Salient Midstream & MLP Fund
Form N-CSRS
August 07, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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)

Gregory A. Reid, Principal Executive Officer

Salient Midstream & MLP fund

4265 San Felipe, 8th Floor

Houston, TX 77027

(Name and address of agent for service)

With a Copy To:

George J. Zornada

K&L Gates LLP

State Street Financial Center

One Lincoln St.
Boston, MA 02111-2950
(617) 261-3231

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

Date of fiscal year end: November 30

Date of reporting period: May 31, 2017

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

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (OMB) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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Item 1. **Report to Stockholders.**

The following is a copy of the report transmitted to shareholders of the Salient Midstream & MLP Fund (the Fund), pursuant to Rule 30e-1 under the Investment Company Act of 1940, as amended (the Act) (17 CFR 270.30e-1).

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Shareholder Letter (Unaudited)

Dear Fellow Shareholders:[1]

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, 2017.

As of May 31, 2017, the Fund had total consolidated gross assets of $320.9 million, net asset value of $12.75 per share and 17.7 million common shares outstanding. The Fund s price per share was $12.22, which represents a 4.2% discount to its net asset value (NAV[2]).

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

For illustrative purposes only.

Source: Salient Capital Advisors, LLC (Adviser), May 31, 2017.

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.*

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The Fund s Top 10 consolidated holdings are shown below, as of May 31, 2017[1]:

Company Name	Sector	% of Gross Assets
ONEOK, Inc.	MLP General Partner	8.8%
MarkWest Utica EMG, LLC*	MLP Affiliate	8.1%
Plains GP Holdings LP, Class A	MLP Affiliate	7.2%
Targa Resources Corp.	Midstream Company	6.6%
Macquarie Infrastructure Corp.	Other Energy & Infrastructure	6.3%
Enbridge Energy Management LLC	MLP Affiliate	5.9%
The Williams Companies, Inc.	MLP Affiliate	5.3%
EnLink Midstream LLC	MLP General Partner	4.7%
Kinder Morgan, Inc. Series A, 9.750%	Midstream Company	4.6%
Energy Transfer Equity LP	MLP	4.5%
Total		**62.0%**

For illustrative purposes only.

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), May 31, 2017.

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

During the first half of the fiscal year (December 1, 2016 May 31, 2017), the Fund s NAV and market price total return were -7.8% and -5.3%, respectively, compared to 2.3% for the Alerian MLP Index (AMZ), during the same period.[2,3] Some of the top contributing investments held by the Fund during the first half of the fiscal year include Williams Partners, LP (NYSE: WPZ), VTTI Energy Partners, LP (NYSE: VTTI) and NRG Yield, Inc., Class A (NYSE: NYLD/A). Top detractors to Fund performance include Enbridge Energy Management LLC. (NYSE: EEQ), Plains GP Holdings, LP, Class A (NYSE: PAGP) and Targa Resources Corp. (NYSE: TRGP).

Performance Snapshot

as of May 31, 2017 (unaudited)

Price Per Share	Fiscal YTD Total Return*	Since Inception* (Annualized)
$12.75 (NAV)	-7.8%	-1.3%
$12.22 (Market Price)	-5.3%	-2.1%

Source: Salient Capital Advisors, LLC (Adviser), May 31, 2017.

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.*

[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, May 31, 2017. 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. Alerian MLP Index (AMZ) is a composite of some of the most prominent energy MLPs that provides investors with a comprehensive benchmark for this emerging asset class.

[3] Past performance is not indicative of future results.

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Market Review

If we were forced to describe the energy space over the last six months in one word, we would choose the word bi-polar. Over the last six months we have seen investor sentiment oscillate between bullish exuberance and bearish hopelessness. Each time we see sentiment shifting it appears that the price of crude oil is the culprit. What started promisingly enough with the unexpected Trump victory in the presidential election quickly soured and as we close out the first half of the fiscal year, we find investor sentiment towards energy approaching levels of negativity not seen since the dark days of late 2015. This negativity has had an adverse effect on performance as investors are seemingly focused on chronically low crude oil prices rather than increased domestic hydrocarbon production, higher rig counts and continued improved drilling efficiency.

The fiscal year began quite positively. We entered December still riding the continued boost from the perceived Trump Trade as the domestic energy space was assumed to be a big winner given the pro-business leanings of the incoming administration. Also, the Organization of Petroleum Exporting Countries (OPEC)[1] had just announced that it had definitively agreed to cut its crude production by roughly 4%, or about 1.5 mmbpd.[2] We viewed OPEC s announced production cut as a tacit admission that the decision it made to let the market decide crude oil prices during its November 2014 meeting had backfired. By agreeing to cut its own production, OPEC was essentially ceding incremental supply to non-OPEC nations (read: US and Canada). Investors moved back into the space driving the AMZ up 4.4% for the month in December.[3]

January, which historically has been a strong month for Master Limited Partnerships (MLPs), did not disappoint.[4] The AMZ gained 4.9% in the month as a wave of consolidations/simplifications hit the space, operating rig counts continued to rebound, and a series of strategic acquisitions and pipeline expansion announcements had MLP investors hopeful about the future.[3]

The Williams Companies, Inc. (WMB) and ONEOK, Inc. (OKE) both announced corporate re-structuring deals that eliminated their underlying MLPs incentive distribution rights (IDRs) burden.[5] DCP Midstream Partners (DPM) also simplified its corporate structure by acquiring its privately-held general partner, DCP Midstream, LLC, though it did not eliminate its IDRs. DCP Midstream was owned 50/50 by Phillips 66 (PSX) and Enbridge, Inc. (ENB).[6]

The closely watched Baker Hughes weekly rig count report continued its long climb back, indicating increased drilling activity levels and potentially higher volumes. Throughout the entire six-month period, the number of active rigs declined on a week-over-week basis only once (week of January 13th). There were 592 active rigs (474 crude oil, 118 natural gas) in late November 2016 and 907 active rigs (722 crude oil, 185 natural gas) by the end of May 2017, an increase of 53%.[7] For reference, rig counts peaked at 1,931 in September 2014 and bottomed at 404 in May 2016.[1] Many of these rigs were put to work in the West Texas Permian Basin. By the end of the period, 49% of all crude oil rigs were operating in the Permian Basin.[8]

In anticipation of increased production, we saw a pair of billion dollar acquisitions as midstream companies looked to secure future volumes. On January 23rd, Targa Resources Corporation (TRGP) agreed to purchase Outrigger Energy in a structured deal that could ultimately reach $1.5 Billion(B) should throughput on the system reach certain thresholds.[9] The next day, Plains All American Pipeline LP (PAA) announced it had agreed to purchase the Alpha Crude Connector system from Concho Resources (CXO) for $1.2B.[10] Both of these transactions involved gathering systems in the rapidly developing Delaware Basin region of the Permian Basin. Further away from the wellhead, we also saw several pipeline projects

[1] The Organization of Petroleum Exporting Countries (OPEC) is a group consisting of 12 of the world s major oil-exporting nations.

[2] https://www.bloomberg.com/news/articles/2016-11-30/opec-said-to-agree-oil-production-cuts-as-saudis-soften-on-iran

***mmbpd** = Million barrels oil per day*

[3] Source: Alerian, June 2017. Past performance is not indicative of future results

*[4] **Master Limited Partnership (MLP)** is a type of limited partnership that is publicly traded. There are two types of partners in this type of partnership: The limited partner is the person or group that provides the capital to the MLP and receives periodic income distributions from the MLP s cash flow, whereas the general partner is the party responsible for managing the MLP s affairs and receives compensation that is linked to*

the performance of the venture.

[5] ***Incentive Distribution Rights (IDRs)*** *give a limited partnership s general partner an increasing share in the incremental distributable cash flow the partnership generates.*

[6] *http://investor.williams.com/press-release/williams/williams-and-williams-partners-announce-financial-repositioning-long-term-sus, http://ir.oneok.com/news-and-events/press-releases/2017/05-25-2017-222958579, https://www.dcpmidstream.com/company/dcp-midstream-llc-archive/press-releases/2017transaction*

[7] *Source: Baker Hughes Rig Count, June 2017*

[8] *Source: Baker Hughes Rig Count, June 2017.* ***Permian Basin*** *is a sedimentary basin largely contained in the western part of the US state of Texas and the southeastern part of the US state of New Mexico. It reaches from just south of Lubbock, to just south of Midland and Odessa, extending westward into the southeastern part of New Mexico.*

[9] *http://ir.targaresources.com/trc/releasedetail.cfm?ReleaseID=1008671*

[10] *http://ir.paalp.com/profiles/investor/ResLibraryView.asp?ResLibraryID=82933&GoTopage=1&Category=117&BzID=789&G=549*

announced that would increase crude oil takeaway capacity from the Permian Basin by nearly 800 mbpd with another 1.1 mmbpd of additional capacity being considered (current takeaway capacity is roughly 2.1 mmbpd).[1]

Investors continued to bid up MLPs through February as crude oil prices approached $55 per barrel as it became apparent that OPEC nations were adhering to their agreed upon production levels.[2] As the calendar turned to March, fear crept into the crude oil markets as inventory levels remained stubbornly high. The price of crude oil fell back to the mid $40s and suddenly investors worried about the sustainability/inevitability of the crude oil production rally. Crude oil did manage to rally back into the $50s for most of April but the rally stalled out before matching the February highs.[3] Absent setting a new high, there was just one direction that crude oil could go- lower. Crude oil closed at $48.32 on May 31st and has continued to fall in June.[3] Unfortunately, MLPs have followed crude oil lower and by the middle of May, the AMZ was negative for 2017. In the first half of the Fund s fiscal year, the AMZ closed with a small 2.2% gain after being up as much as 13%.[3]

We sense that a here we go again mindset has set in amongst MLP investors at present which we believe is unfortunate. No one wants to go through late 2015/early 2016 again but we suggest taking a step back and asking yourself a few questions. First, why is the price of crude oil falling? Most would point to a rapid recovery in US crude oil production. What sector stands to benefit from increased crude oil production? Midstream. Higher volumes mean increased throughput which translates to increased revenues while the cost to transport that incremental barrel is negligible. The dramatic pullback in the energy space in 2015-16 came while crude oil production, rig counts, and the price of crude oil were all dropping. At the same time, energy credit spreads were widening and the energy capital markets were prohibitively expensive.[4] Only one of those conditions exist today- falling crude oil prices. From a balance sheet standpoint, we believe that for the most part the energy industry is in a much better position today than in 2015 and while it is quite possible that we could see a prolonged period of relatively low crude oil prices, many upstream companies could still be profitable and continue to drive US hydrocarbon production higher.

We believe in the resiliency of the domestic energy industry and appreciate your confidence in investing with us.

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.

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

[1] *http://www.ogfj.com/articles/2017/04/permian-growth-overwhelms-pipeline-capacity.html*

mbpd *thousand barrels oil per day*

[2] *Source: Bloomberg, June 2017.*

[3] *Source: Alerian, June 2017. Past performance is not indicative of future results*

[4] ***Credit Spreads** are the difference in yield between two bonds of similar maturity, but different credit quality.*

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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.

	Period Ended May 31, 2017
Net investment loss	$ (417,365)
Reconciling items:	
Return of capital of distributions[(a)]	7,217,225
Dividends paid in stock[(b)]	1,023,050
Option premium earnings[(c)]	638,851
Deferred carried interest on investment in EMG Utica[(d)]	71,135
Distributable cash flow (non-GAAP)	$ 8,532,896
Distributions paid on common stock	$ 8,648,555
Distributable cash flow coverage ratio (non-GAAP)	0.99

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.

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Consolidated Schedule of Investments (Unaudited)

Salient Midstream & MLP Fund

May 31, 2017

	Shares/Units	Fair Value
Master Limited Partnerships and Related Companies 134.5%		
Gathering & Processing 34.0%		
United States 34.0%		
Enable Midstream Partners LP[a][b]	575,209	$ 8,875,475
EnLink Midstream LLC[a]	878,650	14,980,983
Hess Midstream Partners LP[b]	4,681	108,786
MarkWest Utica EMG, LLC[b][c][d][e][f]	16,000,000	25,842,000
Summit Midstream Partners LP[b]	109,198	2,522,474
Targa Resources Corp.[a]	463,810	21,302,793
Western Gas Partners LP[a][b]	57,232	3,189,539
		76,822,050
Liquids Transportation & Storage 37.5%		
Canada 3.5%		
Enbridge, Inc.[a]	204,974	7,893,549
United States 34.0%		
Enbridge Energy Management LLC[a][b][g]	1,176,440	18,917,155
Genesis Energy LP[a][b]	351,573	10,965,562
MPLX LP[a][b]	76,412	2,525,417
NGL Energy Partners LP[a][b]	348,369	4,737,818
NuStar Energy LP[b]	58,929	2,685,984
Plains GP Holdings LP, Class A[b][h]	867,226	23,128,917
SemGroup Corp., Class A[a][h]	442,867	13,728,877
		76,689,730
Marine Midstream 4.3%		
Republic of the Marshall Islands 4.3%		
Dynagas LNG Partners LP	330,800	4,594,812
Golar LNG Partners LP[h]	261,338	5,164,039
		9,758,851
Natural Gas Pipelines & Storage 42.3%		
United States 42.3%		
DCP Midstream LP[a][b]	85,031	2,872,347
Energy Transfer Equity LP[a][b]	846,992	14,432,744
Energy Transfer Partners LP[a][b]	640,962	13,947,333
Enterprise Products Partners LP[a][b]	203,070	5,444,307
ONEOK, Inc.[a]	565,525	28,095,282
Tallgrass Energy GP LP[a][b]	393,109	10,130,419
Tallgrass Energy Partners LP[a][b]	67,546	3,350,281
The Williams Companies, Inc.[a]	600,110	17,163,146

		95,435,859
Oil Service & Other Specialty 1.2%		
United States 1.2%		
Martin Midstream Partners LP[(b)]	153,245	2,789,059

See accompanying Notes to Consolidated Financial Statements. *6*

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Consolidated Schedule of Investments (Unaudited)

Salient Midstream & MLP Fund

May 31, 2017

	Shares/Units	Fair Value
Other Energy & Infrastructure 15.2%		
United States 15.2%		
Macquarie Infrastructure Corp.[(a)]	258,582	$ 20,143,538
NextEra Energy Partners LP[(a)(b)]	103,444	3,572,956
NRG Yield, Inc., Class A[(a)(b)]	367,607	6,322,840
NRG Yield, Inc., Class C[(a)(b)]	247,833	4,386,644
		34,425,978
Total Master Limited Partnerships and Related Companies (Cost $250,671,624)		303,815,076
Convertible Preferred Stocks 6.5%		
Natural Gas Pipelines & Storage 6.5%		
United States 6.5%		
Kinder Morgan, Inc. Series A, 9.750%	345,791	14,654,623
Total Convertible Preferred Stocks (Cost $17,383,437)		14,654,623
Total Investments 141.0% (Cost $268,055,061)		**318,469,699**
Credit Facility (40.4)%		**(91,339,219)**
Other Assets and Liabilities[(i)] (0.6)%		**(1,229,637)**
Total Net Assets Applicable to Common Shareholders 100.0%		**$ 225,900,843**

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 May 31, 2017, the total fair value of securities held as collateral for the line of credit agreement is $201,706,407.

(b) Non-income producing security.

(c) Securities determined to be illiquid under the procedures approved by the Fund s Board of Trustees and represent 11.4% 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 11.4% 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) Distributions are paid-in-kind.

(h) All or a portion of these securities are held as collateral for the written call options. As of May 31, 2017, the total fair value of securities held as collateral for the written call options is $18,838,762.

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