

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

Form N-2/A

October 17, 2013

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As filed with the Securities and Exchange Commission on October 17, 2013

1933 Act File No. 333-188190; 1940 Act File No. 811 22467

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

**Form N-2**

- .. REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**
- X PRE-EFFECTIVE AMENDMENT NO. 1**
- .. POST-EFFECTIVE AMENDMENT NO.**

**and/or**

- X REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**
- X AMENDMENT NO. 5**

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

**(Exact name of registrant as specified in charter)**

**717 Texas Avenue, Suite 3100**

**Houston, TX 77002**

**(Address of Principal Executive Offices)**

**Registrant's Telephone Number, Including Area Code: (877) 657-3863**

**David J. Shladovsky, Esq.**

**KA Fund Advisors, LLC**

**1800 Avenue of the Stars, Second Floor**

**Los Angeles, California 90067**

**(Name and Address of Agent for Service)**

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**Approximate Date of Proposed Public Offering:** From time to time after the effective date of the Registration Statement.

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):

.. when declared effective pursuant to section 8(c).  
 If appropriate, check the following box:

- .. This post-effective amendment designates a new effective date for a previously filed post-effective amendment registration statement.
- .. This Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities</b>	<b>Amount Being</b>	<b>Offering</b>	<b>Proposed Maximum</b>	<b>Proposed Maximum</b>	<b>Amount of</b>
<b>Being Registered</b>	<b>Registered(1)</b>	<b>Price per Unit</b>	<b>Offering Price(2)</b>	<b>Aggregate</b>	<b>Registration</b>
<b>Being Registered</b>	<b>Registered(1)</b>	<b>Price per Unit</b>	<b>Offering Price(2)</b>	<b>Aggregate</b>	<b>Fee</b>
Common Stock, \$0.001 par value per share (3)					
Preferred Stock, \$0.001 par value per share (3)					
Total				\$300,000,000	\$40,920(4)

- (1) There are being registered hereunder a presently indeterminate number of shares of common stock or preferred stock to be offered on an immediate, continuous or delayed basis.
- (2) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee. In no event will the aggregate initial offering price of all securities offered from time to time pursuant to the prospectus included as a part of this Registration Statement exceed \$300,000,000.
- (3) Includes shares that the underwriters have the option to purchase to cover over-allotments, if any.
- (4) Fee previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to completion, dated October 17, 2013**

**BASE PROSPECTUS**

**\$300,000,000**

**Common Stock**

**Preferred Stock**

Kayne Anderson Midstream/Energy Fund, Inc. (the Fund, we, us or our ) is a non-diversified, closed-end management investment company that began investment activities on November 24, 2010. Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions ( Distributions ) to our stockholders. There can be no assurance that the Fund will achieve its investment objective. We seek to provide our stockholders with a tax-efficient vehicle to invest in a portfolio of companies that own midstream and other energy assets. Our investments will be focused on securities of companies in the Midstream/Energy Sector, consisting of: (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. The majority of our investments consist of investments in equity securities of Midstream MLPs and Midstream Companies. Although a majority of our investments will be in equity securities, we may invest up to 30% of our assets in debt investments. Capitalized terms, not otherwise defined herein, have the meanings ascribed to them in the Glossary of Key Terms on page iii of this prospectus.

We may offer, from time to time, shares of our common stock \$0.001 par value per share or shares of our preferred stock \$0.001 par value per share, which we refer to in this prospectus collectively as our securities, in one or more offerings. We may offer our common stock or preferred stock separately or in concurrent separate offerings, in amounts, at prices and on terms set forth in a prospectus supplement to this prospectus. You should read this prospectus and the related prospectus supplement carefully before you decide to invest in any of our securities.

We may offer and sell our securities to or through underwriters, through dealers or agents that we designate from time to time, directly to purchasers or through a combination of these methods. If an offering of securities involves any underwriters, dealers or agents, then the applicable prospectus supplement will name the underwriters, dealers or agents and will provide information regarding any applicable purchase price, fee, commission or discount arrangements made with those underwriters, dealers or agents or the basis upon which such amount may be calculated. For more information about the manner in which we may offer our securities, see Plan of Distribution. We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement.

*(continued on the following page)*

**Investing in our securities may be speculative and involve a high degree of risk and should not constitute a complete investment program. Before buying any securities, you should read the discussion of the material risks of investing in our securities in Risk Factors beginning on page 19 of this prospectus. You should consider carefully these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is , 2013.

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*(continued from the previous page)*

We are managed by KA Fund Advisors, LLC ( Kafa ), a subsidiary of Kayne Anderson Capital Advisors, L.P. (together with Kafa, Kayne Anderson ), a leading investor in Energy Companies. As of August 31, 2013, Kayne Anderson and its affiliates managed assets of approximately \$23 billion, including \$21 billion in Energy Companies. Kafa manages three other publicly traded investment companies: Kayne Anderson MLP Investment Company (NYSE: KYN), Kayne Anderson Energy Total Return Fund, Inc. (NYSE: KYE) and Kayne Anderson Energy Development Company (NYSE: KED).

Shares of our common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol KMF. The net asset value of our common stock at the close of business on September 30, 2013 was \$34.94 per share, and the last sale price per share of our common stock on the NYSE as of that date was \$32.08. See Market and Net Asset Value Information.

**Shares of common stock of closed-end investment companies, like ours, frequently trade at discounts to their net asset values. If our common stock trades at a discount to our net asset value, the risk of loss may increase for purchasers in this offering, especially for those investors who expect to sell their common stock in a relatively short period after purchasing shares in this offering. See Risk Factors Additional Risks Related to Our Common Stock Market Discount From Net Asset Value Risk.**

Our common stock is junior in liquidation and distribution rights to our debt securities and preferred stock. The issuance of our debt securities and preferred stock represents the leveraging of our common stock. See Use of Leverage Effects of Leverage, Risk Factors Additional Risks Related to Our Common Stock Leverage Risk to Common Stockholders, and Description of Capital Stock. The issuance of any additional common stock offered by this prospectus will enable us to increase the aggregate amount of our leverage. Our preferred stock is senior in liquidation and distribution rights to our common stock and junior in liquidation and distribution rights to our debt securities. Investors in our preferred stock will be entitled to receive cash distributions at an annual rate that may vary for each distribution period. Our debt securities are our unsecured obligations and, upon our liquidation, dissolution or winding up, rank: (1) senior to all of our outstanding common stock and any preferred stock; (2) on a parity with our obligations to any unsecured creditors and any unsecured senior securities representing our indebtedness; and (3) junior to our obligations to any secured creditors.

**You should rely only on the information contained or incorporated by reference in this prospectus and any related prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. You should assume that the information appearing in this prospectus and any prospectus supplement is accurate only as of the respective dates on their front covers, regardless of the time of delivery of the prospectus, any prospectus supplement or any sale of our securities. Our business, financial condition, results of operations and prospects may have changed since that date.**

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This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission (the "SEC"), using the shelf registration process. Under the shelf registration process, we may offer, from time to time, separately or together in one or more offerings, the securities described in this prospectus. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. This prospectus, together with any prospectus supplement, sets forth concisely the information about us that a prospective investor ought to know before investing. You should read this prospectus and the related prospectus supplement before deciding whether to invest and retain them for future reference. A Statement of Additional information, dated \_\_\_\_\_, 20 (the "SAI"), containing additional information about us, has been filed with the SEC and is incorporated by reference in its entirety into this prospectus.

You may request a free copy of our SAI, the table of contents of which is on page 90 of this prospectus, request a free copy of our annual, semi-annual and quarterly reports, request other information or make stockholder inquiries by calling (877) 657-3863, or by writing to us at 717 Texas Avenue, Suite 3100, Houston, Texas 77002. Our annual, semi-annual and quarterly reports, and the SAI, also are available on our website at [www.kaynefunds.com](http://www.kaynefunds.com). Information included on such website does not form a part of this prospectus.

We file reports (including our annual, semi-annual and quarterly reports, and the SAI), proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Copies of such reports, proxy statements and other information, as well as the registration statement and the

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amendments, exhibits and schedules thereto, can be obtained from the SEC's Public Reference Room in Washington, D.C. Information relating to the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. Such materials, as well as the Fund's annual, semi-annual and quarterly reports and other information regarding the Fund, are also available on the SEC's website (<http://www.sec.gov>). You also may e-mail requests for these documents to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or make a request in writing to the SEC's Public Reference Room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549-0112.

Neither our common stock nor our preferred stock represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and they are not federally insured by the Federal Deposit Insurance Corporation, the Federal Board or any other governmental agency.



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**GLOSSARY OF KEY TERMS**

This glossary contains definitions of certain key terms, as they are used in our investment objective and policies and as described in the SAI. These definitions may not correspond to standard sector definitions.

*Energy Assets* means assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity.

*Energy Companies* means companies that own and operate Energy Assets or provide energy-related services. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenues or operating income from Energy Assets or providing services for the operation of such Energy Assets or (ii) have Energy Assets that represent the majority of their assets.

*General Partner MLPs* means Master Limited Partnerships whose assets consist of ownership interests of an affiliated Master Limited Partnership (which may include general partnership interests, incentive distribution rights, common units and subordinated units).

*Master Limited Partnerships* means limited partnerships and limited liability companies that are publicly traded and are treated as partnerships for federal income tax purposes.

*Midstream Assets* means assets used in energy logistics, including, but not limited to, assets used in transporting, storing, gathering, processing, distributing, or marketing of natural gas, natural gas liquids, crude oil or refined products.

*Midstream Companies* means companies, other than Midstream MLPs, that own and operate Midstream Assets. Such companies are not structured as Master Limited Partnerships and are taxed as corporations. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenue or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.

*Midstream/Energy Sector* consists of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies.

*Midstream Sector* consists of (a) Midstream MLPs and (b) Midstream Companies.

*Midstream MLPs* means MLPs that principally own and operate Midstream Assets. Midstream MLPs also include (a) MLPs that provide transportation and distribution services of energy related products through the ownership of marine transportation vessels, (b) General Partner MLPs whose assets consist of ownership interests of an affiliated Midstream MLP and (c) MLP Affiliates of Midstream MLPs.

*MLPs* means entities that are structured as Master Limited Partnerships and their affiliates and includes Midstream MLPs, Other MLPs and MLP Affiliates.

*MLP Affiliates* means affiliates of Master Limited Partnerships, substantially all of whose assets consist of i-units. MLP Affiliates are not treated as partnerships for federal income tax purposes.

*Other Energy Companies* means Energy Companies, excluding MLPs and Midstream Companies.

*Other MLPs* consists of (a) upstream MLPs, (b) coal MLPs, (c) propane MLPs and (d) MLPs that operate other energy assets or provide energy-related services.

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### **PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our securities offered by this prospectus. You should carefully read the entire prospectus, any related prospectus supplement and the SAI, including the documents incorporated by reference into them, particularly the section entitled "Risk Factors" and the financial statements and related notes. Except where the context suggests otherwise, the terms "we," "us," and "our" refer to Kayne Anderson Midstream/Energy Fund, Inc.; and "KAFA" or the "Adviser" refers to KA Fund Advisors, LLC; "Kayne Anderson" refers to KAFA and its managing member, Kayne Anderson Capital Advisors, L.P., collectively. Unless otherwise defined herein, the Glossary of Key Terms on page iii herein provides the definitions of certain key terms used in this prospectus.*

#### **The Fund**

Kayne Anderson Midstream/Energy Fund, Inc., a Maryland corporation, is a non-diversified, closed-end investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act").

Our common stock is traded on the New York Stock Exchange, or NYSE, under the symbol "KMF." We began investment activities on November 24, 2010 following our initial public offering. As of September 30, 2013, we had approximately 22.0 million shares of common stock outstanding, net assets applicable to our common stock of \$0.8 billion and total assets of approximately \$1.1 billion.

#### **Investment Objective**

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions ("Distributions") to our stockholders. See "Investment Objective and Policies."

#### **Investment Policies**

We seek to achieve our investment objective by investing in a portfolio of companies in the Midstream/Energy Sector with the majority of our investments in equity securities of Midstream MLPs and Midstream Companies.

Under normal market conditions:

We will invest at least 80% of our total assets in securities of companies in the Midstream/Energy Sector.

We will invest in equity securities such as common units, preferred units, subordinated units, general partner interests, common stocks, preferred stocks and convertible securities MLPs, Midstream Companies and Other Energy Companies.

We may directly invest up to but not more than 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of Master Limited Partnerships. This limit does not apply to securities issued by MLP Affiliates, which are not traded as publicly traded partnerships for federal income tax purposes.

We will invest at least 50% of our total assets in securities of Midstream MLPs and Midstream Companies.

We may invest up to but not more than 10% of our total assets in securities of Other MLPs.

We may invest up to but not more than 50% of our total assets in unregistered or otherwise restricted securities of companies in the Midstream/Energy Sector. For purposes of this limitation, "restricted"



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securities include (i) registered securities of public companies subject to a lock-up period, (ii) unregistered securities of public companies with registration rights, (iii) unregistered securities of public companies that become freely tradable with the passage of time, or (iv) securities of privately held companies. However, no more than 5% of our total assets may be invested in equity securities of privately held companies. For purposes of the foregoing, a registered security subject to such lock-up period will no longer be considered a restricted security upon expiration of the lock-up period, an unregistered security of any public company with registration rights will no longer be considered a restricted security when such securities become registered, and an unregistered security of a public company that becomes freely tradable with the passage of time will no longer be considered a restricted security upon the elapse of the requisite time period.

We may invest up to but not more than 30% of our total assets in debt securities of Energy Companies, including below-investment-grade debt securities (commonly referred to as junk bonds or high yield bonds). Up to but not more than 10% of our total assets may be invested in unrated debt securities or below-investment-grade debt securities that are rated less than B- (Standard & Poor's or FitchRatings)/ B3 (Moody's Investor Services, Inc.) of public or private companies. The balance of such debt investments may be invested in securities which are rated, at the time of investment, at least

B- (or an equivalent rating) by a nationally recognized ratings agency at the time of investment. For the purposes of determining if an investment satisfies this test, we will look to the highest credit rating on such debt investment. The debt securities in which we invest may have varying maturities which will generally not exceed 30 years.

We may invest up to but not more than 15% of our total assets in any single issuer.

Unless otherwise stated, all investment restrictions apply at the time of purchase and we will not be required to reduce a position due solely to market value fluctuations. However, although we may not be required to sell securities due to subsequent changes in value, if such changes cause us to have invested less than 80% of our total assets in securities of companies in the Midstream/Energy Sector, we will be required to make future purchases of securities in a manner so as to bring us into compliance with this investment policy.

We will invest primarily in companies located in North America, but may invest in companies located anywhere in the world. We will invest in companies of any market capitalization.

**Our Portfolio Investments**

As of September 30, 2013, substantially all of our assets were invested in the Midstream/Energy Sector. At that date, 88% of our long-term investments were invested in equity securities and 12% of our portfolio was invested in debt securities. Our top 10 largest holdings by issuer as of that date were:

	Company	Sector	Units (in thousands)	Amounts (\$ millions)	Percent of Long- Term Investments
1.	The Williams Companies, Inc.	Midstream Company	2,423	\$ 88.1	8.3%
2.	ONEOK, Inc.	Midstream Company	1,529	81.5	7.7
3.	Kinder Morgan Management, LLC	MLP Affiliate	931	69.8	6.6
4.	Kinder Morgan, Inc.	Midstream Company	1,894	67.4	6.3
5.	Enbridge Energy Management, L.L.C.	MLP Affiliate	2,203	63.4	6.0
6.	Plains All American GP LLC	Midstream MLP	7	38.2	3.6
7.	Golar LNG Partners LP	Midstream Company	1,073	34.9	3.3
8.	Targa Resources Corp.	Midstream Company	385	28.1	2.6
9.	Spectra Energy Corp.	Midstream Company	818	28.0	2.6
10.	Teekay Offshore Partners L.P.*	Midstream Company	806	24.3	2.3

\* Includes 300 Series A preferred units (\$7.4 million) and 506 common units (\$16.9 million).



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### **Our Investment Adviser**

KA Fund Advisors, LLC ( Kafa or the Adviser ) is our investment adviser, responsible for implementing and administering our investment strategy. Kafa is a subsidiary of Kayne Anderson Capital Advisors, L.P. ( Kacalp and together with Kafa, Kayne Anderson ). Both Kafa and Kacalp are SEC-registered investment advisers. As of August 31, 2013, Kayne Anderson and its affiliates managed approximately \$23 billion, including \$21 billion in securities of Energy Companies. Kafa manages three other publicly traded investment companies: Kayne Anderson MLP Investment Company (NYSE: KYN), Kayne Anderson Energy Total Return Fund, Inc. (NYSE: KYE) and Kayne Anderson Energy Development Company (NYSE: KED).

Kayne Anderson has invested in Energy Companies for over 20 years. We believe that Kayne Anderson has developed an understanding of the North American energy markets that enables it to identify and take advantage of attractive opportunities in the energy sector. In addition, Kayne Anderson's senior professionals have developed a strong reputation in the energy sector and have many long-term relationships with industry managers, which we believe gives Kayne Anderson an important advantage in sourcing and structuring private investments.

### **The Offering**

We may offer, from time to time, up to \$300 million of our common stock or preferred stock at prices and on terms to be set forth in one or more prospectus supplements to this prospectus.

We may offer and sell our securities to or through underwriters, through dealers or agents that we designate from time to time, directly to purchasers, through at-the-market transactions or through a combination of these methods. If an offering of securities involves any underwriters, dealers or agents, then the applicable prospectus supplement will name the underwriters, dealers or agents and will provide information regarding any applicable purchase price, fee, commission or discount arrangements made with those underwriters, dealers or agents or the basis upon which such amount may be calculated. See Plan of Distribution. We may not sell any of our securities through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

### **Use of Financial Leverage**

We plan to utilize financial leverage with respect to our common stock through the issuance of preferred stock and debt securities, our revolving credit facility and other borrowings (such as prime brokerage or margin loans). The timing and terms of any leverage transactions will be determined by our Board of Directors. The issuance of additional common stock offered by this prospectus will enable us to increase the aggregate amount of our leverage. Throughout this prospectus, our debt securities, our revolving credit facility and other borrowings are collectively referred to as Indebtedness.

We generally will seek to enhance our total returns through the use of financial leverage. Our policy is to utilize Indebtedness and our preferred stock, (each a Leverage Instrument and collectively Leverage Instruments ) in an amount that represents approximately 30% of our total assets, including proceeds from such Leverage Instruments (which equates to approximately 43.4% of our net assets as of September 30, 2013). However, based on market conditions at the time, we may use Leverage Instruments in amounts that represent greater than 30% of our total assets to the extent permitted by the 1940 Act. As of September 30, 2013, our Leverage Instruments represented approximately 27.5% of our total assets. At September 30, 2013, our asset coverage ratios under the 1940 Act were 461% and 360% for debt and total leverage (debt plus preferred stock), respectively.

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We currently target an asset coverage ratio with respect to debt of 400% but at times may be above or below our target depending upon market conditions. Leverage Instruments have seniority in liquidation and distribution rights over our common stock. Costs associated with any issuance of preferred stock are borne immediately by common stockholders and result in a reduction of the net asset value of our common stock. See Use of Leverage.

Because our Adviser's management fee is based upon a percentage of our average total assets, our Adviser's fee is higher since we employ leverage. Therefore, our Adviser has a financial incentive to use leverage, which may create a conflict of interest between our Adviser and our common stockholders.

There can be no assurance that our leveraging strategy will be successful during any period in which it is used. The use of leverage involves significant risks and creates a greater risk of loss, as well as potential for more gain, for holders of our common stock than if leverage is not used. See Risk Factors Additional Risks Related to Our Common Stock Leverage Risk to Common Stockholders and Additional Risks Related to Our Preferred Stock Senior Leverage Risk to Preferred Stockholders.

## **Derivatives and Other Strategies**

We currently expect to write call options with the purpose of generating realized gains or reducing our ownership of certain securities. We will only write call options on securities that we hold in our portfolio (*i.e.*, covered calls). A call option on a security is a contract that gives the holder of such call option the right to buy the security underlying the call option from the writer of such call option at a specified price at any time during the term of the option. At the time the call option is sold, the writer of a call option receives a premium (or call premium) from the buyer of such call option. If we write a call option on a security, we have the obligation upon exercise of such call option to deliver the underlying security upon payment of the exercise price. When we write a call option, an amount equal to the premium received by us will be recorded as a liability and will be subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by us as realized gains from investments on the expiration date. If we repurchase 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 realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether we have realized a gain or loss. We, as the writer of the option, bear the market risk of an unfavorable change in the price of the security underlying the written option.

We currently expect to utilize hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of our Leverage Instruments. Such interest rate swaps would principally be used to protect us against higher costs on our Leverage Instruments resulting from increases in short-term interest rates. We anticipate that the majority of our interest rate hedges will be interest rate swap contracts with financial institutions.

We may use short sales, arbitrage and other strategies to try to generate additional return. As part of such strategies, we may (i) engage in paired long-short trades to arbitrage pricing disparities in securities held in our portfolio; (ii) purchase call options or put options, (iii) enter into total return swap contracts; or (iv) sell securities short. Paired trading consists of taking a long position in one security and concurrently taking a short position in another security within the same or an affiliated issuer. With a long position, we purchase a stock outright; whereas with a short position, we would sell a security that we do not own and must borrow to meet our settlement obligations. We will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when we replace the borrowed security. See Risk Factors Risks Related to Our Investments and Investment Techniques Short Sales Risk. We do not intend to have a net short position that exceeds 2% of our total assets. A total return swap is a contract between two parties designed to replicate the economics of directly

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owning a security. We may enter into total return swaps with financial institutions related to equity investments in certain Master Limited Partnerships.

To a lesser extent, we may use various hedging and other risk management strategies to seek to manage market risks. Such hedging strategies would be utilized to seek to protect against possible adverse changes in the market value of securities held in our portfolio, or to otherwise protect the value of our portfolio. We may execute our hedging and risk management strategy by engaging in a variety of transactions, including buying or selling options or futures contracts on indexes. See **Risk Factors** **Risks Related to Our Investments and Investment Techniques** **Derivatives Risk**.

For purposes of determining compliance with the requirement that we invest 80% of our total assets in securities in the Midstream/Energy Sector, we value derivative instruments based on their respective current fair market values. See **Investment Objective and Policies**.

## **Distributions**

We have paid distributions to common stockholders every fiscal quarter since inception and intend to continue to pay quarterly distributions to our common stockholders, funded in part by the net distributable income generated by our portfolio investments. The net distributable income generated from our portfolio investments is the amount received by us as cash or paid-in-kind distributions from equity securities owned by us, interest payments received on debt securities owned by us, other payments on securities owned by us and net premiums received from the sale of covered call options, less current or anticipated operating expenses and our leverage costs (including dividends on preferred stock issued by us and excluding non-cash amortization of costs to issue leverage). Our quarterly distribution per share has increased by 23% since inception and we have increased our distribution in each of the last eight quarters. On October 18, 2013, we expect to pay a quarterly distribution of \$0.46 per share to our common stockholders. Including this distribution, we will have paid cumulative distributions since our inception of \$4.71 per share. Payment of future distributions is subject to approval by our Board of Directors, as well as meeting the covenants of our senior securities and the asset coverage requirements of the 1940 Act. A portion of the Fund's distributions may be a return of capital, which constitutes the return of a portion of a shareholder's original investment. Under the tax rules, such returns of capital are generally not currently taxable, but lower a shareholder's tax basis in his or her Fund shares. A lower tax basis will result in tax consequences to the shareholder in the future in connection with the sale of Fund shares, such as a larger capital gain or a smaller capital loss, even if the Fund shares are sold by the shareholder for an amount less than the shareholder's original investment. See **Distributions** and **Tax Matters**.

We pay dividends on our Series A and Series B Mandatory Redeemable Preferred Shares (the **Series A MRP Shares** and **Series B MRP Shares**, respectively) in accordance with the terms thereof. The holders of the Series A MRP Shares and Series B MRP Shares (collectively, the **MRP Shares**) shall be entitled to receive quarterly cumulative cash dividends, when, as and if authorized by the Board of Directors and declared by us. The Series A MRP Shares pay dividends at a rate of 5.32% per annum, and the Series B MRP Shares pay dividends at a rate of 4.50% per annum.

## **Use of Proceeds**

Unless otherwise specified in a prospectus supplement, we intend to use the net proceeds of any sales of our securities pursuant to this prospectus to make investments in portfolio companies in accordance with our investment objective and policies, to repay indebtedness or for general corporate purposes. Pending such investment, the proceeds of the offering may temporarily be invested in cash, cash equivalents, short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments. Income we received from these securities would likely



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be less than returns and yields sought pursuant to our investment objective and policies. Pending such investments, we anticipate either investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering. See Use of Proceeds.

## **Taxation**

We have elected to be treated for federal income tax purposes as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended (the Code). As a RIC, we generally will not be required to pay federal income taxes on any ordinary income or capital gains that we receive from our portfolio investments and distribute to our stockholders. To maintain our RIC status, we must meet specific source-of-income and asset diversification requirements and distribute in each of our taxable years at least 90% of the sum of our investment company taxable income (which generally consists of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any) and net tax-exempt interest out of assets legally available for distribution. If, in any year, we fail to qualify as a RIC under the applicable tax laws, we would be taxed as an ordinary corporation. In such circumstances, we could be required to recognize unrealized gains, pay substantial taxes and make substantial distributions before requalifying as a RIC that is accorded special tax treatment. See Tax Matters.

## **Stockholder Tax Features**

Excluding the impact of any realized gains or realized losses, we expect that a portion of our distributions to our common stockholders may constitute a non-taxable return of capital distribution. If we distribute investment company taxable income from current and accumulated earnings and profits (which includes realized gains or realized losses, if any) as computed for federal income tax purposes, such distributions will generally be taxable to stockholders in the current period as ordinary income for federal income tax purposes. If such distributions exceed our current and accumulated earnings and profits as computed for federal income tax purposes, such excess distributions will constitute a non-taxable return of capital to the extent of a common stockholder's basis in our common stock and will result in a reduction of such basis. To the extent such excess exceeds a common stockholder's basis in our common stock, such excess will be taxed as capital gain. A return of capital represents a return of a stockholder's original investment in our shares, and should not be confused with a dividend from earnings and profits. Upon the sale of common stock, our common stockholder generally will recognize capital gain or loss measured by the difference between the sale proceeds received by our common stockholder and our common stockholder's federal income tax basis in our common stock sold, as adjusted to reflect return of capital. We may also make distributions of net capital gains in the form of capital gain dividends, which generally will be taxable to shareholders as long-term capital gain for federal income tax purposes. See Tax Matters.

## **Risk Considerations**

Investing in our common stock or preferred stock involves risk, including the risk that you may receive little or no return on your investment, or even that you may lose part or all of your investment. Therefore, before investing in our common stock or preferred stock you should consider carefully the risks set forth in Risk Factors on page 16. We are designed primarily as a long-term investment vehicle, and neither our common stock nor our preferred stock is an appropriate investment for a short-term trading strategy. An investment in our common stock or preferred stock should not constitute a complete investment program for any investor and involves a high degree of risk. Due to the uncertainty in all investments, there can be no assurance that we will achieve our investment objective.

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### **Tax Risks**

In addition to other risk considerations, an investment in our securities will involve certain tax risks, including the risk the Master Limited Partnerships in which we invest will be classified as corporations rather than as partnerships for federal income tax purposes (which may reduce our return and negatively affect the net asset value of our common stock) and the risk of changes in tax laws or regulations, or interpretations thereof, which could adversely affect us or the MLPs and other portfolio companies in which we invest. Tax matters are very complicated, and the federal, state, local and foreign tax consequences of an investment in and holding of our securities will depend on the facts of each investor's situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect such investors.

We may form one or more taxable subsidiaries to make and hold investments in accordance with our investment objective. Such taxable subsidiaries may be formed to (i) hold equity and debt securities issued by Master Limited Partnerships and/or (ii) to hold equity securities issued by non-traded limited partnerships. Although we intend for such taxable subsidiaries to meet the asset diversification requirements outlined above in order for us to qualify as a RIC, it is possible the IRS will not respect our determinations. Failure to meet the asset diversification requirements may result in failure to qualify as a RIC, or in our having to dispose of certain investments at times we do not consider advantageous in order to prevent the loss of RIC status.

See [Tax Matters](#), [Qualification as a RIC](#) and [Risk Factors](#) - [Tax Risks](#) for more information on these risks.

### **Dividend Reinvestment Plan**

We have adopted a dividend reinvestment plan for our common stockholders. Our plan is an "opt out" dividend reinvestment plan. As a result, if we declare a cash distribution to our common stockholders, then such distributions will be automatically reinvested in additional shares of our common stock, unless the stockholder specifically elects to receive cash. Common stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as common stockholders who elect to receive their distribution in cash. See [Dividend Reinvestment Plan](#).

### **Trading at a Discount**

The shares of common stock of closed-end investment companies frequently trade at prices lower than their net asset value. We cannot assure you that our common stock will trade at a price higher than or equal to our net asset value. Also, our net asset value will be reduced immediately following this offering by the underwriting discount and our offering costs. The possibility that our common stock may trade at a discount to our net asset value is separate and distinct from the risk that our common stock's net asset value may decline. In addition to net asset value, the market price of our common stock may be affected by such factors as the distributions we make, which are in turn affected by expenses, the stability of our distributions, liquidity and market supply and demand. See [Risk Factors](#), [Description of Capital Stock](#) and [Our Structure; Common Stock Repurchases and Change In Our Structure](#). Our common stock is designed primarily for long-term investors and you should not purchase our common stock if you intend to sell it shortly after purchase.

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**FORWARD-LOOKING STATEMENTS**

Certain statements in this prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors in this prospectus and our SAI. In this prospectus, we use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements.

The forward-looking statements contained in this prospectus include statements as to:

our operating results;

our business prospects;

our expected investments and the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

our ability to source favorable private investments;

the ability of the MLPs, Midstream Companies and Other Energy Companies in which we invest to achieve their objectives;

our use of financial leverage and expected financings;

our tax status;

the tax status of the MLPs in which we intend to invest;

the adequacy of our cash resources and working capital; and

the timing and amount of distributions, dividends and interest income from the MLPs, Midstream Companies and Other Energy Companies in which we intend to invest.

The factors identified above are believed to be important factors, but not necessarily all of the important factors, that could cause our actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. Since our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, we cannot give any assurance that any of the events anticipated by the forward-looking statements will occur, or, if any of them do, what impact they will have on our results of operations and financial condition. All forward-looking statements included in this

prospectus are expressly qualified in their entirety by the foregoing cautionary statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update, amend or clarify these forward-looking statements or the risk factors contained in this prospectus, whether as a result of new information, future events or otherwise, except as may be required under the federal securities laws. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including our annual reports. We acknowledge that, notwithstanding the foregoing statement, the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 does not apply to investment companies such as us.

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

We are a non-diversified, closed-end investment company registered under the 1940 Act. We were formed as a Maryland corporation in August 1997.