

Kayne Anderson MLP Investment CO

Form 497

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
STATEMENT OF ADDITIONAL INFORMATION**

Kayne Anderson MLP Investment Company (referred to herein as we, our, us, or the Company), a Maryland corporation, is a non-diversified closed-end management investment company. KA Fund Advisors, LLC (referred to herein as Kayne Anderson or Adviser) is our investment adviser.

This Statement of Additional Information (the SAI) relates to the offering, from time to time, of our securities. This SAI does not constitute a prospectus, but should be read in conjunction with our prospectus relating thereto dated July 9, 2010 and any related prospectus supplement. This SAI does not include all information that a prospective investor should consider before purchasing any of our securities. Investors should obtain and read our prospectus and any related prospectus supplement prior to purchasing any of our securities. A copy of our prospectus and any related prospectus supplement may be obtained from us without charge by calling (877) 657-3863 or on the SEC's web site (www.sec.gov). Capitalized terms used but not defined in this SAI have the meanings ascribed to them in the prospectus and any related prospectus supplement.

This SAI is dated July 9, 2010.

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**INVESTMENT OBJECTIVE**

Our investment objective is to obtain a high after-tax total return by investing at least 85% of our total assets in public and private investments in energy-related partnerships, limited liability companies and their affiliates (collectively, MLPs), and in other companies that, as their principal business, operate assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing natural gas, natural gas liquids, crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies). There can be no assurance that we will achieve our investment objective. Midstream energy assets refers to assets used in the gathering, transporting, processing, storing, refining, distributing, mining or marketing natural gas, natural gas liquids, crude oil, refined petroleum products or coal.

Our investment objective is considered fundamental and may not be changed without the approval of the holders of a majority of our voting securities. When used with respect to our particular voting securities, a majority of the outstanding voting securities means (i) 67% or more of the outstanding voting securities present at a meeting, if the holders of more than 50% of the outstanding voting securities are present or represented by proxy, or (ii) more than 50% of the outstanding voting securities, whichever is less.

**INVESTMENT POLICIES**

Except as described below, we, as a fundamental policy, may not, without the approval of the holders of a majority of the outstanding voting securities:

(1) Purchase or sell real estate unless acquired as a result of ownership of securities or other instruments; provided, however, that this restriction does not prevent us from investing in issuers which invest, deal, or otherwise engage in transactions in real estate or interests therein, or investing in securities that are secured by real estate or interests therein.

(2) Purchase or sell commodities as defined in the Commodity Exchange Act, as amended, and the rules and regulations thereunder, unless acquired as a result of ownership of securities or other instruments; provided, however, that this restriction does not prevent us from engaging in transactions involving futures contracts and options thereon or investing in securities that are secured by physical commodities.

(3) Borrow money or issue senior securities, except to the extent permitted by the Investment Company Act of 1940 (the 1940 Act), or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC. See Use of Financial Leverage and Risk Factors Leverage Risk in the prospectus.

(4) Make loans to other persons except (a) through the lending of our portfolio securities, (b) through the purchase of debt obligations, loan participations and/or engaging in direct corporate loans in accordance with our investment objectives and policies, and (c) to the extent the entry into a repurchase agreement is deemed to be a loan. We may also make loans to other investment companies to the extent permitted by the 1940 Act or any exemptions therefrom which may be granted by the SEC.

(5) Act as an underwriter except to the extent that, in connection with the disposition of portfolio securities, we may be deemed to be an underwriter under applicable securities laws.

(6) Concentrate our investments in a particular industry, as that term is used in the 1940 Act and as interpreted, modified, or otherwise permitted by regulatory authority having jurisdiction, from time to time; provided, however, that this concentration limitation does not apply to (a) our investments in MLPs and other Midstream Energy Companies, which will be concentrated in the midstream energy industry in particular, and the energy industry in general, and (b) our investments in securities issued or guaranteed by the U.S. Government or any of its agencies or instrumentalities.

The remainder of our investment policies, including our investment strategy, are considered non-fundamental and may be changed by the Board of Directors 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. We have adopted the following non-fundamental investment policies:

(1) 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.

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

(3) 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.

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

(5) 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 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 include unrated debt securities of private companies.

(6) Under normal market conditions, our policy is to utilize our Borrowings and our preferred stock (each a Leverage Instrument and collectively Leverage Instrument ) 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.

(7) 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.

For purposes of the temporary investment positions that we take (see Investment Objective and Policies Our Portfolio Temporary Defensive Position in our prospectus), and in general (unless otherwise noted), cash and cash equivalents are defined to include, without limitation, the following:

(1) U.S. Government securities, which are obligations of, or securities guaranteed by, the U.S. Government, its agencies or instrumentalities.

(2) Certificates of deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current FDIC regulations, the maximum insurance payable as to any one certificate of deposit is \$100,000, therefore, certificates of deposit we purchased may not be fully insured.

(3) Repurchase agreements, which involve purchases of debt securities. At the time we purchase securities pursuant to a repurchase agreement, we simultaneously agree to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures us a predetermined yield during the holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for us to invest temporarily available cash.

(4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between us and a corporation. There is no secondary market for such notes. However, they are redeemable by us at any time. The Adviser will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity measures) and will continuously monitor the corporation's ability to meet all its financial obligations, because our liquidity might be impaired if the corporation were unable to pay principal and interest on demand. To be characterized by us as cash or cash equivalents, investments in commercial paper will be limited to commercial paper rated in the highest categories by a rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.

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(5) Bankers' acceptances, which are short-term credit instruments used to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then accepted by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an asset or it may be sold in the secondary market at the going rate of interest for a specific maturity.

(6) Bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest. There may be penalties for the early withdrawal of such time deposits, in which case the yields of these investments will be reduced.

(7) Shares of money market funds in accordance with the applicable provisions of the 1940 Act.

## **OUR INVESTMENTS**

### **Description of MLPs**

*Master Limited Partnerships.* Master limited partnerships are entities that are structured as limited partnerships or as limited liability companies treated as partnerships. The units for these entities are listed and traded on a U.S. securities exchange. To qualify as a master limited partnership, the entity must receive at least 90% of its income from qualifying sources as set forth in Section 7704(d) of the Internal Revenue Code. These qualifying sources include natural resource-based activities such as the exploration, development, mining, production, processing, refining, transportation, storage and marketing of mineral or natural resources. Limited partnerships have two classes of interests—general partner interests and limited partner interests. The general partner typically controls the operations and management of the partnership through an equity interest in the limited partnership (typically up to 2% of total equity). Limited partners own the remainder of the partnership and have a limited role in the partnership's operations and management.

Master limited partnerships organized as limited partnerships generally have two classes of limited partner interests—common units and subordinated units. The general partner of the master limited partnership is typically owned by an energy company, an investment fund, the direct management of the limited partnership or is an entity owned by one or more of such parties. The general partner interest may be held by either a private or publicly traded corporation or other entity. In many cases, the general partner owns common units, subordinated units and incentive distribution rights, or IDRs, in addition to its general partner interest in the master limited partnership.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount (minimum quarterly distributions or MQD). Common units also accrue arrearages in distributions to the extent the MQD is not paid. Once common units have been paid, subordinated units receive distributions of up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD paid to both common and subordinated units is distributed to both common and subordinated units generally on a pro rata basis. Whenever a distribution is paid to either common unitholders or subordinated unitholders, the general partner is paid a proportional distribution. The holders of IDRs (usually the general partner) are eligible to receive incentive distributions if the general partner operates the business in a manner which results in distributions paid per unit surpassing specified target levels. As cash distributions to the limited partners increase, the IDRs receive an increasingly higher percentage of the incremental cash distributions. A common arrangement provides that the IDRs can reach a tier where the holder receives 48% of every incremental dollar paid to partners. These IDRs encourage the general partner to streamline costs, increase capital expenditures and acquire assets in order to increase the partnership's cash flow and raise the quarterly cash distribution in order to reach higher tiers. Such results benefit all security holders of the master limited partnership.

MLPs in which we invest are currently classified by us as midstream MLPs, propane MLPs, coal MLPs, upstream MLPs and marine transportation MLPs and upstream MLPs.

Midstream MLPs are engaged in (a) the treating, gathering, compression, processing, transmission and storage of natural gas and the transportation, fractionation and storage of natural gas liquids (primarily propane, ethane, butane and natural gasoline); (b) the gathering, transportation, storage and terminalling of crude oil; and (c) the transportation (usually via pipelines, barges, rail cars and trucks), storage and terminalling of refined petroleum products (primarily gasoline, diesel fuel and jet fuel) and other hydrocarbon by-products. MLPs may also operate ancillary businesses including the marketing of the products and logistical services.



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Propane MLPs are engaged in the distribution of propane to homeowners for space and water heating and to commercial, industrial and agricultural customers. Propane serves approximately 5% of the household energy needs in the United States, largely for homes beyond the geographic reach of natural gas distribution pipelines. Volumes are weather dependent and a majority of annual cash flow is earned during the winter heating season (October through March).

Coal MLPs are engaged in the owning, leasing, managing, and production and sale of various grades of steam and metallurgical grades of coal. The primary use of steam coal is for electrical generation (steam coal is used as a fuel for steam-powered generators by electrical utilities). The primary use of metallurgical coal is in the production of steel (metallurgical coal is used to make coke, which in turn is used as a raw material in the steel manufacturing process).

Marine transportation MLPs provide transportation and distribution services for energy-related products through the ownership and operation of several types of vessels, such as crude oil tankers, refined product tankers, liquefied natural gas tankers, tank barges and tugboats. Marine transportation plays an important role in domestic and international trade of crude oil, refined petroleum products, natural gas liquids and liquefied natural gas and is expected to benefit from future global economic growth and development.

Upstream MLPs are businesses engaged in the exploration, extraction, production and acquisition of natural gas, natural gas liquids and crude oil, from geological reservoirs. An Upstream MLP's cash flow and distributions are driven by the amount of oil, natural gas, natural gas liquids and crude oil produced and the demand for and price of such commodities. As the underlying reserves of an Upstream MLP are produced, its reserve base is depleted. Upstream MLPs may seek to maintain or expand their reserves and production through the acquisition of reserves from other companies, and the exploration and development of existing resources.

For purposes of our investment objective, the term "MLPs" includes affiliates of MLPs that own general partner interests or, in some cases, subordinated units, registered or unregistered common units, or other limited partner units in an MLP.

### **Our Portfolio**

At any given time, we expect that our portfolio will have some or all of the types of investments described below. A description of our investment policies and restrictions and more information about our portfolio investments are contained in this prospectus and our SAI.

*Equity Securities of MLPs.* The following summarizes in further detail certain features of equity securities of master limited partnerships. Also summarized below are certain features of I-Shares, which represent an ownership interest issued by an affiliated party of a master limited partnership.

*Common Units.* Common units represent a master limited partnership interest and may be listed and traded on U.S. securities exchanges or over-the-counter, with their value fluctuating predominantly based on prevailing market conditions and the success of the master limited partnership. Directly or through our wholly owned subsidiaries, we intend to purchase common units in market transactions as well as in primary issuances directly from the master limited partnership or other parties in private placements. Unlike owners of common stock of a corporation, owners of common units have limited voting rights and, in most instances, have no ability to annually elect directors. The master limited partnerships we invest in will generally distribute all available cash flow (cash flow from operations less maintenance capital expenditures) in the form of quarterly distributions. Common units have first priority to receive quarterly cash distributions up to the MQD and have arrearage rights. In the event of liquidation, common units have preference over subordinated units, but not debt or preferred units, to the remaining assets of the master limited partnership.

*Subordinated Units.* Subordinated units are typically issued by master limited partnerships to their original sponsors, such as their management teams, corporate general partners, entities that sell assets to the master limited partnership, and outside investors such as us. We may purchase subordinated units from these persons as well as newly issued subordinated units from the master limited partnerships. Subordinated units have similar limited voting

rights as common units and are generally not publicly traded. Once the MQD on the common units, including any arrearages, has been paid, subordinated units receive cash distributions up to the MQD. Unlike common units, subordinated units do not have arrearage rights. In the event of liquidation, common units and general partner interests have priority over subordinated units. Subordinated units are typically converted into common units on a one-to-one basis after certain time periods and/or performance targets have been satisfied.

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Subordinated units in which we may invest generally convert to common units at a one-to-one ratio. The purchase or sale price of subordinated units is generally tied to the common unit price less a discount. The size of the discount varies depending on the likelihood of conversion, the length of time remaining to conversion, the size of the block purchased relative to trading volumes, and other factors, including master limited partnerships with smaller capitalization or potentially having limited product lines, markets or financial resources, lacking management depth or experience, and being more vulnerable to adverse general market or economic development than larger more established companies.

*General Partner Interests.* General partner interests of master limited partnerships are typically retained by their respective original sponsors, such as its management teams, corporate partners, entities that sell assets to the master limited partnership, and investors such as us. A holder of general partner interests can be liable under certain circumstances for amounts greater than the amount of the holder's investment in the general partner interest. General partner interests often confer direct board participation rights and in many cases, operating control, over the master limited partnership. General partner interests receive cash distributions, typically 2% of the master limited partnership's aggregate cash distributions. General partner interests generally cannot be converted into common units. The general partner interest can be redeemed by the master limited partnership if the unitholders of the master limited partnership choose to remove the general partner, typically with a supermajority vote by limited partner unitholders.

*Incentive Distribution Rights (IDRs).* Holders of IDRs are entitled to a larger share of the cash distributions after the distributions to common unit holders meet certain prescribed levels. IDRs are generally attributable to the holder's other equity interest in the master limited partnership and permit the holder to receive a disproportionate share of the cash distributions above stated levels.

*I-Shares.* We will directly invest in I-Shares or other securities issued by master limited partnership affiliates (MLP affiliate). I-Shares represent an ownership interest issued by an affiliated party of a master limited partnership. The MLP affiliate uses the proceeds from the sale of I-Shares to purchase limited partnership interests in the master limited partnership in the form of i-units. I-units have similar features as master limited partnership common units in terms of voting rights, liquidation preference and distributions. However, rather than receiving cash, the MLP affiliate receives additional i-units in an amount equal to the cash distributions received by the holders of the master limited partnership common units. Similarly, holders of I-Shares will receive additional I-Shares, in the same proportion as the MLP affiliates receipt of i-units, rather than cash distributions. I-Shares themselves have limited voting rights which are similar to those applicable to master limited partnership common units.

The MLP affiliate issuing the I-Shares is structured as a corporation for federal income tax purposes. The two existing I-Shares are traded on the NYSE.

*Equity Securities of Publicly Traded Midstream Energy Companies.* Equity securities of publicly traded Midstream Energy Companies consist of common equity, preferred equity and other securities convertible into equity securities of such companies. Holders of common stock are typically entitled to one vote per share on all matters to be voted on by stockholders. Holders of preferred equity can be entitled to a wide range of voting and other rights, depending on the structure of each separate security. Securities convertible into equity securities of Midstream Energy Companies generally convert according to set ratios into common stock and are, like preferred equity, entitled to a wide range of voting and other rights. We intend to invest in equity securities of publicly traded Midstream Energy Companies primarily through market transactions.

*Securities of Private Companies.* Our investments in the debt or equity securities of private companies operating midstream energy assets will typically be made with the expectation that such assets will be contributed to a newly-formed MLP or sold to or merged with, an existing MLP within approximately one to two years.

*Debt Securities.* The debt securities in which we invest provide for fixed or variable principal payments and various types of interest rate and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment-in-kind and auction rate features. Certain debt securities are perpetual in that they have no maturity date. Certain debt securities are zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligations or for an initial period after the issuance of the obligation. To the extent that we invest in below investment grade or unrated debt securities, such securities will be rated, at the time of investment, at least B- by Standard & Poor's or Fitch, B3 by Moody's, a comparable rating by at least one other rating agency or, if unrated,

determined by Kayne Anderson to be of comparable quality. If a security satisfies our minimum rating criteria at the time of purchase and is subsequently downgraded below such rating, we will not be required to dispose of such security.

Because the risk of default is higher for below investment grade and unrated debt securities than for investment grade securities, Kayne Anderson's research and credit analysis is a particularly important part of making investment decisions on securities of this type. Kayne Anderson will attempt to identify those issuers of below investment grade and unrated debt securities whose financial

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condition Kayne Anderson believes is sufficient to meet future obligations or has improved or is expected to improve in the future. Kayne Anderson's analysis focuses on relative values based on such factors as interest coverage, fixed charges coverage, asset coverage, operating history, financial resources, earnings prospects and the experience and managerial strength of the issuer.

*Temporary Defensive Position.* During periods in which Kayne Anderson determines that it is temporarily unable to follow our investment strategy or that it is impractical to do so, we may deviate from our investment strategy and invest all or any portion of our net assets in cash or cash equivalents. Kayne Anderson's determination that it is temporarily unable to follow our investment strategy or that it is impractical to do so will generally occur only in situations in which a market disruption event has occurred and where trading in the securities selected through application of our investment strategy is extremely limited or absent. In such a case, our shares may be adversely affected and we may not pursue or achieve our investment objective.

### **Our Use of Derivatives, Options and Hedging Transactions**

We may, but are not required to, use various hedging and other risk management transactions to seek to manage interest rate and market risks.

Certain of these hedging and risk management transactions involve derivative instruments. A derivative is a financial instrument whose performance is derived at least in part from the performance of an underlying index, security or asset. The specific derivative instruments to be used, or other transactions to be entered into, for such hedging purposes may include options on common equities, energy-related commodities, equity, fixed income and interest rate indices, swap agreements and related instruments.

Hedging or derivative instruments on securities generally are used to hedge against price movements in one or more particular securities positions that we own or intend to acquire. Such instruments may also be used to lock-in recognized but unrealized gains in the value of portfolio securities. Hedging strategies, if successful, can reduce the risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements in the investments being hedged. However, hedging strategies can also reduce the opportunity for gain by offsetting the positive effect of favorable price movements in the hedged investments. In addition, hedging transactions have other risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transactions or illiquidity of the derivative investments. Further, the ability to successfully employ these transactions depends on our ability to predict pertinent market movements. Thus, their use 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 these transactions are not otherwise available to us for investment purposes.

The use of hedging instruments is subject to applicable regulations of the SEC, the several options and futures exchanges upon which they are traded, the CFTC and various state regulatory authorities. In addition, our ability to use hedging instruments may be limited by tax considerations. Market conditions will determine whether and in what circumstances we would employ any of the hedging and techniques described below. We will incur brokerage and other costs in connection with our hedging transactions.

*Options on Securities and Securities Indices.* We may purchase and write (sell) call and put options on any securities and securities indices.

An option on a security (or an index) is a contract that gives the holder of the option, in return for a premium, the right to buy from (in the case of a call) or sell to (in the case of a put) the writer of the option the security underlying the option (or the cash value of the index) at a specified exercise price at any time during the term of the option. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price or to pay the exercise price upon delivery of the underlying security. Upon exercise, the writer of an option on an index is obligated to pay the difference between the cash value of the index and the exercise price multiplied by the specified multiplier for the index option. A put option is in the money if the exercise price exceeds the value of the futures contract that is the subject of the option.

Call options are contracts representing the right to purchase a common stock at a specified price (the strike price ) at a specified future date (the expiration date ). The price of the option is determined from trading activity in the broad options market, and generally reflects the relationship between the current market price for the underlying common stock and the strike price, as well as the time remaining until the expiration date. We will write call options only if they are covered. A covered call option is a call option with respect to which we own the underlying security. When a covered call option is sold by us, we receive a fee for the option, but it exposes us during the term of the option to the possible loss of opportunity to realize appreciation in the market price of the

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underlying security beyond the strike price of that option or to possible continued holding of a security that might otherwise have been sold to protect against depreciation in the market price of the security.

Options on securities indices are similar to options on securities, except that the exercise of securities index options requires cash settlement payments and does not involve the actual purchase or sale of securities. In addition, securities index options are designed to reflect price fluctuations in a group of securities or segment of the securities market rather than price fluctuations in a single security. These options may be listed on national domestic securities exchanges or foreign securities exchanges or traded in the over-the-counter market.

All call and put options we will write will be covered. A written call option or put option may be covered by (i) maintaining cash or liquid securities in a segregated account with a value at least equal to our obligation under the option, (ii) entering into an offsetting forward commitment and/or (iii) purchasing an offsetting option or any other option which, by virtue of its exercise price or otherwise, reduces our net exposure on our written option position. A written call option on securities is typically covered by maintaining the securities that are subject to the option in a segregated account. We may cover call options on a securities index by owning securities whose price changes are expected to be similar to those of the underlying index.

We may terminate our obligations under an exchange traded call or put option by purchasing an option identical to the one we have written. Obligations under over-the-counter options may be terminated only by entering into an offsetting transaction with the counterparty to such option. Our ability to enter into a closing sale transaction depends on the existence of a liquid secondary market. There can be no assurance that a closing purchase or sale transaction can be effected when we so desire.

We would normally purchase call options in anticipation of an increase, or put options in anticipation of a decrease, in the market value of securities of the type in which we may invest. We may also sell call and put options to close out our purchased options.

Our options transactions will be subject to limitations established by each of the exchanges, boards of trade or other trading facilities on which such options are traded. These limitations govern the maximum number of options in each class which may be written or purchased by a single investor or group of investors acting in concert, regardless of whether the options are written or purchased on the same or different exchanges, boards of trade or other trading facilities or are held or written in one or more accounts or through one or more brokers. Thus, the number of options we may write or purchase may be affected by options written or chased by other investment advisory clients of the Adviser. An exchange, board of trade or other trading facility may order the liquidation of positions found to be in excess of these limits, and it may impose certain other sanctions.

The hours of trading for options may not conform to the hours during which the underlying securities are traded. To the extent that the options markets close before the markets for the underlying securities, significant price and rate movements can take place in the underlying markets that cannot be reflected in the options markets.

There is no assurance that a liquid secondary market on a domestic or foreign options exchange will exist for any particular exchange-traded option or at any particular time. If we are unable to effect a closing purchase transaction with respect to covered options we have written, we will not be able to sell the underlying securities or dispose of assets held in a segregated account until the options expire or are exercised. Similarly, if we are unable to effect a closing sale transaction with respect to options we have purchased, we would have to exercise the options in order to realize any profit and will incur transaction costs upon the purchase or sale of underlying securities or currencies. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or The Options Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options). If trading were discontinued, the secondary market on that exchange (or in that class or series of options) would cease to exist. However, outstanding options on that exchange that had been issued by The Options Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The writing and purchase of options is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The successful use of options depends in part on the Adviser's ability to predict future price fluctuations and, for hedging transactions, the degree of correlation between the options and securities or currency markets.

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*Swap Agreements.* Swap agreements are two-party contracts entered into for periods ranging from a few weeks to more than one year. A swap agreement is a financial instrument that typically involves the exchange of cash flows between two parties on specified dates (settlement dates), where the cash flows are based on agreed-upon prices, rates, indices, etc. The nominal amount on which the cash flows are calculated is called the notional amount. Swaps are individually negotiated and structured to include exposure to a variety of different types of investments or market factors, such as interest rates, commodity prices, non-U.S. currency rates, mortgage securities, corporate borrowing rates, security prices, indexes or inflation rates.

The gross returns to be exchanged or swapped between the parties are generally calculated with respect to a notional amount, *i.e.*, the return on or increase in value of a particular dollar amount invested at a particular interest rate or in a basket of securities representing a particular index.

Swap agreements may increase or decrease the overall volatility of our investments and share price. The performance of swap agreements may be affected by a change in the specific interest rate, currency, or other factors that determine the amounts of payments due to and from us. If a swap agreement calls for payments by us, we must be prepared to make such payments when due. In addition, if the counterparty's creditworthiness declines, the value of a swap agreement would be likely to decline, potentially resulting in losses.

Generally, swap agreements have fixed maturity dates that are agreed upon by the parties to the swap. The agreement can be terminated before the maturity date only under limited circumstances, such as default by one of the parties or insolvency, among others, and can be transferred by a party only with the prior written consent of the other party. We may be able to eliminate our exposure under a swap agreement either by assignment or by other disposition, or by entering into an offsetting swap agreement with the same party or a similarly creditworthy party. If the counterparty is unable to meet its obligations under the contract, declares bankruptcy, defaults or becomes insolvent, we may not be able to recover the money we expected to receive under the contract.

A swap agreement can be a form of leverage, which can magnify our gains or losses. In order to reduce the risk associated with leveraging, we may cover our current obligations under swap agreements according to guidelines established by the SEC. If we enter into a swap agreement on a net basis, we will be required to segregate assets with a daily value at least equal to the excess, if any, of our accrued obligations under the swap agreement over the accrued amount we are entitled to receive under the agreement. If we enter into a swap agreement on other than a net basis, we will be required to segregate assets with a value equal to the full amount of our accrued obligations under the agreement.

*Equity Index Swap Agreements.* In a typical equity swap agreement, one party agrees to pay another party the return on a security, security index or basket of securities in return for a specified interest rate. By entering into an equity index swap agreement, for example, the index receiver can gain exposure to securities making up the index of securities without actually purchasing those securities. Equity index swap agreements involve not only the risk associated with investment in the securities represented in the index, but also the risk that the performance of such securities, including dividends, will not exceed the interest that we will be committed to pay under the swap agreement.

*Credit Default Swap Agreements.* We may enter into credit default swap agreements. The buyer in a credit default contract is obligated to pay the seller a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the par value (full notional value) of the reference obligation in exchange for the reference obligation. We may be either the buyer or seller in the transaction. If we are a buyer and no event of default occurs, we lose our investment and recover nothing. However, if an event of default occurs, the buyer receives full notional value for a reference obligation that may have little or no value. As a seller, we receive a fixed rate of income throughout the term of the contract, which typically is between six months and three years, provided that there is no default event. If an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation.

Credit default swaps involve greater risks than if we had invested in the reference obligation directly. In addition to general market risks, credit default swaps are subject to illiquidity risk, counterparty risk and credit risks. We will enter into swap agreements only with counterparties who are rated investment grade quality by at least one rating agency at the time of entering into such transaction or whose creditworthiness is believed by the Adviser to be

equivalent to such rating. A buyer also will lose its investment and recover nothing should no event of default occur. If an event of default were to occur, the value of the reference obligation received by the seller, coupled with the periodic payments previously received, may be less than the full notional value we pay to the buyer, resulting in a loss of value to us. When we act as a seller of a credit default swap agreement we are exposed to the risks of leverage, since if an event of default occurs the seller must pay the buyer the full notional value of the reference obligation.

If we enter into a credit default swap, we may be required to report the swap as a listed transaction for tax shelter reporting purposes on our federal income tax return. If the Internal Revenue Service were to determine that the credit default swap is a tax shelter, we could be subject to penalties under the Internal Revenue Code.

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We may in the future employ new or additional investment strategies and hedging instruments if those strategies and instruments are consistent with our investment objective and are permissible under applicable regulations governing us.

*Additional Risks and Special Considerations Concerning Derivatives.* In addition to the risks described above and in our prospectus, the use of derivative instruments involves certain general risks and considerations as described below.

*Market Risk.* Market risk is the risk that the value of the underlying assets may go up or down. Adverse movements in the value of an underlying asset can expose us to losses. Market risk is the primary risk associated with derivative transactions. Derivative instruments may include elements of leverage and, accordingly, fluctuations in the value of the derivative instrument in relation to the underlying asset may be magnified. The successful use of derivative instruments depends upon a variety of factors, particularly the Adviser's ability to predict correctly changes in the relationships of such hedge instruments to our portfolio holdings, and there can be no assurance the Adviser's judgment in this respect will be accurate. Consequently, the use of derivatives for hedging purposes might result in a poorer overall performance for us, whether or not adjusted for risk, than if we had not hedged our portfolio holdings.

*Credit Risk.* Credit risk is the risk that a loss is sustained as a result of the failure of a counterparty to comply with the terms of a derivative instrument. The counterparty risk for exchange-traded derivatives is generally less than for privately-negotiated or over-the-counter derivatives, since generally a clearing agency, which is the issuer or counterparty to each exchange-traded instrument, provides a guarantee of performance. For privately-negotiated instruments, there is no similar clearing agency guarantee. In all transactions, we will bear the risk that the counterparty will default, and this could result in a loss of the expected benefit of the derivative transactions and possibly other losses to us. We will enter into transactions in derivative instruments only with counterparties that the Adviser reasonably believes are capable of performing under the contract.

*Correlation Risk.* Correlation risk is the risk that there might be an imperfect correlation, or even no correlation, between price movements of a derivative instrument and price movements of investments being hedged. When a derivative transaction is used to completely hedge another position, changes in the market value of the combined position (the derivative instrument plus the position being hedged) result from an imperfect correlation between the price movements of the two instruments. With a perfect hedge, the value of the combined position remains unchanged with any change in the price of the underlying asset. With an imperfect hedge, the value of the derivative instrument and its hedge are not perfectly correlated. For example, if the value of a derivative instrument used in a short hedge (such as buying a put option or selling a futures contract) increased by less than the decline in value of the hedged investments, the hedge would not be perfectly correlated. This might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which these instruments are traded. In addition, our success in using hedging instruments is subject to the Adviser's ability to correctly predict changes in relationships of such hedge instruments to our portfolio holdings, and there can be no assurance that the Adviser's judgment in this respect will be accurate. An imperfect correlation may prevent us from achieving the intended hedge or expose us to a risk of loss.

*Liquidity Risk.* Liquidity risk is the risk that a derivative instrument cannot be sold, closed out, or replaced quickly at or very close to its fundamental value. Generally, exchange contracts are liquid because the exchange clearinghouse is the counterparty of every contract. Over-the-counter transactions are less liquid than exchange-traded derivatives since they often can only be closed out with the other party to the transaction. We might be required by applicable regulatory requirements to maintain assets as cover, maintain segregated accounts and/or make margin payments when we take positions in derivative instruments involving obligations to third parties (*i.e.*, instruments other than purchase options). If we are unable to close out our positions in such instruments, we might be required to continue to maintain such accounts or make such payments until the position expires, matures, or is closed out. These requirements might impair our ability to sell a security or make an investment at a time when it would otherwise be favorable to do so, or require that we sell a portfolio security at a disadvantageous time. Our ability to sell or close out a position in an instrument prior to expiration or maturity depends upon the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of the counterparty to enter into a transaction closing out the position. Due to liquidity risk, there is no assurance that any derivatives position can be sold or closed out at a time

and price that is favorable to us.

Legal Risk. Legal risk is the risk of loss caused by the unenforceability of a party's obligations under the derivative. While a party seeking price certainty agrees to surrender the potential upside in exchange for downside protection, the party taking the risk is looking for a positive payoff. Despite this voluntary assumption of risk, a counterparty that has lost money in a derivative transaction may try to avoid payment by exploiting various legal uncertainties about certain derivative products.

Systemic or Interconnection Risk. Systemic or interconnection risk is the risk that a disruption in the financial markets will cause difficulties for all market participants. In other words, a disruption in one market will spill over into other markets, perhaps creating a chain reaction. Much of the over-the-counter derivatives market takes place among the over-the-counter dealers themselves,

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thus creating a large interconnected web of financial obligations. This interconnectedness raises the possibility that a default by one large dealer could create losses for other dealers and destabilize the entire market for OTC derivative instruments.

### **Legislation and Regulatory Risk**

At any time after the date of the prospectus and this SAI, legislation may be enacted that could negatively affect our assets or the issuers of such assets. Changing approaches to regulation may have a negative impact on entities in which we invest. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on us or will not impair the ability of the issuers of the assets we hold to achieve their business goals, and hence, for us to achieve our investment objective.

### **When-Issued and Delayed Delivery Transactions**

We may buy and sell securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. On such transactions, the payment obligation and the interest rate are fixed at the time the buyer enters into the commitment. Beginning on the date we enter into a commitment to purchase securities on a when-issued or delayed delivery basis, we are required under rules of the SEC to maintain in a separate account liquid assets, consisting of cash, cash equivalents or liquid securities having a market value at all times of at least equal to the amount of the commitment. Income generated by any such assets which provide taxable income for U.S. federal income tax purposes is includable in our taxable income. We may enter into contracts to purchase securities on a forward basis (*i.e.*, where settlement will occur more than 60 days from the date of the transaction) only to the extent that we specifically collateralize such obligations with a security that is expected to be called or mature within sixty days before or after the settlement date of the forward transaction. The commitment to purchase securities on a when-issued, delayed delivery or forward basis may involve an element of risk because at the time of delivery the market value may be less than cost.

### **Repurchase Agreements**

As temporary investments, we may invest in repurchase agreements. A repurchase agreement is a contractual agreement whereby the seller of securities agrees to repurchase the same security at a specified price on a future date agreed upon by the parties. The agreed-upon repurchase price determines the yield during our holding period. Repurchase agreements are considered to be loans collateralized by the underlying security that is the subject of the repurchase contract. Income generated from transactions in repurchase agreements will be taxable. We will only enter into repurchase agreements with registered securities dealers or domestic banks that, in the opinion of the Adviser, present minimal credit risk. Our risk is limited to the ability of the issuer to pay the agreed-upon repurchase price on the delivery date; however, although the value of the underlying collateral at the time the transaction is entered into always equals or exceeds the agreed-upon repurchase price, if the value of the collateral declines there is a risk of loss of both principal and interest. In the event of default, the collateral may be sold, but we may incur a loss if the value of the collateral declines, and may incur disposition costs or experience delays in connection with liquidating the collateral. In addition, if bankruptcy proceedings are commenced with respect to the seller of the security, realization upon the collateral by us may be delayed or limited. The Adviser will monitor the value of the collateral at the time the transaction is entered into and at all times subsequent during the term of the repurchase agreement in an effort to determine that such value always equals or exceeds the agreed-upon repurchase price. In the event the value of the collateral declines below the repurchase price, we will demand additional collateral from the issuer to increase the value of the collateral to at least that of the repurchase price, including interest.

### **Lending of Portfolio Securities**

We may lend our portfolio securities to broker-dealers and banks. Any such loan must be continuously secured by collateral in cash or cash equivalents maintained on a current basis in an amount at least equal to the market value of the securities loaned by us. We would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned, and would also receive an additional return that may be in the form of a fixed fee or a percentage of the collateral. We may pay reasonable fees for services in arranging these loans. We would have the right to call the loan and obtain the securities loaned at any time on notice of not more than five business days. We would not have the right to vote the securities during the existence of the loan but would call the loan to permit voting of the securities, if, in the Adviser's judgment, a material event requiring a stockholder vote would otherwise occur

before the loan was repaid. In the event of bankruptcy or other default of the borrower, we could experience both delays in liquidating the loan collateral or recovering the loaned securities and losses, including (a) possible decline in the value of the collateral or in the value of the securities loaned during the period while we seek to enforce its rights thereto, (b) possible subnormal levels of income and lack of access to income during this period, and (c) expenses of enforcing its rights.

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**Table of Contents****MANAGEMENT****Directors and Officers**

Our business and affairs are managed under the direction of our Board of Directors, including the duties performed for us under the Investment Management Agreement. The directors set broad policies for us and choose our officers. The members of our Board of Directors are as follows: Anne K. Costin, Steven C. Good, Gerald I. Isenberg, Kevin S. McCarthy and William H. Shea, Jr. The directors who are not interested persons of Kayne Anderson or our underwriters as defined in the 1940 Act are referred to herein as Independent Directors.

Under our Charter, our directors are divided into three classes. Each class of Directors hold office for a three year term. At each annual meeting of our stockholders, the successors to the class of Directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

None of our Independent Directors (other than Mr. Isenberg) nor any of their immediate family members, has ever been a director, officer or employee of Kayne Anderson or its affiliates. From 1998 to 2002, Mr. Isenberg was a board member of the Kayne Anderson Rudnick Mutual Funds, whose investment adviser, Kayne Anderson Rudnick Investment Management, LLC, formerly may have been deemed an affiliate of Kayne Anderson. We have no employees. Our officers are compensated by our Adviser. Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The term of the first class expires in 2011, terms of the second and third classes expire in 2012 and 2013, respectively. Upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by our stockholders.

The following table includes information regarding our directors and officers, and their principal occupations and other affiliations during the past five years. The addresses for all directors are 1800 Avenue of the Stars, Second Floor Los Angeles, CA 90067 and 717 Texas Avenue, Suite 3100, Houston, Texas 77002. All of our directors currently serve on the Board of Directors of Kayne Anderson Energy Total Return Fund, Inc. ( KYE ), and Mr. McCarthy also serves on the Board of Directors of Kayne Anderson Energy Development Company ( KED ), each a closed-end investment company registered under the 1940 Act that is advised by Kayne Anderson.

**Independent Directors**

| <b>Name<br/>(Year Born)</b>   | <b>Position(s) Held<br/>with Registrant</b> | <b>Term of Office/<br/>Time of Service</b>   | <b>Principal Occupations During<br/>Past Five Years</b>  | <b>Number<br/>of<br/>Portfolios<br/>in<br/>Fund Other Directorships<br/>Complex(1)<br/>Overseen<br/>by Director</b> | <b>Held by Director During<br/>Past Five Years</b> |
|-------------------------------|---|--|--|---|--|
| Anne K. Costin<br>(born 1950) | Director                                    | 3-year term (until the<br>2013 Annual Meeting<br>of<br>Stockholders)/served<br>since inception | Professor at the Amsterdam<br>Institute of Finance. Adjunct<br>Professor in the Finance and<br>Economics Department of<br>Columbia University Graduate<br>School of Business in New<br>York from 2004 through 2007.<br>As of March 1, 2005, Ms.<br>Costin retired after a 28-year<br>career at Citigroup. During the | 2   | Current:<br><br>KYE                                |

last five years, Ms. Costin was Managing Director and Global Deputy Head of the Project & Structured Trade Finance product group within Citigroup's Investment Banking Division.

Steven C. Good Director  
(born 1942)

3-year term (until the 2012 Annual Meeting of Stockholders)/served since inception

Senior partner at Good Swartz Brown & Berns LLP, a division of JH Cohen LLP as of June 1, 2008, which offers accounting, tax and business advisory services to middle market private and publicly-traded companies, their owners and their management. Founded Block, Good and Gagerman in 1976, which later evolved in stages into Good Swartz Brown & Berns LLP.

2 Current:

KYE;

OSI Systems, Inc. (specialized electronic products);

Prior:

California Pizza Kitchen, Inc. (restaurant chain); and

Arden Realty, Inc. (real estate investment trust)

Gerald I. Isenberg Director  
(born 1940)

3-year term (until the 2011 Annual Meeting of Stockholders)/served since June 2005

Professor Emeritus at the University of Southern California School of Cinema-Television since 2007. Chief Financial Officer of Teccino Caffe Inc., a privately owned beverage manufacturer and distributor. Board member of Kayne Anderson Rudnick Mutual Funds(2) from 1998 to 2002.

2 Current:

KYE;

Teccino Caffe Inc.; and the

Caucus for Television Producers, Writers & Directors Foundation

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| <b>Name<br/>(Year Born)</b>         | <b>Position(s) Held<br/>with Registrant</b> | <b>Term of Office/<br/>Time of Service</b>  | <b>Principal Occupations During<br/>Past Five Years</b>  | <b>Number<br/>of<br/>Portfolios<br/>in<br/>Fund<br/>Complex<br/>Overseen</b> | <b>Other Directorships<br/>Held by<br/>Director</b>   |
|-------------------------------------|---|---|--|--|---|
| William H. Shea, Jr.<br>(born 1954) | Director                                    | 3-year term (until the 2013 Annual Meeting of Stockholders)/served since March 2008 | Chief Executive Officer of the general partner of Penn Virginia Resource Partners L.P. (PVR) and Penn Virginia GP Holdings L.P. (PVG), and President of the general partner of PVG, each since March 2010. Private investor from June 2007 to March 2010. From September 2000 to June 2007, President, Chief Executive Officer and Director (Chairman from May 2004 to June 2007) of Buckeye Partners, L.P. (BPL) (pipeline transportation and refined petroleum products company). From May 2004 to June 2007, President, Chief Executive Officer and Chairman of Buckeye GP Holdings, L.P. (BGH) and its predecessors. | 2  | Current:<br><br>KYE;<br><br>Penn Virginia Corp. (oil and natural gas MLP);<br><br>PVG (owns general partner of PVR);<br><br>PVR (coal and midstream MLP)<br><br>Niska Gas Storage Partners LLC (natural gas storage);<br><br>Gibson Energy ULC (midstream energy);<br><br>Prior:<br><br>BGH (general partner of BPL); and<br><br>BPL (pipeline MLP) |

**Interested Director**

| <b>Name<br/>(Year Born)</b> | <b>Position(s) Held<br/>with Registrant</b> | <b>Term of Office/<br/>Time of Service</b> | <b>Principal Occupations During<br/>Past Five Years</b> | <b>Number<br/>of<br/>Portfolios<br/>in<br/>Fund<br/>Complex<br/>Overseen</b> | <b>Other Directorships<br/>Held by<br/>Director</b> |
|-----------------------------|---|--|---|--|---|
|-----------------------------|---|--|---|--|---|

|                                     |   |  |  |   |
|-------------------------------------|---|--|--|---|
| Kevin S. McCarthy(3)<br>(born 1959) | Chairman of the Board of Directors; President and Chief Executive Officer | 3-year term as a director (until the 2012 Annual Meeting of Stockholders), elected annually as an officer/served since inception | Senior Managing Director of KACALP since June 2004 and of KAFA since 2006. President and Chief Executive Officer of KYE and Kayne Anderson Energy Development Company ( KED ) since inception (KYE inception in 2005 and KED inception in 2006). Global Head of Energy at UBS Securities LLC from November 2000 to May 2004. | <p>3 Current:</p> <p>KYE;</p> <p>KED;</p> <p>Range Resources Corporation (oil and natural gas company);</p> <p>Clearwater Natural Resources, LLC (coal mining);</p> <p>Direct Fuel Partners, L.P. (transmix refining and fuels distribution); and</p> <p>ProPetro Services, Inc. (oil field services)</p> |
|-------------------------------------|---|--|--|---|

(1) The 1940 Act requires the term Fund Complex to be defined to include registered Investment Companies advised by our investment adviser, KAFA, and, as a result as of February 28, 2010, the Fund Complex included KYE and KED.

(2) The investment adviser to the Kayne Anderson Rudnick Mutual Funds, Kayne Anderson Rudnick Investment Management,



LLC, formerly  
was as affiliate  
of KACALP.

- (3) Mr. McCarthy is  
an interested  
person of Kayne  
Anderson MLP  
Investment  
Company by  
virtue of his  
employment  
relationship  
with KAFA, our  
investment  
adviser.

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**Table of Contents****Officers**

| <b>Name<br/>(Year Born)</b>        | <b>Position(s) Held<br/>with Registrant</b>                                       | <b>Term of Office/<br/>Time of Service</b>  | <b>Principal Occupations During<br/>Past Five Years</b>  | <b>Other Directorships<br/>Held by<br/>Officer</b>  |
|------------------------------------|---|---|--|---|
| Terry A. Hart<br>(born 1969)       | Chief Financial<br>Officer and<br>Treasurer                                       | Elected<br>annually/served<br>since<br>December 2005  | Chief Financial Officer and<br>Treasurer of KYE since<br>December 2005 and of KED<br>since September 2006. Director<br>of Structured Finance, Assistant<br>Treasurer, Senior Vice President<br>and Controller of Dynegy, Inc.<br>from 2000 to 2005.  | None  |
| David J. Shladovsky<br>(born 1960) | Secretary and<br>Chief<br>Compliance<br>Officer                                   | Elected<br>annually/served<br>since inception   | Managing Director and General<br>Counsel of KACALP since 1997<br>and of KAFA since 2006.<br>Secretary and Chief Compliance<br>Officer of KYE since 2005 and<br>of KED since 2006.  | None  |
| J.C. Frey<br>(born 1968)           | Executive Vice<br>President,<br>Assistant<br>Treasurer,<br>Assistant<br>Secretary | Elected<br>annually/served as<br>Assistant<br>Treasurer and<br>Assistant<br>Secretary since<br>inception; served<br>as Executive Vice<br>President since<br>June 2008 | Senior Managing Director of<br>KACALP since 2004 and of<br>KAFA since 2006, and<br>Managing Director of KACALP<br>since 2000. Portfolio Manager of<br>KACALP since 2000, Portfolio<br>Manager, Vice President,<br>Assistant Secretary and<br>Assistant Treasurer of KYE<br>since 2005 and of KED since<br>2006. Executive Vice President<br>of KYE and KED since<br>June 2008  | None  |
| James C. Baker<br>(born 1972)      | Executive Vice<br>President   | Elected<br>annually/served as<br>Vice President<br>from June 2005 to<br>June 2008; served<br>as Executive Vice<br>President since<br>June 2008                        | Senior Managing Director of<br>KACALP and KAFA since<br>February 2008, Managing<br>Director of KACALP and<br>KAFA since December 2004<br>and 2006, respectively. Vice<br>President of KYE from 2005 to<br>2008 and of KED from 2006 to<br>2008, and Executive Vice<br>President of KYE and KED<br>since June 2008. Director in<br>Planning and Analysis at El Paso<br>Corporation from April 2004 to<br>December 2004. Director at | ProPetro Services,<br>Inc. (oilfield<br>services); and Petris<br>Technology, Inc.<br>(data management<br>for energy<br>companies) |

UBS Securities LLC (energy investment banking group) from 2002 to 2004 and Associate Director from 2000 to 2002.

### **Committees of the Board of Directors**

Our Board of Directors has three standing committees: the Nominating Committee, the Valuation Committee and the Audit Committee.

The Nominating Committee is responsible for appointing and nominating independent persons to our Board of Directors. Ms. Costin and Messrs. Good and Isenberg are members of the Nominating Committee. The Nominating Committee met one time during the fiscal year ended November 30, 2009. If there is no vacancy on the Board, the Board of Directors will not actively seek recommendations from other parties, including stockholders. When a vacancy on the Board of Directors occurs and nominations are sought to fill such vacancy, the Nominating Committee may seek nominations from those sources it deems appropriate in its discretion, including our stockholders. To submit a recommendation for nomination as a candidate for a position on the Board, stockholders shall mail such recommendation to David Shladovsky, Secretary, at our address: 717 Texas Avenue, Suite 3100 Houston, TX 77002. Such recommendation shall include the following information: (a) evidence of stock ownership of the person or entity recommending the candidate (if submitted by one of our stockholders), (b) a full description of the proposed candidate's background, including their education, experience, current employment, and date of birth, (c) names and addresses of at least three professional references for the candidate, (d) information as to whether the candidate is an interested person in relation to us, as such term is defined in the 1940 Act and such other information that may be considered to impair the candidate's independence and (e) any other information that may be helpful to the Nominating Committee in evaluating the candidate. If a recommendation is received with satisfactorily completed information regarding a candidate during a time when a vacancy exists on the Board of Directors or during such other time as the Nominating Committee is accepting recommendations, the recommendation will be forwarded to the Chair of the Nominating Committee and counsel to the Independent Directors. Recommendations received at any other time will be kept on file until such time as the Nominating Committee is accepting recommendations, at which point they may be considered for nomination.

The Valuation Committee is responsible for the oversight of our pricing procedures and the valuation of our securities in accordance with such procedures. Ms. Costin and Messrs. Isenberg and McCarthy are members of the Valuation Committee. The Valuation Committee met twelve times during the fiscal year ended November 30, 2009.

The Audit Committee is responsible for overseeing our accounting and financial reporting process, our system of internal controls, audit process and evaluating and appointing our independent auditors (subject also to Board of Director approval). Messrs. Good, Isenberg and Shea serve on the Audit Committee. The Audit Committee met four times during the fiscal year ended November 30, 2009.

### **Director Compensation**

Our directors and officers who are interested persons by virtue of their employment by Kayne Anderson serve without any compensation from us. Each of our Independent Directors receives a \$25,000 annual retainer for serving as a director. In addition, our Independent Directors receive fees for each meeting attended, as follows: \$2,500 per Board meeting; \$1,500 per Audit Committee meeting; and \$500 for other committee meetings. Committee meeting fees are not paid unless the meeting is held on a day when there is not a Board meeting and the meeting is more than 15 minutes in length. The Independent Directors are reimbursed for expenses incurred as a result of attendance at meetings of the Board and its committees.

The following table sets forth compensation by us for the fiscal year ended November 30, 2009 to the Independent Directors. We have no retirement or pension plans.

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| <b>Name of Director</b> | <b>Aggregate<br/>Compensation<br/>from Us</b> | <b>Total<br/>Compensation<br/>from<br/>Us and Fund<br/>Complex(1)</b> |
|-------------------------|---|---|
| Anne K. Costin          | \$ 49,500                                     | \$ 94,000   |
| Steven C. Good          | \$ 48,000                                     | \$ 91,000   |
| Gerald I. Isenberg      | \$ 52,000                                     | \$ 99,000   |
| William H. Shea         | \$ 47,500                                     | \$ 89,000   |

(1) The directors also oversee Kayne Anderson Energy Total Return Fund, Inc., an investment company managed by our Adviser.

**Security Ownership of Management**

As of November 30, 2009, certain officers of Kayne Anderson, including all of our officers, own, in the aggregate, approximately \$5 million of our common stock.

The following table sets forth the dollar range of our equity securities beneficially owned by our directors as of November 30, 2009:

| <b>Name of Director</b>      | <b>Dollar Range(1) of<br/>Our Equity<br/>Securities<br/>Owned by<br/>Director(2)</b> | <b>Aggregate Dollar Range of<br/>Equity Securities in All<br/>Registered<br/>Investment Companies<br/>Overseen by<br/>Director in Fund<br/>Complex(3)</b> |
|------------------------------|--|---|
| <b>Independent Directors</b> |  |   |
| Anne K. Costin               | \$ 10,001-\$50,000   | \$ 50,001-\$100,000*  |
| Steven C. Good               | \$ 10,001-\$50,000   | \$ 50,001-\$100,000*  |
| Gerald I. Isenberg           | \$ 10,001-\$50,000   | \$ 10,001-\$50,000  |
| William H. Shea              | \$50,001-\$100,000   | Over \$100,000  |
| <b>Interested Director</b>   |  |   |
| Kevin S. McCarthy            | Over \$100,000   | Over \$100,000  |

(1) Dollar ranges are as follows: none; \$1-\$10,000; \$10,001-\$50,000; \$50,001-\$100,000;

over \$100,000.

(2) As of November 30, 2009, our officers and directors, as a group, owned less than 1% of any class of our outstanding equity securities.

(3) The directors also oversee Kayne Anderson Energy Total Return Fund, Inc., an investment company managed by our Adviser.

Except as described in the table below, as of the date of this SAI, our Independent Directors (and their immediate family members) do not beneficially own securities in entities directly or indirectly controlling, controlled by, or under common control with, our Adviser. The information in the table is as of May 31, 2010.

| Director           | Name of Owners and Relationships to Director | Company  | Title of Class    | Value of Securities | Percent of Class |
|--------------------|--|--|-------------------|---------------------|------------------|
| Gerald I. Isenberg | Self   | Kayne Anderson Capital Income Partners (QP), L.P.(1) | Partnership units | \$ 1,204,566        | 0.3%             |

(1) Kayne Anderson may be deemed to control this fund by virtue of its role as the fund's general partner.

#### Information about Each Director's Qualifications, Experience, Attributes or Skills

The Board of Directors believes that each director has the qualifications, experience, attributes and skills ( Director Attributes ) appropriate to their continued service as directors of the Company in light of the Company's business and structure. Each of the directors has a demonstrated record of business and/or professional accomplishment that indicates that they have the ability to critically review, evaluate and access information provided to them. Certain of these business and professional experiences are set forth in detail in the charts above. In addition, all of the directors have served as a member of the board of one other fund in our Fund Complex, public companies, or non-profit entities or other organizations other than the Company, and each of the directors has served on the Board of the Company for a number of years. They therefore have substantial boardroom experience and, in their service to the Company, have gained substantial insight as to the operation of the Company and have demonstrated a commitment to discharging oversight duties as directors in the interests of stockholders.

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In addition to the information provided in the charts above, certain additional information regarding the directors and their Director Attributes is provided below. The information provided below, and in the charts above, is not all-inclusive. Many Director Attributes involve intangible elements, such as intelligence, integrity and work ethic, along with the ability to work together, to communicate effectively, to exercise judgment and ask incisive questions, and commitment to stockholder interests. The Board annually conducts a self-assessment wherein the effectiveness of the Board and individual directors is reviewed. In conducting its annual self-assessment, the Board has determined that the directors have the appropriate attributes and experience to continue to serve effectively as directors of the Company.

*Kevin S. McCarthy.* Mr. McCarthy is Chairman, President and Chief Executive Officer of the Company. In this position, Mr. McCarthy has extensive knowledge of the Company, its operations, personnel and financial resources. Prior to joining Kayne Anderson in 2004, Mr. McCarthy was most recently global head of energy at UBS Securities LLC. In this role, he had senior responsibility for all of UBS energy investment banking activities, including direct responsibilities for securities underwriting and mergers and acquisitions in the MLP industry. From 1995 to 2000, Mr. McCarthy led the energy investment banking activities of Dean Witter Reynolds and then PaineWebber Incorporated. He began his investment banking career in 1984. In addition to his directorships at KYE and KED, he is also on the board of directors of Range Resources Corporation, Clearwater Natural Resources, L.P., Pro Petro Services, Inc. and Direct Fuel Partners, L.P. Mr. McCarthy earned a B.A. in Economics and Geology from Amherst College in 1981 and an M.B.A. in Finance from the Wharton School at the University of Pennsylvania in 1984. Mr. McCarthy's position of influence and responsibility at the Company and the Adviser, combined with his experience advising energy companies as an investment banker, make him a valued member of the Board.

*Anne K. Costin.* Ms. Costin is currently a professor at the Amsterdam Institute of Finance. She served as an adjunct professor in the finance and economics department of Columbia University Graduate School of Business from 2004 to 2007. As of March 1, 2005, Mrs Costin retired after a 28-year career at Citigroup, and during the last five years of her banking career she held the position of Managing Director and Global Deputy Head of the Project & Structured Trade Finance product group within Citigroup's Investment Banking Division. Ms. Costin's product group provided integrated advice and non-recourse capital raising in both the bond and bank markets to top tier Citigroup corporate clients in both the developed and emerging markets. Her product group was the acknowledged market leader globally in all relevant league tables. Ms. Costin received a Director's Certificate from the Director's Institute at UCLA Anderson School of Management, a PMD degree from Harvard Business School, and a B.A. from the University of North Carolina Chapel Hill. Ms. Costin serves as a director of KYE. In addition to her managerial and banking experience, Ms. Costin's academic professional experience related to financial matters equip her to offer further insights to the Board.

*Steven C. Good.* Mr. Good is a Senior Partner in the accounting firm of Good, Swartz, Brown & Berns, a division of JH Cohn LLP. He founded Good, Swartz, Brown & Berns in 1976, and has been active in consulting and advisory services for businesses in various sectors, including the manufacturing, garment, medical services and real estate development industries. Mr. Good also has many years of experience as the chairman of the audit committees of several public companies. Mr. Good founded California United Bancorp and served as its Chairman

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through 1993. In addition to his KYE directorship, Mr. Good currently serves as a director of OSI Systems, Inc., a designer and manufacturer of specialized electronic products. Mr. Good also formerly served as a director of California Pizza Kitchen, Inc. and Arden Realty Group, Inc. from 1997 to 2006. Mr. Good holds a B.S. in Business Administration from UCLA and attended its Graduate School of Business. Mr. Good has extensive experience with corporate governance, financial and accounting matters, evaluating financial results and overseeing the financial reporting process of a large corporation. In addition, Mr. Good brings to the Board many years of experience as the chairman of the audit committees of several public companies.

*Gerald I. Isenberg.* Mr. Isenberg has served as a professor emeritus at the University of Southern California School of Cinema-Television since 2007. He also serves as Chief Financial Officer of Teecino Caffe Inc., a privately-owned beverage manufacturer and distributor. From 1989 to 1995, he was Chief Executive Officer of Hearst Entertainment Productions, a producer of television movies and programming for major broadcast and cable networks, as well as President and Chief Operating Officer of Hearst Entertainment, the domestic and international television production and distribution division of The Hearst Corporation. From 1989 to 1993, Mr. Isenberg taught as an adjunct professor at the UCLA Graduate School of Film and Television. In addition to his KYE directorship, Mr. Isenberg also serves as a director of Teecino Caffe Inc. and as the Chairman of the Caucus for Television Producers, Writers, and Directors, a not-for-profit organization that supplies grants to minority film students to complete their thesis films. From 1998 to 2002, Mr. Isenberg was a board member of the Kayne Anderson Rudnick Mutual Funds. Mr. Isenberg received an M.B.A. from Harvard Business School as a Baker Scholar. Mr. Isenberg's academic and professional career with prominent institutions and companies, much of which is related to financial and strategic planning, is relevant to the oversight of the Company. Mr. Isenberg also brings to the Board an understanding of asset management and mutual fund operations and strategy as a result of his service on the Board of Kayne Anderson Rudnick Mutual Funds, formerly an affiliate of KACALP.

*William H. Shea, Jr.* Mr. Shea has served as the Chief Executive Officer of the general partner of both Penn Virginia Resource Partners L.P. (PVR), a coal and midstream MLP, and as the President and Chief Executive Officer of Penn Virginia GP Holdings L.P. (PVG), which owns the general partner of PVR since March 2010. Mr. Shea also serves as a director of PVR, PVG, and Penn Virginia Corporation (PVA), an independent natural gas and oil company and the owner of the general partner and the largest unit holder of PVG. Mr. Shea was previously with the general partner of Buckeye Partners, L.P. (BPL), a petroleum products MLP, serving as Chairman from May 2004 to July 2007, Chief Executive Officer and President from September 2000 to July 2007 and President and Chief Operating Officer from July 1998 to September 2000. He was also Chairman of the general partner of Buckeye GP Holdings, L.P. (BGH), the owner of the general partner of BPL, from August 2006 to July 2007 and Chief Executive Officer and President from May 2004 to July 2007. Mr. Shea held various managerial and executive positions during his tenure with Buckeye, which he joined in 1996. Prior to Buckeye, Mr. Shea worked for Union Pacific Corporation, UGI Development Company and Laidlaw Environmental Services. In addition to his KYE directorship, Mr. Shea also serves as director for Niska Gas Storage Partners LLC, a natural gas storage partnership, and Gibson Energy ULC, a midstream energy company. Mr. Shea's extensive executive experience in the MLP sector and the energy industry, as well as his board experience as a director of several energy-related companies allows him to provide the Board with insight into the specific industries in which the Company invests.

**Board Leadership Structure**

Our business and affairs are managed under the direction of its Board of Directors, including the duties performed for us pursuant to our investment management agreement. Among other things, the directors set broad policies for the Company, approve the appointment of the Company's investment adviser, administrator and officers, and approves the engagement, and reviews the performance of, the Company's independent registered accounting firm. The role of the Board and of any individual director is one of oversight and not of management of the day-to-day affairs of the Company.

The Board of Directors currently consists of five directors, four of whom are not interested persons, as defined in the 1940 Act. We refer to these individuals as our Independent Directors.

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As part of each regular Board meeting, the Independent Directors meet separately from Kayne Anderson and, as part of at least one Board meeting each year, with the Company's Chief Compliance Officer. The Board reviews its leadership structure periodically as part of its annual self-assessment process and believes that its structure is appropriate to enable the Board to exercise its oversight of the Company.

Under the Company's Bylaws, the Board of Directors may designate a Chairman to preside over meetings of the Board of Directors and meetings of stockholders, and to perform such other duties as may be assigned to him or her by the Board. The Company does not have an established policy as to whether the Chairman of the Board shall be an Independent Director and believes that its flexibility to determine its Chairman and reorganize its leadership structure from time to time is in the best interests of the Company and its stockholders.

Presently, Mr. McCarthy serves as Chairman of the Board of Directors. Mr. McCarthy is an interested person of the Company, as defined in the 1940 Act, by virtue of his employment relationship with Kayne Anderson. The Company believes that Mr. McCarthy's history with the Company, familiarity with the Kayne Anderson investment platform and extensive experience in the field of energy-related investments qualifies him to serve as the Chairman of the Board. The Board has determined that the composition of the Audit and Nominating Committees are appropriate means to address any potential conflicts of interest that may arise from the Chairman's status as an interested person of the Company. The Board of Directors believes that this Board leadership structure—a combined Chairman of the Board and Chief Executive Officer and committees led by Independent Directors—is the optimal structure for the Company at this time. Since the Chief Executive Officer has the most extensive knowledge of the various aspects of the Company's business and is directly involved in managing both the day-to-day operations and long-term strategy of the Company, the Board has determined that Mr. McCarthy is the most qualified individual to lead the Board and serve in the key position as Chairman. The Board has also concluded that this structure allows for efficient and effective communication with the Board.

The Company's Board of Directors does not currently have a designated lead independent director. Instead, all of the Independent Directors play an active role on the Board of Directors. The Independent Directors compose a majority of the Company's Board of Directors, and are closely involved in all material deliberations related to the Company. The Board of Directors believes that, with these practices, each Independent Director has an equal stake in the Board's actions and oversight role and equal accountability to the Company and its stockholders.

### **Board Role in Risk Oversight**

The Board oversees the services provided by Kayne Anderson, including certain risk management functions. Risk management is a broad concept comprised of many disparate elements (such as, for example, investment risk, issuer and counterparty risk, compliance risk, operational risk and business continuity risk). Consequently, Board oversight of different types of risks is handled in different ways, and the Board implements its risk oversight function both as a whole and through Board committees. In the course of providing oversight, the Board and its committees receive reports on the Company's activities, including regarding the Company's investment portfolio and its financial accounting and reporting. The Board also meets at least quarterly with the Company's Chief Compliance Officer, who reports on the compliance of the Company with the federal securities laws and the Company's internal compliance policies and procedures. The Audit Committee's meetings with the Company's independent public accounting firm also contribute to its oversight of certain internal control risks. In addition, the Board meets periodically with representatives of the Company and Kayne Anderson to receive reports regarding the management of the Company, including certain investment and operational risks, and the Independent Directors are encouraged to communicate directly with senior management.

The Company believes that Board roles in risk oversight must be evaluated on a case-by-case basis and that its existing role in risk oversight is appropriate. Management believes that the Company has robust internal processes in place and a strong internal control environment to identify and manage risks. However, not all risks that may affect the Company can be identified or processes and controls developed to eliminate or mitigate their occurrence or effects, and some risks are beyond any control of the Company or Kayne Anderson, its affiliates or other service providers.

### **CONTROL PERSONS**

As of May 31, 2010, there were no persons who owned 25% or more of our outstanding voting securities, and we believe no person should be deemed to control us, as such term is defined in the 1940 Act.





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As of March 31, 2010, there were no persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock.

As of June 30, 2010, the following persons owned of record or beneficially more than 5% of our Series A MRP Shares:

| <b>Name and Address</b>  | <b>Shares Held</b> | <b>Percentage of Outstanding Shares(1)</b> |
|--|--------------------|--|
| Metropolitan Life Insurance Company and Affiliates<br>1095 Avenue of the Americas<br>New York, NY 10036                  | 1,280,000          | 29.1%                                      |
| Babson Capital Management LLC and Affiliates<br>1500 Main St, Suite 2200<br>P.O. Box 15189<br>Springfield, MA 01115-5189 | 1,040,000          | 23.6                                       |
| Delaware Investment Advisers<br>2005 Market St, 41-104<br>Philadelphia, PA 19103   | 600,000            | 13.6                                       |
| Sun Capital Advisers LLC and Affiliates<br>One Sun Life Executive Park<br>Wellesley Hills, MA 02481-5699                 | 600,000            | 13.6                                       |
| Aviva Investors North America, Inc. and Affiliates<br>699 Walnut St, Suite 1800<br>Des Moines, IA 50309                  | 240,000            | 5.5  |

(1) Based on  
4,400,000  
shares  
outstanding as  
of June 30,  
2010.

**INVESTMENT ADVISER**

KA Fund Advisors, LLC ( Kafa ), our investment adviser, is registered with the SEC under the Investment Advisers Act of 1940, as amended. Our Adviser provides us with professional investment supervision and management and permits any of its officers or employees to serve without compensation as our directors or officers if elected to such positions. Kafa is located at 717 Texas Avenue, Suite 3100, Houston, Texas 77002.

Kafa acts as our investment adviser pursuant to an investment management agreement (the Investment Management Agreement ). The Investment Management Agreement will continue in effect from year to year after its initial two-year term so long as its continuation is approved at least annually by our directors including a majority of Independent Directors or the vote of a majority of our outstanding voting securities. The Investment Management Agreement may be terminated at any time without the payment of any penalty upon 60 days written notice by either party, or by action of the Board of Directors or by a majority vote of our outstanding voting securities (accompanied by appropriate notice), and will terminate automatically upon assignment. The Investment Management Agreement may also be terminated, at any time, without payment of any penalty, by the Board of Directors or by vote of a

majority of our outstanding voting securities (as defined under the 1940 Act), in the event that it shall have been established by a court of competent jurisdiction that the Adviser or any officer or director of the Adviser has taken any action which results in a breach of the covenants of the Adviser set forth in the Investment Management Agreement. The Investment Management Agreement provides that the Adviser shall not be liable for any loss sustained by reason of the purchase, sale or retention of any security, whether or not such purchase, sale or retention shall have been based upon the investigation and research made by any other individual, firm or corporation, if such recommendation shall have been selected with due care and in good faith, except loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Adviser in performance of its obligations and duties, or by reason of its reckless disregard of its obligations and duties under the Investment Management Agreement. As compensation for the Adviser's services, we pay the Adviser a fee as described in our prospectus. See "Management Investment Management Agreement" in our prospectus.

In addition to Kayne Anderson's fee, we pay all other costs and expenses of our operations, such as compensation of our directors (other than those affiliated with Kayne Anderson), custodian, transfer agency, administrative, accounting and distribution disbursing expenses, legal fees, leverage expenses, expenses of independent auditors, expenses of personnel including those who are affiliates of Kayne Anderson reasonably incurred in connection with arranging or structuring portfolio transactions for us, expenses of repurchasing our securities, expenses of preparing, printing and distributing stockholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. All fees and expenses are accrued and deducted before payment of distributions to investors.

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On September 14, 2006, at an in-person meeting of the Board of Directors, the Board considered the approval of an Investment Management Agreement with Kayne Anderson Capital Advisors, L.P. ( KACALP ). Following the recommendation of the Board, at a special meeting of stockholders held on December 12, 2006, stockholders approved the Investment Management Agreement with Kayne Anderson described above. Effective December 31, 2006, KACALP assigned the Investment Management Agreement to KAFA. That assignment occurred only for internal organizational purposes and did not result in any change of management, control or portfolio management personnel and did not cause a termination of the Investment Management Agreement.

The most recent discussion regarding the basis for approval by the Board of Directors of our Investment Management Agreement with Kayne Anderson is available in our November 30, 2009 Annual Report to Stockholders.

### **CODE OF ETHICS**

We and Kayne Anderson have each adopted a code of ethics, as required by federal securities laws. Under both codes of ethics, employees who are designated as access persons may engage in personal securities transactions, including transactions involving securities that are currently held by us or, in limited circumstances, that are being considered for purchase or sale by us, subject to certain general restrictions and procedures set forth in our code of ethics. The personal securities transactions of our access persons and those of Kayne Anderson will be governed by the applicable code of ethics.

Kayne Anderson and its affiliates manage other investment companies and accounts. Kayne Anderson may give advice and take action with respect to any of the other funds it manages, or for its own account, that may differ from action taken by Kayne Anderson on our behalf. Similarly, with respect to our portfolio, Kayne Anderson is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that Kayne Anderson and access persons, as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. The Adviser is not obligated to refrain from investing in securities held by us or other funds it manages.

We and Kayne Anderson have text-only versions of the codes of ethics that will be available on the EDGAR Database on the SEC's internet web site at [www.sec.gov](http://www.sec.gov). Those documents can be inspected and copied at the public reference facilities maintained by the SEC in Washington, D.C. Information about the operation of the public reference facilities may be obtained by calling the SEC at (202) 551-8090. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, copies of the codes of ethics may be obtained from us free of charge at (877) 657-3863. You may also e-mail requests for these documents to [publinfo@sec.gov](mailto:publinfo@sec.gov) or make a request in writing to the SEC's Public Reference Section, 100 F Street, N.E., Room 1580, Washington, D.C. 20549

### **PROXY VOTING PROCEDURES**

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In many cases, we will invest in securities that do not generally entitle us to voting rights in our portfolio companies. When we do have voting rights, we will delegate the exercise of such rights to our Adviser, to whom our Board has delegated the authority to develop policies and procedures relating to proxy voting. Our Adviser's proxy voting policies and procedures are summarized below.

In determining how to vote, officers of our Adviser will consult with each other and our other investment professionals, taking into account the interests of us and our investors as well as any potential conflicts of interest. When Kayne Anderson's investment professionals identify a potentially material conflict of interest regarding a vote, the vote and the potential conflict will be presented to Kayne Anderson's Proxy Voting Committee for a final decision. If Kayne Anderson determines that such conflict prevents Kayne Anderson from determining how to vote on the proxy proposal in our best interest, Kayne Anderson shall either (1) vote in accordance with a predetermined specific policy to the extent that Kayne Anderson's policies and procedures include a pre-determined voting policy for such proposal or (2) disclose the conflict to our Board and obtain the Board's consent prior to voting on such proposal.

An officer of our Adviser will keep a written record of how all such proxies are voted. Our Adviser will retain records of (1) its proxy voting policies and procedures, (2) all proxy statements received regarding investor's securities

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(or it may rely on proxy statements filed on the SEC's EDGAR Database in lieu thereof), (3) all votes cast on behalf of investors, (4) investor written requests for information regarding how Kayne Anderson voted proxies of that investor and any written response to any (written or oral) investor requests for such information, and (5) any documents prepared by Kayne Anderson that are material to making a decision on

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a proxy vote or that memorialized such decision. The aforementioned proxy voting records will be maintained, preserved and easily accessible for a period of not less than five years. The Adviser may rely on one or more third parties to make and retain the records of proxy statements and votes cast.

Information regarding how proxies relating to our portfolio securities are voted during the 12-month period ended June 30th of any year will be made available on or around August 30th of that year, (i) without charge, upon request, by calling (877) 657-3863/MLP-FUND (toll-free/collect); and (ii) on the SEC's website at [www.sec.gov](http://www.sec.gov).

Our Adviser has adopted proxy voting guidelines that provide general direction regarding how Kayne Anderson will vote on a number of significant and recurring ballot proposals. These guidelines are not mandatory voting policies, but rather are an indication of general voting preferences. The following are a few examples of these guidelines:

The Adviser generally votes against proposals to classify the board and for proposals to repeal classified boards and to elect directors annually.

The Adviser generally votes against proposals to ratify a poison pill and for proposals that ask a company to submit its poison pill for shareholder ratification.

The Adviser generally votes against proposals to require a supermajority shareholder vote to approve charter and bylaw amendments and for proposals to lower such supermajority shareholder vote requirements.

The Adviser generally votes for management proposals to increase the number of shares of common stock authorized for issue provided management demonstrated a satisfactory reason for the potential issuance of the additionally authorized shares.

The Adviser generally votes for proposals to increase common share authorization for a stock split provided management demonstrates a reasonable basis for the split and for proposals to implement a reverse stock split provided management demonstrates a reasonable basis for the reverse split.

Absent special circumstances (*e.g.*, actions taken in the context of a hostile takeover attempt) indicating an abusive purpose, the Adviser, on a case-by-case basis, votes proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend and distribution, and other rights.

Proposals to change a company's state of incorporation area examined on a case-by-case basis.

The Adviser, on a case-by-case basis, votes on mergers and acquisitions taking into account at least the following:

anticipated financial and operating benefits;

offer price (cost vs. premium);

prospects of the combined companies,

how the deal was negotiated; and

changes in corporate governance and their impact on shareholder rights.

The Adviser generally supports shareholder social and environmental proposals, and votes such matters, on a case-by-case basis, where the proposal enhances the long-term value of the shareholder and does not diminish the return on investment.

**PORTFOLIO MANAGER INFORMATION**

The following section discusses the accounts managed by our portfolio managers, the structure and method of our portfolio managers' compensation, and their ownership of our securities. This information is current as of November 30, 2009. We and Kayne Anderson Energy Total Return Fund, Inc. are the registered investment companies managed by our portfolio managers, Kevin McCarthy and J.C. Frey. Messrs. McCarthy and Frey serve as portfolio manager of Kayne Anderson Energy Development Company

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( KED ), a closed- end management investment company that has elected to be treated as a business development company. We pay Kayne Anderson a management fee at an annual rate of 1.375% of our average total assets.

Messrs. McCarthy and Frey are compensated by the Adviser through distributions based on the amount of assets they manage and receive a portion of the advisory fees applicable to those accounts, which, with respect to certain accounts, are based in part, on the performance of those accounts. Some of the other accounts managed by Mr. Frey may have investment strategies that are similar to ours. However, Kayne Anderson manages potential conflicts of interest by allocating investment opportunities in accordance with its allocation policies and procedures.

**Other Accounts Managed by Portfolio Managers**

The following table reflects information regarding accounts for which the portfolio managers have day-to-day management responsibilities (other than us). Accounts are grouped into three categories: (i) registered investment companies, (ii) other pooled investment accounts, and (iii) other accounts. To the extent that any of these accounts pay advisory fees that are based on account performance, this information will be reflected in a separate table below. Information is shown as of November 30, 2009. Asset amounts are approximate and have been rounded.

| Portfolio Manager | Registered<br>Investment Companies<br>(Excluding us) |  | Other Pooled<br>Investment<br>Vehicles |  | Other Accounts           |  |
|-------------------|--|--|--|--|--------------------------|--|
|                   | Number<br>of<br>Accounts                             | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) | Number<br>of<br>Accounts               | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) | Number<br>of<br>Accounts | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) |
| Kevin McCarthy    | 1  | \$ 892   |  |  |                          |  |
| J.C. Frey         | 1  | \$ 892   | 1                                      | \$ 58  | 1                        | \$ 23  |

**Other Accounts That Pay Performance-Based Advisory Fees Managed by Portfolio Managers**

The following table reflects information regarding accounts for which the portfolio managers have day-to-day management responsibilities (other than us) and with respect to which the advisory fee is based on account performance. Information is shown as of November 30, 2009. Asset amounts are approximate and have been rounded.

| Portfolio Manager | Registered<br>Investment Companies<br>(Excluding us) |  | Other Pooled<br>Investment<br>Vehicles |  | Other Accounts           |  |
|-------------------|--|--|--|--|--------------------------|--|
|                   | Number<br>of<br>Accounts                             | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) | Number<br>of<br>Accounts               | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) | Number<br>of<br>Accounts | Total<br>Assets in<br>the<br>Accounts<br>(\$ in<br>millions) |
| Kevin McCarthy    | 1  | \$ 205   | 1                                      | \$ 352   |                          |  |
| J.C. Frey         | 1  | \$ 205   | 10                                     | \$ 1,478   | 2                        | \$ 29  |

Messrs. McCarthy and Frey are compensated by the Adviser through partnership distributions from KACALP based on the amount of assets they manage and they receive a portion of the advisory fees applicable to those accounts, which, with respect to certain amounts, as noted above, are based in part on the performance of those accounts. Some of the other accounts managed by Messrs. McCarthy and Frey, have investment strategies that are



similar to ours. However, Kayne Anderson manages potential conflicts of interest by allocating investment opportunities in accordance with its allocation policies and procedures. At November 30, 2009, Messrs. McCarthy and Frey owned approximately \$1.2 million and \$0.5 million of our equity, respectively, and through their limited partnership interests in the parent company of the Adviser, which owns 4,000 shares of our common stock (with a value of approximately \$0.1 million), Messrs. McCarthy and Frey could be deemed to also indirectly own a portion of our securities.

**PORTFOLIO TRANSACTIONS AND BROKERAGE**

Subject to the oversight of the Board of Directors, Kayne Anderson is responsible for decisions to buy and sell securities for us and for the placement of our securities business, the negotiation of the commissions to be paid on brokered transactions, the prices for principal trades in securities, and the allocation of portfolio brokerage and principal business. It is the policy of Kayne Anderson to seek the best execution at the best security price available with respect to each transaction, and with respect to brokered transactions in light of the overall quality of brokerage and research services provided to Kayne Anderson and its advisees. The best price to the us

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means the best net price without regard to the mix between purchase or sale price and commission, if any. Purchases may be made from underwriters, dealers, and, on occasion, the issuers. Commissions will be paid on our futures and options transactions, if any. The purchase price of portfolio securities purchased from an underwriter or dealer may include underwriting commissions and dealer spreads. We may pay mark-ups on principal transactions. In selecting broker/dealers and in negotiating commissions, Kayne Anderson considers, among other things, the firm's reliability, the quality of its execution services on a continuing basis and its financial condition. The selection of a broker-dealer may take into account the sale of products sponsored or advised by Kayne Anderson and/or its affiliates. If approved by our Board, Kayne Anderson may select an affiliated broker-dealer to effect transactions in our fund, so long as such transactions are consistent with Rule 17e-1 under the 1940 Act.

Section 28(e) of the Securities Exchange Act of 1934, as amended, permits an investment adviser, under certain circumstances, to cause an account to pay a broker or dealer who supplies brokerage and research services a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction. Brokerage and research services include (a) furnishing advice as to the value of securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody).

In light of the above, in selecting brokers, Kayne Anderson may consider investment and market information and other research, such as economic, securities and performance measurement research, provided by such brokers, and the quality and reliability of brokerage services, including execution capability, performance, and financial responsibility. Accordingly, the commissions charged by any such broker may be greater than the amount another firm might charge if Kayne Anderson determines in good faith that the amount of such commissions is reasonable in relation to the value of the research information and brokerage services provided by such broker to Kayne Anderson or to us. The Adviser believes that the research information received in this manner provides us with benefits by supplementing the research otherwise available to us. The investment advisory fees paid by us to Kayne Anderson under the Investment Management Agreement are not reduced as a result of receipt by Kayne Anderson of research services.

The Adviser may place portfolio transactions for other advisory accounts that it advises, and research services furnished by firms through which we effect our securities transactions may be used by Kayne Anderson in servicing some or all of its accounts; not all of such services may be used by Kayne Anderson in connection with us. Because the volume and nature of the trading activities of the accounts are not uniform, the amount of commissions in excess of those charged by another broker paid by each account for brokerage and research services will vary. However, Kayne Anderson believes such costs to us will not be disproportionate to the benefits received by us on a continuing basis. The Adviser seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities by us and another advisory account. In some cases, this procedure could have an adverse effect on the price or the amount of securities available to us. In making such allocations between the us and other advisory accounts, the main factors considered by Kayne Anderson are the investment objective, the relative size of portfolio holding of the same or comparable securities, the availability of cash for investment and the size of investment commitments generally held, and the opinions of the persons responsible for recommending investments to us and such other accounts and funds.

For the fiscal years ended November 30, 2007, November 30, 2008 and November 30, 2009, we paid aggregate brokerage commissions of \$3,000, \$0 and \$0 respectively.

**LIMITATION ON LIABILITY OF DIRECTORS AND OFFICERS**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our Charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our Charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to obligate us to indemnify any present or former director or officer or any individual who, while serving as our director or officer and, at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

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Our Bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and, at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. Our Charter and Bylaws also permit us to indemnify and advance expenses to any individual who served any predecessor of us in any of the capacities described above and any employee or agent of ours or our predecessor, if any.

Maryland law requires a corporation (unless its charter provide otherwise, which is not the case for our Charter) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received, unless in either case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to pay or reimburse reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

### **TAX MATTERS**

The following discussion of federal income tax matters is based on the advice of Paul, Hastings, Janofsky & Walker LLP, our counsel.

#### **Matters Addressed**

This section and the discussion in our prospectus (see Tax Matters ) provide a general summary of the material U.S. federal income tax consequences to the persons who purchase, own and dispose of our securities. It does not address all federal income tax consequences that may apply to an investment in our securities or to particular categories of investors, some of which may be subject to special rules. Unless otherwise indicated, this discussion is limited to taxpayers who are U.S. persons, as defined herein. The discussion that follows is based on the provisions of the Internal Revenue Code of 1986, as amended (the Code ) and Treasury regulations promulgated thereunder as in effect on the date hereof and on existing judicial and administrative interpretations thereof. These authorities are subject to change and to differing interpretations, which could apply retroactively. Potential investors should consult their own tax advisors in determining the federal, state, local, foreign and any other tax consequences to them of the purchase, ownership and disposition of our securities. This discussion does not address all tax consequences that may be applicable to a U.S. person that is a beneficial owner of our securities, nor does it address, unless specifically indicated, the tax consequences to, among others, (i) persons that may be subject to special treatment under U.S. federal income tax law, including, but not limited to, banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations and dealers in securities or currencies,

(ii) persons that will hold our securities as part of a position in a straddle or as part of a hedging, conversion or other integrated investment transaction for U.S. federal income tax purposes, (iii) persons whose functional currency is not the United States dollar or (iv) persons that do not hold our securities as capital assets within the meaning of Section 1221 of the Code.

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For purposes of this discussion, a U.S. person is (i) an individual citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States or any state thereof or the District of Columbia (other than a partnership that is not treated as a United States person under any applicable Treasury regulations), (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all the substantial decisions of such trust. Notwithstanding clause (iv) above, to the extent provided in regulations, certain trusts in existence on August 20, 1996, and treated as U.S. persons prior to such date that elect to continue to be so treated also shall be considered U.S. persons.

### **Tax Characterization for U.S. Federal Income Tax Purposes**

We are treated as a corporation for U.S. federal income tax purposes. Thus, we are subject to U.S. corporate income tax on our net taxable income. Such taxable income would generally include all of our net income from our limited partner investments in MLPs. The current U.S. federal maximum graduated income tax rate for corporations is 35%. In addition, the United States also imposes a 20% alternative minimum tax on the recalculated alternative minimum taxable income of an entity treated as a corporation. Any such U.S. corporate income tax or alternative minimum tax could materially reduce cash available to make distributions or interest payments on our securities. We are also obligated to pay state income tax on our taxable income, either because the states follow our federal classification as a corporation or because the states separately impose a tax on us.

The MLPs in which we invest are generally treated as partnerships for U.S. federal income tax purposes. As a partner in such MLPs, we will be required to report our allocable share of partnership income, gain, loss, deduction and expense, whether or not any cash is distributed from the MLPs.

The MLPs in which we invest are in the energy sector, primarily operating midstream energy assets; therefore, we anticipate that the majority of our items of income, gain, loss, deductions and expenses are related to energy ventures. However, some items are likely to relate to the temporary investment of our capital, which may be unrelated to energy ventures.

In general, energy ventures have historically generated taxable income less than the amount of cash distributions that they produced, at least for periods of the investment's life cycle. We anticipate that we will not incur U.S. federal income tax on a significant portion of our cash flow received, particularly after taking into account our current operating expenses. However, our particular investments may not perform consistently with historical patterns in the industry, and as a result, tax may be incurred by us with respect to certain investments.

Although we hold our interests in MLPs for investment purposes, we are likely to sell interests in a particular MLP from time to time. On any such sale, we will recognize gain or loss based upon the difference between the consideration received for tax purposes on the sale and our adjusted tax basis in the interest sold. The consideration received is generally the amount paid by the purchaser plus any debt of the MLP allocated to us that will shift to the purchaser on the sale. Our initial tax basis in an MLP is generally the amount paid for the interest, but is decreased for any distributions of cash received by us in excess of our allocable share of taxable income and decreased by our allocable share of net losses. Thus, although cash in excess of taxable income and net tax losses may create a temporary economic benefit to us, they will increase the amount of gain (or decrease the amount of loss) on the sale of an interest in an MLP. Favorable federal income tax rates do not apply to our long-term capital gains because we are a corporation. Thus, we are subject to federal income tax on our long-term capital gains at ordinary corporate income tax rates of up to 35%.

In calculating our alternative minimum taxable income, certain percentage depletion deductions and intangible drilling costs may be treated as items of tax preference. Items of tax preference increase alternative minimum taxable income and increase the likelihood that we may be subject to the alternative minimum tax.

We have not elected, and we do not expect to elect, to be treated as a regulated investment company for federal income tax purposes. In order to qualify as a regulated investment company, the income, assets and distributions of the company must meet certain minimum threshold tests. Because we invest principally in MLPs, we cannot meet such tests. In contrast to the tax rules that will apply to us, a regulated investment company generally does not pay corporate income tax, taking into consideration a deduction for dividends paid to its stockholders. At the present time,

the regulated investment company taxation rules have no application to us, including the current limitation on investment in MLPs by regulated investment companies.

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**Tax Consequences to Investors**

The owners of our securities will be viewed for federal income tax purposes as having income or loss on their investment in our securities rather than in the underlying MLPs. The owners of our common stock will receive a Form 1099 from us based upon the distributions made (or deemed to have been made) rather than based upon the income, gain, loss or deductions of the MLPs.

**PERFORMANCE RELATED AND COMPARATIVE INFORMATION**

We may quote certain performance-related information and may compare certain aspects of our portfolio and structure to other substantially similar closed-end funds. In reports or other communications to our stockholders or in advertising materials, we may compare our performance with that of (i) other investment companies listed in the rankings prepared by Lipper, Inc. ( Lipper ), Morningstar Inc. or other independent services; publications such as Barrons, Business Week, Forbes, Fortune, Institutional Investor, Kiplinger's Personal Finance, Money, Morningstar Mutual Fund Values, The New York Times, The Wall Street Journal and USA Today; or other industry or financial publications or (ii) the Standard and Poor's Index of 500 Stocks, the Dow Jones Industrial Average, NASDAQ Composite Index and other relevant indices and industry publications. Comparison of ourselves to an alternative investment should be made with consideration of differences in features and expected performance. We may obtain data from sources or reporting services, such as Bloomberg Financial and Lipper, that we believe to be generally accurate.

Our performance will vary depending upon market conditions, the composition of our portfolio and our operating expenses. Consequently any given performance quotation should not be considered representative of our performance in the future. In addition, because performance will fluctuate, it may not provide a basis for comparing an investment in our portfolio with certain bank deposits or other investments that pay a fixed yield for a stated period of time. Investors comparing our performance with that of other investment companies should give consideration to the quality and type of the respective investment companies' portfolio securities.

Past performance is not indicative of future results. At the time owners of our securities sell our securities, they may be worth more or less than the original investment.

**EXPERTS**

Our financial statements included in our Annual Report to Stockholders for the fiscal year ended November 30, 2009, incorporated by reference into this SAI, have been audited by PricewaterhouseCoopers LLP, independent registered public accounting firm, as set forth in their report thereon incorporated by reference herein, and is included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. PricewaterhouseCoopers LLP provides auditing services to us. The principal business address of PricewaterhouseCoopers LLP is 350 South Grand Avenue, Los Angeles, California 90071.

**OTHER SERVICE PROVIDERS**

JPMorgan Chase Bank, N.A., located at 14201 North Dallas Parkway, Second Floor, Dallas, Texas 75254, acts as our custodian. Ultimus Fund Solutions, LLC, located at 225 Pictoria Drive, Suite 450, Cincinnati, Ohio 4524665, provides certain administrative services for us and also acts as our fund accountant providing accounting services.

**REGISTRATION STATEMENT**

A Registration Statement on Form N-2, including amendments thereto, relating to our securities offered hereby, has been filed by us with the SEC, Washington, D.C. Our prospectus, prospectus supplement and this SAI do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to us and our securities offered hereby, reference is made to our Registration Statement. Statements contained in our prospectus, prospectus supplement and this SAI as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement may be inspected without charge at the SEC's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

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**FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

Our financial statements and financial highlights, the accompanying notes thereto and the report of PricewaterhouseCoopers LLP thereon, contained in the following document filed by us with the SEC are hereby incorporated by reference into, and are made part of, this SAI: our Annual Report to Stockholders for the year ended November 30, 2009 contained in our Form N-CSR filed with the SEC on February 8, 2010. A copy of such Annual Report to Stockholders must accompany the delivery of this SAI.

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**FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED NOVEMBER 30, 2009  
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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
PORTFOLIO SUMMARY  
FOR THE FISCAL YEARS ENDED  
(UNAUDITED)  
Portfolio Investments by Category \***

**November 30, 2009**

**November 30, 2008**

\* *As a percentage  
of total  
investments*

**Top 10 Holdings by Issuer**

| <b>Holding</b>                        | <b>Sector</b>   | <b>Percent of Total<br/>Investments<br/>as of November 30,</b> |             |
|---------------------------------------|-----------------|--|-------------|
|                                       |                 | <b>2009</b>  | <b>2008</b> |
| 1. Plains All American Pipeline, L.P. | Midstream MLP   | 9.1%   | 10.7%       |
| 2. Magellan Midstream Partners, L.P.  | Midstream MLP   | 7.9  | 8.1         |
| 3. Enterprise Products Partners L.P.  | Midstream MLP   | 7.7  | 8.6         |
| 4. Inergy, L.P.                       | Propane MLP     | 6.8  | 5.3         |
| 5. Kinder Morgan Management, LLC      | MLP Affiliates  | 6.0  | 8.9         |
| 6. MarkWest Energy Partners, L.P.     | Midstream MLP   | 5.3  | 3.1         |
| 7. Energy Transfer Partners, L.P.     | Midstream MLP   | 4.8  | 11.2        |
| 8. Copano Energy L.L.C.               | Midstream MLP   | 4.5  | 4.6         |
|                                       | General Partner |  |             |
| 9. Energy Transfer Equity, L.P.       | MLP             | 4.4  |             |
| 10. Enbridge Energy Partners, L.P.    | Midstream MLP   | 4.2  | 3.9         |

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
MANAGEMENT DISCUSSION  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009**

This discussion contains forward-looking statements and good faith estimates. The reader is referred to the disclosure on such matters at the beginning of this annual report.

**Overview**

Kayne Anderson MLP Investment Company (the Company) is a non-diversified, closed-end management investment company. The Company's investment objective is to obtain a high after-tax total return by investing at least 85% of its total assets in energy-related master limited partnerships (MLPs) and their affiliates, 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).

The Company invests principally in equity securities of (i) energy-related MLPs, (ii) owners of such interests in MLPs (MLP Affiliates), and (iii) other Midstream Energy Companies. The Company may, from time to time, invest in debt securities of MLPs and other Midstream Energy Companies.

At November 30, 2009, the Company's long-term investments were as follows:

| Category      | Number<br>of<br>Portfolio<br>Companies | Amount<br>(\$ in 000s) | Percentage<br>of<br>Long-Term<br>Investments |
|---------------|--|------------------------|--|
| Equity        |  |                        |  |
| MLP           | 44                                     | \$ 1,432,379           | 90.1%  |
| MLP Affiliate | 2                                      | 126,547                | 8.0  |
| Total Equity  | 46                                     | 1,558,926              | 98.1   |
| Debt          |  |                        |  |
| MLP           | 5                                      | 30,973                 | 1.9  |
| Total         | 51                                     | \$ 1,589,899           | 100.0%                                       |

As a limited partner in the MLPs, the Company reports its allocable share of the MLP's taxable income in computing its own taxable income. During the year ended November 30, 2009 (fiscal 2009), the Company estimated that taxable income associated with its ownership in MLPs was equal to 10% of the distributions received from such MLPs. As a result, the Company estimated that 90% of the MLP distributions will be treated as a return of capital for tax purposes. For financial reporting purposes, the Company reflects its MLP distributions net of the return of capital portion. As a result, only 10% of the cash distributions from MLPs received during fiscal 2009 are included in investment income. The remaining 90% of distributions from MLPs that are treated as a return of capital are reflected as a reduction in the cost basis of the Company's portfolio securities, which has the effect of increasing realized and unrealized gains by that same amount.

**Financial Review**

During fiscal 2009, the Company had a net increase in net assets resulting from operations of \$335.2 million before dividends to preferred stockholders of \$0.5 million. The components of this increase are (i) a net investment loss of \$15.4 million (\$24.4 million before taxes), (ii) net realized losses of \$18.4 million (\$29.2 million before taxes) and (iii) net change in unrealized gains of \$369.0 million (\$586.0 million before taxes).

The Company incurred a net investment loss (before taxes) of \$24.4 million during fiscal year 2009. This consisted of net dividends and distributions from MLPs and other Midstream Energy Companies of \$12.3 million, which was after

the deduction of \$90.0 million of cash dividends and distributions received by the Company that were treated as a return of capital. Interest income on investments and repurchase agreements was \$2.1 million. Expenses were \$38.8 million, including \$16.0 million of investment management fees and \$19.4 million of interest expense. Investment management fees were equal to an annual rate of 1.375% of average total assets.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
MANAGEMENT DISCUSSION  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009**

Net realized losses (before taxes) during fiscal 2009 were \$29.2 million, consisting of realized losses on investments of \$10.7 million, \$1.8 realized losses on options and \$16.7 million of payments pursuant to interest rate swap contracts (including \$14.4 million related to termination of certain contracts). The majority of these contracts were terminated in order to reduce the fixed interest rate paid by the Company. Payments made or received pursuant to those swap contracts are not reflected in interest expense, but are reflected as realized gains or losses. During fiscal 2009, the Company's portfolio turnover rate was 28.9%, which reflects its sale of long-term investments, compared to average market value of its long-term investments during the year.

Net change in unrealized gains (before taxes) during fiscal 2009 was \$586.0 million, including unrealized gains on investments of \$577.6 million and an increase in the mark-to-market value of the interest rate swap contracts of \$8.7 million.

The Company is taxed as a corporation for federal and state income tax purposes. As a result, the Company records income tax expense or benefit based on the investment income (loss) and realized gains (losses). Similarly, the Company records an income tax expense (benefit) based on the unrealized gains (losses), which are equal to the difference between the current market value of its assets and liabilities compared to the tax basis of those assets and liabilities. At November 30, 2009, the Company was in a net operating loss position that results in its income taxes being deferred. During fiscal 2009, the Company recorded a deferred tax benefit of \$9.0 million attributable to its net investment loss; a deferred tax benefit of \$10.8 million attributable to its realized losses; and a deferred tax expense of \$217 million attributable to its unrealized gains. The Company's taxes were computed based on an effective tax rate of approximately 37% for the fiscal year ended November 30, 2009.

On August 5, 2009, the Company issued 6,223,700 shares of common stock in a public offering. Net proceeds from the offering of approximately \$121 million were used to make new portfolio investments.

On November 4, 2009, the Company completed a \$110 million private placement of Senior Notes and redeemed \$20 million Series H Senior Unsecured Note, \$24 million Series J Senior Unsecured Note and repaid \$64 million borrowed under the credit facility.

As of November 30, 2009, the Company had one interest rate swap contract with a notional amount of \$125 million with a fixed rate of 0.99% and duration of 2 years. Under this contract, the Company pays a fixed rate of interest and receives a floating rate of interest based on the London Interbank Offered Rate ( LIBOR ).

As of November 30, 2009, the Company had no outstanding borrowings on its \$80 million revolving credit facility.

**Distributions**

The Company paid quarterly distributions totaling \$89.6 million or \$1.94 per share to its common stockholders during fiscal 2009. Payment of future distributions is subject to board approval, as well as meeting the covenants of the Company's senior debt and the asset coverage requirements of the Investment Company Act of 1940, as amended (the 1940 Act ).

**Recent Events**

On January 15, 2010, the Company paid a distribution to its common stockholders in the amount of \$0.48 per share, for a total of \$24.8 million. Of this total, \$5.6 million was reinvested into the Company, pursuant to the Company's dividend reinvestment plan. In connection with that reinvestment, 247,503 shares of common stock were issued.

On January 20, 2010 the Company issued 6,291,600 shares of common stock in a public offering. Net proceeds from the offering of approximately \$142 million will be used to make additional portfolio investments in accordance with the Company's investment objective and policies and for general corporate purposes.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
SCHEDULE OF INVESTMENTS**

**NOVEMBER 30, 2009**

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

| Description                           | No. of<br>Shares/Units | Value     |
|---------------------------------------|------------------------|-----------|
| <b>Long-Term Investments</b> 153.1%   |                        |           |
| <b>Equity Investments(a)</b> 150.1%   |                        |           |
| <b>Midstream MLP(b)</b> 107.0%        |                        |           |
| Boardwalk Pipeline Partners, LP       | 329                    | \$ 9,293  |
| Buckeye Partners, L.P.                | 738                    | 38,880    |
| Copano Energy, L.L.C.(c)              | 3,476                  | 70,209    |
| Crosstex Energy, L.P.(d)              | 3,084                  | 18,502    |
| DCP Midstream Partners, LP            | 786                    | 19,765    |
| Duncan Energy Partners L.P.           | 429                    | 9,639     |
| El Paso Pipeline Partners, L.P.       | 643                    | 15,232    |
| Enbridge Energy Partners, L.P.(c)     | 1,373                  | 67,687    |
| Energy Transfer Partners, L.P.(c)     | 1,760                  | 76,195    |
| Enterprise Products Partners L.P.     | 4,110                  | 122,425   |
| Exterran Partners, L.P.               | 1,001                  | 19,342    |
| Global Partners LP                    | 1,318                  | 30,956    |
| Holly Energy Partners, L.P.           | 402                    | 14,771    |
| Magellan Midstream Partners, L.P.(c)  | 3,069                  | 126,120   |
| MarkWest Energy Partners, L.P.        | 3,210                  | 82,326    |
| Martin Midstream Partners L.P.        | 341                    | 8,970     |
| ONEOK Partners, L.P.                  | 657                    | 38,586    |
| Plains All American Pipeline, L.P.(e) | 2,876                  | 145,545   |
| Quicksilver Gas Services LP           | 323                    | 6,773     |
| Regency Energy Partners LP            | 2,820                  | 56,209    |
| Spectra Energy Partners, LP           | 304                    | 8,416     |
| Targa Resources Partners LP           | 478                    | 9,548     |
| TC PipeLines, LP                      | 814                    | 29,475    |
| TransMontaigne Partners L.P.          | 283                    | 7,350     |
| Western Gas Partners, LP              | 785                    | 15,254    |
| Williams Partners L.P.(c)             | 1,757                  | 49,455    |
| Williams Pipeline Partners L.P.       | 644                    | 14,062    |
|                                       |                        | 1,110,985 |
| <b>General Partner MLP(b)</b> 12.8%   |                        |           |
| Alliance Holdings GP L.P.             | 680                    | 16,386    |
| Energy Transfer Equity, L.P.          | 2,398                  | 70,737    |
| Enterprise GP Holdings L.P.           | 1,169                  | 43,254    |
| Inergy Holdings, L.P.                 | 49                     | 2,641     |
|                                       |                        | 133,018   |

**MLP Affiliates(b) 12.2%**

|                                       |       |         |
|---------------------------------------|-------|---------|
| Enbridge Energy Management, L.L.C.(f) | 639   | 31,186  |
| Kinder Morgan Management, LLC(c)(f)   | 1,897 | 95,361  |
|                                       |       | 126,547 |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
SCHEDULE OF INVESTMENTS**

**NOVEMBER 30, 2009**

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

| Description  | No. of<br>Shares/Units | Value      |
|--|------------------------|------------|
| <b>Propane MLP 10.5%</b>                           |                        |            |
| Inergy, L.P.                                       | 3,297                  | \$ 108,986 |
| <br>   |                        |            |
| <b>Shipping MLP 6.0%</b>                           |                        |            |
| Capital Product Partners L.P.                      | 895                    | 6,782      |
| K-Sea Transportation Partners L.P.                 | 635                    | 6,620      |
| Navios Maritime Partners L.P.                      | 976                    | 13,815     |
| Teekay LNG Partners L.P.                           | 946                    | 23,034     |
| Teekay Offshore Partners L.P.                      | 700                    | 12,516     |
|  |                        | 62,767     |
| <br>   |                        |            |
| <b>Coal MLP 0.7%</b>                               |                        |            |
| Alliance Resource Partners, L.P.                   | 83                     | 3,262      |
| Natural Resources Partners L.P.                    | 78                     | 1,851      |
| Penn Virginia Resource Partners, L.P.              | 98                     | 1,905      |
|  |                        | 7,018      |
| <br>   |                        |            |
| <b>Upstream MLP 0.4%</b>                           |                        |            |
| Legacy Reserves LP                                 | 230                    | 4,075      |
| <br>   |                        |            |
| <b>Other MLP 0.5%</b>                              |                        |            |
| Calumet Specialty Products Partners, L.P.          | 308                    | 5,530      |
| <br>   |                        |            |
| <b>Total Equity Investments (Cost \$1,196,528)</b> |                        | 1,558,926  |

|                                     | Interest<br>Rate | Maturity<br>Date | Principal<br>Amount |        |
|-------------------------------------|------------------|------------------|---------------------|--------|
| <b>Energy Debt Investments 3.0%</b> |                  |                  |                     |        |
| <b>Upstream MLP(b) 1.9%</b>         |                  |                  |                     |        |
| Atlas Energy Resources, LLC         | 12.13%           | 8/1/17           | \$ 9,000            | 10,058 |
| Atlas Energy Resources, LLC         | 10.75            | 2/1/18           | 8,747               | 9,512  |
|                                     |                  |                  |                     | 19,570 |

**Midstream MLP 0.7%**

|                                |      |         |       |       |
|--------------------------------|------|---------|-------|-------|
| Copano Energy, L.L.C.          | 7.75 | 6/1/18  | 1,800 | 1,791 |
| Copano Energy, L.L.C.          | 8.13 | 3/1/16  | 500   | 500   |
| MarkWest Energy Partners, L.P. | 6.88 | 11/1/14 | 2,000 | 1,860 |
| Regency Energy Partners LP     | 9.38 | 6/1/16  | 3,000 | 3,172 |
|                                |      |         |       | 7,323 |

**Coal MLP 0.4%**

|   |     |         |        |       |
|---|-----|---------|--------|-------|
| Clearwater Natural Resources, LP(d)(g)(h) | (i) | 12/3/09 | 13,601 | 4,080 |
|---|-----|---------|--------|-------|

**Total Energy Debt Investments (Cost \$37,257)** 30,973

**Total Long-Term Investments (Cost \$1,233,785)** 1,589,899

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
SCHEDULE OF INVESTMENTS**

**NOVEMBER 30, 2009**

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

| Description   | Interest<br>Rate | Maturity<br>Date            | Value     |
|---|------------------|-----------------------------|-----------|
| <b>Short-Term Investment</b> 0.6%   |                  |                             |           |
| <b>Repurchase Agreement</b> 0.6%  |                  |                             |           |
| J.P. Morgan Securities Inc. (Agreement dated 11/30/09 to be repurchased at \$6,340), collateralized by \$6,448 in U.S. Treasury note (Cost \$6,340) | 0.07%            | 12/1/09                     | \$ 6,340  |
|   |                  | <b>No. of<br/>Contracts</b> |           |
| <b>Put Option Contracts Purchased</b> 0.0%(d)   |                  |                             |           |
| <b>Midstream MLP</b>  |                  |                             |           |
| Copano Energy, L.L.C., put option expiring 12/19/09 @ \$17.50 (Cost \$89)   |                  | 1,386                       | 14        |
| <b>Total Short-Term Investments (Cost \$6,429)</b>  |                  |                             | 6,354     |
| <b>Total Investments</b> 153.7% (Cost \$1,240,214)  |                  |                             | 1,596,253 |
| <b>Liabilities</b>  |                  |                             |           |
| <b>Option Contracts Written(d)</b>  |                  |                             |           |
| <b>Midstream MLP</b>  |                  |                             |           |
| Copano Energy, L.L.C., call option expiring 12/19/09 @ \$20.00  |                  | 1,000                       | (50)      |
| Enbridge Energy Partners, L.P., call option expiring 12/19/09 @ \$50.00   |                  | 1,000                       | (50)      |
| Energy Transfer Partners, L.P., call option expiring 12/19/09 @ \$45.00   |                  | 1,000                       | (20)      |
| Magellan Midstream Partners, L.P., call option expiring 12/19/09 @ \$40.00  |                  | 1,000                       | (110)     |
| Williams Partners L.P., call option expiring 12/19/09 @ \$25.00   |                  | 3,000                       | (1,161)   |
| Total Call Option Contracts Written (Premiums Received \$584)   |                  |                             | (1,391)   |
| <b>Senior Unsecured Notes</b>   |                  |                             | (370,000) |
| <b>Unrealized Depreciation on Interest Rate Swap Contracts</b>  |                  |                             | (205)     |
| <b>Deferred Tax Liability</b>   |                  |                             | (97,721)  |
| <b>Other Liabilities</b>  |                  |                             | (18,824)  |
| <b>Total Liabilities</b>  |                  |                             | (488,141) |
| <b>Other Assets</b>   |                  |                             | 5,165     |
| <b>Total Liabilities in Excess of Other Assets</b>  |                  |                             | (482,976) |
| <b>Preferred Stock at Redemption Value</b>  |                  |                             | (75,000)  |

**Net Assets Applicable to Common Stockholders**

\$ 1,038,277

- (a) Unless otherwise noted, equity investments are common units/common shares.
- (b) Includes Limited Liability Companies.
- (c) Security or a portion thereof is segregated as collateral on option contracts written or interest rate swap contracts.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
SCHEDULE OF INVESTMENTS  
NOVEMBER 30, 2009  
(amounts in 000 s, except number of option contracts)**

- (d) Security is non-income producing.
- (e) The Company believes that it is an affiliate of Plains All American, L.P. See Note 5 Agreements and Affiliations.
- (f) Distributions are paid in-kind.
- (g) Fair valued securities, restricted from public sale. See Notes 2, 3 and 7.
- (h) Clearwater Natural Resources, LP is a privately-held MLP that the Company believes is a controlled affiliate. On January 7, 2009, Clearwater Natural Resources, LP ( Clearwater ) filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. In addition to the

unsecured term loan, the Company owns 3,889 common units, 34 warrants and 41 unregistered, deferred participation units of Clearwater, the Company assigned no value to these equity investments as of November 30, 2009. CNR GP Holdco, LLC is the general partner of Clearwater. The Company owns 83.7% of CNR GP Holdco, LLC, which was assigned no value as of November 30, 2009, and believes it is a controlled affiliate. See Notes 3, 5, 7 and 15.

- (i) Floating rate unsecured working capital term loan. Interest is paid-in-kind at a rate of the higher of (i) one year LIBOR or (ii) 4.75%, plus 900 basis points (13.75% as of November 30, 2009). As

described in  
Note 2(i), the  
Company is not  
accruing interest  
on this  
investment.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
STATEMENT OF ASSETS AND LIABILITIES**

**NOVEMBER 30, 2009**

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

**ASSETS**

Investments at fair value:

|  |                  |
|--|------------------|
| Non-affiliated (Cost \$1,064,894)                | \$ 1,440,274     |
| Affiliated (Cost \$81,258)                       | 145,545          |
| Controlled (Cost \$87,633)                       | 4,080            |
| Put option contracts purchased (Cost \$89)       | 14               |
| Repurchase agreement (Cost \$6,340)              | 6,340            |
| <br>   |                  |
| Total investments (Cost \$1,240,214)             | 1,596,253        |
| Deposits with brokers                            | 553              |
| Receivable for securities sold                   | 770              |
| Interest, dividends and distributions receivable | 894              |
| Income tax receivable                            | 63               |
| Deferred debt issuance costs and other, net      | 2,885            |
| <br>   |                  |
| <b>Total Assets</b>                              | <b>1,601,418</b> |

**LIABILITIES**

|   |                |
|---|----------------|
| Payable for securities purchased                        | 5,528          |
| Investment management fee payable                       | 4,980          |
| Accrued directors' fees and expenses                    | 44             |
| Call option contracts written (Premiums received \$584) | 1,391          |
| Accrued expenses and other liabilities                  | 8,272          |
| Unrealized depreciation on interest rate swap contracts | 205            |
| Deferred tax liability                                  | 97,721         |
| Senior Unsecured Notes                                  | 370,000        |
| <br>  |                |
| <b>Total Liabilities</b>                                | <b>488,141</b> |

**PREFERRED STOCK**

|  |        |
|--|--------|
| \$25,000 liquidation value per share applicable to 3,000 outstanding shares (10,000 shares authorized) | 75,000 |
|--|--------|

**NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS** **\$ 1,038,277**

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

|   |           |
|---|-----------|
| Common stock, \$0.001 par value (51,579,541 shares issued and outstanding, 199,990,000 shares authorized) | \$ 52     |
| Paid-in capital   | 884,907   |
| Accumulated net investment loss, net of income taxes, less dividends                                      | (119,508) |
| Accumulated realized gains on investments and interest rate swap contracts, net of income taxes           | 51,122    |



|   |                     |
|---|---------------------|
| Net unrealized gains on investments and interest rate swap contracts, net of income taxes | 221,704             |
| <b>NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS</b>                                       | <b>\$ 1,038,277</b> |
| <b>NET ASSET VALUE PER COMMON SHARE</b>   | <b>\$ 20.13</b>     |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**STATEMENT OF OPERATIONS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009**  
(amounts in 000 s)

**INVESTMENT INCOME****Income**

Dividends and distributions:

|                            |    |        |
|----------------------------|----|--------|
| Non-affiliated investments | \$ | 91,837 |
| Affiliated investments     |    | 10,420 |

|                                   |  |          |
|-----------------------------------|--|----------|
| Total dividends and distributions |  | 102,257  |
| Return of capital                 |  | (89,987) |

|                                 |  |        |
|---------------------------------|--|--------|
| Net dividends and distributions |  | 12,270 |
|---------------------------------|--|--------|

Interest

|  |  |       |
|--|--|-------|
| Non-affiliated investments                               |  | 1,938 |
| Controlled investments, net of \$779 of bad debt expense |  | 176   |

|                |  |       |
|----------------|--|-------|
| Total interest |  | 2,114 |
|----------------|--|-------|

|                         |  |        |
|-------------------------|--|--------|
| Total Investment Income |  | 14,384 |
|-------------------------|--|--------|

**Expenses**

|                            |  |        |
|----------------------------|--|--------|
| Investment management fees |  | 16,040 |
| Professional fees          |  | 925    |
| Administration fees        |  | 598    |
| Reports to stockholders    |  | 246    |
| Insurance                  |  | 225    |
| Directors fees             |  | 190    |
| Custodian fees             |  | 174    |
| Other expenses             |  | 1,021  |

|  |  |        |
|--|--|--------|
| Total Expenses Before Interest Expense and Taxes |  | 19,419 |
|--|--|--------|

|                  |  |        |
|------------------|--|--------|
| Interest expense |  | 19,400 |
|------------------|--|--------|

|                             |  |        |
|-----------------------------|--|--------|
| Total Expenses Before Taxes |  | 38,819 |
|-----------------------------|--|--------|

|   |  |          |
|---|--|----------|
| <b>Net Investment Loss Before Taxes</b> |  | (24,435) |
|---|--|----------|

|                      |  |       |
|----------------------|--|-------|
| Deferred tax benefit |  | 9,047 |
|----------------------|--|-------|

|                            |  |          |
|----------------------------|--|----------|
| <b>Net Investment Loss</b> |  | (15,388) |
|----------------------------|--|----------|

**REALIZED AND UNREALIZED GAINS/(LOSSES)****Net Realized Gains/(Losses)**

|             |  |          |
|-------------|--|----------|
| Investments |  | (10,715) |
|-------------|--|----------|

|   |            |
|---|------------|
| Options   | (1,815)    |
| Payments on interest rate swap contracts  | (16,736)   |
| Deferred tax benefit  | 10,835     |
| Net Realized Losses   | (18,431)   |
| <b>Net Change in Unrealized Gains/(Losses)</b>  |            |
| Investments   | 577,587    |
| Options   | (282)      |
| Interest rate swap contracts  | 8,672      |
| Deferred tax expense  | (216,950)  |
| Net Change in Unrealized Gains  | 369,027    |
| <b>Net Realized and Unrealized Gains</b>  | 350,596    |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>                                       | 335,208    |
| <b>DISTRIBUTION TO PREFERRED STOCKHOLDERS</b>   | (539)      |
| <b>NET INCREASE IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS<br/>RESULTING FROM OPERATIONS</b> | \$ 334,669 |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**STATEMENT OF CHANGES IN NET ASSETS APPLICABLE TO COMMON STOCKHOLDERS**  
(amounts in 000 s, except share amounts)

|   | <b>For the Fiscal Year Ended</b> |                  |
|---|----------------------------------|------------------|
|   | <b>November 30,</b>              |                  |
|   | <b>2009</b>                      | <b>2008</b>      |
| <b>OPERATIONS</b>   |                                  |                  |
| Net investment loss, net of tax   | \$ (15,388)                      | \$ (31,676)      |
| Net realized losses, net of tax   | (18,431)                         | (628)            |
| Net change in unrealized gains/(losses), net of tax   | 369,027                          | (549,121)        |
| <b>Net Increase/(Decrease) in Net Assets Resulting from Operations</b>                                    | <b>335,208</b>                   | <b>(581,425)</b> |
| <b>DIVIDENDS/DISTRIBUTIONS TO PREFERRED STOCKHOLDERS<sup>(1)</sup></b>                                    |                                  |                  |
| Dividends   |                                  |                  |
| Distributions return of capital   | (539)                            | (4,176)          |
| <b>Dividends/Distributions to Preferred Stockholders</b>  | <b>(539)</b>                     | <b>(4,176)</b>   |
| <b>DIVIDENDS/DISTRIBUTIONS TO COMMON STOCKHOLDERS<sup>(1)</sup></b>                                       |                                  |                  |
| Dividends   |                                  |                  |
| Distributions return of capital   | (89,586)                         | (86,757)         |
| <b>Dividends/Distributions to Common Stockholders</b>   | <b>(89,586)</b>                  | <b>(86,757)</b>  |
| <b>CAPITAL STOCK TRANSACTIONS</b>   |                                  |                  |
| Proceeds from common stock public offerings of 6,223,700 shares of common stock                           | 126,030                          |                  |
| Underwriting discounts and offering expenses associated with the issuance of common stock                 | (5,524)                          |                  |
| Issuance of 1,179,655 and 950,637 shares of common stock from reinvestment of distributions, respectively | 21,532                           | 23,484           |
| <b>Net Increase in Net Assets Applicable to Common Stockholders from Capital Stock Transactions</b>       | <b>142,038</b>                   | <b>23,484</b>    |
| <b>Total Increase/(Decrease) in Net Assets Applicable to Common Stockholders</b>                          | <b>387,121</b>                   | <b>(648,874)</b> |
| <b>NET ASSETS ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>   |                                  |                  |
| Beginning of year   | 651,156                          | 1,300,030        |
| End of year   | \$ 1,038,277                     | \$ 651,156       |

- (1) The information presented in each of these items is a characterization of a portion of the total dividends and distributions paid to preferred and common stockholders for the fiscal years ended November 30, 2009 and 2008 as either dividends (ordinary income) or distributions (return of capital). This characterization is based on the Company's earnings and profits.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009**  
(amounts in 000 s)

**CASH FLOWS FROM OPERATING ACTIVITIES**

|   |               |
|---|---------------|
| Net increase in net assets resulting from operations  | \$ 335,208    |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities: |               |
| Net deferred tax expense  | 197,068       |
| Return of capital distributions   | 89,987        |
| Net realized losses   | 29,266        |
| Unrealized gains on investments, interest rate swap contracts and options written                                       | (585,977)     |
| Accretion of bond discount, net   | (240)         |
| Purchase of investments   | (552,147)     |
| Proceeds from sale of investments   | 332,219       |
| Proceeds from sale of short-term investments, net   | 21,328        |
| Sale of option contracts, net   | 5,636         |
| Decrease in deposits with brokers   | 1,762         |
| Decrease in receivable for securities sold  | 1,749         |
| Increase in interest, dividend and distributions receivable   | (212)         |
| Decrease in income tax receivable   | 669           |
| Decrease in deferred debt issuance costs and other, net   | 805           |
| Increase in payable for securities purchased  | 5,499         |
| Increase in investment management fee payable   | 352           |
| Decrease in accrued directors' fees and expenses  | (8)           |
| Increase in accrued expenses and other liabilities  | 109           |
| <br>Net Cash Used in Operating Activities   | <br>(116,927) |

**CASH FLOWS FROM FINANCING ACTIVITIES**

|   |             |
|---|-------------|
| Issuance of shares of common stock, net of offering costs | 120,506     |
| Proceeds from issuance of senior unsecured notes          | 110,000     |
| Redemption of senior unsecured notes                      | (44,000)    |
| Payment of debt issuance costs                            | (986)       |
| Cash distributions paid to preferred stockholders         | (539)       |
| Cash distributions paid to common stockholders            | (68,054)    |
| <br>Net Cash Provided by Financing Activities             | <br>116,927 |

**NET CHANGE IN CASH****CASH BEGINNING OF YEAR****CASH END OF YEAR**

\$

## Supplemental disclosure of cash flow information:

Non-cash financing activities not included herein consist of reinvestment of distributions of \$21,532 pursuant to the Company's dividend reinvestment plan.

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During the fiscal year ended November 30, 2009, the Company received federal and state income tax refunds of \$669 and interest paid was \$18,733.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000 s, except share and per share amounts)

|   | For the Fiscal Year Ended November 30, |          |          |          |          | For the   |
|---|--|----------|----------|----------|----------|---|
|   | 2009                                   | 2008     | 2007     | 2006     | 2005     | Period<br>September<br>28,<br>2004 <sup>(1)</sup><br>through<br>November<br>30,<br>2004 |
| <b>Per Share of Common Stock<sup>(2)</sup></b>  |  |          |          |          |          |   |
| Net asset value, beginning of period  | \$ 14.74                               | \$ 30.08 | \$ 28.99 | \$ 25.07 | \$ 23.91 | \$ 23.70 <sup>(3)</sup>   |
| Net investment income/(loss)  | (0.33)                                 | (0.73)   | (0.73)   | (0.62)   | (0.17)   | 0.02  |
| Net realized and unrealized gain/(loss) on investments, securities sold short, options and interest rate swap contracts | 7.50                                   | (12.56)  | 3.58     | 6.39     | 2.80     | 0.19  |
| Total income from investment operations   | 7.17                                   | (13.29)  | 2.85     | 5.77     | 2.63     | 0.21  |
| Preferred Stockholder Dividends <sup>(4)</sup>  |  |          | (0.10)   |          | (0.05)   |   |
| Preferred Stockholder Distributions return of capital <sup>(4)</sup>  | (0.01)                                 | (0.10)   |          | (0.10)   |          |   |
| Total dividends and distributions Preferred Stockholders  | (0.01)                                 | (0.10)   | (0.10)   | (0.10)   | (0.05)   |   |
| Common Stockholder Dividends <sup>(4)</sup>   |  |          | (0.09)   |          | (0.13)   |   |
| Common Stockholder Distributions return of capital <sup>(4)</sup>   | (1.94)                                 | (1.99)   | (1.84)   | (1.75)   | (1.37)   |   |
|   | (1.94)                                 | (1.99)   | (1.93)   | (1.75)   | (1.50)   |   |



Total dividends and  
distributions Common  
StockholdersUnderwriting discounts  
and offering costs on  
the issuance of preferred  
stock

(0.03)

Anti-dilutive effect due  
to issuance of common  
stock, net of  
underwriting discounts  
and offering costs

0.12

0.26

0.11

Anti-dilutive effect due  
to shares issued in  
reinvestment of  
dividends

0.05

0.04

0.01

Total capital stock  
transactions

0.17

0.04

0.27

0.08

Net asset value, end of  
period

|    |       |    |       |    |       |    |       |    |       |    |       |
|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|
| \$ | 20.13 | \$ | 14.74 | \$ | 30.08 | \$ | 28.99 | \$ | 25.07 | \$ | 23.91 |
|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|

Market value per share  
of common stock, end  
of period

|    |       |    |       |    |       |    |       |    |       |    |       |
|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|
| \$ | 24.43 | \$ | 13.37 | \$ | 28.27 | \$ | 31.39 | \$ | 24.33 | \$ | 24.90 |
|----|-------|----|-------|----|-------|----|-------|----|-------|----|-------|

Total investment return  
based on common stock  
market value<sup>(5)</sup>

103.0%

(48.8)%

(4.4)%

37.9%

3.7%

(0.4)%

**Supplemental Data  
and Ratios<sup>(7)</sup>**Net assets applicable to  
common stockholders,  
end of period

|    |           |    |         |    |           |    |           |    |         |    |         |
|----|-----------|----|---------|----|-----------|----|-----------|----|---------|----|---------|
| \$ | 1,038,277 | \$ | 651,156 | \$ | 1,300,030 | \$ | 1,103,392 | \$ | 932,090 | \$ | 792,836 |
|----|-----------|----|---------|----|-----------|----|-----------|----|---------|----|---------|

Ratio of Expenses to  
Average Net Assets<sup>(8)</sup>

Management fees

2.1%

2.2%

2.3%

3.2%

1.2%

0.8%

Other expenses

0.4

0.3

0.2

0.2

0.3

0.4

Subtotal

2.5%

2.5%

2.5%

3.4%

1.5%

1.2%

Interest expense and  
auction agent fees

2.5

3.4

2.3

1.7

0.8

0.0

Income tax  
expense/(benefit)

25.4

(29.7)

3.5

13.8

6.4

3.5

Total expenses

30.4%

(23.8)%

8.3%

18.9%

8.7%

4.7%

|  |            |              |              |            |            |            |
|--|------------|--------------|--------------|------------|------------|------------|
| Ratio of net investment income/(loss) to average net assets  | (2.0)%     | (2.8)%       | (2.3)%       | (2.4)%     | (0.7)%     | 0.5%       |
| Net increase/(decrease) in net assets to common stockholders resulting from operations to average net assets | 43.2%      | (51.2)%      | 7.3%         | 21.7%      | 10.0%      | 0.9%       |
| Portfolio turnover rate  | 28.9%      | 6.7%         | 10.6%        | 10.0%      | 25.6%      | 11.8%      |
| Average net assets   | \$ 774,999 | \$ 1,143,192 | \$ 1,302,425 | \$ 986,908 | \$ 870,672 | \$ 729,280 |
| Senior Notes outstanding, end of period  | \$ 370,000 | \$ 304,000   | \$ 505,000   | \$ 320,000 | \$ 260,000 |            |
| Revolving credit facility outstanding, end of period   |            |              | \$ 97,000    | \$ 17,000  |            |            |

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**FINANCIAL HIGHLIGHTS**  
(amounts in 000 s, except share and per share amounts)

|   | For the Fiscal Year Ended November 30, |           |           |           |           | For the<br>Period<br>September<br>28,<br>2004 <sup>(1)</sup><br>through<br>November<br>30,<br>2004 |
|---|--|-----------|-----------|-----------|-----------|--|
|   | 2009                                   | 2008      | 2007      | 2006      | 2005      |  |
| <b>Supplemental Data and Ratios continued<sup>1</sup></b>   |  |           |           |           |           |  |
| Auction Rate Preferred Stock, end of period   | \$ 75,000                              | \$ 75,000 | \$ 75,000 | \$ 75,000 | \$ 75,000 |  |
| Asset coverage of total debt <sup>(9)</sup>   | 400.9%                                 | 338.9%    | 328.4%    | 449.7%    | 487.3%    |  |
| Asset coverage of total leverage (Debt and Preferred Stock) <sup>(10)</sup>                         | 333.3%                                 | 271.8%    | 292.0%    | 367.8%    | 378.2%    |  |
| Average amount of borrowings outstanding per share of common stock during the period <sup>(2)</sup> | \$ 6.79                                | \$ 11.52  | \$ 12.14  | \$ 8.53   | \$ 5.57   |  |

(1) Commencement of operations.

(2) Based on average shares of common stock outstanding of 46,894,632; 43,671,666; 41,134,949; 37,638,314; 34,077,731 and 33,165,900 for fiscal years ended November 30, 2009 through 2005 and the period September 28,

2004 through  
November 30,  
2004.

- (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) The information presented is a characterization of a portion of the total distributions paid to preferred stockholders and common stockholders as either a dividend (ordinary income) or a distribution (return of capital) and is based on the Company's earnings and profits.
- (5) 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 assumed reinvestment of distributions at actual prices pursuant to the Company's dividend reinvestment plan.

- (6) Not annualized.
- (7) Unless otherwise noted, ratios are annualized for periods of less than one full year.
- (8) The following table sets forth the components of the Company's ratio of expenses to average total assets for each period presented in the Company's Financial Highlights.

|   | <b>For the Fiscal Year Ended November 30,</b> |             |             |             |             | <b>For the Period September 28, 2004<sup>(1)</sup> through November 30, 2004</b> |             |
|---|---|-------------|-------------|-------------|-------------|--|-------------|
|   | <b>2009</b>                                   | <b>2008</b> | <b>2007</b> | <b>2006</b> | <b>2005</b> | <b>2004</b>  | <b>2004</b> |
| Management fees                         | 1.3%  | 1.4%        | 1.4%        | 2.0%        | 0.9%        | 0.7%   | 0.7%        |
| Other expenses                          | 0.3   | 0.2         | 0.2         | 0.2         | 0.3         | 0.4  | 0.4         |
| Subtotal                                | 1.6%  | 1.6%        | 1.6%        | 2.2%        | 1.2%        | 1.1%   | 1.1%        |
| Interest expense and auction agent fees | 1.5   | 2.1         | 1.3         | 1.1         | 0.6         | 0.0  | 0.0         |

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|                              |       |         |      |       |      |      |
|------------------------------|-------|---------|------|-------|------|------|
| Income tax expense/(benefit) | 15.8  | (18.5)  | 2.2  | 8.9   | 5.0  | 3.3  |
| Total expenses               | 18.9% | (14.8)% | 5.1% | 12.2% | 6.8% | 4.4% |

|                      |              |              |              |              |              |            |
|----------------------|--------------|--------------|--------------|--------------|--------------|------------|
| Average total assets | \$ 1,245,442 | \$ 1,841,311 | \$ 2,105,217 | \$ 1,520,322 | \$ 1,137,399 | \$ 778,899 |
|----------------------|--------------|--------------|--------------|--------------|--------------|------------|

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
FINANCIAL HIGHLIGHTS  
(amounts in 000 s, except share and per share amounts)**

- (9) 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 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 revolving credit facility is considered a senior security representing indebtedness.

- (10) Calculated pursuant to section 18(a)(2)(A) and section 18(a)(2)(B) 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 incur additional preferred stock if at the time of such declaration or incurrence its asset coverage with respect to all senior



securities would  
be less than  
200%. For  
purposes of this  
test, the  
revolving credit  
facility is  
considered a  
senior security  
representing  
indebtedness.

See accompanying notes to financial statements.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
**NOTES TO FINANCIAL STATEMENTS**  
**NOVEMBER 30, 2009**

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

**1. Organization**

Kayne Anderson MLP Investment Company (the Company) was organized as a Maryland corporation on June 4, 2004, and is a non-diversified closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Company's investment objective is to obtain a high after-tax total return by investing at least 85% of its net assets plus any borrowings (total assets) in energy-related master limited partnerships and their affiliates (collectively, 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 (including propane), crude oil, refined petroleum products or coal (collectively with MLPs, Midstream Energy Companies). The Company commenced operations on September 28, 2004. The Company's shares of common stock are listed on the New York Stock Exchange, Inc. (NYSE) under the symbol KYN.

**2. Significant Accounting Policies**

*A. Use of Estimates* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ materially from those estimates.

*B. Subsequent Events* As required by the Subsequent Events Topic of the FASB Accounting Standards Codification, the Company has recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Statement of Assets and Liabilities. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, the Company will disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, the Company will disclose the date through which the subsequent events have been evaluated. Management has evaluated any matters requiring such disclosure through the date when such financial statements were issued and has noted no such events. Subsequent events after such date have not been evaluated with respect to the impact on such financial statements.

*C. Calculation of Net Asset Value* The Company determines its net asset value as of the close of regular session trading on the NYSE no less frequently than the last business day of each month, and makes its net asset value available for publication monthly. Currently, the Company calculates its net asset value on a weekly basis. Net asset value is computed by dividing the value of the Company's assets (including accrued interest and distributions), less all of its liabilities (including accrued expenses, distributions payable, current, deferred and other accrued income taxes, and any borrowings) and the liquidation value of any outstanding preferred stock, by the total number of common shares outstanding.

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

Equity securities traded in the over-the-counter market, but excluding securities admitted to trading on the NASDAQ, are valued at the closing bid prices. Energy debt securities that are considered corporate bonds are valued by using the mean of the bid and ask prices provided by an independent pricing service. For energy debt securities that are considered corporate bank loans, the fair market value is determined by the mean of the bid and ask prices provided by the syndicate bank or principal market maker. When price quotes are not available, fair market value will be based on prices of comparable securities. In certain cases, the Company may not be able to purchase or sell energy debt

securities at the quoted prices due to the lack of liquidity for these securities.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
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**(amounts in 000 s, except option contracts, share and per share amounts)**

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

The Company holds securities that are privately issued or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Company for which reliable market quotations are not readily available, valuations are determined in a manner that most fairly reflects fair value of the security on the valuation date. Unless otherwise determined by the Board of Directors, the following valuation process is used for such securities:

***Investment Team Valuation.*** The applicable investments are initially valued by KA Fund Advisors, LLC ( KAFAs or the Adviser ) investment professionals responsible for the portfolio investments.

***Investment Team Valuation Documentation.*** Preliminary valuation conclusions are documented and discussed with senior management of KAFAs. Such valuations generally are submitted to the Valuation Committee (a committee of the Company s Board of Directors) or the Board of Directors on a monthly basis, and stand for intervening periods of time.

***Valuation Committee.*** The Valuation Committee meets, generally, on or about the end of each month to consider new valuations presented by KAFAs, if any, which were made in accordance with the Valuation Procedures in such month. Between meetings of the Valuation Committee, a senior officer of KAFAs is authorized to make valuation determinations. The Valuation Committee s valuations stand for intervening periods of time unless the Valuation Committee meets again at the request of KAFAs, the Board of Directors, or the Valuation Committee itself. All valuation determinations of the Valuation Committee are subject to ratification by the Board at its next regular meeting.

***Valuation Firm.*** No less than quarterly, a third-party valuation firm engaged by the Board of Directors reviews the valuation methodologies and calculations employed for these securities.

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

Unless otherwise determined by the Board of Directors, securities that are convertible into or otherwise will become publicly traded (e.g., through subsequent registration or expiration of a restriction on trading) are valued through the process described above, using a valuation based on the market value of the publicly traded security less a discount. The discount is initially equal in amount to the discount negotiated at the time the purchase price is agreed to. To the extent that such securities are convertible or otherwise become publicly traded within a time frame that may be reasonably determined, KAFAs may determine an applicable discount in accordance with a methodology approved by the Valuation Committee.

At November 30, 2009, the Company held 0.4% of its net assets applicable to common stockholders (0.3% of total assets) in securities valued at fair value, as determined pursuant to procedures adopted by the Board of Directors, with fair value of \$4,080. See Note 7 Restricted Securities.

***E. Repurchase Agreements*** The Company has agreed to purchase securities from financial institutions, subject to the seller s agreement to repurchase them at an agreed-upon time and price ( repurchase agreements ). The financial institutions with which the Company enters into repurchase agreements are banks and broker/dealers which KAFAs considers creditworthy. The seller under a repurchase agreement is required to maintain the value of the securities as collateral, subject to the agreement, at not less than the repurchase price plus accrued interest. KAFAs monitors daily the mark-to-market of the value of the collateral, and, if necessary, requires the seller to maintain additional securities so that the value of the collateral is not less than the repurchase price. Default by or bankruptcy of the seller would, however, expose the Company to possible loss because of adverse market action or delays in connection with the disposition of the underlying securities.



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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
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**(amounts in 000 s, except option contracts, share and per share amounts)**

**F. Short Sales** A short sale is a transaction in which the Company sells securities it does not own (but has borrowed) in anticipation of or to hedge against a decline in the market price of the securities. To complete a short sale, the Company may arrange through a broker to borrow the securities to be delivered to the buyer. The proceeds received by the Company for the short sale are retained by the broker until the Company replaces the borrowed securities. In borrowing the securities to be delivered to the buyer, the Company becomes obligated to replace the securities borrowed at their market price at the time of replacement, whatever the price may be.

All short sales are fully collateralized. The Company maintains assets consisting of cash or liquid securities equal in amount to the liability created by the short sale. These assets are adjusted daily to reflect changes in the value of the securities sold short. The Company is liable for any dividends or distributions paid on securities sold short.

The Company may also sell short against the box (*i.e.*, the Company enters into a short sale as described above while holding an offsetting long position in the security which it sold short). If the Company enters into a short sale against the box, the Company segregates an equivalent amount of securities owned as collateral while the short sale is outstanding. At November 30, 2009, the Company had no open short sales.

**G. Security Transactions** Security transactions are accounted for on the date these securities are purchased or sold (trade date). Realized gains and losses are reported on an identified cost basis.

**H. Return of Capital Estimates** Distributions received from the Company's investments in MLPs generally are comprised of income and return of capital. The Company records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from MLPs after their tax reporting periods are concluded.

For the fiscal year ended November 30, 2009, the Company estimated that 90% of the MLP distributions received would be treated as a return of capital. The Company recorded as return of capital the amount of \$89,987 of dividends and distributions received from its investments. Included in this amount is a decrease of \$1,010 attributed to 2008 tax reporting information received by the Company in fiscal 2009. The tax reporting information is used to adjust the Company's prior year return of capital estimate. This resulted in an equivalent reduction in the cost basis of the associated MLP investments. Net Realized Losses and Net Change in Unrealized Gains in the accompanying Statement of Operations were decreased and increased by \$34,905 and \$55,082, respectively, attributable to the recording of such dividends and distributions as reduction in the cost basis of investments.

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

Many of the Company's debt securities were purchased at a discount or premium to the par value of the security. The non-cash accretion of a discount to par value increases interest income while the non-cash amortization of a premium to par value decreases interest income. The amount of these non-cash adjustments can be found in the Company's Statement of Cash Flows. The non-cash accretion of a discount increases the cost basis of the debt security, which results in an offsetting unrealized loss. The non-cash amortization of a premium decreases the cost basis of the debt security which results in an offsetting unrealized gain.

During the fiscal year ended November 30, 2009, the Company recorded \$955 in interest income related to its investment in Clearwater Natural Resources, LP (Clearwater). During third quarter 2009, the Company established a full reserve of \$779 which represented past due interest accrued from January 1, 2009 to May 31, 2009. The Company received a payment-in-kind note for interest accrued from December 1, 2008 through December 31, 2008. These additional notes received by the Company are included in the Schedule of Investments at fair value. Since the second quarter of 2009, the Company has not accrued interest income on its investment in Clearwater. See Note 15

Subsequent Events.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
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**(amounts in 000 s, except option contracts, share and per share amounts)**

During the fiscal year ended November 30, 2009, the Company received \$10,052 paid-in-kind stock dividends in total from Enbridge Energy Management, L.L.C. and Kinder Morgan Management, LLC. Paid-in-kind stock dividends consist of additional units of Enbridge Energy Management, L.L.C. and Kinder Morgan Management, LLC. The additional units are not reflected in investment income during the period received but are recorded as unrealized gains upon receipt.

*J. Distributions to Stockholders* Distributions to common stockholders are recorded on the ex-dividend date. Distributions to stockholders of the Company's auction rate preferred stock are accrued on a daily basis and are determined as described in Note 12 Preferred Stock. The estimated characterization of the distributions paid to preferred and common stockholders will be either a dividend (ordinary income) or distribution (return of capital). This estimate is based on the Company's operating results during the period. The actual characterization of the preferred and common stock distributions made during the current year will not be determinable until after the end of the fiscal year when the Company can determine earnings and profits and, therefore, it may differ from the preliminary estimates.

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

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

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

The Company's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. As of November 30, 2009, the Company does not have any interest or penalties associated with the underpayment of any income taxes. All tax years since inception remain open and subject to examination by tax jurisdictions.



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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
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*M. Derivative Financial Instruments* The Company may utilize derivative financial instruments in its operations.

**Interest rate swap contracts.** The Company uses interest rate swap contracts to hedge against increasing interest expense on its leverage resulting from increases in short term interest rates. The Company does not hedge any interest rate risk associated with portfolio holdings. Interest rate transactions the Company uses for hedging purposes expose it to certain risks that differ from the risks associated with its portfolio holdings. A decline in interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Company. In addition, if the counterparty to an interest rate swap or cap defaults, the Company would not be able to use the anticipated net receipts under the interest rate swap or cap to offset its cost of financial leverage.

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

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

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

The Company may also write (sell) call options with the purpose of generating income or reducing its ownership of certain securities. The writer of an option on a security has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price.

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

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



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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
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(amounts in 000 s, except option contracts, share and per share amounts)

**3. Fair Value**

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

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

*Level 1* Quoted unadjusted prices for identical instruments in active markets to which the Company has access at the date of measurement.

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

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

The following table presents the Company's assets measured at fair value at November 30, 2009. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment. For instance, the Company's repurchase agreements, which are collateralized by U.S. Treasury notes, are generally high quality and liquid; however, the Company reflects these repurchase agreements as Level 2 because the inputs used to determine fair value may not always be quoted prices in an active market.

|  | <b>Total</b>        | <b>Quoted Prices<br/>in<br/>Active Markets<br/>(Level 1)</b> | <b>Prices with<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Unobservable<br/>Inputs<br/>(Level 3)(1)</b> |
|--|---------------------|--|--|---|
| <b>Assets at Fair Value</b>                    |                     |  |  |   |
| Equity investments                             | \$ 1,558,926        | \$ 1,558,926   | \$   | \$  |
| Equity debt investments                        | 30,973              |  | 26,893   | 4,080   |
| Option contracts purchased                     | 14                  |  | 14   |   |
| Repurchase agreement                           | 6,340               |  | 6,340  |   |
| <b>Total assets at fair value</b>              | <b>\$ 1,596,253</b> | <b>\$ 1,558,926</b>  | <b>\$ 33,247</b>   | <b>\$ 4,080</b>                                 |
| <b>Liabilities at Fair Value</b>               |                     |  |  |   |
| Unrealized depreciation on interest rate swaps | \$ 205              |  | \$ 205   |   |
| Option contracts written                       | 1,391               |  | 1,391  |   |
| <b>Total liabilities at fair value</b>         | <b>\$ 1,596</b>     |  | <b>\$ 1,596</b>  |   |

- (1) The Company's investments in Level 3 represent its investments in Clearwater Natural Resources, L.P. and CNR GP Holdco, LLC as more fully described in Note 7 Restricted Securities.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY**  
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**NOVEMBER 30, 2009**

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

The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period ended November 30, 2009.

| <b>Assets at Fair Value Using Unobservable Inputs (Level 3)</b> | <b>Long-Term Investments</b> |
|---|------------------------------|
| Balance November 30, 2008                                       | \$ 32,987                    |
| Transfers out of Level 3  |                              |
| Realized gains/(losses)   |                              |
| Unrealized losses, net  | (28,907)                     |
| Purchases, issuances or settlements                             |                              |
| <br>Balance November 30, 2009                                   | <br>\$ 4,080                 |

The \$28,907 of unrealized losses presented in the table above relate to investments that are still held at November 30, 2009 and the Company includes these unrealized losses in the Statement of Operations Net Change in Unrealized Gains/(Losses).

The Company did not have any liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at November 30, 2009 and at November 30, 2008.

**4. Concentration of Risk**

The Company's investment objective is to obtain a high after-tax total return with an emphasis on current income paid to its stockholders. Under normal circumstances, the Company intends to invest at least 85% of its total assets in securities of MLPs and other Midstream Energy Companies, and to invest at least 80% of its total assets in MLPs, which are subject to certain risks, such as supply and demand risk, depletion and exploration risk, commodity pricing risk, acquisition risk, and the risk associated with the hazards inherent in midstream energy industry activities. A substantial portion of the cash flow received by the Company is derived from investment in equity securities of MLPs. The amount of cash that an MLP has available for distributions and the tax character of such distributions are dependent upon the amount of cash generated by the MLP's operations. The Company may invest up to 15% of its total assets in any single issuer and a decline in value of the securities of such an issuer could significantly impact the net asset value of the Company. The Company may invest up to 20% of its total assets in debt securities, which may include below investment grade securities. The Company may, for defensive purposes, temporarily invest all or a significant portion of its assets in investment grade securities, short-term debt securities and cash or cash equivalents. To the extent the Company uses this strategy, it may not achieve its investment objectives.

**5. Agreements and Affiliations**

*A. Investment Management Agreement* The Company has entered into an investment management agreement with KAFA under which the Adviser, subject to the overall supervision of the Company's Board of Directors, manages the day-to-day operations of, and provides investment advisory services to, the Company. For providing these services, the Adviser receives a management fee from the Company. On June 15, 2009, the Company renewed its agreement with the Adviser for a period of one year. The agreement may be renewed annually upon approval of the Company's Board of Directors.

For the fiscal year ended November 30, 2009, the Company paid management fees at an annual rate of 1.375% of average total assets.

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

*B. Portfolio Companies* From time to time, the Company may control or may be an affiliate of one or more portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, the Company would be presumed to control a portfolio company if the Company owned 25% or more of its outstanding voting securities and would be an affiliate of a portfolio company if the Company owned 5% or more of its outstanding voting securities. The 1940 Act contains prohibitions and restrictions relating to transactions between investment companies and their affiliates (including the Company's investment adviser), principal underwriters and affiliates of those affiliates or underwriters. The Company believes that there is significant ambiguity in the application of existing Securities and Exchange Commission (SEC) staff interpretations of the term voting security to complex structures such as limited partnership interests of the kind in which the Company invests. As a result, it is possible that the SEC staff may consider that certain securities investments in limited partnerships are voting securities under the staff's prevailing interpretations of this term. If such determination is made, the Company may be regarded as a person affiliated with and controlling the issuer(s) of those securities for purposes of Section 17 of the 1940 Act.

In light of the ambiguity of the definition of voting securities, the Company does not intend to treat any class of limited partnership interests that it holds as voting securities unless the security holders of such class currently have the ability, under the partnership agreement, to remove the general partner (assuming a sufficient vote of such securities, other than securities held by the general partner, in favor of such removal) or the Company has an economic interest of sufficient size that otherwise gives it the de facto power to exercise a controlling influence over the partnership. The Company believes this treatment is appropriate given that the general partner controls the partnership, and without the ability to remove the general partner or the power to otherwise exercise a controlling influence over the partnership due to the size of an economic interest, the security holders have no control over the partnership.

*Clearwater Natural Resources, LP* At November 30, 2009, the Company held approximately 42.5% of the limited partnership interest of Clearwater. The Company controls CNR GP Holdco, LLC, which is the general partner of Clearwater. The Company believes that it controls and is an affiliate of Clearwater under the 1940 Act by virtue of its controlling interest in the general partner of Clearwater.

*CNR GP Holdco, LLC* At November 30, 2009, the Company held an 83.7% interest in CNR GP Holdco, LLC (CNR), which is the general partner of Clearwater. The Company believes that it controls and is an affiliate of CNR under the 1940 Act by virtue of its controlling interest.

On January 7, 2009, Clearwater filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. Clearwater continued operations as a debtor-in-possession during fiscal 2009. On January 12, 2010, Clearwater closed on the sale of substantially all of its reserves and operating assets. See Note 15 Subsequent Events for more detail.

*Plains All American, L.P.* Robert V. Sinnott is a senior executive of Kayne Anderson Capital Advisors, L.P. (KACALP), the managing member of KAFA. Mr. Sinnott also serves as a director on the board of Plains All American GP LLC, the general partner of Plains All American Pipeline, L.P. Members of senior management and various advisory clients of KACALP and KAFA own units of Plains All American GP LLC. Various advisory clients of KACALP and KAFA, including the Company, own units in Plains All American Pipeline, L.P. The Company

believes that it is an affiliate of Plains All American Pipeline, L.P. under the 1940 Act.

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**6. Income Taxes**

Deferred income taxes reflect (i) taxes on unrealized gains/(losses), which are attributable to the difference between fair market value and tax basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and (iii) the net tax benefit of accumulated net operating losses. Components of the Company's deferred tax assets and liabilities as of November 30, 2009 are as follows:

|  |                 |
|--|-----------------|
| Deferred tax assets:   |                 |
| Net operating loss carryforwards   | \$ 56,994       |
| Capital loss carryforwards   | 50,650          |
| Other  | 105             |
| Deferred tax liabilities:  |                 |
| Net unrealized gains on investment securities, interest rate swap contracts and option contracts | (198,307)       |
| Basis reductions resulting from estimated return of capital                                      | (7,163)         |
| <br>Total net deferred tax liability   | <br>\$ (97,721) |

At November 30, 2009, the Company had federal net operating loss carryforwards of \$155,312 (deferred tax asset of \$52,622). Realization of the deferred tax assets and net operating loss carryforwards are dependent, in part, on generating sufficient taxable income prior to expiration of the loss carryforwards. If not utilized, \$54,194; \$52,182; \$26,118 and \$22,818 of the net operating loss carryforward will expire in 2026, 2027, 2028 and 2029, respectively. As of November 30, 2009, the Company had a capital loss carryforward of approximately \$137,076. If not utilized, \$50,267 and \$86,809 of capital loss carry forwards will expire in 2013 and 2014, respectively. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. In addition, the Company has state net operating losses of \$142,078 that represent a deferred tax asset of \$4,372. These state net operating losses begin to expire in 2011 through 2029.

Although the Company currently has a net deferred tax liability, it periodically reviews the recoverability of its deferred tax assets based on the weight of available evidence. When assessing the recoverability of its deferred tax assets, significant weight was given to the effects of potential future realized and unrealized gains on investments and the period over which these deferred tax assets can be realized, as the expiration dates for the federal capital and operating loss carryforwards range from five to nineteen years.

Based on the Company's assessment, it has determined that it is more likely than not that its deferred tax assets will be realized through future taxable income of the appropriate character. Accordingly, no valuation allowance has been established for the Company's deferred tax assets.

The Company will continue to assess the need for a valuation allowance in the future. Unexpected significant decreases in cash distributions from the Company's MLP holdings or significant declines in the fair value of its portfolio of investments may change the Company's assessment regarding the recoverability of its deferred tax assets and may result in a valuation allowance. If a valuation allowance is required to reduce any deferred tax asset in the future, it could have a material impact on the Company's net asset value and results of operations in the period it is recorded.



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Total income taxes were different from the amount computed by applying the federal statutory income tax rate of 35% to the net investment loss and realized and unrealized gains (losses) on investments and interest rate swap contracts before taxes for the fiscal year ended November 30, 2009, as follows:

|  |            |
|--|------------|
| Computed expected federal income tax         | \$ 186,296 |
| State income tax, net of federal tax expense | 10,903     |
| Other  | (131)      |
| Total income tax expense                     | \$ 197,068 |

At November 30, 2009, the cost basis of investments for federal income tax purposes was \$1,055,790 and the net cash received on option contracts written was \$584. The cost basis of investments includes a \$184,424 reduction in basis attributable to the Company's portion of the allocated losses from its MLP investments. At November 30, 2009, gross unrealized appreciation and depreciation of investments and options for federal income tax purposes were as follows:

|   |            |
|---|------------|
| Gross unrealized appreciation of investments (including options)        | \$ 624,986 |
| Gross unrealized depreciation of investments (including options)        | (85,331)   |
| Net unrealized appreciation before tax and interest rate swap contracts | 539,655    |
| Net unrealized depreciation on interest rate swap contracts             | (205)      |
| Net unrealized appreciation before tax                                  | 539,450    |
| Net unrealized appreciation after tax                                   | \$ 339,854 |

**7. Restricted Securities**

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

At November 30, 2009, the Company held the following restricted investments:

| Investment                         | Security Restriction | Type of | Number of Units, Principal (\$) | Acquisition Date | Cost Basis | Fair Value | Fair Value per Unit/Warrant | Percent of Net Assets | Percent of Total Assets |
|------------------------------------|----------------------|---------|---------------------------------|------------------|------------|------------|-----------------------------|-----------------------|-------------------------|
| Clearwater Natural Resources, L.P. | Common Units         |         | (1) 3,889                       | (2)              | \$ 72,860  |            |                             |                       |                         |
| Clearwater Natural                 | Unsecured Term Loan  |         | (1) \$ 13,601                   | (3)              | 13,690     | \$ 4,080   | n/a                         | 0.4%                  | 0.3%                    |

|  |   |     |          |           |           |           |      |      |      |
|--|---|-----|----------|-----------|-----------|-----------|------|------|------|
| Resources, L.P.<br>Clearwater<br>Natural<br>Resources, L.P.<br>Clearwater<br>Natural<br>Resources, L.P.<br>CNR GP<br>Holdco, LLC | Deferred<br>Participation<br>Units<br>Warrants<br>LLC Interests | (1) | 41       | 3/5/2008  |           |           |      |      |      |
|  |   | (1) | 34       | 9/29/2008 |           |           |      |      |      |
|  |   | (1) | n/a      | 3/5/2008  | 1,083     |           |      |      |      |
| <b>Total of securities valued in accordance with procedures established by the Board of Directors(4)</b>                         |   |     |          |           | \$ 87,633 | \$ 4,080  | 0.4% | 0.3% |      |
| Atlas Energy<br>Resources, LLC<br>Regency<br>Energy<br>Partners LP   | Senior Notes<br>Senior Notes                                    | (5) | \$ 8,747 | (6)       | \$ 7,152  | \$ 9,512  | n/a  | 0.9% | 0.6% |
|  |   | (5) | \$ 3,000 | (6)       | 3,016     | 3,172     | n/a  | 0.3  | 0.2  |
| <b>Total of securities valued by prices provided by market maker or independent pricing services</b>                             |   |     |          |           | \$ 10,168 | \$ 12,684 | 1.2% | 0.8% |      |
| <b>Total of all restricted securities</b>  |   |     |          |           | \$ 97,801 | \$ 16,764 | 1.6% | 1.1% |      |

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- (1) On January 7, 2009, Clearwater Natural Resources, LP ( Clearwater ) filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. Clearwater continued operations as a debtor-in-possession during fiscal 2009. On January 12, 2010, Clearwater closed on the sale of substantially all of its reserves and operating assets. See Note 15 Subsequent Events for more detail.
- (2) The Company purchased common units on August 1, 2005 and October 2, 2006.
- (3) The Company purchased term loans on January 11, 2008; February 28, 2008; May 5, 2008; July 8, 2008; August 6, 2008; and September 29, 2008. The Company is not accruing interest income on this investment.
- (4) Restricted securities that are classified as

a Level 3. Security is valued using inputs reflecting the Company's own assumptions as more fully described in Note 2 Significant Accounting Policies.

(5) Unregistered security of a public company. Restricted securities that are classified as a Level 2. Securities with a fair market value determined by the mean of the bid and ask prices provided by a syndicate bank, principal market maker or an independent pricing service as more fully described in Note 2 Significant Accounting Policies. These securities have limited trading volume and are not listed on a national exchange.

(6) Acquired at various dates throughout the fiscal year ended November 30, 2009.

**8. Derivative Financial Instruments**

*Option Contracts* Transactions in option contracts for the fiscal year ended November 30, 2009 were as follows:

|  | <b>Number of<br/>Contracts</b> | <b>Premium</b> |
|--|--------------------------------|----------------|
| <b>Put Options Purchased</b>               |                                |                |
| Options outstanding at beginning of period |                                | \$             |
| Options purchased                          | 1,386                          | 89             |
| Options exercised                          |                                |                |
| Options expired                            |                                |                |
| Options outstanding at end of period       | 1,386                          | \$ 89          |

**Call Options Purchased**

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|  |          |    |         |
|--|----------|----|---------|
| Options outstanding at beginning of period   | 17,100   | \$ | 5,243   |
| Options exercised                            | (14,100) |    | (3,704) |
| Options expired                              | (3,000)  |    | (1,539) |
| Options outstanding at end of period         |          | \$ |         |
| <b>Call Options Written</b>                  |          |    |         |
| Options outstanding at beginning of period   | 800      | \$ | 101     |
| Options written                              | 28,929   |    | 3,258   |
| Options written and subsequently repurchased | (3,986)  |    | (404)   |
| Options exercised                            | (14,535) |    | (1,940) |
| Options expired                              | (4,208)  |    | (431)   |
| Options outstanding at end of period         | 7,000    | \$ | 584     |

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*Interest Rate Swap Contracts* The Company has entered into interest rate swap contracts to partially hedge itself from increasing interest expense on its leverage resulting from increasing short-term interest rates. A decline in future interest rates may result in a decline in the value of the swap contracts, which, everything else being held constant, would result in a decline in the net assets of the Company. In addition, if the counterparty to the interest rate swap contracts defaults, the Company would not be able to use the anticipated receipts under the swap contracts to offset the interest payments on the Company's leverage. At the time the interest rate swap contracts reach their scheduled termination, there is a risk that the Company would not be able to obtain a replacement transaction or that the terms of the replacement transaction would not be as favorable as on the expiring transaction. In addition, if the Company is required to terminate any swap contract early, then the Company could be required to make a termination payment. On December 24, 2008, the Company terminated \$66,000 aggregate notional amount of interest rate swap contracts with a weighted average fixed interest rate of 3.77% for \$3,550. On February 4, 2009, the Company paid \$8,700 to reduce the fixed rates paid on the remaining interest rate swap contracts outstanding at the time. On November 23, 2009, the Company terminated \$194,000 aggregate notional amount of interest rate swap contracts with a weighted average fixed interest rate of 1.341% for \$2,130.

As of November 30, 2009, the Company had entered into an interest rate swap contract with UBS AG as summarized below.

| <b>Termination Date</b> | <b>Notional<br/>Amount</b> | <b>Fixed Rate<br/>Paid by the<br/>Company</b> | <b>Net<br/>Unrealized<br/>Appreciation/<br/>(Depreciation)</b> |
|-------------------------|----------------------------|---|--|
| 11/25/2011              | \$ 125,000                 | 0.99%   | \$ (205)   |

For the interest rate swap contract, the Company receives a floating rate, based on one-month LIBOR.

As required by the Derivatives and Hedging Topic of the FASB Accounting Standards Codification below are the derivative instruments and hedging activities of the Company. See Note 2 Significant Accounting Policies.

The following table sets forth the fair value of the Company's derivative instruments on the Statement of Assets and Liabilities.

| <b>Derivatives Not Accounted for as Hedging</b> | <b>Statement of Assets and Liabilities Location</b>     | <b>Fair Value<br/>as of<br/>November<br/>30, 2009</b> |
|---|---|---|
| <b>Instruments</b>                              |   |   |
| <b>Assets</b>                                   |   |   |
| Put options                                     | Put option contracts purchased                          | \$ 14   |
| <b>Liabilities</b>                              |   |   |
| Call options                                    | Call option contracts written                           | \$ (1,391)  |
| Interest rate swap contracts                    | Unrealized depreciation on interest rate swap contracts | (205)   |
|   |   | \$ (1,596)  |

The following tables set forth the effect of derivative instruments on the Statement of Operations.

**For the Fiscal Year Ended**

| <b>Derivatives Not Accounted For as<br/>Hedging Instruments</b> | <b>Location of Gains/(Losses)<br/>on Derivatives Recognized in Income</b> | <b>November 30, 2009</b>   |   |
|---|---|--|---|
|   |   | <b>Net<br/>Realized<br/>Losses on<br/>Derivatives<br/>Recognized<br/>in<br/>Income</b> | <b>Change in<br/>Unrealized<br/>Gains/<br/>(Losses) on<br/>Derivatives<br/>Recognized<br/>in<br/>Income</b> |
| Put options   | Options   | \$   | \$ (76)   |
| Call options  | Options   | (1,815)  | (206)   |
| Interest rate swap contracts                                    | Interest rate swap contracts  | (16,736)   | 8,672   |
|   |   | \$ (18,551)  | \$ 8,466  |

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**9. Investment Transactions**

For the fiscal year ended November 30, 2009, the Company purchased and sold securities in the amounts of \$552,147 and \$332,219 (excluding short-term investments, options and interest rate swaps), respectively.

**10. Revolving Credit Facility**

On June 26, 2009, the Company entered into an \$80,000 unsecured revolving credit facility (the Credit Facility) with a syndicate of lenders. JPMorgan Chase Bank, N.A. was lead arranger of the Credit Facility, and Bank of America N.A., UBS Investment Bank and Citibank, N.A. participated in the syndication. The Credit Facility has a 364-day commitment terminating on June 25, 2010. The interest rate may vary between LIBOR plus 2.25% and LIBOR plus 3.50% depending on asset coverage ratios. Outstanding loan balances will accrue interest daily at a rate equal to the one-month LIBOR plus 2.25% per annum based on current asset coverage ratios. The Company will pay a fee equal to a rate of 0.50% per annum on any unused amounts of the Credit Facility. The Credit Facility contains various covenants related to other indebtedness, liens and limits on the Company's overall leverage.

For the fiscal year ended November 30, 2009, the average amount outstanding under the Company's credit facilities was \$9,651 with a weighted average interest rate of 3.28%. As of November 30, 2009, the Company had no outstanding borrowings under the Credit Facility.

**11. Senior Unsecured Notes**

At November 30, 2009, the Company had \$370,000, aggregate principal amount, of senior unsecured fixed and floating rate notes (the Senior Unsecured Notes) outstanding.

On November 4, 2009, the Company completed a private placement of \$110 million, aggregate principal amount, senior unsecured fixed and floating rate notes. Net proceeds from the private placement were used to repay \$20 million of Series H Senior Unsecured Notes, \$24 million of Series J Senior Unsecured Notes, and \$64 million borrowed under the credit facility.

The table below sets forth the key terms of each series of the Senior Unsecured Notes.

| Series | Principal<br>November<br>30,<br>2008 | Principal<br>Redeemed | Principal<br>Issued | Principal<br>Outstanding | Interest<br>Rate           | Maturity   |
|--------|--------------------------------------|-----------------------|---------------------|--------------------------|----------------------------|------------|
| G      | \$ 75,000                            |                       |                     | \$ 75,000                | 5.645%                     | 6/19/2011  |
| H      | 20,000                               | \$ 20,000             |                     |                          |                            |            |
| I      | 60,000                               |                       |                     | 60,000                   | 5.847%                     | 6/19/2012  |
| J      | 24,000                               | 24,000                |                     |                          |                            |            |
| K      | 125,000                              |                       |                     | 125,000                  | 5.991%                     | 6/19/2013  |
| M      |                                      |                       | \$ 60,000           | 60,000                   | 4.560%                     | 11/04/2014 |
| N      |                                      |                       | 50,000              | 50,000                   | 3-month LIBOR +<br>185 bps | 11/04/2014 |
|        | \$ 304,000                           | \$ 44,000             | \$ 110,000          | \$ 370,000               |                            |            |

Holders of the fixed rate Senior Unsecured Notes (Series G, Series I, Series K and Series M) are entitled to receive cash interest payments semi-annually (on June 19 and December 19) at the fixed rate. Holders of the floating rate Senior Unsecured Notes (Series N) are entitled to receive cash interest payments quarterly (on March 19, June 19, September 19 and December 19) at the floating rate equal to the 3-month LIBOR plus 1.85%.





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During the period, the average principal balance outstanding was \$308,882 with a weighted average interest rate of 5.47%.

The Senior Unsecured Notes were issued in private placement offerings to institutional investors and are not listed on any exchange or automated quotation system. The Senior Unsecured Notes contain various covenants related to other indebtedness, liens and limits on the Company's overall leverage. Under the 1940 Act and the terms of the Senior Unsecured Notes, the Company may not declare dividends or make other distributions on shares of common stock or purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to the outstanding Senior Unsecured Notes would be less than 300%. The Senior Unsecured Notes are redeemable in certain circumstances at the option of the Company. The Senior Unsecured Notes are also subject to a mandatory redemption to the extent needed to satisfy certain requirements if the Company fails to meet an asset coverage ratio required by law and is not able to cure the coverage deficiency by the applicable deadline, or fails to cure a deficiency as stated in the Company's rating agency guidelines in a timely manner.

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

At November 30, 2009, the Company was in compliance with all covenants under the Senior Unsecured Notes agreements.

**12. Preferred Stock**

At November 30, 2009, the Company had 3,000 shares of Series D Auction Rate Preferred Stock ( ARP Shares ) outstanding, totaling \$75,000. The Company has 10,000 shares of authorized preferred stock. The preferred stock has rights determined by the Board of Directors. The ARP Shares have a liquidation value of \$25,000 per share plus any accumulated, but unpaid dividends, whether or not declared.

Holders of the ARP Shares are entitled to receive cash dividend payments at an annual rate that may vary for each rate period.

Since February 14, 2008, there have been more ARP Shares offered for sale than there were buyers of those ARP Shares, and as a result, the auctions of the Company's ARP Shares have failed. As a result, the dividend rate on the ARP Shares has been set at such maximum rate. Based on the Company's current credit ratings, the maximum rate is equal to 200% of the greater of (a) the AA Composite Commercial Paper Rate or (b) the applicable LIBOR. If the credit rating of the Company's ARP Shares by Moody's or Fitch is downgraded below Aa3 or AA-, respectively, the maximum rate will increase. Such increase will be based on the resulting credit rating for the Company's ARP Shares, but the maximum rate is applied at 300%. The dividend rate as of November 30, 2009 was 0.43%. The weighted average dividend rate for the fiscal year ended November 30, 2009 was 0.70%. This rate includes the applicable rate based on the latest results of the auction and does not include commissions paid to the auction agent. Under the 1940 Act, the Company may not declare dividends or make other distribution on shares of common stock or purchases of such shares if, at any time of the declaration, distribution or purchase, asset coverage with respect to the outstanding senior securities representing indebtedness and preferred stock would be less than 200%.

The ARP Shares are redeemable in certain circumstances at the option of the Company. The ARP Shares are also subject to a mandatory redemption if the Company fails to meet an asset coverage ratio required by law, or fails to cure deficiency as stated in the Company's rating agency guidelines in a timely manner.

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The holders of the ARP Shares have voting rights equal to the holders of common stock (one vote per share) and will vote together with the holders of shares of common stock as a single class except on matters affecting only the holders of ARP Shares or the holders of common stock. See Note 15 Subsequent Events.

**13. Common Stock**

The Company has 199,990,000 shares of common stock authorized and 51,579,541 shares outstanding at November 30, 2009. As of that date, KACALP owned 4,000 shares. Transactions in common shares for the fiscal year ended November 30, 2009 were as follows:

|   |                |
|---|----------------|
| Shares outstanding at November 30, 2008                                   | 44,176,186     |
| Shares issued through reinvestment of distributions                       | 1,179,655      |
| Shares issued in connection with offerings of common stock <sup>(1)</sup> | 6,223,700      |
| <br>Shares outstanding at November 30, 2009                               | <br>51,579,541 |

(1) On August 5, 2009, the Company closed its public offering of 6,223,700 shares of common stock at a price of \$20.25 per share. Total net proceeds from the offering were \$120,506 and were used by the Company to make additional portfolio investments that are consistent with the Company's investment objective, and for general corporate purposes.

**14. Notice of Potential Purchases of Preferred Stock**

The Company may, from time to time, repurchase shares of its Series D auction rate preferred stock for cash at a price not above the market value of such shares at the time of such purchase, subject to the requirements of applicable law.

**15. Subsequent Events**

We have evaluated subsequent events through January 29, 2010, the date the Company's financial statements were issued.

On December 14, 2009, an investment advisory firm claiming to represent owners of 31.5% of the Company's outstanding ARP Shares filed a Schedule 13D, or a Beneficial Ownership Report, with the SEC, disclosing its intention to nominate a candidate for election by the ARP Shares to our Board of Directors at the next annual meeting of stockholders. That nomination was formally made in the letter to our Secretary, also dated December 14, 2009. The Nominating Committee of our Board of Directors has not yet made a recommendation with respect to such nominee. Based on that letter and prior communications with officers of the Company, the aforementioned firm may seek to influence the timing and terms of our repurchase of the ARP Shares. In such 13D filing, that firm disclosed that it purchased a portion of such ARP Shares in private transactions at a discount to the liquidation preference after the auctions related to the ARP Shares began to fail in February 2008.

On December 15, 2009, the Company declared its quarterly distribution of \$0.48 per common share for the period September 1, 2009 through November 30, 2009 for a total of \$24,758. The distribution was paid on January 15, 2010 to shareholders of record on January 6, 2010. Of this total, pursuant to the Company's dividend reinvestment plan, \$5,584 was reinvested into the Company through the issuance of 247,503 shares of common stock.

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On December 16, 2009, we announced that our Board of Directors is actively exploring refinancing alternatives for the ARP Shares. We and our Board of Directors have been in discussions with our underwriters, as well as with certain large preferred shareholders, to develop a solution that balances the interests of both common and preferred shareholders. We continue to explore alternatives for the repurchase or redemption of the ARP Shares. It is our goal to repurchase or redeem the ARP Shares during 2010. However, such repurchase or redemption will be dependent upon many factors, including accessing new preferred equity on acceptable terms. There can be no assurance as to whether or when such repurchase or redemption will occur.

On January 12, 2010, Clearwater closed on the sale of substantially all of its reserves and operating assets to International Resource Partners, L.P. As part of the reorganization plan approved by the Bankruptcy Court, the Company will receive consideration for its unsecured term loan. Such consideration will be in the form of cash and a royalty interest in the reserves sold. The Company will not receive any consideration for its equity investment in Clearwater or CNR GP Holdco, LLC.

On January 20, 2010 the Company issued 6,291,600 shares of common stock in a public offering. Net proceeds from the offering, of approximately \$142,431 used to make new additional portfolio investments in accordance with the Company's investment objective and policies, and for general corporate purposes.

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**KAYNE ANDERSON MLP INVESTMENT COMPANY  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Kayne Anderson MLP Investment Company:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets applicable to common stockholders and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Kayne Anderson MLP Investment Company (the Company ) at November 30, 2009, and the results of its operations and cash flows for the year then ended, the changes in its net assets applicable to common stockholders for each of the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements ) are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at November 30, 2009 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PRICEWATERHOUSECOOPERS LLP  
Los Angeles, California  
January 29, 2010

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