

Salient Midstream & MLP Fund
Form N-CSR
February 03, 2017
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANY
Investment Company Act file number 811-22626

Salient Midstream & MLP Fund
(Exact name of registrant as specified in charter)

4265 SAN FELIPE, 8TH FLOOR, HOUSTON, TX 77027
(Address of principal executive offices) (Zip code)

With a copy to:

Gregory A. Reid

George J. Zornada

Salient Midstream & MLP Fund

K & L Gates LLP

4265 San Felipe, 8th Floor

State Street Financial Center

Houston, TX 77027

One Lincoln St.

(Name and address of agent for service)

Boston, MA 02111-2950

(617) 261-3231

Registrant's telephone number, including area code: 713-993-4001

Date of fiscal year end: November 30, 2016

Date of reporting period: November 30, 2016

Table of Contents

Item 1. Report to Stockholders.

Table of Contents

Table of Contents

TABLE OF CONTENTS

<u>Salient Midstream & MLP Fund</u>	
<u>Shareholder Letter (Unaudited)</u>	1
<u>Report of Independent Registered Public Accounting Firm</u>	7
<u>Consolidated Schedule of Investments</u>	8
<u>Consolidated Statement of Assets, Liabilities and Shareholders' Equity</u>	11
<u>Consolidated Statement of Operations</u>	12
<u>Consolidated Statements of Changes in Net Assets</u>	13
<u>Consolidated Statement of Cash Flows</u>	14
<u>Consolidated Financial Highlights</u>	15
<u>Notes to Consolidated Financial Statements</u>	16
<u>Supplemental Information (Unaudited)</u>	34
<u>Privacy Policy (Unaudited)</u>	42

Table of Contents

Salient Midstream & MLP Fund

Shareholder Letter (Unaudited)

Dear Fellow Shareholders:¹

We are pleased to provide the annual report of the Salient Midstream & MLP Fund (the Fund) (NYSE: SMM) which contains updated data as of November 30, 2016.

As of November 30, 2016, the Fund had total consolidated assets of \$352.2 million, net asset value of \$14.37 per share and 17.7 million common shares outstanding. The Fund's price per share was \$13.40, which represents a 6.8% discount to its net asset value (NAV).

The Fund's investment allocation is shown in the pie chart below:

For illustrative purposes only.

Source: Salient Capital Advisors, LLC (Adviser), November 30, 2016.

Figures are based on the Fund's consolidated gross assets.

*General Partners that are structured as C-Corporations for US federal tax purposes.

¹ **Certain statements in this letter are forward-looking statements.** The forward-looking statements and other views expressed herein are those of the portfolio managers and the Fund as of the date of this letter. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. The Fund disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein. There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

² Past performance is not indicative of future results. Current performance may be higher or lower than the data shown. The data shown are unaudited. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

Table of Contents

The Fund's Top 10 consolidated holdings are shown below, as of November 30, 2016:

Company Name	Sector	% of Gross Assets
ONEOK, Inc.	General Partner	8.8%
Plains GP Holdings LP, Class A	MLP Affiliate	8.1%
Enbridge Energy Management, LLC	MLP Affiliate	7.9%
MarkWest Utica EMG, LLC*	MLP Affiliate	7.0%
Targa Resources Corp.	Midstream Company	6.4%
SemGroup Corp., Class A	Midstream Company	5.1%
EnLink Midstream LLC	General Partner	4.8%
The Williams Companies, Inc.	General Partner	4.7%
Energy Transfer Equity LP	MLP	4.5%
Macquarie Infrastructure Corp.	Other Energy & Infrastructure	4.5%
Total		61.8%

For illustrative purposes only.

*Held indirectly through the Fund's wholly owned interests of EMG Utica I Co-Investment, L.P.

Current and future holdings are subject to change and risk. Figures are based on the Fund's consolidated gross assets.

Source: Salient Capital Advisors, LLC (Adviser), November 30, 2016.

During the fiscal year (December 1, 2015 – November 30, 2016), the Fund's NAV and market price total return were 13.0% and 17.0%, respectively, compared to 9.3% for the Alerian MLP Index (AMZ), during the same period.^{2,3} Some of the top contributing investments held by the Fund during the fiscal year include ONEOK, Inc. (NYSE: OKE), Targa Resources Corp. (NYSE: TRGP) and Plains GP Holdings LP, Class A (NYSE: PAGP). Top detractors to Fund performance include Calumet Specialty Products Partners, LP (NASDAQ: CLMT), Teekay Offshore Partners, LP (NYSE: TOO) and Capital Products Partners, LP (NYSE: CPLP). The Fund recognized gains of \$885,251 and change in unrealized of (\$114,718) on its covered call option strategy.

Performance Snapshot

as of November 30, 2016 (unaudited)

Price Per Share	Fiscal YTD Total Return*	Since Inception* (Annualized)
\$14.37 (NAV)	13.0%	0.4%
\$13.40 (Market Price)	17.0%	(1.1%)

Source: Salient Capital Advisors, LLC (Adviser), November 30, 2016.

For illustrative purposes only. All figures represent past performance and are not indicative of future results. No investment strategy can guarantee performance results.

*Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares. Total return assumes the reinvestment of all distributions. Inception date of the Fund was May 25, 2012.

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

¹ Fund shares do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency. Data are based on total market value of Fund investments unless otherwise indicated. The data provided are for informational purposes only and are not intended for trading purposes.

² Alerian, November 30, 2016. Alerian MLP Index , Alerian MLP Total Return Index , AMZ and AMZX are trademarks of Alerian and their use is granted under a license from Alerian. Past performance is not indicative of how the index will perform in the future. The index reflects the reinvestment of dividends and income and does not reflect deductions for fees, expenses, or taxes. The index is unmanaged and not available for direct investment.

³ Past performance is not indicative of future results.

Table of Contents

Market Review

As we close the book on our fiscal year, we felt it was appropriate to take a look back at what was one of the most challenging, but ultimately, most rewarding years of recent memory. One could argue that the tailwinds driving the sector currently appear as favorable as the headwinds the sector faced at the start of the year were negative.

Harkening back to the beginning of the fiscal year in December 2015, the US energy sector and Master Limited Partnerships (MLPs) were suffering through a decline not seen since the Financial Crisis of late 2008. Crude oil prices continued to slump to levels not seen in a decade. Overall domestic crude oil production and operating rig counts were plummeting and even natural gas prices remained below \$2.50 MMBtu.^{1,2} In short, the outlook for 2016 was bleak.

MLP investors' hopes for a January effect went in vain as renewed fears over a hard landing for the Chinese economy sent crude prices even lower.³ Not only was January not a positive month for MLPs, the -11.1% decline was the fourth worst month in the history of the AMZ.⁴ Crude oil finally bottomed on February 11th at \$26.21 per barrel/(bbl), a 13yr low.¹ At the February 11th closing low, the AMZ was down 28.2% in 2016, 30.7% since the beginning of the Fund's fiscal year (November 30), and 58.2% from its all-time high set back in August 2014.⁴

It is hard to pinpoint exactly what was the catalyst(s) that spurred the rally in the MLP sector. We believe it was a combination of several factors. For one, MLPs became inexpensive on a valuation basis as they approached financial crisis levels of 2008-2009 despite the industry being much larger in terms of overall market capitalization this time around with better access to capital. Rising crude oil prices certainly helped as well. Crude oil rallied to \$49/bbl by the end of May and has basically moved sideways ever since, trading in a +/- 10% band.¹ Given the relentless improvement in drilling efficiencies, a greater amount of drilling areas became economically viable in the \$45-\$55/bbl range and we have seen a steady uptick in the number of operating rigs since June.⁵ Higher rig count eventually leads to higher production and ultimately greater throughput and cash flows which assuaged the fear of potential widespread distribution cuts that had shaken many MLP investors. But perhaps the most important factor that turned the tide was that, operationally, MLPs themselves held up relatively well. The toll road model appears to have been vindicated.⁶ Take Kinder Morgan, Inc. (NYSE: KMI) as an example. KMI announced on December 8, 2015 that it intended to cut its dividend by 76%.⁷ KMI's drastic action was an attempt to avoid losing its prized investment grade status from the ratings agencies, it was not a reaction to rapidly deteriorating fundamentals.⁸ In fact, KMI's cash flow per share increased 7% in 2015 vs. 2014 despite the dramatic drop in commodity prices.^{9,10} As more and more MLPs reported similar operational results, we believe investors re-gained confidence in the MLP model and thereby re-gained confidence in MLPs.

¹ Bloomberg, November 30, 2016.

² **MMBTU or MBTU**, stands for one million British Thermal Units (BTU). A BTU is a measure of the energy content in fuel, and is used in the power, steam generation, heating and air conditioning industries. One BTU is equivalent to 1.06 Joules. Natural gas is usually measured in BTUs.

³ The **January Effect** is a seasonal increase in stock prices during the month of January. Analysts generally attribute this rally to an increase in buying, which follows the drop in price that typically happens in December when investors, engaging in tax-loss harvesting to offset realized capital gains, prompt a sell-off.

⁴ Alerian, November 30, 2016.

⁵ Rig Count Data retrieved here: <http://phx.corporate-ir.net/phoenix.zhtml?c=79687&p=irol-rigcountsoverview>.

⁶ **Toll Road Business Model** - Midstream MLPs typically do not own the energy commodity they transport and store, but collect revenue by acting as a toll road and charging fees for the processing or storage of the energy commodity.

⁷ Kinder Morgan, December 8, 2015. Kinder Morgan Announces 2016 Outlook. [Press release]. Retrieved here: <http://ir.kindermorgan.com/press-release/kinder-morgan-announces-2016-outlook>.

⁸ A **credit rating agency** (CRA, also called a **ratings** service) is a company that assigns **credit ratings**, which rate a debtor's ability to pay back debt by making timely interest payments and the likelihood of default. Major credit ratings agencies represented as Standard & Poor's Ratings Services, Moody's Investor Service and Fitch Ratings.

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

⁹ Kinder Morgan, January 20, 2016. Kinder Generates \$4.7 Billion of Distributable Cash Flow for 2015. [Press release]. Retrieved here: <http://ir.kindermorgan.com/press-release/kindermorgan/kinder-morgan-generates-47-billion-distributable-cash-flow-2015>.

¹⁰ **Cash flow per share** is the after-tax earnings plus depreciation on a per-share basis that functions as a measure of a firm's financial strength.

Table of Contents

By September, energy credit spreads had returned to a more normal level. Comments from MLP management teams conveyed a more optimistic tone regarding 2017 and beyond. Further fueling our optimism were two major events that we believe may prove bullish for MLPs. The first occurred at the end of September when we got our first indication that it would be the Organization of Petroleum Exporting Countries (OPEC), and not North American producers, to blink in terms of crude oil production. The OPEC nations announced on September 28th that they had tentatively agreed to cut crude production by roughly 3%, or about 1 Million barrels of oil per day (MMbpd).² The details were hammered out at OPEC's semi-annual meeting in late November with the final number actually amounting to a larger cut of approximately 1.5 MMbpd. We view OPEC's announced production cuts as a tacit admission that its decision to let the market decide crude oil prices during its November 2014 meeting as unsuccessful. By reducing its own output, OPEC has effectively ceded market share to non-OPEC nations should global crude oil demand remain on its current 1-1.5 MMbpd annual growth trajectory.⁴

The second major event was Donald Trump's surprising victory in the US Presidential elections. While Trump will not be inaugurated until January 2017, and we do not know what sort of policies a Trump Administration may pursue, suffice it to say that we believe they may be more favorable to the domestic energy sector than what a Clinton Administration would have proposed. Since Election Day, Trump has nominated ex-ExxonMobil CEO Rex Tillerson to Secretary of State, former Texas Governor Rick Perry to head of the Department of Energy, and vocal Environmental Protection Agency (EPA) critic, Oklahoma Attorney General Scott Pruitt to head up the EPA.⁵ Add to the list Trump's recent appointment of investor Carl Icahn to a special advisory role regarding regulatory reform and from a policy standpoint the future appears brighter if you are in the business of hydrocarbons.⁶

Summary

Our long-term investment philosophy remains focused on MLPs and Midstream Companies that have the potential to achieve above average distribution growth which, we believe, leads to potentially higher long-term returns for investors. However, given the extreme volatility in the space over the past 18 months, we have seen investors place a premium on safety and predictability while underweighting growth potential. It is our opinion that successful MLPs achieve above average distribution growth in no small part because their operations allow them to outperform in both rising and falling commodity price environments. Being disciplined and sticking to our focus on choosing quality names using our bottom up stock selection approach will be more important than ever going forward. We believe the industry will continue its recovery off of the lows set last February and expect investor sentiment to once again favor growth as the sector appears to be entering into a new expansionary phase.

¹ A **credit spread** is the difference in yield between two bonds of similar maturity but different credit quality. For example, if the 10-year Treasury note is trading at a yield of 6% and a 10-year corporate bond is trading at a yield of 8%, the corporate bond is said to offer a 200-basis-point spread over the Treasury.

² OPEC agrees modest oil output curbs in first deal since 2008 Reuters.<http://www.reuters.com/article/us-opec-meeting-idUSKCN11Y18K>, September 29, 2016.

³ OPEC Confounds Skeptics, Agrees to First Oil Cuts in 8 Years
<https://www.bloomberg.com/news/articles/2016-11-30/opec-said-to-agree-oil-production-cuts-as-saudis-soften-on-iran>, November 30, 2016.

⁴ Demand for crude oil retrieved here: https://www.eia.gov/outlooks/steo/report/global_oil.cfm

⁵ Cabinet appointments sourced here: <http://www.vanityfair.com/news/2016/12/donald-trump-scott-pruitt-epa>,
http://www.nytimes.com/2016/12/12/us/politics/rex-tillerson-secretary-of-state-trump.html?_r=0,
<http://www.nytimes.com/2016/12/13/us/politics/rick-perry-energy-secretary-trump.html>

⁶ Carl Icahn appointment sourced here: <http://www.foxbusiness.com/politics/2016/12/21/billionaire-carl-icahn-weighs-official-role-with-trump.html>

Table of Contents

Please note that this letter, including the financial information herein, is made available to shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this letter.

Sincerely,

Gregory A. Reid

President

MLP Business, Salient Capital Advisors, LLC

Table of Contents**Key Financial Data (unaudited)**

We supplement the reporting of our financial information determined under United States generally accepted accounting principles (GAAP) with certain non-GAAP financial measures: distributable cash flow and distributable cash flow coverage ratio. We believe these non-GAAP measures provide meaningful information to assist shareholders in understanding our financial results and assessing our performance. We pay distributions to our shareholders, funded in part by distributable cash flow generated from our portfolio investments. Distributable cash flow is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. Other companies with similar measures may calculate these measures differently, and as a result, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported net investment income. These non-GAAP financial measures reflect an additional way of viewing an aspect of our operations that, when viewed with our GAAP results and the below reconciliation to the corresponding GAAP financial measures, provide a more complete understanding of our Fund. We strongly encourage shareholders to review our financial statements in their entirety and not rely on any single financial measure.

The table below reconciles the non-GAAP financial measures, distributable cash flow and distributable cash flow coverage ratio, by starting with the most directly comparable GAAP financial measure, net investment income.

	Year Ended November 30, 2016
Net investment Income	\$ 2,034,909
Reconciling items:	
Return of capital of distributions (a)	15,340,975
Dividends paid in stock (b)	2,432,360
Option premium earnings (c)	885,251
Deferred carried interest on investment in EMG Utica (d)	161,005
Distributable cash flow (non-GAAP)	\$ 20,854,500
Distributions paid on common stock	\$ 20,168,146
Distributable cash flow coverage ratio (non-GAAP)	1.03

Reconciliation of distributable cash flow to GAAP

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

(b) Distributable cash flow includes the value of dividends paid-in-kind (i.e., stock dividends), whereas such amounts are not included in net investment income for GAAP purposes during the period received, but rather are recorded as unrealized gains upon receipt.

(c) We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the fee that we received, thereby generating a profit. The amount we received from selling call options, less the amount that we pay to repurchase such call option contracts is included in distributable cash flow. For GAAP purposes, income from call option contracts sold is not included in net investment income. See Note 2 Summary of Significant Accounting Policies and Practices for a full discussion of the GAAP treatment of option contracts.

(d) Deferred carried interest is a non-cash expense and represents a share of the profits of EMG Utica that will be realized at the time distributions are received.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Shareholders and Board of Trustees of

Salient Midstream & MLP Fund:

We have audited the accompanying consolidated statement of assets, liabilities and shareholders' equity of Salient Midstream & MLP Fund and Subsidiaries (the Fund), including the consolidated schedule of investments, as of November 30, 2016, and the related consolidated statements of operations and cash flows for the year then ended, the consolidated statements of changes in net assets for each of the years in the two-year period then ended, and the consolidated financial highlights for each of the years in the four-year period then ended and the period from May 24, 2012 (commencement of operations) through November 30, 2012. These consolidated financial statements and consolidated financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements and consolidated financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of November 30, 2016, by correspondence with the custodian and brokers or by other appropriate auditing procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements and consolidated financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of November 30, 2016, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the four-year period then ended and the period from May 24, 2012 through November 30, 2012 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Columbus, Ohio

January 25, 2017

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Schedule of Investments**

November 30, 2016

	Shares/Units	Fair Value
Master Limited Partnerships and Related Companies 137.5%		
Gathering & Processing 29.1%		
United States 29.1%		
Enable Midstream Partners LP ^{(a)(b)}	220,250	\$ 3,440,305
EnLink Midstream LLC ^(a)	924,548	16,919,228
MarkWest Utica EMG, LLC ^{(b)(c)(d)(e)(f)}	16,000,000	24,762,000
Summit Midstream Partners LP ^{(b)(g)}	145,598	3,268,675
Targa Resources Corp. ^(a)	420,412	22,403,756
Western Gas Partners LP ^{(a)(b)}	57,143	3,261,151
		74,055,115
Liquids Transportation & Storage 39.5%		
Republic of the Marshall Islands 3.9%		
VTTI Energy Partners LP ^{(a)(b)}	549,517	9,808,879
United States 35.6%		
Arc Logistics Partners LP ^{(b)(c)}	189,185	2,790,479
Enbridge Energy Management LLC ^{(a)(b)(h)}	1,111,730	27,771,004
Genesis Energy LP ^{(a)(b)}	95,824	3,348,091
MPLX LP ^{(a)(b)(g)}	61,290	2,013,376
NGL Energy Partners LP ^{(a)(b)(g)}	375,069	6,957,530
PBF Logistics LP ^(b)	79,085	1,474,935
Plains GP Holdings LP, Class A ^{(a)(b)(g)}	815,301	28,665,990
SemGroup Corp., Class A ^(a)	495,959	17,879,322
		90,900,727
Marine Midstream 7.8%		
Republic of the Marshall Islands 7.8%		
Dynagas LNG Partners LP	330,800	5,130,708
Golar LNG Partners LP ^(g)	442,095	9,849,877
Teekay Offshore Partners LP ^(b)	889,679	4,866,544
		19,847,129
Natural Gas Pipelines & Storage 51.6%		
United States 51.6%		
DCP Midstream Partners LP ^{(a)(b)}	99,031	3,429,444
Energy Transfer Equity LP ^{(a)(b)}	930,590	15,847,948
Energy Transfer Partners LP ^{(a)(b)}	442,308	15,533,857
Enterprise Products Partners LP ^{(a)(b)}	133,270	3,455,691
Kinder Morgan, Inc.	264,820	13,018,551
ONEOK, Inc. ^(a)	565,525	31,064,288
Spectra Energy Corp. ^(a)	94,040	3,850,938
Tallgrass Energy GP LP	393,109	9,513,238
Tallgrass Energy Partners LP ^{(a)(b)}	69,530	3,256,785

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

The Williams Companies, Inc. ^(a)

544,766

16,724,316

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Schedule of Investments, continued****November 30, 2016**

	Shares/Units	Fair Value
Williams Partners LP ^{(a)(b)}	430,339	\$ 15,707,373
		131,402,429
Other Energy & Infrastructure 9.5%		
United States 9.5%		
Macquarie Infrastructure Corp. ^{(a)(b)}	192,513	15,774,515
NRG Yield, Inc., Class A ^{(a)(b)}	309,006	4,508,397
NRG Yield, Inc., Class C ^{(a)(b)}	247,833	3,804,237
		24,087,149
Total Master Limited Partnerships and Related Companies (Cost \$270,290,132)		350,101,428
	Principal Amount	
Convertible Bond 0.3%		
Other Energy & Infrastructure 0.3%		
United States 0.3%		
Ascent Resources Utica LLC ⁽ⁱ⁾ 3.50% (or 3.50% PIK), 03/01/2021	\$ 2,112,024	739,208
Total Convertible Bond (Cost \$2,107,135)		739,208
Total Investments 137.8% (Cost \$272,397,267)		350,840,636
Credit Facility (35.5)%		(90,389,219)
Other Assets and Liabilities⁽ⁱ⁾ (2.3)%		(5,833,592)
Total Net Assets Applicable to Common Shareholders 100.0%		\$ 254,617,825

All percentages disclosed are calculated by dividing the indicated amounts by net assets applicable to common shareholders.

- (a) All or a portion of these securities are held as collateral for the line of credit agreement. As of November 30, 2016, the total fair value of securities held as collateral for the line of credit agreement is \$237,221,381.
- (b) Non-income producing security.
- (c) Securities determined to be illiquid under the procedures approved by the Fund's Board of Trustees and represent 11.1% of net assets applicable to common shareholders.
- (d) Securities have been fair valued in good faith using fair value procedures approved by the Board of Trustees and represent 9.7% of net assets applicable to common shareholders. See Notes to Consolidated Financial Statements for further information.
- (e) Security is indirectly held by EMG Utica I Offshore Co-Investment, L.P. (EMG Utica).
- (f) EMG Utica is a restricted security exempt from registration under the Securities Act of 1933. The security may be resold in transactions exempt from registration, normally to qualified institutional buyers. See footnote 2(g) in the Notes to Consolidated Financial Statements for further information.
- (g)

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

All or a portion of these securities are held as collateral for the written call options. As of November 30, 2016, the total fair value of securities held as collateral for the written call options is \$7,614,521.

- (h) Distributions are paid-in-kind.

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Schedule of Investments, continued****November 30, 2016**

(i) Security exempt from registration under Rule 144A of the Securities Act of 1933. This security may be sold in transactions exempt from registration, normally to qualified institutional buyers. At November 30, 2016, the value of this security was \$739,208, representing 0.3% of net assets.

(j) Includes cash which is being held as collateral for written options contracts.

Written Options:

Description	Put/Call	Exercise Price	Expiration Date	Number of Contracts	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Golar LNG Partners LP	Call	\$ 22.50	12/16/2016	1,768	\$ 58,049	\$ (97,240)	\$ (39,191)
MPLX LP	Call	35.00	12/16/2016	122	7,681	(3,660)	4,021
NGL Energy Partners LP	Call	20.00	12/16/2016	414	10,022	(6,210)	3,812
SemGroup Corp.	Call	40.00	01/20/2017	991	63,174	(89,190)	(26,016)
Summit Midstream Partners LP	Call	22.50	12/16/2016	150	10,177	(7,500)	2,677
					\$ 149,103	\$ (203,800)	\$ (54,697)

Salient Midstream & MLP Fund invested in the following industries as of November 30, 2016:

	Value	% of Total Investments
Gathering & Processing	\$ 74,055,115	21.1%
Liquids Transportation & Storage	100,709,606	28.7%
Marine Midstream	19,847,129	5.7%
Natural Gas Pipelines & Storage	131,402,429	37.4%
Other Energy & Infrastructure	24,826,357	7.1%
Total	\$ 350,840,636	100.0%

Salient Midstream & MLP Fund invested in securities with exposure to the following countries as of November 30, 2016:

	Value	% of Total Investments
Republic of the Marshall Islands	\$ 29,656,008	8.5%
United States	321,184,628	91.5%
Total	\$ 350,840,636	100.0%

Edgar Filing: Salient Midstream & MLP Fund - Form N-CSR

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Statement of Assets, Liabilities and Shareholders Equity****November 30, 2016**

Assets:	
Investments, at value (cost \$272,397,267)	\$ 350,840,636
Cash and cash equivalents	588,229
Deposit with broker for written options	80,504
Interest and dividends receivable	287,871
Tax refund receivable	390,000
Prepays and other assets	2,637
 Total Assets	 352,189,877
Liabilities:	
Credit Facility	90,389,219
Written options, at fair value (premiums received \$149,103)	203,800
Payable to Advisor	328,157
Payable to affiliate	613,564
Interest payable	116,011
Line of credit commitment fees payable	11,218
Accounts payable and accrued expenses	503,853
Tax liability	3,526,230
Deferred tax liability	1,880,000
 Total Liabilities	 97,572,052
 Net Assets applicable to common shareholders	 \$ 254,617,825
Net Assets Applicable to Common Shareholders:	
Capital Stock, \$0.01 par value; 17,722,449 shares issued and outstanding (unlimited shares authorized)	\$ 177,224
Paid-in capital	412,772,709
Accumulated net investment loss	(23,412,633)
Accumulated net realized loss	(211,428,147)
Net unrealized appreciation	76,508,672
 Net assets applicable to common shareholders	 \$ 254,617,825
Net Asset Value:	
Net assets applicable to common shareholders	\$ 254,617,825
Common shares outstanding	17,722,449
Net asset value per common share outstanding	\$ 14.37

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Statement of Operations****Year Ended November 30, 2016****Investment Income:**

Distributions from master limited partnerships	\$ 8,951,207
Less return of capital on distributions	(8,951,207)

Net distributions from master limited partnerships	
Dividends from master limited partnership related companies	14,612,208
Less return of capital on dividends	(6,389,768)

Net dividends from master limited partnership related companies	8,222,440
Interest Income	75,181
Foreign taxes withheld	(49,061)

Total Investment Income	8,248,560
--------------------------------	------------------

Operating Expenses:

Investment management fees	3,422,429
Sub-advisory fees	160,475
Administration fees	208,652
Custodian fees	23,587
Interest expense	1,168,723
Commitment fees	153,119
Professional fees	468,691
Transfer agent fees	15,638
Compliance officer fees	67,445
Carried interest	161,005
Other expenses	363,887

Total Expenses	6,213,651
-----------------------	------------------

Net Investment Income	2,034,909
------------------------------	------------------

Realized and Unrealized Gain (Loss):

Net realized loss on investments	(77,702,692)
Net realized gain on written options contracts	885,251

Net realized loss, before income taxes	(76,817,441)
Tax expense	10,331,203

Net realized loss, net of income taxes	(87,148,644)
--	--------------

Change in unrealized appreciation/depreciation from investments and written options contracts, before income taxes	95,903,317
Deferred tax benefit	(11,839,613)

Change in unrealized appreciation/depreciation from investments and written options contracts, net of income taxes	107,742,930
--	-------------

Net realized and unrealized gain from investments and written options contracts	20,594,286
--	-------------------

Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations	\$ 22,629,195
---	----------------------

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Statements of Changes in Net Assets**

	Year Ended November 30, 2016	Year Ended November 30, 2015
Operations:		
Net investment income, net of income taxes	\$ 2,034,909	\$ 1,620,443
Net realized gain/(loss), net of income taxes	(87,148,644)	7,340,165
Change in unrealized appreciation/depreciation, net of income taxes	107,742,930	(219,930,525)
Net increase/(decrease) in net assets applicable to common shareholders resulting from operations	22,629,195	(210,969,917)
Distributions:		
Net investment income	(2,034,909)	(1,620,443)
In excess of net investment income	(17,557,820)	(22,613,511)
Net realized gains		(3,491,322)
From return of capital	(575,417)	(1,818,045)
Total distributions to common shareholders	(20,168,146)	(29,543,321)
Net increase/(decrease) in net assets applicable to common shareholders	\$ 2,461,049	\$ (240,513,238)
Net Assets:		
Beginning of period	252,156,776	492,670,014
End of period	\$ 254,617,825	\$ 252,156,776
Accumulated net investment loss	\$ (23,412,633)	\$ (9,551,772)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**SALIENT MIDSTREAM & MLP FUND****Consolidated Statement of Cash Flows****Year Ended November 30, 2016**

Cash flows from operating activities:	
Net increase in net assets resulting from operations	\$ 22,629,195
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities	
Purchase of investments	(273,786,016)
Proceeds from disposition of investments	291,645,058
Premiums from written options	1,465,712
Proceeds paid to cover written call options	(128,833)
Premiums paid on exercised written options	(362,547)
Amortization of premium and accretion of discount on investments	(287)
Net realized loss on investments	77,702,692
Net realized gain on written options	(885,251)
Change in unrealized appreciation/depreciation from investments	(80,562,342)
Change in operating assets and liabilities:	
Deposit with broker for written options	(80,504)
Interest and dividends receivable	(10,516)
Tax refund receivable	(390,000)
Prepaid and other assets	31,719
Interest payable	2,470
Payable to Advisor	(69,264)
Payable to affiliate	161,006
Line of credit commitment fee payable	4,968
Tax liability	3,526,230
Deferred tax liability	(6,511,539)
Accounts payable and accrued expenses	(82,354)
Net cash provided by operating activities	34,299,597
Cash flows from financing activities:	
Advances from credit facility	90,650,000
Repayments on credit facility	(110,660,781)
Distributions paid to common shareholders, net of reinvestments	(20,168,146)
Net cash used in financing activities	(40,178,927)
Net decrease in cash and cash equivalents	(5,879,330)
Cash and cash equivalents at beginning of year	6,467,559
Cash and cash equivalents at end of year	\$ 588,229
Supplemental schedule of cash activity:	
Cash paid for interest during the year	\$ 1,166,253
Cash paid for line of credit commitment fees during the year	148,151
Cash paid for taxes during the year	1,866,900
Supplemental schedule of non-cash activity:	
Distributions received in kind	2,432,360

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

SALIENT MIDSTREAM & MLP FUND

Consolidated Financial Highlights

	Year Ended November 30, 2016	Year Ended November 30, 2015	Year Ended November 30, 2014	Year Ended November 30, 2013	Period from May 24, 2012⁽¹⁾ through November 30, 2012
Per Common Share Data:⁽²⁾					
Net Asset Value, beginning of period	\$ 14.23	\$ 27.80	\$ 24.29	\$ 19.40	\$ 20.00
Income (loss) from operations:					