

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-CSRS

July 26, 2013

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

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

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

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

(Exact name of registrant as specified in charter)

717 Texas Avenue, Suite 3100, Houston, Texas  
(Address of principal executive offices)

77002  
(Zip code)

David Shladovsky, Esq.

KA Fund Advisors, LLC, 717 Texas Avenue, Suite 3100, Houston, Texas 77002

(Name and address of agent for service)

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

Date of fiscal year end: November 30, 2013

Date of reporting period: May 31, 2013

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

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of Management and Budget ( OMB ) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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**Item 1. Reports to Stockholders.**

The report of Kayne Anderson Midstream/Energy Fund, Inc. (the Registrant ) to stockholders for the semi-annual period ended May 31, 2013 is attached below.

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*Midstream/Energy Fund*

**KMF Semi-Annual Report**

May 31, 2013

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

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

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Fund Overview**

Kayne Anderson Midstream/Energy Fund, Inc. is a non-diversified, closed-end fund. We commenced operations on November 24, 2010. Our shares of common stock are listed on the New York Stock Exchange under the symbol KMF.

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary of Key Terms on page 35 for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

As of May 31, 2013, we had total assets of \$1.1 billion, net assets applicable to our common stock of \$737 million (net assets of \$33.55 per share), and 22 million shares of common stock outstanding. As of May 31, 2013, we held \$931.5 million in equity investments and \$124.1 million in debt investments.

**Results of Operations For the Three Months Ended May 31, 2013**

*Investment Income.* Investment income totaled \$6.6 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received \$9.6 million of dividends and distributions, of which \$5.3 million was treated as return of capital. Interest and other income was \$2.3 million. We received \$2.6 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain and \$0.1 million of non-cash dividends that are included in investment income.

*Operating Expenses.* Operating expenses totaled \$6.7 million, including \$3.2 million of investment management fees, \$2.3 million of interest expense (including non-cash amortization of debt issuance costs of \$0.2 million) and \$0.4 million of other operating expenses. Preferred stock distributions for the quarter were \$0.8 million.

*Net Investment Loss.* Our net investment loss totaled \$0.1 million.

*Net Realized Gains.* We had net realized gains of \$18.5 million, which includes \$0.7 million of net realized gains from option activity and \$0.4 million of net realized losses on interest rate swap contracts.

*Net Change in Unrealized Gains.* We had a net change in unrealized gains of \$40.7 million. The net change consisted of \$39.7 million of unrealized gains from investments and \$1.0 million of net unrealized gains from option activity.

*Net Increase in Net Assets Resulting from Operations.* We had an increase in net assets resulting from operations of \$59.1 million. This increase was comprised of net investment loss of \$0.1 million, net realized gains of \$18.5 million and net change in unrealized gains of \$40.7 million, as noted above.

**Distribution to Common Stockholders**

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



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

Operating expenses include (a) investment management fees paid to our investment adviser, (b) other expenses (mostly comprised of fees paid to other service providers) and (c) interest expense and preferred stock distributions.

**Net Distributable Income (NDI)**

(amounts in millions, except for per share amounts)

	<b>Three Months Ended May 31, 2013</b>
<b>Distributions and Other Income from Investments</b>	
Dividends and Distributions	\$ 9.6
Paid-In-Kind Dividends/Distributions and Non-Cash Dividends <sup>(1)</sup>	2.7
Interest and Other Income	2.3
Net Premiums Received from Call Options Written	2.0
Total Distributions and Other Income from Investments	16.6
<b>Expenses</b>	
Investment Management Fee	(3.2)
Other Expenses	(0.4)
Interest Expense	(2.1)
Preferred Stock Distributions	(0.8)
<b>Net Distributable Income (NDI)</b>	<b>\$ 10.1</b>
Weighted Shares Outstanding	22.0
<b>NDI per Weighted Share Outstanding</b>	<b>\$ 0.46</b>
<b>Adjusted NDI per Weighted Share Outstanding<sup>(2)</sup></b>	<b>\$ 0.46</b>
<b>Distributions paid per Common Share<sup>(3)</sup></b>	<b>\$ 0.455</b>

(1) See Note 2 (Investment Income) to the Financial Statements for additional information regarding paid-in-kind and non-cash dividends.

(2) There were no adjustments during the quarter.

(3) The distribution of \$0.455 per share for the second quarter of fiscal 2013 will be paid to common stockholders on July 19, 2013.

Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants of our debt agreements and terms of our preferred stock. In determining our quarterly distribution to common stockholders, our Board of Directors considers a number of factors that include, but are not limited to:



NDI and Adjusted NDI generated in the current quarter;

Expected NDI over the next twelve months,

Realized and unrealized gains generated by the portfolio.

On June 26, 2013, we declared a quarterly distribution of \$0.455 per common share for the second quarter of fiscal 2013 (a total distribution of \$10.0 million). The distribution represents an increase of 1.1% from the prior quarter's distribution and an increase of 5.8% from the distribution for the quarter ended May 31, 2012. The distribution was paid on July 19, 2013 to common stockholders of record on July 12, 2013.

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

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Reconciliation of NDI to GAAP**

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

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

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

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

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

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

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

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

NDI also includes recurring payments (or receipts) on interest rate swap contracts (excluding termination payments) whereas for GAAP purposes, these amounts are included in the realized gains/losses section of the Statement of Operations.

**Liquidity and Capital Resources**

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Total leverage outstanding at May 31, 2013 of \$306 million was comprised of \$205 million of senior unsecured notes ( Senior Notes ), \$36 million outstanding under our unsecured revolving credit facility ( the Credit Facility ) and \$65 million of mandatory redeemable preferred stock. Total leverage represented 29% of total assets at May 31, 2013. As of July 25, 2013, we had \$57 million borrowed under our Credit Facility, and we had \$8 million of cash.

The Credit Facility has a \$100 million commitment amount and matures on January 20, 2014. The interest rate varies between LIBOR plus 1.75% and LIBOR plus 2.25%, depending on our asset coverage ratios. Outstanding loan balances accrue interest daily at a rate equal to one-month LIBOR plus 1.75%, based on current

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

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

asset coverage ratios. We pay a commitment fee of 0.35% per annum on any unused amounts of the Credit Facility. A full copy of the Credit Facility is available on our website [www.kaynefunds.com](http://www.kaynefunds.com).

At May 31, 2013, we had \$205 million of Senior Notes outstanding, which mature between 2016 and 2023. On May 1, 2013, we completed a private placement with an institutional investor of \$40 million of Senior Notes that mature in 2023. Net proceeds from the private placement of Senior Notes were used to repay borrowings under the Credit Facility, to make additional portfolio investments and for general corporate purposes. At May 31, 2013, we had \$65 million of mandatory redeemable preferred stock outstanding, which is subject to mandatory redemption in 2018 and 2020.

At May 31, 2013, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act ), were 433% and 341% for debt and total leverage (debt plus preferred stock), respectively. Our long-term target asset coverage ratio with respect to our debt is 400%, but at times may be above or below our target depending on market conditions.

As of May 31, 2013, our total leverage consisted of both fixed rate (88%) and floating rate (12%) obligations. At such date, the weighted average interest/dividend rate on our total leverage was 4.07%.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****PORTFOLIO SUMMARY****(UNAUDITED)****Portfolio Investments by Category****May 31, 2013****November 30, 2012****Top 10 Holdings by Issuer**

<b>Holding</b>	<b>Sector<sup>(1)</sup></b>	<b>Percent of Total Investments<sup>(2)</sup> as of</b>	
		<b>May 31, 2013</b>	<b>November 30, 2012</b>
1. The Williams Companies, Inc.	Midstream Company	7.9%	8.7%
2. Kinder Morgan Management, LLC	Midstream MLP	7.4	8.4
3. ONEOK, Inc.	Midstream Company	6.9	7.3
4. Kinder Morgan, Inc.	Midstream Company	6.8	7.1
5. Enbridge Energy Management, L.L.C.	Midstream MLP	5.8	3.7
6. Golar LNG Partners LP	Midstream Company	3.4	3.0
7. Buckeye Partners, L.P.	Midstream MLP	3.2	3.0
8. Spectra Energy Corp.	Midstream Company	2.7	2.5
9. Teekay Offshore Partners L.P.	Midstream Company	2.6	2.1
10. CenterPoint Energy, Inc.	Midstream Company	2.5	1.0

*(1) See Glossary of Key Terms for Definitions.**(2) Includes cash and repurchase agreement (if any).*

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2013****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	No. of Shares/Units	Value
<b>Long-Term Investments 143.2%</b>		
<b>Equity Investments<sup>(1)</sup> 126.4%</b>		
<b>United States 120.1%</b>		
<b>Midstream MLP<sup>(2)(3)</sup> 56.6%</b>		
Access Midstream Partners, L.P. <sup>(4)</sup>	157	\$ 6,745
Atlas Pipeline Partners, L.P. <sup>(4)</sup>	69	2,582
Buckeye Partners, L.P. Class B Units <sup>(5)(6)</sup>	322	20,728
Buckeye Partners, L.P. <sup>(4)</sup>	192	12,688
Crestwood Midstream Partners LP	469	11,606
Crosstex Energy, L.P.	605	11,650
DCP Midstream Partners, LP	374	17,860
Enbridge Energy Management, L.L.C. <sup>(6)(7)</sup>	2,057	61,164
Energy Transfer Partners, L.P.	80	3,900
Enterprise Products Partners L.P. <sup>(4)</sup>	318	18,857
Exterran Partners, L.P. <sup>(4)</sup>	432	11,960
Global Partners LP	326	10,734
Inergy, L.P.	411	9,571
Inergy Midstream, L.P.	506	11,373
Kinder Morgan Management, LLC <sup>(4)(6)(7)</sup>	960	77,948
MarkWest Energy Partners, L.P. <sup>(4)(8)</sup>	152	9,975
Niska Gas Storage Partners LLC <sup>(4)</sup>	143	2,148
ONEOK Partners, L.P. <sup>(4)</sup>	217	11,247
Plains All American GP LLC Unregistered <sup>(5)(7)(8)</sup>	7	22,725
Plains All American Pipeline, L.P. <sup>(8)</sup>	459	25,781
PVR Partners, L.P. <sup>(8)</sup>	332	8,562
Regency Energy Partners LP <sup>(4)</sup>	913	23,412
Summit Midstream Partners, LP	90	2,815
Targa Resources Partners LP	49	2,298
Tesoro Logistics LP	7	447
USA Compression Partners, LP	21	464
Western Gas Partners, LP <sup>(4)</sup>	105	6,195
Williams Partners L.P. <sup>(4)</sup>	230	11,475
		416,910
<b>Midstream Company<sup>(2)</sup> 55.0%</b>		
Capital Product Partners L.P. <sup>(9)</sup>	1,354	12,430
Capital Products Partners L.P., Class B Units <sup>(9)(10)</sup>	606	5,949
CenterPoint Energy, Inc.	1,159	26,870
Golar LNG Partners LP <sup>(4)(9)</sup>	1,073	35,762
Kinder Morgan, Inc. <sup>(4)</sup>	1,894	71,950
KNOT Offshore Partners LP <sup>(9)(11)</sup>	530	12,370

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NiSource Inc.	372	10,685
ONEOK, Inc. <sup>(4)</sup>	1,629	73,514
Spectra Energy Corp. <sup>(4)</sup>	918	28,063
Targa Resources Corp. <sup>(4)</sup>	266	17,150
Teekay Offshore Partners L.P. <sup>(4)(9)</sup>	595	19,289
Teekay Offshore Partners L.P. Series A Preferred Units <sup>(9)(12)</sup>	300	7,695
The Williams Companies, Inc. <sup>(4)</sup>	2,384	83,881
		405,608

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2013****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	No. of Shares/Units	Value
<b>Other Energy 6.9%</b>		
ConocoPhillips <sup>(4)</sup>	1	\$ 49
Enduro Royalty Trust	132	2,101
HollyFrontier Corporation <sup>(4)</sup>	102	5,039
Marathon Petroleum Corporation <sup>(4)</sup>	83	6,839
Occidental Petroleum Corporation <sup>(4)</sup>	50	4,604
Pacific Coast Oil Trust	309	5,663
Phillips 66 <sup>(4)</sup>	103	6,823
SandRidge Mississippian Trust II <sup>(13)</sup>	217	2,748
Seadrill Limited <sup>(4)</sup>	211	8,536
The Southern Company <sup>(4)</sup>	80	3,490
Valero Energy Corporation <sup>(4)</sup>	60	2,450
VOC Energy Trust	173	2,272
		50,614
<b>Other 1.0%</b>		
Navios Maritime Partners L.P. <sup>(9)</sup>	538	7,439
<b>Other MLP<sup>(3)</sup> 0.6%</b>		
BreitBurn Energy Partners L.P.	192	3,554
Emerge Energy Services LP <sup>(8)(11)</sup>	49	913
LRR Energy LP	7	100
		4,567
<b>Total United States (Cost \$700,941)</b>		885,138
<b>Canada 6.3%</b>		
<b>Midstream Company<sup>(2)</sup> 6.0%</b>		
AltaGas Ltd.	103	3,847
Enbridge Inc.	451	19,505
Keyera Corp. <sup>(4)</sup>	43	2,490
Pembina Pipeline Corporation <sup>(14)</sup>	598	18,695
		44,537
<b>Other Energy 0.3%</b>		
Crescent Point Energy Corp.	50	1,811
<b>Total Canada (Cost \$41,211)</b>		46,348



<b>Total Equity Investments (Cost \$742,152)</b>	931,486
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	Interest Rate	Maturity Date	Principal Amount	
<b>Debt Instruments 16.8%</b>				
<b>Upstream 13.3%</b>				
Athlon Holdings, LP	7.375%	4/15/21	\$ 5,600	5,838
Aurora Oil & Gas Limited	7.500	4/1/20	9,600	9,792
BlackBrush Oil & Gas, L.P.	(15)	6/3/19	4,700	4,653
Clayton Williams Energy, Inc.	7.750	4/1/19	8,371	8,601
Comstock Resources, Inc.	9.500	6/15/20	3,750	4,181
CrownRock, L.P.	7.125	4/15/21	4,500	4,658
Halcón Resources Corporation	9.750	7/15/20	15,250	15,917
Midstates Petroleum Company, Inc.	9.250	6/1/21	7,800	7,771
Midstates Petroleum Company, Inc.	10.750	10/1/20	3,850	4,119

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****SCHEDULE OF INVESTMENTS****MAY 31, 2013****(amounts in 000 s, except number of option contracts)****(UNAUDITED)**

Description	Interest Rate	Maturity Date	Principal Amount	Value
<b>Upstream (continued)</b>				
Penn Virginia Corporation	8.500%	5/1/20	\$ 9,000	\$ 9,000
Resolute Energy Corporation	8.500	5/1/20	7,775	8,358
Rex Energy Corporation	8.875	12/1/20	11,000	11,798
Rice Drilling B LLC	(16)	10/22/18	3,600	3,618
				98,304
<b>Midstream Company<sup>(2)</sup> 2.4%</b>				
Crestwood Holdings LLC	(17)	6/18/18	5,750	5,851
Teekay Corporation	8.500	1/15/20	10,325	11,486
				17,337
<b>Coal 1.1%</b>				
Arch Coal, Inc.	7.250	6/15/21	9,500	8,455
<b>Total Debt Investments (Cost \$118,795)</b>				124,096
<b>Total Long-Term Investments (Cost \$860,947)</b>				1,055,582

	Strike Price	Expiration Date	No. of Contracts	
<b>Liabilities</b>				
<b>Call Option Contracts Written<sup>(18)</sup></b>				
<b>United States</b>				
<b>Midstream MLP</b>				
Access Midstream Partners, L.P.	\$ 45.00	6/21/13	210	(5)
Access Midstream Partners, L.P.	45.00	7/19/13	210	(13)
Atlas Pipeline Partners, L.P.	39.00	6/21/13	210	(5)
Buckeye Partners, L.P.	70.00	7/19/13	1,000	(55)
Enterprise Products Partners L.P.	62.50	6/21/13	430	(6)
Exterran Partners, L.P.	30.00	7/19/13	800	(36)
Kinder Morgan Management, LLC	85.00	6/21/13	430	(11)
MarkWest Energy Partners, L.P.	70.00	6/21/13	210	(12)
Niska Gas Storage Partners LLC	15.00	7/19/13	210	(14)
ONEOK Partners, L.P.	55.00	6/21/13	420	(6)
Regency Energy Partners LP	25.00	6/21/13	1,000	(90)
Western Gas Partners, LP	60.00	6/21/13	130	(11)
Williams Partners L.P.	55.00	7/19/13	340	(10)

<b>Midstream Company</b>				
Golar LNG Partners LP	35.00	6/21/13	850	(28)
Kinder Morgan, Inc.	40.00	6/21/13	1,300	(16)
Kinder Morgan, Inc.	40.00	7/19/13	850	(30)
ONEOK, Inc.	50.00	6/21/13	850	(13)
ONEOK, Inc.	47.50	7/19/13	420	(34)
Spectra Energy Corp.	31.00	6/21/13	750	(26)
Spectra Energy Corp.	32.00	6/21/13	430	(6)
Spectra Energy Corp.	31.00	7/19/13	500	(32)
Targa Resources Corp.	70.00	6/21/13	500	(6)
Teekay Offshore Partners L.P.	32.00	6/21/13	390	(33)
The Williams Companies, Inc.	39.00	6/21/13	860	(4)

See accompanying notes to financial statements.

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<b>Description</b>	<b>Strike Price</b>	<b>Expiration Date</b>	<b>No. of Contracts</b>	<b>Value</b>
<b>Midstream Company (continued)</b>				
The Williams Companies, Inc.	\$ 38.00	7/19/13	1,500	\$ (37)
The Williams Companies, Inc.	39.00	7/19/13	500	(8)
				(273)
<b>Other Energy</b>				
ConocoPhillips	60.00	6/21/13	8	(2)
HollyFrontier Corporation	55.00	6/21/13	1,000	(40)
Marathon Petroleum Corporation	87.50	6/21/13	200	(16)
Marathon Petroleum Corporation	85.00	7/19/13	600	(168)
Occidental Petroleum Corporation	85.00	6/21/13	250	(216)
Occidental Petroleum Corporation	87.50	6/21/13	250	(141)
Phillips 66	65.00	6/21/13	250	(77)
Phillips 66	67.50	6/21/13	750	(119)
Seadrill Limited	41.00	6/21/13	430	(13)
Seadrill Limited	42.00	7/19/13	420	(17)
The Southern Company	47.00	6/21/13	150	
Valero Energy Corporation	44.00	6/21/13	300	(52)
Valero Energy Corporation	45.00	6/21/13	300	(35)
				(896)
<b>Total United States (Premium Received \$1,997)</b>				(1,443)
<b>Canada</b>				
<b>Midstream Company</b>				
Keyera Corp. (Premium Received \$10)	64.00	6/21/13	210	(2)
<b>Total Call Option Contracts Written (Premiums Received \$2,007)</b>				(1,445)
<b>Credit Facility</b>				(36,000)
<b>Senior Unsecured Notes</b>				(205,000)
<b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>				(65,000)
<b>Other Liabilities</b>				(22,418)
<b>Total Liabilities</b>				(329,863)
<b>Other Assets</b>				11,317
<b>Total Liabilities in Excess of Other Assets</b>				(318,546)

**Net Assets Applicable to Common Stockholders**

\$ 737,036

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Refer to the Glossary of Key Terms for the definition of Midstream Companies and Midstream MLPs.
- (3) Unless otherwise noted, securities are treated as a publicly-traded partnership for regulated investment company ( RIC ) qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had less than 25% of its total assets invested in publicly-traded partnerships at May 31, 2013. It is the Fund's intention to be treated as a RIC for tax purposes.
- (4) Security or a portion thereof is segregated as collateral on option contracts written.
- (5) Fair valued securities, restricted from public sale. See Notes 2, 3 and 7 in Notes to Financial Statements.
- (6) Distributions are paid-in-kind.
- (7) Security is not treated as a publicly-traded partnership for RIC qualification purposes.

See accompanying notes to financial statements.

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

**SCHEDULE OF INVESTMENTS**

**MAY 31, 2013**

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

**(UNAUDITED)**

- (8) The Fund believes that it is an affiliate of Emerge Energy Services LP, MarkWest Energy Partners, L.P., PVR Partners, L.P., Plains All American GP LLC and Plains All American Pipeline, L.P. See Note 6 Agreements and Affiliations.
- (9) This company is structured like an MLP but is not treated as a publicly-traded partnership for RIC qualification purposes.
- (10) Security is convertible on a one-for-one basis into common units of Capital Product Partners L.P. ( CPLP ) and is senior to the common units in terms of liquidation preference and priority of distributions. The Class B units pay quarterly cash distributions of \$0.21375 per unit and are convertible at any time at the option of the holder. If CPLP increases the quarterly cash distribution per common unit, the distribution per Class B unit will increase by an equal amount. If CPLP does not redeem the Class B units by May 2022, then the distribution increases by 25% per quarter to a maximum of \$0.33345 per unit. CPLP may require that the Class B units convert into common units after May 2015 if the common unit price exceeds \$11.70 per unit, and the Class B units are callable after May 2017 at a price of \$9.27 per unit and after May 2019 at \$9.00 per unit.
- (11) Security is not currently paying cash distributions but is expected to pay cash distributions within the next 12 months.
- (12) Series A Preferred Units represent perpetual equity interests in Teekay Offshore Partners L.P. ( TOO ) and are senior to the common units in terms of liquidation preference and priority of distributions. Series A Preferred Units do not have any conversion or exchange rights and pay quarterly cash distributions of \$0.453125 per unit. At any time on or after April 30, 2018, TOO may redeem the Series A Preferred Units at a redemption price of \$25.00 per unit plus all accumulated and unpaid distributions.
- (13) Security is treated as a publicly-traded partnership for RIC qualification purposes.
- (14) Investors of this security have the option to receive dividends in cash or in additional shares of the security (non-cash dividends) through the issuer's dividend reinvestment program. The Fund has elected to receive its dividend in additional shares.
- (15) Floating rate first lien secured term loan. Security pays interest at a rate of LIBOR + 650 basis points with a 1.25% LIBOR floor (7.75% as of May 31, 2013).
- (16) Floating rate second lien secured term loan. Security pays interest at a rate of LIBOR + 725 basis points with a 1.25% LIBOR floor (8.50% as of May 31, 2013).

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- (17) Floating rate first lien secured term loan. Security pays interest at a rate of LIBOR + 600 basis points with a 1.00% LIBOR floor (7.00% as of May 31, 2013).
  
- (18) Security is non-income producing.

See accompanying notes to financial statements.

**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF ASSETS AND LIABILITIES****MAY 31, 2013****(amounts in 000 s, except share and per share amounts)****(UNAUDITED)****ASSETS**

Investments, at fair value:	
Non-affiliated (Cost \$823,073)	\$ 987,626
Affiliated (Cost \$37,874)	67,956
<b>Total investments (Cost \$860,947)</b>	<b>1,055,582</b>
Cash	2,285
Deposits with brokers	345
Receivable for securities sold	2,726
Interest, dividends and distributions receivable	3,473
Deferred debt issuance and preferred stock offering costs and other assets	2,488
<b>Total Assets</b>	<b>1,066,899</b>

**LIABILITIES**

Payable for securities purchased	17,863
Investment management fee payable	1,131
Call option contracts written (Premiums received \$2,007)	1,445
Accrued directors' fees and expenses	48
Accrued expenses and other liabilities	3,376
Credit facility	36,000
Senior unsecured notes	205,000
Mandatory redeemable preferred stock, \$25.00 liquidation value per share (2,600,000 shares issued and outstanding)	65,000
<b>Total Liabilities</b>	<b>329,863</b>

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** \$ 737,036**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF**

Common stock, \$0.001 par value (21,971,224 shares issued and outstanding and 197,400,000 shares authorized)	\$ 22
Paid-in capital	523,597
Accumulated net investment income less distributions not treated as tax return of capital	(23,255)
Accumulated net realized gains less distributions not treated as tax return of capital	41,480
Net unrealized gains	195,192

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** \$ 737,036**NET ASSET VALUE PER COMMON SHARE** \$ 33.55

See accompanying notes to financial statements.





**Table of Contents****KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.****STATEMENT OF OPERATIONS**

(amounts in 000 s)

(UNAUDITED)

	For the Three Months Ended May 31, 2013	For the Six Months Ended May 31, 2013
<b>INVESTMENT INCOME</b>		
<b>Income</b>		
Dividends and distributions:		
Non-affiliated investments	\$ 8,783	\$ 17,102
Affiliated investments	826	1,628
Total dividends and distributions (after foreign taxes withheld of \$56 and \$119, respectively)	9,609	18,730
Return of capital	(5,249)	(9,959)
Net dividends and distributions	4,360	8,771
Interest and other income	2,269	5,332
Total investment income	6,629	14,103
<b>Expenses</b>		
Investment management fees	3,248	6,079
Professional fees	108	221
Administration fees	59	113
Directors' fees and expenses	46	95
Reports to stockholders	30	63
Custodian fees	31	59
Insurance	45	87
Excise taxes		410
Other expenses	106	161
Total expenses before interest expense and preferred distributions	3,673	7,288
Interest expense and amortization of debt issuance costs	2,254	4,449
Distributions on mandatory redeemable preferred stock and amortization of offering costs	835	1,670
Total expenses	6,762	13,407
<b>Net Investment Income (Loss)</b>	(133)	696
<b>REALIZED AND UNREALIZED GAINS (LOSSES)</b>		
<b>Net Realized Gains (Losses)</b>		
Investments non-affiliated	18,169	22,695
Investments affiliated	(7)	(46)
Foreign currency transactions		(16)
Options	670	1,730
Interest rate swap contracts	(385)	(385)
Net Realized Gains	18,447	23,978

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<b>Net Change in Unrealized Gains (Losses)</b>		
Investments non-affiliated	32,373	78,096
Investments affiliated	7,343	15,125
Foreign currency translations	(9)	(5)
Options	1,051	1,118
<b>Net Change in Unrealized Gains</b>	<b>40,758</b>	<b>94,334</b>
<b>Net Realized and Unrealized Gains</b>	<b>59,205</b>	<b>118,312</b>
<b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM OPERATIONS</b>	<b>\$ 59,072</b>	<b>\$ 119,008</b>

See accompanying notes to financial statements.

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

**STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**

(amounts in 000 s, except share amounts)

	<b>For the Six Months Ended May 31, 2013 (Unaudited)</b>	<b>For the Fiscal Year Ended November 30, 2012</b>
<b>OPERATIONS</b>		
Net investment income <sup>(1)</sup>	\$ 696	