registered under the Securities Act of 1933, as amended (the Securities Act), cannot be offered for public sale in a non-exempt transaction without first being registered. In other cases, certain of the Fund's investments have restrictions such as lock-up agreements that preclude the Fund from offering these securities for public sale.

At February 28, 2018, the Fund held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units, Principal (\$ (in 000s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 2 Investments</b>								
<u>Equity Investments</u>								
Plains GP Holdings, L.P. Plains AAP, L.P. <sup>(1)</sup>	(2)	(3)	690	\$ 3,487	\$ 14,550	\$ 21.10	4.9%	3.4%
<u>Senior Notes<sup>(4)</sup></u>								
Athabasca Oil Corporation	(2)	(5)	6,000	5,777	6,030	n/a	2.0	1.4
California Resources Corporation	(2)	(5)	9,525	7,051	7,584	n/a	2.6	1.8
Jupiter Resources, Inc.	(2)	(6)	11,480	9,533	5,482	n/a	1.9	1.3
Total				\$ 25,848	\$ 33,646		11.4%	7.9%
<b>Level 3 Investments<sup>(7)</sup></b>								
<u>Equity Investments</u>								
Capital Product Partners L.P. Class B Units	(2)	(5)	606	\$ 3,293	\$ 4,770	\$ 7.87	1.6%	1.1%
Total of all restricted investments				\$ 29,141	\$ 38,416		13.0%	9.0%

(1) The Fund values its investment in Plains AAP, L.P. ( PAGP-AAP ) on an as exchanged basis based on the higher public market value of either Plains GP Holdings, L.P. ( PAGP ) or Plains All American, L.P. ( PAA ). As of February 28, 2018, the Fund's PAGP-AAP investment is valued at PAA's closing price.

(2) Security was acquired at various dates in prior fiscal years.

(3) The Fund's investment in PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or PAA units at the Fund's option. Upon exchange, the PAGP shares or PAA units will be freely tradable.

(4) These securities have a fair market value determined by the mean of the bid and ask prices provided by an agent or a syndicate bank, a principal market maker, an independent pricing service or an independent broker. These securities have limited trading volume and are not listed on a national exchange.

(5) Unregistered or restricted security of a publicly-traded company.

(6) Unregistered security of a private company.

(7) Securities are valued using inputs reflecting the Fund's own assumptions.

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At February 28, 2018, the cost basis of investments for federal income tax purposes was \$443,461. At February 28, 2018, gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 45,385
Gross unrealized depreciation	(67,469)
<b>Net unrealized depreciation</b>	<b>\$ (22,084)</b>

The cost basis for federal income tax purposes is estimated based on information available from the Fund's portfolio companies. In some cases, this information is very limited. Accordingly, the actual cost basis may prove higher or lower than the estimated cost basis included above.

As required by the Fair Value Measurement and Disclosures of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC 820 ), the Fund has performed an analysis of all assets and liabilities measured at fair value to determine the significance and character of all inputs to their fair value determination.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

*Level 1* Valuations based on quoted unadjusted prices for identical instruments in active markets traded on a national exchange to which the Fund has access at the date of measurement.

*Level 2* Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.

*Level 3* Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following table presents the Fund's assets and liabilities measured at fair value on a recurring basis at February 28, 2018, and the Fund presents these assets and liabilities by security type and description on its Schedule of Investments. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment.

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>Assets at Fair Value</b>				
Equity investments	\$ 391,336	\$ 372,016	\$ 14,550 <sup>(1)</sup>	\$ 4,770
Debt investments	30,042		30,042	
<b>Total assets at fair value</b>	<b>\$ 421,378</b>	<b>\$ 372,016</b>	<b>\$ 44,592</b>	<b>\$ 4,770</b>
<b>Liabilities at Fair Value</b>				
Call option contracts written	\$ 14	\$	\$ 14	\$

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(1) The Fund's investment in Plains AAP, L.P. ( PAGA-AAP ) is exchangeable on a one-for-one basis into either Plains GP Holdings, L.P. ( PAGA ) shares or Plains All American Pipeline, L.P. ( PAA ) units at the Fund's option. The Fund values its PAGA-AAP investment on an as-exchanged basis based on the higher public market value of either PAGA or PAA. As of February 28, 2018, the Fund's PAGA-AAP investment is valued at PAA's closing price. The Fund categorizes its investment as a Level 2 security for fair value reporting purposes. For the three months ended February 28, 2018, there were no transfers between Level 1 and Level 2.

The following table presents the Fund's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended February 28, 2018.

	<b>Equity Investments</b>
Balance November 30, 2017	\$ 4,752
Purchases	
Transfers out to Level 1 and 2	
Realized gains (losses)	
Unrealized gains (losses), net	18
 Balance February 28, 2018	 \$ 4,770

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The \$18 of unrealized gain relates to an investment that is still held at the end of the reporting period.

As required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification (ASC 815), the following are the derivative instruments and hedging activities of the Fund.

The following table sets forth the fair value of the Fund's derivative instruments:

Derivatives Not Accounted for as	Statement of Assets and Liabilities Location	Fair Value as of
Hedging Instruments		February 28, 2018
Call options written	Call option contracts written	\$(14)

The following table sets forth the effect of the Fund's derivative instruments on the Fund's operations:

Derivatives Not Accounted for as	Location of Gains/(Losses) on	For the Three Months Ended	
		Net Realized	Change in
Hedging Instruments	Derivatives Recognized in Income	Gains/(Losses) on	Unrealized
		Derivatives	Gains/(Losses) on
		Recognized	Derivatives
		in	Recognized in
		Income	Income
Call options written	Options	\$ 96	\$ 27

The Fund's investments are concentrated in the energy sector. The focus of the Fund's portfolio within the energy sector may present more risks than if the Fund's portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Fund than on an investment company that does not focus on the energy sector. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the Fund invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Fund may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence. At February 28, 2018, the Fund had the following investment concentrations:

Category	Percent of
	Long-Term
	Investments
Securities of energy companies	100.0%
Equity securities	92.9%
Debt securities	7.1%
Securities of MLPs <sup>(1)</sup>	24.7%
Largest single issuer	9.2%
Restricted securities	9.1%

(1) Securities of MLPs consist of entities that are structured as limited partnerships and limited liability companies that are publicly traded and are treated as partnerships for federal income tax purposes, and their affiliates.

Securities valuation policies and other investment related disclosures are hereby incorporated by reference to the Fund's annual report previously filed with the Securities and Exchange Commission on form N-CSR on January 29, 2018 with a file number 811-22467.

Other information regarding the Fund is available in the Fund's most recent annual report. This information is also available on the Fund's website at [www.kaynefunds.com](http://www.kaynefunds.com); or on the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

**Item 2. Controls and Procedures.**

(a) As of a date within 90 days of the filing date of this report, the principal executive officer and the principal financial officer concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act")) were effective based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) or 15d-15(b) under the Securities and Exchange Act of 1934, as amended.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3. Exhibits.**

The certifications for the principal executive officer and the principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act are filed as exhibits to this report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND,  
INC.

/s/ KEVIN S. MCCARTHY  
Name: Kevin S. McCarthy  
Title: Chairman of the Board of Directors  
and Chief Executive Officer  
Date: April 26, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ KEVIN S. MCCARTHY  
Name: Kevin S. McCarthy  
Title: Chairman of the Board of Directors  
and Chief Executive Officer  
Date: April 26, 2018

/s/ TERRY A. HART  
Name: Terry A. Hart  
Title: Chief Financial Officer and Treasurer  
Date: April 26, 2018