

Kayne Anderson MLP/Midstream Investment Co  
Form N-30B-2  
April 25, 2019

*MLP/Midstream Investment Company*

**KYN Quarterly Report**

February 28, 2019

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS:** This report of Kayne Anderson MLP/Midstream Investment Company (the Company) 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 historical in nature. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to materially differ from the Company's historical experience and its present expectations or projections indicated in any forward-looking statements. These risks include, but are not limited to, changes in economic and political conditions; regulatory and legal changes; master limited partnership (MLP) industry risk; leverage risk; valuation risk; interest rate risk; tax risk; and other risks discussed in the Company'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 Company undertakes no obligation to update or revise any forward-looking statements made herein. There is no assurance that the Company's investment objectives will be attained.

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**ADOPTION OF AN OPTIONAL DELIVERY METHOD FOR SHAREHOLDER REPORTS**

**Rule 30e-3 Notice**

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

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

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

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**LETTER TO STOCKHOLDERS**

April 22, 2019

Dear Stockholders:

We are pleased to include a letter to KYN's stockholders in this quarterly report. Historically, we have only included letters in the Company's annual reports, but believe that investors would benefit from more frequent updates from us on a go-forward basis.

Our goal with these quarterly letters is to provide a summary of KYN's performance as well as a brief overview of the key trends impacting the Company's investments. We hope that you find this information helpful, and invite you to visit our recently redesigned website at [kaynefunds.com](http://kaynefunds.com) for more information about the Company. We also encourage investors to listen to podcasts posted on our website (they can be found on the [Insights](#) link). These podcasts cover a variety of topics, including the Company's performance, key industry trends and our outlook for the midstream sector.

**Performance Highlights**

KYN performed well during the first quarter of fiscal 2019, generating a 5.1% Net Asset Value Return, which is equal to the change in net asset value per share plus cash distributions paid during the period (assuming reinvestment through our dividend reinvestment program). Net Asset Value Return is the primary measure we use to gauge the Company's performance.

KYN's Net Asset Value Return outperformed the Alerian MLP Index (AMZ) and the Alerian US Midstream Energy Index (AMUS) for the quarter, which generated total returns of 2.4% and 4.6%, respectively. Going forward, we expect to compare KYN's performance to both the AMZ and the AMUS. The biggest difference between these two indices is that the AMUS includes midstream corporations like Williams, Kinder Morgan and ONEOK, while the AMZ does not. The main drivers of KYN's performance during the quarter were as follows:

| <i>Top Five Contributors to Performance</i> |                     |  | <i>Bottom Five Contributors to Performance</i> |                     |  |
|---|---------------------|--|--|---------------------|--|
| <b>Name</b>                                 | <b>Total Return</b> |  | <b>Name</b>                                    | <b>Total Return</b> |  |
| 1. Western Midstream Partners, LP           | 17.7%               |  | 1. Targa Resources Corp.                       | (7.9)%              |  |
| 2. Enterprise Products Partners L.P.        | 7.0%                |  | 2. EQT Midstream Partners, LP                  | (16.4)%             |  |
| 3. The Williams Companies, Inc.             | 6.9%                |  | 3. Antero Midstream Partners LP                | (12.7)%             |  |
| 4. ONEOK, Inc.                              | 6.0%                |  | 4. Shell Midstream Partners, L.P.              | (3.1)%              |  |
| 5. Buckeye Partners, L.P.                   | 9.0%                |  | 5. DCP Midstream, LP                           | (3.2)%              |  |

Given how challenging market conditions were during December, we were pleased to generate a positive Net Asset Value Return for the first quarter. The AMZ declined 9.4% during December re-testing lows not seen since February 2016. The midstream sector has recovered since that time, with the AMZ generating a total return of 17.5% on a calendar year basis (through April 22<sup>nd</sup>).

**Market Update**

Fourth quarter financial results for the midstream sector, which were announced in early 2019, were generally in-line with our expectations capping off what was a very solid year of financial results for the industry. Driven by volume growth and new projects being placed into service, many large midstream companies generated record levels of EBITDA and distributable cash flow during 2018. We expect a continuation of this trend in 2019.

Given the volatility in commodity prices over the last few years, it is easy to focus on day-to-day prices swings and lose perspective on the progress made over a longer period of time. Today's midstream sector is very different from the one of five years ago. We believe tremendous progress has been made addressing investors' concerns and positioning the sector for future success.

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**LETTER TO STOCKHOLDERS**

The wave of simplification transactions has transformed the industry – today it is a mix of companies structured as MLPs and taxable corporations. These simplification transactions have eliminated incentive distribution rights for most of the midstream MLPs and resulted in a better alignment of economic interests between limited partners and the general partner. Additional benefits of these transactions are simplified ownership structures and improved corporate governance. We believe more work needs to be done to enhance corporate governance for many MLPs, but acknowledge things have improved relative to a few years ago. Focusing on financial metrics, companies in the industry have meaningfully reduced leverage levels and improved distribution coverage ratios since early 2016. Another area of improvement worth mentioning is the progress that has been made by the sector on becoming self-financing. The industry has done a very good job of becoming less reliant on the capital markets to finance growth projects – instead using internally generated cash flow, asset sales and joint ventures to fund capital expenditures. The net result of these changes is a sector that is on much sounder financial footing and, in our opinion, better positioned to generate attractive returns for investors over the next few years.

We believe the most impactful trend for the energy sector at this time is the push by investors for companies to focus on capital efficiency and shareholder returns. In simple terms, investors are demanding companies – in all facets of the energy industry – change the way they do business. We echo this sentiment. Thus far, we have seen companies in the upstream sector respond to these demands. The upstream industry is moving away from a growth at all costs mindset – something we believe will improve the overall health of the domestic energy sector. Based on our estimates, capital expenditures for upstream companies will decline this year relative to 2018 levels. While this should result in a decline in the growth rate of domestic production, we expect production will continue to grow for many years – a positive trend for the midstream industry. Investors in the midstream sector are making similar demands to management teams as their upstream peers: be very disciplined in your spending plans over the next few years. We agree with this message and believe it is imperative that midstream companies focus on returns on capital employed as well as ways they can return free cash flow to shareholders. We expect to provide more commentary on this topic as the year unfolds.

We appreciate your investment in the Company and look forward to providing future updates.

KA Fund Advisors, LLC

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Company Overview**

Kayne Anderson MLP/Midstream Investment Company ( KYN ) is a non-diversified, closed-end fund that commenced operations in September 2004. Our investment objective is to obtain a high after-tax total return by investing at least 85% of our total assets in energy-related master limited partnerships and their affiliates ( MLPs ) and in other companies that operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies ). Throughout this report we will refer to Midstream Companies , which we consider to be companies that own and operate midstream assets and are not treated as partnerships for federal income tax purposes.

As of February 28, 2019, we had total assets of \$3.5 billion, net assets applicable to our common stockholders of \$2.1 billion (net asset value of \$16.75 per share), and 126.3 million shares of common stock outstanding.

Our investments are principally in equity securities issued by MLPs and other Midstream Energy Companies, but we also may invest in debt securities of MLPs and other Midstream Energy Companies. As of February 28, 2019, we held \$3.5 billion in equity investments and no debt investments.

**Our Top Ten Portfolio Investments**

Listed below are our top ten portfolio investments by issuer as of February 28, 2019.

| Holding  | Category          | Amount<br>(\$ in millions) | Percent of<br>Long-Term<br>Investments |
|--|-------------------|----------------------------|--|
| 1. Enterprise Products Partners L.P.                 | Midstream MLP     | \$ 467.9                   | 13.4%                                  |
| 2. Energy Transfer LP                                | Midstream MLP     | 371.7                      | 10.7                                   |
| 3. ONEOK, Inc.                                       | Midstream Company | 306.1                      | 8.8                                    |
| 4. The Williams Companies, Inc.                      | Midstream Company | 296.8                      | 8.5                                    |
| 5. MPLX LP <sup>(1)</sup>                            | Midstream MLP     | 253.1                      | 7.3                                    |
| 6. Western Midstream Partners, LP <sup>(2)</sup>     | Midstream MLP     | 217.4                      | 6.2                                    |
| 7. Plains All American Pipeline, L.P. <sup>(3)</sup> | Midstream MLP     | 192.8                      | 5.5                                    |
| 8. Buckeye Partners, L.P.                            | Midstream MLP     | 157.0                      | 4.5                                    |
| 9. Targa Resources Corp.                             | Midstream Company | 154.7                      | 4.4                                    |
| 10. Magellan Midstream Partners, L.P.                | Midstream MLP     | 138.9                      | 4.0                                    |
|  |                   | <b>\$ 2,556.4</b>          | <b>73.3%</b>                           |

(1) Includes our ownership of MPLX LP common and preferred units.

(2) On February 28, 2019, Western Gas Partners, LP ( WES ) and Western Gas Equity Partners, LP ( WGP ) completed their previously announced merger whereby WGP acquired all of the publicly-held common units of WES in a unit-for-unit exchange. Immediately following the merger, WGP changed its name to Western Midstream Partners, LP with its units trading under the ticker symbol WES .

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- (3) Does not include our ownership of Plains AAP, L.P. ( PGP-AAP ), which is an affiliate. On a combined basis, our holdings in Plains All American Pipeline, L.P. and PGP-AAP were 6.6% of long-term investments as of February 28, 2019.

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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

**Results of Operations For the Three Months Ended February 28, 2019**

*Investment Income.* Investment income totaled \$10.8 million for the quarter. We received \$62.1 million of dividends and distributions, of which \$45.5 million was treated as return of capital and \$5.8 million was treated as distributions in excess of cost basis.

*Operating Expenses.* Operating expenses totaled \$23.2 million, including \$11.7 million of net investment management fees, \$7.4 million of interest expense, \$3.2 million of preferred stock distributions and \$0.9 million of other operating expenses. Interest expense includes \$0.5 million of non-cash amortization of debt issuance costs. Preferred stock distributions include \$0.2 million of non-cash amortization.

*Net Investment Loss.* Our net investment loss totaled \$9.7 million and included a current tax expense of \$1.3 million and a deferred tax benefit of \$4.0 million.

*Net Realized Gains.* We had net realized gains from our investments of \$52.1 million, consisting of realized gains from long term investments of \$67.5 million, a current tax benefit of \$7.4 million and a deferred tax expense of \$22.8 million.

*Net Change in Unrealized Gains.* We had a net increase in our unrealized gains of \$55.0 million. The net change consisted of a \$71.3 million increase in unrealized gains on investments and a deferred tax expense of \$16.3 million.

*Net Increase in Net Assets Resulting from Operations.* We had a net increase in net assets resulting from operations of \$97.4 million. This increase was comprised of a net investment loss of \$9.7 million, net realized gains of \$52.1 million and a net increase in unrealized gains of \$55.0 million, as noted above.

**Distributions to Common Stockholders**

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

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

Operating expenses include (a) investment management fees paid to our investment adviser (KAFAs), (b) other expenses (mostly comprised of fees paid to other service providers), (c) interest expense and preferred stock distributions and (d) current and deferred income tax expense/benefit on net investment income/loss.



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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**
**MANAGEMENT DISCUSSION****(UNAUDITED)****Net Distributable Income (NDI)**

(amounts in millions, except for per share amounts)

|  | <b>Three Months<br/>Ended<br/>February 28,<br/>2019</b> |
|--|---|
| <b>Distributions and Other Income from Investments</b>           |   |
| Dividends and Distributions                                      | \$ 62.1   |
| <b>Expenses</b>  |   |
| Net Investment Management Fee                                    | (11.7)  |
| Other Expenses   | (0.9)   |
| Interest Expense   | (7.2)   |
| Preferred Stock Distributions                                    | (3.0)   |
| Income Tax Benefit, net  | 2.7   |
| <b>Net Distributable Income (NDI)</b>                            | <b>\$ 42.0</b>  |
| Weighted Shares Outstanding                                      | 126.3   |
| <b>NDI per Weighted Share Outstanding</b>                        | <b>\$ 0.333</b>   |
| <b>Adjusted NDI per Weighted Share Outstanding<sup>(1)</sup></b> | <b>\$ 0.335</b>   |
| <b>Distributions per Common Share<sup>(2)</sup></b>              | <b>\$ 0.360</b>   |

(1) Adjusted NDI includes distributions from SemGroup Corporation attributable to the first quarter of fiscal 2019 (\$0.3 million) with an ex-dividend date of March 1<sup>st</sup>, which was after our quarter end.

(2) Monthly distribution of \$0.12 per common share paid, or to be paid, March 29, 2019, April 30, 2019 and May 31, 2019. Payment of future distributions is subject to Board of Directors approval, as well as meeting the covenants on our debt agreements and terms of our preferred stock. The Company has provided guidance on the expected distribution level for 2019 (monthly distribution rate of \$0.12 per common share). The Company plans to reassess its distribution level each December and provide guidance for the following twelve months. In determining this amount, management and the Board of Directors gives a significant amount of consideration to the NDI the portfolio is expected to generate during the twelve month guidance period.

**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:

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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.

GAAP recognizes distributions received from MLPs that exceed the cost basis of our securities to be realized gains and are therefore excluded from investment income, whereas the NDI calculation includes these distributions.

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

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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

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.

We may hold debt securities from time to time. Certain of our investments in debt securities may be 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 of the debt security.

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

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

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

**Liquidity and Capital Resources**

At February 28, 2019, we had total leverage outstanding of \$1,093 million, which represented 31% of total assets. Our current policy is to utilize leverage in an amount that represents approximately 25%-30% of our total assets. Total leverage was comprised of \$716 million of Notes, \$60 million outstanding under our unsecured term loan (the Term Loan ) and \$317 million of MRP Shares. At February 28, 2019, we did not have any borrowings outstanding under our unsecured revolving credit facility (the Credit Facility ) and we had \$36.4 million of cash and cash equivalents. As of April 22, 2019, we had total leverage outstanding of \$1,097 million, which represented 30% of total assets. As of this date, we had \$94 million of borrowings outstanding under our Credit Facility, \$60 million of borrowings outstanding under our Term Loan and we had \$2 million of cash and cash equivalents.



**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**MANAGEMENT DISCUSSION**

**(UNAUDITED)**

On February 8, 2019, we amended and extended our unsecured revolving Credit Facility that was scheduled to mature on February 15, 2019. The Credit Facility has a 364-day term, maturing on February 7, 2020 and a total commitment amount of \$300 million. The interest rate on outstanding borrowings under the Credit Facility may vary between LIBOR plus 1.30% and LIBOR plus 1.95%, depending on our asset coverage ratios. We pay a fee of 0.20% per annum on any unused amounts of the Credit Facility. In connection with the renewal and increase in size of the Credit Facility by \$150 million, we terminated our existing \$150 million unsecured revolving term loan facility that was scheduled to mature on February 18, 2019.

Our \$60 million Term Loan matures on August 11, 2021. The interest rate on \$30 million of the Term Loan is fixed at a rate of 3.06% and the interest rate on the remaining \$30 million is LIBOR plus 1.50%. Amounts repaid under the Term Loan cannot be reborrowed.

At February 28, 2019, we had \$716 million of Notes outstanding that mature between 2019 and 2025 and we had \$317 million of MRP Shares outstanding that are subject to mandatory redemption between 2020 and 2022. On April 3, 2019, we redeemed the \$15 million Series Z Notes (originally scheduled to mature on May 3, 2019) at par, with cash on hand. On April 16, 2019, we repaid the \$75 million Series DD Notes (maturity date) with a combination of cash on hand and borrowings under our Credit Facility. We have \$30 million of Series II Notes that mature in July 2019. We expect to have sufficient capacity on our upsized credit facility to refinance these borrowings.

At February 28, 2019, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act ), were 414% for debt and 294% for total leverage (debt plus preferred stock). As of April 22, 2019, our asset coverage ratios were 424% for debt and 302% for total leverage. Our target asset coverage ratio with respect to our debt is 400%. At times we may be above or below this target depending on market conditions as well as certain other factors, including our target total leverage asset coverage ratio of 300% and the basic maintenance amount as stated in our rating agency guidelines.

As of February 28, 2019, our total leverage consisted 97% of fixed rate obligations and 3% of floating rate obligations. At such date, the weighted average interest/dividend rate on our total leverage was 3.60%.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## SCHEDULE OF INVESTMENTS

FEBRUARY 28, 2019

(amounts in 000 s)

(UNAUDITED)

| Description  | No. of<br>Shares/Units | Value     |
|--|------------------------|-----------|
| <b>Long-Term Investments 164.4%</b>                            |                        |           |
| <b>Equity Investments<sup>(1)</sup> 164.4%</b>                 |                        |           |
| <b>United States 158.5%</b>                                    |                        |           |
| <b>Midstream MLP<sup>(2)</sup> 111.1%</b>                      |                        |           |
| Andeavor Logistics LP  | 919                    | \$ 32,335 |
| Antero Midstream Partners LP <sup>(3)</sup>                    | 367                    | 8,858     |
| BP Midstream Partners LP                                       | 2,556                  | 41,893    |
| Buckeye Partners, L.P. <sup>(4)</sup>                          | 4,989                  | 157,039   |
| Cheniere Energy Partners, L.P.                                 | 1,552                  | 68,805    |
| CNX Midstream Partners LP                                      | 729                    | 11,310    |
| Crestwood Equity Partners LP                                   | 1,387                  | 43,999    |
| DCP Midstream, LP  | 2,577                  | 83,049    |
| Enable Midstream Partners, LP                                  | 580                    | 8,625     |
| Energy Transfer LP   | 25,132                 | 371,695   |
| Enterprise Products Partners L.P.                              | 16,922                 | 467,896   |
| EQT Midstream Partners, LP                                     | 695                    | 27,016    |
| Global Partners LP   | 1,166                  | 22,161    |
| Hess Midstream Partners LP                                     | 123                    | 2,808     |
| Magellan Midstream Partners, L.P.                              | 2,282                  | 138,932   |
| MPLX LP  | 5,096                  | 168,981   |
| MPLX LP Convertible Preferred Units <sup>(5)(6)(7)</sup>       | 2,255                  | 84,126    |
| Noble Midstream Partners LP                                    | 205                    | 6,887     |
| Phillips 66 Partners LP  | 1,058                  | 51,893    |
| Plains All American Pipeline, L.P. <sup>(4)</sup>              | 8,261                  | 192,804   |
| Plains GP Holdings, L.P. Plains AAP, L.P. <sup>(4)(6)(8)</sup> | 1,622                  | 37,864    |
| Shell Midstream Partners, L.P.                                 | 4,958                  | 88,649    |
| Sprague Resources LP   | 413                    | 6,462     |
| Summit Midstream Partners, LP                                  | 922                    | 9,753     |
| Western Midstream Partners, LP <sup>(9)</sup>                  | 6,496                  | 217,357   |
|  |                        | 2,351,197 |
| <b>Midstream Company 45.0%</b>                                 |                        |           |
| Antero Midstream GP LP <sup>(3)</sup>                          | 1,170                  | 14,941    |
| EnLink Midstream, LLC <sup>(10)</sup>                          | 5,621                  | 62,677    |
| Kinder Morgan, Inc.  | 1,681                  | 32,204    |
| ONEOK, Inc.  | 4,763                  | 306,097   |
| SemGroup Corporation   | 625                    | 9,837     |
| Tallgrass Energy, LP   | 3,307                  | 74,836    |
| Targa Resources Corp.  | 3,844                  | 154,671   |
| The Williams Companies, Inc.                                   | 11,120                 | 296,799   |
|  |                        | 952,062   |
| <b>Shipping MLP 2.4%</b>                                       |                        |           |

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|  |       |           |
|--|-------|-----------|
| Capital Product Partners L.P. Class B Units <sup>(6)(11)</sup> | 3,636 | 32,727    |
| GasLog Partners LP   | 361   | 7,980     |
| KNOT Offshore Partners LP                                      | 540   | 9,774     |
|  |       | 50,481    |
| <b>Total United States (Cost \$2,777,238)</b>                  |       | 3,353,740 |

See accompanying notes to financial statements.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## SCHEDULE OF INVESTMENTS

FEBRUARY 28, 2019

(amounts in 000 s)

(UNAUDITED)

| Description  | No. of<br>Shares/Units | Value        |
|--|------------------------|--------------|
| <b>Canada 5.9%</b>   |                        |              |
| <b>Midstream Companies 5.9%</b>  |                        |              |
| Enbridge Inc.  | 1,362                  | \$ 50,364    |
| Pembina Pipeline Corporation   | 826                    | 30,265       |
| TransCanada Corporation  | 1,012                  | 45,252       |
| <b>Total Canada (Cost \$121,869)</b>   |                        | 125,881      |
| <b>Total Long-Term Investments (Cost \$2,899,107)</b>  |                        | 3,479,621    |
| <b>Short-Term Investment Money Market Fund 1.6%</b>  |                        |              |
| JPMorgan 100% U.S. Treasury Securities Money Market Fund Capital Shares, 2.28% <sup>(2)</sup><br>(Cost \$34,420) | 34,420                 | 34,420       |
| <b>Total Investments 166.0% (Cost \$2,933,527)</b>   |                        | 3,514,041    |
| <b>Debt</b>  |                        | (776,000)    |
| <b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>   |                        | (317,000)    |
| <b>Deferred Income Tax Liability</b>   |                        | (295,374)    |
| <b>Income Tax Receivable</b>   |                        | 5,778        |
| <b>Other Liabilities in Excess of Other Assets</b>   |                        | (15,390)     |
| <b>Net Assets Applicable to Common Stockholders</b>  |                        | \$ 2,116,055 |

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Includes limited liability companies and affiliates of master limited partnerships.
- (3) On March 12, 2019, Antero Midstream GP LP ( AMGP ) and Antero Midstream Partners LP ( AM ) completed their previously announced merger whereby AMGP acquired all of the outstanding AM common units. In connection with the transaction, AMGP converted into a corporation and the combined entity was renamed Antero Midstream Corporation with its shares trading under the ticker symbol AM .
- (4) The Company believes that it is an affiliate of Buckeye Partners, L.P. ( BPL ), Plains AAP, L.P. ( PAGP-AAP ) and Plains All American Pipeline, L.P. ( PAA ). See Note 5 Agreements and Affiliations.



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- (5) Fair valued security. See Notes 2 and 3 in Notes to Financial Statements.
- (6) The Company's ability to sell this security is subject to certain legal or contractual restrictions. As of February 28, 2019, the aggregate value of restricted securities held by the Company was \$154,717 (4.4% of total assets), which included \$37,864 of Level 2 securities and \$116,853 of Level 3 securities. See Note 7 Restricted Securities.
- (7) On May 13, 2016, the Company purchased, in a private placement, Series A Convertible Preferred Units ( MPLX Convertible Preferred Units ) from MPLX LP ( MPLX ). The MPLX Convertible Preferred Units are senior to the common units in terms of liquidation preference and priority of distributions and pay a quarterly distribution at the higher of (a) \$0.528125 per unit or (b) the distribution that the MPLX Convertible Preferred Units would receive on an as converted basis. Holders of the MPLX Convertible Preferred Units may convert on a one-for-one basis to MPLX common units any time after May 13, 2019.
- (8) The Company's ownership of PAGP-AAP is exchangeable on a one-for-one basis into either Plains GP Holdings, L.P. ( PAGP ) shares or PAA units at the Company's option. The Company values its PAGP-AAP investment on an as exchanged basis based on the higher public market value of either PAGP or PAA. As of February 28, 2019, the Company's PAGP-AAP investment is valued at PAA's closing price. See Notes 3 and 7 in Notes to Financial Statements.

See accompanying notes to financial statements.

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**SCHEDULE OF INVESTMENTS**

**FEBRUARY 28, 2019**

**(amounts in 000 s)**

**(UNAUDITED)**

- (9) On February 28, 2019, Western Gas Partners, LP ( WES ) and Western Gas Equity Partners, LP ( WGP ) completed their previously announced merger whereby WGP acquired all of the publicly-held common units of WES in a unit-for-unit exchange. Immediately following the merger, WGP changed its name to Western Midstream Partners, LP with its units trading under the ticker symbol WES .
- (10) On January 25, 2019, EnLink Midstream, LLC ( ENLC ) and EnLink Midstream Partners, LP ( ENLK ) completed their previously announced merger whereby ENLC acquired all common units of ENLK that ENLC did not previously own.
- (11) Class B Units are convertible on a one-for-one basis into common units of Capital Product Partners L.P. ( CPLP ) and are senior to the common units in terms of liquidation preference and priority of distributions (liquidation preference of \$9.00 per unit). On March 27, 2019, CPLP and DSS Holdings L.P. ( DSS ) completed their previously announced combination whereby CPLP spun off its crude and product tanker business into a separate publicly listed company, which merged with DSS. In connection with this transaction, all of the Company s CPLP Class B Units were redeemed for cash at \$9.00 per unit.
- (12) The rate indicated is the current yield as of February 28, 2019.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**
**STATEMENT OF ASSETS AND LIABILITIES****FEBRUARY 28, 2019****(amounts in 000 s, except share and per share amounts)****(UNAUDITED)****ASSETS**

|  |                  |
|--|------------------|
| Investments at fair value:                               |                  |
| Non-affiliated (Cost \$2,588,081)                        | \$ 3,091,914     |
| Affiliated (Cost \$311,026)                              | 387,707          |
| Short-term investments (Cost \$34,420)                   | 34,420           |
| Total investments (Cost \$2,933,527)                     | 3,514,041        |
| Cash   | 2,000            |
| Deposits with brokers                                    | 254              |
| Receivable for securities sold                           | 1,008            |
| Dividends and distributions receivable                   | 1,318            |
| Income tax receivable                                    | 5,778            |
| Deferred credit facility offering costs and other assets | 1,378            |
| <b>Total Assets</b>                                      | <b>3,525,777</b> |

**LIABILITIES**

|   |                  |
|---|------------------|
| Payable for securities purchased  | 4,877            |
| Investment management fee payable   | 11,730           |
| Accrued directors' fees and expenses  | 172              |
| Accrued expenses and other liabilities  | 8,185            |
| Deferred income tax liability   | 295,374          |
| Term loan   | 60,000           |
| Unamortized term loan issuance costs  | (297)            |
| Notes   | 716,000          |
| Unamortized notes issuance costs  | (1,949)          |
| Mandatory redeemable preferred stock, \$25.00 liquidation value per share<br>(12,680,000 shares issued and outstanding) | 317,000          |
| Unamortized mandatory redeemable preferred stock issuance costs   | (1,370)          |
| <b>Total Liabilities</b>  | <b>1,409,722</b> |

|   |                     |
|---|---------------------|
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 2,116,055</b> |
|---|---------------------|

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS CONSIST OF**

|   |             |
|---|-------------|
| Common stock, \$0.001 par value<br>(126,337,114 shares issued and outstanding, 187,320,000 shares authorized) | \$ 126      |
| Paid-in capital   | 2,182,609   |
| Accumulated net investment loss, net of income taxes, less dividends  | (1,978,865) |

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|   |                     |
|---|---------------------|
| Accumulated realized gains, net of income taxes     | 1,343,403           |
| Net unrealized gains, net of income taxes           | 568,782             |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b> | <b>\$ 2,116,055</b> |
| <b>NET ASSET VALUE PER COMMON SHARE</b>             | <b>\$ 16.75</b>     |

See accompanying notes to financial statements.

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**STATEMENT OF OPERATIONS**

**FOR THE THREE MONTHS ENDED FEBRUARY 28, 2019**

(amounts in 000 s)

(UNAUDITED)

|  |           |
|--|-----------|
| <b>INVESTMENT INCOME</b>   |           |
| <b>Income</b>  |           |
| Dividends and distributions:   |           |
| Non-affiliated investments   | \$ 55,325 |
| Affiliated investments   | 6,706     |
| Money market mutual funds  | 77        |
| <br>   |           |
| Total dividends and distributions (after foreign taxes withheld of \$141)                      | 62,108    |
| Return of capital  | (45,502)  |
| Distributions in excess of cost basis  | (5,774)   |
| <br>   |           |
| Total Investment Income  | 10,832    |
| <b>Expenses</b>  |           |
| Investment management fees before fee waiver   | 11,782    |
| Administration fees  | 225       |
| Directors' fees and expenses   | 173       |
| Professional fees  | 136       |
| Reports to stockholders  | 90        |
| Insurance  | 44        |
| Custodian fees   | 43        |
| Other expenses   | 152       |
| <br>   |           |
| Total Expenses before fee waiver, interest expense, preferred distributions and taxes          | 12,645    |
| Investment management fee waiver   | (52)      |
| Interest expense including amortization of offering costs                                      | 7,403     |
| Distributions on mandatory redeemable preferred stock including amortization of offering costs | 3,209     |
| <br>   |           |
| Total Expenses before taxes  | 23,205    |
| <br>   |           |
| <b>Net Investment Loss Before Taxes</b>  | (12,373)  |
| Current income tax expense   | (1,288)   |
| Deferred income tax benefit  | 3,971     |
| <br>   |           |
| <b>Net Investment Loss</b>   | (9,690)   |
| <br>   |           |
| <b>REALIZED AND UNREALIZED GAINS (LOSSES)</b>  |           |
| <b>Net Realized Gains (Losses)</b>   |           |
| Investments non-affiliated   | 50,004    |
| Investments affiliated   | 17,486    |
| Current income tax benefit   | 7,417     |
| Deferred income tax expense  | (22,869)  |
| <br>   |           |
| Net Realized Gains   | 52,038    |

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|   |                  |
|---|------------------|
| <b>Net Change in Unrealized Gains (Losses)</b>  |                  |
| Investments non-affiliated  | 68,490           |
| Investments affiliated  | 2,838            |
| Foreign currency translations   | 7                |
| Deferred income tax expense   | (16,333)         |
| <b>Net Change in Unrealized Gains</b>   | <b>55,002</b>    |
| <b>Net Realized and Unrealized Gains</b>  | <b>107,040</b>   |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS RESULTING FROM OPERATIONS</b> | <b>\$ 97,350</b> |

See accompanying notes to financial statements.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

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

(amounts in 000 s, except share amounts)

|  | For the<br>Three Months<br>Ended<br>February 28,<br>2019<br>(Unaudited) | For the<br>Fiscal Year<br>Ended<br>November 30,<br>2018 |
|--|---|---|
| <b>OPERATIONS</b>  |   |   |
| Net investment loss, net of tax <sup>(1)</sup>   | \$ (9,690)  | \$ (53,145)   |
| Net realized gains, net of tax   | 52,038  | 168,570   |
| Net change in unrealized gains, net of tax   | 55,002  | 113,374   |
| <b>Net Increase in Net Assets Resulting from Operations</b>  | <b>97,350</b>   | <b>228,799</b>  |
| <b>DIVIDENDS AND DISTRIBUTIONS TO COMMON STOCKHOLDERS<sup>(1)</sup></b>  |   |   |
| Dividends  | (49,251) <sup>(2)</sup>   | (212,192) <sup>(3)</sup>                                |
| Distributions return of capital  | <sup>(2)</sup>  | <sup>(3)</sup>  |
| <b>Dividends and Distributions to Common Stockholders</b>  | <b>(49,251)</b>   | <b>(212,192)</b>  |
| <b>CAPITAL STOCK TRANSACTIONS</b>  |   |   |
| Issuance of 10,384,958 shares of common stock in connection with the merger of Kayne Anderson Energy Development Company |   | 207,925   |
| Offering expenses associated with the issuance of common stock in merger   |   | (603) <sup>(4)</sup>                                    |
| Issuance of 134,160 and 940,916 shares of common stock from reinvestment of dividends and distributions                  | 1,687   | 16,167  |
| <b>Net Increase in Net Assets Applicable to Common Stockholders from Capital Stock Transactions</b>                      | <b>1,687</b>  | <b>223,489</b>  |
| <b>Total Increase in Net Assets Applicable to Common Stockholders</b>  | <b>49,786</b>   | <b>240,096</b>  |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>  |   |   |
| Beginning of period  | 2,066,269   | 1,826,173   |
| End of period  | \$ 2,116,055  | \$ 2,066,269  |

- (1) Distributions on the Company's mandatory redeemable preferred stock ( MRP Shares ) are treated as an operating expense under GAAP and are included in the calculation of net investment loss. See Note 2 Significant Accounting Policies. Distributions in the amount of \$3,019 paid to holders of MRP Shares during the three months ended February 28, 2019 are estimated to be characterized as dividends (eligible to be treated as qualified dividend income). This estimate is based solely on the Company's operating results during the period and does not reflect the expected results during the remainder of the fiscal year. The actual characterization of the MRP Shares distributions made during the period will not be determinable until after the end of the fiscal year when the Company can determine its earnings and profits. Therefore, the characterization may differ substantially from the preliminary estimates. Distributions in the amount of \$11,513 paid to holders of MRP Shares for the fiscal year ended November 30, 2018 were characterized as dividends (eligible to be treated as qualified dividend income). This characterization is based on the Company's earnings and profits.

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- (2) The characterization of the distributions paid to common stockholders for the three months ended February 28, 2019 as either dividends (eligible to be treated as qualified dividend income) or distributions (return of capital) is based solely on the Company's operating results during the period and does not reflect the expected results during the remainder of the fiscal year. The actual characterization of the common stock distributions made during the period will not be determinable until after the end of the fiscal year when the Company can determine its earnings and profits. Therefore, the characterization may differ substantially from the preliminary estimates.
- (3) Distributions paid to common stockholders for the fiscal year ended November 30, 2018 were characterized as dividends (eligible to be treated as qualified dividend income). This characterization is based on the Company's earnings and profits.
- (4) Represents offering costs incurred in connection with the merger of Kayne Anderson Energy Development Company.

See accompanying notes to financial statements.



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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**
**STATEMENT OF CASH FLOWS****FOR THE THREE MONTHS ENDED FEBRUARY 28, 2019****(amounts in 000 s)****(UNAUDITED)**

| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                 |
|---|-----------------|
| Net increase in net assets resulting from operations  | \$ 97,350       |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities: |                 |
| Return of capital distributions   | 45,502          |
| Distributions in excess of cost basis   | 5,774           |
| Net realized gains  | (67,490)        |
| Net change in unrealized gains (excluding foreign currency translations)  | (71,328)        |
| Purchase of long-term investments   | (264,500)       |
| Proceeds from sale of long-term investments   | 337,935         |
| Purchase of short-term investments, net   | (32,706)        |
| Increase in deposits with brokers   | (2)             |
| Decrease in receivable for securities sold  | 11,880          |
| Increase in dividends and distributions receivable  | (799)           |
| Increase in income tax receivable   | (5,778)         |
| Amortization of deferred debt offering costs  | 460             |
| Amortization of mandatory redeemable preferred stock offering costs   | 191             |
| Decrease in other assets  | 442             |
| Increase in payable for securities purchased  | 3,623           |
| Decrease in investment management fee payable   | (962)           |
| Decrease in accrued directors' fees and expenses  | (16)            |
| Decrease in accrued expenses and other liabilities  | (6,403)         |
| Decrease in current income tax liability  | (764)           |
| Increase in deferred income tax liability   | 35,232          |
| <b>Net Cash Provided by Operating Activities</b>  | <b>87,641</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                 |
| Decrease in borrowings under credit facilities  | (39,000)        |
| Costs associated with renewal of credit facility  | (1,077)         |
| Cash distributions paid to common stockholders  | (47,564)        |
| <b>Net Cash Used in Financing Activities</b>  | <b>(87,641)</b> |
| <b>NET CHANGE IN CASH</b>   |                 |
| <b>CASH BEGINNING OF PERIOD</b>   | <b>2,000</b>    |
| <b>CASH END OF PERIOD</b>   | <b>\$ 2,000</b> |

Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consisted of the reinvestment of distributions pursuant to the Company's dividend reinvestment plan of \$1,687.

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During the three months ended February 28, 2019, interest paid related to debt obligations was \$13,193 and income tax paid was \$412 (net of refunds).

See accompanying notes to financial statements.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## FINANCIAL HIGHLIGHTS

(amounts in 000 s, except share and per share amounts)

|  | For the<br>Three Months<br>Ended<br>February 28,<br>2019<br>(Unaudited) |                       | For the Fiscal Year Ended November 30, |                       |      |           |    |           |
|--|---|-----------------------|--|-----------------------|------|-----------|----|-----------|
|  |   |                       | 2018                                   | 2017                  | 2016 |           |    |           |
| <b>Per Share of Common Stock<sup>(1)</sup></b>   |   |                       |  |                       |      |           |    |           |
| Net asset value, beginning of period   | \$  | 16.37                 | \$                                     | 15.90                 | \$   | 19.18     | \$ | 19.20     |
| Net investment income (loss) <sup>(2)</sup>  |   | (0.08)                |  | (0.45)                |      | (0.45)    |    | (0.61)    |
| Net realized and unrealized gain (loss)  |   | 0.85                  |  | 2.74                  |      | (0.92)    |    | 2.80      |
| Total income (loss) from operations  |   | 0.77                  |  | 2.29                  |      | (1.37)    |    | 2.19      |
| Dividends and distributions – auction rate preferred <sup>(4)(3)</sup>                                       |   |                       |  |                       |      |           |    |           |
| Common dividends <sup>(3)</sup>  |   | (0.39)                |  | (1.80)                |      | (0.53)    |    |           |
| Common distributions – return of capital <sup>(1)</sup>  |   |                       |  |                       |      | (1.37)    |    | (2.20)    |
| Total dividends and distributions – common   |   | (0.39)                |  | (1.80)                |      | (1.90)    |    | (2.20)    |
| Offering expenses associated with the issuance of common stock   |   |                       |  |                       |      |           |    |           |
| Effect of issuance of common stock   |   |                       |  | (0.01) <sup>(4)</sup> |      |           |    |           |
| Effect of shares issued in reinvestment of distributions   |   |                       |  | (0.01)                |      | (0.01)    |    | (0.01)    |
| Total capital stock transactions   |   |                       |  | (0.02)                |      | (0.01)    |    | (0.01)    |
| Net asset value, end of period   | \$  | 16.75                 | \$                                     | 16.37                 | \$   | 15.90     | \$ | 19.18     |
| Market value per share of common stock, end of period  | \$  | 15.41                 | \$                                     | 15.85                 | \$   | 15.32     | \$ | 19.72     |
| Total investment return based on common stock market value <sup>(5)</sup>                                    |   | (0.1)% <sup>(6)</sup> |  | 14.8%                 |      | (13.8)%   |    | 24.1%     |
| Total investment return based on net asset value <sup>(7)</sup>  |   | 5.1)% <sup>(6)</sup>  |  | 14.2)%                |      | (8.0)%    |    | 14.6)%    |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>  |   |                       |  |                       |      |           |    |           |
| Net assets applicable to common stockholders, end of period  | \$  | 2,116,055             | \$                                     | 2,066,269             | \$   | 1,826,173 | \$ | 2,180,781 |
| Ratio of expenses to average net assets  |   |                       |  |                       |      |           |    |           |
| Management fees (net of fee waiver)  |   | 2.3%                  |  | 2.3%                  |      | 2.5%      |    | 2.5%      |
| Other expenses   |   | 0.2                   |  | 0.2                   |      | 0.1       |    | 0.2       |
| Subtotal   |   | 2.5                   |  | 2.5                   |      | 2.6       |    | 2.7       |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                    |   |                       |  |                       |      |           |    |           |
| Income tax expense <sup>(9)</sup>  |   | 2.1                   |  | 1.9                   |      | 2.0       |    | 2.8       |
| Total expenses   |   | 1.5) <sup>(6)</sup>   |  |                       |      |           |    | 7.9       |
| Total expenses   |   | 6.1%                  |  | 4.4%                  |      | 4.6%      |    | 13.4%     |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>                                   |   |                       |  |                       |      |           |    |           |
| Net increase (decrease) in net assets to common stockholders resulting from operations to average net assets |   | (1.9)%                |  | (2.5)%                |      | (2.4)%    |    | (3.4)%    |
| Portfolio turnover rate  |   | 4.8)% <sup>(6)</sup>  |  | 10.8)%                |      | (7.5)%    |    | 12.5)%    |
| Average net assets   | \$  | 2,029,266             | \$                                     | 2,127,407             | \$   | 2,128,965 | \$ | 2,031,206 |

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Notes outstanding, end of period <sup>(10)</sup>  | \$ 716,000  | \$ 716,000  | \$ 747,000  | \$ 767,000  |
| Borrowings under credit facilities, end of period <sup>(10)</sup>                       | \$          | \$ 39,000   | \$          | \$ 43,000   |
| Term loan outstanding, end of period <sup>(10)</sup>                                    | \$ 60,000   | \$ 60,000   | \$          | \$          |
| Auction rate preferred stock, end of period <sup>(10)</sup>                             | \$          | \$          | \$          | \$          |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>                     | \$ 317,000  | \$ 317,000  | \$ 292,000  | \$ 300,000  |
| Average shares of common stock outstanding  | 126,292,394 | 118,725,060 | 114,292,056 | 112,967,480 |
| Asset coverage of total debt <sup>(11)</sup>  | 413.5%      | 392.4%      | 383.6%      | 406.3%      |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             | 293.6%      | 282.5%      | 275.8%      | 296.5%      |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ 6.24     | \$ 6.52     | \$ 7.03     | \$ 7.06     |

See accompanying notes to financial statements.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## FINANCIAL HIGHLIGHTS

(amounts in 000 s, except share and per share amounts)

|  | For the Fiscal Year Ended November 30, |              |              |              |
|--|--|--------------|--------------|--------------|
|  | 2015                                   | 2014         | 2013         | 2012         |
| <b>Per Share of Common Stock<sup>(1)</sup></b>   |  |              |              |              |
| Net asset value, beginning of period   | \$ 36.71                               | \$ 34.30     | \$ 28.51     | \$ 27.01     |
| Net investment income (loss) <sup>(2)</sup>  | (0.53)                                 | (0.76)       | (0.73)       | (0.71)       |
| Net realized and unrealized gain (loss)  | (14.39)                                | 5.64         | 8.72         | 4.27         |
| Total income (loss) from operations  | (14.92)                                | 4.88         | 7.99         | 3.56         |
| Dividends and distributions auction rate preferred <sup>(4)(3)</sup>   |  |              |              |              |
| Common dividends <sup>(3)</sup>  | (2.15)                                 | (2.28)       | (1.54)       | (1.54)       |
| Common distributions return of capital <sup>(1)</sup>  | (0.48)                                 | (0.25)       | (0.75)       | (0.55)       |
| Total dividends and distributions common   | (2.63)                                 | (2.53)       | (2.29)       | (2.09)       |
| Offering expenses associated with the issuance of common stock   |  |              |              |              |
| Effect of issuance of common stock   | 0.03                                   | 0.06         | 0.09         | 0.02         |
| Effect of shares issued in reinvestment of distributions   | 0.01                                   |              |              | 0.01         |
| Total capital stock transactions   | 0.04                                   | 0.06         | 0.09         | 0.03         |
| Net asset value, end of period   | \$ 19.20                               | \$ 36.71     | \$ 34.30     | \$ 28.51     |
| Market value per share of common stock, end of period  | \$ 18.23                               | \$ 38.14     | \$ 37.23     | \$ 31.13     |
| Total investment return based on common stock market value <sup>(5)</sup>                                    | (47.7)%                                | 9.9%         | 28.2%        | 19.3%        |
| Total investment return based on net asset value <sup>(7)</sup>  | (42.8)%                                | 14.8%        | 29.0%        | 13.4%        |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>  |  |              |              |              |
| Net assets applicable to common stockholders, end of period  | \$ 2,141,602                           | \$ 4,026,822 | \$ 3,443,916 | \$ 2,520,821 |
| Ratio of expenses to average net assets  |  |              |              |              |
| Management fees (net of fee waiver)  | 2.6%                                   | 2.4%         | 2.4%         | 2.4%         |
| Other expenses   | 0.1                                    | 0.1          | 0.1          | 0.2          |
| Subtotal   | 2.7                                    | 2.5          | 2.5          | 2.6          |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                    | 2.4                                    | 1.8          | 2.1          | 2.4          |
| Income tax expense <sup>(9)</sup>  |  | 8.3          | 14.4         | 7.2          |
| Total expenses   | 5.1%                                   | 12.6%        | 19.0%        | 12.2%        |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>                                   | (1.8)%                                 | (2.0)%       | (2.3)%       | (2.5)%       |
| Net increase (decrease) in net assets to common stockholders resulting from operations to average net assets | (51.7)%                                | 13.2%        | 24.3%        | 11.6%        |
| Portfolio turnover rate  | 17.1%                                  | 17.6%        | 21.2%        | 20.4%        |
| Average net assets   | \$ 3,195,445                           | \$ 3,967,458 | \$ 3,027,563 | \$ 2,346,249 |
| Notes outstanding, end of period <sup>(10)</sup>   | \$ 1,031,000                           | \$ 1,435,000 | \$ 1,175,000 | \$ 890,000   |
| Borrowings under credit facilities, end of period <sup>(10)</sup>  | \$                                     | \$ 51,000    | \$ 69,000    | \$ 19,000    |
| Term loan outstanding, end of period <sup>(10)</sup>   | \$                                     | \$           | \$           | \$           |

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|   |             |             |            |            |
|---|-------------|-------------|------------|------------|
| Auction rate preferred stock, end of period <sup>(10)</sup>                             | \$          | \$          | \$         | \$         |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>                     | \$ 464,000  | \$ 524,000  | \$ 449,000 | \$ 374,000 |
| Average shares of common stock outstanding  | 110,809,350 | 107,305,514 | 94,658,194 | 82,809,687 |
| Asset coverage of total debt <sup>(11)</sup>  | 352.7%      | 406.2%      | 412.9%     | 418.5%     |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             | 243.3%      | 300.3%      | 303.4%     | 296.5%     |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ 11.95    | \$ 13.23    | \$ 11.70   | \$ 10.80   |

See accompanying notes to financial statements.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## FINANCIAL HIGHLIGHTS

(amounts in 000 s, except share and per share amounts)

|  | For the Fiscal Year Ended November 30, |              |              |
|--|--|--------------|--------------|
|  | 2011                                   | 2010         | 2009         |
| <b>Per Share of Common Stock<sup>(1)</sup></b>   |  |              |              |
| Net asset value, beginning of period   | \$ 26.67                               | \$ 20.13     | \$ 14.74     |
| Net investment income (loss) <sup>(2)</sup>  | (0.69)                                 | (0.44)       | (0.33)       |
| Net realized and unrealized gain (loss)  | 2.91                                   | 8.72         | 7.50         |
| Total income (loss) from operations  | 2.22                                   | 8.28         | 7.17         |
| Dividends and distributions - auction rate preferred <sup>(4)(3)</sup>                                       |  |              | (0.01)       |
| Common dividends <sup>(3)</sup>  | (1.26)                                 | (0.84)       |              |
| Common distributions - return of capital <sup>(1)</sup>  | (0.72)                                 | (1.08)       | (1.94)       |
| Total dividends and distributions - common   | (1.98)                                 | (1.92)       | (1.94)       |
| Offering expenses associated with the issuance of common stock   |  |              |              |
| Effect of issuance of common stock   | 0.09                                   | 0.16         | 0.12         |
| Effect of shares issued in reinvestment of distributions   | 0.01                                   | 0.02         | 0.05         |
| Total capital stock transactions   | 0.10                                   | 0.18         | 0.17         |
| Net asset value, end of period   | \$ 27.01                               | \$ 26.67     | \$ 20.13     |
| Market value per share of common stock, end of period  | \$ 28.03                               | \$ 28.49     | \$ 24.43     |
| Total investment return based on common stock market value <sup>(5)</sup>                                    | 5.6%                                   | 26.0%        | 103.0%       |
| Total investment return based on net asset value <sup>(7)</sup>  | 8.7%                                   | 43.2%        | 51.7%        |
| <b>Supplemental Data and Ratios<sup>(8)</sup></b>  |  |              |              |
| Net assets applicable to common stockholders, end of period  | \$ 2,029,603                           | \$ 1,825,891 | \$ 1,038,277 |
| Ratio of expenses to average net assets  |  |              |              |
| Management fees (net of fee waiver)  | 2.4%                                   | 2.1%         | 2.1%         |
| Other expenses   | 0.2                                    | 0.2          | 0.4          |
| Subtotal   | 2.6                                    | 2.3          | 2.5          |
| Interest expense and distributions on mandatory redeemable preferred stock <sup>(2)</sup>                    | 2.3                                    | 1.9          | 2.5          |
| Income tax expense <sup>(9)</sup>  | 4.8                                    | 20.5         | 25.4         |
| Total expenses   | 9.7%                                   | 24.7%        | 30.4%        |
| Ratio of net investment income (loss) to average net assets <sup>(2)</sup>                                   | (2.5)%                                 | (1.8)%       | (2.0)%       |
| Net increase (decrease) in net assets to common stockholders resulting from operations to average net assets | 7.7%                                   | 34.6%        | 43.2%        |
| Portfolio turnover rate  | 22.3%                                  | 18.7%        | 28.9%        |
| Average net assets   | \$ 1,971,469                           | \$ 1,432,266 | \$ 774,999   |
| Notes outstanding, end of period <sup>(10)</sup>   | \$ 775,000                             | \$ 620,000   | \$ 370,000   |
| Borrowings under credit facilities, end of period <sup>(10)</sup>  | \$                                     | \$           | \$           |
| Term loan outstanding, end of period <sup>(10)</sup>   | \$                                     | \$           | \$           |

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|   |    |            |            |            |
|---|----|------------|------------|------------|
| Auction rate preferred stock, end of period <sup>(10)</sup>                             | \$ |            | \$         | \$ 75,000  |
| Mandatory redeemable preferred stock, end of period <sup>(10)</sup>                     | \$ | 260,000    | \$ 160,000 | \$         |
| Average shares of common stock outstanding  |    | 72,661,162 | 60,762,952 | 46,894,632 |
| Asset coverage of total debt <sup>(11)</sup>  |    | 395.4%     | 420.3%     | 400.9%     |
| Asset coverage of total leverage (debt and preferred stock) <sup>(12)</sup>             |    | 296.1%     | 334.1%     | 333.3%     |
| Average amount of borrowings per share of common stock during the period <sup>(1)</sup> | \$ | 10.09      | \$ 7.70    | \$ 6.79    |

See accompanying notes to financial statements.



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**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**FINANCIAL HIGHLIGHTS**

(amounts in 000 s, except share and per share amounts)

- (1) Based on average shares of common stock outstanding.
- (2) Distributions on the Company's MRP Shares are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 Significant Accounting Policies.
- (3) The characterization of the distributions paid for the three months ended February 28, 2019 is based solely on the Company's operating results during the period and does not reflect the expected results during the remainder of the fiscal year. The actual characterization of the distributions made during the period will not be determinable until after the end of the fiscal year when the Company can determine its earnings and profits. Therefore, the characterization may differ substantially from the preliminary estimates. The information presented for each of the other periods is a characterization of the total distributions paid to preferred stockholders and common stockholders as either a dividend (eligible to be treated as qualified dividend income) or a distribution (return of capital) and is based on the Company's earnings and profits.
- (4) Represents offering costs incurred in connection with the merger of Kayne Anderson Energy Development Company.
- (5) Total investment return based on market value is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.
- (6) Not annualized.
- (7) Total investment return based on net asset value is calculated assuming a purchase of common stock at the net asset value on the first day and a sale at the net asset value on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.
- (8) Unless otherwise noted, ratios are annualized.
- (9) For the fiscal year ended November 30, 2018, the Company reported an income tax benefit of \$175,827 (8.3% of average net assets), primarily related to the reduction in deferred tax liabilities as a result of 2017 tax reform. For the fiscal years ended November 30, 2017, November 30, 2015 and November 30, 2008, the Company reported an income tax benefit of \$86,746 (4.1% of average net assets), \$980,647 (30.7% of average net assets) and \$339,991 (29.7% of average net assets), respectively, primarily related to unrealized losses on investments. The income tax expense is assumed to be 0% because the Company reported a net deferred income tax benefit during the period.
- (10) Principal/liquidation value.

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- (11) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value) or any other senior securities representing indebtedness and MRP Shares (liquidation value) divided by the aggregate amount of Notes and any other senior securities representing indebtedness. Under the 1940 Act, the Company may not declare or make any distribution on its common stock nor can it incur additional indebtedness if, at the time of such declaration or incurrence, its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.
  
- (12) Calculated pursuant to section 18(a)(2)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Notes (principal value), any other senior securities representing indebtedness and MRP Shares (liquidation value) divided by the aggregate amount of Notes, any other senior securities representing indebtedness and MRP Shares. Under the 1940 Act, the Company may not declare or make

See accompanying notes to financial statements.

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**FINANCIAL HIGHLIGHTS**

**(amounts in 000 s, except share and per share amounts)**

any distribution on its common stock nor can it issue additional preferred stock if at the time of such declaration or issuance, its asset coverage with respect to all senior securities would be less than 200%. In addition to the limitations under the 1940 Act, the Company, under the terms of its MRP Shares, would not be able to declare or pay any distributions on its common stock if such declaration would cause its asset coverage with respect to all senior securities to be less than 225%. For purposes of these tests, the Credit Facility and the Term Loan are considered senior securities representing indebtedness.

See accompanying notes to financial statements.

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KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

**1. Organization**

Kayne Anderson MLP/Midstream Investment Company (the Company or KYN) was organized as a Maryland corporation on June 4, 2004, and is a non-diversified closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Company's investment objective is to obtain a high after-tax total return by investing at least 85% of its total assets in energy-related partnerships and their affiliates (collectively, master limited partnerships or MLPs), and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies). In this report, the term Midstream Companies refers to companies that own and operate midstream assets and are not treated as partnerships for federal income tax purposes. The Company commenced operations on September 28, 2004. The Company's shares of common stock are listed on the New York Stock Exchange, Inc. (NYSE) under the symbol KYN.

On August 6, 2018, KYN completed its merger with Kayne Anderson Energy Development Company (KED). Pursuant to the terms of the merger agreement approved by stockholders of KED, KYN acquired all of the net assets of KED in exchange for an equal net asset value of newly issued KYN common stock. The merger qualified as a tax-free reorganization under Section 368(a) of the Internal Revenue Code.

**2. Significant Accounting Policies**

The following is a summary of the significant accounting policies that the Company uses to prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The Company is an investment company and follows accounting and reporting guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 946 Financial Services Investment Companies.

*A. Use of Estimates* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of income and expenses during the period. Actual results could differ materially from those estimates.

*B. Cash and Cash Equivalents* Cash and cash equivalents include short-term, liquid investments with an original maturity of three months or less and include money market fund accounts.

*C. Calculation of Net Asset Value* The Company determines its net asset value on a daily basis and reports its net asset value on its website. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and distributions and current and deferred income tax assets), less all of its liabilities (including accrued expenses, distributions payable, current and deferred accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

*D. Investment Valuation* Readily marketable portfolio securities listed on any exchange other than the NASDAQ Stock Market, Inc. (NASDAQ) are valued, except as indicated below, at the last sale price on the business day as of which such value is being determined. If there has been no sale on such day, the securities are valued at the mean of the most recent bid and ask prices on such day. Securities admitted to trade on the NASDAQ are valued at the NASDAQ official closing price. Portfolio securities traded on more than one securities exchange are valued at the last sale price on the business day as of which such value is being determined at the close of the exchange representing the principal market for such securities.

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KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Debt securities that are considered bonds are valued by using the mean of the bid and ask prices provided by an independent pricing service or, if such prices are not available or in the judgment of KA Fund Advisors, LLC ( KAFAs ) such prices are stale or do not represent fair value, by an independent broker. For debt securities that are considered bank loans, the fair market value is determined by using the mean of the bid and ask prices provided by the agent or syndicate bank or principal market maker. When price quotes for securities are not available, or such prices are stale or do not represent fair value in the judgment of KAFAs, fair market value will be determined using the Company's valuation process for securities that are privately issued or otherwise restricted as to resale.

Exchange-traded options and futures contracts are valued at the last sales price at the close of trading in the market where such contracts are principally traded or, if there was no sale on the applicable exchange on such day, at the mean between the quoted bid and ask price as of the close of such exchange.

The Company holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any security for which (a) reliable market quotations are not available in the judgment of KAFAs, or (b) the independent pricing service or independent broker does not provide prices or provides a price that in the judgment of KAFAs is stale or does not represent fair value, each shall be valued in a manner that most fairly reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

**Investment Team Valuation.** The applicable investments are valued by senior professionals of KAFAs who are responsible for the portfolio investments. The investments will be valued monthly with new investments valued at the time such investment was made.

**Investment Team Valuation Documentation.** Preliminary valuation conclusions will be determined by senior management of KAFAs. Such valuations and supporting documentation are submitted to the Valuation Committee (a committee of the Company's Board of Directors) and the Board of Directors on a quarterly basis.

**Valuation Committee.** The Valuation Committee meets to consider the valuations submitted by KAFAs at the end of each quarter. Between meetings of the Valuation Committee, a senior officer of KAFAs is authorized to make valuation determinations. All valuation determinations of the Valuation Committee are subject to ratification by the Board of Directors at its next regular meeting.

**Valuation Firm.** Quarterly, a third-party valuation firm engaged by the Board of Directors reviews the valuation methodologies and calculations employed for these securities, unless the aggregate fair value of such security is less than 0.1% of total assets.

**Board of Directors Determination.** The Board of Directors meets quarterly to consider the valuations provided by KAFAs and the Valuation Committee and ratify valuations for the applicable securities. The Board of Directors considers the report provided by the third-party valuation firm in reviewing and determining in good faith the fair value of the applicable portfolio securities.

At February 28, 2019, the Company held 5.5% of its net assets applicable to common stockholders (3.3% of total assets) in securities that were fair valued pursuant to procedures adopted by the Board of Directors (Level 3 securities). The aggregate fair value of these securities at February 28, 2019 was \$116,853. See Note 3 Fair Value and Note 7 Restricted Securities.

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E. *Security Transactions* Security transactions are accounted for on the date these securities are purchased or sold (trade date). Realized gains and losses are calculated using the specific identification cost basis method for GAAP purposes. For tax purposes, the Company utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

*F. Return of Capital Estimates* Dividends and distributions received from the Company's investments in MLPs and other Midstream Energy Companies generally are comprised of income and return of capital. Payments made by MLPs are categorized as distributions and payments made by corporations are categorized as dividends. At the time such dividends and distributions are received, the Company estimates the amount of such payments that is considered investment income and the amount that is considered a return of capital. The Company estimates the return of capital portion of distributions received from its MLP investments based on historical information available from the investments. The Company estimates the return of capital portion of dividends received from other Midstream Energy Companies based on information provided by each investment. These estimates are adjusted to actual in the subsequent fiscal year when final tax reporting information related to the Company's investments is received.

The return of capital portion of the distributions is a reduction to investment income that results in an equivalent reduction in the cost basis of the associated investments and increases net realized gains (losses) and net change in unrealized gains (losses). If the distributions received by the Company exceed its cost basis (*i.e.* its cost basis has been reduced to zero), the distributions are treated as realized gains.

The Company includes all distributions received on its Statement of Operations and reduces its investment income by (i) the estimated return of capital and (ii) the distributions in excess of cost basis, if any. For the three months ended February 28, 2019, the Company estimated \$45,502 of return of capital and \$5,774 of distributions that were in excess of cost basis. The distributions that were in excess of cost basis were treated as realized gains.

In accordance with GAAP, the return of capital cost basis reductions for the Company's MLP investments are limited to the total amount of the cash distributions received from such investments. For income tax purposes, the cost basis reductions for the Company's MLP investments typically exceed cash distributions received from such investments due to allocated losses from these investments. See Note 6 Income Taxes.

The following table sets forth the Company's estimated return of capital portion of the dividends and distributions received from its investments that were not treated as distributions in excess of cost basis.

|   | <b>For the<br/>Three Months<br/>Ended<br/>February 28,<br/>2019</b> |
|---|---|
| Distributions from investments  | \$ 41,158   |
| Dividends from investments  | 15,317  |
| Total dividends and distributions from investments (before foreign taxes withhold of \$141 and excluding distributions in excess of cost basis) | \$ 56,475   |
| Distributions % return of capital   | 88%   |
| Dividends % return of capital   | 60%   |
| Total dividends and distributions % return of capital   | 81%   |
| Return of capital attributable to net realized gains (losses)   | \$ 2,329  |
| Return of capital attributable to net change in unrealized gains (losses)   | 43,173  |
| Total return of capital   | \$ 45,502   |

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*G. Investment Income* The Company records dividends and distributions on the ex-dividend date. Interest income is recognized on the accrual basis, including amortization of premiums and accretion of discounts. When investing in securities with payment in-kind interest, the Company will accrue interest income during the life of the security even though it will not be receiving cash as the interest is accrued. To the extent that interest income to be received is not expected to be realized, a reserve against income is established.



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KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

Debt securities that the Company may hold will typically be purchased at a discount or premium to the par value of the security. The non-cash accretion of a discount to par value increases interest income while the non-cash amortization of a premium to par value decreases interest income. The accretion of a discount and amortization of a premium are based on the effective interest method. The amount of these non-cash adjustments, if any, can be found in the Company's Statement of Cash Flows. The non-cash accretion of a discount increases the cost basis of the debt security, which results in an offsetting unrealized loss. The non-cash amortization of a premium decreases the cost basis of the debt security, which results in an offsetting unrealized gain. To the extent that par value is not expected to be realized, the Company discontinues accruing the non-cash accretion of the discount to par value of the debt security.

The Company may receive paid-in-kind and non-cash dividends and distributions in the form of additional units or shares from its investments. For paid-in-kind dividends, the additional units are not reflected in investment income during the period received, but are recorded as unrealized gains upon receipt. Non-cash distributions are reflected in investment income because the Company has the option to receive its distributions in cash or in additional units of the security. During the three months ended February 28, 2019, the Company did not receive any paid-in-kind dividends or non-cash distributions.

*H. Distributions to Stockholders* Distributions to common stockholders are recorded on the ex-dividend date. Distributions to holders of MRP Shares are accrued on a daily basis as described in Note 12 Preferred Stock. As required by the Distinguishing Liabilities from Equity topic of the FASB Accounting Standards Codification (ASC 480), the Company includes the accrued distributions on its MRP Shares as an operating expense due to the fixed term of this obligation. For tax purposes, payments made to the holders of the Company's MRP Shares are treated as dividends or distributions.

The characterization of the distributions paid to holders of MRP Shares and common stock as either a dividend (eligible to be treated as qualified dividend income) or a distribution (return of capital) is determined after the end of the fiscal year based on the Company's actual earnings and profits and, therefore, the characterization may differ substantially from preliminary estimates.

*I. Partnership Accounting Policy* The Company records its pro-rata share of the income (loss), to the extent of distributions it has received, allocated from the underlying partnerships and adjusts the cost basis of the underlying partnerships accordingly. These amounts are included in the Company's Statement of Operations.

*J. Taxes* The Company, as a corporation, is obligated to pay federal and state income tax on its taxable income. The Company invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Company includes its allocable share of the MLP's taxable income or loss in computing its own taxable income. Deferred income taxes reflect (i) taxes on unrealized gains (losses), which are attributable to the difference between fair value and tax cost basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating and capital losses. To the extent the Company has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The need to establish a valuation allowance for deferred tax assets is assessed periodically by the Company based on the Income Tax Topic of the FASB Accounting Standards Codification (ASC 740), that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In the assessment for a valuation allowance, consideration is given to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are highly dependent on future cash distributions from the Company's MLP holdings), the duration of statutory carryforward periods and the associated risk that certain operating and capital loss carryforwards may expire unused.

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KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

The Company may rely to some extent on information provided by the MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated deferred tax liability. Such estimates are made in good faith. From time to time, as new information becomes available, the Company modifies its estimates or assumptions regarding the deferred tax liability. See Note 6 Income Taxes.

Dividend income received by the Company from sources within Canada is subject to a 15% foreign withholding tax.

The Company utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

The Company'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. Tax years subsequent to fiscal year 2014 remain open and subject to examination by the federal and state tax authorities.

*K. Derivative Financial Instruments* The Company may utilize derivative financial instruments in its operations.

As of February 28, 2019, the Company did not have any open option contracts.

**Interest rate swap contracts.** The Company may use hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of the Company's leverage. Such interest rate swaps would principally be used to protect the Company against higher costs on its leverage resulting from increases in interest rates. The Company does not hedge any interest rate risk associated with portfolio holdings. Interest rate transactions the Company may use for hedging purposes may expose it to certain risks that differ from the risks associated with its portfolio holdings. A decline in interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Company. In addition, if the counterparty to an interest rate swap defaults, the Company would not be able to use the anticipated net receipts under the interest rate swap to offset its cost of financial leverage.

Interest rate swap contracts are recorded at fair value with changes in value during the reporting period, and amounts accrued under the agreements, included as unrealized gains or losses in the Statement of Operations. Monthly cash settlements under the terms of the interest rate swap agreements or termination payments are recorded as realized gains or losses in the Statement of Operations. The Company generally values its interest rate swap contracts based on dealer quotations, if available, or by discounting the future cash flows from the stated terms of the interest rate swap agreement by using interest rates currently available in the market. See Note 8 Derivative Financial Instruments.

**Option contracts.** The Company is also exposed to financial market risks including changes in the valuations of its investment portfolio. The Company may purchase or write (sell) call options. A call option on a security is a contract that gives the holder of the option, in return for a premium, the right to buy from the writer of the option the security underlying the option at a specified exercise price at any time during the term of the option.

The Company would realize a gain on a purchased call option if, during the option period, the value of such securities exceeded the sum of the exercise price, the premium paid and transaction costs; otherwise the Company would realize either no gain or a loss on the purchased call option. The Company may also purchase put option contracts. If a purchased put option is exercised, the premium paid increases the cost basis of the securities sold by the Company.

The Company may also write (sell) call options with the purpose of generating realized gains or reducing its ownership of certain securities. If the Company writes a call option on a security, the Company has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price. The Company will only write call options on securities that the Company holds in its portfolio (*i.e.*, covered calls).



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KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

NOTES TO FINANCIAL STATEMENTS

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

(UNAUDITED)

When the Company writes a call option, an amount equal to the premium received by the Company is recorded as a liability and is subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Company on the expiration date as realized gains from investments. If the Company repurchases a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain or loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Company has realized a gain or loss. The Company, as the writer of an option, bears the market risk of an unfavorable change in the price of the security underlying the written option. See Note 8 Derivative Financial Instruments.

*L. Foreign Currency Translations* The books and records of the Company are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis: (i) market value of investment securities, assets and liabilities at the rate of exchange as of the valuation date; and (ii) purchases and sales of investment securities, income and expenses at the relevant rates of exchange prevailing on the respective dates of such transactions.

The Company does not isolate that portion of gains and losses on investments in equity and debt securities which is due to changes in the foreign exchange rates from that which is due to changes in market prices of equity and debt securities. Accordingly, realized and unrealized foreign currency gains and losses with respect to such securities are included in the reported net realized and unrealized gains and losses on investment transactions balances.

Net realized foreign exchange gains or losses represent gains and losses from transactions in foreign currencies and foreign currency contracts, foreign exchange gains or losses realized between the trade date and settlement date on security transactions, and the difference between the amounts of interest and dividends recorded on the Company's books and the U.S. dollar equivalent of such amounts on the payment date.

Net unrealized foreign exchange gains or losses represent the difference between the cost of assets and liabilities (other than investments) recorded on the Company's books from the value of the assets and liabilities (other than investments) on the valuation date.

*M. Indemnifications* Under the Company's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Company. In addition, in the normal course of business, the Company enters into contracts that provide general indemnification to other parties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred, and may not occur. However, the Company has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

*N. Offering and Debt Issuance Costs* Offering costs incurred by the Company related to the issuance of its common stock reduce additional paid-in capital when the stock is issued. Costs incurred by the Company related to the issuance of its debt (credit facility, term loan or notes) or its preferred stock are capitalized and amortized over the period the debt or preferred stock is outstanding.

The Company has classified the costs incurred to issue its Term Loan, Notes and MRP Shares as a deduction from the carrying value of the Term Loan, Notes and MRP Shares on the Statement of Assets and Liabilities. For the purpose of calculating the Company's asset coverage ratios pursuant to the 1940 Act, deferred issuance costs are not deducted from the carrying value of debt or preferred stock.

### 3. Fair Value

The Fair Value Measurement Topic of the FASB Accounting Standards Codification (ASC 820) defines fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place



## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## NOTES TO FINANCIAL STATEMENTS

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

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between market participants under current market conditions at the measurement date. As required by ASC 820, the Company has performed an analysis of all assets and liabilities (other than deferred taxes) measured at fair value to determine the significance and character of all inputs to their fair value determination. Inputs are the assumptions, along with considerations of risk, that a market participant would use to value an asset or a liability. In general, observable inputs are based on market data that is readily available, regularly distributed and verifiable that the Company obtains from independent, third-party sources. Unobservable inputs are developed by the Company based on its own assumptions of how market participants would value an asset or a liability.

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

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

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

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

The following table presents the Company's assets measured at fair value on a recurring basis at February 28, 2019, and the Company presents these assets by security type and description on its Schedule of Investments. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment.

|                             | Total        | Quoted Prices in<br>Active<br>Markets<br>(Level 1) | Prices with<br>Other<br>Observable Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|-----------------------------|--------------|--|--|-------------------------------------|
| <b>Assets at Fair Value</b> |              |  |  |                                     |
| Equity investments          | \$ 3,479,621 | \$ 3,324,904                                       | \$ 37,864 <sup>(1)</sup>                               | \$ 116,853                          |
| Short-term investments      | 34,420       | 34,420   |  |                                     |
| Total assets at fair value  | \$ 3,514,041 | \$ 3,359,324                                       | \$ 37,864  | \$ 116,853                          |

- (1) The Company's investment in Plains AAP, L.P. (PAGP-AAP) is exchangeable on a one-for-one basis into either Plains GP Holdings, L.P. (PAGP) shares or Plains All American Pipeline, L.P. (PAA) units at the Company's option. The Company values its PAGP-AAP investment on an as-exchanged basis based on the higher public market value of either PAGP or PAA. As of February 28, 2019, the Company's PAGP-AAP investment is valued at PAA's closing price. The Company categorizes its investment as a Level 2 security for fair

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value reporting purposes.

The Company did not have any liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at February 28, 2019.

As of February 28, 2019, the Company had Notes outstanding with aggregate principal amount of \$716,000 and 12,680,000 shares of MRP Shares outstanding with a total liquidation value of \$317,000. See Note 11 Notes and Note 12 Preferred Stock.

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Of the \$317,000 of MRP Shares, Series F (\$125,000 liquidation value) is publicly traded on the NYSE. As a result, the Company categorizes this series of MRP Shares as Level 1. The remaining series of MRP Shares and all of the Notes were issued in private placements to institutional investors and are not listed on any exchange or automated quotation system. As such, the Company categorizes all of the Notes (\$716,000 aggregate principal amount) and the remaining MRP Shares (\$192,000 aggregate liquidation value) as Level 3 and determines the fair value of these instruments based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure.

The Company records these Notes and MRP Shares on its Statement of Assets and Liabilities at principal amount or liquidation value. As of February 28, 2019, the estimated fair values of these leverage instruments are as follows.

| Instrument                                    | Principal Amount/<br>Liquidation<br>Value | Fair Value |
|---|---|------------|
| Notes (Series Z through GG and II through OO) | \$ 716,000                                | \$ 717,000 |
| MRP Shares (Series C, H, I, J and K)          | \$ 192,000                                | \$ 189,700 |
| MRP Shares (Series F)                         | \$ 125,000                                | \$ 125,500 |

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended February 28, 2019.

|                                | Equity<br>Investments |
|--------------------------------|-----------------------|
| Balance November 30, 2018      | \$ 139,645            |
| Purchases                      |                       |
| Issuances                      |                       |
| Transfers out to Level 1 and 2 | (23,333)              |
| Realized gains (losses)        |                       |
| Unrealized gains (losses), net | 541                   |
| Balance February 28, 2019      | \$ 116,853            |

The transfers out of \$23,333 relate to the Company's investment in Dominion Midstream Partners, LP, convertible preferred units that were converted to common units during the first quarter of 2019. The Company utilizes the beginning of the reporting period method for determining transfers between levels.

The \$541 of net unrealized gains relate to investments that were still held at the end of the reporting period. The Company includes these unrealized gains and losses on the Statement of Operations Net Change in Unrealized Gains (Losses).

**Valuation Techniques and Unobservable Inputs**

Unless otherwise determined by the Board of Directors, the Company values its private investments in public equity (PIPE) investments that are convertible into or otherwise will become publicly tradeable (e.g., through subsequent registration or expiration of a restriction on trading) based on the market value of the publicly-traded security less a discount. This discount is initially equal to the discount negotiated at the time the Company agrees to a purchase price. To the extent that such securities are convertible or otherwise become publicly traded within a time frame



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that may be reasonably determined, this discount will be amortized on a straight line basis over such estimated time frame.

The Company owns convertible preferred units of Capital Product Partners L.P. ( CPLP ). The convertible preferred units are convertible on a one-for-one basis into common units and are senior to the underlying common units in terms of liquidation preference and priority of distributions. On November 27, 2018, CPLP and

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DSS Holdings L.P. ( DSS ) entered into a definitive agreement pursuant to which CPLP agreed to spin off its crude and product tanker business into a separate publicly listed company that would merge with DSS. In connection with this transaction, the Company negotiated to have its CPLP Class B Units redeemed at a price of \$9.00 per unit in cash. As a result of the announced transaction, the Company valued its investment in CPLP Class B Units at \$9.00 per unit. On March 27, 2019, CPLP and DSS completed their previously announced combination and all of the Company s CPLP Class B Units were redeemed.

The Company owns convertible preferred units of MPLX LP ( MPLX ). The convertible preferred units will be convertible on a one-for-one basis into common units and are senior to the underlying common units in terms of liquidation preference and priority of distributions. The Company s Board of Directors has determined that it is appropriate to value these convertible preferred units using a convertible pricing model. This model takes into account the attributes of the convertible preferred units, including the preferred dividend, conversion ratio and call features, to determine the estimated value of such units. In using this model, the Company estimates (i) the credit spread for the convertible preferred units, which is based on the credit spread of the partnership s unsecured notes, and (ii) the expected volatility for the underlying common units, which is based on historical volatility, as well as implied volatility derived from traded options. For this security, if the resulting price for the convertible preferred units is less than the public market price for the underlying common units at such time, the public market price for the common units will be used to value the convertible preferred units.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the Company s investments may fluctuate from period to period. Additionally, the fair value of the Company s investments may differ from the values that would have been used had a ready market existed for such investments and may differ materially from the values that the Company may ultimately realize.

The following table summarizes the significant unobservable inputs that the Company used to value its portfolio investments categorized as Level 3 as of February 28, 2019:

**Quantitative Table for Valuation Techniques**

| Assets at Fair Value        | Fair Value | Valuation Technique         | Unobservable Inputs                    | Range   |         |         |
|-----------------------------|------------|-----------------------------|--|---------|---------|---------|
|                             |            |                             |  | Low     | High    | Average |
| MPLX                        | \$ 84,126  | - Convertible pricing model | - Credit spread                        | 3.8%    | 4.3%    | 4.0%    |
|                             |            |                             |  | 22.5%   | 27.5%   | 25.0%   |
| Convertible Preferred Units |            |                             | - Volatility                           |         |         |         |
| CPLP                        | 32,727     | - Redemption price          | - Negotiated redemption price per unit | \$ 9.00 | \$ 9.00 | \$ 9.00 |
| Class B Units               |            |                             |  |         |         |         |
| Total                       | \$ 116,853 |                             |  |         |         |         |

**4. Concentration of Risk**

The Company s investments are concentrated in the energy sector. The focus of the Company s portfolio within the energy sector may present more risks than if the Company s portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Company than on an investment company that does not focus on the energy sector. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the

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Company invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Company may be more susceptible than a more widely diversified investment company to any single

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economic, political or regulatory occurrence. At February 28, 2019, the Company had the following investment concentrations:

| Category                                  | Percent of Long-Term Investments |
|---|----------------------------------|
| Securities of energy companies            | 100.0%                           |
| Equity securities                         | 100.0%                           |
| Midstream Energy Companies <sup>(1)</sup> | 100.0%                           |
| Largest single issuer                     | 13.4%                            |
| Restricted securities                     | 4.4%                             |

- (1) Comprised of energy-related partnerships and their affiliates (collectively, master limited partnerships or MLPs) and other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal.

## 5. Agreements and Affiliations

**A. Administration Agreement** On August 1, 2018, the Company entered into an amended administration and accounting agreement with Ultimus Fund Solutions, LLC ( Ultimus ). Pursuant to the agreement, Ultimus will continue to provide certain administrative and accounting services for the Company. The agreement has an initial term of three years and automatic one-year renewals unless earlier terminated by either party as provided under the terms of the agreement.

**B. Investment Management Agreement** The Company has entered into an investment management agreement with KA Fund Advisors, LLC ( Kafa ) under which Kafa, subject to the overall supervision of the Company's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, Kafa receives an investment management fee from the Company. Upon completion of its merger with KED (see Note 1), the Company and Kafa entered into an amended fee waiver agreement (the Fee Waiver Agreement ). The Fee Waiver Agreement provides for a management fee of 1.375% on average total assets up to \$4,000,000; 1.25% on average total assets between \$4,000,000 and \$6,000,000; 1.125% on average total assets between \$6,000,000 and \$8,000,000; and 1.0% on average total assets over \$8,000,000. These tiered fee waivers will result in a reduction to the effective management fee rate payable to Kafa as the Company's assets under management increase. Kafa further agreed to waive an amount of management fees (calculated based on the Company's and KED's assets under management at the closing of the merger) such that the management fees payable to Kafa with respect to the Company after completion of the merger between the Company and KED would not be greater than the aggregate management fees that would have been payable if the Company and KED had remained standalone companies. This waiver was calculated as \$212 per year based on the Company's and KED's assets under management at the closing of the merger. Any amount waived by Kafa pursuant to the New Fee Waiver Agreement may not be recouped. The New Fee Waiver Agreement has a term of three years from the date of the merger, or through August 6, 2021. The investment management agreement has a current term through March 31, 2020 and may be renewed annually thereafter upon approval of Kafa and the Company's Board of Directors (including a majority of the Company's directors who are not interested persons of the Company, as such term is defined in the 1940 Act). For the three months ended February 28, 2019, the Company paid management fees at an annual rate of 1.369% of the Company's average quarterly total assets (as defined in the investment management agreement).

For purposes of calculating the management fee the average total assets for each quarterly period are determined by averaging the total assets at the last day of that quarter with the total assets at the last day of the



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prior quarter. The Company's total assets are equal to the Company's gross asset value (which includes assets attributable to the Company's use of preferred stock, commercial paper or notes and other borrowings and excludes any net deferred tax asset), minus the sum of the Company's accrued and unpaid dividends and distributions on any outstanding common stock and accrued and unpaid dividends and distributions on any outstanding preferred stock and accrued liabilities (other than liabilities associated with borrowing or leverage by the Company and any accrued taxes, including, a deferred tax liability). Liabilities associated with borrowing or leverage by the Company include the principal amount of any borrowings, commercial paper or notes issued by the Company, the liquidation preference of any outstanding preferred stock, and other liabilities from other forms of borrowing or leverage such as short positions and put or call options held or written by the Company.

*C. Portfolio Companies* From time to time, the Company may control or may be an affiliate of one or more of its portfolio companies, as each of these terms is defined in the 1940 Act. In general, under the 1940 Act, the Company would be presumed to control a portfolio company if the Company and its affiliates owned 25% or more of its outstanding voting securities and would be an affiliate of a portfolio company if the Company and its affiliates owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their affiliates (including the Company's investment adviser), principal underwriters and affiliates of those affiliates or underwriters.

The Company believes that there are several factors that determine whether or not a security should be considered a voting security in complex structures such as limited partnerships of the kind in which the Company invests. The Company also notes that the Securities and Exchange Commission (the SEC) staff has issued guidance on the circumstances under which it would consider a limited partnership interest to constitute a voting security. Under most partnership agreements, the management of the partnership is vested in the general partner, and the limited partners, individually or collectively, have no rights to manage or influence management of the partnership through such activities as participating in the selection of the managers or the board of the limited partnership or the general partner. As a result, the Company believes that many of the limited partnership interests in which it invests should not be considered voting securities. However, it is possible that the SEC staff may consider the limited partner interests the Company holds in certain limited partnerships to be voting securities. If such a determination were made, the Company may be regarded as a person affiliated with and controlling the issuer(s) of those securities for purposes of Section 17 of the 1940 Act.

In making such a determination as to whether to treat any class of limited partnership interests the Company holds as a voting security, the Company considers, among other factors, whether or not the holders of such limited partnership interests have the right to elect the board of directors of the limited partnership or the general partner. If the holders of such limited partnership interests do not have the right to elect the board of directors, the Company generally has not treated such security as a voting security. In other circumstances, based on the facts and circumstances of those partnership agreements, including the right to elect the directors of the general partner, the Company has treated those securities as voting securities. If the Company does not consider the security to be a voting security, it will not consider such partnership to be an affiliate unless the Company and its affiliates own more than 25% of the outstanding securities of such partnership. Additionally, certain partnership agreements give common unitholders the right to elect the partnership's board of directors, but limit the amount of voting securities any limited partner can hold to no more than 4.9% of the partnership's outstanding voting securities (*i.e.*, any amounts held in excess of such limit by a limited partner do not have voting rights). In such instances, the Company does not consider itself to be an affiliate if it owns more than 5% of such partnership's common units.

There is no assurance that the SEC staff will not consider that other limited partnership securities that the Company owns and does not treat as voting securities are, in fact, voting securities for the purposes of Section 17 of the 1940 Act. If such determination were made, the Company will be required to abide by the restrictions on control or affiliate transactions as proscribed in the 1940 Act. The Company or any portfolio company that it

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controls, and its affiliates, may from time to time engage in certain of such joint transactions, purchases, sales and loans in reliance upon and in compliance with the conditions of certain exemptive rules promulgated by the SEC. The Company cannot make assurances, however, that it would be able to satisfy the conditions of these rules with respect to any particular eligible transaction, or even if the Company were allowed to engage in such a transaction, that the terms would be more or as favorable to the Company or any company that it controls as those that could be obtained in an arm's length transaction. As a result of these prohibitions, restrictions may be imposed on the size of positions that may be taken for the Company or on the type of investments that it could make.

As of February 28, 2019, the Company believes that Buckeye Partners, L.P. ( BPL ) meets the criteria described above and is therefore considered an affiliate of the Company.

*Plains GP Holdings, L.P., Plains AAP, L.P. and Plains All American Pipeline, L.P.* Robert V. Sinnott is Co-Chairman of Kayne Anderson Capital Advisors, L.P. ( KACALP ), the managing member of KAFA. Mr. Sinnott also serves as a director of PAA GP Holdings LLC, which is the general partner of Plains GP Holdings L.P. ( PAGP ). Members of senior management of KACALP and KAFA and various affiliated funds managed by KACALP own PAGP shares, Plains All American Pipeline, L.P. ( PAA ) units and interests in Plains AAP, L.P. ( PAGP-AAP ). The Company believes that it is an affiliate of PAA, PAGP and PAGP-AAP under the 1940 Act by virtue of (i) the Company's and other affiliated Kayne Anderson funds' ownership interest in PAA, PAGP and PAGP-AAP and (ii) Mr. Sinnott's participation on the board of PAA GP Holdings LLC.

The following table summarizes the Company's investments in affiliates as of and for the three months ended February 28, 2019:

| Investment <sup>(1)</sup>                 | No. of<br>Shares/<br>Units <sup>(2)</sup><br>(in 000 s) | Value             | Dividends/<br>Distributions<br>Received | Net<br>Realized<br>Gains<br>(Losses) | Net<br>Change in<br>Unrealized<br>Gains<br>(Losses) |
|---|---|-------------------|---|--------------------------------------|---|
| Buckeye Partners, L.P.                    | 4,989   | \$ 157,039        | \$ 3,741                                | \$ 7,935                             | \$ 6,163  |
| Plains All American Pipeline, L.P.        | 8,261   | 192,804           | 2,478                                   | 9,901                                | (4,754)   |
| Plains GP Holdings, L.P.                  |   |                   |   | (350)                                | 439   |
| Plains GP Holdings, L.P. Plains AAP, L.P. | 1,622   | 37,864            | 487                                     |                                      | 990   |
| <b>Total</b>                              |   | <b>\$ 387,707</b> | <b>\$ 6,706</b>                         | <b>\$ 17,486</b>                     | <b>\$ 2,838</b>                                     |

(1) See Schedule of Investments for investment classifications.

(2) During the three months ended February 28, 2019, the Company sold 863 common units of BPL, 352 units of PAA and 70 units of PAGP. There were no sales of PAGP-AAP and the Company made no purchases of any affiliates during the first quarter of 2019.

## 6. Income Taxes

The Company's taxes include current and deferred income taxes. Current income taxes reflect the estimated income tax liability or asset of the Company as of a measurement date. Deferred income taxes reflect (i) taxes on net unrealized gains (losses), which are attributable to the difference between fair market value and tax cost basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets

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and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating losses and capital losses, if any.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Reform Bill ) was signed into law. Prior to enactment, the Company's deferred tax liability was based primarily on the federal rate of 35%. The Tax Reform Bill cut the federal rate to 21%, significantly reducing the Company's deferred tax liability and increasing the



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Company's net asset value. The decrease to the deferred tax liability was reflected in the Company's net asset value reported on December 22, 2017 (the date of enactment) and the deferred tax liability at February 28, 2019 reflects the lower federal rate of 21%.

Other changes in the Tax Reform Bill that impact the Company include limitations on the deductibility of net interest expense and limitations on the usage of net operating loss carryforwards (and the elimination of carrybacks). These limitations are in effect for the Company in fiscal 2019. To the extent certain deductions are limited in any given year, the Company may not be able to utilize such deductions in future periods if it does not have sufficient taxable income.

At February 28, 2019, the components of the Company's current and deferred tax assets and liabilities are as follows:

|   |              |
|---|--------------|
| Current income tax receivable, net            | \$ 5,778     |
| Deferred tax assets:                          |              |
| AMT credit carryforwards                      | \$ 6,252     |
| Deferred interest expense                     | 1,235        |
| Deferred tax liabilities:                     |              |
| Net unrealized gains on investment securities | (302,861)    |
| Total deferred income tax liability, net      | \$ (295,374) |

During the three months ended February 28, 2019, the Company paid estimated taxes of \$412 (net of \$173 of federal and state refunds received). At February 28, 2019, the Company had a net current income tax receivable of \$5,778. The current tax receivable is comprised primarily of estimated refunds related to AMT credit carryforwards and \$573 of state overpayments on account.

At February 28, 2019, the Company had \$5,278 of deferred interest expense deductions (deferred tax asset of \$1,235) related to Internal Revenue Code ( IRC ) Section 163(j) limitations. The deferred interest expense deduction is able to be carried forward indefinitely and utilized in future years pursuant to IRC Section 163(j). Realization of this deferred tax asset is dependent, in part, on generating sufficient taxable income in future periods.

At February 28, 2019, the Company had alternative minimum tax ( AMT ) credit carryforwards of \$6,252. The Tax Reform Bill repealed corporate AMT for tax years beginning after December 31, 2017 and provides that existing AMT credit carryforwards can be used to offset regular tax liability or will be refundable, subject to certain annual limitations. The Company is no longer subject to corporate AMT and expects to utilize AMT credits to offset regular tax liability and/or file for refunds of these AMT credit carryforwards.

Although the Company currently has a net deferred tax liability, it periodically reviews the recoverability of its deferred tax assets based on the weight of available evidence. When assessing the recoverability of its deferred tax assets, significant weight is given to the effects of potential future realized and unrealized gains on investments and the period over which these deferred tax assets can be realized.

Based on the Company's assessment, it has determined that it is more likely than not that its deferred tax assets will be realized through future taxable income of the appropriate character. Accordingly, no valuation allowance has been established for the Company's deferred tax assets. The Company will continue to assess the need for a valuation allowance in the future. Significant declines in the fair value of its portfolio of investments may change the Company's assessment regarding the recoverability of its deferred tax assets and may result in a valuation allowance. If a valuation allowance is required to reduce any deferred tax asset in the future, it could have a material impact on the Company's net asset value and results of operations in the period it is recorded.



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Total income taxes were different from the amount computed by applying the federal statutory income tax rate of 21% to the net investment loss and realized and unrealized gains (losses) on investments before taxes as follows:

|   | <b>For the<br/>Three Months<br/>Ended<br/>February 28,<br/>2019</b> |
|---|---|
| Computed federal income tax expense at 21%  | \$ (26,555)   |
| State income tax expense, net of federal tax  | (2,410)   |
| Non-deductible distributions on MRP Shares, dividend received deductions and other, net | (137)   |
| <br>Total income tax expense  | <br>\$ (29,102)   |

The Company primarily invests in equity securities issued by MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner of MLPs, the Company includes its allocable share of such MLPs' income or loss in computing its own taxable income or loss. Additionally, for income tax purposes, the Company reduces the cost basis of its MLP investments by the cash distributions received, and increases or decreases the cost basis of its MLP investments by its allocable share of the MLP's income or loss. During the three months ended February 28, 2019, the Company reduced its tax cost basis by \$81,002 due to its 2018 net allocated losses from its MLP investments.

The Company utilizes the average cost method to compute the adjusted tax cost basis of its MLP securities.

At February 28, 2019, the cost basis of investments for federal income tax purposes was \$2,191,358. The cost basis for federal income tax purposes is \$742,169 lower than the cost basis for GAAP reporting purposes primarily due to the additional basis adjustments attributable to the Company's share of the allocated losses from its MLP investments. At February 28, 2019, gross unrealized appreciation and depreciation of investments and options, if any, for federal income tax purposes were as follows:

|   |                  |
|---|------------------|
| Gross unrealized appreciation of investments (including options, if any)                    | \$ 1,436,057     |
| Gross unrealized depreciation of investments (including options, if any)                    | (113,374)        |
| <br>Net unrealized appreciation of investments before foreign currency related translations | <br>1,322,683    |
| Unrealized appreciation on foreign currency related translations                            | 7                |
| <br>Net unrealized appreciation of investments  | <br>\$ 1,322,690 |

**7. Restricted Securities**

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



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At February 28, 2019, the Company held the following restricted investments:

| Investment                               | Acquisition Date | Type of Restriction | Number of Units (in 000 s) | Cost Basis (GAAP) | Fair Value        | Fair Value Per Unit | Percent of Net Assets | Percent of Total Assets |
|--|------------------|---------------------|----------------------------|-------------------|-------------------|---------------------|-----------------------|-------------------------|
| <b>Level 2 Investments<sup>(1)</sup></b> |                  |                     |                            |                   |                   |                     |                       |                         |
| Plains GP Holdings, L.P.                 |                  |                     |                            |                   |                   |                     |                       |                         |
| Plains AAP, L.P.                         | (2)              | (3)                 | 1,622                      | \$ 5,226          | \$ 37,864         | \$ 23.34            | 1.8%                  | 1.1%                    |
| <b>Level 3 Investments<sup>(4)</sup></b> |                  |                     |                            |                   |                   |                     |                       |                         |
| Capital Product Partners L.P.            |                  |                     |                            |                   |                   |                     |                       |                         |
| Class B Units                            | (2)              | (5)                 | 3,636                      | \$ 17,172         | \$ 32,727         | \$ 9.00             | 1.5%                  | 0.9%                    |
| MPLX LP                                  |                  |                     |                            |                   |                   |                     |                       |                         |
| Convertible Preferred Units              | 5/13/16          | (5)                 | 2,255                      | 72,217            | 84,126            | 37.30               | 4.0                   | 2.4                     |
| <b>Total</b>                             |                  |                     |                            | <b>\$ 89,389</b>  | <b>\$ 116,853</b> |                     | <b>5.5%</b>           | <b>3.3%</b>             |
| Total of all restricted securities       |                  |                     |                            | \$ 94,615         | \$ 154,717        |                     | 7.3%                  | 4.4%                    |

(1) The Company values its investment in Plains AAP, L.P. ( PAGP-AAP ) on an as exchanged basis based on the higher public market value of either Plains GP Holdings, L.P. ( PAGP ) or Plains All American, L.P. ( PAA ). As of February 28, 2019, the Company's PAGP-AAP investment is valued at PAA's closing price. See Note 3 Fair Value.

(2) Security was acquired at various dates in current and/or prior fiscal years.

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

(4) Securities are valued using inputs reflecting the Company's own assumptions as more fully described in Note 2 Significant Accounting Policies and Note 3 Fair Value.

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

### 8. Derivative Financial Instruments

As of February 28, 2019, the Company held no derivative instruments, and during the three months ended February 28, 2019, the Company did not have any activity involving derivative instruments. See Note 2 Significant Accounting Policies.

**9. Investment Transactions**

For the three months ended February 28, 2019, the Company purchased and sold securities in the amounts of \$264,500 and \$337,935 (excluding short-term investments and options, if any).

**10. Credit Facility and Term Loan**

On February 8, 2019, the Company amended and extended its unsecured revolving credit facility (the Credit Facility ) that was scheduled to mature on February 15, 2019. The Credit Facility has a 364-day term, maturing on February 7, 2020 and a total commitment amount of \$300,000. The interest rate on outstanding borrowings under the Credit Facility may vary between LIBOR plus 1.30% and LIBOR plus 1.95%, depending on the Company's asset coverage ratios. The Company pays a fee of 0.20% per annum on any unused amounts of the Credit Facility. In connection with the renewal and increase in size of the Credit Facility by \$150,000, the Company terminated its existing \$150,000 unsecured revolving term loan facility that was scheduled to mature on February 18, 2019.

## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## NOTES TO FINANCIAL STATEMENTS

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

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For the three months ended February 28, 2019, the average amount of borrowings outstanding under the Credit Facility was \$12,433 with a weighted average interest rate of 3.76%. As of February 28, 2019, the Company had no borrowings outstanding under the Credit Facility.

The Company has a \$60,000 unsecured term loan (the Term Loan). The Term Loan matures on August 11, 2021. The interest rate on \$30,000 of the Term Loan is fixed at a rate of 3.06% and the interest rate on the remaining \$30,000 is LIBOR plus 1.50%. Amounts repaid under the Term Loan cannot be reborrowed. As of February 28, 2019, \$60,000 was borrowed under the Term Loan at a weighted average interest rate of 3.52%. As of February 28, 2019, the Company had \$297 of unamortized Term Loan issuance costs.

As of February 28, 2019, the Company was in compliance with all financial and operational covenants required by the Credit Facility and Term Loan. See Financial Highlights for the Company's asset coverage ratios under the 1940 Act.

**11. Notes**

At February 28, 2019, the Company had \$716,000 aggregate principal amount of Notes outstanding. The table below sets forth the key terms of each series of Notes outstanding at February 28, 2019.

| Series | Principal Outstanding, February 28, 2019 | Unamortized Issuance Costs | Estimated Fair Value February 28, 2019 | Fixed Interest Rate | Maturity Date |
|--------|--|----------------------------|--|---------------------|---------------|
| Z      | \$ 15,000                                | \$ 3                       | \$ 15,100                              | 3.39%               | 5/3/19        |
| AA     | 15,000                                   | 18                         | 15,100                                 | 3.56%               | 5/3/20        |
| BB     | 35,000                                   | 68                         | 35,300                                 | 3.77%               | 5/3/21        |
| CC     | 76,000                                   | 194                        | 77,100                                 | 3.95%               | 5/3/22        |
| DD     | 75,000                                   | 12                         | 75,300                                 | 2.74%               | 4/16/19       |
| EE     | 50,000                                   | 104                        | 49,800                                 | 3.20%               | 4/16/21       |
| FF     | 65,000                                   | 208                        | 65,100                                 | 3.57%               | 4/16/23       |
| GG     | 45,000                                   | 178                        | 44,800                                 | 3.67%               | 4/16/25       |
| II     | 30,000                                   | 19                         | 30,100                                 | 2.88%               | 7/30/19       |
| JJ     | 30,000                                   | 78                         | 30,000                                 | 3.46%               | 7/30/21       |
| KK     | 80,000                                   | 346                        | 81,200                                 | 3.93%               | 7/30/24       |
| LL     | 50,000                                   | 107                        | 49,600                                 | 2.89%               | 10/29/20      |
| MM     | 40,000                                   | 141                        | 39,600                                 | 3.26%               | 10/29/22      |
| NN     | 20,000                                   | 80                         | 19,800                                 | 3.37%               | 10/29/23      |
| OO     | 90,000                                   | 393                        | 89,100                                 | 3.46%               | 10/29/24      |
|        | \$ 716,000                               | \$ 1,949                   | \$ 717,000                             |                     |               |

Holders of the fixed rate Notes are entitled to receive cash interest payments semi-annually (on June 19 and December 19) at the fixed rate. As of February 28, 2019, the weighted average interest rate on the outstanding Notes was 3.43%.

As of February 28, 2019, each series of Notes was rated AAA by FitchRatings and Kroll Bond Rating Agency (KBRA). In the event the credit rating on any series of Notes falls below A- (for either FitchRatings or KBRA), the interest rate on such series will increase by 1% during the period of time such series is rated below A-. The Company is required to maintain a current rating from one rating agency with respect to each series of Notes and is prohibited from having any rating of less than investment grade (BBB-) with respect to each series of Notes.

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The Notes were issued in private placement offerings to institutional investors and are not listed on any exchange or automated quotation system. The Notes contain various covenants related to other indebtedness, liens and limits on the Company's overall leverage. Under the 1940 Act and the terms of the Notes, the Company may not declare dividends or make other distributions on shares of its common stock or make purchases of such



## KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY

## NOTES TO FINANCIAL STATEMENTS

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shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to senior securities representing indebtedness (including the Notes) would be less than 300%.

The Notes are redeemable in certain circumstances at the option of the Company. The Notes are also subject to a mandatory redemption to the extent needed to satisfy certain requirements if the Company fails to meet an asset coverage ratio required by law and is not able to cure the coverage deficiency by the applicable deadline, or fails to cure a deficiency as stated in the Company's rating agency guidelines in a timely manner.

The Notes are unsecured obligations of the Company and, upon liquidation, dissolution or winding up of the Company, will rank: (1) senior to all of the Company's outstanding preferred shares; (2) senior to all of the Company's outstanding common shares; (3) on parity with any unsecured creditors of the Company and any unsecured senior securities representing indebtedness of the Company; and (4) junior to any secured creditors of the Company.

At February 28, 2019, the Company was in compliance with all covenants under the Notes agreements.

**12. Preferred Stock**

At February 28, 2019, the Company had 12,680,000 shares of MRP Shares outstanding, with a total liquidation value of \$317,000 (\$25.00 per share). The table below sets forth the key terms of each series of the MRP Shares at February 28, 2019.

| Series           | Liquidation Value<br>February 28,<br>2019 | Unamortized<br>Issuance Costs | Estimated<br>Fair Value<br>February 28,<br>2019 | Rate  | Mandatory<br>Redemption<br>Date |
|------------------|---|-------------------------------|---|-------|---------------------------------|
| C                | \$ 42,000                                 | \$ 101                        | \$ 42,400                                       | 5.20% | 11/9/20                         |
| F <sup>(1)</sup> | 125,000                                   | 449                           | 125,500   | 3.50% | 4/15/20                         |
| H                | 50,000                                    | 233                           | 49,500  | 4.06% | 7/30/21                         |
| I                | 25,000                                    | 159                           | 24,500  | 3.86% | 10/29/22                        |
| J                | 50,000                                    | 396                           | 48,600  | 3.36% | 11/9/21                         |
| K                | 25,000                                    | 32                            | 24,700  | 3.37% | 4/10/20                         |
|                  | \$ 317,000                                | \$ 1,370                      | \$ 315,200                                      |       |                                 |

(1) Series F MRP Shares are publicly traded on the NYSE under the symbol KYNPRF. The fair value is based on the price of \$25.10 as of February 28, 2019.

Holders of the Series C, H, I, J and K MRP Shares are entitled to receive cumulative cash dividend payments on the first business day following each quarterly period (February 28, May 31, August 31 and November 30). Holders of the Series F MRP Shares are entitled to receive cumulative cash dividend payments on the first business day of each month.

As of February 28, 2019, each series of MRP Shares was rated A by FitchRatings and A+ by KBRA.

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The table below outlines the terms of each series of MRP Shares. The dividend rate on the Company's MRP Shares will increase if the credit rating is downgraded below A. Further, the annual dividend rate for all series of MRP Shares will increase by 4.0% if no ratings are maintained, and the annual dividend rate will increase by 5.0% if the Company fails to make dividend or certain other payments. The Company is required to maintain a current rating from one rating agency with respect to each series of MRP Shares.

|                                  | <b>Series C, H, I, J and K</b> | <b>Series F</b>       |
|----------------------------------|--------------------------------|-----------------------|
| Ratings Threshold                | A                              | A                     |
| Method of Determination          | Lowest Credit Rating           | Highest Credit Rating |
| Increase in Annual Dividend Rate | 0.5% to 4.0%                   | 0.75% to 4.0%         |

**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY****NOTES TO FINANCIAL STATEMENTS**

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

(UNAUDITED)

The MRP Shares rank senior to all of the Company's outstanding common shares and on parity with any other preferred stock. The MRP Shares are redeemable in certain circumstances at the option of the Company and are also subject to a mandatory redemption if the Company fails to meet a total leverage (debt and preferred stock) asset coverage ratio of 225% or fails to maintain its basic maintenance amount as stated in the Company's rating agency guidelines.

Under the terms of the MRP Shares, the Company may not declare dividends or pay other distributions on shares of its common stock or make purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to total leverage would be less than 225% or the Company would fail to maintain its basic maintenance amount as stated in the Company's rating agency guidelines.

The holders of the MRP Shares have one vote per share and will vote together with the holders of common stock as a single class except on matters affecting only the holders of MRP Shares or the holders of common stock. The holders of the MRP Shares, voting separately as a single class, have the right to elect at least two directors of the Company.

At February 28, 2019, the Company was in compliance with the asset coverage and basic maintenance requirements of its MRP Shares.

**13. Common Stock**

At February 28, 2019, the Company had 187,320,000 shares of common stock authorized and 126,337,114 shares outstanding. As of February 28, 2019, KAFA owned 86 shares of the Company. Transactions in common shares for the three months ended February 28, 2019 were as follows:

|   |             |
|---|-------------|
| Shares outstanding at November 30, 2018             | 126,202,954 |
| Shares issued through reinvestment of distributions | 134,160     |
| Shares outstanding at February 28, 2019             | 126,337,114 |

**14. Subsequent Events**

On March 28, 2019, the Company declared monthly distributions of \$0.12 per common share to be paid on April 30, May 31, and June 28 of 2019.

On March 29, 2019, the Company paid its previously declared distribution of \$0.12 per common share. Of the total distribution of \$15,160, pursuant to the Company's dividend reinvestment plan, \$1,233 was reinvested into the Company through open market purchases of common stock.

On April 3, 2019, the Company redeemed \$15,000 Series Z Notes (originally scheduled to mature May 3, 2019) at par, with cash on hand. On April 16, 2019, the Company repaid \$75,000 Series DD Notes (maturity date) with a combination of cash on hand and borrowings under the Credit Facility.

The Company has performed an evaluation of subsequent events through the date the financial statements were issued and has determined that no additional items require recognition or disclosure.



**KAYNE ANDERSON MLP/MIDSTREAM INVESTMENT COMPANY**

**REPURCHASE DISCLOSURE**

**(UNAUDITED)**

Notice is hereby given in accordance with Section 23(c) of the 1940 Act, that the Company may from time to time purchase shares of its common and preferred stock and its Notes in the open market or in privately negotiated transactions.

**Directors and Corporate Officers**

|                      |   |
|----------------------|---|
| Kevin S. McCarthy    | Chairman of the Board of Directors<br>and Chief Executive Officer |
| William R. Cordes    | Director  |
| Anne K. Costin       | Director  |
| Barry R. Pearl       | Director  |
| Albert L. Richey     | Director  |
| William H. Shea, Jr. | Director  |
| William L. Thacker   | Director  |
| James C. Baker       | Director and President  |
| Terry A. Hart        | Chief Financial Officer, Treasurer and Assistant Secretary        |
| David J. Shladovsky  | Secretary   |
| Michael J. O Neil    | Chief Compliance Officer  |
| J.C. Frey            | Executive Vice President  |
| Ron M. Logan, Jr.    | Senior Vice President   |
| Jody C. Meraz        | Senior Vice President   |
| A. Colby Parker      | Assistant Treasurer   |

**Investment Adviser**

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**Administrator**

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Cincinnati, OH 45246

**Stock Transfer Agent and Registrar**

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Brooklyn, NY 11219

(888) 888-0317

**Custodian**

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**Independent Registered Public Accounting Firm**

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**Legal Counsel**

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