

Kayne Anderson MLP Investment CO

Form N-2/A

February 19, 2014

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As filed with the Securities and Exchange Commission on February 19, 2014

1933 Act File No. 333 - 193497;1940 Act File No. 811 21593

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form N-2**

þ **REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

þ **PRE-EFFECTIVE AMENDMENT NO. 1**

.. **POST-EFFECTIVE AMENDMENT NO. [ ]**

**and/or**

þ **REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**

þ **AMENDMENT NO. 58**

**Kayne Anderson MLP Investment Company**

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

**811 Main Street, 14th Floor**

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**Houston, TX 77002**

**(Address of Principal Executive Offices)**

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

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**KA Fund Advisors, LLC**

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

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**(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).

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

<b>Title of Securities Being Registered</b>	<b>Amount Being Registered(1)</b>	<b>Proposed Maximum Offering Price per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(2)</b>	<b>Amount of Registration Fee</b>
Common Stock, \$0.001 par value per share (3)				
Preferred Stock, \$0.001 par value per share (3)				
Debt Securities				
Debt Securities (4)	\$300,000			
Total			\$1,000,000,000	\$(5)

- (1) There are being registered hereunder a presently indeterminate number of shares of common stock, shares of preferred stock or debt securities to be offered on an immediate, continuous or delayed basis.
- (2) Estimated solely for the purpose of determining the registration fee pursuant to Rule 457(o) under the Securities Act of 1933. 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 \$1,000,000,000.
- (3) Includes shares that the underwriters have the option to purchase to cover over-allotments, if any.
- (4) These Debt Securities are being registered on behalf of selling noteholders.
- (5) 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, solicitation or sale is not permitted.**

BASE PROSPECTUS

**Subject to completion, dated February 19, 2014**

**\$ 1,000,000,000**

**Common Stock**

**Preferred Stock**

**Debt Securities**

Kayne Anderson MLP Investment Company (the Company, we, us, or our ) is a non-diversified, closed-end management investment company that began investment activities on September 28, 2004 following our initial public offering. Our investment objective is to obtain a high after-tax total return by investing at least 85% of our total assets in energy-related partnerships and their affiliates (collectively, master limited partnerships or MLPs ), and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies ). We invest in equity securities of (i) master limited partnerships, including preferred, common and subordinated units and general partner interests, (ii) owners of such interests in master limited partnerships, and (iii) other Midstream Energy Companies. Additionally, we may invest in debt securities of MLPs and other Midstream Energy Companies. Substantially all of our total assets consist of publicly traded securities of MLPs and other Midstream Energy Companies. We are permitted to invest up to 50% of our total assets in unregistered or otherwise restricted securities of MLPs and other Midstream Energy Companies, including securities issued by private companies.

We may offer, from time to time, shares of our common stock (\$0.001 par value per share), shares of our preferred stock (\$0.001 par value per share), or debt securities, which we refer to in this prospectus collectively as our securities, in one or more offerings. We may offer our common stock, preferred stock or debt securities 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 our 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 manners in which we may offer our securities, see Plan of Distribution. We may not sell our securities through agents, underwriters or dealers without delivery of a prospectus supplement.

In addition, this prospectus relates to an aggregate principal amount of \$300,000 (of a \$175,000,000 issue) of the Company's Series HH Floating Rate Senior Notes due August 19, 2016 (the Series HH Notes) that may be sold by the selling noteholders identified under Selling Noteholders, which reflects the offering of the Series HH Notes completed on August 22, 2013 and our obligations under the Registration Rights Agreement dated August 22, 2013 with respect thereto. We will not receive any proceeds from the sale of Series HH Notes by any of the selling noteholders.

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 MLPs. As of November 30, 2013, Kayne Anderson and its affiliates managed approximately \$25 billion, including approximately \$16 billion in MLPs and other Midstream Energy Companies.

*(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 accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

The date of this prospectus is \_\_\_\_\_, 2014.

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*(continued from the previous page)*

Shares of our common stock are listed on the New York Stock Exchange ( NYSE ) under the symbol KYN. The net asset value of our common stock at the close of business on December 31, 2013 was \$35.08 per share, and the last sale price per share of our common stock on the NYSE as of that date was \$39.85. 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 of our common stock, 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. Our debt securities are unsecured obligations and, upon our liquidation, dissolution or winding up, rank (i) senior to all of our outstanding common stock and any preferred stock; (ii) on a parity with our obligations to any unsecured creditors and any unsecured securities representing our indebtedness, including our outstanding senior notes and any notes that we may issue under this registration statement; and (iii) junior to our obligations to any secured creditors.

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, our common stock, preferred stock or debt securities, separately or in concurrent offerings, in amounts, at prices and on terms set forth in prospectus supplements to 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 , 2014 (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 of this prospectus and our annual, semi-annual and quarterly reports to stockholders (when available), and request other information about the Company by calling toll-free at (877) 657-3863, or by writing to us at 811 Main Street, 14th Floor, Houston, Texas 77002, Attention: Investor Relations Department or by visiting our website at <http://www.kaynefunds.com>. The information contained in, or accessed through our website does not form 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 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 Company s annual, semi-annual and quarterly reports and other information regarding the Company, are also

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available on the SEC's website (<http://www.sec.gov>). You may also 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.

None of our common stock, preferred stock or debt securities 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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**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 this prospectus, any prospectus supplement, or any sale of our common stock. Our business, financial condition, results of operations and prospects may have changed since that date.**

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**PROSPECTUS SUMMARY**

*This summary highlights selected 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 the Company, we, us, and our refer to Kayne Anderson MLP Investment Company; 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; midstream energy assets refers to assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal; MLPs or master limited partnerships refers to (i) energy-related partnerships, (ii) energy-related limited liability companies treated as partnerships and (iii) affiliates of those energy-related partnerships, substantially all of whose assets consist of interests in publicly traded partnerships; Midstream Energy Companies means (i) MLPs and (ii) other companies that, as their principal business, operate midstream energy assets; and Energy Companies means companies that own and operate assets that are used in or provide services to the energy sector, including assets used in exploring, developing, producing, transporting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products or coal.*

**The Company**

Kayne Anderson MLP Investment Company, a Maryland corporation, is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act ). Our outstanding shares of common stock are listed on the New York Stock Exchange (the NYSE ) under the symbol KYN.

We began investment activities in September 2004 following our initial public offering. As of December 31, 2013, we had approximately 100.6 million shares of common stock outstanding, net assets applicable to our common stock of approximately \$3.5 billion and total assets of approximately \$6.4 billion.

**Investment Objective**

Our investment objective is to obtain a high after-tax total return by investing at least 85% of our total assets in MLPs and other Midstream Energy Companies.

**Investment Policies**

We have adopted the following non-fundamental investment policies:

For as long as the word MLP is in our name, it shall be our policy, under normal market conditions, to invest at least 80% of our total assets in MLPs.

We intend to invest at least 50% of our total assets in publicly traded securities of MLPs and other Midstream Energy Companies.

Under normal market conditions, we may invest up to 50% of our total assets in unregistered or otherwise restricted securities of MLPs and other Midstream Energy Companies. The types of unregistered or otherwise restricted securities that we may purchase include common units, subordinated units, preferred units, and convertible units of, and general partner interests in, MLPs, and securities of other public and private Midstream Energy Companies.

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We may invest up to 15% of our total assets in any single issuer.

We may invest up to 20% of our total assets in debt securities of MLPs and other Midstream Energy Companies, including below investment grade debt securities (commonly referred to as junk bonds or high yield bonds) rated, at the time of investment, at least B3 by Moody's Investors Service, Inc., B- by Standard & Poor's or Fitch Ratings, comparably rated by another rating agency or, if unrated, determined by Kayne Anderson to be of comparable quality. In addition, up to one-quarter of our permitted investments in debt securities (or up to 5% of our total assets) may be invested in unrated debt securities or debt securities that are rated less than B3/B- of public or private companies.

Under normal market conditions, our policy is to utilize our Borrowings 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. However, we reserve the right at any time, if we believe that market conditions are appropriate, to use Leverage Instruments to the extent permitted by the 1940 Act.

We may, but are not required to, use derivative investments and engage in short sales to hedge against interest rate, market and issuer risks.

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 MLPs, we will be required to make future purchases of securities in a manner so as to bring us into compliance with this investment policy.

Our Board of Directors may change these investment policies without the approval of the holders of a majority of our voting securities, provided that our securities holders receive at least 60 days prior written notice of any change.

**Our Portfolio Investments**

As of December 31, 2013, we held \$6.3 billion in equity investments and no debt investments. Our top 10 largest holdings by issuer as of that date were:

	<b>Company</b>	<b>Sector</b>	<b>Amount (\$ millions)</b>	<b>Percent of Total Investments</b>
1.	Enterprise Products Partners L.P.	Midstream MLP	\$ 589.7	9.3%
2.	Plains All American Pipeline, L.P.	Midstream MLP	357.3	5.6
3.	MarkWest Energy Partners, L.P.	Midstream MLP	356.2	5.6
4.	Williams Partners L.P.	Midstream MLP	350.4	5.5
5.	Energy Transfer Partners, L.P.	Midstream MLP	348.4	5.5
6.	Kinder Morgan Management, LLC	Midstream MLP	346.8	5.5
7.	Crestwood Midstream Partners LP	Midstream MLP	267.9	4.2
8.	DCP Midstream Partners, LP	Midstream MLP	260.4	4.1

9.	Regency Energy Partners LP	Midstream MLP	231.0	3.6
10.	ONEOK Partners, L.P.	Midstream MLP	223.2	3.5

**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

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Advisors, L.P. ( KACALP and together with KAFA, Kayne Anderson ). Both KAFA and KACALP are SEC-registered investment advisers. As of December 31, 2013, Kayne Anderson and its affiliates managed approximately \$25 billion, including approximately \$16 billion in MLPs and other Midstream Energy Companies. We believe that Kayne Anderson has developed an understanding of the MLP market that enables it to identify and take advantage of public MLP investment opportunities. 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.

KAFA manages three other publicly traded investment companies: Kayne Anderson Energy Total Return Fund, Inc. (NYSE: KYE); Kayne Anderson Energy Development Company (NYSE: KED); and Kayne Anderson Midstream/Energy Fund, Inc. (NYSE: KMF). Kayne Anderson has invested in MLPs and other Midstream Energy Companies since 1998.

## **The Offering**

We may offer, from time to time, up to \$1,000,000,000 of our securities at prices and on terms to be set forth in one or more prospectus supplements to this prospectus. In addition, this prospectus relates to an aggregate principal amount of \$300,000 (of a \$175,000,000 issue) of the Company's Series HH Notes that may be sold by the selling noteholders identified under Selling Noteholders, which reflects the offering of the Series HH Notes completed on August 22, 2013 and our obligations under the Registration Rights Agreement dated August 22, 2013 with respect thereto. We will not receive any proceeds from the sale of Series HH Notes by any of the selling noteholders.

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. 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 term loans, 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 Borrowings.

We generally will seek to enhance our total returns through the use of financial leverage. Under normal market conditions, our policy is to utilize our Borrowings 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 56.7% of our net asset value as of December 31, 2013). However, based on market conditions at the time, we may use Leverage Instruments in amounts that represent greater than 30% leverage to the extent permitted by the 1940 Act. As of December 31, 2013, our Leverage Instruments represented approximately 26.5% of our total assets. At December 31, 2013, our asset coverage ratios under the 1940 Act, were 421% and 309% for debt and total leverage (debt plus preferred stock), respectively. Our long-term target asset coverage ratio with respect to our debt is 375%, but at times our target asset coverage ratios

may be above or below this amount due to market conditions. For instance, our current target asset coverage ratio with respect to debt is 385%. Leverage

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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](#). A total return swap is a contract between two parties designed to replicate the economics of directly owning a security. We may enter into total return swaps with financial institutions related to equity investments in certain MLPs.



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

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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 MLPs, we value derivative instruments based on their respective current fair market values. See [Investment Objective and Policies](#).

## **Distributions**

We have paid distributions to our 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 from 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, net premiums received from the sale of covered call options and income tax benefits, if any, less current or anticipated operating expenses, income tax expense, if any, and our leverage costs (including dividends on preferred stock issued by us and excluding non-cash amortization of costs to issue leverage). On January 10, 2014 we paid a quarterly distribution of \$0.61 per share to our common stockholders. Payment of future distributions is subject to approval by our Board of Directors, as well as meeting the covenants of our senior debt, the terms of our preferred stock and the asset coverage requirements of the 1940 Act. The Fund expects that a portion of its distributions may constitute a return of capital ( ROC ) distribution, which represents a return of a stockholder's original investment in the Fund. See [Tax Matters](#) [Federal Income Taxation of Holders of Our Common Stock](#).

We pay dividends on the Series A MRP Shares, Series B MRP Shares, Series C MRP Shares, Series E MRP Shares, Series F MRP Shares and Series G MRP Shares (collectively, the MRP Shares ) in accordance with the terms thereof. The holders of the Series A MRP Shares, Series B MRP Shares and Series C MRP Shares shall be entitled to receive quarterly cumulative cash dividends, and the holders of the Series E MRP Shares, Series F MRP Shares and Series G MRP Shares shall be entitled to receive monthly cumulative cash dividends, when, as and if authorized by the Board of Directors. The Series A MRP Shares pay dividends at a rate of 5.57% per annum, the Series B MRP Shares pay dividends at a rate of 4.53% per annum, the Series C MRP Shares pay dividends at a rate of 5.20% per annum, the Series E MRP Shares pay dividends at the rate of 4.25% per annum, the Series F MRP Shares pay dividends at the rate of 3.50% per annum and the Series G MRP Shares pay dividends at the rate of 4.60% 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 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. We will not receive any proceeds from any sale of Series HH Notes by the selling noteholders identified under [Selling Noteholders](#) . See [Use of Proceeds](#).

## **Taxation**

We are treated as a corporation for federal income tax purposes and, as a result, we are subject to corporate income tax to the extent we recognize net taxable income. As a partner in MLPs, we report our allocable share of each MLP's taxable income or loss in computing our taxable income or loss, whether or not we actually receive any cash from such MLP. See Tax Matters.

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### **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 make distributions 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 and would be eligible for the lower tax rates applicable to qualified dividend income of non-corporate taxpayers under current law. 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, a holder of our common stock generally will recognize capital gain or loss measured by the difference between the sale proceeds received by the common stockholder and the common stockholder's federal income tax basis in our common stock sold, as adjusted to reflect return of capital. See Tax Matters.

### **Risk Considerations**

Investing in our securities involves risk, including the risk that you may receive little or no return on your investment, or even that you may lose part of all of your investment. Therefore, before investing in our securities you should consider carefully the risks set forth in Risk Factors beginning on page . We are designed primarily as a long-term investment vehicle, and none of our common stock, preferred stock or debt securities is an appropriate investment for a short-term trading strategy. An investment in our securities 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.

### **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, negatively affect the net asset value of our common stock and negatively impact asset coverage ratios for our senior securities) and the risk of changes in tax laws or regulations, or interpretations thereof, which could adversely affect us or the 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. See 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

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our net asset value. 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. If we were to issue our common stock at a price less than our net asset value (such offering would require the approval of our stockholders), our net asset value would be reduced immediately following such offering. 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 existing investments and our expected investments;

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 and other Midstream 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 and other Midstream Energy Companies in which we 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.



**Table of Contents****KAYNE ANDERSON MLP INVESTMENT COMPANY**

We are a non-diversified, closed-end management investment company registered under the 1940 Act. We were formed as a Maryland corporation in June 2004 and began investment activities in September 2004 after our initial public offering. Our common stock is listed on the NYSE under the symbol KYN.

As of December 31, 2013, we had (a) approximately 100.6 million shares of common stock outstanding, (b) \$449 million of MRP Shares outstanding, (c) \$64 million borrowed on our credit facility, and (d) \$1,175 million in Senior Notes outstanding. As of December 31, 2013, we had net assets applicable to our common stock of approximately \$3.5 billion and total assets of approximately \$6.4 billion.

The following table sets forth information about our outstanding securities as of December 31, 2013 (the information in the table is unaudited; and amounts are in 000s):

<b>Title of Class</b>	<b>Amount of Shares/ Aggregate Liquidation Preference/ Aggregate Principal Amount Authorized</b>	<b>Amount Held by Us or for Our Account</b>	<b>Actual Amount Outstanding</b>
Common Stock	\$ 182,040	\$ 0	\$ 100,642
Series A Mandatory Redeemable Preferred Shares(1)	104,000	0	104,000
Series B Mandatory Redeemable Preferred Shares(1)	8,000	0	8,000
Series C Mandatory Redeemable Preferred Shares(1)	42,000	0	42,000
Series E Mandatory Redeemable Preferred Shares(1)	120,000	0	120,000
Series F Mandatory Redeemable Preferred Shares(1)	125,000	0	125,000
Series G Mandatory Redeemable Preferred Shares(1)	50,000	0	50,000
Senior Notes, Series M	60,000	0	60,000
Senior Notes, Series N	50,000	0	50,000
Senior Notes, Series O	65,000	0	65,000
Senior Notes, Series P	45,000	0	45,000
Senior Notes, Series Q	15,000	0	15,000
Senior Notes, Series R	25,000	0	25,000
Senior Notes, Series S	60,000	0	60,000
Senior Notes, Series T	40,000	0	40,000
Senior Notes, Series U	60,000	0	60,000
Senior Notes, Series V	70,000	0	70,000
Senior Notes, Series W	100,000	0	100,000
Senior Notes, Series X	14,000	0	14,000
Senior Notes, Series Y	20,000	0	20,000

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Senior Notes, Series Z	15,000	0	15,000
Senior Notes, Series AA	15,000	0	15,000
Senior Notes, Series BB	35,000	0	35,000
Senior Notes, Series CC	76,000	0	76,000
Senior Notes, Series DD	75,000	0	75,000
Senior Notes, Series EE	50,000	0	50,000
Senior Notes, Series FF	65,000	0	65,000
Senior Notes, Series GG	45,000	0	45,000
Senior Notes, Series HH	175,000	0	175,000

(1) Each share has a liquidation preference of \$25.00.

Our principal office is located at 811 Main Street, 14th Floor, Houston, Texas 77002, and our telephone number is (713) 493-2020.

**Table of Contents****FEES AND EXPENSES**

The following table contains information about the costs and expenses that common stockholders will bear directly or indirectly. The table below assumes the use of Leverage Instruments in an amount equal to 26.3% of our total assets, which represents our average leverage levels for the fiscal year ended November 30, 2013, and shows our expenses as a percentage of net assets attributable to our common stock. **We caution you that the percentages in the table below indicating annual expenses are estimates and may vary from actual results.**

**Stockholder Transaction Expenses:**

Sales Load Paid (as a percentage of offering price) (1)	%
Offering Expenses Borne (as a percentage of offering price) (2)	
Dividend Reinvestment Plan Fees (3)	None

Total Stockholder Transaction Expenses (as a percentage of offering price)(4)	%
---	---

**Percentage of Net Assets Attributable to Common Stock (5)****Annual Expenses:**

Management Fees (6)	2.44%
Interest Payments (including issuance costs) on Borrowed Funds	1.35
Dividend Payments (including issuance costs) on Preferred Stock	0.74
Other Expenses (exclusive of current and deferred income tax expense)	0.14
Annual Expenses (exclusive of current and deferred income tax expense)	4.67
Current Income Tax Expense (7)	0.51
Deferred Income Tax Expense (7)	13.87
Total Annual Expenses (including current and deferred income tax expenses)	19.05%

- (1) The sales load will apply only if the securities to which this prospectus relates are sold to or through underwriters. In such case, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses as a percentage of the offering price.
- (3) The expenses of administering our Dividend Reinvestment Plan are included in Other Expenses. Common stockholders will pay brokerage charges if they direct American Stock Transfer & Trust Company, as their agent (the Plan Administrator), to sell their common stock held in a dividend reinvestment account. See Dividend Reinvestment Plan.

- (4) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (5) The annual expenses in the table are calculated using (i) such expenses as reported on our statement of operations for the fiscal year ended November 30, 2013 and (ii) our average net assets for the fiscal year ended November 30, 2013.
- (6) Pursuant to the terms of the investment management agreement between the Company and its Adviser, the management fee is calculated at an annual rate of 1.375% of our average total assets (excluding net deferred income tax assets, if any). Our Adviser has agreed, for a period of one year ending on December 11, 2014, to waive 0.125% of its management fee on total assets in excess of \$4.5 billion (thereby reducing the management fee to 1.25% on total assets in excess of \$4.5 billion). Management fees in the table above do not reflect this fee waiver (management fee would be 2.41% if the fee waiver was included). Management fees in the table above are calculated as a percentage of net assets attributable to common stock, which results in a

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higher percentage than the percentage attributable to average total assets. See Management Investment Management Agreement.

- (7) For the fiscal year ended November 30, 2013, we recorded current tax expense of \$15.5 million and net deferred tax expense of \$419.9 million attributable to our net investment loss, realized gains and unrealized gains. The purpose of the table above and the example below is to help you understand all fees and expenses that you would bear directly or indirectly as a holder of our common stock. See Management and Dividend Reinvestment Plan.

**Example**

The following example illustrates the expenses that common stockholders would pay on a \$1,000 investment in our common stock, assuming total annual expenses before tax are 4.67% of net asset value in year 1. The following example assumes that all distributions are reinvested at net asset value, an annual rate of return of 5% on our portfolio securities, and expenses include income tax expense associated with the 5% assumed rate of return on such portfolio securities.

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Expenses	\$ 66	\$ 202	\$ 345	\$ 735

THE EXAMPLE AND THE EXPENSES IN THE TABLE ABOVE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES. The example assumes that the estimated Annual Expenses (exclusive of current and deferred income tax expense) set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. ACTUAL EXPENSES (INCLUDING THE COST OF LEVERAGE, IF ANY, AND OTHER EXPENSES) MAY BE GREATER OR LESS THAN THOSE SHOWN. Moreover, our actual rate of return may be greater or less than the hypothetical 5% return shown in the example. IN THE EVENT THAT A SALES LOAD APPLIES, AN EXAMPLE SIMILAR TO THIS WILL BE RESTATED IN A CORRESPONDING PROSPECTUS SUPPLEMENT TO SHOW THE EFFECT OF THE SALES LOAD.

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**FINANCIAL HIGHLIGHTS**

The information in the following table is derived from our financial statements and financial highlights, the accompanying notes thereto, and the report of PricewaterhouseCoopers LLP thereon for the fiscal year ended November 30, 2013 (the 2013 Audited Financial Statements ) which are incorporated by reference into our SAI. Copies of our SAI are available from us without charge upon request.

Table of Contents**KAYNE ANDERSON MLP INVESTMENT COMPANY****FINANCIAL HIGHLIGHTS**

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

For the Fiscal Year Ended  
November 30,

	2013	2012	2011	2010	2009	2008	2007	2006	2005
	\$ 28.51	\$ 27.01	\$ 26.67	\$ 20.13	\$ 14.74	\$ 30.08	\$ 28.99	\$ 25.07	\$ 23.91
	(0.73)	(0.71)	(0.69)	(0.44)	(0.33)	(0.73)	(0.73)	(0.62)	(0.17)
	8.72	4.27	2.91	8.72	7.50	(12.56)	3.58	6.39	2.80
	7.99	3.56	2.22	8.28	7.17	(13.29)	2.85	5.77	2.63
					(0.01)	(0.10)	(0.10)	(0.10)	(0.05)
	(1.54)	(1.54)	(1.26)	(0.84)			(0.09)		(0.13)
	(0.75)	(0.55)	(0.72)	(1.08)	(1.94)	(1.99)	(1.84)	(1.75)	(1.37)
	(2.29)	(2.09)	(1.98)	(1.92)	(1.94)	(1.99)	(1.93)	(1.75)	(1.50)
									(0.03)
	0.09	0.02	0.09	0.16	0.12		0.26		0.11
		0.01	0.01	0.02	0.05	0.04	0.01		

d	0.09	0.03	0.10	0.18	0.17	0.04	0.27		0.08
f	\$ 34.30	\$ 28.51	\$ 27.01	\$ 26.67	\$ 20.13	\$ 14.74	\$ 30.08	\$ 28.99	\$ 25.07
e									
l	\$ 37.23	\$ 31.13	\$ 28.03	\$ 28.49	\$ 24.43	\$ 13.37	\$ 28.27	\$ 31.39	\$ 24.33
t	28.2%	19.3%	5.6%	26.0%	103.0%	(48.8)%	(4.4)%	37.9%	3.7%



Table of Contents**KAYNE ANDERSON MLP INVESTMENT COMPANY****FINANCIAL HIGHLIGHTS**

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

For the Fiscal Year Ended  
November 30,

	2012	2011	2010	2009	2008	2007	2006	
43,916	\$ 2,520,821	\$ 2,029,603	\$ 1,825,891	\$ 1,038,277	\$ 651,156	\$ 1,300,030	\$ 1,103,392	\$
2.4%	2.4%	2.4%	2.1%	2.1%	2.2%	2.3%	3.2%	
0.1	0.2	0.2	0.2	0.4	0.3	0.2	0.2	
2.5	2.6	2.6	2.3	2.5	2.5	2.5	3.4	
2.1	2.4	2.3	1.9	2.5	3.4	2.3	1.7	
14.4	7.2	4.8	20.5	25.4	(9)	3.5	13.8	
19.0%	12.2%	9.7%	24.7%	30.4%	5.9%	8.3%	18.9%	
(2.3)%	(2.5)%	(2.5)%	(1.8)%	(2.0)%	(2.8)%	(2.3)%	(2.4)%	
24.3%	11.6%	7.7%	34.6%	43.2%	(51.2)%	7.3%	21.7%	
21.2%	20.4%	22.3%	18.7%	28.9%	6.7%	10.6%	10.0%	
27,563	\$ 2,346,249	\$ 1,971,469	\$ 1,432,266	\$ 774,999	\$ 1,143,192	\$ 1,302,425	\$ 986,908	\$

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75,000	890,000	775,000	620,000	370,000	304,000	505,000	320,000
69,000	19,000					97,000	17,000
				75,000	75,000	75,000	75,000
49,000	374,000	260,000	160,000				
58,194	82,809,687	72,661,162	60,762,952	46,894,632	43,671,666	41,134,949	37,638,314
412.9%	418.5%	395.4%	420.3%	400.9%	338.9%	328.4%	449.7%
303.4%	296.5%	296.1%	334.1%	333.3%	271.8%	292.0%	367.8%
11.70	\$ 10.80	\$ 10.09	\$ 7.70	\$ 6.79	\$ 11.52	\$ 12.14	\$ 8.53

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**

**FINANCIAL HIGHLIGHTS**

**(amounts in 000 \$, except share and per share amounts)**

**Notes to the Financial Highlights**

- (1) Commencement of operations.
- (2) Based on average shares of common stock outstanding.
- (3) Initial public offering price of \$25.00 per share less underwriting discounts of \$1.25 per share and offering costs of \$0.05 per share.
- (4) Distributions on the Company's mandatory redeemable preferred stock are treated as an operating expense under GAAP and are included in the calculation of net investment income (loss). See Note 2 Significant Accounting Policies.
- (5) The information presented for each period is a characterization of the total distributions paid to preferred stockholders and common stockholders as either a dividend (eligible to be treated as qualified dividend income) or a distribution (return of capital) and is based on the Company's earnings and profits.
- (6) Total investment return is calculated assuming a purchase of common stock at the market price on the first day and a sale at the current market price on the last day of the period reported. The calculation also assumes reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.
- (7) Not annualized.
- (8) Unless otherwise noted, ratios are annualized.
- (9) For the fiscal year ended November 30, 2008, the Company accrued deferred income tax benefits of \$339,991 (29.7% of average net assets) primarily related to unrealized losses on investments. Realization of a deferred tax benefit was dependent on whether there would be sufficient taxable income of the appropriate character within the carryforward periods to realize a portion or all of the deferred tax benefit. Because it could not have been predicted whether the Company would incur a benefit in the future, a deferred income tax expense of 0% was

assumed.

- (10) Calculated pursuant to section 18(a)(1)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Senior Notes or any other senior securities representing indebtedness and mandatory redeemable preferred stock divided by the aggregate amount of Senior Notes and any other senior securities representing indebtedness. Under the 1940 Act, the Company may not declare or make any distribution on its common stock nor can it incur additional indebtedness if, at the time of such declaration or incurrence, its asset coverage with respect to senior securities representing indebtedness would be less than 300%. For purposes of this test, the Credit Facility is considered a senior security representing indebtedness.
- (11) Calculated pursuant to section 18(a)(2)(A) of the 1940 Act. Represents the value of total assets less all liabilities not represented by Senior Notes, any other senior securities representing indebtedness and preferred stock divided by the aggregate amount of Senior Notes, any other senior securities representing indebtedness and preferred stock. Under the 1940 Act, the Company may not declare or make any distribution on its common stock nor can it issue additional preferred stock if at the time of such declaration or issuance, its asset coverage with respect to all senior securities would be less than 200%. In addition to the limitations under the 1940 Act, the Company, under the terms of its mandatory redeemable preferred stock, would not be able to declare or pay any distributions on its common stock if such declaration would cause its asset coverage with respect to all senior securities to be less than 225%. For purposes of these tests, the Credit Facility is considered a senior security representing indebtedness.

**Table of Contents****SENIOR SECURITIES**

Information about our outstanding senior securities (including Series D Auction Rate Preferred Shares ( ARP Shares ), MRP Shares, Senior Notes and other indebtedness) is shown in the following table as of each fiscal year ended November 30 since we commenced operations. The information for the fiscal years ended 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013, and for the period ended November 30, 2004 has been derived from our 2013 Audited Financial Statements which are incorporated by reference into our SAI.

<b>Year</b>	<b>Title of Security</b>	<b>Total Amount Outstanding (1) (\$ in 000s)</b>	<b>Asset Coverage Per \$1,000 of Principal or Liquidation Preference Amount</b>	<b>Involuntary Liquidating Preference Amount (2) (\$ in 000s)</b>	<b>Average Market Value (3)(4)</b>
2004	N/A	N/A	N/A	N/A	N/A
2005	Senior Notes				
	Series A	\$ 85,000	\$ 4,873	\$ 85,000	N/A
	Series B	85,000	4,873	85,000	N/A
	Series C	90,000	4,873	90,000	N/A
	ARP Shares	75,000	3,782	75,000	N/A
2006	Senior Notes				
	Series A	\$ 85,000	\$ 4,497	\$ 85,000	N/A
	Series B	85,000	4,497	85,000	N/A
	Series C	90,000	4,497	90,000	N/A
	Series E	60,000	4,497	60,000	N/A
	Revolving Credit Facility	17,000	4,497	17,000	N/A
	ARP Shares	75,000	3,678	75,000	N/A
2007	Senior Notes				
	Series A	\$ 85,000	\$ 3,284	\$ 85,000	N/A
	Series B	85,000	3,284	85,000	N/A
	Series C	90,000	3,284	90,000	N/A
	Series E	60,000	3,284	60,000	N/A
	Series F	185,000	3,284	185,000	N/A
	Revolving Credit Facility	97,000	3,284	97,000	N/A
	ARP Shares	75,000	2,920	75,000	N/A
2008	Senior Notes				
	Series G	\$ 75,000	\$ 3,389	\$ 75,000	N/A
	Series H	20,000	3,389	20,000	N/A
	Series I	60,000	3,389	60,000	N/A
	Series J	24,000	3,389	24,000	N/A

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Series K	125,000	3,389	125,000	N/A
Revolving Credit Facility				N/A
ARP Shares	75,000	2,718	75,000	N/A

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2009				
Senior Notes				
Series G	\$ 75,000	\$ 4,009	\$ 75,000	N/A
Series I	60,000	4,009	60,000	N/A
Series K	125,000	4,009	125,000	N/A
Series M	60,000	4,009	60,000	N/A
Series N	50,000	4,009	50,000	N/A
Revolving Credit Facility				N/A
ARP Shares	75,000	3,333	75,000	N/A
2010				
Senior Notes				
Series G	\$ 75,000	\$ 4,203	\$ 75,000	N/A
Series I	60,000	4,203	60,000	N/A
Series K	125,000	4,203	125,000	N/A
Series M	60,000	4,203	60,000	N/A
Series N	50,000	4,203	50,000	N/A
Series O	65,000	4,203	65,000	N/A
Series P	45,000	4,203	45,000	N/A
Series Q	15,000	4,203	15,000	N/A
Series R	25,000	4,203	25,000	N/A
Series S	60,000	4,203	60,000	N/A
Series T	40,000	4,203	40,000	N/A
Revolving Credit Facility				N/A
MRP Shares				
Series A	110,000	3,341	110,000	N/A
Series B	8,000	3,341	8,000	N/A
Series C	42,000	3,341	42,000	N/A
2011				
Senior Notes				
Series I	\$ 60,000	\$ 3,954	\$ 60,000	\$ N/A
Series K	125,000	3,954	125,000	N/A
Series M	60,000	3,954	60,000	N/A
Series N	50,000	3,954	50,000	N/A
Series O	65,000	3,954	65,000	N/A
Series P	45,000	3,954	45,000	N/A
Series Q	15,000	3,954	15,000	N/A
Series R	25,000	3,954	25,000	N/A
Series S	60,000	3,954	60,000	N/A
Series T	40,000	3,954	40,000	N/A
Series U	60,000	3,954	60,000	N/A
Series V	70,000	3,954	70,000	N/A
Series W	100,000	3,954	100,000	N/A
Revolving Credit Facility				N/A
MRP Shares				
Series A	\$ 110,000	\$ 2,961	\$ 110,000	N/A
Series B	8,000	2,961	8,000	N/A
Series C	42,000	2,961	42,000	N/A
Series D	100,000	2,961	100,000	101,419





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2012				
Senior Notes				
Series K	\$ 125,000	\$ 4,185	\$ 125,000	\$ N/A
Series M	60,000	4,185	60,000	N/A
Series N	50,000	4,185	50,000	N/A
Series O	65,000	4,185	65,000	N/A
Series P	45,000	4,185	45,000	N/A
Series Q	15,000	4,185	15,000	N/A
Series R	25,000	4,185	25,000	N/A
Series S	60,000	4,185	60,000	N/A
Series T	40,000	4,185	40,000	N/A
Series U	60,000	4,185	60,000	N/A
Series V	70,000	4,185	70,000	N/A
Series W	100,000	4,185	100,000	N/A
Series X	14,000	4,185	14,000	N/A
Series Y	20,000	4,185	20,000	N/A
Series Z	15,000	4,185	15,000	N/A
Series AA	15,000	4,185	15,000	N/A
Series BB	35,000	4,185	35,000	N/A
Series CC	76,000	4,185	76,000	N/A
Revolving Credit Facility	19,000	4,185	19,000	N/A
MRP Shares				
Series A	104,000	2,965	104,000	N/A
Series B	8,000	2,965	8,000	N/A
Series C	42,000	2,965	42,000	N/A
Series D	100,000	2,965	100,000	101,645
Series E	120,000	2,965	120,000	121,971
2013				
Senior Notes				
Series M	60,000	4,129	60,000	\$ N/A
Series N	50,000	4,129	50,000	N/A
Series O	65,000	4,129	65,000	N/A
Series P	45,000	4,129	45,000	N/A
Series Q	15,000	4,129	15,000	N/A
Series R	25,000	4,129	25,000	N/A
Series S	60,000	4,129	60,000	N/A
Series T	40,000	4,129	40,000	N/A
Series U	60,000	4,129	60,000	N/A
Series V	70,000	4,129	70,000	N/A
Series W	100,000	4,129	100,000	N/A
Series X	14,000	4,129	14,000	N/A
Series Y	20,000	4,129	20,000	N/A
Series Z	15,000	4,129	15,000	N/A
Series AA	15,000	4,129	15,000	N/A
Series BB	35,000	4,129	35,000	N/A
Series CC	76,000	4,129	76,000	N/A
Series DD	75,000	4,129	75,000	N/A
Series EE	50,000	4,129	50,000	N/A

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Series FF	65,000	4,129	65,000	N/A
Series GG	45,000	4,129	45,000	N/A
Series HH	175,000	4,129	175,000	N/A

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Revolving Credit Facility	69,000	4,129	69,000	N/A
MRP Shares				
Series A	104,000	3,034	104,000	N/A
Series B	8,000	3,034	8,000	N/A
Series C	42,000	3,034	42,000	N/A
Series E	120,000	3,034	120,000	121,032
Series F	125,000	3,034	125,000	121,461
Series G	50,000	3,034	50,000	49,718

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (3) Not applicable for senior securities not registered for public trading.
- (4) For MRP Shares that are publicly traded, the market value is based on the average daily closing price.

Table of Contents**MARKET AND NET ASSET VALUE INFORMATION**

Shares of our common stock are listed on the NYSE under the symbol KYN. Our common stock commenced trading on the NYSE on September 28, 2004.

Our common stock has traded both at a premium and at a discount in relation to its net asset value. Although our common stock has traded at a premium to net asset value, we cannot assure that this will continue after the offering or that the common stock will not trade at a discount in the future. Our issuance of common stock may have an adverse effect on prices in the secondary market for our common stock by increasing the number of shares of common stock available, which may create downward pressure on the market price for our common stock. Shares of closed-end investment companies frequently trade at a discount to net asset value. See Risk Factors Additional Risks Related to Our Common Stock Market Discount From Net Asset Value Risk.

The following table sets forth for each of the fiscal quarters indicated the range of high and low closing sales price of our common stock and the quarter-end sales price, each as reported on the NYSE, the net asset value per share of common stock and the premium or discount to net asset value per share at which our shares were trading. Net asset value is generally determined on the last business day of each calendar month. See Net Asset Value for information as to the determination of our net asset value.

	Quarterly Closing Sales Price			Quarter-End Closing	
	High	Low	Sales Price	Net Asset Value Per Share of Common Stock (1)	Premium/ (Discount) of Sales Price to Net Asset Value (2)
<b>Fiscal Year 2013</b>					
Fourth Quarter	\$ 37.50	\$ 34.42	\$ 37.23	\$ 34.30	8.5%
Third Quarter	39.68	34.42	35.57	33.01	7.8
Second Quarter	39.07	33.11	37.21	32.91	13.1
First Quarter	35.72	28.86	35.38	30.92	14.4
<b>Fiscal Year 2012</b>					
Fourth Quarter	\$ 31.65	\$ 28.68	\$ 31.13	\$ 28.51	9.2%
Third Quarter	31.52	28.56	30.50	28.66	6.4
Second Quarter	31.47	27.80	28.99	26.38	9.9
First Quarter	32.89	28.34	31.40	30.08	4.4
<b>Fiscal Year 2011</b>					
Fourth Quarter	\$ 29.18	\$ 25.53	\$ 28.03	\$ 27.01	3.8%
Third Quarter	30.37	24.35	28.40	26.01	9.2
Second Quarter	32.71	28.44	29.43	27.53	6.9
First Quarter	31.51	27.93	30.91	28.73	7.6

Source of market prices: Reuters Group PLC.

(1) NAV per share is determined as of close of business on the last day of the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low closing sales prices, which may or may not fall on the last day of the quarter. NAV per share is calculated as described under the caption Net Asset Value.

(2) Calculated as of the quarter-end closing sales price divided by the quarter-end NAV.

On December 31, 2013, the last reported sales price of our common stock on the NYSE was \$39.85, which represented a premium of approximately 13.6% to the NAV per share reported by us on that date.

As of December 31, 2013, we had approximately 100.6 million shares of common stock outstanding and we had net assets applicable to common stockholders of approximately \$3.5 billion.

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**USE OF PROCEEDS**

Unless otherwise specified in a prospectus supplement, we will use the net proceeds from any sales of our securities pursuant to this prospectus to make investments in portfolio companies in accordance with our investment objectives and policies, to repay indebtedness, or for general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such offering.

To the extent a portion of the proceeds from such offering are used to make investments in portfolio companies, the relevant prospectus supplement will include an estimate of the length of time it is expected to take to invest such proceeds. We anticipate such length of time will be less than three months. To the extent a portion of the proceeds from such offering are used to repay indebtedness, such transactions will be effected as soon as practicable after completion of the relevant offering.

Pending the use of proceeds, as described above, 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. A delay in the anticipated use of proceeds could lower returns, reduce our distribution to common stockholders and reduce the amount of cash available to make dividend and interest payments on preferred stock and debt securities, respectively.

As of December 31, 2013, we had \$64 million borrowed under our credit facility. Our revolving credit facility has a term of three years and matures on March 4, 2016. Amounts repaid under our credit facility will remain available for future borrowings. Outstanding balances under the credit facility accrue interest daily at a rate equal to the one-month LIBOR plus 1.60% per annum based on current asset coverage ratios. The interest rate may vary between LIBOR plus 1.60% and LIBOR plus 2.25% depending on asset coverage ratios. We will pay a fee equal to a rate of 0.30% per annum on any unused amounts of the credit facility.

We will not receive any proceeds from any sale of Series HH Notes by the selling noteholders identified herein under the caption **Selling Noteholders** .

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**RISK FACTORS**

Investing in our securities involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The following discussion summarizes some of the risks that a potential investor should carefully consider before deciding whether to invest in our securities offered hereby. For additional information about the risks associated with investing in our securities, see *Our Investments* in our SAI, as well as any risk factors included in the applicable prospectus supplement.

**Risks Related to Our Investments and Investment Techniques**

*Investment and Market Risk*

An investment in our securities is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in our securities represents an indirect investment in MLPs, other Midstream Energy Companies and other securities owned by us, some of which will be traded on a national securities exchange or in the over-the-counter markets. An investment in our securities is not intended to constitute a complete investment program and should not be viewed as such. The value of these publicly traded securities, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which we invest may affect the value of our securities. Your securities at any point in time may be worth less than your original investment, even after taking into account the reinvestment of our distributions. We are primarily a long-term investment vehicle and should not be used for short-term trading.

*Risks of Investing in MLP Units*

In addition to the risks summarized herein, an investment in MLP units involves certain risks which differ from an investment in the securities of a corporation. Investors in MLPs, unlike investors in the securities of a corporation, have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in MLP units and conflicts of interest exist between common unitholders and the general partner, including those arising from incentive distribution payments.

*Energy Sector Risk*

Our concentration in the energy sector may present more risk than if we were broadly diversified over multiple sectors of the economy. A downturn in one or more industries within the energy sector, adverse political, legislative or regulatory developments or other events could have a larger impact on us than on an investment company that does not concentrate in the energy sector. At times, the performance of companies in the energy sector may lag the performance of other sectors or the broader market as a whole. In addition, there are several specific risks associated with investments in the energy sector, including the following:

*Supply and Demand Risk.* MLPs and other Energy Companies could be adversely affected by reductions in the supply of or demand for energy commodities. The volume of production of energy commodities and the volume of energy commodities available for transportation, mining, storage, processing or distribution could be affected by a variety of factors, including depletion of resources; depressed commodity prices; catastrophic events; labor relations; increased environmental or other governmental regulation; equipment malfunctions and maintenance difficulties; volumes of imports or exports; international politics, policies of OPEC; and increased competition from alternative energy sources. Alternatively, a decline in demand for energy commodities could result from factors such as adverse economic conditions; increased taxation; increased environmental or other governmental regulation; increased fuel economy; increased energy conservation or use of alternative energy sources; legislation intended to promote the use

of alternative energy sources; or increased commodity prices.

*Commodity Pricing Risk.* The operations and financial performance of MLPs and other Energy Companies may be directly affected by energy commodity prices, especially those MLPs and other Energy



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Companies that own the underlying energy commodity or receive payments for services that are based on commodity prices. Such impact may be a result of changes in the price for such commodity or a result of changes in the price of one energy commodity relative to the price of another energy commodity (for example, the price of natural gas relative to the price of natural gas liquids). Commodity prices fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Volatility of commodity prices, which may lead to a reduction in production or supply, may also negatively impact the performance of MLPs and other Energy Companies which are solely involved in the transportation, processing, storing, distribution or marketing of commodities. Volatility of commodity prices may also make it more difficult for MLPs and other Energy Companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices. In addition to the volatility of commodity prices, extremely high commodity prices may drive further energy conservation efforts which may adversely affect the performance of MLPs and other Energy Companies.

*Regulatory Risk.* MLPs and other Energy Companies are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including (i) how facilities are constructed, maintained and operated, (ii) how services are provided, (iii) environmental and safety controls, and, in some cases (iv) the prices they may charge for the products and services they provide. Such regulation can change rapidly or over time in both scope and intensity. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect the financial performance of MLPs and other Energy Companies.

In particular, changes to laws and increased regulations or enforcement policies as a result of oil spills, such as the Macondo oil spill in the Gulf of Mexico, onshore oil pipeline spills or spills attributable to railroad accidents may adversely affect the financial performance of MLPs and other Energy Companies. Additionally, changes to laws and increased regulation or restrictions to the use of hydraulic fracturing or the disposal of wastewater associated with hydraulic fracturing and production from unconventional reserves may adversely impact the ability of Energy Companies to economically develop oil and natural gas resources and, in turn, reduce production for such commodities and adversely impact the financial performance of MLPs and other Energy Companies.

The operation of energy assets, including gathering systems, pipelines, processing plants, fractionators, rail transloading facilities, refineries and other facilities, is subject to stringent and complex federal, state and local environmental laws and regulations. Failure to comply with these laws and regulations may trigger a variety of administrative, civil and criminal enforcement measures, including the assessment of monetary penalties, the imposition of remedial requirements, and the issuance of orders enjoining future operations. Certain environmental statutes, including RCRA, CERCLA, the federal Oil Pollution Act and analogous state laws and regulations, impose strict, joint and several liability for costs required to clean up and restore sites where hazardous substances have been disposed of or otherwise released. Moreover, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the release of hazardous substances or other waste products into the environment.

The EPA and federal, state and local governmental agencies may enact laws that prohibit or significantly regulate the operation of energy assets. For instance, increased regulatory scrutiny of hydraulic fracturing, which is used by Energy Companies to develop oil and natural gas reserves, could result in additional laws and regulations governing hydraulic fracturing or, potentially, prohibit the action. Increased regulatory scrutiny of disposal of wastewater, which is a byproduct of hydraulic fracturing and production of unconventional reserves and must be disposed, could result in

additional laws or regulations governing such disposal activities. While we are not able to predict the likelihood of such an event or its impact, it is possible

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that additional restrictions on hydraulic fracturing or wastewater disposal could result in a reduction in production of oil, natural gas and natural gas liquids. The use of hydraulic fracturing is critical to the recovery of economic amounts of oil, natural gas and natural gas liquids from unconventional reserves, and the associated wastewater must be disposed. MLPs and Midstream Energy Companies have increasingly focused on the construction of midstream assets to facilitate the development of unconventional reserves. As a result, restrictions on hydraulic fracturing or wastewater disposal could have an adverse impact on the financial performance of MLPs and Midstream Energy Companies.

There is an inherent risk that MLPs may incur material environmental costs and liabilities due to the nature of their businesses and the substances they handle. For example, an accidental release from a pipeline could subject the owner of such pipeline to substantial liabilities for environmental cleanup and restoration costs, claims made by neighboring landowners and other third parties for personal injury and property damage, and fines or penalties for related violations of environmental laws or regulations. Moreover, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase the compliance costs of MLPs. Similarly, the implementation of more stringent environmental requirements could significantly increase the cost of any remediation that may become necessary. MLPs may not be able to recover these costs from insurance or recover these costs in the rates it charges customers.

*Depletion Risk.* Most MLPs and other Midstream Energy Companies are engaged in the transporting, storing, distributing and processing of natural gas, natural gas liquids, crude oil, refined petroleum products or coal on behalf of shippers. In addition, some MLPs and other Midstream Energy Companies are engaged in the production of such commodities. Energy reserves naturally deplete as they are produced over time, and to maintain or grow their revenues, these companies need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources, through acquisitions, or through long-term contracts to acquire reserves. The financial performance of MLPs and other Midstream Energy Companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline. If an Energy Company fails to add reserves by acquiring or developing them, its reserves and production will decline over time as they are produced. If an Energy Company is not able to raise capital on favorable terms, it may not be able to add to or maintain its reserves.

*Reserve Risks.* Energy Companies engaged in the production of natural gas, natural gas liquids, crude oil and other energy commodities are subject to overstatement of the quantities of their reserves based upon any reserve estimates that prove to be inaccurate, that no commercially productive amounts of such energy commodities will be discovered as a result of drilling or other exploration activities, the curtailment, delay or cancellation of exploration activities are as a result of a unexpected conditions or miscalculations, title problems, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with environmental and other governmental requirements and cost of, or shortages or delays in the availability of, drilling rigs and other exploration equipment, and operational risks and hazards associated with the development of the underlying properties, including natural disasters, blowouts, explosions, fires, leakage of such energy commodities, mechanical failures, cratering, and pollution.

### *Industry Specific Risks*

MLPs and other companies operating in the energy sector are also subject to risks that are specific to the industry they serve.

*Midstream.* MLPs and other Midstream Energy Companies that operate midstream assets are subject to supply and demand fluctuations in the markets they serve which may be impacted by a wide range of factors including fluctuating commodity prices, weather, increased conservation or use of alternative fuel sources, increased governmental or

environmental regulation, depletion, rising interest rates, declines in domestic or foreign production, accidents or catastrophic events, and economic conditions, among others. Further, MLPs and

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other Midstream Energy Companies that operate gathering and processing assets are subject to natural declines in the production of the oil and gas fields they serve. In addition, some gathering and processing contracts subject the owner of such assets to direct commodity price risk.

*Marine Transportation.* MLPs and other Midstream Energy Companies with marine transportation assets are exposed to many of the same risks as other MLPs and Midstream Energy Companies. In addition, the highly cyclical nature of the marine transportation industry may lead to volatile changes in charter rates and vessel values, which may adversely affect the revenues, profitability and cash flows of such companies in our portfolio. Fluctuations in charter rates result from changes in the supply and demand for vessel capacity and changes in the supply and demand for certain energy commodities. Changes in demand for transportation of commodities over longer distances and supply of vessels to carry those commodities may materially affect revenues, profitability and cash flows. The value of marine transportation vessels may fluctuate and could adversely affect the value of marine transportation company securities in our portfolio. Declining marine transportation values could affect the ability of marine transportation companies to raise cash by limiting their ability to refinance their vessels, thereby adversely impacting such company liquidity. Marine transportation company vessels are at risk of damage or loss because of events such as mechanical failure, collision, human error, war, terrorism, piracy, cargo loss and bad weather. In addition, changing economic, regulatory and political conditions in some countries, including political and military conflicts, have from time to time resulted in attacks on vessels, mining of waterways, piracy, terrorism, labor strikes, boycotts and government requisitioning of vessels. These sorts of events could interfere with marine transportation lanes and result in market disruptions and a significant reduction in cash flow for the marine transportation companies in our portfolio.

*Coal.* MLPs with coal assets are subject to supply and demand fluctuations in the markets they serve, which will be impacted by a wide range of domestic and foreign factors including fluctuating commodity prices, the level of their customers' coal stockpiles, weather, increased conservation or use of alternative fuel sources, increased governmental or environmental regulation, depletion, declines in production, mining accidents or catastrophic events, health claims and economic conditions, among others. In light of increased state and federal regulation, it has been increasingly difficult to obtain and maintain the permits necessary to mine coal. Further, such permits, if obtained, have increasingly contained more stringent, and more difficult and costly to comply with, provisions relating to environmental protection.

*Exploration and production.* MLPs and other Energy Companies that own oil and gas reserves are particularly vulnerable to declines in the demand for and prices of crude oil and natural gas. The accuracy of any reserve estimate is a function of the quality of available data, the accuracy of assumptions regarding future commodity prices and future exploration and development costs and engineering and geological interpretations and judgments. Any significant variance from the assumptions used could result in the actual quantity of reserves and future net cash flow being materially different from those estimated in reserve reports. Substantial downward adjustments in reserve estimates could have a material adverse effect on the value of such reserves and the financial condition of such company. In addition, due to natural declines in reserves and production, energy companies must economically find or acquire and develop additional reserves in order to maintain and grow their production levels and cash flow. Further, the U.S. royalty trusts in which we invest have a finite amount of assets and cannot develop additional resources. Consequently, production and cash flow for these companies will decline over time.

*Propane.* MLPs with propane assets are subject to earnings variability based upon weather conditions in the markets they serve, fluctuating commodity prices, customer conservation and increased use of alternative fuels, increased governmental or environmental regulation, and accidents or catastrophic events, among others.

*Refining.* MLPs and other Energy Companies that operate refining assets are subject to many of the same risks as other MLPs and other Energy Companies that operate midstream assets. In addition, the fluctuations in commodity

prices and the price relationship between certain commodities (for instance, the price of crude oil and the price of gasoline) will impact the financial results of MLPs and other Energy Companies that operate refining assets.

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*Other.* MLPs and other Energy Companies that operate other energy related assets are subject to many of the same risks as other MLPs and Energy Companies that operate midstream assets, coal assets and refining assets. Examples of such types of other energy-related assets include: (i) retail gasoline distribution, (ii) production of sand used as a proppant in the production of crude oil and natural gas ( frac sand ), (iii) production of coke, which is used as a raw material in the steelmaking process, (iv) propane dehydrogenation, a process whereby propane is turned into propylene, (v) the mining of soda ash, which is a raw material used to make glass, detergents and other chemicals, (vi) the manufacturing of methanol, which is used as a fuel additive as well as in various chemical applications and (vii) the manufacturing of ammonia, which is a raw material used to make fertilizer.

### *Tax Risks of Investing in Equity Securities of MLPs*

*Tax Risk of MLPs.* Our ability to meet our investment objective will depend, in part, on the level of taxable income and distributions and dividends we receive from the MLP securities in which we invest, a factor over which we have no control. The benefit we derive from our investment in MLPs is largely dependent on the MLPs being treated as partnerships and not as corporations for federal income tax purposes. As a partnership, an MLP has no tax liability at the entity level. If, as a result of a change in current law or a change in an MLP's business, an MLP were treated as a corporation for federal income tax purposes, such MLP would be obligated to pay federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for federal income tax purposes, the amount of cash available for distribution by the MLP would likely be reduced and distributions received by us would be taxed under federal income tax laws applicable to corporate distributions (as dividend income, return of capital, or capital gain), which would reduce the amount of cash flow we have to pay interest expense and dividends on our senior securities. Additionally, treatment of an MLP as a corporation for federal income tax purposes would likely result in a reduction in the after-tax return to us, likely causing a decline in the value of our assets and a reduction in the asset coverage ratios for our senior securities.

Recent legislative efforts to change tax laws to simplify the tax code and increase corporate tax receipts could result in proposals to eliminate pass through entities for tax purposes. We cannot predict the likelihood of any such changes. Such legislation, if approved by Congress, could result in MLPs no longer being treated as partnerships for tax purposes.

### *Non-Diversification Risk*

We are a non-diversified, closed-end investment company under the 1940 Act and will not be treated as a regulated investment company under the Internal Revenue Code of 1986, as amended, or the Code. Accordingly, there are no regulatory requirements under the 1940 Act or the Code on the minimum number or size of securities we hold. As of December 31, 2013, we held investments in approximately 62 issuers.

As of December 31, 2013, substantially all of our total assets were invested in publicly traded securities of MLPs and other Midstream Energy Companies. As of December 31, 2013, there were 110 publicly traded MLPs (partnerships) which manage and operate energy assets. We primarily select our investments in publicly traded securities from securities issued by MLPs in this small pool, together with securities issued by newly public MLPs, if any. We also invest in publicly traded securities issued by other Midstream Energy Companies.

As a result of selecting our investments from this small pool of publicly traded securities, a change in the value of the securities of any one of these publicly traded MLPs could have a significant impact on our portfolio. In addition, as there can be a correlation in the valuation of the securities of publicly traded MLPs, a change in value of the securities of one such MLP could negatively influence the valuations of the securities of other publicly traded MLPs that we may hold in our portfolio.

As we may invest up to 15% of our total assets in any single issuer, a decline in value of the securities of such an issuer could significantly impact the value of our portfolio.



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*Catastrophic Event Risk.* MLPs and other Energy Companies operating in the energy sector are subject to many dangers inherent in the production, exploration, management, transportation, processing and distribution of natural gas, natural gas liquids, crude oil, refined petroleum products and other hydrocarbons. These dangers include leaks, fires, explosions, damage to facilities and equipment resulting from natural disasters, inadvertent damage to facilities and equipment (such as those suffered by BP's Deepwater Horizon drilling platform in the 2010 Macondo oil spill) and terrorist acts. Since the September 11th terrorist attacks, the U.S. government has issued warnings that energy assets, specifically U.S. pipeline infrastructure, may be targeted in future terrorist attacks. These dangers give rise to risks of substantial losses as a result of loss or destruction of reserves; damage to or destruction of property, facilities and equipment; pollution and environmental damage; and personal injury or loss of life. Any occurrence of such catastrophic events could bring about a limitation, suspension or discontinuation of the operations of certain assets owned by such MLP or other Energy Company. MLPs and other Energy Companies operating in the energy sector may not be fully insured against all risks inherent in their business operations and, therefore, accidents and catastrophic events could adversely affect such companies' financial condition and ability to pay distributions to shareholders. We expect that increased governmental regulation to mitigate such catastrophic risk such as the recent oil spills referred to above, could increase insurance premiums and other operating costs for MLPs and other Energy Companies.

*Acquisition Risk.* The abilities of MLPs and other Midstream Energy Companies to grow and to increase cash distributions to unitholders can be highly dependent on their ability to make acquisitions that result in an increase in cash flows. In the event that MLPs and other Midstream Energy Companies are unable to make such accretive acquisitions because they are unable to identify attractive acquisition candidates and negotiate acceptable purchase contracts, because they are unable to raise financing for such acquisitions on economically acceptable terms, or because they are outbid by competitors, their future growth and ability to raise distributions will be limited. Furthermore, even if MLPs and other Midstream Energy Companies do consummate acquisitions that they believe will be accretive, the acquisitions may instead result in a decrease in cash flow. Any acquisition involves risks, including, among other things: mistaken assumptions about volumes, revenues and costs, including synergies; the assumption of unknown liabilities; limitations on rights to indemnity from the seller; the diversion of management's attention from other business concerns; unforeseen difficulties operating in new product or geographic areas; and customer or key employee losses at the acquired businesses.

*Affiliated Party Risk.* Certain MLPs are dependent on their parents or sponsors for a majority of their revenues. Any failure by an MLP's parents or sponsors to satisfy their payments or obligations would impact the MLP's revenues and cash flows and ability to make interest payments and distributions.

### *Dependence on Limited Number of MLP Customers and Suppliers*

Certain MLPs and other Midstream Energy Companies in which we may invest depend upon a limited number of customers for a majority of their revenue. Similarly, certain MLPs and other Midstream Energy Companies in which we may invest depend upon a limited number of suppliers of goods or services to continue their operations. The loss of any such customers or suppliers could materially adversely affect such MLPs' and other Midstream Companies' results of operation and cash flow, and their ability to make distributions to stockholders could therefore be materially adversely affected.

### *Delay in Use of Proceeds*

Although we intend to invest the proceeds of this offering in accordance with our investment objective as soon as practicable, such investments may be delayed if suitable investments are unavailable at the time. The trading market and volumes for securities of MLPs and other Midstream Energy Companies may, at times, be less liquid than the

market for other securities. 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 be less than returns and yields sought pursuant to our investment objective and policies. See Use of Proceeds.

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*Political Instability Risk.* MLPs and other Midstream Energy Companies in which we may invest are subject to disruption as a result of terrorist activities, such as the terrorist attacks on the World Trade Center on September 11, 2001; war, such as the wars in Afghanistan and Iraq and their aftermaths; and other geopolitical events, including the upheaval in the Middle East or other energy producing regions. The U.S. government has issued warnings that energy assets, specifically those related to pipeline and other energy infrastructure, production facilities and transmission and distribution facilities, may be targeted in future terrorist attacks. Internal unrest, acts of violence or strained relations between a government and energy companies or other governments may affect the operations and profitability of MLPs and other Midstream Energy Companies, particularly marine transportation companies, in which we invest. Political instability in other parts of the world may also cause volatility and disruptions in the market for the securities of MLPs and other Midstream Energy Companies, even those that operate solely in North America.

*Weather Risks.* Weather conditions and the seasonality of weather patterns play a role in the cash flows of certain MLPs and other Midstream Energy Companies. MLPs in the propane industry, for example, rely on the winter heating season to generate almost all of their cash flow. In an unusually warm winter season, propane MLPs experience decreased demand for their product. Although most MLPs and other Midstream Energy Companies can reasonably predict seasonal weather demand based on normal weather patterns, extreme weather conditions, such as the hurricanes that severely damaged cities along the U.S. Gulf Coast in the last decade, demonstrate that no amount of preparation can protect an MLP or Midstream Energy Company from the unpredictability of the weather. The damage done by extreme weather also may serve to increase insurance premiums for energy assets owned by MLPs and other Midstream Energy Companies, could significantly increase the volatility in the supply of energy-related commodities and could adversely affect such companies' financial condition and ability to pay distributions to shareholders.

*Cash Flow Risk*

A substantial portion of the cash flow received by us is derived from our investment in equity securities of MLPs and other Midstream Energy Companies. The amount of cash that an MLP or other Midstream Energy Company has available to pay its debt and equity holders depends upon the amount of cash flow generated from the company's operations. Cash flow from operations will vary from quarter to quarter and is largely dependent on factors affecting the company's operations and factors affecting the energy industry in general. In addition to the risk factors described herein, other factors which may reduce the amount of cash an MLP or other Midstream Energy Company has available to pay its debt and equity holders include increased operating costs, maintenance capital expenditures, acquisition costs, expansion or construction costs and borrowing costs. Further, covenants in debt instruments issued by MLPs and other Midstream Energy Companies in which we intend to invest may restrict distributions to equity holders or, in certain circumstances, may not allow distributions to be made to equity holders.

*Concentration Risk*

Our investments are concentrated in the energy sector. The focus of our portfolio on specific industries within the energy sector may present more risks than if our portfolio were broadly diversified over numerous sectors of the economy. A downturn in one or more industries within the energy sector would have a larger impact on us than on an investment company that does not concentrate in the energy sector. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. To the extent that we invest a relatively high percentage of our assets in the obligations of a limited number of issuers, we may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence.

*Interest Rate Risk*

Valuations of securities in which we invest are based on numerous factors, including sector and business fundamentals, management expertise, and expectations of future operating results. Many of the securities in

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which we invest pay quarterly dividends/distributions to investors and are viewed by investors as yield-based investments. As a result, yields for these securities are also susceptible, in the short-term, to fluctuations in interest rates and the equity prices of such securities may decline when interest rates rise. Because we invest in equity securities of MLPs and other Midstream Energy Companies, our net asset value and the asset coverage ratios on our senior securities may decline if interest rates rise.

### *Inflation / Deflation Risk*

Inflation risk is the risk that the value of assets or income from investment will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of our securities and distributions that we pay declines. In addition, during any periods of rising inflation, the dividend rates or borrowing costs associated with our use of leverage would likely increase. Deflation risk is the risk that prices throughout the economy decline over time the opposite of inflation. Deflation may have an adverse effect on the creditworthiness of issuers and may make issuer defaults more likely, which may result in a decline in the value of our portfolio.

### *Capital Markets Risk*

Global financial markets and economic conditions have been, and continue to be, volatile. As a result of this, MLPs and other Midstream Energy Companies may be unable to obtain new debt or equity financing on acceptable terms or at all when market conditions are most volatile. If funding is not available when needed, or is available only on unfavorable terms, MLPs and other Midstream Energy Companies may not be able to meet their obligations as they come due. Moreover, without adequate funding, MLPs and other Midstream Energy Companies may be unable to execute their growth strategies, complete future acquisitions, take advantage of other business opportunities or respond to competitive pressures, any of which could have a material adverse effect on their revenues and results of operations.

### *Risk of Conflicting Transactions by the Investment Advisor*

Kayne Anderson manages portfolios of other investment companies and client accounts that invest in similar or the same securities as the company. It is possible that Kayne Anderson would effect a purchase of a security for us when another investment company or client account is selling that same security, or vice versa. Kayne Anderson will use reasonable efforts to avoid adverse impacts on the company's transactions as a result of those other transactions, but there can be no assurances that adverse impacts will be avoided.

### *Equity Securities Risk*

A substantial percentage of our assets will be invested in equity securities of MLPs and other Midstream Energy Companies. Such securities may be subject to general movements in the stock market and a significant drop in the stock market may depress the price of securities to which we have exposure. Equity securities prices fluctuate for several reasons, including changes in the financial condition of a particular issuer, investors' perceptions of MLPs and other Midstream Energy Companies, the general condition of the relevant stock market, or when political or economic events affecting the issuers occur. In addition, the prices of MLP units and other Midstream Energy Company equity securities may be sensitive to rising interest rates given their yield-based nature. In addition, MLP and other Midstream Energy Company equity securities held by the Company may decline in price if the issuer fails to make anticipated distributions or dividend payments because, among other reasons, the issuer experiences a decline in its financial condition.

### *Small Capitalization Risk*

Certain of the MLPs and other Midstream Energy Companies in which we invest may have comparatively smaller capitalizations than other companies whose securities are included in major benchmarked

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indexes. Investing in the securities of smaller MLPs and other Midstream Energy Companies presents some unique investment risks. These MLPs and other Midstream Energy Companies may have limited product lines and markets, as well as shorter operating histories, less experienced management and more limited financial resources than larger MLPs and other Midstream Energy Companies and may be more vulnerable to adverse general market or economic developments. Stocks of smaller MLPs and other Midstream Energy Companies may be less liquid than those of larger MLPs and other Midstream Energy Companies and may experience greater price fluctuations than larger MLPs and other Midstream Energy Companies. In addition, small-cap securities may not be widely followed by the investment community, which may result in reduced demand. This means that we could have greater difficulty selling such securities at the time and price that we would like.

*Debt Securities Risks*

Debt securities in which we invest are subject to many of the risks described elsewhere in this section. In addition, they are subject to credit risk and other risks, depending on the quality and other terms of the debt security.

*Credit Risk.* An issuer of a debt security may be unable to make interest payments and repay principal. We could lose money if the issuer of a debt obligation is, or is perceived to be, unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of a security by rating agencies may further decrease its value. Additionally, we may purchase a debt security that has payment-in-kind interest, which represents contractual interest added to the principal balance and due at the maturity date of the debt security in which we invest. It is possible that by effectively increasing the principal balance payable or deferring cash payment of such interest until maturity, the use of payment-in-kind features will increase the risk that such amounts will become uncollectible when due and payable.

*Below Investment Grade and Unrated Debt Securities Risk.* Below investment grade debt securities (commonly referred to as junk bonds or high yield bonds) are rated Ba1 or less by Moody's, BB+ or less by Fitch or Standard & Poor's, or comparably rated by another rating agency. Below investment grade and unrated debt securities generally pay a premium above the yields of U.S. government securities or debt securities of investment grade issuers because they are subject to greater risks than these securities. These risks, which reflect their speculative character, include the following: greater yield and price volatility; greater credit risk and risk of default; potentially greater sensitivity to general economic or industry conditions; potential lack of attractive resale opportunities (illiquidity); and additional expenses to seek recovery from issuers who default.

In addition, the prices of these below investment grade and other unrated debt securities in which we may invest are more sensitive to negative developments, such as a decline in the issuer's revenues or profitability or a general economic downturn, than are the prices of higher grade securities. Below investment grade and unrated debt securities tend to be less liquid than investment grade securities and the market for below investment grade and unrated debt securities could contract further under adverse market or economic conditions. In such a scenario, it may be more difficult for us to sell these securities in a timely manner or for as high a price as could be realized if such securities were more widely traded. The market value of below investment grade and unrated debt securities may be more volatile than the market value of investment grade securities and generally tends to reflect the market's perception of the creditworthiness of the issuer and short-term market developments to a greater extent than investment grade securities, which primarily reflect fluctuations in general levels of interest rates. In the event of a default by a below investment grade or unrated debt security held in our portfolio in the payment of principal or interest, we may incur additional expense to the extent we are required to seek recovery of such principal or interest. For a further description of below investment grade and unrated debt securities and the risks associated therewith, see *Investment Objective and Policies*.

*Prepayment Risk.* Certain debt instruments, particularly below investment grade securities, may contain call or redemption provisions which would allow the issuer thereof to prepay principal prior to the debt instrument's stated maturity. This is known as prepayment risk. Prepayment risk is greater during a falling



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interest rate environment as issuers can reduce their cost of capital by refinancing higher yielding debt instruments with lower yielding debt instruments. An issuer may also elect to refinance its debt instruments with lower yielding debt instruments if the credit standing of the issuer improves. To the extent debt securities in our portfolio are called or redeemed, we may be forced to reinvest in lower yielding securities.

### *Interest Rate Risk for Debt and Equity Securities*

Debt securities, and equity securities that pay dividends and distributions, have the potential to decline in value, sometimes dramatically, when interest rates rise or are expected to rise. In general, the values or prices of debt securities vary inversely with interest rates. The change in a debt security's price depends on several factors, including its maturity. Generally, debt securities with longer maturities are subject to greater price volatility from changes in interest rates. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms).

### *Risks Associated with Investing in Initial Public Offerings ( IPOs )*

Securities purchased in IPOs are often subject to the general risks associated with investments in companies with small market capitalizations and, at times, are magnified. Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in an IPO may be highly volatile. At any particular time, or from time to time, we may not be able to invest in IPOs, or to invest to the extent desired, because, for example, only a small portion (if any) of the securities being offered in an IPO may be available to us. In addition, under certain market conditions, a relatively small number of companies may issue securities in IPOs. Our investment performance during periods when we are unable to invest significantly or at all in IPOs may be lower than during periods when we are able to do so. IPO securities may be volatile, and we cannot predict whether investments in IPOs will be successful. As we grow in size, the positive effect of IPO investments on the Company may decrease.

### *Risks Associated with a Private Investment in a Public Entity ( PIPE ) Transaction*

PIPE investors purchase securities directly from a publicly traded company in a private placement transaction, typically at a discount to the market price of the company's common stock. Because the sale of the securities is not registered under the Securities Act of 1933, as amended (the Securities Act), the securities are restricted and cannot be immediately resold by the investors into the public markets. Until we can sell such securities into the public markets, our holdings will be less liquid, and any sales will need to be made pursuant to an exemption under the Securities Act.

### *Privately Held Company Risk*

Investing in privately held companies involves risk. For example, privately held companies are not subject to SEC reporting requirements, are not required to maintain their accounting records in accordance with generally accepted accounting principles, and are not required to maintain effective internal controls over financial reporting. As a result, our Adviser may not have timely or accurate information about the business, financial condition and results of operations of the privately held companies in which we invest. In addition, the securities of privately held companies are generally illiquid, and entail the risks described under **Liquidity Risk** below.

### *Liquidity Risk*

Securities with limited trading volumes may display volatile or erratic price movements. Kayne Anderson is one of the largest investors in MLPs and Midstream Energy Companies. Thus, it may be more difficult for us to buy and sell

significant amounts of such securities without an unfavorable impact on prevailing market prices. Larger purchases or sales of these securities by us in a short period of time may cause abnormal

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movements in the market price of these securities. As a result, these securities may be difficult to dispose of at a fair price at the times when we believe it is desirable to do so. These securities are also more difficult to value, and Kayne Anderson's judgment as to value will often be given greater weight than market quotations, if any exist. Investment of our capital in securities that are less actively traded or over time experience decreased trading volume may restrict our ability to take advantage of other market opportunities.

We also invest in unregistered or otherwise restricted securities. The term "restricted securities" refers to securities that are unregistered or are held by control persons of the issuer and securities that are subject to contractual restrictions on their resale. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act, unless an exemption from such registration is available. Restricted securities may be more difficult to value and we may have difficulty disposing of such assets either in a timely manner or for a reasonable price. In order to dispose of an unregistered security, we, where we have contractual rights to do so, may have to cause such security to be registered. A considerable period may elapse between the time the decision is made to sell the security and the time the security is registered so that we could sell it. Contractual restrictions on the resale of securities vary in length and scope and are generally the result of a negotiation between the issuer and acquiror of the securities. We would, in either case, bear the risks of any downward price fluctuation during that period. The difficulties and delays associated with selling restricted securities could result in our inability to realize a favorable price upon disposition of such securities, and at times might make disposition of such securities impossible.

Our investments in restricted securities may include investments in private companies. Such securities are not registered under the Securities Act until the company becomes a public company. Accordingly, in addition to the risks described above, our ability to dispose of such securities on favorable terms would be limited until the portfolio company becomes a public company.

### *Portfolio Turnover Risk*

We anticipate that our annual portfolio turnover rate will range between 15% and 25%, but the rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in our Adviser's execution of investment decisions. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us. See "Investment Objective and Policies" "Investment Practices" "Portfolio Turnover" and "Tax Matters."

### *Derivatives Risk*

We may purchase and sell derivative investments such as exchange-listed and over-the-counter put and call options on securities, equity, fixed income, interest rate and currency indices, and other financial instruments, enter into total return swaps and various interest rate transactions such as swaps. We also may purchase derivative investments that combine features of these instruments. The use of derivatives has risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative investments. Furthermore, the ability to successfully use these techniques depends on our ability to predict pertinent market movements, which cannot be assured. Thus, the use of derivatives may result in losses greater than if they had not been used, may require us to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation we can realize on an investment or may cause us to hold a security that we might otherwise sell. Additionally, amounts paid by us as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to us for investment purposes.

During the fiscal year ended November 30, 2013, we purchased put options and wrote covered call options. The fair value of these derivative instruments, measured on a weekly basis, was less than 1% of our total assets during fiscal 2013. In prior years, we have written covered call options and entered into interest rate swaps. We expect to continue to utilize derivative instruments in a manner similar to our activity during fiscal 2013. We will not allow the fair value of our derivative instruments to exceed 25% of total assets.

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We currently expect to write covered call options. As the writer of a covered call option, during the option's life we give up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but we retain the risk of loss should the price of the underlying security decline. The writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. Once an option writer has received an exercise notice, it cannot effect a closing purchase transaction in order to terminate its obligation under the option and must deliver the underlying security at the exercise price. There can be no assurance that a liquid market will exist when we seek to close out an option position. If trading were suspended in an option purchased by us, we would not be able to close out the option. If we were unable to close out a covered call option that we had written on a security, we would not be able to sell the underlying security unless the option expired without exercise.

Depending on whether we would be entitled to receive net payments from the counterparty on a swap, which in turn would depend on the general state of short-term interest rates at that point in time, a default by a counterparty could negatively impact the performance of our common stock. In addition, at the time an interest rate transaction reaches its scheduled termination date, there is a risk that we would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of our common stock. If we fail to maintain any required asset coverage ratios in connection with any use by us of Leverage Instruments, we may be required to redeem or prepay some or all of the Leverage Instruments. Such redemption or prepayment would likely result in our seeking to terminate early all or a portion of any swap or cap transactions. Early termination of a swap could result in a termination payment by or to us.

We segregate liquid assets against or otherwise cover our future obligations under such swap transactions, in order to provide that our future commitments for which we have not segregated liquid assets against or otherwise covered, together with any outstanding Borrowings, do not exceed 33 1/3% of our total assets less liabilities (other than the amount of our Borrowings). In addition, such transactions and other use of Leverage Instruments by us are subject to the asset coverage requirements of the 1940 Act, which generally restrict us from engaging in such transactions unless the value of our total assets less liabilities (other than the amount of our Borrowings) is at least 300% of the principal amount of our Borrowings and the value of our total assets less liabilities (other than the amount of our Leverage Instruments) are at least 200% of the principal amount of our Leverage Instruments.

The use of interest rate and commodity swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on market conditions in general, our use of swaps could enhance or harm the overall performance of our common stock. For example, we may use interest rate swaps in connection with any use by us of Leverage Instruments. To the extent interest rates decline, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of our common stock. In addition, if short-term interest rates are lower than our fixed rate of payment on the interest rate swap, the swap will reduce common stock net earnings. As of December 31, 2013, we had no interest rate swaps outstanding.

Interest rate swaps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that we are contractually obligated to make. If the counterparty defaults, we would not be able to use the anticipated net receipts under the swap to offset any declines in the value of our portfolio assets being hedged or the increase in our cost of Leverage Instruments. Depending on whether we would be entitled to receive net payments from the counterparty on the swap, which in turn would depend on the general state of the market rates at that point in time, such a default could negatively impact the performance of our common stock.

### *Short Sales Risk*

Short selling involves selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short

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selling allows the short seller to profit from declines in market prices to the extent such declines exceed the transaction costs and the costs of borrowing the securities. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Our obligation to replace a borrowed security is secured by collateral deposited with the broker-dealer, usually cash, U.S. government securities or other liquid securities similar to those borrowed. We also are required to segregate similar collateral to the extent, if any, necessary so that the value of both collateral amounts in the aggregate is at all times equal to at least 100% of the current market value of the security sold short. Depending on arrangements made with the broker-dealer from which we borrowed the security regarding payment over of any payments received by us on such security, we may not receive any payments (including interest) on the collateral deposited with such broker-dealer.

## **Risks Related to Our Business and Structure**

### *Use of Leverage*

We currently utilize Leverage Instruments and intend to continue to do so. Under normal market conditions, our policy is to utilize Leverage Instruments in an amount that represents approximately 30% of our total assets, including proceeds from such Leverage Instruments (which equates to approximately 56.7% of our net asset value as of December 31, 2013). However, based on market conditions at the time, we may use Leverage Instruments in amounts that represent greater than 30% leverage to the extent permitted by the 1940 Act. As of December 31, 2013, our Leverage Instruments represented approximately 26.5% of our total assets. Leverage Instruments have seniority in liquidation and distribution rights over our common stock.

As of December 31, 2013, we had \$1,175 million of Senior Notes outstanding, and had \$64 million borrowed under our revolving credit facility. As of December 31, 2013, we had outstanding 4,160,000 shares of Series A Mandatory Redeemable Preferred ( MRP ) Shares (\$104 million aggregate liquidation preference), 320,000 shares of Series B MRP Shares (\$8 million aggregate liquidation preference), 1,680,000 shares of Series C MRP Shares (\$42 million aggregate liquidation preference), 4,800,000 shares of Series E MRP Shares (\$120 million aggregate liquidation preference), 5,000,000 shares of Series F MRP Shares (\$125 million aggregate liquidation preference) and 2,000,000 Series G MRP Shares (\$50 million aggregate liquidation preference). Our revolving credit facility has a term of three years and matures on March 4, 2016. Our Senior Notes and MRP Shares have maturity dates and mandatory redemption dates ranging from 2014 to 2025. If we are unable to renew or refinance our credit facility prior to maturity or if we are unable to refinance our Senior Notes or MRP Shares as they mature, we may be forced to sell securities in our portfolio to repay debt as it matures. If we are required to sell portfolio securities to repay outstanding debt, such sales may be at prices lower than what we would otherwise realize if we were not required to sell such securities at such time. Additionally, we may be unable to refinance our debt or sell a sufficient amount of portfolio securities to repay debt as it matures, which could cause an event of default on our debt securities.

Leverage Instruments constitute a substantial lien and burden by reason of their prior claim against our income and against our net assets in liquidation. The rights of lenders to receive payments of interest on and repayments of principal of any Borrowings are senior to the rights of holders of common stock and preferred stock, with respect to the payment of distributions or upon liquidation. We may not be permitted to declare dividends and distributions with respect to common stock or preferred stock or purchase common stock or preferred stock unless at such time, we meet certain asset coverage requirements and no event of default exists under any Borrowing. In addition, we may not be

permitted to pay distributions on common stock unless all dividends on the preferred stock and/or accrued interest on Borrowings have been paid, or set aside for payment.



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In an event of default under any Borrowing, the lenders have the right to cause a liquidation of collateral (*i.e.*, sell MLP units and other of our assets) and, if any such default is not cured, the lenders may be able to control the liquidation as well. If an event of default occurs or in an effort to avoid an event of default, we may be forced to sell securities at inopportune times and, as a result, receive lower prices for such security sales.

Certain types of leverage, including the Senior Notes, subject us to certain affirmative covenants relating to asset coverage and our portfolio composition and may impose special restrictions on our use of various investment techniques or strategies or in our ability to pay distributions on common stock and preferred stock in certain instances. In addition, we are subject to certain negative covenants relating to transactions with affiliates, mergers and consolidation, among others. We are also subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which issue ratings for Leverage Instruments issued by us. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Kayne Anderson does not believe that these covenants or guidelines will impede it from managing our portfolio in accordance with our investment objective and policies.

Our Series N, P, U and HH Notes pay interest expense based on short-term interest rates and our interest expense on borrowings under our credit facility is based on short-term interest rates. If short-term interest rates rise, interest rates on our debt securities, collectively referred to as senior securities, may rise so that the amount of interest payable to holders of our senior securities would exceed the amount of income from our portfolio securities. This might require us to sell portfolio securities at a time when we otherwise would not do so, which may affect adversely our future earnings ability. While we may manage this risk through interest rate transactions, there is no guarantee that we will implement these strategies or that we will be successful in reducing or eliminating interest rate risk. In addition, rising market interest rates could impact negatively the value of our investment portfolio, reducing the amount of assets serving as asset coverage for our senior securities.

### *Interest Rate Hedging Risk*

We hedge against interest rate risk resulting from our leveraged capital structure. We do not intend to hedge interest rate risk of portfolio holdings. Interest rate transactions that we may use for hedging purposes will expose us to certain risks that differ from the risks associated with our portfolio holdings. There are economic costs of hedging reflected in the price of interest rate swaps and similar techniques, the cost of which can be significant. In addition, our success in using hedging instruments is subject to our Adviser's ability to predict correctly changes in the relationships of such hedging instruments to our leverage risk, and there can be no assurance that our Adviser's judgment in this respect will be accurate. To the extent there is a decline in interest rates, the value of interest rate swaps could decline, and result in a decline in the net asset value of our common stock (and asset coverage ratios for our senior securities). In addition, if the counterparty to an interest rate swap or cap defaults, we would not be able to use the anticipated net receipts under the interest rate swap to offset our cost of financial leverage.

### *Tax Risks*

In addition to other risk considerations, an investment in our securities will involve certain tax risks, including, but not limited to, the risks summarized below and discussed in more detail in this prospectus. 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 them.

We cannot assure you what percentage of the distributions paid on our common stock, if any, will be treated as qualified dividend income or return of capital or what the tax rates on various types of income or gain will be in future

years. New legislation could negatively impact the amount and tax characterization of distributions received by our common stockholders. Under current law, qualified dividend income received by

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individual stockholders is taxed at a maximum federal tax rate of 20% for individuals, provided a holding period requirement and certain other requirements are met. In addition, certain recent proposals have called for the elimination of tax incentives widely used by oil, gas and coal companies and the imposition of new fees on certain energy producers. The elimination of such tax incentives and imposition of such fees could adversely affect MLPs in which we invest and the energy sector generally.

*Deferred Tax Risks.* As a limited partner in the MLPs in which we invest, we will be allocated our distributive share of income, gains, losses, deductions, and credits from those MLPs. Historically, a significant portion of income from such MLPs has been offset by tax deductions. We will incur a current tax liability on our distributive share of an MLP's income and gains that is not offset by tax deductions, losses, and credits, or our capital or net operating loss carryforwards or other applicable deductions, if any. The percentage of an MLP's income and gains which is offset by tax deductions, losses, and credits will fluctuate over time for various reasons. A significant slowdown in acquisition activity or capital spending by MLPs held in our portfolio could result in a reduction of accelerated depreciation generated by new acquisitions, which may result in increased current tax liability to us.

We rely to some extent on information provided by the MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated capital or deferred taxes. Such estimates are made in good faith. From time to time, as new information becomes available, we modify our estimates or assumptions regarding our deferred taxes. See Tax Matters.

*Deferred Tax Risks of Investing in our Securities.* A reduction in the return of capital portion of the distributions that we receive from our portfolio investments or an increase in our earnings and profits and portfolio turnover may reduce that portion of our distribution treated as a tax-deferred return of capital and increase that portion treated as a dividend, resulting in lower after-tax distributions to our common and preferred stockholders. See Tax Matters.

### *Management Risk; Dependence on Key Personnel of Kayne Anderson*

Our portfolio is subject to management risk because it is actively managed. Our Adviser applies investment techniques and risk analyses in making investment decisions for us, but there can be no guarantee that they will produce the desired results.

We depend upon Kayne Anderson's key personnel for our future success and upon their access to certain individuals and investments in the MLP and Midstream Energy industries. In particular, we depend on the diligence, skill and network of business contacts of our portfolio managers, who evaluate, negotiate, structure, close and monitor our investments. These individuals do not have long-term employment contracts with Kayne Anderson, although they do have equity interests and other financial incentives to remain with Kayne Anderson. For a description of Kayne Anderson, see Management Investment Adviser. We also depend on the senior management of Kayne Anderson. The departure of any of our portfolio managers or the senior management of Kayne Anderson could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that Kafa will remain our investment adviser or that we will continue to have access to Kayne Anderson's industry contacts and deal flow.

### *Conflicts of Interest of Kayne Anderson*

Conflicts of interest may arise because Kayne Anderson and its affiliates generally carry on substantial investment activities for other clients in which we will have no interest. Kayne Anderson or its affiliates may have financial incentives to favor certain of such accounts over us. Any of their proprietary accounts and other customer accounts may compete with us for specific trades. Kayne Anderson or its affiliates may buy or sell securities for us which differ

from securities bought or sold for other accounts and customers, even though their investment objectives and policies may be similar to ours. Situations may occur when we could be disadvantaged

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because of the investment activities conducted by Kayne Anderson or its affiliates for their other accounts. Such situations may be based on, among other things, legal or internal restrictions on the combined size of positions that may be taken for us and the other accounts, thereby limiting the size of our position, or the difficulty of liquidating an investment for us and the other accounts where the market cannot absorb the sale of the combined position.

Our investment opportunities may be limited by affiliations of Kayne Anderson or its affiliates with MLPs or other Midstream Energy Companies. In addition, to the extent that Kayne Anderson sources and structures private investments in MLPs, certain employees of Kayne Anderson may become aware of actions planned by MLPs, such as acquisitions, that may not be announced to the public. It is possible that we could be precluded from investing in an MLP about which Kayne Anderson has material non-public information; however, it is Kayne Anderson's intention to ensure that any material non-public information available to certain Kayne Anderson employees not be shared with those employees responsible for the purchase and sale of publicly traded MLP securities.

KAFA also manages Kayne Anderson Energy Total Return Fund, Inc., a closed-end investment company listed on the NYSE under the ticker KYE, Kayne Anderson Energy Development Company, a closed-end investment company listed on the NYSE under the ticker KED and Kayne Anderson Midstream/Energy Fund, Inc., a closed-end investment company listed on the NYSE under the ticker KMF. In addition to closed-end investment companies, KAFA also manages two private investment funds, KA First Reserve, LLC and KA First Reserve XII, LLC, and two accounts owned by insurance companies which together had approximately \$1.4 billion in combined total assets as of December 31, 2013, and KACALP manages several private investment funds and separately managed accounts (collectively, Affiliated Funds). Some of the Affiliated Funds have investment objectives that are similar to or overlap with ours. In particular, certain Affiliated Funds invest in MLPs and other Midstream Energy Companies. Further, Kayne Anderson may at some time in the future, manage other investment funds with the same investment objective as ours.

Investment decisions for us are made independently from those of Kayne Anderson's other clients; however, from time to time, the same investment decision may be made for more than one fund or account. When two or more clients advised by Kayne Anderson or its affiliates seek to purchase or sell the same publicly traded securities, the securities actually purchased or sold are allocated among the clients on a good faith equitable basis by Kayne Anderson in its discretion in accordance with the clients' various investment objectives and procedures adopted by Kayne Anderson and approved by our Board of Directors. In some cases, this system may adversely affect the price or size of the position we may obtain. In other cases, however, our ability to participate in volume transactions may produce better execution for us.

We and our affiliates, including Affiliated Funds, may be precluded from co-investing in private placements of securities, including in any portfolio companies that we control. Except as permitted by law, Kayne Anderson will not co-invest its other clients' assets in the private transactions in which we invest. Kayne Anderson will allocate private investment opportunities among its clients, including us, based on allocation policies that take into account several suitability factors, including the size of the investment opportunity, the amount each client has available for investment and the client's investment objectives. These allocation policies may result in the allocation of investment opportunities to an Affiliated Fund rather than to us. The policies contemplate that Kayne Anderson will exercise discretion, based on several factors relevant to the determination, in allocating the entirety, or a portion, of such investment opportunities to an Affiliated Fund, in priority to other prospectively interested advisory clients, including us. In this regard, when applied to specified investment opportunities that would normally be suitable for us, the allocation policies may result in certain Affiliated Funds having greater priority than us to participate in such opportunities depending on the totality of the considerations, including, among other things, our available capital for investment, our existing holdings, applicable tax and diversification standards to which we may then be subject and the ability to efficiently liquidate a portion of our existing portfolio in a timely and prudent fashion in the time period

required to fund the transaction.

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The investment management fee paid to our Adviser is based on the value of our assets, as periodically determined. A significant percentage of our assets may be illiquid securities acquired in private transactions for which market quotations will not be readily available. Although we will adopt valuation procedures designed to determine valuations of illiquid securities in a manner that reflects their fair value, there typically is a range of prices that may be established for each individual security. Senior management of our Adviser, our Board of Directors and its Valuation Committee, and a third-party valuation firm participate in the valuation of our securities. See **Net Asset Value**.

### *Risk of Owning Securities of Affiliates*

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

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

In making such a determination as to whether to treat any class