

Salient Midstream & MLP Fund  
Form N-CSR  
February 06, 2018  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM N-CSR**  
**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number: 811-22626

**Salient Midstream & MLP Fund**

(Exact name of registrant as specified in charter)

4265 San Felipe, 8<sup>th</sup> Floor

Houston, TX 77027

(Address of principal executive offices) (Zip code)

Gregory A. Reid, Principal Executive Officer

Salient Midstream & MLP Fund

4265 San Felipe, 8<sup>th</sup> Floor

Houston, TX 77027

(Name and address of agent for service)

*With a Copy To:*  
George J. Zornada

K&L Gates LLP

State Street Financial Center

One Lincoln St.

Boston, MA 02111-2950

(617) 261-3231

Registrant's telephone number, including area code: (713) 993-4001

Date of fiscal year end: November 30

Date of reporting period: November 30, 2017

## Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

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 the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

**Table of Contents**

**Item 1. Report to Stockholders.**

The following is a copy of the report transmitted to shareholders of the Salient Midstream & MLP Fund (the Fund ), pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the Act ) (17 CFR 270.30e-1).

**Table of Contents**

**Table of Contents**

**Table of Contents**

<b><u>Shareholder Letter (Unaudited)</u></b>	<b>1</b>
<b><u>Report of Independent Registered Public Accounting Firm</u></b>	<b>6</b>
<b><u>Schedule of Investments</u></b>	<b>7</b>
<b><u>Statement of Assets, Liabilities and Shareholders' Equity</u></b>	<b>10</b>
<b><u>Statement of Operations</u></b>	<b>11</b>
<b><u>Statements of Changes in Net Assets</u></b>	<b>12</b>
<b><u>Statement of Cash Flows</u></b>	<b>13</b>
<b><u>Financial Highlights</u></b>	<b>14</b>
<b><u>Notes to Financial Statements</u></b>	<b>15</b>
<b><u>Supplemental Information (Unaudited)</u></b>	<b>26</b>
<b><u>Privacy Policy (Unaudited)</u></b>	<b>32</b>

**Table of Contents**

Shareholder Letter (Unaudited)

Dear Fellow Shareholders:<sup>1</sup>

We are pleased to provide the annual report of the Salient Midstream & MLP Fund (the Fund) (NYSE: SMM) which contains updated data as of November 30, 2017.

As of November 30, 2017, the Fund had total gross assets of \$276.9 million, net asset value of \$11.23 per share and 17.7 million common shares outstanding. The Fund's price per share was \$10.22, which represents a 9.0% discount to its net asset value (NAV<sup>2</sup>).

The Fund's investment allocation is shown in the pie chart below:

For illustrative purposes only.

Source: Salient Capital Advisors, LLC (Adviser), November 30, 2017.

Figures are based on the Fund's gross assets.

\* *General Partners that are structured as C-Corporations for US federal tax purposes*

<sup>1</sup> ***Certain statements in this letter are forward-looking statements. The forward-looking statements and other views expressed herein are those of the portfolio managers and the Fund as of the date of this letter. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. The Fund disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein. There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.***

<sup>2</sup> ***Past performance is not indicative of future results. Current performance may be higher or lower than the data shown. The data shown are unaudited. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.***

**Table of Contents**

The Fund's Top 10 holdings are shown below, as of November 30, 2017:

<b>Company Name</b>	<b>Sector</b>	<b>% of Gross Assets</b>
ONEOK, Inc.	Midstream Company	9.5%
EMG Utica I Offshore Co-Investment, L.P.	MLP Affiliate	8.5%
Targa Resources Corp.	Midstream Company	7.3%
The Williams Companies, Inc.	MLP Affiliate	6.3%
Enbridge Energy Management LLC	MLP Affiliate	6.0%
Plains GP Holdings LP, Class A	MLP Affiliate	5.9%
Macquarie Infrastructure Corp.	Other Energy & Infrastructure	5.8%
SemGroup Corp., Class A	Midstream Company	4.8%
Energy Transfer Partners LP	MLP	4.8%
EnLink Midstream LLC	MLP General Partner	4.7%
<b>Total</b>		<b>63.6%</b>

For illustrative purposes only.

Current and future holdings are subject to change and risk. Figures are based on the Fund's gross assets.

Source: Salient Capital Advisors, LLC ( Adviser ), November 30, 2017.

During the fiscal year (December 1, 2016 – November 30, 2017), the Fund's NAV and market price total return were -14.9% and -17.1%, respectively, compared to -6.8% for the Alerian MLP Index (AMZ), during the same period.<sup>2,3</sup> Some of the top contributing investments held by the Fund during the fiscal year include NRG Yield, Inc., Class A (NYSE: NYLD/A), NRG Yield, Inc., Class C (NYSE: NYLD) and EMG Utica I Offshore Co-Investment, L.P. Top detractors to Fund performance include Enbridge Energy Management LLC (NYSE: EEQ), Plains GP Holdings LP, Class A (NYSE: PAGP) and Energy Transfer Partners LP (NYSE: ETP).

**Performance Snapshot**

as of November 30, 2017 (unaudited)

<b>Price Per Share</b>	<b>Fiscal YTD Total Return*</b>	<b>Since Inception* (Annualized)</b>
\$11.23 (NAV)	-14.9%	-2.6%
\$10.22 (Market Price)	-17.1%	-4.2%

Source: Salient Capital Advisors, LLC ( Adviser ), November 30, 2017.

For illustrative purposes only. All figures represent past performance and are not indicative of future results. No investment strategy can guarantee performance results.

*\* Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. Total return assumes the reinvestment of all distributions. Inception date of the Fund was May 25, 2012.*

*<sup>1</sup> Fund shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Data are based on total market value of Fund investments unless otherwise indicated. The data provided are for informational purposes only and are not intended for trading purposes.*

*<sup>2</sup> Alerian, November 30, 2017. Alerian MLP Index , Alerian MLP Total Return Index , AMZ and AMZX are trademarks of Alerian and their use is granted under a license from Alerian. Past performance is not indicative of how the index will perform in the future. The index reflects the reinvestment of dividends and income and does not reflect deductions for fees, expenses, or taxes. The index is unmanaged and not available for direct investment. Alerian MLP Index (AMZ) is a composite of some of the most prominent energy MLPs that provides investors with a comprehensive benchmark for this maturing asset class.*

*<sup>3</sup> Past performance is not indicative of future results.*



---

**Table of Contents****Market Review**

We have long maintained that there really should not be a strong correlation between crude oil prices and Master Limited Partnership (MLP) unit price performance.<sup>1</sup> This past fiscal year has somewhat affirmed that contention but not in a way that we would have preferred. 2017 was truly a year of transition for the MLP space as the traditional General Partner (GP)/Limited Partner (LP) structure seemingly fell from grace.<sup>2</sup> A new breed of MLP investor emerged and that investor appeared to prefer superior dividend/distribution coverage and sturdier balance sheets rather than distribution growth. We also witnessed industry leaders take their first steps towards weaning themselves from being at the mercy of the energy capital markets and begin transitioning to a more self-funded model.<sup>3</sup>

For the first three months of the fiscal year, crude oil prices had essentially flatlined at roughly \$52/barrel (bbl).<sup>4</sup> MLP investors appeared to appreciate the stability after what had been many months of volatility and the space traded higher (as measured by the Alerian MLP Index (AMZ or Index)). The Index posted a closing high of 337.93 on February 15, 2017, over 13% higher than where it had entered the fiscal year.<sup>5</sup> The next four months saw volatility return to crude oil prices. For the most part, crude oil traded between a range of roughly \$45-\$55/bbl with a brief breakout to the downside for what proved to be the low for the fiscal year of \$42.53 on June 21, 2017.<sup>4</sup> At that point, crude oil was down nearly 14% for the reporting period while the AMZ had fallen 5.5% which seemed logical considering overall crude oil production had stabilized above 9 million barrels per day (mmbd).<sup>6</sup> More production means more volumes/throughput which should go straight to the bottom line for MLPs, right? Unfortunately, that is not how the back half of the fiscal year unfolded. From the June 21<sup>st</sup> low close, crude oil rallied 35% to finish November at \$57.44/bbl, the highest level since June 2015 and 16% higher than where it was at the beginning of the fiscal year.<sup>4</sup> MLPs, on the other hand, languished. The AMZ ended the reporting period down 6.8% for the fiscal year and was actually down 1.3% from where it was when crude oil had bottomed in June.<sup>5</sup>

We believe there are a number of reasons why MLPs did not follow crude oil prices higher over the last several months of the reporting period. For starters, crude oil prices began their rally in July as US inventory levels finally began to crack. Inventory levels had remained stubbornly high over the last 18 months which had a dampening effect on crude oil prices. Low prices persisted despite demand numbers that mostly ran higher than expectations both domestically and globally. When Hurricane Harvey hit the US Gulf Coast during the last week of August 2017, inventories were drawn to meet demand for both crude oil and refined products due to much of the US refining capacity being knocked offline due to the storm. Inventory levels fell below five-year averages which gave oil speculators confidence that the continued robust demand numbers would not get washed out by excess inventories.<sup>7</sup> Crude oil began to consistently trade above \$50/bbl and has remained at least that high ever since. However, the higher crude oil prices had very little impact on midstream operations.

Also in August, two MLP bellwethers, Plains All-American Pipeline Partners, LP (PAA) and Energy Transfer Partners, LP (ETP), announced corporate actions which had negative implications for the MLP space. On August 7<sup>th</sup>, PAA discussed another potential distribution cut when it reported its 2Q results.<sup>8</sup> Two and a half weeks later on August 25<sup>th</sup>, with a hurricane bearing down on Houston, PAA announced the results of its strategic review which included a 45% distribution cut effective with its 3Q17 distribution in November.<sup>9</sup> PAA's problems stem from fierce competition in its Supply & Logistics (S&L) segment, in particular within the Permian Basin.<sup>10</sup> One week after PAA's negative earnings surprise, and with its unit price just barely above its 52-week low, ETP announced a \$1 billion overnight equity offering.<sup>11</sup> These actions shook investor confidence in the space as the sustainability of yields were called into question.<sup>12</sup>

<sup>1</sup> **Master limited partnerships (MLPs)** are publicly traded limited partnerships and limited liability companies that are treated as partnerships for federal income tax purposes.

<sup>2</sup> A **general partnership (GP)** is an arrangement by which partners conducting a business jointly have unlimited liability, which means their personal assets are liable to the partnership's obligations. A **limited partnership (LP)** exists when two or more partners unite to jointly conduct a business in which one or more of the partners is liable only to the extent of the amount of money that partner has invested.

<sup>3</sup> **Capital Markets** are markets for buying and selling equity and debt instruments.

<sup>4</sup> Bloomberg, December 2017.

<sup>5</sup> Alerian, December 2017.

<sup>6</sup> Energy Information Administration, EIA, December 2017.

<sup>7</sup>  
<https://www.reuters.com/article/us-usa-oil-eia/u-s-crude-stocks-fall-as-exports-hit-new-record-eia-idUSKBN1C928A>

<sup>8</sup>  
<http://ir.paalp.com/profiles/investor/ResLibraryView.asp?ResLibraryID=83838&GoTopage=2&Category=117&BzID=789&>

<sup>9</sup>  
<http://ir.paalp.com/profiles/investor/ResLibraryView.asp?ResLibraryID=84073&GoTopage=1&Category=117&BzID=789&>

<sup>10</sup> The **Permian Basin** is a sedimentary basin largely contained in the western part of the U.S. state of Texas and the southeastern part of the U.S. state of New Mexico.

<sup>11</sup> <http://ir.energytransfer.com/phoenix.zhtml?c=106094&p=irol-newsArticle&ID=2316686>

<sup>12</sup> **Yield** is the income return on an investment, such as the interest or dividends received from holding a particular security.

## Table of Contents

The final blow to MLP investors occurred in October. Investors were nonplussed when industry leader Enterprise Products Partners, L.P. (EPD) announced on the afternoon of October 12th that it was cutting its distribution growth rate in half, from roughly 5% to 2.5%.<sup>1</sup> EPD stated that it would likely be in a position to self-fund its expansion capital by the end of 2018 which would be a dramatic change from the traditional MLP model of funding distributions through operations and financing growth. Further muddying the waters, Genesis Energy, LP (GEL) announced earlier that same day that it was cutting its distribution by 31% in order to reduce its leverage which remained stubbornly above 5.0x debt/EBITDA (earnings before interest, tax, depreciation, and amortization).<sup>2</sup> GEL cut its distribution despite having sufficient cash flows to cover the previous distribution level.<sup>3,4</sup> It was a textbook example of a strategic distribution cut to achieve what the market was supposedly clamoring for – excess distribution coverage with a rapid reduction in debt on the balance sheet. When the smoke cleared, investors appeared unimpressed by either action as EPD ended October down 4.4% while GEL plummeted 9.7%.<sup>5</sup> We believe that MLPs are, in fact, transitioning to a more self-funding model but that EPD's move was not embraced by investors because the dollar amounts saved by its growth rate reduction amounted to roughly \$100 million (mm)/year which is small potatoes for a company expected to generate over \$5.5 billion in EBITDA this year.

While MLPs did not perform as well as we would have assumed or expected in fiscal year 2017, we do believe there are reasons to be encouraged as we head into 2018. Given the sector's relative underperformance vs. the broader market in 2017 and investors likely using MLP losses to offset gains elsewhere, we are thankful that the losses were not greater. The Index had its best single-day performance (up 4.09%) in over 18 months on the last day of November to erase much of the decline for the month.<sup>6</sup> The stellar performance on the final day came as the Organization of the Petroleum Exporting Countries (OPEC) agreed to extend its self-imposed production cuts throughout 2018.<sup>7</sup> The existing production cut agreement had been set to expire at the end of March 2018. Even with crude oil sitting at a two-year high near \$59/bbl, we are encouraged that OPEC extended its cuts. World crude demand continues to be robust with consensus estimates clustering around 1.5 mmbd growth expected for 2018.<sup>8</sup> We view this as a positive development for MLP investors. As silly as it sounds, we think a simple change of calendar year could result in a positive move for the space and are preparing accordingly. We believe investors will continue to value solid distribution coverage (1.3x-1.4x) and sturdy balance sheets (< 4.5x leverage) above simple distribution/dividend growth potential.<sup>9,10</sup> The last 12 months have been frustrating for us as we believe that the stock prices have grossly lagged the rapidly improving fundamentals of the midstream universe.

We continue to believe in the resiliency of the domestic energy industry and appreciate your confidence in investing with us.

## Summary

Our long-term investment philosophy remains focused on MLPs and Midstream Companies that have the potential to achieve above average distribution growth which, we believe, leads to potentially higher long-term returns for investors. Being disciplined and sticking to our focus on choosing quality names using our bottom up stock selection approach will be more important than ever going forward. We believe the industry will continue its recovery off of the lows set last February and expect investor sentiment to once again favor growth as the sector appears to be entering into a new expansionary phase. We are excited about the potential for 2018 to bring many opportunities to invest in what continues to be a rapidly evolving sector.

Please note that this letter, including the financial information herein, is made available to shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this letter.

Sincerely,

Gregory A. Reid

President

MLP Business, Salient Capital Advisors, LLC

<sup>1</sup> <http://enterpriseproducts.com/investor/newsreleases?c=80547&p=RssLanding&cat=news&id=2306402&title=Enterprise+D>

<sup>2</sup> **EBITDA** (earnings before interest, taxes, depreciation and amortization) EBITDA is one indicator of a company's financial performance and is used as a proxy for the earning potential of a business.

<sup>3</sup> <http://genesisenergy.com/wp-content/uploads/2017-10-12.pdf>

<sup>4</sup> **Cash flows** are incomings and outgoings of cash, representing the operating activities of an organization. In accounting, cash flow is the difference in amount of cash available at the beginning of a period (opening balance) and the amount at the end of that period (closing balance).

<sup>5</sup> Bloomberg, December 2017.

<sup>6</sup> Alerian, December 2017.

<sup>7</sup> **OPEC** is a group consisting of 12 of the world's major oil-exporting nations founded to coordinate the petroleum policies of its members, and to provide member states with technical and economic aid.  
<https://www.bloomberg.com/news/articles/2017-11-30/opec-signals-oil-supply-cuts-will-be-extended-until-end-of-2018>

<sup>8</sup> EIA, December 2017.

<sup>9</sup> **Distribution coverage** is the metric that gives us a sense of an MLP's ability to make its distributions every quarter which is simply an MLP's distributable cash flow divided by the total amount of distributions it paid out. A value of 1 is the ability to cover the distribution and >1 is considered over-coverage.

<sup>10</sup> **Leverage** is the use of borrowed capital for (an investment), expecting the profits made to be greater than the interest payable.

**Table of Contents****Key Financial Data (Unaudited)**

We supplement the reporting of our financial information determined under United States generally accepted accounting principles ( GAAP ) with certain non-GAAP financial measures: distributable cash flow and distributable cash flow coverage ratio. We believe these non-GAAP measures provide meaningful information to assist shareholders in understanding our financial results and assessing our performance. We pay distributions to our shareholders, funded in part by distributable cash flow generated from our portfolio investments. Distributable cash flow is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. Other companies with similar measures may calculate these measures differently, and as a result, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported net investment income. These non-GAAP financial measures reflect an additional way of viewing an aspect of our operations that, when viewed with our GAAP results and the below reconciliation to the corresponding GAAP financial measures, provide a more complete understanding of our Fund. We strongly encourage shareholders to review our financial statements in their entirety and not rely on any single financial measure.

The table below reconciles the non-GAAP financial measures, distributable cash flow and distributable cash flow coverage ratio, by starting with the most directly comparable GAAP financial measure, net investment income.

	<b>Year Ended</b>
	<b>November 30, 2017</b>
Net investment income	\$ 31,626
Reconciling items:	
Return of capital of distributions <sup>(a)</sup>	13,813,807
Dividends paid in stock <sup>(b)</sup>	1,836,512
Option premium earnings <sup>(c)</sup>	1,772,704
Distributable cash flow (non-GAAP)	\$ 17,454,649
Distributions paid on common stock	\$ 17,297,109
Distributable cash flow coverage ratio (non-GAAP)	1.01

**Reconciliation of distributable cash flow to GAAP**

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

*(b) Distributable cash flow includes the value of dividends paid-in-kind (i.e., stock dividends), whereas such amounts are not included in net investment income for GAAP purposes during the period received, but rather are recorded as unrealized gains upon receipt.*

*(c) 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 fee that we received, thereby generating a profit. The amount we received from selling call options, less the amount that we pay*

*to repurchase such call option contracts is included in distributable cash flow. For GAAP purposes, income from call option contracts sold is not included in net investment income. See Note 2 Summary of Significant Accounting Policies and Practices for a full discussion of the GAAP treatment of option contracts.*

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Shareholders and Board of Trustees

Salient Midstream & MLP Fund:

We have audited the accompanying statement of assets, liabilities and shareholders' equity of Salient Midstream & MLP Fund (the Fund), including the schedule of investments, as of November 30, 2017, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2017, by correspondence with the custodian, investee and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of November 30, 2017, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Columbus, Ohio

January 23, 2018

**Table of Contents****Schedule of Investments**

Salient Midstream &amp; MLP Fund

November 30, 2017

	Shares/Units	Fair Value
<b>Master Limited Partnerships and Related Companies 137.6%</b>		
<b>Gathering &amp; Processing 36.0%</b>		
<b>United States 36.0%</b>		
EMG Utica I Offshore Co Investment, L.P. <sup>(a)(b)(c)(d)</sup>	16,000,000	\$ 23,531,312
Enable Midstream Partners LP <sup>(d)(e)</sup>	575,209	8,616,631
EnLink Midstream LLC <sup>(e)</sup>	782,916	13,074,697
Summit Midstream Partners LP <sup>(d)</sup>	182,798	3,464,022
Targa Resources Corp. <sup>(e)</sup>	463,810	20,129,354
Western Gas Partners LP <sup>(d)(e)</sup>	64,424	2,887,484
		71,703,500
<b>Liquids Transportation &amp; Storage 37.2%</b>		
<b>Canada 6.5%</b>		
Enbridge, Inc. <sup>(e)</sup>	344,212	12,980,234
<b>United States 30.7%</b>		
Enbridge Energy Management LLC (PIK rate 2.55%) <sup>(d)(e)(f)</sup>	1,233,842	16,656,867
Genesis Energy LP <sup>(d)(e)</sup>	351,573	7,548,272
MPLX LP <sup>(d)(g)</sup>	76,412	2,740,134
NGL Energy Partners LP <sup>(d)(e)(g)</sup>	348,369	4,354,613
Plains GP Holdings LP, Class A <sup>(d)(g)</sup>	798,227	16,435,494
SemGroup Corp., Class A <sup>(e)</sup>	552,967	13,271,208
		61,006,588
<b>Marine Midstream 4.9%</b>		
<b>Republic of the Marshall Islands 4.9%</b>		
Dynagas LNG Partners LP	330,800	4,429,412
Golar LNG Partners LP	261,338	5,224,147
		9,653,559
<b>Natural Gas Pipelines &amp; Storage 44.9%</b>		
<b>United States 44.9%</b>		
DCP Midstream LP <sup>(d)(e)</sup>	85,031	2,987,989
Energy Transfer Equity LP <sup>(d)(e)</sup>	691,121	11,196,160
Energy Transfer Partners LP <sup>(d)(e)</sup>	792,710	13,166,913
Enterprise Products Partners LP <sup>(d)(e)</sup>	191,570	4,718,369



Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

ONEOK, Inc. <sup>(e)</sup>	508,081	26,369,404
Tallgrass Energy GP LP <sup>(d)(e)</sup>	393,109	8,884,264
Tallgrass Energy Partners LP <sup>(d)(e)</sup>	107,246	4,710,244
The Williams Companies, Inc. <sup>(e)</sup>	600,110	17,433,196
		89,466,539

**Oil Service & Other Specialty 0.2%**

**United States 0.2%**

Martin Midstream Partners LP <sup>(d)</sup>	26,663	358,617
---	--------	---------

*See accompanying Notes to Financial Statements.*                      7

**Table of Contents****Schedule of Investments**

Salient Midstream &amp; MLP Fund

November 30, 2017

	Shares/Units	Fair Value
<b>Other Energy &amp; Infrastructure 14.4%</b>		
<b>United States 14.4%</b>		
Macquarie Infrastructure Corp. <sup>(e)</sup>	239,405	\$ 15,987,466
NextEra Energy Partners LP <sup>(d)(e)</sup>	103,444	4,037,419
NRG Yield, Inc., Class A <sup>(d)(e)</sup>	250,466	4,711,266
NRG Yield, Inc., Class C <sup>(d)(e)</sup>	206,248	3,929,024
		28,665,175
Total Master Limited Partnerships and Related Companies (Cost \$247,596,179)		273,834,212
<b>Total Investments 137.6% (Cost \$240,709,064)</b>		<b>273,834,212</b>
<b>Credit Facility (38.7)%</b>		<b>(76,989,219)</b>
<b>Other Assets and Liabilities<sup>(h)</sup> 1.1%</b>		<b>2,200,094</b>
<b>Total Net Assets Applicable to Common Shareholders 100.0%</b>		<b>\$ 199,045,087</b>

All percentages disclosed are calculated by dividing the indicated amounts by net assets applicable to common shareholders.

(a) Securities determined to be illiquid under the procedures approved by the Fund's Board of Trustees and represent 11.8% of net assets applicable to common shareholders.

(b) Securities have been fair valued in good faith using fair value procedures approved by the Board of Trustees and represent 11.8% of net assets applicable to common shareholders. See Notes to Financial Statements for further information.

(c) EMG Utica I Offshore Co-Investment, L.P. is a restricted security exempt from registration under the Securities Act of 1933. The security may be resold in transactions exempt from registration, normally to qualified institutional buyers. See footnote 2(g) in the Notes to Financial Statements for further information.

(d) Non-income producing security.

(e) All or a portion of these securities are held as collateral for the line of credit agreement. As of November 30, 2017, the total fair value of securities held as collateral for the line of credit agreement is \$185,106,732.

(f) Distributions are paid-in-kind.

(g) All or a portion of these securities are held as collateral for the written call options. As of November 30, 2017, the total fair value of securities held as collateral for the written call options is \$12,359,879.

(h) Includes cash which is being held as collateral for written options contracts.

**Written Call Options:**

Description	Counterparty	Exercise Price	Expiration Date	Number of Contracts	Notional Value	Fair Value	Unrealized Appreciation (Depreciation)
MPLX LP	Morgan Stanley	\$ 36.00	12/15/2017	535	\$ 1,918,510	\$ (32,100)	\$ (8,855)
NGL Energy Partners LP	Morgan Stanley	12.50	12/15/2017	1,393	1,741,250	(62,685)	(3,511)
NGL Energy Partners LP	Morgan Stanley	15.00	01/19/2018	1,045	1,306,250	(15,675)	9,622
Plains GP Holdings LP	Morgan Stanley	21.00	12/15/2017	3,592	7,395,928	(98,780)	(855)
Plains GP Holdings LP	Morgan Stanley	22.00	12/15/2017	1,995	4,107,705	(14,963)	13,382
					\$ 16,469,643	\$ (224,203)	\$ 9,783

See accompanying Notes to Financial Statements.

8

**Table of Contents****Schedule of Investments**

Salient Midstream &amp; MLP Fund

November 30, 2017

Salient Midstream &amp; MLP Fund invested in the following industries as of November 30, 2017:

	<b>Value</b>	<b>% of Total Investments</b>
Gathering & Processing	\$ 71,703,500	26.2%
Liquids Transportation & Storage	73,986,822	27.0%
Marine Midstream	9,653,559	3.5%
Natural Gas Pipelines & Storage	89,466,539	32.7%
Oil Service & Other Specialty	358,617	0.1%
Other Energy & Infrastructure	28,665,175	10.5%
<b>Total</b>	<b>\$ 273,834,212</b>	<b>100.0%</b>

Salient Midstream &amp; MLP Fund invested in securities with exposure to the following countries as of November 30, 2017:

	<b>Value</b>	<b>% of Total Investments</b>
Canada	\$ 12,980,234	4.8%
Republic of the Marshall Islands	9,653,559	3.5%
United States	251,200,419	91.7%
<b>Total</b>	<b>\$ 273,834,212</b>	<b>100.0%</b>

See accompanying Notes to Financial Statements. 9

**Table of Contents****Statement of Assets, Liabilities and Shareholders Equity**

Salient Midstream &amp; MLP Fund

November 30, 2017

**Assets:**

Investments, at value (cost \$240,709,064)	\$ 273,834,212
Cash and cash equivalents	935,911
Deposit with broker for written options	18,401
Receivable for investments sold	1,614,490
Interest and dividends receivable	524,393
Prepays and other assets	8,210
<b>Total Assets</b>	<b>276,935,617</b>

**Liabilities:**

Credit Facility	76,989,219
Written options, at fair value (premiums received \$233,986)	224,203
Payable to Advisor	273,015
Interest payable	142,853
Line of credit commitment fees payable	12,334
Accounts payable and accrued expenses	248,906
<b>Total Liabilities</b>	<b>77,890,530</b>

<b>Net Assets applicable to common shareholders</b>	<b>\$ 199,045,087</b>
---	-----------------------

**Net Assets Applicable to Common Shareholders:**

Capital Stock, \$0.01 par value; 17,722,449 shares issued and outstanding (unlimited shares authorized)	\$ 177,224
Paid-in capital	379,600,343
Accumulated net investment loss	(11,717,553)
Accumulated net realized loss	(202,149,858)
Net unrealized appreciation	33,134,931
<b>Net assets applicable to common shareholders</b>	<b>\$ 199,045,087</b>

**Net Asset Value:**

Net assets applicable to common shareholders	\$ 199,045,087
Common shares outstanding	17,722,449
Net asset value per common share outstanding	\$ 11.23

*See accompanying Notes to Financial Statements.* 10

**Table of Contents****Statement of Operations**

Salient Midstream &amp; MLP Fund

Year Ended November 30, 2017

**Investment Income:**

Distributions from master limited partnerships	\$ 7,213,570
Less return of capital on distributions	(7,213,570)
Net distributions from master limited partnerships	
Dividends from master limited partnership related companies	13,459,376
Less return of capital on dividends	(6,600,237)
Net dividends from master limited partnership related companies	6,859,139
Interest Income	20,040
Foreign taxes withheld	(48,628)
<b>Total Investment Income</b>	<b>6,830,551</b>

**Operating Expenses:**

Investment management fees	3,955,250
Sub-advisory fees	160,000
Administration fees	168,401
Custodian fees	26,219
Interest expense	1,733,903
Commitment fees	56,820
Professional fees	349,207
Transfer agent fees	16,067
Compliance fees	93,944
Other expenses	239,114
<b>Total Expenses</b>	<b>6,798,925</b>

<b>Net Investment Income</b>	<b>31,626</b>
------------------------------	---------------

**Realized and Unrealized Gain (Loss):**

Net realized gain on investments	1,426,384
Net realized gain on written options	1,772,704
Net realized gain on foreign currency	2,588
Net realized gain, before income taxes	3,201,676
Tax benefit	(1,122,218)
Net realized gain, net of income taxes	4,323,894

<b>Change in unrealized appreciation/depreciation on:</b>	
Investments	(42,695,629)
Written options	64,480
Change in unrealized appreciation/depreciation from investments and written options	(42,631,149)
<b>Net realized and unrealized loss from investments and written options</b>	<b>(38,307,255)</b>
<b>Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Operations</b>	<b>\$ (38,275,629)</b>

*See accompanying Notes to Financial Statements.*

11

**Table of Contents****Statements of Changes in Net Assets**

## Salient Midstream &amp; MLP Fund

	<b>Year Ended November 30, 2017</b>	<b>Year Ended November 30, 2016<sup>(1)</sup></b>
<b>Operations:</b>		
Net investment income	\$ 31,626	\$ 2,034,909
Net realized gain/(loss), net of income taxes	4,323,894	(87,148,644)
Change in unrealized appreciation/depreciation	(42,631,149)	107,742,930
<b>Net increase/(decrease) in net assets applicable to common shareholders resulting from operations</b>	<b>(38,275,629)</b>	<b>22,629,195</b>
<b>Distributions:</b>		
Net investment income		(2,034,909)
In excess of net investment income		(17,557,820)
From return of capital	(17,297,109)	(575,417)
<b>Total distributions to common shareholders</b>	<b>(17,297,109)</b>	<b>(20,168,146)</b>
<b>Net increase/(decrease) in net assets applicable to common shareholders</b>	<b>\$ (55,572,738)</b>	<b>\$ 2,461,049</b>
<b>Net Assets:</b>		
Beginning of period	254,617,825	252,156,776
End of period	\$ 199,045,087	\$ 254,617,825
Accumulated net investment loss	\$ (11,717,553)	\$ (23,412,633)

*(1) For the year ended November 30, 2016, Salient Midstream & MLP Fund presented information on a consolidated basis. See Note 1 for additional information.*

*See accompanying Notes to Financial Statements.*

12



**Table of Contents****Statement of Cash Flows**

Salient Midstream &amp; MLP Fund

For the Year Ended November 30, 2017

**Cash flows from operating activities:**

Net decrease in net assets resulting from operations	\$ (38,275,629)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided by operating activities	
Purchase of investments	(77,621,415)
Proceeds from disposition of investments	109,122,127
Premiums from written options	3,167,236
Proceeds paid to cover written options	(695,411)
Premiums paid on exercised written options	(614,249)
Amortization of premium and accretion of discount on investments	(604)
Net realized gain on investments	(1,426,384)
Net realized gain on written options	(1,772,704)
Change in unrealized appreciation/depreciation from investments	42,695,629
Change in unrealized appreciation/depreciation from written options	(64,480)
Change in operating assets and liabilities:	
Deposit with broker for written options	62,103
Interest and dividends receivable	(236,522)
Tax refund receivable	390,000
Prepays and other assets	(5,573)
Interest payable	26,842
Payable to Advisor	(55,142)
Line of credit commitment fees payable	1,116
Tax Liability	(3,526,230)
Accounts payable and accrued expenses	(125,919)
Net cash provided by operating activities	31,044,791

**Cash flows from financing activities:**

Advances from credit facility	32,950,000
Repayments on credit facility	(46,350,000)
Distributions paid to common shareholders, net of reinvestments	(17,297,109)
Net cash used in financing activities	(30,697,109)

Net increase in cash and cash equivalents	347,682
Cash and cash equivalents at beginning of year	588,229
Cash and cash equivalents at end of year	\$ 935,911

**Supplemental schedule of cash activity:**

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

Cash paid for interest during the year	\$ 1,591,050
Cash paid for line of credit commitment fees during the year	44,486
Cash paid for taxes during the year	2,014,176
<b>Supplemental schedule of non-cash activity:</b>	
Distributions received in kind	1,836,512

*See accompanying Notes to Financial Statements.* 13

**Table of Contents****Financial Highlights**

## Salient Midstream &amp; MLP Fund

	Year Ended November 30, 2017	Year Ended November 30, 2016 <sup>(1)</sup>	Year Ended November 30, 2015 <sup>(1)</sup>	Year Ended November 30, 2014 <sup>(1)</sup>	Year Ended November 30, 2013 <sup>(1)</sup>
<b>Per Common Share Data:<sup>(2)</sup></b>					
Net Asset Value, beginning of period	\$ 14.37	\$ 14.23	\$ 27.80	\$ 24.29	\$ 19.40
Income/(loss) from operations:					
Net investment income/(loss) <sup>(3)</sup>	0.00 <sup>(4)</sup>	0.11	0.09	(0.19)	(0.11)
Net realized and unrealized gain/(loss) from investments	(2.16)	1.17	(11.99)	5.15	6.37
Net increase (decrease) resulting from operations	(2.16)	1.28	(11.90)	4.96	6.26
<b>Distributions paid from:</b>					
Net investment income		(0.11)	(0.09)		
In excess of net investment income		(1.00)	(1.28)	(1.14)	(0.86)
Net realized gains			(0.20)		
Return of capital	(0.98)	(0.03)	(0.10)	(0.31)	(0.51)
Net Asset Value, end of period	\$ 11.23	\$ 14.37	\$ 14.23	\$ 27.80	\$ 24.29
Per common share market value, end of period	\$ 10.22	\$ 13.40	\$ 12.82	\$ 26.20	\$ 22.78
Total investment return based on market value <sup>(5)</sup>	(17.08)%	16.97%	(46.45)%	21.30%	23.79%
<b>Ratios to Average Net Assets:</b>					
Net investment income/(loss)	0.01%	1.01%	0.41%	(0.66)%	(0.47)%
Gross operating expenses (including tax expense/benefit)	2.40%	2.34%	(1.90)%	3.34%	5.44%
Net operating expenses (including tax expense/benefit)	2.40%	2.34%	(1.90)%	3.21% <sup>(6)</sup>	5.14% <sup>(6)</sup>
	2.87%	3.09%	2.72%	2.44% <sup>(6)</sup>	2.25% <sup>(6)</sup>

Net operating expenses  
(excluding tax  
benefit/expense)

**Supplemental Data:**

Net assets applicable to common shareholders, end of period (in 000s)	\$ 199,045	\$ 254,618	\$ 252,157	\$ 492,670	\$ 230,757
Average net assets (000s)	\$ 236,834	\$ 201,307	\$ 396,335	\$ 280,809	\$ 214,892
Portfolio turnover	23.72%	93.44%	28.64%	46.39% <sup>(7)</sup>	74.87%
Asset coverage per \$1,000 unit of senior indebtedness <sup>(8)</sup>	\$ 3,585	\$ 3,817	\$ 3,284	\$ 3,354	\$ 3,187
Short-term borrowings, end of period (000s)	\$ 76,989	\$ 90,389	\$ 110,400	\$ 209,300	\$ 105,500

(1) At and prior to November 30, 2016, Salient Midstream & MLP Fund presented information on a consolidated basis. See Note 1 for additional information.

(2) Information presented relates to a common share outstanding for periods indicated.

(3) Per share net investment income/(loss) has been calculated using the average daily shares method.

(4) Amount represents less than \$0.01 per share.

(5) Total investment return is calculated assuming a purchase of common shares at the current market price on the first day of the period and a sale at the closing market price on the last day of the period reported (excluding brokerage commissions). Dividends and distributions are assumed for the purpose of this calculation to be reinvested at prices obtained under the DRIP.

(6) The amount includes an investment adviser waiver representing 0.13% and 0.30% for the periods ended November 30, 2014 and November 30, 2013, respectively, to the expense ratios. Without this waiver, the expense ratios would be higher.

(7) In connection with the reorganization of Salient MLP & Energy Infrastructure Fund into Salient Midstream & MLP Fund, no purchases or sales occurred in an effort to realign the combined fund's portfolio after the merger, and therefore none have been excluded from the portfolio turnover calculation. The value of investments acquired in the reorganization, which has been excluded from purchases in the portfolio turnover calculation, is \$337,519,725.

(8) Calculated by subtracting the Fund's total liabilities (not including borrowings) from the Fund's total assets and dividing by the total number of senior indebtedness units, where one unit equals \$1,000 of senior indebtedness.

See accompanying Notes to Financial Statements.

---

**Table of Contents**

**Notes to Financial Statements**

November 30, 2017

**(1) ORGANIZATION**

Salient Midstream & MLP Fund (the **Fund**), a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the **1940 Act**), commenced operations on May 24, 2012 as a non-diversified, closed-end management investment company. The Fund is authorized to issue an unlimited number of common shares of beneficial interest ( **Common Shares** ), which may be issued in more than one class or series. The Fund's Common Shares are listed on the New York Stock Exchange ( **NYSE** ) under the symbol **SMM**.

The Fund's objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to its common shareholders. The Fund seeks to achieve its investment objective by investing at least 80% of its total assets in securities of midstream companies and master limited partnerships ( **MLPs** ).

The board of trustees (each member thereof a **Trustee** and collectively, the **Board**) is authorized to engage an investment advisor, and pursuant to an investment management agreement (the **Investment Management Agreement**), it has selected Salient Capital Advisors, LLC (the **Advisor**) to manage the Fund's portfolio and operations. The Advisor is a Texas limited liability company that is registered as an investment advisor under the Investment Advisors Act of 1940, as amended. Under the Investment Management Agreement, the Advisor is responsible for the establishment of an investment committee (the **Investment Committee**), which is responsible for developing, implementing, and supervising the Fund's investment program subject to the ultimate supervision of the Board.

Under the Fund's organizational documents, the Fund's Trustees and officers are indemnified against certain liabilities arising out of the performance of their duties with respect to the Fund. In addition, in the normal course of business, the Fund enters into contracts with vendors and others that provide general indemnification. The Fund's maximum exposure under these arrangements is unknown as this would involve any future potential claims that may be made against the Fund. However, based on experience, management expects that risk of loss to be remote.

Prior to September 30, 2016, the Fund invested up to 25% of its total assets in Salient Midstream & MLP Fund, Inc., a wholly owned subsidiary (the **C-Corp Subsidiary**). The C-Corp Subsidiary, which was organized under the laws of the state of Delaware, was controlled by the Fund, and was therefore consolidated in the Fund's financial statements until the C-Corp Subsidiary's liquidation on September 30, 2016. The Fund invested in the C-Corp Subsidiary in order to gain additional exposure to the investment returns of the MLP markets, within the limitations of the federal tax law requirements applicable to regulated investment companies ( **RIC** ). In December 2015, the Advisor recommended, and the Board approved, a plan of liquidation of the C-Corp

Subsidiary (the **Plan**). As of January 21, 2016, all investments held by the C-Corp Subsidiary were sold and none were transferred to the Fund. Pursuant to the Plan, the C-Corp Subsidiary ceased operations and simultaneously transferred its other assets and liabilities to the Fund. The liquidation of the C-Corp Subsidiary was completed on September 30, 2016. Where the context requires for reporting of years prior to the liquidation, the Fund includes both the Fund and the C-Corp Subsidiary.

The Fund owns 100% of the limited partnership interests of EMG Utica I Offshore Co-Investment, L.P. ( **EMG Utica** ). EMG Utica holds a non-controlling underlying interest in Mark West Utica EMG, L.L.C., which is a joint venture

between Mark West Energy Partners, L.P. ( Mark West ) and The Energy and Minerals Group ( EMG ). Mark West is owned by MPLX LP (NYSE: MPLX), which is a U.S. domiciled publicly traded master limited partnership that owns, operates, develops, and acquires midstream energy infrastructure assets. EMG is a private investment firm that targets equity investments in the energy and minerals sector. EMG Utica is considered a variable interest entity ( VIE ) as it is a partnership and the Fund, as the limited partner, lacks substantive kick-out rights or substantive participating rights, as these reside with EMG Utica Co-Investment GP, LLC, the general partner for EMG Utica. Under Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 810, Consolidation , prior to the adoption of ASC update 2015-02, management believed the Fund was the primary beneficiary as it owned 100% of EMG Utica and had the right to receive the economic benefit from the investment, and therefore consolidated EMG Utica in the Fund s financial statements for the years ended November 30, 2016 and 2015. Under ASC Update 2015-02, which the Fund has adopted for the year ended November 30, 2017, consolidation of a VIE s financial statements would occur if a limited partner has the power to direct the activities and the right to receive the benefits from the entity considered for consolidation. As the Fund lacks the ability to control the activities of EMG Utica and does not have kick-out rights under its partnership agreement, EMG Utica is no longer consolidated within the Fund s financial statements at November 30, 2017.

## **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

### ***(a) BASIS OF ACCOUNTING***

The financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America ( U.S. GAAP ). The accompanying financial statements reflect the financial position of the Fund. The Fund is an investment company and follows the investment company accounting and reporting guidance under FASB ASC Topic 946, Financial Services-Investment Companies .

**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

***(b) CASH EQUIVALENTS***

The Fund considers all unpledged temporary cash investments with a maturity date at the time of purchase of three months or less to be cash equivalents.

***(c) PORTFOLIO SECURITIES TRANSACTIONS***

Security transactions are accounted for on a trade date basis. Realized gains and losses are reported using the specific identification cost basis.

***(d) INVESTMENT VALUATION***

The valuation of the Fund's investments is determined each day based on the most recent close of regular session trading on the NYSE and reported by ALPS Fund Services, Inc., the Fund's independent administrator (the Administrator or ALPS).

The Board has formed a valuation committee (the Board Valuation Committee) that is responsible for overseeing the Fund's valuation policies, making recommendations to the Board on valuation-related matters, and overseeing implementation by the Advisor of the Fund's valuation policies.

The Board has authorized the Advisor to establish a valuation committee of the Advisor (the Advisor Valuation Committee). The Advisor Valuation Committee's function, subject to oversight of the Board Valuation Committee and the Board, is generally to review the Fund's valuation methodologies, valuation determinations, and any information provided to the Advisor Valuation Committee by the Advisor or the Administrator.

To the extent that the price of a security cannot be determined applying the methods described below, the Advisor Valuation Committee in conjunction with the Administrator will determine the price of the security pursuant to the fair value procedures approved by the Board.

Investments held by the Fund are valued as follows:

**SECURITIES LISTED ON A SECURITIES EXCHANGE OR OVER-THE-COUNTER EXCHANGES** In general, the Fund values those securities at their last sales price on the exchange or over-the-counter market or a market's official closing price on the valuation date. If the security is listed on more than one exchange, the Fund uses the price from the exchange that it considers to be the principal exchange on which the security is traded. If there have been no sales for that day on the exchange where the security is principally traded, then the price of the security will be valued at the mean between the closing bid and ask prices on the valuation date.

**PUBLICLY-TRADED EQUITY SECURITIES ACQUIRED IN A DIRECT PLACEMENT**

**TRANSACTION** Such securities may be subject to restrictions on resale that can affect the security's liquidity

and fair value. Such securities that are convertible or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable restriction discount. Generally, the discount will initially be equal to the discount at which the Fund purchased the securities and thereafter will be periodically reassessed and likely reduced over the anticipated restricted period.

**DERIVATIVES** Exchange traded futures contracts are valued using quoted final settlement prices from the national exchange on which they are principally traded. If no such price is reported by such exchange on the valuation date, the Advisor Valuation Committee will determine the fair value in good faith using information that is available at such time.

Options that are listed on a securities exchange are generally valued on the valuation date at the mean of the closing bid and ask prices of the posted market on the exchange on which they are listed. If on the valuation date the primary exchange is closed, the prior day price will be used. If no such price is reported, the fair value of such options will be determined in good faith using industry standard pricing models utilizing publicly available input information on the valuation date.

Options traded on an over-the-counter market are generally valued using the mean of the closing bid and ask prices provided by an independent pricing service. If a quotation is not available from the independent pricing service, the price is obtained from a broker (typically counterparty to the option) on the valuation date. If no such price is available on the valuation date, the Advisor Valuation Committee in conjunction with the Administrator will determine the fair value of such options in good faith using information that is available at such time.

Non exchange-traded derivatives, such as swap agreements, are valued based on procedures approved by the Board. Credit default swaps and total return swaps are generally fair valued using evaluated quotes provided by an independent pricing service. If a quotation is not available from the independent pricing service, the price is obtained from a broker (typically the counterparty to the swap agreement) on the valuation date.

**SECURITIES NOT ACTIVELY TRADED** The value of securities, derivatives or synthetic securities that are not actively traded on an exchange are determined by obtaining quotes from brokers that normally deal in such securities or



---

**Table of Contents****Notes to Financial Statements, continued**

November 30, 2017

by an unaffiliated pricing service that may use actual trade data or procedures using market indices, matrices, yield curves, specific trading characteristics of certain groups of securities, pricing models or a combination of these procedures. Securities for which independent pricing services are not available are valued pursuant to the valuation procedures approved by the Board.

**INVESTMENT FUNDS** Investments in investment limited partnerships and shares in unregistered investment funds ( Investment Funds ) for which a market value is not available will generally be valued using the partners' capital or net asset value (the NAV ) as a practical expedient, as reported by the Investment Fund managers or the administrators of such Investment Funds. These Investment Funds value their underlying investments in accordance with policies established by such Investment Funds. Prior to investing in any Investment Fund, the Adviser Valuation Committee, as part of the due diligence process, conducts a review of the valuation methodologies employed by the Investment Fund to determine whether such methods are appropriate for the asset types. The Adviser Valuation Committee will consider whether it is appropriate, in light of the relevant circumstances, to value shares at NAV as reported by an Investment Fund for valuation purposes, or whether to adjust such reported value to reflect an adjusted fair value. Because of the inherent uncertainty of valuation, fair value may differ significantly from the value that would have been used had readily available markets for the investments in Investment Funds existed. The Fund's investments in Investment Funds are subject to the terms and conditions of the respective operating agreements and offering memoranda of such Investment Funds.

**OTHER** Investments in private placement securities and other securities for which market quotations are not readily available will be valued in good faith by using fair value procedures approved by the Board. Such fair value procedures may consider among other factors discounts to publicly traded issues, time until conversion date, securities with similar yields, quality, type of issue, coupon, duration and rating, and an analysis of the issuer's financial statements and reports. Valuation techniques such as the market approach and/or income approach may be used when sufficient and reliable data is available. If events occur that affect the value of the Fund's securities before the NAV has been calculated, the securities so affected will generally be priced using fair value procedures.

***(e) FOREIGN CURRENCY***

The accounting records of the Fund are maintained in U.S. dollars. Foreign currency amounts and investments denominated in a foreign currency, if any, are translated into U.S. dollar amounts at current exchange rates on the valuation date. Purchases and sales of investments denominated in foreign currencies are translated into U.S. dollar amounts at the exchange rate on the respective dates of such transactions. The Fund does not isolate the portion of the results of operations resulting from changes in foreign exchange rates on investments from fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains on investments.

***(f) MASTER LIMITED PARTNERSHIPS***

Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. The Fund invests in MLPs receiving partnership taxation treatment under the Internal Revenue Code of 1986, as amended (the Code), and whose interests or units are traded on securities exchanges like shares of corporate stock. To be treated as a partnership for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real property rents, gains on dispositions of real property, income and gains from mineral or natural resources activities, income and gains from the transportation or storage of certain fuels, and, in certain circumstances, income and gains from commodities or futures, forwards and options on commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members).

The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership or limited liability company. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The Fund's investments in MLPs consist only of limited partner or member interest ownership. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/or natural resources sector.

**Table of Contents****Notes to Financial Statements, continued**

November 30, 2017

***(g) RESTRICTED AND ILLIQUID SECURITIES***

The Fund may invest up to 30% of its total assets in unregistered or otherwise restricted securities of which up to 10% may be in securities of privately held companies. A restricted security is a security which has been purchased through a private offering and cannot be resold to the general public without prior registration under the Securities Act of 1933 (the 1933 Act ) or pursuant to the resale limitations provided by Rule 144 under the 1933 Act, or an exemption from the registration

requirements of the 1933 Act. Illiquid securities are securities that cannot be sold or disposed of within a reasonable amount of time in the ordinary course of business. Certain restricted securities may be resold in transactions exempt from registration, normally to qualified institutional buyers, and may be deemed liquid by the Advisor based on procedures approved by the Board. Therefore, not all restricted securities are considered illiquid.

The restricted securities held at November 30, 2017 are identified below and are also presented in the Fund's Schedule of Investments.

<b>Security</b>	<b>% of Net Assets</b>	<b>Acquisition Date</b>	<b>Shares/Units</b>	<b>Cost</b>	<b>Fair Value</b>
EMG Utica I Offshore Co-Investment, L.P.*	11.8%	2/22/2013	16,000,000	\$ 16,000,000	\$ 23,531,312
Total Restricted Securities	11.8%			\$ 16,000,000	\$ 23,531,312

\* *EMG Utica has been deemed illiquid by the Advisor based on procedures approved by the Board.*

***(h) INVESTMENT INCOME***

Interest income is recognized on the accrual basis. Distributions are recorded on the ex-dividend date. Distributions received from the Fund's investments in MLPs generally are composed of ordinary income, capital gains and return of capital from the MLPs.

***(i) USE OF ESTIMATES***

The financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates and such differences may be significant.

**(j) DERIVATIVE INSTRUMENTS**

The Fund may invest in derivatives in order to meet its investment objectives. The risk in using derivatives varies depending upon the structure of the instruments. All open derivative positions at period end, if any, are presented in the Fund's Schedule of Investments. The following is a description of the derivative instruments that the Fund has utilized as part of its investment strategy, including the primary underlying risk exposures related to each instrument type.

**OPTIONS** The Fund may write equity call options with the purpose of generating realized gains from premiums as a means to enhance distributions to the Fund's common shareholders. Options are secured by investments, as detailed in the Fund's Schedule of Investments. A call option on a security is a contract that gives the holder of such call option

the right to buy the security underlying the call option from the writer of such call option at a specified price at any time during the term of the option. At the time the call option is sold, the writer of a call option receives a premium from the buyer of such call option. If the Fund writes a call option, it will have the obligation upon exercise of such call option to deliver the underlying security upon payment of the exercise price. As the writer of a covered call option, during the option's life, the Fund gives up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but the Fund retains the risk of loss should the price of the underlying security decline.

**FUTURES CONTRACTS** The Fund may invest in futures contracts as a part of its hedging strategy to manage exposure to interest rate, equity and market price movements, and commodity prices. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. The underlying asset is not physically delivered. Futures contracts are valued at their quoted daily settlement prices. Upon entering into a futures contract, the Fund is required to segregate liquid assets in accordance with the initial margin requirements of the clearinghouse to secure the Fund's performance. The clearinghouse also requires daily settlement of variation margin representing changes in the value of each contract. Fluctuations in the value of the contracts are recorded as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as net realized gain (loss) on futures contracts. The primary risks associated with the use of futures contracts are imperfect correlation between changes in fair values of the underlying assets and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty.

**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

**SWAP AGREEMENTS** The Fund may invest in swap agreements, including credit default and total return swap agreements, in connection with its hedging strategy to manage market risks.

A total return swap is a bilateral financial contract agreement where one party (the payer) agrees to pay the other (the receiver) the total return on a specified asset or index in exchange for a fixed or floating rate of return. A total return swap allows the receiver or payer to derive the economic benefit of owning or having short exposure to an asset without owning or shorting the underlying asset directly. The receiver is entitled to the amount, if any, by which the notional amount of the total return swap would have increased in value had it been invested in the particular instruments, plus an amount equal to any dividends or interest that would have been received on those instruments. In return, the payer is entitled to an amount equal to a fixed or floating rate of interest (e.g., a LIBOR based rate) on the notional amount of the swap plus the amount, if any, by which the notional amount would have decreased in value had it been invested in such instruments, less any dividends or interest. The amounts to which each party is entitled are normally netted against each other at periodic settlement dates, resulting in a single amount that is either due to or from each party.

A credit default swap gives one party (the buyer) the right to recoup the economic value of a decline in the value of debt securities of the reference issuer if a credit event (a downgrade, bankruptcy or default) occurs. This value is obtained by delivering a debt security of the reference issuer to the party in return for a previously agreed upon payment from the other party (frequently, the par value of the debt security) or receive a net amount equal to the par value of the defaulted reference entity less its recovery value. The Fund is usually a net buyer of credit default swap.

The Fund as a buyer of a credit default swap would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event by the reference issuer with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the agreement provided that no event of default or other credit event has occurred. If no default or other credit event occurs, the counterparty would keep the stream of payments and would have no further obligations to the Fund.

In addition to being exposed to the credit risk of the underlying reference entity, swap agreements are subject to counterparty risk, market risk and interest rate risk. Swap agreements utilized by the Fund may not perform as expected. Risks may arise as a result of the failure of the counterparty to perform under the agreement. The loss incurred by the failure of a counterparty is generally limited to the market value and premium amounts recorded. The Fund considers the creditworthiness of each counterparty to a swap agreement in evaluating potential credit risk, and will not enter into any swap agreement unless the Advisor

believes the counterparty to the transaction is creditworthy. Additionally, risks may arise from the unanticipated movements in interest rates or in the value of the underlying reference assets. The Fund may use various techniques to minimize credit risk including early termination or reset and payment. Collateral, in the form of cash, is held in broker segregated accounts for swap agreements.

The following is a summary of the fair value of derivative instruments held directly by the Fund as of November 30, 2017, and where such derivatives are recorded:

	<b>Liabilities Written Options, at Fair Value</b>
<b>Equity Risk Exposure:</b>	
Written Call Options	\$ 224,203
The following is a summary of the effect of derivative instruments on the Statement of Operations for the year ended November 30, 2017:	

	<b>Net Realized Gain (Loss) on Derivatives</b>	<b>Change in Unrealized Appreciation/ Depreciation on Derivatives</b>
<b>Equity Risk Exposure:</b>		
Written Call Options	\$ 1,772,704	\$ 64,480
As described above, the Fund utilized derivative instruments to achieve its investment objective during the year ended November 30, 2017. The Fund may enter into International Swaps and Derivatives Association, Inc. Master Agreements ( ISDA Master Agreement ) or similar agreements with its derivative contract counterparties whereby the Fund may, under certain circumstances, offset with the counterparty certain derivative financial instruments payables and/or receivables with collateral held and/or posted and create one single net payment. There were no derivative financial instruments that are subject to enforceable netting arrangements or other similar agreements as of November 30, 2017.		

The following is a summary of the average monthly notional value of written options during the year ended November 30, 2017:

	<b>Average Monthly Notional Value</b>	<b>Notional Value Outstanding at November 30, 2017</b>
Written Call Options	\$ 15,731,583	\$ 16,469,643

**(k) DISTRIBUTIONS TO SHAREHOLDERS**

The Fund intends to continue to comply with the requirements under Subchapter M of the Code in order to continue to qualify as a RIC. If so qualified, the Fund will not be subject to federal income tax to the extent it distributes substantially all of its net investment income and net capital gains to its shareholders.

**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

The Fund generally makes quarterly distributions to shareholders. Net realized capital gains, if any, are distributed annually. Distributions from net realized gains may include short-term capital gains. All net short term capital gains are included in ordinary income for tax purposes. Distributions to shareholders are recorded on the ex-dividend date. The Fund may also pay, at the end of the calendar year, a special distribution to comply with requirements under the Code.

Each shareholder will automatically be a participant under the Fund's Dividend Reinvestment Plan (the "DRIP") and have all income distributions and capital gains distributions automatically reinvested in Shares, unless a shareholder otherwise elects to receive distributions in cash. Generally, for U.S. federal income tax purposes, shareholders receiving Shares under the DRIP will be treated as having received a distribution equal to the amount of cash they would have received had the shareholder not participated in the DRIP.

The character of distributions made during the period from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes.

The amount of distributions from net investment income and net realized gains are determined in accordance with federal income tax regulations which may differ from U.S. GAAP. These book/tax differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature (e.g., return of capital and differing treatment on partnership investments), such amounts are reclassified within the composition of net assets based on their federal tax-basis treatment; temporary differences (e.g., wash sales, differing treatment on partnership investments, late year ordinary loss deferrals and capital loss carryforwards) do not require a reclassification. Distributions which exceed net investment income and net realized gains for financial reporting purposes but not for tax purposes are reported as distributions in excess of net investment income or net realized gains. To the extent they exceed net investment income and net realized gains for tax purposes, they are reported as return of capital.

***(l) CFTC REGULATION***

The Commodity Futures Trading Commission ("CFTC") adopted rules to harmonize conflicting United States Securities and Exchange Commission (the "SEC") and CFTC disclosure, reporting and recordkeeping requirements for registered investment companies that do not meet an exemption from the definition of commodity pool. The harmonization rules provide that the CFTC will accept the SEC's disclosure, reporting, and recordkeeping regime as substituted compliance for substantially all of the otherwise applicable CFTC regulations as long as such investment companies meet the applicable SEC requirements.

With respect to the Fund, the Advisor has claimed an exemption from the definition of the term "commodity pool operator" under CFTC

Regulation 4.5 of the Commodity Exchange Act ("CEA"). As such, the Fund is not currently subject to registration or regulation as a commodity pool under the CEA.

***(m) RETURN OF CAPITAL ESTIMATES***

Distributions received from the Fund's investments in MLPs generally are composed of income, capital gains and return of capital. The Fund records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded.

For the year ended November 30, 2017, the Fund estimated that approximately 100% of the MLP distributions received would be treated as a return of capital. The Fund recorded as return of capital the amount of \$13,813,807 of dividends and distributions received from its investments. Net realized gain was increased by \$7,000,607 and change in net unrealized appreciation/depreciation was increased by \$6,813,200 in the accompanying Statement of Operations, attributable to the recording of such dividends and distributions as a reduction in the cost basis of investments.

### **(3) FAIR VALUE MEASUREMENTS**

The Fund defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The valuation techniques employed by the Fund, as described below, maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The inputs used to determine the fair value of the Fund's investments are summarized in the three broad levels listed below:

Level 1 unadjusted quoted prices in active markets for identical investments

Level 2 investments with other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 investments with significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments) that are developed based on the best information available

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. The Fund discloses



**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

transfers between levels based on valuations at the end of the reporting period. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Other assets and securities, which are generally not exchange-traded, or for which market quotations are not readily available, or are deemed unreliable are valued at fair value as determined in good faith by the Advisor Valuation Committee. Fair value pricing may be used for significant events such as securities for which trading has been suspended, prices have become stale or for which there is no currently available price at the close of the NYSE. When observable prices are not available, the Advisor Valuation Committee may use one or more valuation techniques such as the market approach, the income approach, or internal pricing models for which sufficient and reliable data is available. The market approach generally consists of using comparable market data and transactions. The income approach generally consists of estimating future cash flows from an investment to determine the net present value. A significant change in the unobservable inputs could result in a significantly lower or higher fair value measurement. Depending on the source and relative significance of valuation inputs,

these investments may be classified as Level 2 or Level 3 in the fair value hierarchy.

The Fund establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and appropriate. The Advisor is responsible for developing the Fund's written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies. The Board Valuation Committee has authorized the Advisor to oversee the implementation of the Board approved valuation procedures by the Administrator. The Advisor Valuation Committee is comprised of various Fund personnel, which include members from the Fund's portfolio management and operations groups. The Advisor Valuation Committee meets monthly or as needed, to determine the valuations of the Fund's Level 3 investments. Fund valuations are required to be supported by market data, industry accepted third-party valuation models, or other methods the Advisor Valuation Committee deems to be appropriate, including the use of internal proprietary valuation models.

The following is a summary categorization of the Fund's investments based upon the three levels defined above as of November 30, 2017. The breakdown by category of equity securities is disclosed in the Schedule of Investments.

		<b>Investments Valued at NAV as a Practical Expedient*</b>			<b>Total</b>	
<b>Level 1</b>		<b>Level 2</b>	<b>Level 3</b>			
<b>Investment Securities</b>	<b>Other Financial Securities</b>	<b>Investment Securities</b>	<b>Investment Securities</b>	<b>Investment Securities</b>	<b>Investment Securities</b>	<b>Other Financial</b>

Master Limited Partnerships and Related Companies	Instruments <sup>^</sup>				Instruments <sup>^</sup>			
Gathering & Processing	\$ 48,172,188	\$	\$	\$	\$ 23,531,312	\$ 71,703,500	\$	
Other	202,130,712					202,130,712		
Written Options		(224,203)						(224,203)
<b>Total</b>	<b>\$ 250,302,900</b>	<b>\$ (224,203)</b>	<b>\$</b>	<b>\$</b>	<b>\$ 23,531,312</b>	<b>\$ 273,834,212</b>	<b>\$</b>	<b>(224,203)</b>

<sup>^</sup> Other financial instruments include any derivative instruments not reflected in the Schedule of Investments as investment securities, such as written call options. These investments are generally presented in the Schedule of Investments at the unrealized gain or loss on the investment.

\* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the Statement of Assets, Liabilities and Shareholders Equity.

There were no transfers between Levels 1, 2, or 3 for the year ended November 30, 2017, except for the transfer which was due to the investment being measured at fair value using the NAV (or its equivalent) practical expedient as of November 30, 2017 and no longer being classified in the fair value hierarchy.

**Table of Contents****Notes to Financial Statements, continued**

November 30, 2017

The following is a reconciliation of Level 3 investments based on the inputs used to determine fair value:

	Balance as of November 30, 2016	Purchases	Sales Proceeds	Change in Unrealized Appreciation (Depreciation)	Transfer Out of Level 3	Balance as of November 30, 2017
<b>Investments in Securities Master Limited Partnerships and Related Companies</b>						
Gathering & Processing	\$ 24,762,000	\$	\$	\$ (1,230,688)	\$ (23,531,312)	\$
<b>Total</b>	<b>\$ 24,762,000</b>	<b>\$</b>	<b>\$</b>	<b>\$ (1,230,688)</b>	<b>\$ (23,531,312)</b>	<b>\$</b>

**(4) CREDIT FACILITY**

The Fund maintains a line of credit agreement (the Agreement) with Bank of Nova Scotia (BNS) which provides a \$160,000,000 committed lending facility. Borrowings under the Agreement are secured by investments, as detailed in the Fund's Schedule of Investments. The Agreement provides for a commitment fee of 0.10% per annum on undrawn amounts above a certain threshold plus interest accruing on outstanding borrowed amounts at the one month LIBOR plus 0.95% per annum. The average principal balance and weighted average interest rate for the year ended November 30, 2017, was approximately \$90,250,315 and 2.00%, respectively. At November 30, 2017, the principal balance outstanding was \$76,989,219 at an interest rate of 2.32%.

**(5) FEDERAL INCOME TAXES**

The Fund intends to continue to comply with the requirements of the Code applicable to RICs and to distribute all of its taxable income to shareholders. Also, in order to avoid the payment of any federal excise taxes, the Fund will distribute substantially all of its net investment income and net realized gains on a calendar year basis.

For the tax years ended November 30, 2014 through November 30, 2017, and for all major jurisdictions, management of the Fund has evaluated the tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions will more-likely-than-not be sustained by the Fund upon challenge by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold and that would result in a tax benefit or expense to the Fund would be recorded as a tax benefit or expense in the current period. For the year ended November 30, 2017, the Fund did not recognize any amounts for unrecognized tax benefit/expense. A reconciliation of unrecognized tax benefit/expense is not provided herein, as the beginning and ending amounts of unrecognized tax benefit/expense are zero, with no interim additions, reductions or settlements.

The C-Corp Subsidiary, as a corporation, was obligated to pay federal and state income tax on its taxable income. The C-Corp Subsidiary invested its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the C-Corp Subsidiary included its allocable share of the MLP's taxable income in computing its own taxable income.

For the tax years ended November 30, 2014 through November 30, 2016, and for all major jurisdictions, management of the C-Corp Subsidiary has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements.

The C-Corp Subsidiary's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. The tax years ended November 30, 2014 through November 30, 2016 remain open and subject to examination by tax jurisdictions.

In accordance with U.S. GAAP, the Fund has made reclassifications among its capital accounts, primarily attributable to partnership investments, capital loss carryover expiration, and differences in the book to tax treatment of the net operating losses. These reclassifications are intended to adjust the components of the Fund's net assets to reflect the tax character of permanent book/tax differences and have no impact on the net assets or the NAV of the Fund. As of November 30, 2017, the Fund made reclassifications to increase or (decrease) the components of the net assets detailed below:

<b>Paid-in Capital</b>	<b>Accumulated Net Investment Income (Loss)</b>	<b>Accumulated Net Realized Gain (Loss)</b>
\$ (15,875,257)	\$ 11,663,454	\$ 4,211,803

Included in the amounts reclassified was a net operating loss offset to Paid-in capital of \$8,920,733.

**Table of Contents****Notes to Financial Statements, continued**

November 30, 2017

The tax character of dividends paid to shareholders during the tax year ended in 2017 was as follows:

<b>Ordinary Income</b>	<b>Net Long Term Capital Gains</b>	<b>Total Taxable Distributions</b>	<b>Tax Return of Capital</b>	<b>Total Distributions Paid</b>
\$	\$	\$	\$17,297,109	\$17,297,109

The tax character of dividends paid to shareholders during the tax year ended in 2016 was as follows:

<b>Ordinary Income</b>	<b>Net Long Term Capital Gains</b>	<b>Total Taxable Distributions</b>	<b>Tax Return of Capital</b>	<b>Total Distributions Paid</b>
\$19,592,729	\$	\$19,592,729	\$575,417	\$20,168,146

The following information is provided on a tax basis as of November 30, 2017:

Cost of investments and written options	\$ 254,347,062
Gross unrealized appreciation	53,998,121
Gross unrealized depreciation	(34,501,188)
Net unrealized appreciation (depreciation)	19,496,933
Undistributed investment income	
Undistributed long-term gains (losses)	(192,655,995)
Distributable earnings	
Other Cumulative Effect of Timing Differences	(7,573,418)
Total accumulated earnings (losses)	\$ (180,732,480)

The differences between book-basis and tax-basis unrealized appreciation (depreciation) are primarily due to differences in the timing of recognition of gains and losses on partnership investments and wash sales for tax and book purposes.

As a result of the liquidation of the C-Corp Subsidiary, the Fund is entitled to the remaining net capital loss carryforwards ( CLCFs ) from the C-Corp Subsidiary. At November 30, 2017, the Fund has available for tax purposes

unused CLCFs from the C-Corp Subsidiary as follows:

<b>Expiring</b>	<b>Short-Term</b>
11/30/2018	\$ 9,864,542
Total	\$ 9,864,542

As of the end of the tax year ended November 30, 2017, the Fund also has available for tax purposes unused CLCFs as follows:

<b>Short-Term</b>	<b>Long-Term</b>
\$ 120,558,764	\$ 62,232,689

The Fund utilized CLCF s of \$6,538,214 during the year ended November 30, 2017.

#### **(6) INVESTMENT TRANSACTIONS**

For the year ended November 30, 2017, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were \$77,621,415 and \$96,310,053, respectively.

#### **(7) SERVICE PROVIDERS**

ALPS serves as administrator to the Fund. Under the administration agreement, ALPS is responsible for administrative, accounting and recordkeeping services of the Fund.

Citibank, N.A. serves as the Fund s custodian.

Computershare, Inc. serves as the transfer agent, DRIP Plan Administrator agent and dividend paying agent for the Fund.

#### **(8) RELATED PARTY TRANSACTIONS**

##### ***INVESTMENT MANAGEMENT FEE***

In consideration of the advisory and other services provided by the Advisor, under the terms of the Investment Management Agreement between the Advisor and the Fund, the Fund pays the Advisor a management fee at an annualized rate, based on the average monthly net assets (excluding any liabilities related to borrowings and taxes) of the Fund of 1.20%. The fee is accrued daily and payable monthly.

In connection with the investment in EMG Utica, the Fund pays a management fee (the Sub-advisory fee ) to EMG MUH, LP, an affiliate of EMG Utica, calculated at 1.0% annually of the contributed capital. The fee is payable quarterly in advance.

Also in connection with the investment in EMG Utica, the Fund is entitled to distributions in accordance with the terms of the limited partnership agreement. The terms of the limited partnership agreement allow for a portion of certain distributions to be paid to EMG MUH, LP as carried interest and represents a share of the profits.



**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

**(9) RISK CONSIDERATIONS**

The following summary of certain common principal risk factors is not meant to be comprehensive of all the Fund's risks.

***(a) GENERAL MARKET RISK***

An investment in the Fund's common shares represents an indirect investment in the securities owned by the Fund, some of which will be traded on a national securities exchange or in the over-the-counter markets. The value of the securities in which the Fund invests, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which the Fund invests may affect the value of the Fund's common shares. An investment in the Fund's common shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of the Fund's distributions.

***(b) CONCENTRATION RISK***

The Fund's investment portfolio is concentrated in MLPs and midstream companies. The focus of the portfolio on a specific industry or industries within the midstream sector may present more risks than if the portfolio was broadly diversified over numerous sectors of the economy. A downturn in one or more industries within the midstream sector would have a larger impact on the Fund than on an investment company that does not concentrate solely in MLPs and midstream companies. To the extent that the Fund invests a relatively high percentage of the Fund's assets in the obligations of a limited number of issuers, the Fund may be more susceptible than more widely diversified investment companies to any single economic, political or regulatory occurrence.

***(c) LEVERAGE RISK***

Financial leverage represents the leveraging of the Fund's investment portfolio. The use of leverage can amplify losses. Unless the income and capital appreciation, if any, on securities acquired with the proceeds from financial leverage exceed the costs of such financial leverage, the use of leverage could cause the Fund's NAV to decline. When financial leverage is used, the NAV and market value of the Fund's common shares will be more volatile. There is no assurance that the Fund's use of financial leverage will be successful.

***(d) DERIVATIVES RISK***

The Fund may purchase and sell derivative instruments (including, but not limited to, options, futures contracts and swap agreements). The use of derivatives has risks, including high price volatility, government intervention, non-performance by the counterparty, the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction and the illiquidity

of the derivative investments. Furthermore, the ability to successfully use these techniques depends on the Advisor's ability to predict pertinent market movements, which cannot be assured. The use of derivatives may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune



times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that the Fund might otherwise sell. In addition, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to the Fund for investment purposes.

***(e) COUNTERPARTY RISK***

The Fund will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to a contract dispute, insolvency, liquidity or other causes, which could subject the Fund to substantial losses. This risk increases and becomes more concentrated as the number of Fund counterparties decreases. Counterparty risk also increases with the Fund's use of certain over-the-counter derivatives, which lack some of the safeguards afforded on a regulated exchange. Counterparty defaults may have a negative impact beyond the value of the contract as it could lead to the encumbrance of Fund collateral.

***(f) CURRENCY RISK***

Currency risk refers to the possibility that changes in currency exchange rates will negatively affect securities denominated in, and/or receiving revenues in, foreign currencies. The liquidity and trading value of foreign currencies could be affected by global economic factors, such as inflation, interest rate levels, and trade balances among countries, as well as the actions of sovereign governments. Adverse changes in currency exchange rates (relative to the U.S. dollar) may erode or reverse any potential gains from the Fund's investments in securities denominated in a foreign currency or may widen existing losses. The Fund's net currency positions may expose it to risks independent of its securities positions.

**(10) CAPITAL SHARE TRANSACTIONS**

The Fund has an unlimited number of shares of capital stock authorized, \$0.01 par value per share, and 17,722,449 shares issued and outstanding at November 30, 2017. There was no capital share activity for the year ended November 30, 2017.

**(11) SEC REGULATIONS**

On October 13, 2016, the SEC amended Regulation S-X to require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. Effective August 1, 2017, the Fund adopted disclosure requirement changes for

**Table of Contents**

**Notes to Financial Statements, continued**

November 30, 2017

Regulation S-X and these changes are reflected throughout this report. The Fund's adoption of those amendments, effective with the financial statements prepared as of November 30, 2017, had no effect on the Fund's net assets or results of operations.

**(12) SUBSEQUENT EVENTS**

The Fund has evaluated the need for additional disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued. Based on this evaluation, no adjustments were required to the financial statements as of November 30, 2017.

**Table of Contents****Supplemental Information (Unaudited)**

November 30, 2017

**Trustees and Officers**

The Fund's operations are managed under the direction and oversight of the Board. Each Trustee serves for an indefinite term or until he or she reaches mandatory retirement as established by the Board. The Board appoints the officers of the Fund who are responsible for the Fund's day-to-day business decisions based on policies set by the Board. The officers serve at the pleasure of the Board.

**Trustee and Officer Fees**

The Fund pays each Trustee who is not an interested person of the Advisor, as defined in the 1940 Act (the Independent Trustees) an annual retainer of \$6,000, paid quarterly, an annual Board meeting fee of \$2,000, a fee of \$667 per informal Board meeting, a fee of \$333 per telephonic Board meeting, an annual fee of \$375 for membership on the audit committee and valuation committee, an annual fee of \$500 for membership on the compliance committee, an annual fee of \$2,000 for the audit committee chair and compliance committee chair, and an annual fee of \$2,400 for the valuation committee chair. The Lead Independent Trustee receives an annual fee of \$6,000, paid quarterly. There are currently six Independent Trustees. In the interest of retaining Independent Trustees of the highest quality, the Board intends to periodically review such compensation and may modify it as the Board deems appropriate. The Fund's Chief Compliance Officer (the CCO) is employed by the Advisor. The Fund has agreed to pay the Advisor approximately \$84,000 per year as (i) an allocated portion of the compensation of an officer or employee of the Advisor to serve as CCO for the Fund (plus the cost of reasonable expenses related to the performance of the CCO's duties, including travel expenses), and (ii) an allocation of the expenses of other officers or employees of the Advisor who serve in other compliance capacities for the Fund. The Board approves annually an allocation of such costs among such personnel.

The table below shows each Trustee and executive officer's full name, address, and year of birth, the position held with the Trust, the length of time served in that position, his principal occupation during the past five years, and other directorships held by such Trustee. The address of each Trustee and officer is c/o Salient Midstream & MLP Fund, 4265 San Felipe, Suite 800, Houston, Texas 77027.

***Interested Trustees\****

<b>Name and Year of Birth</b>	<b>Position(s) Held</b>	<b>Principal Occupation(s) During the Past 5 Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Trustee<sup>(1)</sup></b>	<b>Other Directorships During Past 5 Years**</b>
John A. Blaisdell* Year of Birth: 1960	Trustee (since inception)	Managing Director of Salient (since 2002).	19	The Salient Private Access Funds (investment companies) (four funds) (since 2004); The Endowment PMF Funds

			(investment companies) (three funds) (since 2014); Salient MF Trust (investment company) (four funds) (since 2012); Forward Funds (investment company) (fourteen funds) (since 2015).
Gregory A. Reid*	Trustee, President and Chief Executive Officer (since inception)	President, MLP Complex, Salient, since 2011; Managing Partner (Houston), Telemus Capital Partners (2007 to 2010); Merrill Lynch Private Banking Group (1997 to 2007).	1 None.
Year of Birth: 1965			

**Table of Contents****Supplemental Information, continued (Unaudited)**

November 30, 2017

***Independent Trustees***

<b>Name and Year of Birth</b>	<b>Position(s) Held</b>	<b>Principal Occupation(s) During the Past 5 Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Trustee<sup>(1)</sup></b>	<b>Other Directorships During Past 5 Years**</b>
Karin B. Bonding, CFA  Year of Birth: 1939	Trustee (since inception)	Lecturer, University of Virginia (1996 to 2015); President of CapitalMarkets Institute, Inc. (retired) (fee-only financial planner and investment advisor) (1996 to 2016).	19	The Salient Private Access Funds (investment companies) (four funds) (since 2010); The Endowment PMF Funds (investment companies) (three funds) (since 2010); Brandes Investment Trust (investment companies) (four funds) (2006 to 2012); Credit Suisse Alternative Capital Funds (investment companies) (six funds) (2005 to 2010); Salient MF Trust (investment company) (four funds) (since 2012); Forward Funds (investment company) (fourteen funds) (since 2015).
Jonathan P. Carroll  Year of Birth: 1961	Trustee (since inception)	President, Lazarus Capital LLC (Investment company) (since 2006); President, Lazarus Energy Holdings, LLC (Investment holding company) (since 2006); President and CEO of Blue Dolphin Energy Company (since 2012); private investor (since 1988).	19	The Salient Private Access Funds (investment companies) (four funds) (since 2004); The Endowment PMF Funds (investment companies) (three funds) (since 2014); LRR Energy, L.P. (LRE) (energy company) (2014 to 2015); Blue Dolphin Energy Company (BDCO) (energy company) (since 2014); Salient MF Trust (investment company) (four funds) (since 2012); Forward Funds (investment company)

Dr. Bernard A. Harris, Jr.	Trustee (since inception)	Chief Executive Officer and Managing Partner, Vesalius Ventures, Inc. (venture investing) (since 2002); President of The Space Agency (marketing) (since 1999); President of The Harris Foundation (non-profit) (since 1998); clinical scientist, flight surgeon and astronaut for NASA (1986 to 1996).	19	(fourteen funds) (since 2015). The Salient Private Access Funds (investment companies) (four funds) (since 2009); Babson Funds (eleven funds) (since 2011); Monebo Technologies Inc. (since 2009); The National Math and Science Initiative, and Space Agency (since 2008); Communities in Schools (since 2007); American Telemedicine Association (2007 to 2014); U.S. Physical Therapy, Inc. (since 2005); Houston Technology Center (2004 to 2016); Houston Angel Network (since 2004); The Harris Foundation, Inc. (since 1998); Salient MF Trust (investment company) (four funds) (since 2012); Forward Funds (investment company) (fourteen funds) (since 2015).
Year of Birth: 1956				

**Table of Contents****Supplemental Information, continued (Unaudited)**

November 30, 2017

<b>Name and Year of Birth</b>	<b>Position(s) Held</b>	<b>Principal Occupation(s) During the Past 5 Years</b>	<b>Number of Portfolios in Fund Complex Overseen by Trustee<sup>(1)</sup></b>	<b>Other Directorships During Past 5 Years**</b>
Richard C. Johnson Year of Birth: 1937	Trustee (since inception)	Former Senior Partner (retired), Baker Botts LLP (law firm); Managing Partner, Baker Botts (1998 to 2002); practiced law at Baker Botts (1966 to 2002) (1972 to 2002 as a partner).	19	The Salient Private Access Funds (investment companies) (four funds) (since 2004); The Endowment PMF Funds (investment companies) (three funds) (since 2014); Salient MF Trust (investment company) (four funds) (2012-2017); Forward Funds (investment company) (fourteen funds) (2015-2017).
G. Edward Powell Year of Birth: 1936	Trustee, Lead Independent Trustee (since inception)	Principal of Mills & Stowell (private equity) (2002 to 2010); Managing Partner, PriceWaterhouse & Co. (Houston office, 1982 to 1994).	1	The Salient Private Access Funds (investment companies) (four funds) (since 2004); The Endowment PMF Funds (investment companies) (three funds) (since 2014); Therapy Track, LLC (2009 to 2012); ESI Energy Services International, Inc. (2004 to 2013).
Scott E. Schwinger Year of Birth: 1965	Trustee (since inception)	President, The McNair Group (management), (since 2006); Senior Vice President and Chief Financial Officer, the Houston Texans (professional football team) (1999).	19	The Salient Private Access Funds (investment companies) (four funds) (since 2004); The Endowment PMF Funds (investment companies) (three funds) (since 2014); Houston Technology Center (2013-2017); The Make-A-Wish Foundation (since 2008); Nine Energy Services (since 2017); Salient MF Trust (investment company) (four funds) (since 2012); Forward Funds (investment company) (fourteen funds) (since 2015).

*\* This person's status as an interested Trustee arises from his affiliation with the Advisor.*

*\*\* This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934 (i.e., public companies) or other investment companies registered under the 1940 Act.*

*(1) The Fund Complex for the purposes of this table consists of 18 open-end funds in the Salient MF Trust and the Forward Funds (each, a Trust), with the series of each Trust being advised by either the Advisor or an affiliate of the Advisor; and 1 public closed-end fund advised by either the Advisor or an affiliate of the Advisor.*



**Table of Contents****Supplemental Information, continued (Unaudited)**

November 30, 2017

***Officers of the Fund Who Are Not Trustees***

<b>Name and Year of Birth</b>	<b>Position(s) with the Fund</b>	<b>Principal Occupation(s) During Past 5 Years</b>
Paul A. Bachtold Year of Birth: 1973	Chief Compliance Officer (since inception)	Chief Compliance Officer and Secretary, Forward Securities, LLC (since 2016); Chief Compliance Officer, Forward Management, LLC (since 2015); Chief Compliance Officer, The Salient Private Access Funds (four funds) (since 2010); Chief Compliance Officer, The Endowment PMF Funds (three funds) (since 2014); Chief Compliance Officer, Salient (since 2010); Consultant, Chicago Investment Group (compliance consulting) (2009 to 2010); US Compliance Manager, Barclays Global Investors (2005 to 2008).
Barbara H. Tolle Year of Birth: 1949	Treasurer and Principal Financial Officer (since 2017)	Treasurer and Principal Financial Officer, Salient MF Trust (since 2017); Treasurer, The Salient Private Access Funds (four funds) (since 2017); Treasurer, The Endowment PMF Funds (three funds) (since 2017); Treasurer and Principal Financial Officer, Forward Funds (since 2006); Vice President, Director of Fund Accounting and Operations, Forward Management, LLC (since 2006); Vice President and Director, Fund Accounting and Administration, PFPC Inc. (1998 to 2006).
Kristen Bayazitoglu Year of Birth: 1981	Vice President (Since 2017)	Chief Operating Officer of Asset Management, Salient Partners, L.P. (since 2017); Vice President, The Salient Private Access Funds (four funds) (since 2017); Vice President, The Endowment PMF Funds (three funds) (since 2017); Vice President of Operations, Salient Partners, L.P. (March 2012 – June 2017).
Steve Leonhardt Year of Birth: 1959	Vice President (Since 2017)	Vice President of Salient (since 2017); Vice President, The Salient Private Access Funds (four funds) (since 2017); Vice President, The Endowment PMF Funds (three funds) (since 2017); Controller of Stifel Financial Corp. (2015-2017); self-employed (2013-2015); Vice President of Charles Schwab Investment Management (2009-2013).
John E. Price	Vice President (Since 2017)	Managing Director, Chief Financial Officer and Treasurer, Salient Capital Advisors, LLC (since 2011);

Year of Birth: 1967

Partner, Salient Partners, L.P. (since 2003); Chief Financial Officer and Treasurer, Salient Partners, L.P. (since 2005); Chief Financial Officer and Treasurer, Salient Trust Co., LTA (since 2005); Chief Financial Officer and Treasurer, Forward Management, LLC (since 2015); Chief Financial Officer and Treasurer (Salient Advisors, L.P. (since 2006); Chief Financial Officer and Treasurer, Endowment Advisers, L.P. (since 2004); Interim Principal Financial Officer, The Salient Private Access Funds (four funds) (since 2017); Interim Principal Financial Officer, The Endowment PMF Funds (three funds) (since 2017).

Jeremy L. Radcliffe

Secretary  
(since inception).

President, Forward Securities, LLC (since 2015);  
Managing Director of Salient (since 2002).

Year of Birth: 1974

## **Table of Contents**

### **Supplemental Information, continued (Unaudited)**

November 30, 2017

### **Form N-Q Filings**

The Fund files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q is available on the SEC website at <http://www.sec.gov>. The Fund's Form N-Q may be reviewed and copied at the SEC Public Reference Room in Washington, DC and information regarding operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

### **Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the 1933 Act and the Securities Exchange Act of 1934. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund's actual results are the performance of the portfolio of investments held by it, the conditions in the U.S. and international financial, petroleum and other markets, the price at which shares of the Fund will trade in the public markets and other factors discussed in filings with the SEC.

### **Proxy Voting Policies**

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities is available (i) without charge, upon request by calling (800) 809-0525; and (ii) on the SEC website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 of any year will be made available on or around August 30 of that year (i) without charge, upon request by calling (800) 809-0525; and (ii) on the SEC website at <http://www.sec.gov>.

### **Statement of Additional Information**

The Statement of Additional Information (SAI) includes additional information about the Fund's Trustees and is available upon request without charge by calling (800) 809-0525 or by visiting the SEC website at <http://www.sec.gov>.

### **Certifications**

The Fund's Chief Executive Officer has submitted to the NYSE the annual CEO certification as required by Section 303A.12(a) of the NYSE Listed Fund Manual.

### **Board Consideration of the Investment Management Agreement**

At an in-person meeting of the Board held on October 18, 2017, the Board, including the Trustees who are not interested persons as that term is defined in the Investment Company Act of 1940, as amended (the Independent Trustees), considered and approved the continuation of the Investment Management Agreement (the Advisory Agreement) between the Fund and the Advisor. In preparation for review of this agreement, the Board requested the Advisor to provide detailed information which the Board determined to be reasonably necessary to evaluate the

agreement. The Independent Trustees held a telephonic meeting of the Board on October 6, 2017 (the Pre-15(c) Meeting ) to review and discuss materials from the Advisor, and also met in-person among themselves prior to the October 18, 2017 meeting to review and discuss the response materials of the Advisor in support of the consideration of the Advisory Agreement. At the request of the Independent Trustees, the Advisor made presentations regarding the materials and responded to questions from the Independent Trustees relating to, among other things, portfolio management, the Fund's investment program, Fund and Advisor compliance programs, Fund performance including benchmarks and comparisons to other funds, Fund fee levels, other portfolios (including fees) managed by the Advisor and its affiliates and the Advisor's profitability (including revenue of the Advisor across all its funds). The Board, including the Independent Trustees, also took into consideration information furnished for the Board's review and consideration throughout the year at regular Board meetings. The Independent Trustees were assisted at all times by independent counsel.

The Independent Trustees met in executive session without the presence of Advisor personnel, along with independent counsel. After the executive session was adjourned, the meeting was reconvened and the other attendees rejoined the meeting. The Independent Trustees reported that the extensive prior discussions among themselves and with independent counsel, including during the Pre-15(c) call, and their reviews of the Advisor's response materials, left them satisfied that the Advisor had responded to requests. The Independent Trustees further reported that they had concluded that the Advisory Agreement enables the Fund's shareholders to obtain high quality services at a cost that is appropriate, reasonable, and in the interests of investors. The Independent Trustees also reported that they took into account many factors, including overall down energy and MLP markets, the Fund's leverage and fee structure, and believed management has taken reasonable steps in managing the Fund related to the energy markets. They stated that in light of the Advisor's efforts prudent exercise of judgment warranted renewal

**Table of Contents**

**Supplemental Information, continued (Unaudited)**

November 30, 2017

of the advisory fee. It also was noted that the Board's decision to renew the Advisory Agreement was not based on any single factor, but rather was based on a comprehensive consideration of all the information provided to the Board at its meetings throughout the year. Upon consideration of these and other factors, the Board also determined:

**The nature, extent and quality of the advisory services provided.** With respect to the Advisory Agreement, the Board considered: the specialized expertise required to manage the Fund's strategy, personnel and staffing at the Advisor, the background and experience of key investment personnel; the Advisor's focus on analysis of complex asset categories; the Advisor's disciplined investment approach and commitment to investment principles; the Advisor's significant investment in and commitment to personnel, including hiring and extensive training; the Advisor's significant compliance, risk oversight and tax reporting efforts; and, the Advisor's oversight of and interaction with service providers.

The Board concluded that the nature, extent and quality of the management and advisory service provided were appropriate and thus supported a decision to renew the Advisory Agreement. The Board also concluded that the Advisor would be able to provide during the coming year quality of investment management and related services, and that these services are appropriate in scope and extent in light of the Fund's operations, the competitive landscape and investor needs.

**The investment performance of the Fund.** The Board evaluated the comparative information provided by the Advisor regarding the Fund's investment performance, distributions and information on the performance of other investment funds and indices, including the relevance of various indices. The Board also considered the various performance reports received throughout the year. The Board noted the drawdown in the MLP and energy markets and declines in energy prices during the year. On the basis of the Trustees' assessment, the Trustees concluded that the Advisor, although faced with declines in the Fund's area of investment focus during the year, was capable of generating a level of investment performance that is appropriate in light of the Fund's investment objective, policies and strategies and competitive with comparable funds.

**The cost of advisory service provided and the level of profitability.** In analyzing the cost of services and profitability of the Advisor, the Board considered the revenues earned and expenses incurred by the Advisor. The Board took into account the significant investment by and cost to the Advisor in appropriate personnel and service infrastructure to support the operations and management of the Fund. On the basis of the Board's review of the fees charged by the Advisor for investment advisory and related services, the specialized nature of the Fund's investment program, the Fund's use of leverage, the Advisor's financial information and the costs associated with managing the Fund, the Board concluded that the level of investment management fees and the Advisor's profitability are reasonable in light of the services provided, the management fees and overall expense ratios of comparable investment companies, and the anticipated profitability of the relationship between the Fund and the Advisor.

**The extent to which economies of scale would be realized as the Fund grows and whether fee levels reflect these economies of scale for the benefit of Fund investors.** While noting that the management fees will not decrease as the level of Fund assets increase, the Board concluded that as a closed-end fund of a relatively fixed-scale the management fees reflect the Fund's complex operations, the current markets for the MLP asset category, the economic environment for the Advisor, including its continued investment relating to support and monitoring of the Fund, and

the competitive nature of the investment company market as relevant to the Fund. The Board noted that it would have the opportunity to periodically re-examine the matter of economies of scale, as well as the appropriateness of management fees payable to the Advisor.

**Benefits (such as soft dollars) to the Advisor from its relationship with the Fund.** The Board concluded that other benefits derived by the Advisor from its relationship with the Fund, to the extent such benefits are identifiable or determinable, are reasonable and fair, result from the provision of appropriate services to the Fund and investors therein, and are consistent with industry practice and the best interests of the Fund and its partners. In this regard, the Board noted that although the Advisor may in the future use soft dollars, it has not done so to date and has not realized soft dollar benefits from its relationship with the Fund.

**Other considerations.** The Board determined that the Advisor has made a continuing and substantial commitment both to the recruitment of high quality personnel, monitoring and investment decision-making, and maintained and expanded the financial, compliance and operational resources reasonably necessary to manage the Fund in a professional manner that is consistent with the best interests of the Fund and its investors. The Trustees also concluded that the Advisor continues to make a significant entrepreneurial commitment to the management and success of the Fund.

**Table of Contents**

**Privacy Policy (Unaudited)**

The Fund recognizes the importance of securing personal financial information. It is our policy to safeguard any personal and financial information that may be entrusted to us. The following is a description of the Fund's policy regarding disclosure of nonpublic personal information.

We collect nonpublic personal information as follows:

We collect information about our investors, including, but not limited to, the investor's name, address, telephone number, e-mail address, social security number and date of birth. We collect that information from subscription agreements, other forms of correspondence that we receive from investors, from personal conversations and from affiliated entities as permitted by law.

We receive information about investor transactions with us, including, but not limited to, account number, account balance, investment amounts, withdrawal amounts and other financial information.

We are permitted by law to disclose nonpublic information we collect, as described above, to the Fund's service providers, including the Fund's investment advisor, sub-advisors, servicing agent, independent administrator, custodian, legal counsel, accountant and auditor. We do not disclose any nonpublic information about our current or former investors to nonaffiliated third parties, except as required or permitted by law. We restrict access to investor nonpublic personal information to those persons who require such information to provide products or services to investors. We maintain physical, electronic and procedural safeguards that comply with federal standards to guard investors' nonpublic personal information.

If an investor's investment relationship with the Fund involves a financial intermediary, including, but not limited to, a broker-dealer, bank or trust company, the privacy policy of such investor's financial intermediary would govern how any nonpublic personal information would be shared by them with nonaffiliated third parties.

**Table of Contents**

**4265 San Felipe**

**8th Floor**

**Houston, Texas 77027**

**800-809-0525**

**[www.salientpartners.com](http://www.salientpartners.com)**

Salient Midstream & MLP Fund

[NYSE: SMM](#)



**Table of Contents****Item 2. Code of Ethics.**

(a) The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. This code of ethics is included as Exhibit 12(a)(1).

(b) During the period covered by the report, with respect to the registrant's code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions; there have been no amendments to, nor any waivers granted from, a provision that relates to any element of the code of ethics definition enumerated in paragraph (b) of this Item 2.

**Item 3. Audit Committee Financial Expert.**

The Registrant's board of trustees has determined that there is at least one audit committee financial expert serving on its audit committee. G. Edward Powell is the audit committee financial expert and is considered to be independent as each term is defined in Item 3 of Form N-CSR.

**Item 4. Principal Accountant Fees and Services.**

	<b>2017</b>	<b>2016</b>
Audit Fees	\$ 87,938	\$ 64,000
Audit-Related Fees	0	0
Tax Fees	0	0
All Other Fees	0	0

(e)(1) Disclose the audit committee's pre-approval policies and procedures described in paragraph (c)(7) of Rule 2-01 of Regulation S-X.

The audit committee may delegate its authority to pre-approve audit and permissible non-audit services to one or more members of the committee. Any decision of such members to pre-approve services shall be presented to the full audit committee at its next regularly scheduled meeting.

(2) Disclose the percentage of services described in each of paragraphs (b) through (d) of this item that were approved by the audit committee pursuant to paragraph (c) (7)(i)(c) of Rule 2-01 of Regulation S-X.

<b>2017</b>	<b>2016</b>
0%	0%

(f) Not applicable.

**Table of Contents**

(g) Disclose the aggregate non-audit fees billed by the registrant's accountant for services rendered to registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for each of the last two fiscal years of the registrant.

2017	2016
\$0	\$0

(h) Not applicable.

**Item 5. Audit Committee of Listed Registrants.**

(a) The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (15 U.S.C 78c(a)(58)(A)), and is comprised of Jonathan P. Carroll, Dr. Bernard A. Harris, Jr., G. Edward Powell, and Scott E. Schwinger.

**Item 6. Investments.**

(a) Schedule of Investments as of the close of the reporting period is included in the report to the shareholders filed under Item 1 of Form N-CSR.

(b) Not applicable.

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

A closed-end management investment company that is filing an annual report on this Form N-CSR must, unless it invests exclusively in non-voting securities, describe the policies and procedures that it uses to determine how to vote proxies relating to portfolio securities, including the procedures that the company uses when a vote presents a conflict between the interests of its shareholders, on the one hand, and those of the company's investment adviser; principal underwriter; or any affiliated person (as defined in section 2(a)(3) of the Investment Company Act of 1940 (15 U.S.C. 80a-2(a)(3)) and the rules thereunder) of the company, its investment adviser, or its principal underwriter, on the other. Include any policies and procedures of the company's investment adviser, or any other third party, that the company uses, or that are used on the company's behalf, to determine how to vote proxies relating to portfolio securities.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

Greg A. Reid and Frank T. Gardner III (the portfolio managers) are primarily responsible for the day-to-day management of the registrant's portfolio.

**Table of Contents**

(a)(1) The following table provides biographical information about the registrant's portfolio managers as of the date of this filing:

<b>Name</b>	<b>Position(s) Held With Registrant and Length of Time Served</b>	<b>Principal Occupation During Past 5 Years</b>
Greg A. Reid	Trustee, President and Chief Executive Officer (since inception)	President, MLP Complex, Salient, since 2011; Managing Partner (Houston), Telemus Capital Partners, 2007-2010; Merrill Lynch Private Banking Group, 1997-2007.
Frank T. Gardner III	Managing Director and Portfolio Manager since 2012.	Portfolio Manager for Salient Advisors, LLC since 2012. Director of Research for Salient Capital Advisors, LLC from 2010 to 2015. Portfolio Manager for Telemus Capital Partners from 2007 to 2010.

(a)(2) The following table provides information about the other accounts managed on a day-to-day basis by the portfolio managers as of November 30, 2017:

<b>Name</b>	<b>Number of Accounts</b>	<b>Total Assets of Accounts</b>	<b>Number of Accounts Subject to a Performance Fee</b>	<b>Total Assets of Accounts Subject to a Performance Fee</b>
<b>Greg A. Reid</b>				
Registered investment companies	1	\$ 1,313M	0	\$
Other pooled investment companies	7	\$ 1,349M	2	\$ 168M
Other accounts	375	\$ 1,860M	2	\$ 48M
<b>Frank T. Gardner III</b>				
Registered investment companies	1	\$ 1,313M	0	\$
Other pooled investment companies	7	\$ 1,349M	2	\$ 168M
Other accounts	375	\$ 1,860M	2	\$ 48M

**Conflicts of Interest with the Investment Adviser**

Conflicts of interest may arise because Salient Partners, LP ( Salient ) and its affiliates generally carry on substantial investment activities for other clients in which we will have no interest. Salient or its affiliates may have financial incentives to favor certain of such accounts over us. Any of their proprietary accounts and other customer accounts may compete with us for specific trades. Salient or its affiliates may buy or sell securities for us which differ from securities bought or sold for other accounts and customers, although their investment objectives and policies may be similar to ours. Situations may occur when we could be disadvantaged because of the investment activities conducted by Salient or its affiliates for their other accounts. Such situations may be based on, among other things, legal or internal restrictions on the combined size of positions that may be taken for us and the other accounts, thereby limiting the size of our position, or the difficulty of liquidating an investment for us and the other accounts where the market

cannot absorb the sale of the combined position.

**Table of Contents**

Our investment opportunities may be limited by affiliations of Salient or its affiliates with MLPs and Energy Infrastructure Companies. In addition, to the extent that Salient sources and structures private investments in MLPs and Energy Infrastructure Companies, certain employees of Salient may become aware of actions planned by these companies, such as acquisitions, that may not be announced to the public. Although Salient maintains procedures to ensure that any material non-public information available to certain Salient employees not be shared with those employees responsible for the purchase and sale of publicly traded securities, it is possible that we could be precluded from investing in a company about which Salient has material non-public information.

The Advisor also manages other funds that invest primarily in MLPs (collectively Affiliated Funds ) and some of the Affiliated Funds have investment objectives that are similar to or overlap with ours. In particular, certain Affiliated Funds invest in MLPs and Midstream Energy Infrastructure Companies. Furthermore, the Advisor may at some time in the future, manage other investment funds with the same investment objective as ours.

Investment decisions for us are made independently from those of Salient's other clients; however, from time to time, the same investment decision may be made for more than one fund or account. When two or more clients advised by Salient or its affiliates seek to purchase or sell the same publicly traded securities, the securities actually purchased or sold are allocated among the clients on a good faith equitable basis by Salient in its discretion in accordance with the clients' various investment objectives and procedures adopted by Salient and approved by our Board of Trustees. In some cases, this system may adversely affect the price or size of the position that we may obtain. In other cases, however, our ability to participate in volume transactions may produce better execution for us.

We and our affiliates, including Affiliated Funds, may be precluded from co-investing in private placements of securities, including in any portfolio companies that we control. Except as permitted by law, Salient will not co-invest its other clients' assets in the private transactions in which we invest. Salient will allocate private investment opportunities among its clients, including us, based on allocation policies that take into account several suitability factors, including the size of the investment opportunity, the amount of funds that each client has available for investment and the client's investment objectives. These allocation policies may result in the allocation of investment opportunities to an Affiliated Fund rather than to us. The policies contemplate that Salient will exercise discretion, based on several factors relevant to the determination, in allocating the entirety, or a portion, of such investment opportunities to an Affiliated Fund, in priority to other prospectively interested advisory clients, including us. In this regard, when applied to specified investment opportunities that would normally be suitable for us, the allocation policies may result in certain Affiliated Funds having greater priority than us to participate in such opportunities depending on the totality of the considerations, including, among other things, our available capital for investment, our existing holdings, applicable tax and diversification standards to which we may then be subject and the ability to efficiently liquidate a portion of our existing portfolio in a timely and prudent fashion in the time period required to fund the transaction.

**Table of Contents**

The investment management fee paid to our Adviser is based on the value of our assets, as periodically determined. A significant percentage of our assets may be illiquid securities acquired in private transactions for which market quotations will not be readily available. Although we will adopt valuation procedures designed to determine valuations of illiquid securities in a manner that reflects their fair value, there typically is a range of prices that may be established for each individual security. Senior management of our Adviser, our Board of Trustees and its Valuation Committee, and a third-party valuation firm might participate in the valuation of our securities.

(a)(3) As of November 30, 2017:

**Compensation**

Messrs. Gardner and Reid are compensated by the Adviser through partnership distributions from Salient based on the amount of assets they manage, and they receive a portion of the advisory fees applicable to those accounts, which, with respect to certain amounts, as noted above, are based in part on the performance of those accounts. Some of the other accounts managed by Messrs. Gardner and Reid have investment strategies that are similar to ours. However, Salient manages potential conflicts of interest by allocating investment opportunities in accordance with its allocation policies and procedures. Messrs. Gardner and Reid did not own any of the Fund's equity securities prior to this offering; however, through their limited partner interests in the parent company of the adviser, which owned all the Fund's outstanding shares as of April 23, 2012 (with a value of approximately \$100,000), Messrs. Gardner and Reid could be deemed to indirectly own a portion of the Fund's securities.

(a)(4) As of November 30, 2017:

**Securities Beneficially Owned in the Registrant by Portfolio Managers**

The following table provides information about the dollar range of equity securities in the registrant beneficially owned by the portfolio managers:

<b>Portfolio Manager</b>	<b>Aggregate Dollar Range of Beneficial Ownership in the Registrant</b>
Greg A. Reid	\$
Frank T. Gardner III	\$

**Table of Contents****Item 9. Purchase of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.**

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Announced Plans or Programs	(d) Maximum Number  (or Approximate Dollar Value) of  Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
December 1, 2016 through December 31, 2016		N/A	N/A	N/A
January 1, 2017 through January 31, 2017		N/A	N/A	N/A
February 1, 2017 through February 28, 2017		N/A	N/A	N/A
March 1, 2017 through March 31, 2017		N/A	N/A	N/A
April 1, 2017 through April 30, 2017		N/A	N/A	N/A
May 1, 2017 through May 31, 2017		N/A	N/A	N/A
June 1, 2017 through June 30, 2017		N/A	N/A	N/A
July 1, 2017 through July 31, 2017		N/A	N/A	N/A
August 1, 2017 through August 31, 2017		N/A	N/A	N/A
September 1, 2017 through September 30, 2017		N/A	N/A	N/A
October 1, 2017 through October 31, 2017		N/A	N/A	N/A
November 1, 2017 through November 30, 2017		N/A	N/A	N/A
<b>Total</b>				

**Item 10. Submission of Matters to a Vote of Security Holders.**

No material changes to the procedures by which the shareholders may recommend nominees to the registrant's Board of Trustees have been implemented after the registrant's last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17

CFR 240.14a-101)), or this Item.

**Item 11. Controls and Procedures.**

The registrant's principal executive officer and principal financial officer, or persons performing similar functions, have concluded, based on their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this report, that these disclosure controls and procedures are adequately designed and are operating effectively to ensure that information required to be disclosed by the registrant on Form N-CSR is (i) accumulated and communicated to the investment company's management, including its certifying officers, to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.



**Table of Contents**

There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that have materially affected or are reasonably likely to materially affect the registrant's internal control over financial reporting.

**Item 12. Disclosure of Securities Lending Activities for Closed-End Management Investment Companies.**  
Not applicable

**Item 13. Exhibits.**

- (a)(1) Code of ethics that is subject to Item 2 is attached hereto.
- (a)(2) Certifications pursuant to Rule 30a-2(a) under the Act (17 CFR 30a-2(a)) are attached hereto.
- (a)(3) Not applicable.
- (a)(4) Not applicable.
- (b) Certifications pursuant to Rule 30a-2(b) under the Act (17 CFR 30a-2(b)) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) are attached hereto.
- (c) Proxy voting policies and procedures pursuant to Item 7 are attached hereto.

Table of Contents

**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.

Salient Midstream & MLP Fund

By: /s/ Gregory A. Reid  
Gregory A. Reid

Principal Executive Officer

Date: February 6, 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.

By: /s/ Gregory A. Reid  
Gregory A. Reid

Principal Executive Officer

Date: February 6, 2018

By: /s/ Barbara H. Tolle  
Barbara H. Tolle

Principal Financial Officer

Date: February 6, 2018