

Salient Midstream & MLP Fund  
Form N-CSRS  
August 06, 2015

**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, 8<sup>TH</sup> FLOOR, HOUSTON, TX 77027**  
**(Address of principal executive offices) (Zip code)**

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*With a copy to:*

**Gregory A. Reid**

**George J. Zornada**

**Salient Midstream & MLP Fund**

**K & L Gates LLP**

**4265 San Felipe, 8<sup>th</sup> 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: 713-993-4675**

**Date of fiscal year end: November 30, 2015**

**Date of reporting period: May 31, 2015**

**Item 1. Reports to Stockholders.**

**Semiannual Report to Shareholders**

**May 31, 2015 (Unaudited)**

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**Management Discussion of Fund Performance (Unaudited)**

Letter to Shareholders

Dear Fellow Shareholders:<sup>1</sup>

We are pleased to provide the semi-annual report of the Salient Midstream & MLP Fund (the Fund ) (NYSE: SMM) which contains updated data as of May 31, 2015.

As of May 31, 2015, the Fund had total consolidated assets of \$673.7 million, net assets applicable to our common shares of \$450.3 million (net asset value of \$25.41 per share) and 17.7 million common shares outstanding. The Fund's price per share was \$22.34, which represents a 12.1% discount to its net asset value ( NAV<sup>2</sup> ).

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

<sup>1</sup> **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.

<sup>2</sup> 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.

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The Fund's Top 10 consolidated holdings are shown below, as of May 31, 2015:

Company Name	Sector	% of Gross Assets
Enterprise Products Partners L.P.*	MLP	8.3%
Energy Transfer Equity, L.P.*	MLP	7.9%
The Williams Companies, Inc.	Midstream Companies	6.2%
Kinder Morgan, Inc.	Midstream Companies	5.5%
Macquarie Infrastructure Company LLC	Other	4.2%
Enbridge Energy Management, L.L.C.	MLP Affiliate	4.1%
Magellan Midstream Partners, L.P.*	MLP	3.9%
NGL Energy Partners LP	MLP	3.4%
EMG Utica I Offshore Co-Investment, LP	MLP Affiliate	3.1%
Targa Resources Corp.	Midstream Companies	2.8%
Total		49.4%

For illustrative purposes only.

\* Held indirectly through the wholly owned C-Corporation, Salient Midstream & MLP Fund, Inc.

Current and future holdings are subject to change and risk.

Source: Salient Capital Advisors, LLC, May 2015.

During the first half of fiscal 2015 (December 2014 – May 2015), the Fund's NAV and market price total return were (4.8%) and (11.2%), respectively, compared to (8.4%) for the Alerian MLP Index (AMZ), during the same period.<sup>4</sup> Some of the top contributing investments held by the Fund for the first half of fiscal 2015 include Energy Transfer Equity, L.P. (NYSE: ETE); Macquarie Infrastructure Company LLC (NYSE: MIC) and Capital Product Partners L.P. (NYSE: CPLP). Top detractors to Fund performance include Enterprise Product Partners L.P. (NYSE: EPD); Targa Resources Corp. (NYSE: TRGP); and ONEOK, Inc. (NYSE: OKE).

The Fund recognized losses of \$7,393,123 from its hedging strategy, which utilizes futures contracts, and gains of \$220,625 on its covered call option strategy.

### Market Review

Picking up from where we left off last time, early December 2014 saw crude oil prices in free fall as investors continued to digest the impact from the Organization of the Petroleum Exporting Countries (OPEC) Thanksgiving Day announcement that it would maintain its production quota at 30 mmbbl/d.<sup>5,6</sup> West Texas Intermediate (WTI) traded for \$73.69/barrel (bbl) on the day before the announcement and was trading at \$53.27/bbl by the end of December. Crude continued to drift lower before setting a six-year low close of \$43.46/bbl on March 17, 2015, a 34% drop since the November 2014 close of \$66.15/bbl.<sup>7</sup> If there can be a silver lining to the precipitous drop in crude prices we would argue that the timing of the drop was fortunate as many Exploration & Production (E&P) companies had not finalized their capital expenditure budgets for 2015 when prices really started dropping in October 2014. As such, we saw a significant reduction in budgets for 2015, averaging roughly 35% from 2014 levels.<sup>8</sup> Had the budgets already been published, we believe many companies

<sup>3</sup> 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.

<sup>4</sup> Alerian Capital Management, May 2015.

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<sup>5</sup> OPEC, December 2014.

<sup>6</sup> Mmbbl/d = millions of barrels per day

<sup>7</sup> Bloomberg, May 2015.

<sup>8</sup> Bloomberg, May 2015.

would have been reluctant to reduce expenditure levels despite the dramatic drop in commodity prices so as not to upset Wall Street. Nevertheless, MLPs got caught up in the downdraft and the Alerian MLP Index (AMZ) suffered five consecutive negative months from September 2014 through January 2015 before finally posting positive returns in February 2015.<sup>9</sup> Perhaps not coincidentally, February was also the first month since June that the average monthly price for crude oil was higher than the previous month. The rally in crude has continued. Since March 2015, crude oil has rallied nearly 40% off the bottom and closed May above \$60/bbl levels that had not been seen since the first week of December.<sup>8</sup> MLPs, unfortunately, did not rally with crude oil and we believe that interest rate fears may be the reason.

Interest rates were quite tame through most of the reporting period as the US 10 Yr yield stayed below 2% for the most part. However, in May we saw the yield on the US 10 Yr stay above 2% for the entire month and rose to as high as 2.28%.<sup>8</sup> US 10Yr yields have continued to rise in June. Conventional wisdom is that rising interest rates are bearish for MLPs as higher interest rates translate into higher MLP borrowing costs. Also, as an income-oriented asset class, MLPs are supposed to lag in a rising interest rate environment. We do not subscribe to this view at least not for high-growth MLPs which is what our strategy intends to target. We believe that a well-managed, well positioned MLP may be able to deliver relatively attractive distribution growth in many macro environments.

We are somewhat disappointed that the AMZ is currently trading at roughly the same level it was when crude oil was trading for \$10/bbl less. Perhaps fears of an interest rate blowout is what is keeping MLPs depressed but we believe that there are some good investment opportunities over the next few months as crude oil prices firm in the high \$50s and higher.

**Performance Snapshot as of May 31, 2015 (unaudited)**

	<b>Fiscal YTD</b>	<b>Since Inception*</b>
<b>Price Per Share</b>	<b>Total Return*</b>	<b>(Annualized)</b>
\$25.41 (NAV)	(4.8%)	15.2%
\$22.34 (Market Price)	(11.2%)	10.4%

Source: Salient Capital Advisors, LLC, May 2015.

For illustrative purposes only. All figures represent past performance and are not indicative of future 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.

**Summary**

Our long-term investment philosophy remains focused on MLPs and MLP-related companies that have the potential to achieve above average distribution growth which, we believe, leads to potentially higher long-term returns for investors. However, we believe that we are entering a period of heightened volatility where investors will likely place a premium on safety and predictability rather than focusing mainly on dividend growth potential. Fortunately, we do not believe that the two characteristics are mutually exclusive. 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 macro 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 as the recent weakness in MLPs has potentially created an opportunity to build positions in names that are well positioned to weather the current volatility and emerge even stronger going forward.

<sup>9</sup> Alerian Capital Management, May 2015.

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Please visit our website at [www.salientfunds.com](http://www.salientfunds.com) for the latest updates and sign up to receive email alerts on future press releases by the Fund.

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

**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.

	<b>Period Ended May 31, 2015</b>
Net investment income (loss), before income taxes	(\$ 68,201)
Reconciling items:	
Return of capital of distributions (a)	11,090,815
Dividends paid in stock (b)	781,302
Option premium earnings (c)	220,625
Distributable cash flow (non-GAAP)	\$ 12,024,541
Distributions paid on common stock (d)	\$ 12,990,554
Distributable cash flow coverage ratio (non-GAAP)	0.93
Distributable cash flow coverage ratio since inception (non-GAAP)	0.96

**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) The Distributions paid on common stock above comprise of the quarterly cash flow distributions to Shareholders only and do not include the capital gains distribution paid on January 28, 2015.

## SALIENT MIDSTREAM &amp; MLP FUND

## Consolidated Schedule of Investments

May 31, 2015

(Unaudited)

	Shares/Units	Fair Value
<b>Master Limited Partnerships and Related Companies 144.7%</b>		
<b>Coal 1.5%</b>		
<b>United States 1.5%</b>		
Alliance Holdings GP, L.P. <sup>(1)(2)(3)</sup>	144,318	\$ 6,956,128
		6,956,128
<b>Diversified Energy 58.7%</b>		
<b>United States 58.7%</b>		
Enable Midstream Partners, LP <sup>(2)(3)</sup>	520,561	9,265,986
Enbridge Energy Management, L.L.C. <sup>(2)(3)(4)</sup>	762,554	27,558,717
Energy Transfer Equity, L.P. <sup>(1)(2)(3)</sup>	778,420	53,454,101
Enterprise Products Partners L.P. <sup>(1)(2)(3)</sup>	1,728,894	56,050,741
Kinder Morgan, Inc. <sup>(2)</sup>	888,589	36,867,558
NGL Energy Partners LP <sup>(2)(3)</sup>	752,993	22,634,970
ONEOK, Inc. <sup>(2)</sup>	379,230	15,897,322
The Williams Companies, Inc. <sup>(2)</sup>	822,226	42,015,749
		263,745,144
<b>Exploration &amp; Production 1.2%</b>		
<b>United States 1.2%</b>		
Memorial Production Partners LP <sup>(1)(2)(3)</sup>	370,727	5,538,661
		5,538,661
<b>Gathering &amp; Processing 25.2%</b>		
<b>United States 25.2%</b>		
American Midstream Partners, LP <sup>(3)</sup>	575,126	10,524,806
Antero Midstream Partners LP <sup>(1)(3)</sup>	667,716	19,029,906
EnLink Midstream Partners, LP <sup>(2)(3)</sup>	325,540	8,079,903
EnLink Midstream, LLC <sup>(2)</sup>	375,439	12,430,785
MarkWest Energy Partners, L.P. <sup>(2)(3)</sup>	137,805	8,906,337
Summit Midstream Partners, LP <sup>(2)(3)</sup>	377,540	12,696,670
Targa Resources Corp. <sup>(2)</sup>	207,594	19,088,268
Targa Resources Partners LP <sup>(2)(3)</sup>	362,616	15,675,890
Western Gas Equity Partners, LP <sup>(2)(3)</sup>	101,191	6,481,284
		112,913,849
<b>Liquids Transportation &amp; Storage 19.0%</b>		
<b>United Kingdom 2.1%</b>		
VTTI Energy Partners LP <sup>(2)(3)</sup>	360,007	9,320,581
		9,320,581

See accompanying Notes to Consolidated Financial Statements.

## SALIENT MIDSTREAM &amp; MLP FUND

## Consolidated Schedule of Investments, continued

May 31, 2015

(Unaudited)

	Shares/Units	Fair Value
<b>United States 16.9%</b>		
Arc Logistics Partners LP <sup>(3)</sup>	275,479	\$ 5,021,982
Buckeye Partners, L.P. <sup>(2)(3)</sup>	101,465	7,846,288
Magellan Midstream Partners, L.P. <sup>(1)(2)(3)</sup>	326,350	26,016,622
NuStar Energy L.P. <sup>(2)(3)</sup>	151,854	9,477,208
Plains GP Holdings, L.P., Class A <sup>(3)(5)</sup>	666,954	18,648,034
Rose Rock Midstream, L.P. <sup>(3)(5)</sup>	181,625	9,202,939
		76,213,073
		85,533,654
<b>Natural Gas Gathering/Processing 7.4%</b>		
<b>United States 7.4%</b>		
CorEnergy Infrastructure Trust, Inc.	1,938,572	12,891,500
EMG Utica I Offshore Co-Investment, LP <sup>(3)(6)(7)(8)(9)</sup>	16,000,000	20,638,400
		33,529,900
<b>Natural Gas Pipelines &amp; Storage 4.0%</b>		
<b>United States 4.0%</b>		
Spectra Energy Corp. <sup>(2)</sup>	345,741	12,159,711
Tallgrass Energy GP, LP <sup>(2)(3)</sup>	182,040	5,834,382
		17,994,093
<b>Oil Service and Other Specialty 2.8%</b>		
<b>United States 2.8%</b>		
Enviva Partners, LP <sup>(2)(3)</sup>	379,815	7,733,034
Exterran Partners, L.P. <sup>(2)(3)</sup>	183,715	4,756,381
		12,489,415
<b>Propane 1.4%</b>		
<b>United States 1.4%</b>		
AmeriGas Partners, L.P. <sup>(2)(3)</sup>	126,788	6,250,648
		6,250,648
<b>Refining &amp; Marketing 1.9%</b>		
<b>United States 1.9%</b>		
Calumet Specialty Products Partners, L.P. <sup>(2)(3)</sup>	326,429	8,692,804
		8,692,804
<b>Tankers 11.7%</b>		

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**Bermuda 2.3%**

Golar LNG Partners LP <sup>(2)(3)</sup>	373,781	10,544,362
		10,544,362

See accompanying Notes to Consolidated Financial Statements.

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**SALIENT MIDSTREAM & MLP FUND**

**Consolidated Schedule of Investments, continued**

**May 31, 2015**

**(Unaudited)**

	<b>Shares/Units</b>	<b>Fair Value</b>
<b>Republic of the Marshall Islands 5.8%</b>		
Dynagas LNG Partners LP <sup>(2)(3)</sup>	383,000	\$ 7,311,470