

Salient Midstream & MLP Fund
Form N-CSRS
August 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-22626

Salient Midstream & MLP Fund

(Exact name of registrant as specified in charter)

4265 SAN FELIPE, 8TH FLOOR, HOUSTON, TX 77027

(Address of principal executive offices) (Zip code)

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Gregory A. Reid

Salient Midstream & MLP Fund

4265 San Felipe, 8th Floor

Houston, TX 77027

(Name and address of agent for service)

With a copy to:
George J. Zornada
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State Street Financial Center
One Lincoln St.
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Registrant's telephone number, including area code: 713-993-4675

Date of fiscal year end: 11/30/13

Date of reporting period: 05/31/13

Item 1. Reports to Stockholders.

Salient Midstream & MLP Fund

Semiannual Report to Shareholders

May 31, 2013 (Unaudited)

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Management Discussion of Fund Performance (Unaudited)

Letter to Shareholders

July 19, 2013

Dear Fellow Shareholders:¹

We are pleased to provide you with our semi-annual letter to update you on the Salient Midstream & MLP Fund (Fund). As a reminder, the Fund priced its IPO on May 24, 2012 at \$20.00 per share and received net proceeds of \$171.5 million from the IPO, which includes the net proceeds from the sale of nine million shares.

As of May 31, 2013, the Fund had total investments of approximately \$306.6 million, which includes the current equity of \$217.6 million as well as borrowings of \$89 million. As of May 31, 2013 the Fund's price per share was \$23.18 and the net asset value (NAV) per share was \$22.91. The price per share represents a 1.2% premium to its NAV.² The Fund's investments are shown in the pie chart below:

¹ **Certain statements in this letter are forward-looking statements.** The forward-looking statements and other views expressed herein are those of the portfolio managers and the Fund as of the date of this letter. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and there is no guarantee that any predictions will come to pass. The views expressed herein are subject to change at any time, due to numerous market and other factors. The Fund disclaims any obligation to update publicly or revise any forward-looking statements or views expressed herein. There can be no assurance that the Fund will achieve its investment objectives. The value of the Fund will fluctuate with the value of the underlying securities. Historically, closed-end funds often trade at a discount to their net asset value.

² Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. The data shown are unaudited. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

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The Fund's Top 10 holdings are shown below, as of May 31, 2013:

Company Name	Sector	% of Gross Assets
Enterprise Products Partners L.P.*	MLP	9.6%
Plains All American Pipeline L.P.*	MLP	7.8%
Enbridge Energy Management LLC	MLP Affiliate	7.0%
Williams Companies Inc	Midstream Company	6.8%
Kinder Morgan Management, LLC	MLP Affiliate	6.2%
Kinder Morgan Inc	Midstream Company	4.6%
Linn Co LLC	MLP Affiliate	4.3%
Golar LNG Partners L.P.	Marine Midstream	3.7%
EMG Utica Executed Purchase Agreement	MLP Affiliate	3.2%
Targa Resources Partners L.P.	MLP	3.1%
Total		56.3%

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

Note: These holdings include restricted and unrestricted shares.

Source: Salient Capital Advisors, LLC, May 2013

The top contributors to the Fund's performance for the first half of fiscal 2013 include Plains All American Pipeline, L.P. (PAA), MarkWest Energy Partners, L.P. (MWE), Summit Midstream Partners, L.P. (SMLP), Crosstex Energy, Inc. (XTXI), and Enterprise Products Partners, L.P. (EPD). The largest detractors to the Fund's performance include Linn Energy, LLC (LINE) and Linn Co., LLC (LNCO). In addition, the Fund's derivative transactions detracted approximately \$4.3 million from the Fund's performance.

The Fund's distribution has increased every quarter and is currently \$0.34 as of the last distribution paid on May 29, 2013. That represents a distribution increase of 4.6% since the Fund's IPO. As a result, the current annualized distribution represents a yield of 6.8% based on the original \$20.00 IPO price as shown in the charts below:³

Distributions Paid Per Share* Yield on Original \$20 IPO Price*

³ Past performance is no guarantee of future results. No investment strategy can guarantee performance results.

Last six months in review

Following the presidential election in November 2012, MLPs fell 3.9% through the end of the calendar year. We believe a major culprit of that weakness was the expected change in long-term capital gains tax rates, which moved from 15% in 2012 to 20% plus the 3.8% Medicare surcharge on January 1 (for a total tax rate of 23.8%) for those with income above a certain threshold. We believe that some investors may have locked in the 15% tax rate before year-end. Once the selling abated and Congress reached a resolution to the fiscal cliff in early January, MLPs bounced with the Alerian MLP Index (AMZ) returning 12.6% in January. The group continued to move higher and reached a peak on May 22, which coincided with the release of the Fed minutes which raised the possibility of tapering the quantitative easing (QE) program. The tapering comments led to concerns about interest rates moving higher than expected, which led to a sell-off in bonds and equities alike through the end of May. How will rising interest rates impact MLPs? has become a frequent question in our conversations with investors due to the historically low rates induced by the post-financial crisis Federal stimulus. We have generally been in a falling rate environment for the past 30 years so there is a somewhat limited history regarding MLP performance in a rising rate cycle. However, if the June 2003 to June 2006 rising rate cycle is any indication, MLPs particularly higher growth MLPs we believe are in a position to be attractive going forward if we are, in fact, in the early stages of a rising rate environment. Between November 30, 2012 (the Fund's fiscal year-end) and May 31, 2013, the Alerian MLP Index (AMZ) generated a total return of 14.7%.

Summary

We believe valuations for MLPs and Midstream Companies remain attractive and we look forward to providing regular updates in the future on our progress in executing the Fund's business plan. Please visit our website at www.salientfunds.com for the latest updates and sign up to receive email alerts on future press releases by the Fund.

Please note that this letter, including the financial information herein, is made available to shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this letter.

Sincerely,

Gregory A. Reid

President and Chief Executive Officer

MLP Business, Salient Capital Advisors, LLC

Key Financial Data (unaudited)

We supplement the reporting of our financial information determined under United States generally accepted accounting principles (GAAP) with certain non-GAAP financial measures: distributable cash flow and distributable cash flow coverage ratio. We believe these non-GAAP measures provide meaningful information to assist shareholders in understanding our financial results and assessing our performance. We pay distributions to our shareholders, funded in part by distributable cash flow generated from our portfolio investments. Distributable cash flow is the amount of income received by us from our portfolio investments less operating expenses, subject to certain adjustments as described below. Other companies with similar measures may calculate these measures differently, and as a result, it may not be possible to compare these financial measures with other companies non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported net investment income. These non-GAAP financial measures reflect an additional way of viewing an aspect of our operations that, when viewed with our GAAP results and the below reconciliation to the corresponding GAAP financial measures, provide a more complete understanding of our Fund. We strongly encourage shareholders to review our financial statements in their entirety and not rely on any single financial measure.

The table below reconciles the non-GAAP financial measures, distributable cash flow and distributable cash flow coverage ratio, by starting with the most directly comparable GAAP financial measure, net investment income.

	(Period from December 1, 2012 through May 31, 2013)
Net investment income	\$ (1,079,297)
Reconciling items:	
Return of capital distributions (a)	6,319,864
Dividends paid in stock (b)	1,215,524
Option premium earnings (c)	(236,233)
Distributable cash flow (non-GAAP)	\$ 6,219,858
Distributions paid on common stock	\$ 6,402,569
Distributable cash flow coverage ratio (non-GAAP)	0.97
Distributable cash flow coverage ratio (non-GAAP) since inception	0.96

Reconciliation of distributable cash flow to GAAP

(a) GAAP recognizes that a significant portion of the cash distributions received from MLPs is characterized as a return of capital and therefore excluded from net investment income, whereas the distributable cash flow calculation includes the return of capital portion of such distributions.

(b) Distributable cash flow includes the value of dividends paid-in-kind (i.e., stock dividends), whereas such amounts are not included in net investment income for GAAP purposes during the period received, but rather are recorded as unrealized gains upon receipt.

(c) We may sell covered call option contracts to generate income or to reduce our ownership of certain securities that we hold. In some cases, we are able to repurchase these call option contracts at a price less than the fee that we received, thereby generating a profit. The amount we received from selling call options, less the amount that we pay to repurchase such call option contracts is included in distributable cash flow. For GAAP purposes, income from call option contracts sold is not included in net investment income. See Note 2 Summary of Significant Accounting Policies and Practices for a full discussion of the GAAP treatment of option contracts.

SALIENT MIDSTREAM & MLP FUND

Consolidated Schedule of Investments

May 31, 2013

(Unaudited)

	Shares/Units	Fair Value
Master Limited Partnerships and Related Companies 127.3%		
Coal 3.7%		
United States 3.7%		
Alliance Holdings GP, L.P. ⁽¹⁾⁽²⁾⁽³⁾	126,221	\$ 8,044,064
		8,044,064
Crude/Natural Gas Production 3.2%		
United States 3.2%		
Memorial Production Partners, L.P. ⁽³⁾	82,899	1,559,330
Western Gas Equity Partners, L.P. ⁽²⁾⁽³⁾	145,246	5,435,106
		6,994,436
Crude/Refined Products Pipelines 42.0%		
United States 42.0%		
Enbridge Energy Management, LLC ⁽²⁾⁽³⁾⁽⁴⁾	662,688	19,708,332
Kinder Morgan Inc. ⁽²⁾	344,348	13,078,337
Kinder Morgan Management, LLC ⁽²⁾⁽³⁾⁽⁴⁾	214,656	17,434,387
Magellan Midstream Partners, L.P. ⁽¹⁾⁽²⁾⁽³⁾	132,750	6,901,673
Plains All American Pipeline, L.P. ⁽¹⁾⁽²⁾⁽³⁾	388,700	21,837,165
Rose Rock Midstream, L.P. ⁽²⁾⁽³⁾	183,123	6,768,226
Summit Midstream Partners, L.P. ⁽²⁾⁽³⁾	178,741	5,571,357
		91,299,477
Natural Gas Gathering/ Processing 37.7%		
United States 37.7%		
Crosstex Energy, Inc. ⁽²⁾	366,805	6,987,635
Crosstex Energy, L.P. ⁽²⁾⁽³⁾	80,481	1,550,064
DCP Midstream Partners, L.P. ⁽²⁾⁽³⁾	178,200	8,517,960
EMG Utica I Offshore Co Investment, L.P. ⁽⁵⁾⁽⁷⁾⁽⁸⁾	9,000,000	9,000,000
Linn Co., LLC ⁽²⁾	333,390	12,100,390
Linn Energy, LLC ⁽¹⁾⁽³⁾	79,500	2,615,550
MarkWest Energy Partners, L.P. ⁽²⁾⁽³⁾	131,024	8,626,620
Targa Resources Corp. ⁽²⁾	70,863	4,564,994
Targa Resources Partners, L.P. ⁽²⁾⁽³⁾	189,654	8,820,808
Williams Companies, Inc. ⁽²⁾	547,900	19,275,123
		82,059,144
Natural Gas/ Natural Gas Liquids Pipelines 30.2%		
United States 30.2%		
El Paso Pipeline Partners, L.P. ⁽¹⁾⁽²⁾	162,887	6,693,027
Energy Transfer Equity, L.P. ⁽¹⁾⁽²⁾	150,420	8,598,007
Enterprise Products Partners, L.P. ⁽¹⁾⁽²⁾	484,762	28,790,015

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EQT Midstream Partners, L.P. ⁽³⁾	82,734	4,042,383
Inergy Midstream, LP ⁽²⁾	277,857	6,249,004
Spectra Energy Corp. ⁽²⁾	169,764	5,189,685
Spectra Energy Partners, L.P. ⁽²⁾	172,796	6,153,266
		65,715,387

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Schedule of Investments, continued

May 31, 2013

(Unaudited)

	Shares/Units	Fair Value
Power/Utility 2.9%		
United States 2.9%		
CenterPoint Energy, Inc.	268,240	\$ 6,217,803
		6,217,803
Shipping 7.7%		
Bermuda 4.8%		
Golar LNG Partners, L.P. ⁽²⁾⁽³⁾	315,218	10,503,064
United States 2.9%		
Capital Product Partners, L.P. ⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	622,222	6,292,718
		16,795,782
Total Master Limited Partnerships and Related Companies (Cost \$223,224,967)		277,126,093
Total Investments 127.3% (Cost \$223,224,967)		277,126,093
Credit Facility (40.9)%		(89,000,000)
Other Assets and Liabilities 13.6%		29,515,547
Total Net Assets Applicable to Common Shareholders 100.0%		\$ 217,641,640

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

- (1) All or a portion of these securities are held by Salient Midstream & MLP Fund, Inc. (the "Subsidiary").
- (2) All or a portion of these securities are held as collateral for the line of credit agreement. As of May 31, 2013 the total fair value of securities held as collateral for the line of credit agreement is \$206,211,059.
- (3) Non-income producing security.
- (4) Distributions are paid-in-kind.
- (5) Securities have been fair valued in good faith using fair value procedures approved by the Board of Trustees and represent 7.0% of net assets applicable to common shareholders. See notes to consolidated financial statements for further information.
- (6) Restricted security is exempt from registration under the Securities Act of 1933. The security may be resold in transactions exempt from registration, normally to qualified institutional buyers.
- (7) Security has been deemed illiquid by the Adviser based on procedures approved by the Board of Trustees.
- (8) Affiliated investment for which ownership exceeds 25%.

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Schedule of Investments, continued

May 31, 2013

(Unaudited)

Written Call Options:

Description	Expiration Date	Strike Price	Number of Contracts	Fair Value
CenterPoint Energy, Inc.	June 2013	\$ 25.00	2,682	\$ (26,820)
EQT Midstream Partners, L.P.	June 2013	50.00	660	(108,900)
Kinder Morgan, Inc.	June 2013	40.00	1,000	(13,000)
Markwest Energy Partners, L.P.	June 2013	70.00	476	(23,800)
Memorial Production Partners, L.P.	June 2013	20.00	716	(14,320)
Williams Companies, Inc.	June 2013	38.00	1,732	(13,856)
Total Written Call Options (Premiums Received \$321,457)			7,266	\$ (200,696)

Futures Contracts Sold:

Description	Expiration Date	Number of Contracts	Notional Amount at Value	Unrealized Appreciation (Depreciation)
E-Mini S&P 500	June 2013	292	\$ (23,783,400)	\$ (892,858)
			\$ (23,783,400)	\$ (892,858)

Total Return Swap Agreements Short Positions:

Underlying Instrument	Counterparty	Maturity Date	Notional Amount at Value	Unrealized Gain (Loss)
Salient MLP Basket ⁽¹⁾	Morgan Stanley	5/11/15	\$ (76,442,508)	\$ (43,419)
			\$ (76,442,508)	\$ (43,419)

(1) These securities are held by the Subsidiary.

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Statement of Assets, Liabilities and Shareholders Equity

May 31, 2013

(Unaudited)

Assets:	
Non-affiliated investments at fair value (cost \$214,224,967)	\$ 268,126,093
Affiliated investments at fair value (cost \$9,000,000)	9,000,000
Deposits with brokers for futures contracts	1,124,200
Deposits with brokers for swap agreements	20,560,000
Cash and cash equivalents	12,272,107
Dividends and interest receivable	108,729
Deferred tax asset	441,185
Receivable from investments sold	2,402,218
Variation margin on futures contracts	359,160
Prepays and other assets	79,850
 Total assets	 314,473,542
Liabilities:	
Credit facility	89,000,000
Written options (premiums received \$321,457)	200,696
Unrealized loss on swap agreements	43,419
Payable for swap agreements	6,352
Line of credit fees payable	24,562
Payable to Adviser	271,270
Trustee Fees payable	17,373
Interest payable	99,195
Accounts payable and accrued expenses	294,521
Deferred tax liability	6,874,514
 Total liabilities	 96,831,902
 Net assets applicable to common shareholders	 \$ 217,641,640
Net Assets Applicable to Common Shareholders:	
Capital Stock, \$0.01 par value; 9,499,651 shares issued and outstanding (10,215,463 shares authorized)	\$ 94,997
Paid-in capital	173,064,648
Accumulated net investment loss	(6,683,405)
Accumulated net realized gain	4,954,306
Net unrealized appreciation on investments	46,211,094
 Net assets applicable to common shareholders	 \$ 217,641,640
Net Asset Value:	
Net assets applicable to common shareholders	\$ 217,641,640
Common shares outstanding	9,499,651
 Net asset value per common share outstanding	 \$ 22.91

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See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND**Consolidated Statement of Operations****For the six months ended May 31, 2013****(Unaudited)****Investment Income:**

Distributions from master limited partnerships	\$ 6,328,841
Less return of capital on distributions	(6,319,864)
Net distributions from master limited partnerships	8,977
Dividends from master limited partnership related companies	1,155,653
Dividend income	5,464
Interest income	2,409
Total Investment Income	1,172,503

Operating Expenses:

Investment management fees	1,772,122
Administration fees	75,150
Trustees fees	39,873
Line of credit commitment fees	21,115
Custodian fees	12,637
Professional fees	115,435
Interest expense	396,962
Other expenses	118,644
Total Expenses	2,551,938

Less expenses reimbursed by the Adviser	(300,138)
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Net Expenses	2,251,800
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Net Investment Loss, Before Income Taxes	(1,079,297)
Deferred tax benefit	270,886

Net Investment Loss	(808,411)
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Realized and Unrealized Gain/Loss:

Net realized gain on investments	11,951,456
Net realized loss on written option contracts	(236,233)
Net realized loss on futures contracts	(575,345)
Net realized loss on swap agreements	(3,112,169)

Net realized gain, before income taxes	8,027,709
Deferred tax expense	(479,367)

Net realized gain	7,548,342
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Change in unrealized appreciation/depreciation from investments, option contracts, futures contracts and swap agreements, before income taxes	36,856,849
Deferred tax expense	(3,861,463)

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Net change in unrealized appreciation/depreciation from investments, option contracts, futures contracts and swap agreements	32,995,386
Net realized and unrealized gain from investments, option contracts, futures contracts and swap agreements	40,543,728
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Operations	\$ 39,735,317

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Statements of Changes in Net Assets

	Six months ended May 31, 2013 (Unaudited)	Period from May 24, 2012 ⁽¹⁾ through November 30, 2012
Operations:		
Net investment income (loss), net of income taxes	\$ (808,411)	\$ 106,124
Net realized gain (loss), net of income taxes	7,548,342	(3,953,868)
Change in unrealized appreciation/depreciation, net of income taxes	32,995,386	13,215,708
Net increase in net assets applicable to common shareholders resulting from operations	39,735,317	9,367,964
Distributions:		
In excess of net investment income	(6,402,597)	
Return of capital		(6,201,092)
Total distributions to common shareholders	(6,402,597)	(6,201,092)
Capital Shares Transactions:		
Proceeds from initial public offering of 9,000,000 common shares		180,000,000
Proceeds from additional offering of 459,100 common shares		9,182,000
Underwriting discounts and offering expenses associated with the issuance of common shares		(8,891,555)
Issuance of 29,119 and 6,432, respectively, common shares from reinvestment of distributions to common shareholders	624,121	127,482
Net increase in net assets applicable to common shareholders from capital transactions	624,121	180,417,927
Total increase in net assets applicable to common shareholders	33,956,841	183,584,799
Net Assets:		
Beginning of period	183,684,799	100,000
End of period	\$ 217,641,640	\$ 183,684,799
Accumulated net investment income (loss)	\$ (6,683,405)	\$ 527,603

(1) Commencement of operations

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Statement of Cash Flows

For the six months ended May 31, 2013

(Unaudited)

Cash flows from operating activities:	
Net increase in net assets resulting from operations	\$ 39,735,317
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by operating activities:	
Purchases of investments	(119,981,628)
Proceeds from disposition of investments	147,720,902
Proceeds from written option contracts	321,457
Return of capital on distributions from master limited partnerships	6,319,864
Premiums paid on credit default swap agreements	379,737
Net realized gain on investments	(11,951,456)
Change in unrealized appreciation/depreciation from investments	(36,940,853)
Change in unrealized appreciation/depreciation from written options	(120,761)
Change in unrealized appreciation/depreciation from swap agreements	(780,461)
Change in operating assets and liabilities:	
Deposits with brokers for futures contracts	291,800
Deposits with brokers for swap agreements	(20,150,000)
Dividends and interest receivable	145,434
Deferred tax asset	208,481
Receivable from investments sold	(998,429)
Variation margin on futures contracts	(375,288)
Payable for swap agreements	6,352
Prepays and other assets	(72,100)
Payable for investments purchased	(397,952)
Line of credit fees payable	16,007
Payable to Adviser	45,036
Trustee fees payable	(5,127)
Interest payable	99,195
Accounts payable and accrued expenses	(1,131)
Deferred tax liability	3,861,463
Net cash provided by operating activities	7,375,859
Cash flows from financing activities:	
Advances from credit facility	75,900,000
Repayments on credit facility	(62,100,000)
Distributions paid to common shareholders, net of reinvestments	(8,903,752)
Net cash provided by financing activities	4,896,248
Net increase in cash and cash equivalents	12,272,107
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	\$ 12,272,107
Supplemental schedule of non-cash activity:	
Reinvestment of distributions to common shareholders	\$ 624,121
Supplemental schedule of cash activity:	
Cash paid for interest during the period	\$ 320,031

Cash paid for non-use fees during the period

5,108

See accompanying notes to consolidated financial statements.

SALIENT MIDSTREAM & MLP FUND

Consolidated Financial Highlights

	Six months ended May 31, 2013 (Unaudited)	Period from May 24, 2012 ⁽¹⁾ through November 30, 2012
Per Common Share Data:⁽²⁾		
Net Asset Value, beginning of period	\$ 19.40	\$ 20.00
Income from investment operations:		
Net investment income (loss) ⁽³⁾	(0.09)	0.01
Net realized and unrealized gain from investments	4.28	1.00
Net increase resulting from operations	4.19	1.01
Distributions paid from:		
In excess of net investment income	(0.68)	
Return of capital		(0.66)
Underwriting discounts and offering costs on issuance of common shares ⁽⁴⁾		(0.95)
Net Asset Value, end of period	\$ 22.91	\$ 19.40
Per common share market value, end of period	\$ 23.18	\$ 19.54
Total Investment Return Based on Market Value⁽⁵⁾⁽⁶⁾	22.19%	1.13%
Ratios to Average Net Assets:⁽⁷⁾		
Net investment income (loss)	(0.78)%	0.11%
Gross operating expenses	6.42%	4.94%
Net operating expenses ⁽⁸⁾	6.12%	4.69%
Net operating expenses (excluding deferred income tax benefit/expense) ⁽⁸⁾	2.18%	2.22%
Supplemental Data:		
Net assets applicable to common shareholders, end of period (000s)	\$ 217,642	\$ 183,685
Average net assets (000s)	206,996	184,441
Portfolio turnover ⁽⁵⁾	36.03%	47.73%
Asset coverage per \$1,000 unit of senior indebtedness ⁽⁹⁾	\$ 3,445	\$ 3,443
Short-term borrowings, end of period (000s)	\$ 89,000	\$ 75,200

(1)