

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-Q

October 30, 2013

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

Washington, DC 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**  
**Investment Company Act file number 811-22467**

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

(Exact name of registrant as specified in charter)

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

Houston, Texas 77002

(Address of principal executive offices) (Zip code)

**David Shladovsky, Esq.**

**KA Fund Advisors, LLC**

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

**Houston, Texas 77002**

(Name and address of agent for service)

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

Date of fiscal year end: November 30, 2013

Date of reporting period: August 31, 2013

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| <b>Description</b>   | <b>Shares/Units</b> | <b>Value</b> |
|--|---------------------|--------------|
| <b>Long-Term Investments 142.5%</b>                              |                     |              |
| <b>Equity Investments<sup>(1)</sup> 124.8%</b>                   |                     |              |
| <b>United States 119.0%</b>                                      |                     |              |
| <b>Midstream MLP<sup>(2)(3)</sup> 56.5%</b>                      |                     |              |
| Access Midstream Partners, L.P. <sup>(4)</sup>                   | 115                 | \$ 5,236     |
| Atlas Pipeline Partners, L.P.                                    | 129                 | 4,986        |
| Buckeye Partners, L.P. Class B Units <sup>(5)(6)(7)</sup>        | 328                 | 22,949       |
| Crestwood Midstream Partners LP                                  | 469                 | 12,164       |
| Crosstex Energy, L.P.  | 584                 | 10,937       |
| DCP Midstream Partners, LP                                       | 374                 | 17,909       |
| Enbridge Energy Management, L.L.C. <sup>(6)(8)</sup>             | 2,203               | 66,062       |
| Energy Transfer Partners, L.P. <sup>(4)(9)</sup>                 | 204                 | 10,453       |
| Enterprise Products Partners L.P. <sup>(9)</sup>                 | 321                 | 19,084       |
| Exterran Partners, L.P.  | 352                 | 9,820        |
| Global Partners LP   | 326                 | 11,022       |
| Inergy, L.P.   | 276                 | 3,799        |
| Inergy Midstream, L.P.   | 683                 | 15,877       |
| Kinder Morgan Management, LLC <sup>(6)(8)</sup>                  | 931                 | 74,340       |
| MarkWest Energy Partners, L.P. <sup>(4)(10)</sup>                | 228                 | 15,256       |
| Niska Gas Storage Partners LLC                                   | 119                 | 1,685        |
| NuStar Energy L.P.   | 53                  | 2,202        |
| ONEOK Partners, L.P.   | 210                 | 10,389       |
| Plains All American GP LLC Unregistered <sup>(4)(8)(10)</sup>    | 7                   | 31,057       |
| Plains All American Pipeline, L.P. <sup>(10)</sup>               | 459                 | 23,202       |
| PVR Partners, L.P. <sup>(10)</sup>                               | 323                 | 7,498        |
| QEP Midstream Partners, LP <sup>(11)</sup>                       | 50                  | 1,139        |
| Regency Energy Partners LP                                       | 729                 | 19,708       |
| Summit Midstream Partners, LP                                    | 90                  | 2,978        |
| Targa Resources Partners LP <sup>(4)</sup>                       | 63                  | 3,054        |
| USA Compression Partners, LP                                     | 5                   | 113          |
| Western Gas Partners, LP   | 115                 | 6,807        |
| Williams Partners L.P.   | 364                 | 17,956       |
|  |                     | 427,682      |
| <b>Midstream Company<sup>(2)</sup> 55.3%</b>                     |                     |              |
| Capital Product Partners L.P. <sup>(12)</sup>                    | 1,354               | 11,997       |
| Capital Products Partners L.P. Class B Units <sup>(12)(13)</sup> | 606                 | 5,752        |
| CenterPoint Energy, Inc.   | 708                 | 16,244       |
| Golar LNG Partners LP <sup>(12)</sup>                            | 1,073               | 34,882       |
| Kinder Morgan, Inc.  | 1,894               | 71,855       |
| KNOT Offshore Partners LP <sup>(12)</sup>                        | 543                 | 13,059       |

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|  |       |         |
|--|-------|---------|
| NiSource Inc. <sup>(4)</sup>   | 372   | 10,882  |
| ONEOK, Inc. <sup>(4)</sup>   | 1,599 | 82,231  |
| Spectra Energy Corp. <sup>(4)</sup>  | 818   | 27,084  |
| Targa Resources Corp. <sup>(4)</sup>                                       | 417   | 28,404  |
| Teekay Offshore Partners L.P. <sup>(4)(12)</sup>                           | 556   | 17,657  |
| Teekay Offshore Partners L.P. Series A Preferred Units <sup>(12)(14)</sup> | 300   | 7,410   |
| The Williams Companies, Inc. <sup>(4)</sup>                                | 2,523 | 91,427  |
|  |       | 418,884 |

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

| Description                                      | Shares/Units | Value    |
|--|--------------|----------|
| <b>Other Energy 5.9%</b>                         |              |          |
| Enduro Royalty Trust                             | 132          | \$ 2,062 |
| HollyFrontier Corporation <sup>(4)</sup>         | 102          | 4,528    |
| Marathon Petroleum Corporation <sup>(4)</sup>    | 106          | 7,664    |
| NRG Yield, Inc. Class A <sup>1)</sup>            | 147          | 4,095    |
| Pacific Coast Oil Trust                          | 309          | 5,620    |
| Phillips 66 <sup>(4)</sup>                       | 111          | 6,321    |
| SandRidge Mississippian Trust II <sup>(15)</sup> | 184          | 2,452    |
| Seadrill Limited <sup>(4)</sup>                  | 126          | 5,810    |
| The Southern Company                             | 80           | 3,309    |
| VOC Energy Trust                                 | 173          | 2,650    |
|  |              | 44,511   |
| <b>Other MLP<sup>(3)</sup> 0.7%</b>              |              |          |
| BreitBurn Energy Partners L.P.                   | 183          | 3,235    |
| Emerge Energy Services LP <sup>(10)</sup>        | 43           | 1,247    |
| LRR Energy LP                                    | 52           | 780      |
|  |              | 5,262    |
| <b>Other 0.6%</b>                                |              |          |
| Navios Maritime Partners L.P. <sup>(12)</sup>    | 330          | 4,651    |
| <b>Total United States (Cost \$692,576)</b>      |              | 900,990  |
| <b>Canada 5.8%</b>                               |              |          |
| <b>Midstream Company<sup>(2)</sup> 5.6%</b>      |              |          |
| Enbridge Inc.                                    | 303          | 12,412   |
| Keyera Corp. <sup>(4)</sup>                      | 108          | 5,895    |
| Pembina Pipeline Corporation <sup>(4)(9)</sup>   | 602          | 18,676   |
| TransCanada Corporation                          | 115          | 5,016    |
|  |              | 41,999   |
| <b>Other Energy 0.2%</b>                         |              |          |
| Crescent Point Energy Corp. <sup>(4)</sup>       | 50           | 1,824    |
| <b>Total Canada (Cost \$39,471)</b>              |              | 43,823   |
| <b>Total Equity Investments (Cost \$732,047)</b> |              | 944,813  |

|                                   | Interest Rate | Maturity Date | Principal Amount |        |
|-----------------------------------|---------------|---------------|------------------|--------|
| <b>Debt Instruments</b>           | <b>17.7%</b>  |               |                  |        |
| <b>Upstream</b>                   | <b>15.6%</b>  |               |                  |        |
| Athlon Energy Inc.                | 7.375%        | 4/15/21       | \$ 5,600         | 5,684  |
| Aurora Oil & Gas Limited          | 7.500         | 4/1/20        | 9,600            | 9,504  |
| BlackBrush Oil & Gas, L.P.        | (16)          | 6/3/19        | 8,688            | 8,819  |
| Clayton Williams Energy, Inc.     | 7.750         | 4/1/19        | 8,371            | 8,580  |
| Comstock Resources, Inc.          | 9.500         | 6/15/20       | 3,500            | 3,815  |
| CrownRock, L.P.                   | 7.125         | 4/15/21       | 4,500            | 4,477  |
| El Paso Corporation               | 7.750         | 1/15/32       | 1,875            | 1,977  |
| Halcón Resources Corporation      | 9.750         | 7/15/20       | 15,250           | 15,822 |
| Midstates Petroleum Company, Inc. | 9.250         | 6/1/21        | 7,800            | 7,449  |
| Midstates Petroleum Company, Inc. | 10.750        | 10/1/20       | 3,850            | 3,908  |

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

| Description   | Interest Rate | Maturity Date | Principal Amount | Value     |
|---|---------------|---------------|------------------|-----------|
| <b>Upstream (continued)</b>                         |               |               |                  |           |
| Penn Virginia Corporation                           | 8.500%        | 5/1/20        | \$ 11,800        | \$ 11,800 |
| Resolute Energy Corporation                         | 8.500         | 5/1/20        | 3,775            | 3,869     |
| Rex Energy Corporation                              | 8.875         | 12/1/20       | 11,000           | 11,440    |
| Sanchez Energy Corporation                          | 7.750         | 6/15/21       | 7,750            | 7,634     |
| Rice Drilling B LLC                                 | (17)          | 10/22/18      | 5,591            | 5,479     |
| RKI Exploration & Production, LLC                   | 8.500         | 8/1/21        | 7,500            | 7,500     |
|   |               |               |                  | 117,757   |
| <b>Midstream Company<sup>(2)</sup> 1.1%</b>         |               |               |                  |           |
| SemGroup Corporation                                | 7.500         | 6/15/21       | 4,000            | 4,090     |
| Teekay Corporation                                  | 8.500         | 1/15/20       | 4,325            | 4,693     |
|   |               |               |                  | 8,783     |
| <b>Coal 1.0%</b>                                    |               |               |                  |           |
| Arch Coal, Inc.                                     | 7.250         | 6/15/21       | 9,500            | 7,410     |
| <b>Total Debt Investments (Cost \$132,974)</b>      |               |               |                  | 133,950   |
| <b>Total Long-Term Investments (Cost \$865,021)</b> |               |               |                  | 1,078,763 |

|   | Strike Price | Expiration Date | No. of Contracts |      |
|---|--------------|-----------------|------------------|------|
| <b>Liabilities</b>                                  |              |                 |                  |      |
| <b>Call Option Contracts Written<sup>(18)</sup></b> |              |                 |                  |      |
| <b>United States</b>                                |              |                 |                  |      |
| <b>Midstream MLP</b>                                |              |                 |                  |      |
| Access Midstream Partners, L.P.                     | \$ 50.00     | 9/20/13         | 450              | (6)  |
| Energy Transfer Partners, L.P.                      | 50.00        | 9/20/13         | 180              | (32) |
| Energy Transfer Partners, L.P.                      | 52.50        | 9/20/13         | 180              | (10) |
| Energy Transfer Partners, L.P.                      | 55.00        | 9/20/13         | 300              | (3)  |
| MarkWest Energy Partners, L.P.                      | 70.00        | 9/20/13         | 400              | (22) |
| MarkWest Energy Partners, L.P.                      | 72.50        | 9/20/13         | 360              | (5)  |
| Targa Resources Partners LP                         | 50.00        | 9/20/13         | 300              | (14) |
|   |              |                 |                  | (92) |

**Midstream Company**



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|                               |       |          |       |       |
|-------------------------------|-------|----------|-------|-------|
| NiSource Inc.                 | 30.00 | 9/20/13  | 310   | (5)   |
| NiSource Inc.                 | 31.00 | 9/20/13  | 310   | (2)   |
| ONEOK, Inc.                   | 52.50 | 9/20/13  | 700   | (63)  |
| ONEOK, Inc.                   | 55.00 | 9/20/13  | 700   | (11)  |
| ONEOK, Inc.                   | 52.50 | 10/18/13 | 1,750 | (210) |
| ONEOK, Inc.                   | 55.00 | 10/18/13 | 1,750 | (87)  |
| Spectra Energy Corp.          | 34.00 | 10/18/13 | 1,220 | (67)  |
| Targa Resources Corp.         | 70.00 | 9/20/13  | 320   | (26)  |
| Targa Resources Corp.         | 70.00 | 10/18/13 | 490   | (73)  |
| Teekay Offshore Partners L.P. | 32.00 | 9/20/13  | 500   | (33)  |
| Teekay Offshore Partners L.P. | 33.00 | 10/18/13 | 325   | (19)  |
| The Williams Companies, Inc.  | 35.00 | 9/20/13  | 1,000 | (136) |
| The Williams Companies, Inc.  | 37.00 | 9/20/13  | 1,300 | (40)  |
|                               |       |          |       | (772) |

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

| <b>Description</b>   | <b>Strike Price</b> | <b>Expiration Date</b> | <b>No. of Contracts</b> | <b>Value</b> |
|--|---------------------|------------------------|-------------------------|--------------|
| <b>Other Energy</b>  |                     |                        |                         |              |
| HollyFrontier Corporation  | \$ 46.50            | 10/18/13               | 250                     | \$ (29)      |
| HollyFrontier Corporation  | 48.50               | 10/18/13               | 250                     | (16)         |
| Marathon Petroleum Corporation   | 75.00               | 10/18/13               | 250                     | (62)         |
| Marathon Petroleum Corporation   | 77.50               | 10/18/13               | 500                     | (110)        |
| Marathon Petroleum Corporation   | 80.00               | 10/18/13               | 250                     | (24)         |
| Phillips 66  | 60.00               | 10/18/13               | 500                     | (67)         |
| Seadrill Limited   | 45.00               | 9/20/13                | 250                     | (34)         |
|  |                     |                        |                         | (342)        |
| <b>Total United States (Premium Received \$1,513)</b>                  |                     |                        |                         | (1,206)      |
| <b>Canada</b>  |                     |                        |                         |              |
| <b>Midstream Company</b>   |                     |                        |                         |              |
| Keyera Corp.   | 58.00               | 10/18/13               | 250                     | (34)         |
| Pembina Pipeline Corporation   | 33.00               | 9/20/13                | 900                     | (26)         |
| Pembina Pipeline Corporation   | 30.00               | 10/18/13               | 300                     | (48)         |
|  |                     |                        |                         | (108)        |
| <b>Other Energy</b>  |                     |                        |                         |              |
| Crescent Point Energy Corp.  | 40.00               | 9/20/13                | 100                     | (1)          |
| <b>Total Canada (Premium Received \$105)</b>                           |                     |                        |                         | (109)        |
| <b>Total Call Option Contracts Written (Premiums Received \$1,618)</b> |                     |                        |                         | (1,315)      |
| <b>Credit Facility</b>   |                     |                        |                         | (53,000)     |
| <b>Senior Unsecured Notes</b>  |                     |                        |                         | (205,000)    |
| <b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>       |                     |                        |                         | (65,000)     |
| <b>Other Liabilities</b>   |                     |                        |                         | (7,037)      |
| <b>Total Liabilities</b>   |                     |                        |                         | (331,352)    |
| <b>Other Assets</b>  |                     |                        |                         | 9,455        |
| <b>Total Liabilities in Excess of Other Assets</b>                     |                     |                        |                         | (321,897)    |
| <b>Net Assets Applicable to Common Stockholders</b>                    |                     |                        |                         | \$ 756,866   |

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- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Securities are categorized as Midstream if they (i) derive at least 50% of their revenues or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.
- (3) Unless otherwise noted, securities are treated as a publicly-traded partnership for regulated investment company ( RIC ) qualification purposes. To qualify as a RIC for tax purposes, the Fund may directly invest up to 25% of its total assets in equity and debt securities of entities treated as publicly-traded partnerships. The Fund had 24.3% of its total assets invested in publicly-traded partnerships at August 31, 2013. It is the Fund's intention to be treated as a RIC for tax purposes.
- (4) Security or a portion thereof is segregated as collateral on option contracts written.
- (5) Fair valued securities, restricted from public sale.
- (6) Distributions are paid-in-kind.
- (7) On September 1, 2013, all of the Buckeye Partners, L.P. Class B Units were converted into common units on a one-for-one basis. As of August 31, 2013, the Fund valued the Class B Units at the same price as the common units.
- (8) Security is not treated as a publicly-traded partnership for RIC qualification purposes.
- (9) In lieu of cash distributions, the Fund has elected to receive distributions in additional units/stock through the issuer's dividend reinvestment program.
- (10) The Fund believes that it is an affiliate of Emerge Energy Services LP, MarkWest Energy Partners, L.P., PVR Partners, L.P., Plains All American GP LLC and Plains All American Pipeline, L.P.
- (11) Security is not currently paying cash distributions but is expected to pay cash distributions within the next 12 months.
- (12) This company is structured like an MLP but is not treated as a publicly-traded partnership for RIC qualification purposes.
- (13) 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. The Class B Units pay quarterly cash distributions of \$0.21375 per unit and are convertible at any time at the option of the holder. If CPLP increases the quarterly cash distribution per common unit, the distribution per Class B Unit will increase by an equal amount. If CPLP does not redeem the Class B Units by May 2022, then the distribution increases by 25% per quarter to a maximum of \$0.33345 per unit. CPLP may require that the Class B Units convert into common units after May 2015 if the common unit price exceeds \$11.70 per unit, and the Class B Units are callable after May 2017 at a price of \$9.27 per unit and after May 2019 at \$9.00 per unit.
- (14) Series A Preferred Units represent preferred equity interests in Teekay Offshore Partners L.P. ( TOO ). The Series A Preferred Units are perpetual and are senior to the common units in terms of liquidation preference and priority of distributions. Series A Preferred Units do not have any conversion or exchange rights and pay quarterly cash distributions of \$0.453125 per unit. At any time on or after April 30, 2018, TOO may redeem the Series A Preferred Units at a redemption price of \$25.00 per unit plus all accumulated and unpaid

distributions.

- (15) Security is treated as a publicly-traded partnership for RIC qualification purposes.
- (16) Floating rate first lien secured term loan. Security pays interest at a rate of LIBOR + 650 basis points with a 1.25% LIBOR floor (7.75% as of August 31, 2013).
- (17) Floating rate second lien secured term loan. Security pays interest at a rate of LIBOR + 725 basis points with a 1.25% LIBOR floor (8.50% as of August 31, 2013).
- (18) Security is non-income producing.

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

At August 31, 2013, the Fund held the following restricted investments:

| Investment                                | Acquisition Date | Type of Restriction | Number of Units, Principal (\$)<br>(in 000s) | Cost Basis | Fair Value | Fair Value Per Unit | Percent of Net Assets | Percent of Total Assets |
|---|------------------|---------------------|--|------------|------------|---------------------|-----------------------|-------------------------|
| <b>Level 3 Investments<sup>(1)</sup></b>  |                  |                     |  |            |            |                     |                       |                         |
| Buckeye Partners, L.P.                    |                  |                     |  |            |            |                     |                       |                         |
| Class B Units                             | (2)              | (3)                 | 328  | \$ 15,000  | \$ 22,949  | \$ 70.00            | 3.0%                  | 2.1%                    |
| Capital Products Partners L.P.            |                  |                     |  |            |            |                     |                       |                         |
| Class B Units                             | (2)              | (3)                 | 606  | 4,654      | 5,752      | 9.49                | 0.8                   | 0.5                     |
| Plains All American GP LLC <sup>(4)</sup> |                  |                     |  |            |            |                     |                       |                         |
| Common Units                              | (2)              | (5)                 | 7  | 8,251      | 31,057     | 4,457               | 4.1                   | 2.9                     |
| Total                                     |                  |                     |  | \$ 27,905  | \$ 59,758  |                     | 7.9%                  | 5.5%                    |
| <b>Level 2 Investments<sup>(6)</sup></b>  |                  |                     |  |            |            |                     |                       |                         |
| Senior Notes and Secured Term Loans       |                  |                     |  |            |            |                     |                       |                         |
| Athlon Energy Inc.                        | (2)              | (3)                 | \$ 5,600                                     | \$ 5,658   | \$ 5,684   | n/a                 | 0.7%                  | 0.5%                    |
| Aurora Oil & Gas Limited                  | (2)              | (3)                 | 9,600  | 9,697      | 9,504      | n/a                 | 1.3                   | 0.9                     |
| BlackBrush Oil & Gas, L.P.                | (2)              | (5)                 | 8,688  | 8,648      | 8,819      | n/a                 | 1.2                   | 0.8                     |
| CrownRock, L.P.                           | (2)              | (5)                 | 4,500  | 4,500      | 4,477      | n/a                 | 0.6                   | 0.4                     |
| Midstates Petroleum Company, Inc.         | (2)              | (3)                 | 3,850  | 4,044      | 3,908      | n/a                 | 0.5                   | 0.3                     |
| Midstates Petroleum Company, Inc.         | (2)              | (3)                 | 7,800  | 7,800      | 7,449      | n/a                 | 1.0                   | 0.7                     |
| Rex Energy Corporation                    | (2)              | (3)                 | 11,000                                       | 11,029     | 11,440     | n/a                 | 1.5                   | 1.1                     |
| Rice Drilling B LLC                       | (2)              | (5)                 | 5,591  | 5,526      | 5,479      | n/a                 | 0.7                   | 0.5                     |
| RKI Exploration & Production, LLC         | 7/15/13          | (5)                 | 7,500  | 7,500      | 7,500      | n/a                 | 1.0                   | 0.7                     |
| Sanchez Energy Corporation                | (2)              | (3)                 | 7,750  | 7,750      | 7,634      | n/a                 | 1.0                   | 0.7                     |
| SemGroup Corporation                      | 6/7/13           | (3)                 | 4,000  | 4,000      | 4,090      | n/a                 | 0.5                   | 0.4                     |
| Total                                     |                  |                     |  | \$ 76,152  | \$ 75,984  |                     | 10.0%                 | 7.0%                    |
| Total of all restricted securities        |                  |                     |  | \$ 104,057 | \$ 135,742 |                     | 17.9%                 | 12.5%                   |

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

(2) Security was acquired at various dates during the nine months ended August 31, 2013 and/or in prior fiscal years.

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

(4) In determining the fair value for Plains GP LLC, the Fund's valuation is based on publicly available information. Robert V. Sinnott, the CEO of KACALP, is a member of Plains GP LLC's board of directors. Certain private investment funds managed by KACALP may value its investment in Plains GP LLC based on non-public information, and, as a result, such valuation may be different than the Fund's.

valuation.

(5) Unregistered security of a private company.

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

At August 31, 2013, the cost basis of investments for federal income tax purposes was \$873,032. At August 31, 2013, gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

|                               |            |
|-------------------------------|------------|
| Gross unrealized appreciation | \$ 216,459 |
| Gross unrealized depreciation | (10,728)   |
| Net unrealized appreciation   | \$ 205,731 |

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

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

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

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

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

*Level 3* Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

Unobservable inputs are those inputs that reflect the Fund's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following table presents the Fund's assets and liabilities measured at fair value on a recurring basis at August 31, 2013, and the Fund 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 Other<br>Observable Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
|----------------------------------|--------------|--|---|-------------------------------------|
| <b>Assets at Fair Value</b>      |              |  |   |                                     |
| Equity investments               | \$ 944,813   | \$ 885,055   | \$  | \$ 59,758                           |
| Debt investments                 | 133,950      |  | 133,950   |                                     |
| Total assets at fair value       | \$ 1,078,763 | \$ 885,055   | \$ 133,950  | \$ 59,758                           |
| <b>Liabilities at Fair Value</b> |              |  |   |                                     |
| Call option contracts written    | \$ 1,315     | \$   | \$ 1,315  | \$                                  |

For the nine months ended August 31, 2013, there were no transfers between Level 1 and Level 2.

The following table presents the Fund's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended August 31, 2013.

|                           | Equity<br>Investments |
|---------------------------|-----------------------|
| Balance November 30, 2012 | \$ 34,937             |
| Purchases                 | 9,000                 |
| Issuances                 | 1,088                 |
| Transfers out             | (8,291)               |
| Realized gains (losses)   |                       |
| Unrealized gains, net     | 23,024                |
| Balance August 31, 2013   | \$ 59,758             |

The \$23,024 of unrealized gains presented in the table above for the nine months ended August 31, 2013 relate to investments that were still held at August 31, 2013.

The purchases of \$9,000 for the nine months ended August 31, 2013 relate to the Fund's investment in Capital Products Partners L.P. (Class B Units) and Inergy Midstream, L.P. (Common Units). The issuances of \$1,088 for the nine months ended August 31, 2013 relate to additional

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units received from Buckeye Partners, L.P. (Class B Units) and Crestwood Midstream Partners LP (Class C Units). The transfers out of \$8,291 for the nine months ended August 31, 2013 relate to the Fund's investments in Crestwood Midstream Partners LP, Class C Units and Inergy Midstream, L.P., common units that became marketable during the fiscal second quarter of 2013.



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

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

| Derivatives Not Accounted for as | Statement of Assets and Liabilities Location | Fair Value as of |
|----------------------------------|--|------------------|
| Hedging Instruments              | Statement of Assets and Liabilities Location | August 31, 2013  |
| Call options                     | Call option contracts written                | \$ (1,315)       |

The following table sets forth the effect of the Fund's derivative instruments.

| Derivatives Not Accounted for as | Location of Gains/(Losses) on    | For the Nine Months Ended |                   |
|----------------------------------|----------------------------------|---------------------------|-------------------|
|                                  |                                  | Net Realized              | Change in         |
| Hedging Instruments              | Derivatives Recognized in Income | Gains/(Losses) on         | Unrealized        |
|                                  |                                  | in                        | Gains/(Losses) on |
|                                  |                                  | Income                    | Derivatives       |
|                                  |                                  |                           | Recognized in     |
|                                  |                                  |                           | Income            |
| Call options                     | Options                          | \$ 3,490                  | \$ 858            |
| Interest rate swap contract      | Interest rate swap contract      | (385)                     |                   |
|                                  |                                  | \$ 3,105                  | \$ 858            |

The Fund's investments are concentrated in the energy sector. The focus of the Fund's portfolio within the energy sector may present more risks than if the Fund's portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Fund than on an investment company that does not concentrate in energy. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the Fund invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Fund may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence. At August 31, 2013, the Fund had the following investment concentrations.

| Category                       | Percent of   |
|--------------------------------|--------------|
|                                | Total Assets |
| Securities of energy companies | 98.7%        |
| Equity securities              | 86.8%        |
| Debt securities                | 12.3%        |
| MLP securities                 | 24.3%        |
| Largest single issuer          | 8.4%         |
| Restricted securities          | 12.5%        |

Securities valuation policies and other investment related disclosures are hereby incorporated by reference to the Fund's semi-annual report previously filed with the Securities and Exchange Commission on form N-CSR on July 26, 2013 with a file number 811-22467.

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

**Item 2: Controls and Procedures.**

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

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

### **Item 3: Exhibits.**

1. The certifications of the registrant as required by Rule 30a-2(a) under the Act are exhibits to this report.

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**SIGNATURES**

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

KAYNE ANDERSON MIDSTREAM/ENERGY FUND,  
INC.

/s/ KEVIN S. MCCARTHY  
Name: Kevin S. McCarthy  
Title: Chairman of the Board of Directors,  
President and Chief Executive Officer  
Date: October 30, 2013

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

KAYNE ANDERSON MIDSTREAM/ENERGY FUND,  
INC.

/s/ KEVIN S. MCCARTHY  
Name: Kevin S. McCarthy  
Title: Chairman of the Board of Directors,  
President and Chief Executive Officer  
Date: October 30, 2013

/s/ TERRY A. HART  
Name: Terry A. Hart  
Title: Chief Financial Officer and Treasurer  
Date: October 30, 2013