

Salient Midstream & MLP Fund  
Form N-Q  
October 25, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS 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)

*With a Copy To:*

Gregory A. Reid, Principal Executive Officer

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) 993-4001

Date of fiscal year end: November 30

Date of reporting period: August 31, 2018

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to Rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory,

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disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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.

**Item 1 Schedule of Investments.**

The Schedule of Investments of the Salient Midstream & MLP Fund is included herewith.

## Schedule of Investments (Unaudited)

## Salient Midstream &amp; MLP Fund

August 31, 2018

|   | Shares/Units | Fair Value    |
|---|--------------|---------------|
| <b>Master Limited Partnerships and Related Companies-130.4%</b>   |              |               |
| <b>Gathering &amp; Processing-29.2%</b>                           |              |               |
| <b>United States-29.2%</b>  |              |               |
| EMG Utica I Offshore Co-Investment, L.P. <sup>(a)(b)(c)(d)</sup>  | 16,000,000   | \$ 24,291,104 |
| Enable Midstream Partners LP <sup>(d)(e)</sup>                    | 375,517      | 5,846,800     |
| EnLink Midstream LLC <sup>(e)(f)</sup>                            | 492,698      | 8,030,977     |
| Targa Resources Corp. <sup>(d)(e)</sup>                           | 358,953      | 19,767,542    |
| Western Gas Partners LP <sup>(d)(e)</sup>                         | 80,612       | 3,937,896     |
|   |              | 61,874,319    |
| <b>Liquids Transportation &amp; Storage-38.9%</b>                 |              |               |
| <b>Canada-10.7%</b>   |              |               |
| Enbridge, Inc. <sup>(e)(f)</sup>                                  | 344,212      | 11,761,724    |
| Inter Pipeline, Ltd.  | 150,849      | 2,771,923     |
| TransCanada Corp.   | 191,504      | 8,158,070     |
|   |              | 22,691,717    |
| <b>United States-28.2%</b>  |              |               |
| Enbridge Energy Management LLC (PIK rate 3.29%) <sup>(e)(g)</sup> | 706,685      | 7,667,532     |
| Genesis Energy LP <sup>(d)(e)(f)</sup>                            | 455,195      | 10,892,816    |
| MPLX LP <sup>(d)</sup>  | 138,333      | 4,906,672     |
| NGL Energy Partners LP <sup>(d)</sup>                             | 405,790      | 4,626,006     |
| Plains GP Holdings LP, Class A <sup>(d)(e)(f)</sup>               | 748,796      | 19,303,961    |
| SemGroup Corp., Class A <sup>(e)</sup>                            | 512,857      | 12,411,139    |
|   |              | 59,808,126    |
| <b>Marine Midstream-1.7%</b>                                      |              |               |
| <b>Monaco-1.2%</b>  |              |               |
| GasLog Partners LP  | 103,627      | 2,518,136     |
| <b>Republic of the Marshall Islands-0.5%</b>                      |              |               |
| Golar LNG Partners LP   | 85,898       | 1,161,341     |
| <b>Natural Gas Pipelines &amp; Storage-48.6%</b>                  |              |               |
| <b>Canada-3.0%</b>  |              |               |
| Pembina Pipeline Corp. <sup>(e)</sup>                             | 187,666      | 6,403,164     |

| <b>United States-45.6%</b>                        |         |            |
|---|---------|------------|
| DCP Midstream LP <sup>(d)</sup>                   | 54,002  | 2,225,423  |
| Energy Transfer Equity LP <sup>(d)(e)</sup>       | 669,361 | 11,713,818 |
| Energy Transfer Partners LP <sup>(d)</sup>        | 690,648 | 15,574,112 |
| Enterprise Products Partners LP <sup>(d)(e)</sup> | 348,539 | 9,968,215  |
| Kinder Morgan, Inc.                               | 471,809 | 8,351,019  |
| ONEOK, Inc. <sup>(e)</sup>                        | 221,890 | 14,624,770 |
| Tallgrass Energy GP LP <sup>(d)(e)(f)</sup>       | 422,781 | 10,396,185 |
| The Williams Companies, Inc. <sup>(e)</sup>       | 797,880 | 23,609,269 |
|   |         | 96,462,811 |

**Other Energy & Infrastructure-12.0%**

| <b>United States-12.0%</b>                       |         |            |
|--|---------|------------|
| Archrock, Inc. <sup>(d)</sup>                    | 79,286  | 1,002,968  |
| Macquarie Infrastructure Corp. <sup>(e)(f)</sup> | 306,273 | 14,407,082 |
| NextEra Energy Partners LP <sup>(d)(e)</sup>     | 151,019 | 7,324,421  |
| NRG Yield, Inc., Class A <sup>(d)</sup>          | 70,295  | 1,384,109  |
| Viper Energy Partners LP                         | 33,387  | 1,299,088  |
|  |         | 25,417,668 |

|   | Fair Value           |
|---|----------------------|
| Total Master Limited Partnerships and Related Companies<br>(Cost \$218,412,331) | \$276,337,282        |
| <b>Total Investments-130.4% (Cost \$218,412,331)</b>                            | <b>276,337,282</b>   |
| <b>Credit Facility-(32.7%)</b>  | <b>(69,239,219)</b>  |
| <b>Other Assets and Liabilities-2.3%</b>  | <b>4,778,434</b>     |
| <b>Total Net Assets Applicable to Common Shareholders-100.0%</b>                | <b>\$211,876,497</b> |

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

- (a) Securities determined to be illiquid under the procedures approved by the Fund's Board of Trustees and represent 11.5% of net assets applicable to common shareholders.
- (b) Securities have been fair valued in good faith using fair value procedures approved by the Board of Trustees and represent 11.5% of net assets applicable to common shareholders. See Notes to Schedule of Investments for further information.
- (c) EMG Utica I Offshore Co-Investment L.P. 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 Schedule of Investments for further information.
- (d) Non-income producing security.
- (e) All or a portion of these securities are held as collateral for the line of credit agreement. As of August 31, 2018, the total fair value of securities held as collateral for the line of credit agreement is \$150,780,716.
- (f) All or a portion of these securities are held as collateral for the written call options. As of August 31, 2018, the total fair value of securities held as collateral for the written call options is \$22,818,052.
- (g) Distributions are paid-in-kind.

#### Written Call Options:

| Description                    | Counterparty   | Exercise Price | Expiration Date | Number of Contracts | Notional Value | Fair Value | Unrealized Appreciation (Depreciation) |
|--------------------------------|----------------|----------------|-----------------|---------------------|----------------|------------|--|
| Enbridge, Inc.                 | Morgan Stanley | \$37.50        | 09/21/2018      | 688                 | \$ 2,350,896   | \$ (1,720) | \$ 22,164                              |
| Genesis Energy LP              | Morgan Stanley | 25.00          | 09/21/2018      | 700                 | 1,675,100      | (10,500)   | 6,451                                  |
| Macquarie Infrastructure Corp. | Morgan Stanley | 47.50          | 09/21/2018      | 1,200               | 5,644,800      | (57,000)   | 4,757                                  |
|                                | Morgan Stanley | 26.00          | 09/21/2018      | 1,120               | 2,887,360      | (53,200)   | 29,360                                 |

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|             |                |       |            |       |               |             |           |
|-------------|----------------|-------|------------|-------|---------------|-------------|-----------|
| Plains GP   |                |       |            |       |               |             |           |
| Holdings LP |                |       |            |       |               |             |           |
| Plains GP   | Morgan Stanley |       |            |       |               |             |           |
| Holdings LP |                | 27.00 | 09/21/2018 | 1,500 | 3,867,000     | (22,500)    | 28,823    |
| Tallgrass   | Morgan Stanley |       |            |       |               |             |           |
| Energy LP   |                | 25.00 | 09/21/2018 | 880   | 2,163,920     | (35,200)    | (18,294)  |
|             |                |       |            |       | \$ 18,589,076 | \$(180,120) | \$ 73,261 |

Salient Midstream & MLP Fund invested in the following industries as of August 31, 2018:

|                                  | <b>Value</b>          | <b>% of Total<br/>Investments</b> |
|----------------------------------|-----------------------|-----------------------------------|
| Gathering & Processing           | \$ 61,874,319         | 22.4%                             |
| Liquids Transportation & Storage | 82,499,843            | 29.9%                             |
| Marine Midstream                 | 3,679,477             | 1.3%                              |
| Natural Gas Pipelines & Storage  | 102,865,975           | 37.2%                             |
| Other Energy & Infrastructure    | 25,417,668            | 9.2%                              |
| <b>Total</b>                     | <b>\$ 276,337,282</b> | <b>100.0%</b>                     |

Salient Midstream & MLP Fund invested in securities with exposure to the following countries as of August 31, 2018:

|                                  | <b>Value</b>          | <b>% of Total<br/>Investments</b> |
|----------------------------------|-----------------------|-----------------------------------|
| Canada                           | \$ 29,094,881         | 10.5%                             |
| Monaco                           | 2,518,136             | 0.9%                              |
| Republic of the Marshall Islands | 1,161,341             | 0.4%                              |
| United States                    | 243,562,924           | 88.2%                             |
| <b>Total</b>                     | <b>\$ 276,337,282</b> | <b>100.0%</b>                     |

See accompanying Notes to Schedule of Investments.



Notes to Schedule of Investments

August 31, 2018

(Unaudited)

**(1) ORGANIZATION**

Salient Midstream & MLP Fund (the Fund), a Delaware statutory trust registered under the Investment Company Act of 1940, as amended (the 1940 Act), commenced operations on May 24, 2012 as a non-diversified, closed-end management investment company. The Fund is authorized to issue an unlimited number of common shares of beneficial interest (Common Shares), which may be issued in more than one class or series. The Fund's Common Shares are listed on the New York Stock Exchange (NYSE) under the symbol SMM.

The Fund's objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to its common shareholders. The Fund seeks to achieve its investment objective by investing at least 80% of its total assets in securities of midstream companies and master limited partnerships (MLPs).

The board of trustees of the Fund (each member thereof a Trustee and collectively, the Board) is authorized to engage an investment advisor, and pursuant to an investment management agreement (the Investment Management Agreement), it has selected Salient Capital Advisors, LLC (the Advisor) to manage the Fund's portfolio and operations. The Advisor is a Texas limited liability company that is registered as an investment advisor under the Investment Advisors Act of 1940, as amended. Under the Investment Management Agreement, the Advisor is responsible for the establishment of an investment committee (the Investment Committee), which is responsible for developing, implementing, and supervising the Fund's investment program subject to the ultimate supervision of the Board.

Under the Fund's organizational documents, the Fund's Trustees and officers are indemnified against certain liabilities arising out of the performance of their duties with respect to the Fund. In addition, in the normal course of business, the Fund enters into contracts with vendors and others that provide general indemnification. The Fund's maximum exposure under these arrangements is unknown as this would involve any future potential claims that may be made against the Fund. However, based on experience, management expects that risk of loss to be remote.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES**

**(a) BASIS OF ACCOUNTING**

The Schedule of Investments has been prepared in conformity with generally accepted accounting principles in the United States of America (U.S. GAAP) and reflects the financial position of the Fund. The Fund is an investment company and follows the investment company accounting and reporting guidance under FASB ASC Topic 946, Financial Services-Investment Companies.

**(b) CASH EQUIVALENTS**

The Fund considers all unpledged temporary cash investments with a maturity date at the time of purchase of three months or less to be cash equivalents.

**(c) PORTFOLIO SECURITIES TRANSACTIONS**

Security transactions are accounted for on a trade date basis. Realized gains and losses are reported using the specific identification cost basis.

***(d) INVESTMENT VALUATION***

Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

The valuation of the Fund's investments is determined each day based on the most recent close of regular session trading on the NYSE and reported by ALPS Fund Services, Inc., the Fund's independent administrator (the Administrator or ALPS).

The Board has formed a valuation committee (the Board Valuation Committee) that is responsible for overseeing the Fund's valuation policies, making recommendations to the Board on valuation-related matters, and overseeing implementation by the Advisor of the Fund's valuation policies.

The Board has authorized the Advisor to establish a valuation committee of the Advisor (the Advisor Valuation Committee). The Advisor Valuation Committee's function, subject to oversight of the Board Valuation Committee and the Board, is generally to review the Fund's valuation methodologies, valuation determinations, and any information provided to the Advisor Valuation Committee by the Advisor or the Administrator.

To the extent that the price of a security cannot be determined applying the methods described below, the Advisor Valuation Committee in conjunction with the Administrator will determine the price of the security pursuant to the fair value procedures approved by the Board.

Investments held by the Fund are valued as follows:

**SECURITIES LISTED ON A SECURITIES EXCHANGE OR OVER-THE-COUNTER EXCHANGES** In general, the Fund values those securities at their last sales price on the exchange or over-the-counter market or a market's official closing price on the valuation date. If the security is listed on more than one exchange, the Fund uses the price from the exchange that it considers to be the principal exchange on which the security is traded. If there have been no sales for that day on the exchange where the security is principally traded, then the price of the security will be valued at the mean between the closing bid and ask prices on the valuation date.

**PUBLICLY-TRADED EQUITY SECURITIES ACQUIRED IN A DIRECT PLACEMENT TRANSACTION** Such securities may be subject to restrictions on resale that can affect the security's liquidity and fair value. Such securities that are convertible or otherwise will become freely tradable will be valued based on the market value of the freely tradable security less an applicable restriction discount. Generally, the discount will initially be equal to the discount at which the Fund purchased the securities and thereafter will be periodically reassessed and likely reduced over the anticipated restricted period.

**DERIVATIVES** Exchange traded futures contracts are valued using quoted final settlement prices from the national exchange on which they are principally traded. If no such price is reported by such exchange on the valuation date, the Advisor Valuation Committee will determine the fair value in good faith using information that is available at such time. Options that are listed on a securities exchange are generally

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valued on the valuation date at the mean of the closing bid and ask prices of the posted market on the exchange on which they are listed. If on the valuation date the primary exchange is closed, the prior day price will be used. If no such price is reported, the fair value of such options will be determined in good faith using industry standard pricing models utilizing publicly available input information on the valuation date.

Options traded on an over-the-counter market are generally valued using the mean of the closing bid and ask prices provided by an independent pricing service. If a quotation is not available from the independent pricing service, the price is obtained from a broker (typically counterparty to the option) on the valuation date. If no such price is available on the valuation date, the Advisor Valuation Committee in conjunction with the Administrator will determine the fair value of such options in good faith using information that is available at such time.

Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

Non exchange-traded derivatives, such as swap agreements, are valued based on procedures approved by the Board. Credit default swaps and total return swaps are generally fair valued using evaluated quotes provided by an independent pricing service. If a quotation is not available from the independent pricing service, the price is obtained from a broker (typically the counterparty to the swap agreement) on the valuation date.

**SECURITIES NOT ACTIVELY TRADED** The value of securities, derivatives or synthetic securities that are not actively traded on an exchange are determined by obtaining quotes from brokers that normally deal in such securities or by an unaffiliated pricing service that may use actual trade data or procedures using market indices, matrices, yield curves, specific trading characteristics of certain groups of securities, pricing models or a combination of these procedures. Securities for which independent pricing services are not available are valued pursuant to the valuation procedures approved by the Board.

**INVESTMENT FUNDS** Investments in investment limited partnerships and shares in unregistered investment funds ( Investment Funds ) for which a market value is not available will generally be valued using the partners' capital or net asset value (the NAV ) as a practical expedient, as reported by the Investment Fund managers or the administrators of such Investment Funds. These Investment Funds value their underlying investments in accordance with policies established by such Investment Funds. Prior to investing in any Investment Fund, the Adviser Valuation Committee, as part of the due diligence process, conducts a review of the valuation methodologies employed by the Investment Fund to determine whether such methods are appropriate for the asset types. The Adviser Valuation Committee will consider whether it is appropriate, in light of the relevant circumstances, to value shares at NAV as reported by an Investment Fund for valuation purposes, or whether to adjust such reported value to reflect an adjusted fair value. Because of the inherent uncertainty of valuation, fair value may differ significantly from the value that would have been used had readily available markets for the investments in Investment Funds existed. The Fund's investments in Investment Funds are subject to the terms and conditions of the respective operating agreements and offering memoranda of such Investment Funds.

**OTHER** Investments in private placement securities and other securities for which market quotations are not readily available will be valued in good faith by using fair value procedures approved by the Board. Such fair value procedures may consider among other factors discounts to publicly traded issues, time until conversion date, securities with similar yields, quality, type of issue, coupon, duration and rating, and an analysis of the issuer's financial statements and reports. Valuation techniques such as the market approach and/or income approach may be used when sufficient and reliable data is available. If events occur that affect the value of the Fund's securities before the NAV has been calculated, the securities so affected will generally be priced using fair value procedures.

**(e) FOREIGN CURRENCY**

The accounting records of the Fund are maintained in U.S. dollars. Foreign currency amounts and investments denominated in a foreign currency, if any, are translated into U.S. dollar amounts at current exchange rates on the valuation date. Purchases and sales of investments denominated in foreign currencies are translated into U.S. dollar amounts at the exchange rate on the respective dates of such transactions.

***(f) MASTER LIMITED PARTNERSHIPS***

Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. The Fund invests in MLPs receiving partnership taxation treatment under the Internal Revenue Code of 1986, as amended (the Code), and whose interests or units are traded on

## Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

securities exchanges like shares of corporate stock. To be treated as a partnership for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real property rents, gains on dispositions of real property, income and gains from mineral or natural resources activities, income and gains from the transportation or storage of certain fuels, and, in certain circumstances, income and gains from commodities or futures, forwards and options on commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members).

The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership or limited liability company. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The Fund's investments in MLPs consist only of limited partner or member interest ownership. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/or natural resources sector.

**(g) RESTRICTED AND ILLIQUID SECURITIES**

The Fund may invest up to 30% of its total assets in unregistered or otherwise restricted securities of which up to 10% may be in securities of privately held companies. A restricted security is a security which has been purchased through a private offering and cannot be resold to the general public without prior registration under the Securities Act of 1933 (the 1933 Act) or pursuant to the resale limitations provided by Rule 144 under the 1933 Act, or an exemption from the registration requirements of the 1933 Act. Illiquid securities are securities that cannot be sold or disposed of within a reasonable amount of time in the ordinary course of business. Certain restricted securities may be resold in transactions exempt from registration, normally to qualified institutional buyers, and may be deemed liquid by the Advisor based on procedures approved by the Board. Therefore, not all restricted securities are considered illiquid.

The restricted securities held at August 31, 2018 are identified below and are also presented in the Fund's Schedule of Investments.

| <b>Security</b>                           | <b><u>% of Net Assets</u></b> | <b><u>Acquisition Date</u></b> | <b><u>Shares/Units</u></b> | <b><u>Cost</u></b> | <b><u>Fair Value</u></b> |
|---|-------------------------------|--------------------------------|----------------------------|--------------------|--------------------------|
| EMG Utica I Offshore Co-Investment, L.P.* | 11.5%                         | 2/22/2013                      | 16,000,000                 | \$16,000,000       | \$24,291,104             |
| Total Restricted Securities               | 11.5%                         |                                |                            | \$16,000,000       | \$24,291,104             |

\* *EMG Utica I Offshore Co-Investment, L.P. has been deemed illiquid by the Advisor based on procedures approved by the Board.*

***(h) USE OF ESTIMATES***

The Schedule of Investments has been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities in the Schedule of Investments. Actual results may differ from those estimates and such differences may be significant.

***(i) DERIVATIVE INSTRUMENTS***



Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

The Fund may invest in derivatives in order to meet its investment objectives. The risk in using derivatives varies depending upon the structure of the instruments. All open derivative positions at period end, if any, are presented in the Fund's Schedule of Investments. The following is a description of the derivative instruments that the Fund has utilized as part of its investment strategy, including the primary underlying risk exposures related to each instrument type.

**OPTIONS** The Fund may write equity call options with the purpose of generating realized gains from premiums as a means to enhance distributions to the Fund's common shareholders. Options are secured by investments, as detailed in the Fund's Schedule of Investments. A call option on a security is a contract that gives the holder of such call option the right to buy the security underlying the call option from the writer of such call option at a specified price at any time during the term of the option. At the time the call option is sold, the writer of a call option receives a premium from the buyer of such call option. If the Fund writes a call option, it will have the obligation upon exercise of such call option to deliver the underlying security upon payment of the exercise price. As the writer of a covered call option, during the option's life, the Fund gives up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but the Fund retains the risk of loss should the price of the underlying security decline.

**FUTURES CONTRACTS** The Fund may invest in futures contracts as a part of its hedging strategy to manage exposure to interest rate, equity and market price movements, and commodity prices. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date. The underlying asset is not physically delivered. Futures contracts are valued at their quoted daily settlement prices. Upon entering into a futures contract, the Fund is required to segregate liquid assets in accordance with the initial margin requirements of the clearinghouse to secure the Fund's performance. The clearinghouse also requires daily settlement of variation margin representing changes in the value of each contract. Fluctuations in the value of the contracts are recorded as unrealized appreciation (depreciation) until the contracts are closed, when they are recorded as net realized gain (loss) on futures contracts. The primary risks associated with the use of futures contracts are imperfect correlation between changes in fair values of the underlying assets and the prices of futures contracts, and the possibility of an illiquid market. Counterparty risk involving futures is mitigated because a regulated clearinghouse is the counterparty.

**SWAP AGREEMENTS** The Fund may invest in swap agreements, including credit default and total return swap agreements, in connection with its hedging strategy to manage market risks.

A total return swap is a bilateral financial contract agreement where one party (the payer) agrees to pay the other (the receiver) the total return on a specified asset or index in exchange for a fixed or floating rate of return. A total return swap allows the receiver or payer to derive the economic benefit of owning or having short exposure to an asset without owning or shorting the underlying asset directly. The receiver is entitled to the amount, if any, by which the notional amount of the total return swap would have increased in value had it been invested in the particular instruments, plus an amount equal to any dividends or interest that would have been received on those instruments. In return, the payer is entitled to an amount equal to a fixed or floating rate of interest (e.g., a LIBOR based rate) on the notional amount of the swap plus the amount, if any, by which the notional amount would have decreased in value had it been invested in such instruments, less any dividends or interest. The amounts to which each party is entitled are normally netted against each other at periodic settlement dates, resulting in a single amount that is either due to or

from each party.

A credit default swap gives one party (the buyer) the right to recoup the economic value of a decline in the value of debt securities of the reference issuer if a credit event (a downgrade, bankruptcy or default) occurs. This value is obtained by delivering a debt security of the reference issuer to the party in return for a previously agreed upon payment from the other party (frequently, the par value of the debt security) or receive a net amount equal to the par value of the defaulted reference entity less its recovery value. The Fund is usually a net buyer of credit default swap.

Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

The Fund as a buyer of a credit default swap would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event by the reference issuer with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the agreement provided that no event of default or other credit event has occurred. If no default or other credit event occurs, the counterparty would keep the stream of payments and would have no further obligations to the Fund.

In addition to being exposed to the credit risk of the underlying reference entity, swap agreements are subject to counterparty risk, market risk and interest rate risk. Swap agreements utilized by the Fund may not perform as expected. Risks may arise as a result of the failure of the counterparty to perform under the agreement. The loss incurred by the failure of a counterparty is generally limited to the market value and premium amounts recorded. The Fund considers the creditworthiness of each counterparty to a swap agreement in evaluating potential credit risk, and will not enter into any swap agreement unless the Advisor believes the counterparty to the transaction is creditworthy. Additionally, risks may arise from the unanticipated movements in interest rates or in the value of the underlying reference assets. The Fund may use various techniques to minimize credit risk including early termination or reset and payment. Collateral, in the form of cash, is held in broker segregated accounts for swap agreements.

***(j) CFTC REGULATION***

The Commodity Futures Trading Commission ( CFTC ) adopted rules to harmonize conflicting United States Securities and Exchange Commission (the SEC ) and CFTC disclosure, reporting and recordkeeping requirements for registered investment companies that do not meet an exemption from the definition of commodity pool. The harmonization rules provide that the CFTC will accept the SEC 's disclosure, reporting, and recordkeeping regime as substituted compliance for substantially all of the otherwise applicable CFTC regulations as long as such investment companies meet the applicable SEC requirements.

With respect to the Fund, the Advisor has claimed an exemption from the definition of the term commodity pool operator under CFTC Regulation 4.5 of the Commodity Exchange Act ( CEA ). As such, the Fund is not currently subject to registration or regulation as a commodity pool under the CEA.

**(3) FAIR VALUE MEASUREMENTS**

The Fund defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The valuation techniques employed by the Fund, as described below, maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The inputs used to determine the fair value of the Fund 's investments are summarized in the three broad levels listed below:

Level 1 unadjusted quoted prices in active markets for identical investments

Level 2 investments with other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 investments with significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments) that are developed based on the best information available

Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

Changes in valuation techniques may result in transfers in or out of an assigned level within the disclosure hierarchy. The Fund discloses transfers between levels based on valuations at the end of the reporting period. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments.

Other assets and securities, which are generally not exchange-traded, or for which market quotations are not readily available, or are deemed unreliable are valued at fair value as determined in good faith by the Advisor Valuation Committee. Fair value pricing may be used for significant events such as securities for which trading has been suspended, prices have become stale or for which there is no currently available price at the close of the NYSE. When observable prices are not available, the Advisor Valuation Committee may use one or more valuation techniques such as the market approach, the income approach, or internal pricing models for which sufficient and reliable data is available. The market approach generally consists of using comparable market data and transactions. The income approach generally consists of estimating future cash flows from an investment to determine the net present value. A significant change in the unobservable inputs could result in a significantly lower or higher fair value measurement. Depending on the source and relative significance of valuation inputs, these investments may be classified as Level 2 or Level 3 in the fair value hierarchy.

The Fund establishes valuation processes and procedures to ensure that the valuation techniques for investments that are categorized within Level 3 of the fair value hierarchy are fair, consistent, and appropriate. The Advisor is responsible for developing the Fund's written valuation processes and procedures, conducting periodic reviews of the valuation policies, and evaluating the overall fairness and consistent application of the valuation policies. The Board Valuation Committee has authorized the Advisor to oversee the implementation of the Board approved valuation procedures by the Administrator. The Advisor Valuation Committee is comprised of various Fund personnel, which include members from the Fund's portfolio management and operations groups. The Advisor Valuation Committee meets monthly or as needed, to determine the valuations of the Fund's Level 3 investments. Fund valuations are required to be supported by market data, industry accepted third-party valuation models, or other methods the Advisor Valuation Committee deems to be appropriate, including the use of internal proprietary valuation models.

The following is a summary categorization of the Fund's investments based upon the three levels defined above as of August 31, 2018. The breakdown by category of equity securities is disclosed in the Schedule of Investments.

|                                  |                |  |                                  | <b>Investments<br/>Valued at<br/>NAV as a<br/>Practical<br/>Expedient*</b> |                                  |                            |
|----------------------------------|----------------|--|----------------------------------|--|----------------------------------|----------------------------|
|                                  | <b>LEVEL 1</b> | <b>LEVEL<br/>2</b>                     | <b>LEVEL<br/>3</b>               |  | <b>Total</b>                     |                            |
| <b>Investment<br/>Securities</b> |                | <b>Other Investment<br/>Securities</b> | <b>Investment<br/>Securities</b> | <b>Investment<br/>Securities</b>   | <b>Investment<br/>Securities</b> | <b>Other<br/>Financial</b> |

**Instruments<sup>^</sup>**

**Instruments<sup>^</sup>**

**Master Limited Partnerships  
and Related Companies**

|                        |              |    |    |    |               |              |    |
|------------------------|--------------|----|----|----|---------------|--------------|----|
| Gathering & Processing | \$37,583,215 | \$ | \$ | \$ | \$ 24,291,104 | \$61,874,319 | \$ |
| Other                  | 214,462,963  |    |    |    |               | 214,462,963  |    |

## Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

|                 |                |              |    |               |                |              |
|-----------------|----------------|--------------|----|---------------|----------------|--------------|
| Written Options |                | (180,120)    |    |               |                | (180,120)    |
| Total           | \$ 252,046,178 | \$ (180,120) | \$ | \$ 24,291,104 | \$ 276,337,282 | \$ (180,120) |

<sup>^</sup> *Other financial instruments include any derivative instruments not reflected in the Schedule of Investments as investment securities, such as written call options. These investments are generally presented in the Schedule of Investments at the unrealized gain or loss on the investment.*

*\* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliations of the fair value hierarchy to the amounts presented in the Schedule of Investments.*

There were no transfers between Levels 1, 2, or 3 for the period ended August 31, 2018.

**(4) CREDIT FACILITY**

The Fund maintains a line of credit agreement (the Agreement) with Bank of Nova Scotia (BNS) which provides a \$160,000,000 committed lending facility. Borrowings under the Agreement are secured by investments, as detailed in the Fund's Schedule of Investments. The Agreement provides for a commitment fee of 0.10% per annum on undrawn amounts above a certain threshold plus interest accruing on outstanding borrowed amounts at the one month LIBOR plus 0.95% per annum. At August 31, 2018, the principal balance outstanding was \$69,239,219 at an interest rate of 3.06%.

**(5) RISK CONSIDERATIONS**

The following summary of certain common principal risk factors is not meant to be comprehensive of all the Fund's risks.

**(a) GENERAL MARKET RISK**

An investment in the Fund's common shares represents an indirect investment in the securities owned by the Fund, some of which will be traded on a national securities exchange or in the over-the-counter markets. The value of the securities in which the Fund invests, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which the Fund invests may affect the value of the Fund's common shares. An investment in the Fund's common shares at any point in time may be worth less than the original investment, even after taking into account the reinvestment of the Fund's distributions.

***(b) CONCENTRATION RISK***

The Fund's investment portfolio is concentrated in MLPs and midstream companies. The focus of the portfolio on a specific industry or industries within the midstream sector may present more risks than if the portfolio was broadly diversified over numerous sectors of the economy. A downturn in one or more industries within the midstream sector would have a larger impact on the Fund than on an investment company that does not concentrate solely in MLPs and midstream companies. To the extent that the Fund invests a relatively high percentage of the Fund's assets in the obligations of a limited number of issuers, the Fund may be more susceptible than more widely diversified investment companies to any single economic, political or regulatory occurrence.

***(c) LEVERAGE RISK***



Notes to Schedule of Investments, continued

August 31, 2018

(Unaudited)

Financial leverage represents the leveraging of the Fund's investment portfolio. The use of leverage can amplify losses. Unless the income and capital appreciation, if any, on securities acquired with the proceeds from financial leverage exceed the costs of such financial leverage, the use of leverage could cause the Fund's NAV to decline. When financial leverage is used, the NAV and market value of the Fund's common shares will be more volatile. There is no assurance that the Fund's use of financial leverage will be successful.

**(d) DERIVATIVES RISK**

The Fund may purchase and sell derivative instruments (including, but not limited to, options, futures contracts and swap agreements). The use of derivatives has risks, including high price volatility, government intervention, non-performance by the counterparty, the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction and the illiquidity of the derivative investments. Furthermore, the ability to successfully use these techniques depends on the Advisor's ability to predict pertinent market movements, which cannot be assured. The use of derivatives may result in losses greater than if they had not been used, may require the Fund to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation the Fund can realize on an investment or may cause the Fund to hold a security that the Fund might otherwise sell. In addition, amounts paid by the Fund as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to the Fund for investment purposes.

**(e) COUNTERPARTY RISK**

The Fund will be subject to the risk of the inability of counterparties to perform with respect to transactions, whether due to a contract dispute, insolvency, liquidity or other causes, which could subject the Fund to substantial losses. This risk increases and becomes more concentrated as the number of Fund counterparties decreases. Counterparty risk also increases with the Fund's use of certain over-the-counter derivatives, which lack some of the safeguards afforded on a regulated exchange. Counterparty defaults may have a negative impact beyond the value of the contract as it could lead to the encumbrance of Fund collateral.

**(f) CURRENCY RISK**

Currency risk refers to the possibility that changes in currency exchange rates will negatively affect securities denominated in, and/or receiving revenues in, foreign currencies. The liquidity and trading value of foreign currencies could be affected by global economic factors, such as inflation, interest rate levels, and trade balances among countries, as well as the actions of sovereign governments. Adverse changes in currency exchange rates (relative to the U.S. dollar) may erode or reverse any potential gains from the Fund's investments in securities denominated in a foreign currency or may widen existing losses. The Fund's net currency positions may expose it to risks independent of its securities positions.

**Item 2 Controls and Procedures.**

- (a) The registrant's principal executive officer and principal financial officer have evaluated the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of the date of this filing and have concluded that the registrant's disclosure controls and procedures were effective as of that date.
  
- (b) There was no change in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3 Exhibits.**

Separate certifications for the registrant's principal executive officer and principal financial officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as EX-99.CERT.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Salient Midstream & MLP Fund

By: /s/ Gregory A. Reid  
Gregory A. Reid  
Principal Executive Officer

Date: October 25, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Gregory A. Reid  
Gregory A. Reid  
Principal Executive Officer

Date: October 25, 2018

By: /s/ Barbara H. Tolle  
Barbara H. Tolle  
Principal Financial Officer

Date: October 25, 2018