

KAYNE ANDERSON ENERGY DEVELOPMENT CO

Form N-Q

April 27, 2018

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

Washington, DC 20549

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number 811-22435

**Kayne Anderson Energy Development Company**

(Exact name of registrant as specified in charter)

811 Main Street, 14<sup>th</sup> Floor

Houston, Texas 77002

(Address of principal executive offices) (Zip code)

**David Shladovsky, Esq.**

**KA Fund Advisors, LLC**

**811 Main Street, 14<sup>th</sup> Floor**

**Houston, Texas 77002**

**(Name and address of agent for service)**

**Registrant's telephone number, including area code: (713) 493-2020**

Date of fiscal year end: November 30, 2018

Date of reporting period: February 28, 2018

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Description	No. of Shares/Units	Value
<b>Long-Term Investments 153.3%</b>		
<b>Equity Investments<sup>(1)</sup> 153.3%</b>		
<b>Midstream MLP 125.3%</b>		
Andeavor Logistics LP	167	\$ 7,753
BP Midstream Partners LP	217	4,126
Buckeye Partners, L.P.	271	12,127
Crestwood Equity Partners LP	204	5,445
DCP Midstream, LP	172	6,156
Dominion Midstream Partners, LP Convertible Preferred Units <sup>(2)(3)(4)</sup>	106	2,976
Enbridge Energy Partners, L.P.	189	2,359
Energy Transfer Partners, L.P.	1,898	34,561
EnLink Midstream Partners, LP	423	6,177
Enterprise Products Partners L.P.	919	23,372
EQT Midstream Partners, LP	84	5,137
Genesis Energy, L.P.	81	1,617
Global Partners LP	305	4,990
Magellan Midstream Partners, L.P.	62	3,897
MPLX LP	438	15,111
Noble Midstream Partners LP	55	2,656
Oasis Midstream Partners LP	294	4,845
Phillips 66 Partners LP	70	3,445
Plains All American Pipeline, L.P. <sup>(5)</sup>	148	3,121
Plains GP Holdings, L.P. <sup>(5)</sup>	70	1,456
Plains GP Holdings, L.P. Plains AAP, L.P. <sup>(5)(6)</sup>	345	7,274
Shell Midstream Partners, L.P.	181	4,346
Sprague Resources LP	99	2,346
Summit Midstream Partners, LP	183	3,090
Tallgrass Energy Partners, LP <sup>(7)</sup>	266	10,198
TC PipeLines, LP	108	5,301
Western Gas Partners, LP	505	23,488
Williams Partners L.P.	581	21,069
		228,439
<b>Midstream Company 25.0%</b>		
Kinder Morgan, Inc.	137	2,215
ONEOK, Inc.	410	23,104
Tallgrass Energy GP, LP <sup>(7)</sup>	79	1,590
Targa Resources Corp.	417	18,599

45,508

<b>Shipping MLP 2.6%</b>				
Capital Product Partners L.P.	Class B Units <sup>(2)(3)(8)</sup>		606	4,770
<b>General Partner MLP 0.4%</b>				
Energy Transfer Equity, L.P.			50	772
<b>Total Long-Term Investments</b>	<b>United States</b>	<b>153.3% (Cost</b>	<b>\$275,526)</b>	<b>279,489</b>

**Table of Contents****KAYNE ANDERSON ENERGY DEVELOPMENT COMPANY****SCHEDULE OF INVESTMENTS****FEBRUARY 28, 2018****(amounts in 000 s)****(UNAUDITED)**

<b>Description</b>	<b>Value</b>
<b>Debt</b>	<b>\$ (62,000)</b>
<b>Mandatory Redeemable Preferred Stock at Liquidation Value</b>	<b>(25,000)</b>
<b>Deferred Income Tax Liability</b>	<b>(15,519)</b>
<b>Income Tax Receivable</b>	<b>444</b>
<b>Other Assets in Excess of Other Liabilities</b>	<b>4,852</b>
<b>Net Assets Applicable To Common Stockholders</b>	<b>\$ 182,266</b>

- (1) Unless otherwise noted, equity investments are common units/common shares.
- (2) Fair valued security.
- (3) The Company's ability to sell this security is subject to certain legal or contractual restrictions. As of February 28, 2018, the aggregate value of restricted securities held by the Company was \$15,020 (5.2% of total assets), which included \$7,274 of Level 2 securities and \$7,746 of Level 3 securities.
- (4) On December 1, 2016, the Company purchased, in a private placement, Series A Convertible Preferred Units ( DM Convertible Preferred Units ) from Dominion Midstream Partners, LP ( DM ). The DM Convertible Preferred Units are senior to the common units in terms of liquidation preference and priority of distributions and pay a quarterly distribution of \$0.3135 per unit for the first two years and thereafter will pay the higher of (a) \$0.3135 per unit or (b) the distribution that the DM Convertible Preferred Units would receive on an as converted basis. For the first two years, the distribution may be paid, at DM's option, in cash or in units. After two years, the distribution will be paid in cash. Holders of the DM Convertible Preferred Units may convert on a one-for-one basis to DM common units any time after December 1, 2018.
- (5) The Company believes that it is an affiliate of Plains All American Pipeline, L.P. ( PAA ), Plains GP Holdings, L.P. ( PAGP ) and Plains AAP, L.P. ( PAGP-AAP ).
- (6) The Company's ownership of PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or PAA units at the Company's option. The Company values its PAGP-AAP investment on an as exchanged basis based on the higher public market value of either PAGP or PAA. As of February 28, 2018, the Company's PAGP-AAP investment is valued at PAA's closing price.

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On March 26, 2018, Tallgrass Energy GP, LP ( TEGP ) and Tallgrass Energy Partners, LP ( TEP ) announced an agreement under which TEGP will acquire all TEP common units in a stock-for-unit merger.

- (8) Class B Units are convertible on a one-for-one basis into common units of Capital Product Partners L.P. ( CPLP ) and are senior to the common units in terms of liquidation preference and priority of distributions (liquidation preference of \$9.00 per unit). The Class B Units pay quarterly cash distributions and are convertible at any time at the option of the holder. The Class B Units paid a distribution of \$0.21375 per unit for the first quarter.

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From time to time, the Company's ability to sell certain of its investments is subject to certain legal or contractual restrictions. For instance, private investments that are not registered under the Securities Act of 1933, as amended (the Securities Act), cannot be offered for public sale in a non-exempt transaction without first being registered. In other cases, certain of the Company's investments have restrictions such as lock-up agreements that preclude the Company from offering these securities for public sale.

At February 28, 2018, the Company held the following restricted investments:

Investment	Acquisition Date	Type of Restriction	Number of Units (in 000 s)	Cost Basis (GAAP)	Fair Value	Fair Value Per Unit	Percent of Net Assets	Percent of Total Assets
<b>Level 2 Investments</b>								
Plains GP Holdings, L.P. - Plains AAP, L.P. <sup>(1)</sup>								
Partnership Interests	(2)	(3)	345	\$ 1,743	\$ 7,274	\$ 21.10	4.0%	2.5%
<b>Level 3 Investments<sup>(4)</sup></b>								
Capital Product Partners L.P.								
Class B Units	(2)	(5)	606	\$ 3,293	\$ 4,770	\$ 7.87	2.6%	1.7%
Dominion Midstream Partners, LP								
Convertible Preferred Units	12/1/16	(5)	106	2,803	2,976	28.06	1.6	1.0
Total				\$ 6,096	\$ 7,746		4.2%	2.7%
Total of all restricted securities				\$ 7,839	\$ 15,020		8.2%	5.2%

(1) The Company values its investment in Plains AAP, L.P. (PAGP-AAP) on an as-exchanged basis based on the higher public market value of either Plains GP Holdings, L.P. (PAGP) or Plains All American, L.P. (PAA). As of February 28, 2018, the Company's PAGP-AAP investment is valued at PAA's closing price.

(2) Security was acquired at various dates in prior fiscal years.

(3) The Company's investment in PAGP-AAP is exchangeable on a one-for-one basis into either PAGP shares or PAA units at the Company's option. Upon exchange, the PAGP shares or PAA units will be freely tradeable.

(4) Securities are valued using inputs reflecting the Company's own assumptions.

(5) Unregistered or restricted security of a publicly-traded company.

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At February 28, 2018 the cost basis of investments for federal income tax purposes was \$197,394. At February 28, 2018, gross unrealized appreciation and depreciation of investments for federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 84,757
Gross unrealized depreciation	(2,662)
Net unrealized appreciation	\$ 82,095

The cost basis for federal income tax purposes is estimated based on information available from the Company's portfolio companies. In some cases, this information is very limited. Accordingly, the actual cost basis may prove higher or lower than the estimated cost basis included above.

As required by the Fair Value Measurement Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC 820), the Company has performed an analysis of all assets and liabilities (other than deferred taxes) measured at fair value to determine the significance and character of all inputs to their fair value determination.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into the following three broad categories.

*Level 1* Valuations based on quoted unadjusted prices for identical instruments in active markets traded on a national exchange to which the Company has access at the date of measurement.

*Level 2* Valuations based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. Level 2 inputs are those in markets for which there are few transactions, the prices are not current, little public information exists or instances where prices vary substantially over time or among brokered market makers.

*Level 3* Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Unobservable inputs are those inputs that reflect the Company's own assumptions that market participants would use to price the asset or liability based on the best available information.

The following table presents the Company's assets measured at fair value on a recurring basis at February 28, 2018, and the Company presents these assets by security type and description on its Schedule of Investments. Note that the valuation levels below are not necessarily an indication of the risk or liquidity associated with the underlying investment.

	Total	Quoted Prices in Active Markets (Level 1)	Prices with Other Observable Inputs (Level 2)	One or More Unobservable Inputs (Level 3)
<b>Assets at Fair Value</b>				
Equity investments	\$ 279,489	\$ 264,469	\$ 7,274 <sup>(1)</sup>	\$ 7,746

(1) The Company's investment in Plains AAP, L.P. (PAGP-AAP) is exchangeable on a one-for-one basis into either Plains GP Holdings, L.P. (PAGP) shares or Plains All American Pipeline, L.P. (PAA) units at the Company's option. The Company values its PAGP-AAP investment on an as-exchanged basis based on the higher public market value of either PAGP or PAA. As of February 28, 2018, the

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Company's PAGP-AAP investment is valued at PAA's closing price. The Company categorizes its investment as a Level 2 security for fair value reporting purposes.

The Company did not have any liabilities that were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at February 28, 2018. For the three months ended February 28, 2018, there were no transfers between Level 1 and Level 2.

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The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended February 28, 2018.

	Equity Investments
Balance November 30, 2017	\$ 8,383
Purchase	
Transfers out to Level 1 and 2	
Realized gains (losses)	
Unrealized gains (losses), net	(637)
Balance February 28, 2018	\$ 7,746

The \$637 of unrealized losses relate to investments that were still held at the end of the reporting period.

As of February 28, 2018, the Company held no derivative instruments, and during the three months ended February 28, 2018, the Company did not have any activity involving derivative instruments.

The Company's investments are concentrated in the energy sector. The focus of the Company's portfolio within the energy sector may present more risks than if the Company's portfolio were broadly diversified across numerous sectors of the economy. A downturn in the energy sector would have a larger impact on the Company than on an investment company that does not focus on the energy sector. The performance of securities in the energy sector may lag the performance of other industries or the broader market as a whole. Additionally, to the extent that the Company invests a relatively high percentage of its assets in the securities of a limited number of issuers, the Company may be more susceptible than a more widely diversified investment company to any single economic, political or regulatory occurrence. At February 28, 2018, the Company had the following investment concentrations.

Category	Percent of Long-Term Investments
Securities of energy companies	100.0%
Equity securities	100.0%
Securities of MLPs <sup>(1)</sup>	82.0%
Largest single issuer	12.4%
Restricted securities	5.4%

- (1) Securities of MLPs consist of preferred and common units of private entities structured as limited partnerships and publicly traded energy-related master limited partnerships and limited liability companies that are treated as partnerships for federal income tax purposes and their affiliates.

Securities valuation policies and other investment related disclosures are hereby incorporated by reference to the Company's annual report previously filed with the Securities and Exchange Commission on form N-CSR on January 29, 2018 with a file number 811-22435.

Other information regarding the Company is available in the Company's most recent annual report. This information is also available on the Company's website at [www.kaynefunds.com](http://www.kaynefunds.com); or on the website of the Securities and Exchange Commission, [www.sec.gov](http://www.sec.gov).

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### **Item 2. Controls and Procedures.**

(a) As of a date within 90 days of the filing date of this report, the principal executive officer and the principal financial officer concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act)) were effective based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) or 15d-15(b) under the Securities and Exchange Act of 1934, as amended.

(b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

### **Item 3. Exhibits.**

The certifications for the principal executive officer and the principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act are filed as exhibits to this report.

## **SIGNATURES**

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

KAYNE ANDERSON ENERGY DEVELOPMENT  
COMPANY

/s/ KEVIN S. MCCARTHY

Name: Kevin S. McCarthy

Title: Chairman of the Board of Directors and  
Chief Executive Officer

Date: April 26, 2018

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

/s/ KEVIN S. MCCARTHY

Name: Kevin S. McCarthy

Title: Chairman of the Board of Directors and  
Chief Executive Officer

Date: April 26, 2018

/s/ TERRY A. HART

Name: Terry A. Hart

Title: Chief Financial Officer and Treasurer

Date: April 26, 2018