KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.
Form N-CSR
January 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

INVESTMENT COMPANY ACT FILE NUMBER 811-22467

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

(Exact name of registrant as specified in charter)

811 Main Street, 14th Floor, Houston, Texas	77002
(Address of principal executive offices)	(Zip code)

David Shladovsky, Esq.

KA Fund Advisors, LLC, 811 Main Street, 14th 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, 2014

Date of reporting period: November 30, 2014

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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Item 1. Reports to Stockholders.

The report of Kayne Anderson Midstream/Energy Fund, Inc. (the Registrant) to stockholders for the fiscal year ended November 30, 2014 is attached below.

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Midstream/Energy Fund

KMF Annual Report

November 30, 2014

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

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

LETTER TO STOCKHOLDERS

January 14, 2015

Dear Fellow Stockholders:

While the investment environment has become increasingly challenging since the end of our fiscal year, we are pleased with our performance during fiscal 2014 and remain optimistic that we will see the energy markets strengthen over the remainder of 2015. The domestic economy continued to improve during calendar 2014, and the broader equity markets recorded a third consecutive year of double-digit returns, with the S&P 500 index generating a 14% total return. The MLP market, as measured by the Alerian MLP index, also set several new all-time highs during the year, but declined sharply after Thanksgiving as crude oil prices fell and sentiment in the energy sector turned decidedly more negative. Despite the sell-off in November and December, MLPs still generated a total return of 5% for calendar 2014. While we remain very optimistic about the long-term return potential of the MLPs and Midstream Companies, there will likely be some strong headwinds during the first half of calendar 2015.

As we have discussed in previous annual letters, the Shale Revolution has created both challenges and opportunities for energy companies. One key challenge that we have highlighted in the past is the potential for increased production to put pressure on commodity prices, and at the end of this year we saw that dynamic play out pretty dramatically in the crude oil market. Over the last several months, crude oil and natural gas liquids (NGL) prices have fallen by over 50% from summer 2014 levels. As a result, the energy market became extremely challenging at the end of our fiscal year and those challenges have continued during the first two months of fiscal 2015. While we expect that the prices of these commodities will continue to be under pressure during the first half of the year, we do not believe these lows prices are sustainable, and we anticipate a recovery during the second half of calendar 2015.

It is important to remember that MLPs and Midstream Companies, as a whole, are much less impacted by lower commodity prices than any other segment of the energy industry, because many of these companies have fee-based activities and very little volume risk. That being said, there are certain MLPs and Midstream Companies that are impacted directly and indirectly by lower commodity prices, in particular, those companies with gathering and processing assets concentrated in the unconventional basins. In general, we think that the biggest impact for these companies will be that volume growth on their assets will moderate, but volume will not decline. Nonetheless, we are constantly re-evaluating our models on these companies in this ever-changing environment as the upstream companies react to lower commodity prices. Our team of investment professionals has a long record of navigating the full range of commodity price environments, and we believe we are well positioned to identify the MLPs and Midstream Companies that are best positioned and capitalize on opportunities as they develop.

During fiscal 2014, we believe the Fund performed very well. One of the measures we employ to evaluate our performance is Net Asset Value Return, which is equal to the change in net asset value per share plus the cash distributions paid during the period, assuming reinvestment through our dividend reinvestment program. For fiscal 2014, the Fund delivered a Net Asset Value Return of 16.4%. During the same period, the total return of the Alerian MLP index was 12.9%, a return which KMF outperformed by 3.5%. Fiscal 2014 was the Fund s fourth year of operations and the fourth year in which the Fund delivered a double-digit return. Over this time period, the Fund raised its distribution 21% and significantly outperformed both the S&P 500 and the Alerian MLP index.

Another metric by which we measure the Fund s performance is Market Return, which is equal to the change in share price plus the cash distributions paid during the period, assuming reinvestment through our dividend reinvestment program. Our Market Return was 15.3% for fiscal 2014. This measure was below our Net Asset Value Return, as the discount of our share price to NAV increased during the year from 8.5% on November 30, 2013 to 9.3% on November 30, 2014.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

LETTER TO STOCKHOLDERS

Energy Market Update

Currently, the biggest story in the energy market is the precipitous drop in crude oil prices. As of this writing, West Texas Intermediate (WTI), which is the domestic crude oil benchmark, is trading between $45 and $48 per barrel, down more than 50% from its high in July of $108 per barrel. This steep decline is principally a result of a shift in the market s expectation for crude oil supply over the next 12 months. In particular, when OPEC decided not to reduce production at its November meeting, the market was confronted with the reality that the crude oil market will be oversupplied during 2015. As we have highlighted in the past, the continued development of shale plays has caused domestic production of crude oil, NGLs and natural gas to increase significantly over the past several years, and the increase in crude oil production has been the most astounding. The EIA estimates that domestic crude oil production averaged 8.7 million barrels per day in calendar 2014, up an unbelievable 3.7 million barrels per day, or 73%, since production troughed in 2008. Substantially all of this production growth came from the development of unconventional oil reserves in plays such as the Bakken Shale, the Eagle Ford Shale and the Permian Basin, and the development of these reserves was encouraged by crude oil prices that were high relative to natural gas prices. Currently, domestic crude oil production is estimated to be approximately 9.2 million barrels per day slightly less than the level the EIA is projecting for calendar 2015.

At current prices, many of the non-core areas in the shale plays generate inadequate returns for upstream companies. In response to falling prices, we have seen domestic upstream companies dramatically cut their capital budgets for 2015 relative to 2014 spending levels, often choosing to focus only on their highest return opportunities. Based on a group of over 50 upstream companies that we track, the average reduction in capex is almost 35%. Many of these companies are still predicting that production will grow in 2015 on a year-over-year basis, even with the slowdown in drilling, but we expect growth to be much more modest when you compare production in the fourth quarter of 2015 to current levels.

On the demand side, the economy is growing at its fastest rate in years, and lower energy costs are expected to be a net benefit for consumers and businesses. We also expect incremental demand to materialize at current price levels, and so the current downdraft in crude oil prices is a classic, self-correcting commodity price cycle. While we do not expect to see WTI return to $100 per barrel any time in the foreseeable future, we do expect that prices will rise significantly over the course of the year and continue to strengthen into 2016 as both supply and demand respond.

The natural gas market was the first mover in the Shale Revolution and so has experienced lower prices for a longer period of time than the crude oil market. Nonetheless, production continues to grow, as producers continue to drive down costs as technology and drilling techniques improve. In fact, the EIA estimates that natural gas production averaged 70 billion cubic feet per day in 2014, up 5% over 2013, which is the second largest increase in production in the last 20 years. This continued production growth and the resulting low natural gas prices has been a godsend for domestic manufacturers, and by early 2016, the first exports of LNG are expected to ship from the U.S. Gulf Coast. There are a number of MLPs and Midstream Companies that are evaluating these LNG liquefaction projects, which are multi-billion dollar capital projects. While we do not believe that all of the announced projects will be built, the fact that we are about to begin exporting natural gas is a prime example of new demand emerging in response to low prices. Further, the projects that are built will be beneficial for the MLPs and Midstream Companies that undertake the projects or transport the natural gas to these facilities and should provide support to domestic natural gas prices.

What many people do not realize is that NGL prices are at least as important to the MLP and Midstream sectors as crude oil and natural gas prices are. Like crude oil and natural gas production, NGL production has increased significantly over the last several years (up 66% since 2008), and prices have fallen by over 50% in the last 12 months. Similar to the crude oil and natural gas markets, we expect to see demand growth in the short-term as a result of increased exports of ethane and propane, and in the long-term from newly constructed petrochemical plants that use NGLs as feedstocks.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

LETTER TO STOCKHOLDERS

Market Update

While MLPs generated a strong total return of 12.9% during the fiscal year, the MLP market declined along with crude oil prices in December. As a result, MLPs delivered a more modest 4.8% total return for calendar 2014. While MLPs underperformed the broader equity markets last year, they have significantly outperformed over the longer-term. Over the last 10 calendar years, MLPs have generated a total return of 265% versus 109% for the S&P 500 index. As we have noted over the years, we believe the primary reason for this strong relative performance is the unique combination of current yield and attractive distribution growth that MLPs, as a group, provide.

During 2014, MLPs also became more attractively valued relative to other income-oriented investments. At the beginning of the fiscal year, the average MLP yield was 5.90%, which represented a 316 basis point premium to the 2.74% yield on 10-year U.S. Treasury Bonds. Contrary to widely held expectations, interest rates fell during the year, despite the Federal Reserve s termination of its quantitative easing program, and 10-year U.S. Treasury Bonds were yielding 2.19% by November 30, 2014. Over this same time period, the average MLP yield declined to 5.73%, resulting in an expansion in the MLP spread to Treasuries from 316 basis points to 353 basis points. So far in fiscal 2015, the spread to Treasuries has widened further and now stands at 456 basis points (as of January 14, 2015).

As noted above, the other driver of MLP total returns is distribution growth. MLPs have consistently increased distributions over time, and we expect they will continue to do so for many years to come. In 2014, distributions grew 7.5% compared to 7.1% in 2013 and 7.3% in 2012. Due to the rapid fall in commodity prices, there is more uncertainty with respect to the amount of distribution growth that can be expected in 2015, but we are relatively confident it will exceed 5%. Even after taking a lower rate of distribution growth into consideration, MLPs look very attractive at current prices relative to other income alternatives.

Capital expenditures, including both acquisitions and new growth projects, drive MLP distribution growth, and calendar 2014 was another strong year. In last year s letter, we indicated that conditions could be ripe for further consolidation after a flurry of merger and acquisition activity in 2013, and 2014 did not disappoint in this regard. We estimate that MLPs announced a record $171 billion in acquisitions during calendar 2014, including a record five MLP-to-MLP mergers and the $71 billion acquisition by Kinder Morgan, Inc. of its related MLPs (Kinder Morgan Energy Partners and El Paso Pipeline Partners). In addition, we estimate that MLPs spent in excess of $30 billion on organic capital projects during calendar 2014 to construct and expand the midstream infrastructure required to handle growing oil, natural gas and NGL production from the development of unconventional reserves.

During calendar 2014, MLPs continued to have excellent access to capital, which is critical to funding the significant capital expenditures in the sector. MLPs raised $13 billion in follow-on equity offerings, over $6 billion in at-the-market equity offerings and $37 billion in debt during the year. Calendar 2014 was also another robust year for IPOs in the sector, with 18 IPOs raising $6.4 billion. As a result, there are currently 125 MLPs trading, more than half of which went public in the last four years. In our opinion, the expansion of the sector has been facilitated by the significant inflows of institutional capital into the MLP sector. We estimate that in the last three years nearly $50 billion of new money has come into the sector a significant sum when considering that the total market capitalization of the MLP sector currently stands at approximately $475 billion.

Midstream Companies performed very well during fiscal 2014, generating a total return of 21.1% based on an index of 23 companies that we track. This return was significantly better than the S&P 500 return of 16.9% over the same time period, and this performance comes on the heels of five straight years of double digit returns. Increasingly, the Midstream Companies in which we invest are more closely tied to the MLP sector, as six of our largest 10 Midstream Company investments are the general partner of an MLP. We are proud that our portfolio of Midstream Company investments did even better than the overall group, as stock selection was particularly

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

LETTER TO STOCKHOLDERS

important during the year. We continue to believe that Midstream Companies are well positioned to benefit from the same long-term trends that are driving growth in the MLP sector and that Midstream Companies will remain active in the acquisition market. In fact, the Kinder Morgan transaction noted above is a perfect example of a strategic transaction in which a Midstream Company, Kinder Morgan, Inc., was utilized creatively to highlight the growth potential of the midstream assets that were housed in the underlying MLPs. While we do not expect to see very many Midstream Companies with MLPs follow suit, the transaction highlights that energy companies with midstream assets can employ a number of strategies to perpetuate their growth. Notwithstanding a positive long-term outlook for the group, we do anticipate some challenges in 2015 for certain Midstream Companies with assets that have more commodity price sensitivity. Lower commodity prices may cause some of these companies to moderate their near-term growth outlook.

Sentiment in the energy debt market shifted dramatically as crude oil prices fell, and the fixed income securities issued by Upstream Companies were impacted the most. Several of the debt securities we own have fallen in value by over 30% since the beginning of our fiscal fourth quarter. We have reduced our allocation to energy debt (8% of long-term investments as of year-end), as we continue to trim our holdings in names where we are concerned about the ability of those companies to be profitable in a sustained low-price environment. On the other hand, we continue to hold the debt securities of several Upstream Companies where the market prices are severely discounted and we believe the company has the wherewithal to survive the current environment for an extended period of time. We are watching the energy debt markets very closely as we believe the sell-off in bonds issued by Upstream Companies has created some very attractive opportunities to invest in companies whose debt is well supported by asset value.

2015 Outlook

Despite our expectation for a challenging energy market this year (most notably due to lower crude oil prices), our outlook for 2015 and beyond is positive. We expect that distribution growth of at least 5% will position the MLP sector to post another year of low double-digit total returns in calendar 2015. We believe the potential exists for MLPs to generate substantially higher returns in 2015 if the commodity market improves as expected and the negative market sentiment towards energy companies abates. Similarly, we believe that Midstream Companies should continue to generate strong returns and that the Midstream Companies that the Fund owns will deliver distribution growth well in excess of the MLP market in 2015.

We believe the Fund is very well positioned to navigate a challenging energy market. The portfolio is well diversified with a strong bias towards midstream MLPs and Midstream Companies. The Fund s leverage ratios are at target levels, and virtually all of its leverage is long-term, fixed-rate financings. We plan to remain prudent, long-term investors, but have the ability to capitalize on market disruptions. We also continue to believe that the development of unconventional reserves is a multi-decade story and that the development of these reserves will create plentiful growth opportunities for MLPs and Midstream Companies. However, we have seen that this secular growth story may have setbacks along the way, and we believe it is more important than ever to have a team that can discern which companies are best positioned over the long-term.

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LETTER TO STOCKHOLDERS

We look forward to executing on our business plan of achieving high after-tax total returns by investing in MLPs, Midstream Companies and other midstream companies. We invite you to visit our website at kaynefunds.com for the latest updates.

Sincerely,

Kevin S. McCarthy

Chairman of the Board of Directors,

President and Chief Executive Officer

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

PORTFOLIO SUMMARY

(UNAUDITED)

Portfolio of Long-Term Investments by Category[1]

November 30, 2014 **November 30, 2013**

Top 10 Holdings by Issuer

Holding	Sector[1]	Percent of Long-Term Investments as of November 30, 2014	2013
1. Kinder Morgan, Inc.[3]	Midstream Company	15.4%	5.2%
2. The Williams Companies, Inc.	Midstream Company	8.2	7.7
3. Enbridge Energy Management, L.L.C.	Midstream MLP	8.1	5.8
4. Plains GP Holdings, L.P.	Midstream Company	4.7	3.7
5. ONEOK, Inc.	Midstream Company	3.8	6.9
6. Golar LNG Partners LP	Midstream Company	3.3	3.1
7. Regency Energy Partners LP[4]	Midstream MLP	3.1	1.6
8. Energy Transfer Partners, L.P.	Midstream MLP	2.2	1.4
9. Williams Partners L.P.[5]	Midstream MLP	2.0	1.7
10. Plains All American Pipeline, L.P.	Midstream MLP	1.9	2.1

(1) See Glossary of Key Terms for definitions.

(2) Includes MLP affiliates.

(3) On November 26, 2014, Kinder Morgan, Inc. (KMI) completed its acquisition of the outstanding equity securities of Kinder Morgan Management (KMR). As of November 30, 2013, our investment in KMI and KMR represented 12.8% of long-term investments on a combined basis.

(4) On March 21, 2014, PVR Partners, L.P. (PVR) completed its merger with and into Regency Energy Partners LP (Regency). As of November 30, 2013, our investment in Regency and PVR represented 2.3% of long-term investments on a combined basis.

(5) On October 24, 2014, Williams Partners L.P. (WPZ) entered into a merger agreement with and into Access Midstream Partners, L.P. (ACMP). At November 30, 2014, our holding in ACMP represented 0.4% of our long-term investments. The merger is expected to close in early 2015.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Fund Overview

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

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to our stockholders. We seek to achieve that investment objective by investing at least 80% of our total assets in the securities of companies in the Midstream/Energy Sector, consisting of (a) Midstream MLPs, (b) Midstream Companies, (c) Other MLPs and (d) Other Energy Companies. We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Companies. Please see the Glossary of Key Terms on page 45 for a description of these investment categories and for the meaning of capitalized terms not otherwise defined herein.

As of November 30, 2014, we had total assets of $1.2 billion, net assets applicable to our common stock of $0.9 billion (net asset value of $39.51 per share), and 21.6 million shares of common stock outstanding. As of November 30, 2014, we held $1.1 billion in equity investments and $99 million in debt investments.

Results of Operations For the Three Months Ended November 30, 2014

Investment Income. Investment income totaled $8.0 million for the quarter and consisted primarily of net dividends and distributions and interest income on our investments. We received $12.5 million of dividends and distributions, of which $7.0 million was treated as return of capital. Return of capital was increased by $0.6 million during the quarter due to 2013 tax reporting information that was received in fiscal 2014. Interest income was $2.5 million. We received $3.3 million of paid-in-kind dividends during the quarter, which are not included in investment income, but are reflected as an unrealized gain.

Operating Expenses. Operating expenses totaled $8.7 million, including $4.2 million of investment management fees, $2.8 million of interest expense (including non-cash amortization of debt issuance costs of $0.1 million), $1.3 million of preferred stock distributions (including non-cash amortization of offering costs of $0.1 million) and $0.4 million of other operating expenses.

Net Investment Loss. Our net investment loss totaled $0.7 million.

Net Realized Loss. We had a net realized loss of $0.8 million, which included $1.2 million of net realized gains from option activity.

Net Change in Unrealized Gains. We had a net decrease in unrealized gains of $160.9 million. The net decrease consisted of $163.3 million of unrealized losses from investments and $2.4 million of net unrealized gains from option activity.

Net Decrease in Net Assets Resulting from Operations. We had a decrease in net assets resulting from operations of $162.4 million. This decrease was comprised of net investment loss of $0.7 million, net realized loss of $0.8 million and a net decrease in unrealized gains of $160.9 million, as noted above.

Results of Operations For the Fiscal Year Ended November 30, 2014

Investment Income. Investment income totaled $32.1 million for the fiscal year and consisted primarily of net dividends and distributions and interest income on our investments. We received $47.2 million of dividends and distributions, of which $24.8 million was treated as return of capital. Return of capital was increased by $0.6 million during the fiscal year due to 2013 tax reporting information that was received in fiscal year 2014. Interest income was $9.7 million. We received $12.1 million of paid-in-kind dividends during the fiscal year, which are not included in investment income, but are reflected as an unrealized gain.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Operating Expenses. Operating expenses totaled $32.3 million, including $15.7 million of investment management fees, $10.7 million of interest expense (including non-cash amortization of debt issuance costs of $0.6 million), $4.3 million of preferred stock distributions (including non-cash amortization of offering costs of $0.2 million) and $1.6 million of other operating expenses.

Net Investment Loss. Our net investment loss totaled $0.2 million.

Net Realized Gains. We had net realized gains of $76.9 million, which included $3.5 million of net realized gains from option activity.

Net Change in Unrealized Gains. We had a net increase in unrealized gains of $48.0 million. The net increase consisted of $47.4 million of unrealized gains from investments and $0.6 million of net unrealized gains from option activity.

Net Increase in Net Assets Resulting from Operations. We had an increase in net assets resulting from operations of $124.7 million. This increase was comprised of net investment loss of $0.2 million, net realized gains of $76.9 million and a net increase in unrealized gains of $48.0 million, as noted above.

Distributions to Common Stockholders

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

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

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

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Net Distributable Income (NDI)

(amounts in millions, except for per share amounts)

	Three Months Ended November 30, 2014	Fiscal Year Ended November 30, 2014
Distributions and Other Income from Investments		
Dividends[1]	$ 12.5	$ 47.2
Paid-In-Kind Dividends and Distributions[1]	3.3	12.1
Interest	2.5	9.7
Net Premiums Received from Call Options Written	1.4	7.4
Total Distributions and Other Income from Investments	19.7	76.4
Expenses		
Investment Management Fee	(4.2)	(15.7)
Other Expenses	(0.4)	(1.6)
Excise Taxes[2][3]		
Interest Expense	(2.7)	(10.1)
Preferred Stock Distributions	(1.2)	(4.2)
Net Distributable Income (NDI)	**$ 11.2**	**$ 44.8**
Weighted Shares Outstanding	21.6	21.9
NDI per Weighted Share Outstanding	**$ 0.520**	**$ 2.046**
Adjusted NDI per Weighted Share Outstanding[4]	**$ 0.520**	**$ 2.046**
Distributions paid per Common Share[5]	**$ 0.495**	**$ 1.935**

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

(2) During the fiscal year ended November 30, 2014, we paid $0.79 million of excise taxes related to undistributed income during 2013. At November 30, 2013, we accrued $0.75 million in excise taxes and increased this amount by $0.04 million during the fiscal year ended November 30 , 2014 based on the actual amount of excise taxes paid.

(3) As of November 30, 2014, we intended to declare a special distribution prior to the end of calendar 2014 to avoid the excise tax and, as a result, we did not accrue any excise tax for fiscal 2014 as the liability was not probable and estimable. Due to unfavorable market conditions after our fiscal year end, we determined in early December 2014 not to make a special distribution of income in order to avoid

excise tax. As a result, an excise tax accrual of $2.3 million was recorded in the first quarter of fiscal 2015, which will result in a reduction to NDI during fiscal 2015 of $0.58 million ($0.027 per share) per quarter. See Note 6 Taxes and Note 14 Subsequent Events.

(4) There were no adjustments to NDI during the three months ended and year ended November 30, 2014.

(5) The distribution of $0.4950 per share for the fourth quarter of fiscal 2014 was paid on January 16, 2015. Distributions for fiscal 2014 include the distributions paid in April 2014, July 2014, October 2014 and January 2015.

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

NDI and adjusted NDI generated in the current quarter;

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

Expected NDI over the next twelve months; and

Realized and unrealized gains generated by the portfolio.

On December 18, 2014, we declared a quarterly distribution of $0.4950 per common share for the fourth quarter of fiscal 2014 (a total distribution of $10.7 million). The distribution represents an increase of 1.5% from the prior quarter s distribution and an increase of 6.5% from the distribution for the quarter ended November 30, 2013.

As a regulated investment company (RIC), we are required to distribute all of our income to avoid paying federal income taxes. See Note 2 Significant Accounting Policies and Note 6 Taxes. At November 30, 2014, we had a total of $69.4 million of undistributed ordinary income and long-term capital gains (collectively, Undistributed Income). We plan to make a special distribution to common stockholders during fiscal 2015 to avoid paying income taxes on this Undistributed Income. This special distribution is subject to approval by the Board of Directors, and, if approved, would be declared prior to August 15, 2015. We estimate that this special distribution will be at least $35 million (or approximately $1.60 per share), but it could be a larger amount based on a variety of factors, including our Undistributed Income at such time.

Reconciliation of NDI to GAAP

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

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

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

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

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

We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the call premium that we received, thereby generating a profit. The premium we receive from selling call options, less (i) the amount that we pay to repurchase such call option contracts and (ii) the amount by which the market price of an underlying security is above the strike price at the time a new call option is written (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 a full discussion of the GAAP treatment of option contracts.

KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

MANAGEMENT DISCUSSION

(UNAUDITED)

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

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

NDI also includes recurring payments (or receipts) on interest rate swap contracts 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 shares (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.

Under GAAP, excise taxes are accrued when probable and estimable. For NDI, we have assumed no excise tax expense for fiscal 2014 and estimate our excise tax expense to be $2.3 million ($0.58 million per quarter) for fiscal 2015.

Liquidity and Capital Resources

Total leverage outstanding at November 30, 2014 of $386 million was comprised of $235 million of Notes, $46 million outstanding under our unsecured revolving term loan (Term Loan) and $105 million of MRP Shares. At November 30, 2014, we did not have any borrowings outstanding under our unsecured revolving credit facility (the Credit Facility). Total leverage represented 31% of total assets at November 30, 2014. As of January 27, 2015, we had $15 million borrowed under our Term Loan and we had $1 million of cash. As of January 27, 2015, we did not have any borrowings outstanding under our Credit Facility.

Our Credit Facility has a total commitment of $105 million and matures on November 21, 2016. The interest rate on outstanding loan balances may vary between LIBOR plus 1.50% and LIBOR plus 2.15%, depending on our asset coverage ratios. Outstanding loan balances accrue interest daily at a rate equal to LIBOR plus 1.50% based on current asset coverage ratios. We pay a fee of 0.25% per annum on any unused amounts of the Credit Facility.

Our Term Loan has a total commitment of $50 million and matures on July 25, 2019. Borrowings under the Term Loan bear interest at a rate of LIBOR plus 1.30%. We pay a fee of 0.25% per annum on any unused amount of the Term Loan.

At November 30, 2014, we had $235 million of Notes outstanding that mature between 2016 and 2023, and we had $105 million of MRP Shares outstanding, that are subject to mandatory redemption in 2018, 2020 and 2021.

At November 30, 2014, our asset coverage ratios under the Investment Company Act of 1940, as amended (the 1940 Act), were 441% for debt and 321% for total leverage (debt plus preferred stock). Our long-term target asset coverage ratio with respect to our debt is 400%, but at times we may be above or below our target depending on market conditions.

As of November 30, 2014, our total leverage consisted of both fixed rate (88%) and floating rate (12%) obligations. At such date, the weighted average interest/dividend rate on our total leverage was 3.91%.

We plan to make a special distribution to common stockholders during fiscal 2015. This special distribution is subject to board approval and, if approved by the board, would be declared prior to August 15, 2015. We estimate that this special distribution will be at least $35 million, but it could be a larger amount based on our Undistributed Income at such time.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2014

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

Description	No. of Shares/Units	Value
Long-Term Investments 144.5%		
Equity Investments[1] 132.9%		
United States 124.8%		
Midstream Company[2] 66.8%		
Capital Product Partners L.P.[3]	721	$ 5,636
Capital Products Partners L.P. Class B Units[3][4][5]	606	5,358
CenterPoint Energy, Inc.	458	10,964
Dynagas LNG Partners LP[3]	1,138	20,373
Golar LNG Partners LP[3]	1,252	41,201
Höegh LNG Partners LP[3]	174	3,202
Kinder Morgan, Inc.[6]	4,605	190,434
KNOT Offshore Partners LP[3]	771	17,065
National Fuel Gas Company	150	10,384
NiSource Inc.[6]	253	10,594
Nordic American Offshore Ltd.	65	851
ONEOK, Inc.	856	46,351
Plains GP Holdings, L.P.[3][7]	411	10,688
Plains GP Holdings, L.P.[3][4][7][8]	1,836	47,169
Spectra Energy Corp.[6]	473	17,929
Targa Resources Corp.[9]	26	2,910
Teekay Corporation	45	2,237
Teekay Offshore Partners L.P.[3]	419	10,779
Teekay Offshore Partners L.P. Series A Preferred Units[3]	300	7,245
VTTI Energy Partners LP[3]	326	7,978
The Williams Companies, Inc.[6]	1,954	101,100
		570,448
Midstream MLP[2][10] 46.4%		
Access Midstream Partners, L.P.[6][11]	87	5,472
Antero Midstream Partners LP[12]	131	3,633
Arc Logistics Partners LP	82	1,806
Atlas Pipeline Partners, L.P.[9]	65	2,135
Buckeye Partners, L.P.[6]	135	10,373
Compressco Partners, L.P.	53	1,087
CONE Midstream Partners LP[12]	17	478
Crestwood Midstream Partners LP	1,090	21,882
DCP Midstream Partners, LP	354	16,937
Enable Midstream Partners, LP	41	817
Enbridge Energy Management, L.L.C.[13][14]	2,737	99,645
Energy Transfer Equity, L.P.	89	5,304
Energy Transfer Partners, L.P.[15]	424	27,638
EnLink Midstream Partners, LP	409	11,417
Enterprise Products Partners L.P.[15]	405	15,140
Exterran Partners, L.P.	288	7,114
Global Partners LP	266	11,126
Holly Energy Partners, L.P.[6]	144	4,832

MarkWest Energy Partners, L.P.[(6)(7)]	264	18,733
Midcoast Energy Partners, L.P.	128	1,967
Niska Gas Storage Partners LLC	24	112

See accompanying notes to financial statements.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2014

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

Description	No. of Shares/Units	Value
Midstream MLP[2][10] (continued)		
ONEOK Partners, L.P.	431	$ 18,983
Plains All American Pipeline, L.P.[7]	459	23,611
QEP Midstream Partners, LP	38	607
Regency Energy Partners LP	1,341	38,184
Shell Midstream Partners, L.P.[12]	105	3,846
Sprague Resources LP	26	577
Summit Midstream Partners, LP	79	3,582
Targa Resources Partners LP[9]	103	5,647
USA Compression Partners, LP	46	868
USD Partners LP[12]	119	1,774
Western Gas Partners, LP[6]	91	6,430
Williams Partners L.P.[11]	475	24,570
		396,327
Other Energy Company 8.7%		
Abengoa Yield plc	242	6,827
CONSOL Energy Inc.[6]	323	12,655
Dominion Resources, Inc. 6.375% Series A Preferred Shares	13	647
Enduro Royalty Trust	320	2,257
EQT Corporation[6]	22	2,002
HollyFrontier Corporation	125	5,107
LinnCo, LLC[3]	344	5,637
Marathon Petroleum Corporation[6]	48	4,342
NRG Yield, Inc.	58	2,763
Pacific Coast Oil Trust	376	3,053
Phillips 66[6]	221	16,108
Seadrill Partners LLC[3]	356	6,024
Tesoro Corporation	2	130
Transocean Partners LLC[3]	108	1,697
Valero Energy Corporation[6]	109	5,298
VOC Energy Trust	15	117
		74,664
Other 1.5%		
Navios Maritime Holdings Inc. 8.625% Series H Preferred Shares	132	2,904
Seaspan Corporation 7.95% Series D Preferred Shares	200	5,104
Seaspan Corporation 8.25% Series E Preferred Shares	200	5,162
		13,170
Other MLP[10] 1.4%		
BreitBurn Energy Partners L.P.	113	1,491
Foresight Energy LP	285	5,011

LRR Energy LP	22	245
Suncoke Energy Partners, L.P.	177	4,804
		11,551
Total United States (Cost $751,010)		1,066,160

See accompanying notes to financial statements.

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KAYNE ANDERSON MIDSTREAM/ENERGY FUND, INC.

SCHEDULE OF INVESTMENTS

NOVEMBER 30, 2014

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

Description	No. of Shares/Units	Value
Canada 8.1%		
Midstream Company[2] 6.6%		
AltaGas Ltd.[6]	404	$ 14,970
Enbridge Inc.	498	22,911
Gibson Energy Inc.[15]	113	2,683
Inter Pipeline Ltd.	160	4,555
Pembina Pipeline Corporation	206	7,136
TransCanada Corporation	82	3,954
		56,209
Other Energy Company 1.5%		
ARC Resources Ltd.[15]	162	3,838
Baytex Energy Corp.	140	2,992
Bonavista Energy Corporation	153	1,285
Bonterra Energy Corp.	31	1,162
Crescent Point Energy Corp.[15]	129	3,350
Pengrowth Energy Corporation[15]	48	160
		12,787
Total Canada (Cost $72,175)		68,996
Total Equity Investments (Cost $823,185)		1,135,156

	Interest Rate	Maturity Date	Principal Amount	Value
Debt Instruments 11.6%				
Upstream 11.3%				
American Eagle Energy Corporation	11.000%	9/1/19	$ 4,800	4,320
American Energy-Woodford, LLC	9.000	9/15/22	1,500	1,162
BlackBrush Oil & Gas, L.P.	(16)	7/30/21	12,700	11,748
Canbriam Energy Inc.	9.750	11/15/19	2,250	2,149
Chief Oil & Gas LLC	&			