

Salient MLP & Energy Infrastructure Fund  
Form N-2/A  
May 19, 2011  
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As filed with the Securities and Exchange Commission on May 18, 2011

1933 Act File No. 333-172654

1940 Act File No. 811-22530

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form N-2**

**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*  
**PRE-EFFECTIVE AMENDMENT NO. 3**  
**POST-EFFECTIVE AMENDMENT NO.**  
*and/or*

x  
x  
..

**REGISTRATION STATEMENT**

*UNDER*

*THE INVESTMENT COMPANY ACT OF 1940*  
**AMENDMENT NO. 3**

x  
x

# Salient MLP & Energy Infrastructure Fund

(Exact Name of Registrant as Specified in Charter)

4265 San Felipe, Suite 800

Houston, Texas 77027

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (713) 993-4675

A. Haag Sherman

Salient MLP & Energy Infrastructure Fund

4265 San Felipe, Suite 800

Houston, Texas 77027

(Name and Address of Agent for Service)

*Copies of Communications to:*

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K&L Gates LLP

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Boston, Massachusetts 02111

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New York, New York 10017

**Approximate Date of Proposed Public Offering:** As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

It is proposed that this filing will become effective (check appropriate box):  when declared effective pursuant to section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

Title of Securities	Amount Being	Proposed Maximum Offering	Proposed Maximum Aggregate	Amount of Registration
Being Registered	Registered(1)	Price Per Share(1)	Offering Price(1)	Fee(1)(2)(3)
Common Shares of Beneficial Interest, \$0.01 par value per share	6,900,000	\$25.00	\$172,500,000	\$20,027.25

- (1) Estimated pursuant to Rule 457(o) solely for the purpose of determining the registration fee.
- (2) Includes Shares that may be offered to the Underwriters pursuant to an option to cover over-allotments.
- (3) \$116.10 of which was previously paid in connection with the initial filing filed on March 7, 2011.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registrant Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**PRELIMINARY PROSPECTUS**

**SUBJECT TO COMPLETION**

**DATED MAY 18, 2011**

**SHARES**

**SALIENT MLP & ENERGY INFRASTRUCTURE FUND**

**COMMON SHARES**

**\$25.00 per share**

*The Fund and Our Investment Objective.* Salient MLP & Energy Infrastructure Fund (the Fund, we, us, or our ) is a newly-organized, non-diversified, closed-end management investment company. Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions ( Distributions ) to our shareholders. There can be no assurance that the Fund will achieve its investment objective. We seek to provide our shareholders with a tax-efficient vehicle to invest in a portfolio of energy infrastructure companies that own midstream and other energy assets. Capitalized terms, not otherwise defined herein, have the meanings ascribed to them in the Glossary of Key Terms on page ii of this prospectus.

*Investment Strategies.* We seek to achieve our investment objective by investing at least 80% of our total assets in securities of MLPs and Energy Infrastructure Companies (as defined below). We anticipate that the majority of our investments will consist of investments in Midstream MLPs and Midstream Energy Infrastructure Companies (as defined below).

*Tax Matters.* We intend to elect to be treated for federal income tax purposes as a regulated investment company, or RIC. As a RIC, we generally will not be required to pay federal income taxes on any ordinary income or capital gains that we receive from our portfolio investments and distribute to our shareholders as dividends. See Tax Matters.

*Investment Adviser.* We are managed by Salient Capital Advisors, LLC, a Texas limited liability company ( SCA ), which is a registered investment adviser and, with its affiliates, is a leading investment adviser to other management investment companies and closed-end funds. As of April 28, 2011, SCA and its affiliates managed assets of approximately \$17.5 billion, including \$250 million in MLPs and Energy Infrastructure Companies.

*No Prior Trading History.* Because the Fund is newly organized, its common shares have no history of public trading. The shares of closed-end investment companies frequently trade at a discount from their net asset value, which may increase investor risk of loss. This risk may be greater for investors expecting to sell their shares in a relatively short period after completion of the initial public offering.

*(continued on next page)*

## Edgar Filing: Salient MLP & Energy Infrastructure Fund - Form N-2/A

It is anticipated that the Fund's common shares will be approved for listing on the New York Stock Exchange (the NYSE), subject to notice of issuance. The trading or ticker symbol of the Fund's common shares is expected to be SMF.

**Investing in the Fund's common shares involves certain risks. You could lose some or all of your investment. See Risk Factors beginning on page 24 of this prospectus.**

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.*

	Per Share	Total <sup>(1)</sup>
Public offering price	\$ 25.00	
Sales load <sup>(2)</sup>	\$ 1.125	
Proceeds, after expenses, to the Fund <sup>(3)</sup>	\$	

- (1) The Fund has granted the underwriters an option to purchase up to \_\_\_\_\_ additional shares at the public offering price, less the sales load, within 45 days from the date of this prospectus solely to cover overallocments, if any. If such option is exercised in full, the total public offering price, sales load and proceeds, after expenses, to the Fund will be approximately \$ \_\_\_\_\_, \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively. See Underwriting.
- (2) SCA, the adviser to the Fund, has agreed to pay from its own assets a structuring fee to Stifel, Nicolaus & Company, Incorporated. This fee is not reflected under the sales load in the table above. See Underwriting.
- (3) Total offering expenses to be paid by the Fund (other than the sales load) are estimated to be approximately \$ \_\_\_\_\_, which represents \$ \_\_\_\_\_ per share, which will reduce the Proceeds, after expenses, to the Fund. SCA has agreed to pay all organizational expenses and the amount by which the aggregate of all our offering costs (other than sales load) exceeds \$0.05 per share.
- The underwriters expect to deliver the shares to purchasers on or about \_\_\_\_\_, 2011.

**Stifel Nicolaus Weisel      RBC Capital Markets      Morgan Keegan**  
**Oppenheimer & Co.      Baird      BB&T Capital Markets**

<b>Davenport &amp; Company LLC</b>	<b>J.J.B. Hilliard, W.L. Lyons, LLC</b>	<b>Ladenburg Thalmann &amp; Co. Inc.</b>
Madison Williams	Maxim Group LLC	Wunderlich Securities
	Prospectus dated _____,	2011

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*Distributions.* We intend to make regular Distributions of cash to our common shareholders out of legally available funds. Our Distributions, if any, will be determined by our Board of Trustees (the Board). We expect to declare our initial Distribution within 45 to 60 days following the completion of this offering and pay such initial Distribution approximately 90 days after the completion of this offering. There is no assurance we will continue to pay regular Distributions or that we will do so at a particular rate. See Distributions and Tax Matters.

*Leverage.* We generally will seek to enhance our total returns through the use of financial leverage, which may include the use of bank debt and other forms of borrowings (Indebtedness) and the issuance of senior securities or preferred shares (Leverage Instruments) and, together with Indebtedness, Financial Leverage). Under normal market conditions, our policy is to utilize Financial Leverage in an amount that represents approximately 25% of our total assets, including proceeds from such Financial Leverage. However, based on market conditions at the time, we may use Financial Leverage in amounts that represent greater than 25% leverage to the extent permitted by the Investment Company Act of 1940, as amended. There is no assurance that we will utilize Financial Leverage or, if Financial Leverage is utilized, that it will be successful in enhancing the level of our total return. We do not intend to use Financial Leverage until the proceeds of this offering are substantially invested in accordance with our investment objective. We currently anticipate that we will be able to invest the net proceeds of this offering in accordance with our investment objective within three to six months after the completion of this offering. We may, thereafter, use Financial Leverage. See Use of Leverage Effects of Leverage, Risk Factors Risks Related to Our Business and Structure Use of Leverage, and Description of Common Shares.

You should read this prospectus, which contains important information about the Fund that you should know before deciding whether to invest, and retain it for future reference. A Statement of Additional Information, dated [redacted], 2011, as it may be amended (the SAI), containing additional information about the Fund, has been filed with the Securities and Exchange Commission (the SEC) and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the SAI (the table of contents of which is on page 77 of this prospectus), annual and semi-annual reports to shareholders (when available), and additional information about the Fund by calling toll-free at (800) 809-0525, or by writing to the Fund at 4265 San Felipe, Suite 800, Houston, Texas 77027 or visiting the Fund's website (www.[redacted]). The information contained in, or accessed through, the Fund's website is not part of this prospectus. You may also obtain a copy of the SAI (and other information regarding the Fund) from the SEC's Public Reference Room in Washington, D.C. Information relating to the Public Reference Room may be obtained by calling the SEC at (202) 551-8090. Such materials, as well as the Fund's annual and semi-annual reports (when available) and other information regarding the Fund, are also available on the SEC's website (www.sec.gov). You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549-0112.

The Fund's common 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 governmental agency.

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. The information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date. We will advise investors of any material changes to the extent required by applicable law.

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**GLOSSARY OF KEY TERMS**

This glossary contains definitions of certain key terms, as they are used in our investment objective and policies and as described in this prospectus. These definitions may not correspond to standard sector definitions.

*Energy Infrastructure Companies* means companies that own and operate assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity, or that provide energy-related services. For purposes of this definition, such companies (i) derive at least 50% of their revenues or operating income from operating such assets or providing services for the operation of such assets or (ii) have such assets that represent the majority of their assets.

*General Partner MLPs* means Master Limited Partnerships whose assets consist of ownership interests of an affiliated Master Limited Partnership (which may include general partner interests, incentive distribution rights, common units and subordinated units).

*Master Limited Partnerships* means limited partnerships and limited liability companies that are publicly traded and are treated as partnerships for federal income tax purposes.

*Midstream Assets* means assets used in energy logistics, including, but not limited to, assets used in transporting, storing, gathering, processing, distributing or marketing of natural gas, natural gas liquids, crude oil or refined products.

*Midstream Energy Infrastructure Companies* means companies, other than Midstream MLPs, that own and operate Midstream Assets. Such companies are not structured as Master Limited Partnerships and are taxed as corporations. For purposes of this definition, this includes companies that (i) derive at least 50% of their revenues or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent the majority of their assets.

*Midstream MLPs* means MLPs that principally own and operate Midstream Assets. Midstream MLPs also include (a) MLPs that provide transportation and distribution services of energy related products through the ownership of marine transportation vessels, (b) General Partner MLPs whose assets consist of ownership interests of an affiliated Midstream MLP and (c) MLP Affiliates of Midstream MLPs.

*Midstream Sector* consists of (a) Midstream MLPs and (b) Midstream Energy Infrastructure Companies.

*MLPs* means entities that are structured as Master Limited Partnerships and their affiliates and includes Midstream MLPs, other energy MLPs, and MLP Affiliates.

*MLP Affiliates* means affiliates of Master Limited Partnerships substantially all of whose assets consist of units or ownership interests of an affiliated Master Limited Partnership (which may include general partner interests, incentive distribution rights, common units and subordinated units) and are structured as C Corporations. MLP Affiliates are not treated as partnerships for federal income tax purposes.

*Other Energy Infrastructure Companies* means Energy Infrastructure Companies, excluding MLPs and Midstream Energy Infrastructure Companies.



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**PROSPECTUS SUMMARY**

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before investing in our common shares. You should carefully read the entire prospectus, including the documents incorporated by reference into it, particularly the section entitled "Risk Factors" beginning on page 24, and our Statement of Additional Information. Except where the context suggests otherwise, the terms "the Fund," "we," "us," and "our" refer to Salient MLP & Energy Infrastructure Fund; and "SCA" or "the Adviser" refers to Salient Capital Advisors, LLC, a Texas limited liability company; "Salient" collectively refers to SCA and its other affiliates, including SCA's manager, Salient Capital Management, LLC, a Delaware limited liability company ("SCM"), and SCA's parent company, Salient Partners, L.P., a Delaware limited partnership ("SPLP"). The common shares of beneficial interest offered pursuant to this prospectus are referred to herein as "common shares." Unless otherwise defined herein, the Glossary of Key Terms on page ii herein provides the definitions of certain key terms used in this prospectus. Unless otherwise indicated, this prospectus assumes that the underwriters' over-allotment option will not be exercised.*

**THE FUND**

Salient MLP & Energy Infrastructure Fund is a newly organized Delaware statutory trust registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act").

**INVESTMENT OBJECTIVE**

Our investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions ("Distributions") to our shareholders. We seek to achieve that objective by investing at least 80% of our total assets in securities of MLPs and Energy Infrastructure Companies. We expect that the majority of our portfolio investments will be in securities of Midstream MLPs and Midstream Energy Infrastructure Companies. There can be no assurance that we will achieve our investment objective. See "Investment Objective and Policies."

**OUR INVESTMENT ADVISER**

SCA, our investment adviser, is responsible for providing us with portfolio investment services, implementing and administering our investment strategy and providing management and administrative assistance in connection with our operations. SCA is a wholly-owned subsidiary of SPLP, and SCA is a SEC-registered investment adviser. As of April 28, 2011, SCA and its affiliates managed assets of approximately \$17.5 billion, including \$250 million in MLPs and Energy Infrastructure Companies. Salient advises 1940 Act registered closed-end fund complexes with approximately \$5.5 billion in assets under management as of April 28, 2011.

Salient and its principals have invested in Midstream MLPs and Midstream Energy Infrastructure Companies since 2003, and Salient has developed an understanding of the North American energy markets that we believe enables it to identify and take advantage of attractive investment opportunities in the Midstream Sector as well as in other MLPs and Energy Infrastructure Companies. In addition, Salient's senior professionals have many long-term relationships with industry managers, which we believe gives Salient an important advantage in making portfolio management decisions and sourcing and structuring private investments.

Pursuant to our investment management agreement, we have agreed to pay SCA, as compensation for the services rendered by it, a management fee equal on an annual basis to 1.20% of our average monthly total assets, computed and paid monthly. During the first 24 months of our investment activities following the completion of this offering, SCA has contractually agreed to waive or reimburse us for a portion of its management fee in an amount equal on an annual basis to 0.20% of our average monthly total assets. See "Management Investment Adviser."

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**INVESTMENT POLICIES**

Under normal market conditions:

We will invest at least 80% of our total assets in securities of MLPs and Energy Infrastructure Companies.

We will invest in equity securities such as common units, preferred units, subordinated units, general partner interests, common shares, preferred shares and convertible securities in MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies.

We may directly invest up to but not more than 25% (or such higher amount as permitted by any applicable tax diversification rules) of our total assets in equity or debt securities of Master Limited Partnerships. This limit does not apply to securities issued by MLP Affiliates, which are not treated as publicly traded partnerships for federal income tax purposes, or investments made into Master Limited Partnerships by any subsidiary corporation taxable under Subchapter C of the Internal Revenue Code of 1986, as amended (the Code), owned by us ( subsidiary C corporation ).

We may invest up to but not more than 25% of our total assets into subsidiary C corporations which in turn may invest up to 100% of their assets into equity or debt securities of Master Limited Partnerships.

We will invest at least 50% of our total assets in securities of Midstream MLPs and Midstream Energy Infrastructure Companies.

We may invest up to but not more than 50% of our total assets in unregistered or otherwise restricted securities of MLPs and Energy Infrastructure Companies. For purposes of this limitation, restricted securities include (i) registered securities of public companies subject to a lock-up period, (ii) unregistered securities of public companies with registration rights, (iii) unregistered securities of public companies that become freely tradable with the passage of time, or (iv) securities of privately held companies. However, no more than 10% of our total assets may be invested in equity securities of privately held companies. For purposes of the foregoing, a registered security subject to such a lock-up period will no longer be considered a restricted security upon expiration of the lock-up period, an unregistered security of a public company with registration rights will no longer be considered a restricted security when such securities become registered, and an unregistered security of a public company that becomes freely tradable with the passage of time will no longer be considered a restricted security upon the elapse of the requisite time period.

We may invest up to but not more than 25% of our total assets in debt securities of Energy Infrastructure Companies. Up to but not more than 15% of our total assets may be invested in unrated debt securities. The balance of such debt investments may be invested in securities which are rated, at the time of investment, at least Baa (or an equivalent rating) by a nationally recognized ratings agency at the time of investment. For the purposes of determining if an investment satisfies this test, we will look to the highest credit rating on such debt investment.

We may invest up to but not more than 10% of our total assets in any single issuer other than any subsidiary C corporation owned by us.

We may utilize financial leverage, which may include the use of bank debt and other forms of borrowings ( Indebtedness ) and the issuance of senior securities or preferred shares ( Leverage Instruments and, together with Indebtedness, Financial Leverage ) and expect to utilize Financial Leverage in an amount that represents approximately 25% of our total assets. However, based on market conditions at the time, we may use Financial Leverage in amounts that represent greater than 25% of our total assets to the extent permitted by the 1940 Act. See Use of Leverage, below.

The percentage limitations applicable to our portfolio described above apply only at the time of investment, and we will not be required to sell securities due to subsequent changes in the value of securities we own. However, although we may not be required to sell securities due to subsequent changes in value, if such changes cause us to have invested less than 80% of our total assets in securities

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of MLPs and Energy Infrastructure Companies, we will be required to make future purchases of securities in a manner so as to bring us into compliance with this investment policy. We will invest primarily in companies located in North America, but may invest in companies located anywhere in the world. We will invest in companies of any market capitalization.

The following represents the currently anticipated initial target allocations for the portfolio within three to six months after completion of the Fund's offering:

Equity Investments in publicly-traded Midstream MLPs: 25%  
Equity Investments in publicly-traded Midstream MLPs through the subsidiary C corporation: 25%  
Equity Investments in publicly-traded MLP Affiliates: 20%  
Private Investments in pre-IPO Midstream MLPs and Midstream Energy Infrastructure Companies: 10%  
Equity Investments in Midstream Marine Companies<sup>(1)</sup>: 10%  
Investments in Debt Securities of Energy Infrastructure Companies: 5%  
Equity Investments in other Energy Infrastructure Companies that are publicly traded: 3%

(1) *As used herein, midstream marine companies are limited partnerships that provide transportation and distribution services of energy-related products through the ownership and operation of marine transportation vessels (including tankers, barges and tugboats).* The target allocations are currently anticipated to be invested among approximately 30 to 40 investment holdings.

Target allocations are subject to change. There is no assurance that the target allocations will be achieved, and actual ranges may be significantly different than that shown here. You should keep in mind that the securities markets are volatile and unpredictable. These target allocations are based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.

**USE OF LEVERAGE**

As noted above, we generally will seek to enhance our total returns through the use of Financial Leverage, which may include the use of Indebtedness or the issuance of Leverage Instruments. Under normal market conditions, our policy is to utilize Financial Leverage in an amount that represents approximately 25% of our total assets. However, based on market conditions at the time, we may use Financial Leverage in amounts that represent greater than 25% of our total assets to the extent permitted by the 1940 Act. We may not be leveraged at all times and the amount of Financial Leverage, if any, may vary depending on a variety of factors, including the costs that we would incur as a result of leverage, market conditions and available investment opportunities. Financial Leverage creates a greater risk of loss, as well as potential for more gain, for our common shares than if leverage is not used. We do not intend to use Financial Leverage until the proceeds of this offering are substantially invested in accordance with our investment objectives. We currently anticipate that we will be able to invest the net proceeds of this offering in accordance with our investment objective within three to six months after the completion of this offering. We may, thereafter, use Financial Leverage. Certain forms of Financial Leverage may have seniority over our common shares. See Use of Leverage.

Because our Adviser's management fee is based upon a percentage of our total assets, our Adviser's fee will be higher if we employ Financial Leverage. Therefore, our Adviser will have a financial incentive to use Financial Leverage, which may create a conflict of interest between our Adviser and our common shareholders.

There can be no assurance that a leveraging strategy will be used or that it will be successful during any period in which it is used. The use of Financial Leverage involves significant risks. See Risk Factors Risks Related to Our Business and Structure Use of Leverage.

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### **HEDGING AND OTHER STRATEGIES**

We currently expect to utilize hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of our Financial Leverage. Such interest rate swaps would principally be used to protect us against higher costs on our Financial Leverage resulting from increases in both short-term and long-term interest rates. We anticipate that the majority of our interest rate hedges will be interest rate swap contracts with financial institutions.

We also may use various hedging and other risk management strategies to seek to manage various risks including market, credit and tail risks. Such hedging strategies would be utilized to seek to protect the value of our portfolio, for example, against possible adverse changes in the market value of securities held in our portfolio. We may execute our hedging and risk management strategy by engaging in a variety of transactions, including buying or selling options or futures contracts on indexes and entering into total return swap contracts. See Risk Factors Risks Related to Our Investments and Investment Techniques Derivatives Risk.

We may use arbitrage and other strategies to try to generate additional return and protect the downside risk of the portfolio. As part of such strategies, we may purchase call options or put options and enter into total return swap contracts. A total return swap is a contract between two parties designed to replicate the economics of directly owning or shorting a security. We may enter into total return swaps with financial institutions related to equity investments in certain Master Limited Partnerships and Canadian Income Trusts (as defined in the SAI).

In addition, we may engage in paired long-short trades to arbitrage pricing disparities in securities held in our portfolio or sell securities short. Paired trading consists of taking a long position in one security and concurrently taking a short position in another security within the same or an affiliated issuer. With a long position, we purchase a stock outright; whereas with a short position, we would sell a security that we do not own and must borrow to meet our settlement obligations. We will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when we replace the borrowed security. See Risk Factors Risks Related to Our Investments and Investment Techniques Short Sales Risk. We do not presently intend to short securities in the portfolio, and do not intend in the future, to the extent short sale transactions occur, to have a net short position that exceeds 30% of our total assets.

To a lesser extent, we currently expect to write call options for the purpose of generating realized gains or reducing our ownership of certain securities. We typically will only write call options on securities that we hold in our portfolio (*i.e.*, covered calls). 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 (or call premium) from the buyer of such call option. If we write a call option on a security, we have the obligation upon exercise of such call option to deliver the underlying security upon payment of the exercise price. When we write a call option, an amount equal to the premium received by us will be recorded as a liability and will be subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by us as realized gains from investments on the expiration date. If we repurchase a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain or realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether we have realized a gain or loss. We, as the writer of the option, bear the market risk of an unfavorable change in the price of the security underlying the written option.

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We may invest a portion of our assets in shares of initial public offerings ( IPOs ), consistent with our investment objectives and policies. IPOs may have a magnified impact on the performance of a fund with a small asset base. The impact of IPOs on a fund's performance likely will decrease as such fund's asset size increases, which could reduce such fund's returns. IPOs may not be consistently available to us for investing. IPO shares frequently are volatile in price due to the absence of a prior public market, the small number of shares available for trading and limited information about the issuer. Therefore, we may hold IPO shares for a very short period of time. This may increase turnover and may lead to increased expenses, such as commissions and transaction costs. In addition, IPO shares can experience an immediate drop in value if the demand for the securities does not continue to support the offering price.

## **CHARACTERISTICS OF THE MIDSTREAM SECTOR**

For the reasons discussed below, we believe that the returns for securities issued by companies in the Midstream Sector have the potential to be more attractive on a risk-adjusted basis than investments in other industries.

*Stable cash flows.* Our investments will be focused on companies that have relatively stable cash flows. In particular, we believe that a substantial portion of the revenues generated by Midstream MLPs and Midstream Energy Infrastructure Companies are derived from customer contracts that are fee-based and have limited commodity price risk. In addition, the fees or tariffs that many Midstream MLPs and Midstream Energy Infrastructure Companies charge their customers are often regulated at the federal or state level, and are often subject to escalation based on the rate of inflation.

*MLPs have a track record of distribution stability and distribution growth.* As of March 31, 2011, MLPs provided an average annual yield of 6.07%. This yield was calculated based on the simple arithmetic average of the individual yields of all energy infrastructure MLPs as of such date (the MLP universe). In addition, from 2000 through 2010, the annual distributions for MLPs increased at an average annual rate of approximately 7.20%. We continuously monitor for potential MLP investment candidates. Historical performance is not a guarantee of future results.

*High barriers to entry.* Due to the high cost of construction and the extensive time required to obtain all of the necessary environmental and regulatory approvals to construct new Midstream Assets, the barriers to enter the Midstream Sector are high. As a result, an existing network of Midstream Assets may be difficult to replicate. These barriers to entry create a competitive advantage for existing Midstream MLPs and Midstream Energy Infrastructure Companies with significant operations.

*Strategically important assets with market opportunity for growth.* Midstream MLPs and Midstream Energy Infrastructure Companies operate assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity that are necessary for providing consumers access to energy-related products. The long-lived assets these companies operate help transport energy from its point of production to its end user. In addition, shifts in domestic supply locations have created the need for additional Midstream Assets. We believe that Midstream MLPs and Midstream Energy Infrastructure Companies are well-positioned to build these necessary assets at attractive rates of return. See *Market Opportunity* for a more complete discussion on this topic.

## **COMPETITIVE STRENGTHS**

We believe that Salient is particularly qualified and positioned to identify attractive investments in MLPs and Energy Infrastructure Companies due to the following:

*Market knowledge, industry relationships and sourcing network.* Salient is centrally located in Houston, Texas near major organizations and assets in the Midstream Sector. It is also located near Energy Infrastructure Companies and MLPs that operate other assets that are used in the energy sector,

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including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity. Several of its senior professionals are multi-generation Houstonians. Because of the relationships that Salient's senior professionals have developed with management teams in MLPs and Energy Infrastructure Companies, we believe that we will have access to investment opportunities in our target markets. In addition, we believe that Salient's market knowledge, experience and industry relationships will enable it to recognize long-term trends in the Midstream Sector and to identify differences in value among individual investment opportunities.

*Research expertise.* Salient's investment team includes individuals with extensive fundamental research expertise. We believe that this expertise will enable our Adviser to identify investments that offer superior potential for income and capital appreciation. In addition, Salient maintains proprietary financial forecast models for a number of the MLPs in the MLP Universe and other Energy Infrastructure Companies that meet the investment criteria for the Fund.

*Hedging Expertise.* Salient's investment team has considerable experience in hedging MLP portfolios and currently manages in excess of \$150 million in MLP long/short hedge fund assets. The team has experience hedging against interest rate, equity risks and credit risks as part of its overall hedging strategy. In addition, Salient's Chief Investment Officer has extensive experience hedging multi-billion dollar institutional investment portfolios and will work closely with the investment team to implement the Fund's top-down hedging strategy.

*Access to investments typically unavailable to retail investors.* In addition to publicly traded MLPs and Energy Infrastructure Companies, the Fund may invest up to 50% of its total assets in MLPs and Energy Infrastructure Companies through direct placements in unregistered or otherwise restricted securities. In addition, up to 10% of the Fund's total assets may be invested in equity securities of privately held companies. Direct placements and investments in privately held companies offer the potential for increased returns, but are usually available only to a limited number of institutional investors, like the Fund.

*Potential benefits from collective exposure to investments in the sector compared to directly holding such investments.* The Fund seeks to provide an efficient vehicle through which the Fund's holders may invest in MLPs and Energy Infrastructure Companies. An investment in the Fund offers investors several advantages compared to direct investments in the sector, including the following:

*Broad exposure.* An investment in the Fund offers through a single investment vehicle broader exposure among investments in the sector than would be possible individually for most investors.

*Simplified tax reporting.* Investors in the Fund, while gaining exposure to multiple investments in the sector, will receive a single Form 1099, while direct investors would receive a Schedule K-1 from each Master Limited Partnership in which they invest. Direct investors also may be required to file state income tax returns for multiple states in which the Master Limited Partnership operates, while investors in the Fund will not be required to file state income tax returns in any state in which they are not otherwise required to file tax returns.

*Potential for inclusion in IRAs and other retirement accounts.* Because the Fund's distributions are not considered unrelated business taxable income (UBTI), IRAs, 401(k) plans and other employee benefit plans may invest in the Fund without the adverse tax consequences that would arise from a direct investment in Master Limited Partnerships by such investors.

*Certain potential benefits for non-U.S. investors.* A non-U.S. shareholder generally would not be subject to regular net based U.S. federal income tax and associated return filing requirements as a result of an investment in the Fund, provided that the non-U.S. shareholder's investment in the Fund is not effectively connected with the shareholder's conduct of a trade or business in the U.S., although U.S. withholding taxes will apply to Fund distributions to such shareholders. Non-U.S. shareholders would generally be subject to regular net based U.S. federal income tax on income from direct investments in MLPs that are treated as effectively connected with a U.S. trade or business.

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**MARKET OPPORTUNITY**

MLPs and Energy Infrastructure Companies have experienced rapid growth since 1994, expanding to 73 registered Master Limited Partnerships as of December 31, 2010, with a total market capitalization of \$220 billion according to FactSet. Even with the advances in energy conservation over recent years, U.S. energy consumption is estimated to grow by 20.47% from 2011 to the year 2035 according to the U.S. Energy Information Administration (the EIA), Annual Energy Outlook 2011, April 2011.

As a result of rapid technological advances in the methods for extracting oil and natural gas, we believe that substantial amounts of new Midstream Assets will need to be built in the United States and Canada. We also believe that these trends are supportive for the future growth of the Midstream Sector, providing a broad range of attractive investment opportunities for the Fund.

Over the last decade, technological advances in the exploration for and production of oil and natural gas have resulted in a substantial increase in both reserves and production. The new technology includes a combination of advances in exploration, drilling and completion techniques that allow development of new and previously uneconomic oil and natural gas reservoirs. Because these reserves are produced from reservoirs that were not economic under conventional extraction methods, these reserves are known as unconventional reserves. Examples of these unconventional reserves in the United States include the Barnett Shale, Haynesville Shale, Woodford Shale, Fayetteville Shale, Eagle Ford Shale, Marcellus Shale and Bakken Shale.

Unconventional reserves are expected to play an increasing role in supplying the future needs for natural gas in the United States. The EIA expects that in 2035, natural gas produced from shale reserves will provide 24% of the natural gas consumed in the United States, up from 6% in 2008. We believe that domestic exploration and production companies will more than double capital spending on unconventional reserves in coming years, which will help facilitate the expected growth in natural gas production.

Largely as a result of the increase in unconventional reserves, there has been a significant increase in the total proven supply of natural gas in the United States. From 2003 to 2008, the EIA's estimate of natural gas reserves rose by almost 30%. In addition to being a plentiful resource, we believe that natural gas provides a step towards energy independence, as domestic natural gas production is equal to approximately 90% of domestic natural gas consumption. Adding to the importance of natural gas is its potential to reduce the environmental impact of burning fossil fuels. Natural gas is the cleanest of all the fossil fuels, with carbon dioxide emissions far lower than that of coal and oil. Natural gas emits fewer overall pollutants than other fossil fuels, and an increased reliance on natural gas in lieu of consuming other fossil fuels can potentially reduce total emission of those pollutants.

Technological advances have also impacted expected domestic production of oil. North Dakota, Montana, and Saskatchewan (Canada) have recently seen growth in the production of oil from the Bakken Shale. Further growth will require additional infrastructure in the region. In 2008, the U.S. Geological Survey (USGS) released an assessment that estimated the Bakken Shale to hold up to 4.3 billion barrels of recoverable oil. This estimate is a 25-fold increase from the USGS's 1995 estimate. Technological improvements have also accelerated the development of Canadian oil sands. Due to the growth of production from the Canadian oil sands, as of March 30, 2011, Canada was the largest exporter of oil to the United States. It is expected that the Canadian oil sands will generate substantial additional infrastructure needs, as the Canadian oil sands may represent as much as 1.7 trillion barrels of hydrocarbons, which is the largest petroleum resource in the world.

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The increased importance of unconventional reserves creates a unique market opportunity for the Midstream Sector, providing a need for substantial energy infrastructure capital expenditures in coming years. A natural gas market study commissioned in 2009 by the Interstate Natural Gas Association of America Foundation noted that to accommodate the geographical shift of natural gas production from mature basins to relatively new areas, it expects a range of investment from \$133 to \$210 billion of new natural gas Midstream Assets and that the United States and Canada will need approximately 29,000 to 62,000 miles of additional natural gas pipeline and 300 to 370 billion cubic feet of additional storage capacity by 2030. While a substantial portion of such investment will be made by Midstream MLPs, a portion of such investment also will be made by Midstream Energy Infrastructure Companies, some of which will eventually be contributed to or purchased by the Midstream MLPs after such projects are complete. We believe that these trends support future growth of the Midstream Sector and will provide attractive investment opportunities for the Fund.

Salient believes that Master Limited Partnerships represent a timely investment opportunity for total return given both their tax-advantaged distributions and the potential for capital appreciation over time. Master Limited Partnerships combine the tax benefits associated with limited partnerships with the liquidity of publicly traded securities. The Adviser believes that investments in Master Limited Partnerships also offer potential portfolio diversification benefits, based upon their low historical correlations to equities, bonds and commodities.



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**THE OFFERING**

Common shares offered by us	shares, excluding common shares issuable pursuant to the over-allotment option granted to the underwriters. You must purchase at least 100 common shares (\$2,500) in order to participate in this offering.
Common shares to be outstanding after this offering	shares, excluding common shares issuable pursuant to the over-allotment option granted to the underwriters.
NYSE symbol	It is anticipated that our common shares will be approved for listing on the New York Stock Exchange (the NYSE ), subject to notice of issuance. The trading or ticker symbol of our common shares is expected to be SMF.
Use of proceeds	<p>The net proceeds of the offering of common shares will be approximately \$ ( \$ if the underwriters exercise the over-allotment option in full) after payment of the estimated offering expenses of \$ and the deduction of the underwriting discount. We currently anticipate that we will be able to invest substantially all of the net proceeds in securities that meet our investment objective and policies within three to six months after the completion of this offering, and we may thereafter use Financial Leverage. It may take up to three to six months to invest the proceeds of this offering for several reasons, including (i) the depth of the trading market for any given Master Limited Partnership, MLP, Energy Infrastructure Company, Midstream MLP, Midstream Energy Infrastructure Company and Other Energy Infrastructure Company and the trading volume of securities for such companies; (ii) the lack of availability of suitable investments; and (iii) delays in completing direct investments in Master Limited Partnerships, MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies.</p> <p>Pending such investments, we anticipate either investing the net proceeds of this offering in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high-quality, short-term or long-term debt obligations or money market instruments. The delay in anticipated use of proceeds could lower the return on our common shares in the first year of investment operations and reduce the amount of cash available to make distributions. See Use of Proceeds.</p>
Distributions	Commencing with our initial Distribution, we intend to make regular Distributions of cash to our common shareholders. Such Distributions will be authorized by our Board of Trustees and declared by us out of funds legally available therefore. We expect to declare our initial Distribution

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approximately 45 to 60 days following completion of this offering and to pay such initial Distribution approximately 90 days after the completion of this offering.

There is no assurance that we will continue to pay regular Distributions or that we will do so at a particular rate.

We expect that only a portion of the cash payments that we receive from our investments will constitute investment company taxable income. The balance will be return of capital from such investments. We cannot predict with respect to a given quarter how much of our investment company taxable income will be included in the Distribution we make for that quarter. However, we intend to pay to common shareholders on an annual basis at least 90% of our investment company taxable income. Distributions may also include cash received as return of capital from our portfolio investments or return of our investors capital.

Section 19(a) of the 1940 Act and Rule 19a-1 thereunder require us to provide a written statement accompanying payment from any source other than our income that adequately discloses the source or sources of such payment. Thus, if our capital was the source of a Distribution, and the payment amounted to a return of capital, we would be required to provide written notice to that effect. Nevertheless, shareholders who periodically receive Distributions from us may be under the impression that such payments are made from our income, when, in fact, they are not. The amount of our Distribution that constitutes a return of capital represents a return of a shareholder's original investment in our shares. Accordingly, shareholders should carefully read any written disclosure accompanying a Distribution and should not assume that the source of payment is our income.

Various factors will affect the levels of cash that we receive from our investments, as well as the amounts of income and return of capital represented by such cash. To permit us to maintain a more stable Distribution, we may distribute less or more than the entire amount of cash that we receive from our investments in a particular period. Any undistributed cash would be available to supplement future Distributions, and until distributed would add to our net asset value. Correspondingly, once distributed, such amounts will be deducted from our net asset value. See Distributions.

Federal income tax status

We intend to elect to be treated for federal income tax purposes as a regulated investment company, or RIC, under the Code. As a RIC, we generally will not be required to pay federal income taxes on any ordinary income or capital gains that we receive from our portfolio investments and distribute

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to our shareholders. To qualify as a RIC and maintain our RIC status, we must meet specific source-of-income and asset diversification requirements and distribute in each of our taxable years at least 90% of the sum of our investment company taxable income (which generally consists of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any) and net tax-exempt interest out of assets legally available for distribution. If, in any year, we fail to qualify as a RIC under the applicable tax laws, we would be taxed as an ordinary corporation. In such circumstances, we could be required to recognize unrealized gains, pay substantial taxes and make substantial Distributions before requalifying as a RIC that is accorded special tax treatment. See Tax Matters.

Under the current tax diversification rules applicable to RICs, we may directly invest up to 25% of our total assets in equity or debt securities of Master Limited Partnerships that are treated as qualified publicly traded partnerships under the Code. In order to increase our investments in Master Limited Partnerships, we may invest in one or more subsidiary C corporations that invest in Master Limited Partnerships. Any such subsidiary C corporation will be subject to federal corporate income tax on its income, regardless of whether such income is distributed to us. For a more complete discussion of our portfolio composition, see Investment Objective and Policies.

Shareholder tax features

Excluding the impact of any realized gains or realized losses, we expect that a portion of our Distributions to our common shareholders may constitute a non-taxable return of capital distribution. If we distribute investment company taxable income from current and accumulated earnings and profits (which includes realized gains or realized losses, if any) as computed for federal income tax purposes, such Distributions will generally be taxable to shareholders in the current period as ordinary income for federal income tax purposes. If such Distributions exceed our current and accumulated earnings and profits as computed for federal income tax purposes, such excess Distributions will constitute a non-taxable return of capital to the extent of a common shareholder's basis in our common shares and will result in a reduction of such basis. To the extent such excess exceeds a common shareholder's basis in our common shares, such excess will be taxed as capital gain. A return of capital represents a return of a shareholder's original investment in our shares, and should not be confused with a dividend from earnings and profits. Upon the sale of common shares, our common shareholder generally will recognize capital gain or loss measured by the difference between the sale proceeds received by our common shareholder and our common shareholder's federal income tax

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basis in our common shares sold, as adjusted to reflect return of capital. We may also make distributions of net capital gains in the form of capital gain dividends, which generally will be taxable to shareholders as long-term capital gain for federal income tax purposes. See Tax Matters.

Risk considerations

Investing in our securities involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The following discussion summarizes some of the risks that a potential investor should carefully consider before deciding whether to invest in our securities offered hereby.

**NO OPERATING OR TRADING HISTORY**

The Fund is a newly organized, non-diversified, closed-end management investment company and has no operating or public trading history. Being a newly organized company, the Fund is subject to all of the business risks and uncertainties associated with any new business, including the risk that the Fund will not achieve its investment objective and that the value of an investment could decline substantially.

**INVESTMENT AND MARKET RISK**

An investment in the Fund's common shares is subject to investment risk, including the possible loss of the entire amount that you invest. An investment in our common shares is not intended to constitute a complete investment program and should not be viewed as such. The value of the securities in which we invest, like other market investments, may move up or down, sometimes rapidly and unpredictably. Your investment in our common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of our Distributions.

**MARKET DISCOUNT RISK**

Shares of closed-end management investment companies frequently trade at prices lower than their net asset value.

**DILUTION RISK**

Any increase in the number of our outstanding common shares in a future offering will cause dilution for existing shareholders, may put downward pressure on the market price of our common shares, will cause the voting power of shareholders to be diluted and may cause our per share distribution to decrease.



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NON-DIVERSIFIED STATUS

Risk is increased to the extent we invest in securities of a small number of issuers. Credit, market and other risks may be more pronounced for us than for a fund that is more diversified.

MIDSTREAM SECTOR RISK

Certain risks inherent in investing in Energy Infrastructure Companies include changes in the supply and demand for natural resources, depletion of reserves, changes in governmental regulations, changes in commodity prices, inability to consummate acquisitions or realize the benefits therefrom, dependency on affiliates, the occurrence of significant natural or man-made catastrophes, terrorist activities, government instability and the occurrence of extreme weather conditions.

DELAY IN USE OF PROCEEDS

We intend to invest the proceeds of this offering in accordance with our investment objective within three to six months after the closing of this offering. Investments may be delayed and may take up to six months if suitable investments are unavailable at the time, if we are unable to secure firm commitments for direct investments, if market conditions and trading volumes of the securities of Midstream MLPs and Midstream Energy Infrastructure Companies in which we intend to invest are not favorable at the time, or for other reasons.

CASH FLOW RISK

A substantial portion of the cash flow received by us is derived from our investment in equity securities of Energy Infrastructure Companies. The amount of cash that any such company has available to pay its equity holders in the form of distributions/dividends depends on the amount of cash flow generated from such company's operations.

INTEREST RATE RISK

The yields for equity securities of MLPs and certain Midstream MLPs and Midstream Energy Infrastructure Companies are susceptible in the short-term to fluctuations in interest rates, and the prices of such equity securities may decline when interest rates rise. Rising interest rates could adversely impact the financial performance of energy companies by increasing their cost of capital.



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CAPITAL MARKETS RISK

Global financial markets and economic conditions have been, and continue to be, volatile due to a variety of factors. As a result, the cost of raising capital in the debt and equity capital markets has increased while the ability to raise capital from those markets has diminished. If funding is not available when needed, or is available only on unfavorable terms, Energy Infrastructure Companies may not be able to meet their obligations as they come due. Moreover, without adequate funding, Energy Infrastructure Companies may be unable to execute their growth strategies, complete future acquisitions, take advantage of other business opportunities or respond to competitive pressures, any of which could have a material adverse effect on their revenues and results of operations.

TAX RISKS

Our ability to meet our investment objective will depend, in part, on the level of taxable income and distributions we receive from the equity securities in which we invest, a factor over which we have no control. If a MLP were treated as a corporation for federal income tax purposes, such MLP would be obligated to pay federal income tax on its income at the corporate tax rate and the amount of cash available for distribution by the MLP would be reduced and distributions received by us would be taxed under federal income tax laws applicable to corporate dividends (as dividend income, return of capital, or capital gain).

EQUITY SECURITIES RISK

Equity securities for Energy Infrastructure Companies may be subject to general movements in the stock market, and a significant drop in the stock market may depress the price of securities to which we have exposure.

DEBT SECURITIES RISKS

Debt securities in which we invest are subject to many of the risks described elsewhere in this section. In addition, they are subject to credit risk, and, depending on their quality, other special risks.

RISKS ASSOCIATED WITH AN INVESTMENT IN IPOs

Securities purchased in IPOs are often subject to the general risks associated with investments in companies with small market capitalizations, and typically to a heightened degree. Securities issued in IPOs have no trading history, and information about the companies may be available for very limited periods. In addition, the prices of securities sold in an IPO may be highly volatile.





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PRIVATELY HELD COMPANY RISK

Privately held companies are not subject to SEC reporting requirements, are not required to maintain their accounting records in accordance with generally accepted accounting principles, and are not required to maintain effective internal controls over financial reporting. As a result, our Adviser may not have timely or accurate information about the business, financial condition and results of operations of the privately held companies in which the Fund invests. In addition, the securities of privately held companies are generally illiquid, and entail the risks described under **Liquidity Risk** below.

LIQUIDITY RISK

Securities with limited trading volumes may display volatile or erratic price movements. Therefore, it may be more difficult for us to buy and sell significant amounts of such securities without an unfavorable impact on prevailing market prices.

INTEREST RATE HEDGING RISK

Interest rate transactions that we may use for hedging purposes will expose us to certain risks that differ from the risks associated with our portfolio holdings. Our success in using hedging instruments is subject to our Adviser's ability to predict correctly changes in the relationships of such hedging instruments to our interest rate risk, and there can be no assurance that our Adviser's judgment in this respect will be accurate.

CONCENTRATION RISK

The focus of our portfolio on a specific industry or industries within the Midstream Sector may present more risks than if our portfolio were broadly diversified over numerous sectors of the economy.

INFLATION RISK

As inflation increases, the real value of our common shares and distributions that we pay declines.

PORTFOLIO TURNOVER RISK

Our annual portfolio turnover rate may vary greatly from year to year. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us.



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DERIVATIVES RISK

The use of derivatives has risks, including the imperfect correlation between the value of such instruments and the underlying assets, the possible default of the other party to the transaction or illiquidity of the derivative investments. Furthermore, the ability to successfully use these techniques depends on our ability to predict pertinent market movements, which cannot be assured. Thus, the use of derivatives may result in losses greater than if they had not been used, may require us to sell or purchase portfolio securities at inopportune times or for prices other than current market values, may limit the amount of appreciation we can realize on an investment or may cause us to hold a security that we might otherwise sell. In addition, amounts paid by us as premiums and cash or other assets held in margin accounts with respect to derivative transactions are not otherwise available to us for investment purposes.

SHORT SALES RISK

A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. There can be no assurance that the securities necessary to cover a short position will be available for purchase.

USE OF LEVERAGE

Under normal market conditions, our policy is to utilize Financial Leverage, which may include the use of Indebtedness or the issuance of Leverage Instruments, in an amount that represents approximately 25% of our total assets, including proceeds from such Financial Leverage. However, based on market conditions at the time, we may use Financial Leverage in amounts that represent greater than 25% leverage to the extent permitted by the Investment Company Act of 1940, as amended. Certain forms of Financial Leverage may have seniority over our common shares.

Financial Leverage represents the leveraging of our common shares. Leverage is a technique that could adversely affect our common shareholders. 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 our net asset value to decline. When Financial Leverage is used, the net asset value and market value of our common shares will be more volatile. There is no assurance that our use of Financial Leverage will be successful.

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MANAGEMENT RISK; DEPENDENCE ON KEY PERSONNEL OF SALIENT

Our portfolio is subject to management risk because it is actively managed. Our Adviser applies investment techniques and risk analyses in making investment decisions for us, but there can be no guarantee that they will produce the desired results. We depend upon Salient's key personnel for our future success and upon their access to certain individuals and investments in the Midstream Sector. The departure of any of our portfolio managers or the senior management of Salient could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that SCA will remain our investment adviser or that we will continue to have access to Salient's industry contacts and deal flow.

CONFLICTS OF INTEREST OF SALIENT

Conflicts of interest may arise because Salient and its affiliates generally carry on substantial investment activities for other clients in which we will have no interest. Salient or its affiliates may have financial incentives to favor certain of such accounts over us. Any of their proprietary accounts and other customer accounts may compete with us for specific trades.

RISK OF OWNING SECURITIES OF AFFILIATES

From time to time, we may control or may be an affiliate of one or more of our portfolio companies which, depending on SEC interpretations, may result in restrictions being imposed on the size of positions that may be taken for us or on the type of investments that we could make.

COMPETITION RISK

There are a limited number of other companies, including other publicly traded investment companies and private funds, which may serve as alternatives to us for investment in a portfolio of companies in the Midstream Sector.

VALUATION RISK

Market prices may not be readily available for any restricted or unregistered investments in public companies or investments in private companies made by the Fund. Due to the difficulty in valuing these securities and the absence of an active trading market for these investments, we may not be able to realize these securities' carrying value or may have to delay their sale in order to do so.



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ANTI-TAKEOVER PROVISIONS

Provisions of our Declaration of Trust and Bylaws could have the effect of discouraging, delaying, deferring or preventing a transaction or a change in control that might otherwise be in the best interests of our shareholders. As a result, these provisions may deprive our common shareholders of opportunities to sell their common shares at a premium over the then current market price of our common shares.

TAX RISKS

In addition to other risk considerations, an investment in our common shares will involve certain tax risks, including the risk that Master Limited Partnerships in which we invest will be classified as corporations rather than as partnerships for federal income tax purposes (which may reduce our return and negatively affect the net asset value of our common shares), the risk that we could fail to qualify as a RIC, and the risk of changes in tax laws or regulations, or interpretations thereof, which could adversely affect us or the MLPs and other portfolio companies in which we invest. The federal, state, local and foreign tax consequences of an investment in and holding of our common shares will depend on the facts of each investor's situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect such investors.

*Tax Risk of Subsidiary C corporations.* We expect to increase the portion of our assets that we can invest, directly and indirectly, in Master Limited Partnerships by holding certain of these investments through a wholly owned taxable subsidiary C corporation. Although, as a RIC, dividends received by us from this taxable subsidiary and distributed to our shareholders will not be subject to federal income taxes at the RIC level, the taxable subsidiary will generally be subject to federal and state income taxes on its income, including any income the taxable subsidiary may recognize on the sale of an interest in a Master Limited Partnership that it holds. As a result, the net return to us on such investments that are held by the subsidiary will be reduced to the extent that the subsidiary is subject to income taxes.

In calculating our daily net asset value in accordance with generally accepted accounting principles, we will account for the deferred tax liability and/or asset balances of our subsidiary C corporation. The subsidiary C corporation will accrue a deferred income tax liability balance, at the currently effective statutory U.S. federal income tax rate (currently 35%) plus an estimated state and local income tax rate, for its future tax liability associated with the capital appreciation of

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its investments and the distributions received by it on equity securities of MLPs considered to be return of capital. Upon the subsidiary C corporation's sale of a portfolio security, the subsidiary C corporation will be liable for previously deferred taxes. Any deferred tax liability balance of the subsidiary C corporation will reduce our net asset value.

See Risk Factors Risks Related to Our Investments and Investment Techniques Tax Risks and Risk Factors Risks Related to Our Business and Structure Tax Risks for more information on these risks.

Distribution reinvestment plan

We have adopted a distribution reinvestment plan for our common shareholders. Our plan, which will become effective upon the closing of this offering, is an opt out distribution reinvestment plan. As a result, if we declare a Distribution, then our common shareholders' cash Distributions will be automatically reinvested in additional common shares, unless they specifically elect to receive cash. Common shareholders who receive Distributions in the form of common shares will be subject to the same federal, state and local tax consequences as common shareholders who elect to receive their Distributions in cash. See Distribution Reinvestment Plan.

Trading at a discount

The common shares of closed-end investment companies frequently trade at prices lower than their net asset value. We cannot assure you that our common shares will trade at a price higher than or equal to our net asset value. In addition, our net asset value will be reduced immediately following this offering by the underwriting discount and our offering costs. The possibility that our common shares may trade at a discount to our net asset value is separate and distinct from the risk that our common shares' net asset value may decline. In addition to net asset value, the market price of our common shares may be affected by such factors as the Distributions we make, which are in turn affected by expenses, the stability of our Distributions, liquidity and market supply and demand. See Risk Factors, Description of Capital Structure and Closed-end Fund Structure; Repurchase of Common Shares and Conversion to Open-end Fund. Our common shares are designed primarily for long-term investors, and you should not purchase our common shares if you intend to sell it shortly after purchase.

Custodian

U.S. Bank N.A. will act as custodian of our securities and other assets. See Custodian.

Transfer Agent and Administrator

U.S. Bancorp Fund Services, LLC will act as our transfer agent, dividend-paying agent and administrator. See Transfer Agent and Administrator.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this prospectus constitute forward-looking statements, which involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, those listed under Risk Factors in this prospectus and our SAI. In this prospectus, we use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements.

The forward-looking statements contained in this prospectus include statements as to:

- our operating results;
- our business prospects;
- our expected investments and the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of the MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies in which we invest to achieve their objectives;
- our use of Financial Leverage;
- our tax status;
- the tax status of the MLPs in which we intend to invest;
- the adequacy of our cash resources and working capital; and
- the timing and amount of distributions, dividends and interest income from the MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies in which we intend to invest.

The factors identified above are believed to be important factors, but not necessarily all of the important factors, that could cause our actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. Since our actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, we cannot give any assurance that any of the events anticipated by the forward-looking statements will occur, or, if any of them do, what impact they will have on our results of operations and financial condition. All forward-looking statements included in this prospectus are expressly qualified in their entirety by the foregoing cautionary statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update, amend or clarify these forward-looking statements or the risk factors contained in this prospectus, whether as a result of new information, future events or otherwise, except as may be required under the federal securities laws. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including our annual reports. We acknowledge that, notwithstanding the foregoing statement, the safe harbor for forward-looking statements under the Private Securities Litigation Reform Act of 1995 does not apply to investment companies such as us.

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**FEES AND EXPENSES**

The following table and example contain information about the costs and expenses that common shareholders will bear directly or indirectly. The table below assumes the use of Financial Leverage in an amount equal to 25% of our total assets and shows our expenses as a percentage of net assets attributable to our common shares. **We caution you that the percentages in the table below indicating annual expenses are estimates and may vary from actual results.**

**Shareholder Transaction Expenses:**

Sales Load Paid (as a percentage of offering price) <sup>(1)</sup>	4.50%
Offering Expenses (as a percentage of offering price) <sup>(2)</sup>	0.20%
Distribution Reinvestment Plan Fees <sup>(3)</sup>	0.00%
<b>Total Shareholder Transaction Expenses (as a percentage of offering price)</b>	<b>4.70%</b>

**Percentage of Net Assets Attributable to Common Shares**

**(Assumes Financial Leverage is Used)<sup>(4)</sup>**

**Annual expenses:**

Management fees <sup>(5)</sup>	1.60%
Leverage costs <sup>(6)</sup>	0.50%
Other expenses <sup>(7)</sup>	0.86%
<b>Total annual expenses</b>	<b>2.96%</b>
Less management fee reimbursement (year 1) <sup>(8)</sup>	(0.27)%
Subsidiary Income Tax Expense <sup>(9)</sup>	0.00%
<b>Net annual expenses</b>	<b>2.69%</b>

- (1) For a description of the sales load and of other compensation paid to the underwriters by the Fund, see Underwriting.
- (2) We will pay offering expenses of up to \$0.05 per share, estimated to total \$400,000. Our Adviser has agreed to pay all organizational expenses and the amount by which the aggregate of all of our offering costs (other than the sales load) exceeds \$0.05 per share. Assuming that the Fund issues 8 million common shares in this offering at a total public offering price of \$25.00 per share, the total offering costs are estimated to be \$9,701,135 (or approximately \$1.21 per share), of which the Fund would pay offering expenses estimated at \$9,400,000 (or \$1.18 per share) from the proceeds of the offering, and the Adviser would pay the balance of the offering expenses estimated at \$301,135 (or approximately \$0.03 per common share).
- (3) The expenses of administering our distribution reinvestment plan are included in Other Expenses. You will pay brokerage charges if you direct US Bancorp, as agent for our common shareholders (the Plan Administrator), to sell your common shares held in a distribution reinvestment account. See Distribution Reinvestment Plan.
- (4) Estimates what our annual expenses would be as percentages of our net assets attributable to our common shares assuming leverage is used. If no leverage was used, such as during the period when we are investing the proceeds of this offering our net annual expenses are estimated to be 1.92%. This calculation is based on 1.20% management fees (5), 0% leverage costs (6) and 0.92% other expenses for a total annual expense of 2.12%, which reflects the deduction of 0.20% reimbursed management fee in the first year. Net annual expenses, management fees, other expenses, total annual expenses and the reimbursed management fee are expressed as a percentage of net assets attributable to common shares.
- (5) Pursuant to the terms of the investment management agreement between us and our Adviser, the management fee is calculated at an annual rate of 1.20% of our average monthly total assets.



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*Management fees in the table above are calculated as a percentage of net assets attributable to common shares, which results in a higher percentage than the percentage attributable to average monthly total assets. See Management Investment Management Agreement.*

- (6) *Assumes effective leverage through the use of Indebtedness at an annual interest rate of 1.50%. Leverage Costs in the table reflect leverage in an amount equal to 25% of our total assets and assume we issue 8 million of our common shares. Leverage Costs, expressed as a percentage of our net assets, will be borne by our common shareholders and result in a reduction of the net asset value of our common shares.*
- (7) *Other Expenses in the table include costs incurred in connection with our operations, including but not limited to payments to our administrator, custodian, fund accountant, transfer agent, tax preparer, legal counsel, and our independent public accounting firm. The estimate of Other Expenses assumes that we issue 8 million of our common shares. If we issue less than 8 million of our common shares, the percentage attributable to Other Expenses will be higher.*
- (8) *Our Adviser has contractually agreed to waive or reimburse us for a portion of its management fee in an amount equal on an annual basis to 0.20% of our average monthly total assets for the first 24 months following this offering. Management fees and waivers are expressed as a percentage of net assets in the table.*
- (9) *As of the date of this prospectus, we have not commenced investment operations. Because it cannot be predicted whether the Subsidiary will incur a benefit or liability in the future, a tax expense of 0.00% has been assumed.*

The purpose of the table above and the example below is to help you understand all of the fees and expenses that you would bear directly or indirectly as a holder of our common shares. As of the date of this prospectus, we have not commenced investment operations. The expenses shown in the table for Other Expenses and Total Annual Expenses are based on estimated amounts for our first full year of operations and assume that we issue 8,000,000 common shares. If we issue fewer common shares, all things being equal, certain of these percentages would increase resulting in a higher net annual expense ratio than what is reflected above in the table. For additional information with respect to our expenses, see Management and Distribution Reinvestment Plan.

**Example**

The following example illustrates the projected dollar amount of total cumulative expenses (including the sales load, estimated offering expenses, and the estimated costs associated with Financial Leverage) that common shareholders would pay over various periods on a \$1,000 investment in our common shares, assuming Total Annual Expenses are as stated in the Annual Expenses table above for the entire period. The following example assumes that all Distributions are reinvested at net asset value and assumes an annual rate of return of 5% on our portfolio securities.

	1 Year <sup>(1)</sup>	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:	\$ 73	\$ 132	\$ 193	\$ 358

(1) Year 1 includes approximately \$9,400,000 attributable to the sales load paid and estimated offering expenses

THE EXAMPLE AND THE EXPENSES IN THE TABLE ABOVE SHOULD NOT BE CONSIDERED A REPRESENTATION OF FUTURE EXPENSES. The example assumes that the estimated Total Annual Expenses set forth in the Annual Expenses table are accurate and that all Distributions are reinvested at net asset value. ACTUAL EXPENSES (INCLUDING THE COST OF FINANCIAL LEVERAGE AND OTHER EXPENSES) MAY BE GREATER OR LESS THAN THOSE SHOWN. Moreover, our actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

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**SALIENT MLP & ENERGY INFRASTRUCTURE FUND**

We are a newly organized, non-diversified, closed-end management investment company registered under the 1940 Act. We were formed as a Delaware statutory trust on February 24, 2011. Our fiscal year ends on November 30. As a newly organized entity, we have no operating history. It is anticipated that our common shares will be approved for listing on the New York Stock Exchange (the NYSE), subject to notice of issuance. The trading or ticker symbol of our common shares is expected to be SMF. Our principal office is located at 4265 San Felipe, Suite 800, Houston, Texas 77027, and our telephone number is (713) 993-4675.

**USE OF PROCEEDS**

The net proceeds of this offering will be approximately \$ ( \$ if the underwriters exercise the over-allotment option in full) after payment of the offering costs of \$ and the deduction of the underwriting discount. Our net asset value will be reduced immediately following this offering by the amount of the underwriting discount and offering expenses paid by us.

We will invest the net proceeds of this offering in accordance with our investment objective and policies as stated in this prospectus. We currently anticipate that we will be able to invest substantially all of the net proceeds in accordance with our investment objective and policies within three to six months after the completion of this offering. It may take us up to three to six months to invest the proceeds of this offering for several reasons, including the (i) depth of the trading market for any given MLP, Energy Infrastructure Company, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Company and the trading volume of the securities for such companies, (ii) lack of availability of suitable investments and (iii) delays in completing direct investments in MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies (*i.e.*, we purchase restricted securities from such companies). Furthermore, we believe that it is in the best interest of our shareholders to invest the proceeds in a manner that does not cause security prices to increase abnormally as result of such purchases.

Pending the use of proceeds, as described above, we anticipate either investing the proceeds in cash, cash equivalents, short-term securities issued by the U.S. government or its agencies or instrumentalities or in high-quality, short-term or long-term debt obligations or money market instruments. The delay in anticipated use of proceeds could lower the return on our common shares in the first year of our investment operations and reduce the amount of cash available to make Distributions.

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**RISK FACTORS**

Investing in our securities involves risk, including the risk that you may receive little or no return on your investment or that you may lose part or all of your investment. The following discussion summarizes some of the risks that a potential investor should carefully consider before deciding whether to invest in our securities offered hereby.

**GENERAL**

Risk is inherent in all investing. The following discussion summarizes some of the risks that a potential investor should consider before deciding whether to purchase our common shares. For additional information about the risks associated with investing in our common shares, see Investment Objective and Policies herein and Investment Objective and Investment Policies in our SAI.

**NO OPERATING OR TRADING HISTORY**

We are a newly-organized, non-diversified, closed-end management investment company and have no operating or public trading history. Being a newly-organized company, we are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of your investment could decline substantially.

**MARKET DISCOUNT RISK**

Shares of closed-end management investment companies frequently trade at prices lower than their net asset value, which is commonly referred to as trading at a discount. This characteristic of shares of closed-end management investment companies is a risk separate and distinct from the risk that our net asset value may decrease. Investors who sell their shares within a relatively short period after completion of the public offering are likely to be exposed to this risk. Accordingly, our Fund is designed primarily for long-term investors and should not be considered a vehicle for trading purposes. Net asset value will be reduced following this offering by the underwriting discount and the amount of offering expenses paid by us.

Whether investors will realize a gain or loss upon the sale of our common shares will depend upon whether the market value of the shares at the time of sale is above or below the price the investor paid for the shares, taking into account transaction costs, and is not directly dependent upon our net asset value. Because the market value of our common shares will be determined by factors such as the relative demand for and supply of our shares in the market, general market conditions and other factors beyond our control, we cannot predict whether our common shares will trade at, below or above net asset value, or below or above the initial offering price for the shares.

**DILUTION RISK**

When our common shares are trading at a premium, we may also issue common shares that are sold through transactions effected on the NYSE. The increase in the number of our outstanding common shares resulting from that offering may also put downward pressure on the market price for the common shares of the Fund.

The voting power of shareholders will be diluted to the extent that such shareholders do not purchase shares in any future common share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if the proceeds of such offering are not invested as intended, our per share distribution may decrease (or may consist of return of capital), and we may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

**NON-DIVERSIFIED STATUS**

Overall risk can be reduced by investing in securities from a diversified pool of issuers, while overall risk is increased by investing in securities of a small number of issuers. As a non-diversified closed-end management investment company under the 1940 Act, we have fewer limitations in the proportion of our assets that may be

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invested in securities of a single issuer, which means that we are allowed to invest a greater portion of our assets in a more limited number of issuers than a diversified fund. As a result, credit, market and other risks associated with our investment strategies or techniques may be more pronounced for us than for a fund that is diversified.

## **RISKS RELATED TO OUR INVESTMENTS AND INVESTMENT TECHNIQUES**

### **INVESTMENT AND MARKET RISK**

An investment in our common shares is subject to investment risk, including the possible loss of the entire amount that you invest. Your investment in our common shares represents an indirect investment in the securities owned by us, some of which will be traded on a national securities exchange or in the over-the-counter markets. An investment in our common shares is not intended to constitute a complete investment program and should not be viewed as such. The value of the securities in which we invest, like other market investments, may move up or down, sometimes rapidly and unpredictably. The value of the securities in which we invest may affect the value of our common shares. Your investment in our common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of our Distributions. We are primarily a long-term investment vehicle and should not be used for short-term trading.

### **ENERGY AND ENERGY INFRASTRUCTURE COMPANY RISK**

Certain risks inherent in investing in Energy and Energy Infrastructure Companies include the following:

*Supply and Demand Risk.* A decrease in the production of natural gas, natural gas liquids, crude oil, coal or other energy commodities, a decrease in the volume of such commodities available for transportation, mining, processing, storage or distribution or a sustained decline in demand for such commodities, may adversely impact the financial performance of Energy Infrastructure Companies. Energy Infrastructure Companies are subject to supply and demand fluctuations in the markets they serve which will be impacted by a wide range of factors, including economic conditions, fluctuating commodity prices, weather, increased conservation or use of alternative fuel sources, increased governmental or environmental regulation, depletion, rising interest rates, declines in domestic or foreign production, accidents or catastrophic events, among others.

*Depletion and Exploration Risk.* Energy reserves naturally deplete as they are produced over time. Many Energy Infrastructure Companies are either engaged in the production of natural gas, natural gas liquids, crude oil, or coal, or are engaged in transporting, storing, distributing and processing these items and refined products on behalf of the owners of such commodities. To maintain or grow their revenues, these companies or their customers need to maintain or expand their reserves through exploration of new sources of supply, through the development of existing sources or through acquisitions. The financial performance of Energy Infrastructure Companies may be adversely affected if they, or the companies to whom they provide the service, are unable to cost-effectively acquire additional reserves sufficient to replace the natural decline. If an Energy Infrastructure Company fails to add reserves by acquiring or developing them, its reserves and production will decline over time as they are produced. If an Energy Infrastructure Company is not able to raise capital on favorable terms, it may not be able to add to or maintain its reserves.

*Reserve Risks.* Energy Infrastructure Companies engaged in the production of natural gas, natural gas liquids, crude oil and other energy commodities are subject to the risk that the quantities of their reserves are overstated, or will not be produced in the time periods anticipated, for a variety of reasons including the risk that no commercially productive amounts of such energy commodities can be produced from estimated reserves because of the curtailment, delay or cancellation of production activities as a result of unexpected conditions or miscalculations, title problems, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with environmental and other governmental requirements and cost of, or shortages or delays in the availability of, drilling rigs and other equipment, and operational risks and hazards associated with the development of the underlying properties, including natural disasters, blowouts, explosions, fires, leakage of such energy commodities, mechanical failures, cratering and pollution.

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*Regulatory Risk.* Energy Infrastructure Companies are subject to significant federal, state and local government regulation in virtually every aspect of their operations, including (i) how facilities are constructed, maintained and operated, (ii) how and where wells are drilled, (iii) how services are provided, (iv) environmental and safety controls, and, in some cases (v) the prices they may charge for the products and services they provide. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Stricter laws, regulations or enforcement policies could be enacted in the future which would likely increase compliance costs and may adversely affect the financial performance of Energy Infrastructure Companies.

*Commodity Pricing Risk.* The operations and financial performance of Energy Infrastructure Companies may be directly affected by energy commodity prices, especially those Energy Infrastructure Companies which own the underlying energy commodity or receive payments for services that are based on commodity prices. Such impact may be a result of changes in the price for such commodity or a result of changes in the price of one energy commodity relative to the price of another energy commodity (*i.e.*, the price of natural gas relative to the price of natural gas liquids). Commodity prices fluctuate for several reasons, including changes in market and economic conditions, the impact of weather on demand, levels of domestic production and imported commodities, energy conservation, domestic and foreign governmental regulation and taxation and the availability of local, intrastate and interstate transportation systems. Volatility of commodity prices may also make it more difficult for Energy Infrastructure Companies to raise capital to the extent the market perceives that their performance may be directly or indirectly tied to commodity prices. In addition to the volatility of commodity prices, extremely high commodity prices may drive further energy conservation efforts which may adversely affect the performance of Energy Infrastructure Companies.

*Acquisition Risk.* The ability of Energy Infrastructure Companies to grow operating cash flow and increase such company's enterprise value can be highly dependent on their ability to make accretive acquisitions. In the event that Energy Infrastructure Companies are unable to make such acquisitions because they are unable to identify attractive acquisition candidates and negotiate acceptable purchase contracts, because they are unable to raise financing for such acquisitions on economically acceptable terms, or because they are outbid by competitors, their future growth will be limited. Furthermore, even if Energy Infrastructure Companies do consummate acquisitions that they believe will be accretive, the acquisitions may instead result in a decrease in operating cash flow or a decrease in enterprise value. Any acquisition involves risks, including, among other things: mistaken assumptions about revenues and costs, including synergies; the assumption of unknown liabilities; limitations on rights to indemnity from the seller; the diversion of management's attention from other business concerns; unforeseen difficulties operating in new product or geographic areas; and customer or key employee losses at the acquired businesses.

*Affiliated Party Risk.* Certain Energy Infrastructure Companies are dependent on their parents or sponsors for a majority of their revenues. Any failure by such company's parents or sponsors to satisfy their payments or obligations would impact such company's revenues and operating cash flows and ability to make interest payments and/or distributions.

*Catastrophe Risk.* The operations of Energy Infrastructure Companies are subject to many hazards inherent in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing natural gas, natural gas liquids, crude oil, refined products, coal or electricity, including: damage to pipelines, storage tanks, plants or related equipment and surrounding properties caused by hurricanes, tornadoes, floods, fires and other natural disasters or by acts of terrorism; inadvertent damage from construction and farm equipment; well blowouts; leaks of such energy commodities; fires and explosions. These risks could result in substantial losses due to personal injury or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in the curtailment or suspension of their related operations. Not all Energy Infrastructure Companies are fully insured against all risks inherent to their businesses. If a significant accident or event occurs that is not fully insured, it could adversely affect the Energy Infrastructure Company's operations and financial condition.



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We expect that insurance premiums to operate certain assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity will increase as a result of the Macondo oil spill in the Gulf of Mexico. Further increased government regulations to mitigate such catastrophe risk could increase insurance and other operating costs for Energy Infrastructure Companies and adversely affect the financial performance of such companies.

*Terrorism/Market Disruption Risk.* The terrorist attacks in the United States on September 11, 2001 had a disruptive effect on the economy and the securities markets. United States military and related action in Iraq and Afghanistan is ongoing and events in the Middle East, including government stability in particular, could have significant adverse effects on the U.S. economy, and financial and commodities markets. Assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity could be direct targets, or indirect casualties, of an act of terror. The U.S. government has issued warnings that such assets, specifically the United States pipeline infrastructure, may be the future target of terrorist organizations.

*Weather Risk.* Extreme weather conditions, such as hurricanes, (i) could result in substantial damage to the facilities of certain Energy Infrastructure Companies located in the affected areas, (ii) significantly increase the volatility in the supply of energy commodities and (iii) adversely effect the financial performance of Energy Infrastructure Companies, and could therefore adversely affect their securities. The damage done by extreme weather also may serve to increase many insurance premiums paid by Energy Infrastructure Companies and could adversely affect such companies financial condition.

*Master Limited Partnership Risks.* An investment in Master Limited Partnership units involves certain risks which differ from an investment in the securities of a corporation. Holders of Master Limited Partnership units have limited control and voting rights on matters affecting the partnership. In addition, there are certain tax risks associated with an investment in Master Limited Partnership units and conflicts of interest exist between common unit holders and the general partner, including those arising from incentive distribution payments.

### **DELAY IN USE OF PROCEEDS**

We intend to invest the proceeds of this offering in accordance with our investment objective within three to six months after the closing of this offering. Investments may be delayed and may take up to six months if suitable investments are unavailable at the time, if we are unable to secure firm commitments for direct investments, if market conditions and trading volumes of the securities of MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies, and Other Energy Infrastructure Companies in which we intend to invest are not favorable at the time, or for other reasons. Pending such investment, the net proceeds of this offering may temporarily be invested in cash, cash equivalents, short-term securities issued by the U.S. government or its agencies or instrumentalities or in high-quality, short-term or long-term debt obligations or money market instruments. Income we receive from these securities will likely be less than returns sought pursuant to our investment objective and policies. See Use of Proceeds.

### **CASH FLOW RISK**

A substantial portion of the cash flow received by us is derived from our investment in equity securities of Energy Infrastructure Companies. The amount of cash that any such company has available to pay its equity holders in the form of distributions/dividends depends on the amount of cash flow generated from such company's operations. Cash flow from operations will vary from quarter to quarter and is largely dependent on factors affecting the company's operations and factors affecting the energy industry in general. In addition to the risk factors described above, other factors which may reduce the amount of cash an Energy Infrastructure Company has available to pay distributions/dividends include increased operating costs, maintenance capital expenditures, acquisition costs, expansion, construction or exploration costs and borrowing costs. Furthermore,

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covenants in debt instruments issued by Energy Infrastructure Companies in which we intend to invest may restrict distributions/dividends to equity holders or, in certain circumstances, may not allow distributions/dividends to be made to equity holders.

### INTEREST RATE RISK

Interest rate risk is the risk that securities will decline in value because of changes in market interest rates. The yields for equity securities of MLPs and certain Midstream Energy Infrastructure Companies are susceptible in the short-term to fluctuations in interest rates, and the prices of such equity securities may decline when interest rates rise. This is also true for any debt investments in Energy Infrastructure Companies that the Fund anticipates making. Our investment in such securities means that the net asset value and market price of our common shares may decline if interest rates rise because we will principally invest in income producing securities (*i.e.*, dividend paying equity securities and fixed income investments). Furthermore, rising interest rates could adversely impact the financial performance of Energy Infrastructure Companies by increasing their cost of capital. This may reduce their ability to execute acquisitions or expansion projects in a cost-effective manner.

### CAPITAL MARKETS RISK

Global financial markets and economic conditions have been, and continue to be, volatile due to a variety of factors. As a result, the cost of raising capital in the debt and equity capital markets has increased while the ability to raise capital from those markets has diminished. In particular, as a result of concerns about the general stability of financial markets and specifically the solvency of lending counterparties, the cost of raising capital from the credit markets generally has increased as many lenders and institutional investors have increased interest rates, enacted tighter lending standards, refused to refinance debt on existing terms or at all and reduced, or in some cases ceased to provide, funding to borrowers. Due to these factors, Energy Infrastructure Companies may be unable to obtain new debt or equity financing on acceptable terms. If funding is not available when needed, or is available only on unfavorable terms, Energy Infrastructure Companies may not be able to meet their obligations as they come due. Moreover, without adequate funding, Energy Infrastructure Companies may be unable to execute their growth strategies, complete future acquisitions, take advantage of other business opportunities or respond to competitive pressures, any of which could have a material adverse effect on their revenues and results of operations.

### TAX RISKS

*Tax Risk of Master Limited Partnerships.* Our ability to meet our investment objective will depend, in part, on the level of taxable income and distributions we receive from the equity securities in which we invest, a factor over which we have no control. The benefit that we derive from our investment in Master Limited Partnerships is largely dependent on the Master Limited Partnerships being treated as partnerships and not as corporations for federal income tax purposes. As a partnership, a Master Limited Partnership generally has no federal income tax liability at the entity level. If, as a result of a change in current law or a change in a Master Limited Partnership's business, a Master Limited Partnership were treated as a corporation for federal income tax purposes, such Master Limited Partnership would be obligated to pay federal income tax on its income at the corporate tax rate. If a Master Limited Partnership were classified as a corporation for federal income tax purposes, the amount of cash available for distribution by the Master Limited Partnership would be reduced and distributions received by us would be taxed under federal income tax laws applicable to corporate dividends (as dividend income, return of capital, or capital gain). Therefore, treatment of a Master Limited Partnership as a corporation for federal income tax purposes would result in a reduction in the after-tax return to us, likely causing a reduction in the value of our common shares.

*Tax Risk of Subsidiary C corporations.* We expect to increase the portion of our assets that we can invest, directly and indirectly, in Master Limited Partnerships by holding certain of these investments through a wholly owned taxable subsidiary C corporation. Although, as a RIC, dividends received by us from this taxable

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subsidiary and distributed to our shareholders will not be subject to federal income taxes at the RIC level, the taxable subsidiary will generally be subject to federal and state income taxes on its income, including any income the taxable subsidiary may recognize on the sale of an interest in a Master Limited Partnership that it holds. As a result, the net return to us on such investments that are held by the subsidiary will be reduced to the extent that the subsidiary is subject to income taxes.

In calculating our daily net asset value in accordance with generally accepted accounting principles, we will account for the deferred tax liability and/or asset balances of our subsidiary C corporation. The subsidiary C corporation will accrue a deferred income tax liability balance, at the currently effective statutory U.S. federal income tax rate (currently 35%) plus an estimated state and local income tax rate, for its future tax liability associated with the capital appreciation of its investments and the distributions received by it on equity securities of MLPs considered to be return of capital. Upon the subsidiary C corporation's sale of a portfolio security, the subsidiary C corporation will be liable for previously deferred taxes. Any deferred tax liability balance of the subsidiary C corporation will reduce our net asset value.

*Tax Law Change Risk.* Changes in tax laws or regulations, or interpretations thereof in the future, could adversely affect us or the Energy Infrastructure Companies in which we invest. Any such changes could negatively impact our common shareholders. Legislation could also negatively impact the amount and tax characterization of Distributions received by our common shareholders.

*Excise Tax Risk.* In order to avoid certain excise taxes imposed on RICs, we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of our capital losses for the one-year period ending on November 30, the last day of our taxable year (which we intend to elect to continue to use for this purpose), and (3) any ordinary income and net capital gains for preceding years that were not distributed or taxed during such years. We are dependent on the underlying investments to provide us with certain tax information in a timely manner in order to calculate the required distribution amount to avoid the excise tax. Although we currently intend to make sufficient distributions to satisfy the annual distribution requirement and to avoid the 4% excise tax, we can provide no assurance that we will be able to do so.

## **EQUITY SECURITIES RISK**

Equity securities for Energy Infrastructure Companies may be subject to general movements in the stock market, and a significant drop in the stock market may depress the price of securities to which we have exposure. Prices of equity securities for Energy Infrastructure Companies fluctuate for several reasons, including changes in the financial condition of a particular issuer, investors' perceptions of Energy Infrastructure Companies, the general condition of the relevant stock market, or when political or economic events affecting an issuer or the industry occur. In addition, the prices of MLP units and certain Other Energy Infrastructure Company equity securities may be sensitive to rising interest rates given their yield-based nature.

Certain of the Energy Infrastructure Companies in which we may invest have comparatively smaller capitalizations than other companies. Investing in the securities of smaller Energy Infrastructure Companies presents unique investment risks. These Energy Infrastructure Companies may have limited product lines and markets, as well as shorter operating histories, less experienced management and more limited financial resources than larger Energy Infrastructure Companies and may be more vulnerable to adverse general market or economic developments. Stocks of smaller Energy Infrastructure Companies may be less liquid than those of larger Energy Infrastructure Companies and may experience greater price fluctuations than larger Energy Infrastructure Companies. In addition, small-cap securities may not be widely followed by the investment community, which may result in reduced demand.

## **DEBT SECURITIES RISKS**

Debt securities in which we invest are subject to many of the risks described elsewhere in this section. In addition, they are subject to credit risk, and, depending on their quality, other special risks.

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*Credit Risk.* An issuer of a debt security may be unable to make interest payments and repay principal. We could lose money if the issuer of a debt obligation is, or is perceived to be, unable or unwilling to make timely principal and/or interest