

ClearBridge Energy Midstream Opportunity Fund Inc.

Form N-CSR

January 30, 2019

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

**Investment Company Act file number 811-22546**

**ClearBridge Energy Midstream Opportunity Fund Inc.**

**(Exact name of registrant as specified in charter)**

**620 Eighth Avenue, 49th Floor, New York, NY 10018**

**(Address of principal executive offices) (Zip code)**

**Robert I. Frenkel, Esq.**

**Legg Mason & Co., LLC**

**100 First Stamford Place**

**Stamford, CT 06902**

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

**Registrant's telephone number, including area code: (888) 777-0102**

**Date of fiscal year end: November 30**

**Date of reporting period: November 30, 2018**

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ITEM 1. REPORT TO STOCKHOLDERS.

The **Annual** Report to Stockholders is filed herewith.

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Annual Report

November 30, 2018

CLEARBRIDGE

ENERGY MIDSTREAM OPPORTUNITY FUND  
INC. (EMO)

Beginning in January 2021, as permitted by regulations adopted by the Securities and Exchange Commission, the Fund intends to no longer mail paper copies of the Fund's shareholder reports like this one, unless you specifically request paper copies of the reports from the Fund or from your financial intermediary (such as a broker-dealer or bank). Instead, the reports will be made available on a website, and you will be notified by mail each time a report is posted and provided with a website link to access the report.

If you invest through a financial intermediary and you already elected to receive shareholder reports electronically ( e-delivery ), you will not be affected by this change and you need not take any action. If you have not already elected e-delivery, you may elect to receive shareholder reports and other communications from the Fund electronically by contacting your financial intermediary.

You may elect to receive all future reports in paper free of charge. If you invest through a financial intermediary, you can contact your financial intermediary to request that you continue to receive paper copies of your shareholder reports. That election will apply to all Legg Mason funds held in your account at that financial intermediary. If you are a direct shareholder with the Fund, you can call the Fund at 1-888-888-0151, or write to the Fund by regular mail at P.O. Box 505000, Louisville, KY 40233 or by overnight delivery to Computershare, 462 South 4th Street, Suite 1600, Louisville, KY 40202 to let the Fund know you wish to continue receiving paper copies of your shareholder reports. That election will apply to all Legg Mason Funds held in your account held directly with the fund complex.

INVESTMENT PRODUCTS: NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

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## Fund objective

The Fund's investment objective is to provide long-term investors a high level of total return with an emphasis on cash distributions.

The Fund seeks to achieve its objective by investing primarily in energy midstream entities.

## Letter from the chairman

### Dear Shareholder,

We are pleased to provide the annual report of ClearBridge Energy Midstream Opportunity Fund Inc. for the twelve-month reporting period ended November 30, 2018. Please read on for a detailed look at prevailing economic and market conditions during the Fund's reporting period and to learn how those conditions have affected Fund performance.

### Special shareholder notice

On November 19, 2018, ClearBridge Energy Midstream Opportunity Fund Inc. (NYSE: EMO) announced the completion of the merger of ClearBridge American Energy MLP Fund Inc. (NYSE: CBA) with and into EMO. Effective after the close of business on Friday, November 16, 2018, CBA stockholders became EMO stockholders.

Each CBA common share converted into an equivalent dollar amount (to the nearest \$0.0001) of full common shares of EMO. The conversion price was based on each Fund's net asset value (NAV) per share calculated at the close of business on Friday, November 16, 2018.

The conversion ratio was calculated at 0.691518 common shares of EMO for each CBA common share. EMO did not issue any fractional common shares to CBA stockholders. In lieu of issuing fractional shares, EMO purchased all fractional shares at the then current NAV and remitted the cash proceeds to former CBA stockholders in proportion to their fractional shares.

EMO's post-merger net assets totaled \$777,019,422 and its NAV per common share was \$10.8350 based on approximately 71,714,031 shares outstanding, as of the close of business on November 16, 2018.

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In addition, EMO issued and delivered to CBA for distribution to holders of CBA mandatory redeemable preferred stock ( MRPS ) the same number of newly issued shares of Series D, E, F and G MRPS as that number of shares of CBA s Series A, B, C and D MRPS issued and outstanding immediately before

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the date of the merger, with a liquidation preference and other terms identical to the terms of CBA's Series A, B, C and D MRPS. The newly issued EMO MRPS have equal priority with any other outstanding EMO MRPS as to the payment of dividends and as to the distribution of assets upon dissolution, liquidation or winding up of the affairs of EMO. Any accrued and unpaid dividends on the CBA MRPS have been assumed by EMO and will be payable on the same dividend payment schedule.

Management and each Fund's Board of Directors believed it is in the best interests of stockholders to merge CBA with and into EMO in part because the combined Fund may benefit from economies of scale, as one set of fixed expenses would be spread over a larger asset base, as well as from the possibility of enhanced market liquidity and improved market price trading relative to NAV. The Merger will also result in a more streamlined product offering, allowing for more focused marketing and stockholder servicing efforts. Management and the Fund's investment adviser do not anticipate any material portfolio turnover as a result of the proposed merger. The merger is expected to qualify as a tax-free reorganization for federal income tax purposes.

Also, after the close of business on November 16, 2018, EMO changed its name from ClearBridge Energy MLP Opportunity Fund Inc. to ClearBridge Energy Midstream Opportunity Fund Inc. and, relatedly amended its 80% policy from investing at least 80% of its managed assets in master limited partnerships (MLPs) in the energy sector to investing at least 80% of its managed assets in energy midstream entities structured as both partnerships and corporations.

The name and investment policy change should allow additional investment flexibility by including midstream C corporations in EMO's current 80% policy. Management does not anticipate any material change in the portfolio construction in the near term because of this policy change. For more information, please call 1-888-777-0102 or consult the Fund's website at [www.lmcef.com](http://www.lmcef.com).

As always, we remain committed to providing you with excellent service and a full spectrum of investment choices. We also remain committed to supplementing the support you receive from your financial advisor. One way we accomplish this is through our website, [www.lmcef.com](http://www.lmcef.com). Here you can gain immediate access to market and investment information, including:

Fund prices and performance,

Market insights and commentaries from our portfolio managers, and

A host of educational resources.

We look forward to helping you meet your financial goals.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 28, 2018

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## Investment commentary

### Economic review

Economic activity in the U.S. was mixed during the twelve months ended November 30, 2018 (the reporting period). Looking back, the U.S. Department of Commerce reported that fourth quarter 2017 and first quarter 2018 U.S. gross domestic product (GDP) growth was 2.3% and 2.2%, respectively. GDP growth then accelerated to 4.2% during the second quarter of 2018—the strongest reading since the third quarter of 2014. Finally, the U.S. Department of Commerce’s final reading for third quarter 2018 GDP growth—released after the reporting period ended—was 3.4%. The deceleration in GDP growth in the third quarter of 2018 reflected a downturn in exports and decelerations in nonresidential fixed investment and personal consumption expenditures. Imports increased in the third quarter after decreasing in the second. These movements were partly offset by an upturn in private inventory investment.

Job growth in the U.S. was solid overall and supported the economy during the reporting period. As reported by the U.S. Department of Labor, when the reporting period ended on November 30, 2018, the unemployment rate was 3.7%, versus 4.1% when the period began. November 2018’s reading equaled the lowest unemployment rate since 1969. The percentage of longer-term unemployed also declined during the reporting period. In November 2018, 20.8% of Americans looking for a job had been out of work for more than six months, versus 22.9% when the period began.

Looking back, at its meeting that concluded on September 20, 2017, the Federal Reserve Board (the Fed) kept the federal funds rate<sup>iii</sup> on hold, but reiterated its intention to begin reducing its balance sheet, saying, “In October, the Committee will initiate the balance sheet normalization program.” At its meeting that ended on December 13, 2017, the Fed raised rates to a range between 1.25% and 1.50%. As widely expected, the Fed again raised rates at its meetings that ended on March 21, 2018 (to a range between 1.50% and 1.75%), June 13, 2018 (to a range between 1.75% and 2.00%) and September 26, 2018 (to a range between 2.00% and 2.25%). Finally, at its meeting that ended on December 19, 2018, after the reporting period ended, the Fed raised rates to a range between 2.25% and 2.50%.

As always, thank you for your confidence in our stewardship of your assets.

Sincerely,

Jane Trust, CFA

Chairman, President and Chief Executive Officer

December 28, 2018

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results.

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- i Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- ii The Federal Reserve Board (the Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.
- iii The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.

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## Fund overview

### Q. What is the Fund's investment strategy?

A. The Fund's investment objective is to provide long-term investors a high level of total return with an emphasis on cash distributions. Effective November 19, 2018, the Fund seeks to achieve its objective by investing primarily in energy midstream entities. Under normal market conditions, the Fund invests at least 80% of its managed assets in energy midstream entities including entities structured as both partnerships and corporations (the 80% policy). Previously, the Fund's investment policy provided that at least 80% of its managed assets be invested in master limited partnerships (MLPs) in the energy sector.

For purposes of the amended 80% policy, the Fund considers investments in midstream entities as those entities that provide midstream services including the gathering, transporting, processing, fractionation, storing, refining, and distribution of oil, natural gas liquids and natural gas. The Fund considers an entity to be within the Energy sector if it derives at least 50% of its revenues from the business of exploring, developing, producing, gathering, transporting, processing, fractionating, storing, refining, distributing, mining or marketing natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal.

We currently focus primarily on investments in midstream entities with operations in crude oil, natural gas liquids and refined products infrastructure. We believe that the increased supply of domestic oil and natural gas liquids due primarily to recent shale gas discoveries makes midstream entities focused on these liquid products well positioned for long-term growth.

However, should macroeconomic energy, political, regulatory or tax considerations evolve, and other types of midstream entities become more attractive, we may look to invest in these new opportunities, subject to compliance with the Fund's 80% policy.

ClearBridge Investments, LLC is the Fund's subadviser. The portfolio managers primarily responsible for overseeing the day-to-day management of the Fund are Richard A. Freeman, Michael Clarfeld, CFA, Chris Eades, and Peter Vanderlee, CFA.

### Q. What were the overall market conditions during the Fund's reporting period?

A. U.S. equity markets finished with decent returns for the twelve-month reporting period ended November 30, 2018, with the S&P 500 Index<sup>i</sup> advancing 6.27%. Small-cap stocks struggled, especially toward the end of the reporting period, with the Russell 2000 Index<sup>ii</sup> edging up 0.57% in total. Growth stocks of both large and small market capitalization companies outperformed value stocks during the period, with the large-cap Russell 1000 Growth Index<sup>iii</sup> 8.59% return besting, the Russell 1000 Value Index<sup>iv</sup> 2.96% gain, and the small-cap Russell 2000 Growth Index<sup>v</sup> 2.81% return capping the Russell 2000 Value Index<sup>vi</sup> 1.83% decline.

The stock market opened the year strongly and then experienced a correction in February 2018 caused by higher interest rates, fear of increasing inflation and concerns regarding trade disputes. Overall, investors focused on U.S. economic strength and strong earnings growth, which were helped by tax cuts passed at the end of 2017, to push equity markets higher. U.S. equities underwent another correction in October 2018, however, as a mix of

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## Fund overview (cont d)

continuing trade concerns, higher interest rates and uninspiring financial results from some mega cap tech companies combined to make for a volatile month.

For most of the year, the cyclical sectors most tied to the performance of the U.S. economy led the market. The Information Technology ( IT ) sector was a strong performer. Consumer discretionary stocks also performed well, as low unemployment, gently rising wages and cycle-high consumer confidence created a good environment for discretionary spending. Materials stocks, however, faced cost pressures and underperformed the market.

U.S. economic indicators were generally powerful during the reporting period. U.S. gross domestic product ( GDP<sup>ii</sup> ) growth, as measured by the U.S. Department of Commerce, rose to 4.2% in the second quarter of 2018; jobless claims hit a five-decade low. Unemployment was at levels below the commonly accepted non-inflationary rate, putting the Federal Reserve Board (the Fed<sup>iii</sup>) on inflation watch. Capital expenditures also reached the highest level of this business cycle, helped by incentives in the tax reform law. Share repurchases for companies in the S&P 500 were \$191 billion in the second quarter of 2018, the highest amount ever.

Seeing a steadily growing U.S. economy with low unemployment and core inflation approaching its target 2%, the Fed raised the federal funds rate<sup>ix</sup> four times in the reporting period. The target range at the end of the period was between 2.00% and 2.25%. The yield on the ten-year U.S. Treasury likewise rose, from 2.3% to 3.0%, and pressured defensive, yield-oriented sectors such as the Consumer Staples, Real Estate and Utilities sectors, which underperformed the market during the reporting period.

### **Q. What were the overall market conditions for the MLP sector during the reporting period?**

**A.** U.S. energy production growth remained robust. To date in 2018, oil production rose 15% year over year, natural gas production rose 12%, and natural gas liquids production rose 16%. While U.S. energy production growth rates may slow heading into 2019 due to infrastructure bottlenecks (primarily in the Permian Basin of West Texas), we expect production growth to continue. Such infrastructure bottlenecks are a clear signal from the market that growth opportunities to build new pipeline, storage and processing facilities will continue for at least the next several years. This continued growth in U.S. energy production and associated infrastructure buildout should help to drive increasing cash flows for energy infrastructure companies.

West Texas Intermediate ( WTI ) oil prices remained rangebound between \$60 and \$70 for the reporting period. The decline in oil prices at the end of the period was mostly the result of Organization of the Petroleum Exporting Countries ( OPEC ) (largely Saudi Arabia) increasing oil production ahead of Iran sanctions being implemented in early November 2018. While Iran sanctions are in place, waivers were granted to many countries, allowing more Iranian oil in the global market than expected resulting in rising inventories and falling oil prices. In our view, it is likely that OPEC reduces oil production by roughly 1 million barrels per day in the coming months to bring the oil market back into balance. Such a production decline by

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OPEC would likely result in firming oil prices. We expect WTI oil prices to trade in an intermediate to long-term range of \$50 per barrel to \$70 per barrel. In this price range, in our view, oil prices are high enough to incent drilling necessary to ensure supply growth and low enough to ensure continued demand growth. For reference, the 20-year average price for WTI oil is \$59.89 per barrel.

Interest rates rose over the period, and we expect the Fed to raise rates two to three more times before pausing during 2019. In an historical context, interest rates will likely remain low and we do not expect higher interest rates to impair expected returns on new capital investment by energy infrastructure companies. MLP stocks and energy midstream companies have not typically traded with the U.S. interest rate cycle. Over the past ten years, there have been four previous periods where the yield for the ten-year U.S. Treasury has increased by more than 100 basis points. MLP stocks, many of which are now energy midstream companies, outperformed other income-oriented equities (utilities and REITs) in all four periods.

We also monitored several risks during the reporting period: (1) A trade dispute between China and the U.S. threatened to significantly impact the global economy and reduce global demand growth for oil. (2) Saudi Arabia might maintain current production levels to appease President Donald Trump for not further pursuing the assassination of journalist Jamal Khashoggi. This would likely result in an oversupplied oil market and oil prices falling below our expected intermediate to long-term range of \$50 per barrel to \$70 per barrel for a period of time. (3) Slowing U.S. corporate profit growth might lead to a weakening U.S. stock market, which would likely present a headwind for MLP stock and energy midstream companies prices.

### **Q. How did we respond to these changing market conditions?**

**A.** Our investment approach remained consistent throughout the reporting period. We continue to focus on MLPs and infrastructure companies that are engaged in the midstream space. These companies' income streams are generally less exposed to the volatility of commodity prices and the companies have business models that are largely fee based. We focus on companies with high-quality assets, solid balance sheets and good growth outlooks.

Our view on MLP and energy midstream companies fundamentals remains largely intact. Over the long term we expect growing U.S. production of oil and gas, which will necessitate increased infrastructure investment. We expect MLPs to provide this growing infrastructure and expect that growth in infrastructure investment should lead to growing distributions. We continue to believe that MLP general partners ( GP ) are best positioned to drive value for shareholders and therefore we continue to focus our investments in GPs. We believe continued modest distribution growth, ready access to capital markets, solid balance sheets and improved investor sentiment position MLP stocks and energy midstream companies well going forward.

### **Performance review**

For the twelve months ended November 30, 2018, ClearBridge Energy Midstream Opportunity Fund Inc. returned 0.67% based on its net asset value ( NAV ) and -0.87% based on its New York Stock Exchange ( NYSE ) market price per share. The Lipper Energy

**Table of Contents****Fund overview (cont'd)**

MLP Closed-End Funds Category Average<sup>xi</sup> returned 0.83% over the same time frame. Please note that Lipper performance returns are based on each fund's NAV.

During the twelve-month period, the Fund made distributions to shareholders totaling \$1.28 per share, which included a return of capital of \$0.96 per share. The performance table shows the Fund's twelve-month total return based on its NAV and market price as of November 30, 2018. **Past performance is no guarantee of future results.**

**Performance Snapshot as of November 30, 2018**  
 (unaudited)

	12-Month Total Return*
Price Per Share	
\$10.27 (NAV)	0.67%
\$9.23 (Market Price)	-0.87%

**All figures represent past performance and are not a guarantee of future results.**

\* **Total returns are based on changes in NAV or market price, respectively. Returns reflect the deduction of all Fund expenses, including management fees, operating expenses, and other Fund expenses. Returns do not reflect the deduction of brokerage commissions or taxes that investors may pay on distributions or the sale of shares.**

**Total return assumes the reinvestment of all distributions, including returns of capital, at NAV.**

**Total return assumes the reinvestment of all distributions, including returns of capital, in additional shares in accordance with the Fund's Dividend Reinvestment Plan.**

**Q. What were the leading contributors to performance?**

**A.** The Diversified Energy Infrastructure subsector contributed positively to absolute performance during the reporting period, as did sector allocation, due largely to an overweight to the Diversified Energy Infrastructure subsector. Stock selection in the Gathering/Processing subsector also contributed positively. In terms of individual Fund holdings, the top contributors to performance for the period were Energy Transfer Operating LP, Williams Partners LP, Enterprise Products Partners LP, ONEOK Inc. and Plains All American Pipeline LP.

**Q. What were the leading detractors from performance?**

**A.** The Gathering/Processing and Liquids Transportation & Storage subsectors detracted meaningfully from absolute performance during the reporting period. Stock selection in the Liquids Transportation & Storage and Diversified Energy Infrastructure subsectors dampened relative results. In terms of individual Fund holdings, leading detractors from performance for the period included positions in Buckeye Partners LP, Williams Cos. Inc., Energy Transfer LP, TC Pipelines LP and Macquarie Infrastructure.

**Q. Were there any significant changes to the Fund during the reporting period?**

**A.** During the reporting period, we established new Fund positions in Brookfield Infrastructure Partners L.P., Enviva Partners LP, CNX Midstream Partners LP and EQM Midstream Partners LP. In addition, Energy Transfer Partners LP was acquired by parent and general partner Energy Transfer Equity, shares of which were retained in the Fund as Energy Transfer LP; Williams Partners LP was acquired by parent Williams Cos. Inc., which bought the remaining outstanding units to consolidate into one entity whose shares were retained in the Fund. The Fund also closed positions in Tallgrass Energy Partners LP and Hess Midstream Partners LP.



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**Looking for additional information?**

The Fund is traded under the symbol EMO and its closing market price is available in most newspapers under the NYSE listings. The daily NAV is available on-line under the symbol XEMOX on most financial websites. *Barron's* and the *Wall Street Journal's* Monday edition both carry closed-end fund tables that provide additional information. In addition, the Fund issues a quarterly press release that can be found on most major financial websites as well as [www.lmcef.com](http://www.lmcef.com) (click on the name of the Fund).

In a continuing effort to provide information concerning the Fund, shareholders may call 1-888-777-0102 (toll free), Monday through Friday from 8:00 a.m. to 5:30 p.m. Eastern time, for the Fund's current NAV, market price and other information.

Thank you for your investment in ClearBridge Energy Midstream Opportunity Fund Inc. As always, we appreciate that you have chosen us to manage your assets and we remain focused on achieving the Fund's investment goals.

Sincerely,

Michael Clarfeld, CFA

Portfolio Manager

ClearBridge Investments, LLC

Chris Eades

Portfolio Manager

ClearBridge Investments, LLC

Richard A. Freeman

Portfolio Manager

ClearBridge Investments, LLC

Peter Vanderlee, CFA

Portfolio Manager

ClearBridge Investments, LLC

December 18, 2018

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***RISKS:** The Fund is a non-diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading vehicle. The Fund is not intended to be a complete investment program and, due to the uncertainty inherent in all investments, there can be no assurance that the Fund will achieve its investment objective. The Fund's common stock is traded on the New York Stock Exchange. Similar to stocks, the Fund's share price will fluctuate with market conditions and, at the time of sale, may be worth more or less than the original investment. Shares of closed-end funds often trade at a discount to their net asset value. Because the Fund is non-diversified, it may be more susceptible to economic, political or regulatory events than a diversified fund. The Fund's investments are subject to a number of risks such as stock market risk, MLP and midstream entities risk, market events risk and portfolio management risk. MLP distributions are not guaranteed and there is no assurance that all distributions will be tax deferred. Investments in MLP securities and midstream entities are subject to unique risks. The Fund's concentration of investments in energy-related MLPs and midstream entities subjects it to the*



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## Fund overview (cont d)

*risks of MLPs, midstream entities and the energy sector, including the risks of declines in energy or commodity prices, decreases in energy demand, adverse weather conditions, natural or other disasters, changes in government regulation, and changes in tax laws. Leverage may result in greater volatility of NAV and the market price of common shares, and increases a shareholder's risk of loss. The Fund may make significant investments in derivative instruments. Derivative instruments can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. The Fund may invest in small-capitalization or illiquid securities, which can increase the risk and volatility of the Fund.*

Portfolio holdings and breakdowns are as of November 30, 2018 and are subject to change and may not be representative of the portfolio managers' current or future investments. The Fund's top ten holdings (as a percentage of total net assets) as of November 30, 2018 were: Enterprise Products Partners LP (14.0%), Energy Transfer Partners LP (10.8%), Genesis Energy LP (7.9%), Williams Cos. Inc. (7.5%), ONEOK Inc. (7.4%), Magellan Midstream Partners LP (7.0%), Targa Resources Corp. (6.1%), EnLink Midstream Partners LP (6.0%), Cheniere Energy Partners LP (5.6%) and Tallgrass Energy LP (5.6%). Please refer to pages 9 through 11 for a list and percentage breakdown of the Fund's holdings.

The mention of sector breakdowns is for informational purposes only and should not be construed as a recommendation to purchase or sell any securities. The information provided regarding such sectors is not a sufficient basis upon which to make an investment decision. Investors seeking financial advice regarding the appropriateness of investing in any securities or investment strategies discussed should consult their financial professional. The Fund's top five sector holdings (as a percentage of net assets) as of November 30, 2018 were: Diversified Energy Infrastructure (38.6%), Oil, Gas & Consumable Fuels (26.4%), Liquids Transportation & Storage (24.2%), Gathering/Processing (27.6%), and Natural Gas Transportation & Storage (10.6%). The Fund's portfolio composition is subject to change at any time.

All investments are subject to risk including the possible loss of principal. Past performance is no guarantee of future results. All index performance reflects no deduction for fees, expenses or taxes. Please note that an investor cannot invest directly in an index.

The information provided is not intended to be a forecast of future events, a guarantee of future results or investment advice. Views expressed may differ from those of the firm as a whole.

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- i The S&P 500 Index is an unmanaged index of 500 stocks and is generally representative of the performance of larger companies in the U.S.
- ii The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.
- iii The Russell 1000 Growth Index measures the performance of those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values. (A price-to-book ratio is the price of a stock compared to the difference between a company's assets and liabilities.) The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 90% of the U.S. market.
- iv The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.
- v The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.
- vi The Russell 2000 Value Index measures the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.
- vii Gross domestic product ( GDP ) is the market value of all final goods and services produced within a country in a given period of time.
- viii The Federal Reserve Board (the Fed ) is responsible for the formulation of U.S. policies designed to promote economic growth, full employment, stable prices and a sustainable pattern of international trade and payments.
- ix The federal funds rate is the rate charged by one depository institution on an overnight sale of immediately available funds (balances at the Federal Reserve) to another depository institution; the rate may vary from depository institution to depository institution and from day to day.
- x Net asset value ( NAV ) is calculated by subtracting total liabilities, including liabilities associated with financial leverage (if any, from the closing value of all securities held by the Fund (plus all other assets) and dividing the result (total net assets) by the total number of the common shares outstanding. The NAV fluctuates with changes in the market prices of securities in which the Fund has invested. However, the price at which an investor may buy or sell shares of the Fund is the Fund's market price as determined by supply of and demand for the Fund's shares.
- xi Lipper, Inc., a wholly-owned subsidiary of Reuters, provides independent insight on global collective investments. Returns are based on the twelve-month period ended November 30, 2018, including the reinvestment of all distributions, including returns of capital, if any, calculated among the 22 funds in the Fund's Lipper category.

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**Fund at a glance** (unaudited)

**Investment breakdown** (%) as a percent of total investments

The bar graph above represents the composition of the Fund's investments as of November 30, 2018 and November 30, 2017. The Fund is actively managed. As a result, the composition of the Fund's investments is subject to change at any time.

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**ClearBridge Energy Midstream Opportunity Fund Inc.**

	Shares/Units	Value
Security		
<b>Master Limited Partnerships 127.4%</b>		
<i>Crude/Refined Products Pipelines 2.4%</i>		
BP Midstream Partners LP	1,071,400	\$ 18,074,518
<i>Diversified Energy Infrastructure 38.6%</i>		
Energy Transfer LP	5,472,061	79,727,929
Enterprise Products Partners LP	3,915,417	102,779,696
Genesis Energy LP	2,652,650	58,490,933
Plains All American Pipeline LP	1,670,571	38,473,250
Plains GP Holdings LP, Class A Shares	217,965	4,823,565
<i>Total Diversified Energy Infrastructure</i>		<i>284,295,373</i>
<i>Gathering/Processing 27.6%</i>		
Antero Midstream Partners LP	178,000	4,923,480
Blueknight Energy Partners LP, Class L Shares	2,890,395	4,942,576
CNX Midstream Partners LP	907,100	16,418,510
DCP Midstream LP	1,017,576	34,678,990
Dominion Energy Midstream Partners LP	372,590	6,922,722
Enable Midstream Partners LP	2,067,075	27,574,781
EnLink Midstream Partners LP	3,345,820	44,265,199
EQM Midstream Partners LP	292,920	13,960,567
Noble Midstream Partners LP	349,640	11,583,573
Summit Midstream Partners LP	382,680	4,703,137
Western Gas Partners LP	742,594	33,000,877
<i>Total Gathering/Processing</i>		<i>202,974,412</i>
<i>General Partner 5.6%</i>		
Tallgrass Energy GP LP	1,934,210	41,314,726
<i>Global Infrastructure 3.0%</i>		
Brookfield Infrastructure Partners LP	581,950	22,213,031
<i>Liquids Transportation &amp; Storage 24.2%</i>		
Buckeye Partners LP	1,205,629	35,638,393
Delek Logistics Partners LP	293,030	8,931,554
Enbridge Energy Partners LP	3,212,119	34,915,734
Global Partners LP	173,670	3,001,018
Holly Energy Partners LP	513,232	14,437,216
Magellan Midstream Partners LP	852,410	51,553,757
NuStar Energy LP	503,470	12,168,870
PBF Logistics LP	855,580	17,180,046
<i>Total Liquids Transportation &amp; Storage</i>		<i>177,826,588</i>
<i>Natural Gas Transportation &amp; Storage 10.6%</i>		
Cheniere Energy Partners LP	1,096,770	41,326,294
Spectra Energy Partners LP	389,550	14,121,187

See Notes to Financial Statements.

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**Schedule of investments (cont d)**

November 30, 2018

**ClearBridge Energy Midstream Opportunity Fund Inc.**

	Shares/Units	Value
Security		
<i>Natural Gas Transportation &amp; Storage continued</i>		
TC PipeLines LP	755,630	\$ 22,510,218
<i>Total Natural Gas Transportation &amp; Storage</i>		<i>77,957,699</i>
<i>Offshore 0.3%</i>		
Dynagas LNG Partners LP	568,330	2,568,852
<i>Oil, Gas &amp; Consumable Fuels 3.2%</i>		
Enviva Partners LP	665,000	19,105,450
Green Plains Partners LP	330,000	4,441,800
<i>Total Oil, Gas &amp; Consumable Fuels</i>		<i>23,547,250</i>
<i>Oil/Refined Products 7.2%</i>		
Andeavor Logistics LP	618,798	23,093,541
MPLX LP	762,626	25,265,800
Shell Midstream Partners LP	253,200	4,770,288
<i>Total Oil/Refined Products</i>		<i>53,129,629</i>
<i>Propane 3.9%</i>		
AmeriGas Partners LP	568,761	21,135,159
Suburban Propane Partners LP	320,060	7,476,601
<i>Total Propane</i>		<i>28,611,760</i>
<i>Shipping 0.8%</i>		
KNOT Offshore Partners LP	280,051	5,612,222
<b>Total Master Limited Partnerships (Cost \$1,007,978,547)</b>		<b>938,126,060</b>
	Shares	
<b>Common Stocks 25.0%</b>		
<b>Energy 23.2%</b>		
<i>Oil, Gas &amp; Consumable Fuels 23.2%</i>		
ONEOK Inc.	881,279	54,136,969
SemGroup Corp., Class A Shares	977,974	15,872,518
Targa Resources Corp.	1,010,353	45,092,054
Williams Cos. Inc.	2,189,675	55,442,571
<b>Total Energy</b>		<b>170,544,112</b>
<b>Industrials 1.8%</b>		
<i>Transportation Infrastructure 1.8%</i>		
Macquarie Infrastructure Corp.	318,880	13,297,296
<b>Total Common Stocks (Cost \$205,611,870)</b>		<b>183,841,408</b>
<b>Total Investments before Short-Term Investments (Cost \$1,213,590,417)</b>		<b>1,121,967,468</b>

See Notes to Financial Statements.

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**ClearBridge Energy Midstream Opportunity Fund Inc.**

	Rate	Shares	Value
Security			
<b>Short-Term Investments 1.6%</b>			
JPMorgan 100% U.S. Treasury Securities Money Market Fund, Institutional Class (Cost \$11,894,786)	2.070%	11,894,786	<b>\$ 11,894,786</b>
<b>Total Investments* 154.0% (Cost \$1,225,485,203)</b>			<b>1,133,862,254</b>
Mandatory Redeemable Preferred Stock, at Liquidation Value (6.5)%			(48,000,000)
Liabilities in Excess of Other Assets (47.5)%			(349,698,156)
<b>Total Net Assets Applicable to Common Shareholders 100.0%</b>			<b>\$ 736,164,098</b>

\*The entire portfolio is subject to lien, granted to the lender and Senior Note holders, to the extent of the borrowing outstanding and any additional expenses.

See Notes to Financial Statements.

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**Statement of assets and liabilities**

November 30, 2018

<b>Assets:</b>	
Investments, at value (Cost \$1,225,485,203)	\$ 1,133,862,254
Cash	966,563
Income tax receivable	3,133,543
Dividends and distributions receivable	273,516
Interest receivable	33,691
Prepaid expenses	85,161
<b>Total Assets</b>	<b>1,138,354,728</b>
<b>Liabilities:</b>	
Senior Secured Notes (net of deferred debt issuance and offering costs of \$888,062) (Note 6)	246,111,938
Loan payable (Note 5)	96,000,000
Mandatory Redeemable Preferred Stock (\$100,000 liquidation value per share; 480 shares issued and outstanding) (net of deferred offering costs of \$539,117) (Note 7)	47,460,883
Deferred tax liability (Note 10)	8,819,221
Interest payable	2,069,288
Investment management fee payable	937,109
Distributions payable to Mandatory Redeemable Preferred Stockholders	98,888
Directors' fees payable	28,278
Accrued expenses	665,025
<b>Total Liabilities</b>	<b>402,190,630</b>
<b>Total Net Assets Applicable to Common Shareholders</b>	<b>\$ 736,164,098</b>
<b>Net Assets Applicable to Common Shareholders:</b>	
Common stock par value (\$0.001 par value; 71,713,987 shares issued and outstanding; 100,000,000 common shares authorized)	\$ 71,714
Paid-in capital in excess of par value	862,445,989
Total distributable earnings (loss), net of income taxes	(126,353,605)
<b>Total Net Assets Applicable to Common Shareholders</b>	<b>\$ 736,164,098</b>
<b>Common Shares Outstanding</b>	<b>71,713,987</b>
<b>Net Asset Value Per Common Share</b>	<b>\$10.27</b>

See Notes to Financial Statements.

**Table of Contents****Statement of operations**

For the Year Ended November 30, 2018

<b>Investment Income:</b>	
Dividends and distributions	\$ 44,891,608
Return of capital (Note 1(f))	(41,117,561)
<b>Net Dividends and Distributions</b>	<b>3,774,047</b>
Interest	123,048
<b>Total Investment Income</b>	<b>3,897,095</b>
<b>Expenses:</b>	
Interest expense (Notes 5 and 6)	5,713,630
Investment management fee (Note 2)	5,674,760
Distributions to Mandatory Redeemable Preferred Stockholders (Notes 1 and 7)	977,099
Legal fees	297,947
Audit and tax fees	292,085
Amortization of debt issuance and offering costs (Note 6)	128,399
Commitment fees (Note 5)	108,338
Directors' fees	101,745
Transfer agent fees	92,940
Amortization of preferred stock offering costs (Note 7)	60,570
Franchise taxes	57,200
Fund accounting fees	53,416
Shareholder reports	26,117
Rating agency fees	19,172
Stock exchange listing fees	15,989
Custody fees	7,505
Insurance	6,360
Miscellaneous expenses	76,811
<b>Total Expenses</b>	<b>13,710,083</b>
Less: Fee waivers and/or expense reimbursements (Note 2)	(18,663)
<b>Net Expenses</b>	<b>13,691,420</b>
<b>Net Investment Loss, before income taxes</b>	<b>(9,794,325)</b>
Net current and deferred tax benefit (Note 10)	11,779,222
<b>Net Investment Income, net of income taxes</b>	<b>1,984,897</b>
<b>Realized and Unrealized Gain (Loss) on Investments (Notes 1, 3 and 10):</b>	
Net Realized Gain (Loss) From:	
Investment transactions	26,475,945
Deferred tax expense (Note 10)	(15,886,084)
<b>Net Realized Gain, net of income taxes</b>	<b>10,589,861</b>
Change in Net Unrealized Appreciation (Depreciation) From:	
Investments	(32,914,141)
Deferred tax benefit (Note 10)	15,787,962
<b>Change in Net Unrealized Appreciation (Depreciation), net of income taxes</b>	<b>(17,126,179)</b>
<b>Net Loss on Investments, net of income taxes</b>	<b>(6,536,318)</b>
<b>Decrease in Net Assets Applicable to Common Shareholders From Operations</b>	<b>\$ (4,551,421)</b>

See Notes to Financial Statements.



**Table of Contents****Statements of changes in net assets**

For the Years Ended November 30,	2018	2017
<b>Operations:</b>		
Net investment income (loss), net of income taxes	\$ 1,984,897	\$ (6,105,529)
Net realized gain, net of income taxes	10,589,861	9,826,119
Change in net unrealized appreciation (depreciation), net of income taxes	(17,126,179)	(40,847,878)
<i>Decrease in Net Assets Applicable to Common Shareholders From Operations</i>	<i>(4,551,421)</i>	<i>(37,127,288)</i>
<b>Distributions to Common Shareholders From (Note 1):</b>		
Dividends	(13,290,715)	
Return of capital	(39,605,970)	(39,930,952)
<i>Decrease in Net Assets From Distributions to Common Shareholders</i>	<i>(52,896,685)</i>	<i>(39,930,952)</i>
<b>Fund Share Transactions:</b>		
Net assets of shares issued in connection with merger (40,517,975 shares issued) (Note 9)	439,010,871	
Cost of aggregate fractional shares repurchased (44 aggregate fractional shares repurchased) (Note 9)	(481)	
<i>Increase in Net Assets From Fund Share Transactions</i>	<i>439,010,390</i>	
<i>Increase (Decrease) in Net Assets Applicable to Common Shareholders</i>	<i>381,562,284</i>	<i>(77,058,240)</i>
<b>Net Assets Applicable to Common Shareholders:</b>		
Beginning of year	354,601,814	431,660,054
<b>End of year<sup>1</sup></b>	<b>\$ 736,164,098</b>	<b>\$ 354,601,814</b>

<sup>1</sup> Parenthetical disclosure of undistributed net investment income is no longer required. See Note 12. For the year ended November 30, 2017, end of year net assets included accumulated net investment loss, net of income taxes, of \$(50,693,872).

See Notes to Financial Statements.

**Table of Contents****Statement of cash flows**

For the Year Ended November 30, 2018

**Increase (Decrease) in Cash:****Cash Provided (Used) by Operating Activities:**

Net decrease in net assets applicable to common shareholders resulting from operations	\$ (4,551,421)
Adjustments to reconcile net decrease in net assets resulting from operations to net cash provided (used) by operating activities:	
Purchases of portfolio securities	(86,611,023)
Sales of portfolio securities	104,160,265
Net purchases, sales and maturities of short-term investments	6,317,775
Return of capital	41,117,561
Decrease in dividends and distributions receivable	2,871,333
Increase in interest receivable	(21,338)
Increase in prepaid expenses	(8,113)
Decrease in receivable for securities sold	4,604,487
Increase in income tax receivable	(2,230,843)
Increase in investment management fee payable	161,476
Increase in Directors' fee payable	1,564
Increase in interest payable	122,988
Increase in accrued expenses	48,637
Increase in distributions payable to Mandatory Redeemable Preferred Stockholders	33,019
Decrease in deferred tax liability	(9,407,323)
Net realized gain on investments	(26,475,945)
Change in net unrealized appreciation (depreciation) of investments	32,914,141
<b>Net Cash Provided by Operating Activities*</b>	<b>63,047,240</b>
<b>Cash Flows From Financing Activities:</b>	
Distributions paid on common stock	(52,896,685)
Proceeds from loan facility borrowings	13,000,000
Repayment of loan facility borrowings	(22,000,000)
Payment for fractional shares repurchased	(481)
Decrease in deferred debt issuance and offering costs	128,399
Decrease in preferred stock offering costs	60,570
<b>Net Cash Provided in Financing Activities</b>	<b>(61,708,197)</b>
<b>Net Increase in Cash and Restricted Cash</b>	<b>1,339,043</b>
Cash at beginning of year	
Cash acquired in connection with the reorganization	(372,480)
Cash at end of year	\$ 966,563

\* Included in operating expenses is cash of \$5,170,164 paid for interest and commitment fees on borrowings and \$396 refunded for income taxes.

Excludes assets and liabilities acquired in reorganization.

The following table provides a reconciliation of cash and restricted cash reported with the Statement of Assets and Liabilities that sums to the total of the such amounts shown on the Statement of Cash Flows.

Cash	November 30, 2018
Restricted cash	\$ 966,563
<b>Total cash and restricted cash shown in the Statement of Cash Flows</b>	<b>\$ 966,563</b>

[See Notes to Financial Statements.](#)

**Table of Contents****Financial highlights****For a common share of capital stock outstanding throughout each year ended November 30:**

	2018 <sup>1</sup>	2017 <sup>1</sup>	2016 <sup>1</sup>	2015 <sup>1</sup>	2014 <sup>1</sup>
Net asset value, beginning of year	\$11.37	\$13.84	\$15.25	\$25.80	\$23.53
<b>Income (loss) from operations:</b>					
Net investment income (loss)	0.06	(0.20)	(0.40)	(0.18)	(0.29)
Net realized and unrealized gain (loss)	0.12	(0.99)	0.27	(8.86)	3.96
<i>Total income (loss) from operations</i>	<i>0.18</i>	<i>(1.19)</i>	<i>(0.13)</i>	<i>(9.04)</i>	<i>3.67</i>
<b>Less distributions to common shareholders from:</b>					
Dividends	(0.32)				
Return of capital	(0.96)	(1.28)	(1.28)	(1.51)	(1.40)
<i>Total distributions to common shareholders</i>	<i>(1.28)</i>	<i>(1.28)</i>	<i>(1.28)</i>	<i>(1.51)</i>	<i>(1.40)</i>
Net asset value, end of year	\$10.27	\$11.37	\$13.84	\$15.25	\$25.80
Market price, end of year	\$9.23	\$10.47	\$12.83	\$14.71	\$23.55
<i>Total return, based on NAV<sup>2,3</sup></i>	<i>0.67%</i>	<i>(9.34)%</i>	<i>0.68%</i>	<i>(36.35)%</i>	<i>15.64%</i>
<i>Total return, based on Market Price<sup>4</sup></i>	<i>(0.87)%</i>	<i>(9.54)%</i>	<i>(2.83)%</i>	<i>(32.14)%</i>	<i>8.38%</i>
Net assets applicable to common shareholders, end of year (millions)	\$736	\$355	\$432	\$473	\$798
<b>Ratios to average net assets:</b>					
Management fees	1.49%	1.43%	1.43%	1.44%	1.27%
Other expenses	2.12	1.72	2.65 <sup>5</sup>	1.49	0.93
<i>Subtotal</i>	<i>3.61</i>	<i>3.15</i>	<i>4.08<sup>5</sup></i>	<i>2.93</i>	<i>2.20</i>
Income tax expenses	<sup>6</sup>	<sup>6</sup>	0.10	<sup>6</sup>	8.20
<i>Total gross expenses</i>	<i>3.61</i>	<i>3.15</i>	<i>4.18<sup>5</sup></i>	<i>2.93</i>	<i>10.40</i>
<i>Total net expenses</i>	<i>3.60</i>	<i>3.15</i>	<i>4.18<sup>5</sup></i>	<i>2.93</i>	<i>10.40</i>
Net investment income (loss), net of income taxes	0.52	(1.45)	(3.12) <sup>5</sup>	(0.84)	(1.15)
<b>Portfolio turnover rate</b>	<b>14%</b>	<b>16%</b>	<b>23%</b>	<b>8%</b>	<b>10%</b>
<b>Supplemental data:</b>					
Loan and Debt Issuance Outstanding, End of Year (000s)	\$343,000	\$158,000	\$147,000	\$235,000	\$250,000
Asset Coverage Ratio for Loan and Debt Issuance Outstanding <sup>7</sup>	329%	339%	409%	331%	419%
Asset Coverage, per \$1,000 Principal Amount of Loan and Debt Issuance Outstanding <sup>7</sup>	\$3,286	\$3,390	\$4,093	\$3,312	\$4,191 <sup>8</sup>
Weighted Average Loan and Debt Issuance (000s)	\$163,197	\$157,819	\$137,883	\$247,384	\$217,260
Weighted Average Interest Rate on Loan and Debt Issuance	3.51%	3.32%	4.38% <sup>9</sup>	2.76%	2.90%
Mandatory Redeemable Preferred Stock at Liquidation Value, End of Year (000s)	\$48,000	\$23,000	\$23,000	\$70,000	
Asset Coverage Ratio for Mandatory Redeemable Preferred Stock <sup>10</sup>	288%	296%	354%	255%	
Asset Coverage, per \$100,000 Liquidation Value per Share of Mandatory Redeemable Preferred Stock <sup>10</sup>	\$288,277	\$295,913	\$353,918	\$255,188	

See Notes to Financial Statements.

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- <sup>1</sup> Per share amounts have been calculated using the average shares method.
- <sup>2</sup> Performance figures may reflect compensating balance arrangements, fee waivers and/or expense reimbursements. In the absence of compensating balance arrangements, fee waivers and/or expense reimbursements, the total return would have been lower. Past performance is no guarantee of future results.
- <sup>3</sup> The total return calculation assumes that distributions are reinvested at NAV. Past performance is no guarantee of future results.
- <sup>4</sup> The total return calculation assumes that distributions are reinvested in accordance with the Fund's dividend reinvestment plan. Past performance is no guarantee of future results.
- <sup>5</sup> Includes non-recurring prepayment penalties, the write off of debt issuance and offering costs and the write off of preferred stock offering costs recognized during the period totaling 0.66% of average assets.
- <sup>6</sup> For the years ended November 30, 2018, 2017 and 2015, the net income tax benefit was 3.08%, 4.20% and 23.47%, respectively. The net income tax benefit is not reflected in the Fund's expense ratios.
- <sup>7</sup> Represents value of net assets plus the loan outstanding, debt issuance outstanding and mandatory redeemable preferred stock at the end of the period divided by the loan and debt issuance outstanding at the end of the period.
- <sup>8</sup> Added to conform to current period presentation.
- <sup>9</sup> Includes prepayment penalties recognized during the period.
- <sup>10</sup> Represents value of net assets plus the loan outstanding, debt issuance outstanding and mandatory redeemable preferred stock at the end of the period divided by the loan, debt issuance and mandatory redeemable preferred stock outstanding at the end of the period. Calculation of the net gain per share (both realized and unrealized) does not correlate to the aggregate realized and unrealized losses presented in the Statement of Operations due to the change in fund shares outstanding resulting from the transfer of assets in relation to fluctuating market values of the investment of the Fund.

[See Notes to Financial Statements.](#)

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## Notes to financial statements

### 1. Organization and significant accounting policies

ClearBridge Energy Midstream Opportunity Fund Inc. (formerly ClearBridge Energy MLP Opportunity Fund Inc.) (the Fund) was incorporated in Maryland on April 05, 2011 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Board of Directors authorized 100 million shares of \$0.001 par value common stock. The Fund's investment objective is to provide long-term investors a high level of total return with an emphasis on cash distributions. There can be no assurance that the Fund will achieve its investment objective.

Effective November 19, 2018, the Fund seeks to achieve its objective by investing primarily in energy midstream entities. Under normal market conditions, the Fund invests at least 80% of its Managed Assets in energy midstream entities including entities structured as both partnerships and corporations (the 80% policy). For purposes of the 80% policy, the Fund considers investments in midstream entities as those entities that provide midstream services including the gathering, transporting, processing, fractionation, storing, refining, and distribution of oil, natural gas liquids and natural gas. The Fund considers an entity to be within the Energy sector if it derives at least 50% of its revenues from the business of exploring, developing, producing, gathering, transporting, processing, fractionating, storing, refining, distributing, mining or marketing natural gas, natural gas liquids (including propane), crude oil, refined petroleum products or coal. Managed Assets means net assets plus the amount of borrowings and assets attributable to any preferred stock of the Fund that may be outstanding. Prior to November 19, 2018, the Fund's investment policy provided that at least 80% of its managed assets be invested in energy master limited partnerships (MLPs).

The following are significant accounting policies consistently followed by the Fund and are in conformity with U.S. generally accepted accounting principles (GAAP). Estimates and assumptions are required to be made regarding assets, liabilities and changes in net assets resulting from operations when financial statements are prepared. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ. Subsequent events have been evaluated through the date the financial statements were issued.

**(a) Investment valuation.** Equity securities for which market quotations are available are valued at the last reported sales price or official closing price on the primary market or exchange on which they trade. The valuations for fixed income securities (which may include, but are not limited to, corporate, government, municipal, mortgage-backed, collateralized mortgage obligations and asset-backed securities) and certain derivative instruments are typically the prices supplied by independent third party pricing services, which may use market prices or broker/dealer quotations or a variety of valuation techniques and methodologies. The independent third party pricing services use inputs that are observable such as issuer details, interest rates, yield curves, prepayment speeds, credit risks/spreads, default rates and quoted prices for similar securities. Investments in open-end funds are valued at the closing net asset value per share of each fund on the day of valuation. When the Fund holds securities or other assets that are denominated in a

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foreign currency, the Fund will normally use the currency exchange rates as of 4:00 p.m. (Eastern Time). If independent third party pricing services are unable to supply prices for a portfolio investment, or if the prices supplied are deemed by the manager to be unreliable, the market price may be determined by the manager using quotations from one or more broker/dealers or at the transaction price if the security has recently been purchased and no value has yet been obtained from a pricing service or pricing broker. When reliable prices are not readily available, such as when the value of a security has been significantly affected by events after the close of the exchange or market on which the security is principally traded, but before the Fund calculates its net asset value, the Fund values these securities as determined in accordance with procedures approved by the Fund's Board of Directors.

The Board of Directors is responsible for the valuation process and has delegated the supervision of the daily valuation process to the Legg Mason North Atlantic Fund Valuation Committee (the Valuation Committee). The Valuation Committee, pursuant to the policies adopted by the Board of Directors, is responsible for making fair value determinations, evaluating the effectiveness of the Fund's pricing policies, and reporting to the Board of Directors. When determining the reliability of third party pricing information for investments owned by the Fund, the Valuation Committee, among other things, conducts due diligence reviews of pricing vendors, monitors the daily change in prices and reviews transactions among market participants.

The Valuation Committee will consider pricing methodologies it deems relevant and appropriate when making fair value determinations. Examples of possible methodologies include, but are not limited to, multiple of earnings; discount from market of a similar freely traded security; discounted cash-flow analysis; book value or a multiple thereof; risk premium/yield analysis; yield to maturity; and/or fundamental investment analysis. The Valuation Committee will also consider factors it deems relevant and appropriate in light of the facts and circumstances. Examples of possible factors include, but are not limited to, the type of security; the issuer's financial statements; the purchase price of the security; the discount from market value of unrestricted securities of the same class at the time of purchase; analysts' research and observations from financial institutions; information regarding any transactions or offers with respect to the security; the existence of merger proposals or tender offers affecting the security; the price and extent of public trading in similar securities of the issuer or comparable companies; and the existence of a shelf registration for restricted securities.

For each portfolio security that has been fair valued pursuant to the policies adopted by the Board of Directors, the fair value price is compared against the last available and next available market quotations. The Valuation Committee reviews the results of such back testing monthly and fair valuation occurrences are reported to the Board of Directors quarterly.

The Fund uses valuation techniques to measure fair value that are consistent with the market approach and/or income approach, depending on the type of security and the particular circumstance. The market approach uses prices and other relevant information generated by

**Table of Contents****Notes to financial statements (cont'd)**

market transactions involving identical or comparable securities. The income approach uses valuation techniques to discount estimated future cash flows to present value.

GAAP establishes a disclosure hierarchy that categorizes the inputs to valuation techniques used to value assets and liabilities at measurement date. These inputs are summarized in the three broad levels listed below:

Level 1 quoted prices in active markets for identical investments

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

Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)  
The inputs or methodologies used to value securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used in valuing the Fund's assets carried at fair value:

Description	ASSETS			Total
	Quoted Prices (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Long-term investments :				
Master limited partnerships	\$ 938,126,060			\$ 938,126,060
Common stocks	183,841,408			183,841,408
Total long-term investments	1,121,967,468			1,121,967,468
Short-term investments	11,894,786			11,894,786
<b>Total investments</b>	<b>\$ 1,133,862,254</b>			<b>\$ 1,133,862,254</b>

See Schedule of Investments for additional detailed categorizations.

**(b) Net asset value.** The Fund determines the net asset value of its common stock on each day the NYSE is open for business, as of the close of the customary trading session (normally 4:00 p.m. Eastern Time), or any earlier closing time that day. The Fund determines the net asset value per share of common stock by dividing the value of the Fund's securities, cash and other assets (including interest accrued but not collected) less all its liabilities (including accrued expenses, borrowings, interest payables and the aggregate liquidation value (i.e., \$100,000 per outstanding share) of the Mandatory Redeemable Preferred Stock), net of income taxes, by the total number of shares of common stock outstanding.

**(c) Master limited partnerships.** Entities commonly referred to as MLPs are generally organized under state law as limited partnerships or limited liability companies. The Fund intends to primarily invest in MLPs receiving partnership taxation treatment under the Internal Revenue Code of 1986, as amended (the Code), and whose interests or units are traded on securities exchanges like shares of corporate stock. To be treated as a partnership



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for U.S. federal income tax purposes, an MLP whose units are traded on a securities exchange must receive at least 90% of its income from qualifying sources such as interest, dividends, real estate rents, gain from the sale or disposition of real property, income and gain from mineral or natural resources activities, income and gain from the transportation or storage of certain fuels, and, in certain circumstances, income and gain from commodities or futures, forwards and options with respect to commodities. Mineral or natural resources activities include exploration, development, production, processing, mining, refining, marketing and transportation (including pipelines) of oil and gas, minerals, geothermal energy, fertilizer, timber or industrial source carbon dioxide. An MLP consists of a general partner and limited partners (or in the case of MLPs organized as limited liability companies, a managing member and members). The general partner or managing member typically controls the operations and management of the MLP and has an ownership stake in the partnership. The limited partners or members, through their ownership of limited partner or member interests, provide capital to the entity, are intended to have no role in the operation and management of the entity and receive cash distributions. The MLPs themselves generally do not pay U.S. federal income taxes. Thus, unlike investors in corporate securities, direct MLP investors are generally not subject to double taxation (i.e., corporate level tax and tax on corporate dividends). Currently, most MLPs operate in the energy and/ or natural resources sector.

**(d) Concentration risk.** Concentration in the energy sector may present more risks than if the Fund were broadly diversified over numerous sectors of the economy. A downturn in the energy sector of the economy could have a larger impact on the Fund than on an investment company that does not concentrate in the sector. At times, the performance of securities of companies in the sector may lag the performance of other sectors or the broader market as a whole.

**(e) Security transactions and investment income.** Security transactions are accounted for on a trade date basis. Interest income (including interest income from payment-in-kind securities), adjusted for amortization of premium and accretion of discount, is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date for dividends received in cash and/or securities. Foreign dividend income is recorded on the ex-dividend date or as soon as practicable after the Fund determines the existence of a dividend declaration after exercising reasonable due diligence. The cost of investments sold is determined by use of the specific identification method. To the extent any issuer defaults or a credit event occurs that impacts the issuer, the Fund may halt any additional interest income accruals and consider the realizability of interest accrued up to the date of default or credit event.

**(f) Return of capital estimates.** Distributions received from the Fund's investments in MLPs generally are comprised of income and return of capital. The Fund records investment income and return of capital based on estimates made at the time such distributions are received. Such estimates are based on historical information available from each MLP and other industry sources. These estimates may subsequently be revised based on information received from the MLPs after their tax reporting periods are concluded.

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## Notes to financial statements (cont'd)

For the year ended November 30, 2018, the Fund estimated that approximately 93% of the MLP distributions received would be treated as a return of capital. The Fund recorded as return of capital the amount of \$41,724,554 of dividends and distributions received from its investments.

Additionally, the Fund recorded revisions to the return of capital estimates from the year ended November 30, 2017 in the amount of a \$606,993 increase in dividends and distributions received from investments.

**(g) Partnership accounting policy.** The Fund records its pro rata share of the income (loss) and capital gains (losses), to the extent of distributions it has received, allocated from the underlying partnerships and accordingly adjusts the cost basis of the underlying partnerships for return of capital. These amounts are included in the Fund's Statement of Operations.

**(h) Distributions to shareholders.** Distributions to common shareholders are declared and paid on a quarterly basis and are recorded on the ex-dividend date. The estimated characterization of the distributions paid to common shareholders will be either a dividend (ordinary income) or distribution (return of capital). This estimate is based on the Fund's operating results during the year. The Fund has generated sufficient current year earnings and profits for tax purposes from gains realized on the sale of its MLP investments such that approximately 25% of the distributions paid during the current year will be treated as dividend income. Because the Fund is taxed as a C Corporation, the distributions paid by the Fund are considered to be dividend income to the extent that the distributions are paid out of the Fund's current net income and realized capital gains. The actual tax characterization of the common stock distributions made during the current year will not be determined until after the end of the fiscal year when the Fund can determine its earnings and profits and, therefore, may differ from the preliminary estimates.

Distributions to holders of Mandatory Redeemable Preferred Stock ( MRPS ) are accrued on a daily basis as described in Note 7 and are treated as an operating expense as required by GAAP. For tax purposes, the payments made to the holders of the Fund's MRPS are treated as a dividend (ordinary income) or distribution (return of capital) similar to the treatment of distributions made to common shareholders as described above. The Fund anticipates that 100% of its current year distribution to the MRPS shareholders will be treated as dividend income. The actual tax characterization of the MRPS distributions made during the current year will not be determined until after the end of the fiscal year when the Fund can determine its earnings and profits and, therefore, may differ from the preliminary estimates.

**(i) Compensating balance arrangements.** The Fund has an arrangement with its custodian bank whereby a portion of the custodian's fees is paid indirectly by credits earned on the Fund's cash on deposit with the bank.

**(j) Federal and other taxes.** The Fund, as a corporation, is obligated to pay federal and state income tax on its taxable income. The Fund invests its assets primarily in MLPs, which generally are treated as partnerships for federal income tax purposes. As a limited partner in the MLPs, the Fund includes its allocable share of the MLP's taxable income in computing

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its own taxable income. The Fund, and entities in which the Fund invests, may be subject to audit by the Internal Revenue Service or other applicable tax authorities. The Fund's taxable income or tax liability for prior taxable years could be adjusted if there is an audit of the Fund, or of any entity that is treated as a partnership for tax purposes in which the Fund holds an equity interest. The Fund may be required to pay tax, as well as interest and penalties, in connection with such an adjustment.

Deferred income taxes reflect (i) taxes on unrealized gains (losses), which are attributable to the temporary difference between fair market value and book basis, (ii) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and, as applicable, (iii) the net tax benefit of accumulated net operating losses, capital losses and tax credit carryforwards. To the extent the Fund has a deferred tax asset, consideration is given as to whether or not a valuation allowance is required. The need to establish a valuation allowance for deferred tax assets is assessed periodically by the Fund based on Financial Accounting Standards Board (FASB), Accounting Standards Codification Topic 740, Income Taxes (ASC 740) that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In the assessment for a valuation allowance, consideration is given to all positive and negative evidence related to the realization of the deferred tax asset. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are highly dependent on future allocations of taxable income and future cash distributions from the Fund's MLP holdings), the duration of statutory carryforward periods and the associated risk that net operating losses, capital losses and tax credit carryforwards may expire unused.

For all open tax years and for all major jurisdictions, management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Furthermore, management of the Fund is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

The Fund may rely to some extent on information provided by the MLPs, which may not necessarily be timely, to estimate taxable income allocable to the MLP units held in the portfolio and to estimate the associated deferred tax liability. Such estimates are made in good faith. From time to time, as new information becomes available, the Fund modifies its estimates or assumptions regarding the deferred tax liability.

The Fund's policy is to classify interest and penalties associated with underpayment of federal and state income taxes, if any, as income tax expense on its Statement of Operations. The 2014 through 2017 tax years remain open and subject to examination by tax jurisdictions.

**(k) Reclassification.** GAAP requires that certain components of net assets be reclassified to reflect permanent differences between financial and tax reporting. These reclassifications have no effect on net assets or net asset value per share. During the year ended November 30, 2018, the Fund had no reclassification.

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**Notes to financial statements (cont'd)**

**2. Investment management agreement and other transactions with affiliates**

Legg Mason Partners Fund Advisor, LLC ( LMPFA ) is the Fund's investment manager and ClearBridge Investments, LLC ( ClearBridge ) is the Fund's subadviser. LMPFA and ClearBridge are wholly-owned subsidiaries of Legg Mason, Inc. ( Legg Mason ).

Under the investment management agreement, the Fund pays LMPFA an annual fee, paid monthly, in an amount equal to 1.00% of the Fund's average daily Managed Assets.

LMPFA provides administrative and certain oversight services to the Fund. LMPFA delegates to the subadviser the day-to-day portfolio management of the Fund. For its services, LMPFA pays ClearBridge monthly an aggregate fee equal to 70% of the net management fee it receives from the Fund.

Effective November 19, 2018 LMPFA agreed to a waiver in the amount of 0.05% of the investment management fee that is paid to it by the Fund. The waiver will extend through December 1, 2019.

During periods in which the Fund utilizes financial leverage, the fees paid to LMPFA will be higher than if the Fund did not utilize leverage because the fees are calculated as a percentage of the Fund's assets, including those investments purchased with leverage.

During the year ended November 30, 2018, fees waived and/or expenses reimbursed amounted to \$18,663.

All officers and one Director of the Fund are employees of Legg Mason or its affiliates and do not receive compensation from the Fund.

**3. Investments**

During the year ended November 30, 2018, the aggregate cost of purchases and proceeds from sales of investments (excluding short-term investments) were as follows:

Purchases	\$ 86,611,023
Sales	104,160,265

**4. Derivative instruments and hedging activities**

During the year ended November 30, 2018, the Fund did not invest in derivative instruments.

**5. Loan**

Effective November 16, 2018, the Fund has a revolving credit agreement with The Bank of Nova Scotia ( Credit Agreement ), which allows the Fund to borrow up to an aggregate amount of \$175,000,000 (\$75,000,000 for the period May 29, 2018 through November 15, 2018) and renews daily for a 179-day term, unless notice to the contrary is given to the Fund. The Fund pays a commitment fee on the unutilized portion of the loan commitment amount at an annual rate of 0.25%, except that the commitment fee is 0.15% in the event that the aggregate outstanding principal balance of the loan is equal to or greater than 75% of \$175,000,000. The interest on the loan is calculated at a variable rate based on LIBOR

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plus any applicable margin. Securities held by the Fund are subject to a lien, granted to The Bank of Nova Scotia, to the extent of the borrowing outstanding and any additional expenses. The Fund's Credit Agreement contains customary covenants that, among other things, may limit the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the Credit Agreement may be subject to early termination under certain conditions and may contain other provisions that could limit the Fund's ability to utilize borrowing under the agreement. Interest expense related to this loan for the year ended November 30, 2018 was \$573,693. For the year ended November 30, 2018, the Fund incurred commitment fees of \$55,029. For the year ended November 30, 2018, based on the number of days during the reporting period that the Fund had an outstanding balance under the Credit Agreement, the Fund had an average daily loan balance outstanding of \$39,978,495 and the weighted average interest rate was 2.82%. At November 30, 2018, the Fund had \$96,000,000 of borrowings outstanding per this credit agreement.

Prior to May 29, 2018, the Fund had a 364-day revolving credit agreement with State Street Bank and Trust Company ( "Prior Credit Agreement" ), which allowed the Fund to borrow up to an aggregate amount of \$75,000,000. The Prior Credit Agreement terminated on May 29, 2018 and was repaid directly by proceeds from the Credit Agreement. The Fund paid a commitment fee at an annual rate of 0.25% on the unutilized portion of the loan commitment amount. The interest on the loan was calculated at variable rates based on LIBOR, plus any applicable margin. Securities held by the Fund were subject to a lien, granted to State Street Bank and Trust Company, to the extent of the borrowing outstanding and any additional expenses. The Fund's Prior Credit Agreement contained customary covenants that, among other things, may have limited the Fund's ability to pay distributions in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations and require asset coverage ratios in addition to those required by the 1940 Act. In addition, the Prior Credit Agreement may have been subject to early termination under certain conditions and may have contained other provisions that could have limited the Fund's ability to utilize borrowing under the agreement. Interest expense related to this loan for the period ended May 29, 2018 was \$404,396. For the period ended May 29, 2018, the Fund incurred commitment fees of \$53,309. For the period ended May 29, 2018, based on the number of days during the reporting period that the Fund had an outstanding balance under the Prior Credit Agreement, the Fund had an average daily loan balance outstanding of \$32,111,732 and the weighted average interest rate was 2.57%.

**6. Senior secured notes**

At November 30, 2018, the Fund had \$247,000,000 aggregate principal amount of fixed-rate senior secured notes ( "Senior Notes" ) outstanding. Interest expense related to the Senior Notes for the year ended November 30, 2018 was \$4,735,541. Costs incurred by the Fund in connection with the Senior Notes are recorded as a deferred charge, which are amortized

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**Notes to financial statements (cont d)**

over the life of the notes. Securities held by the Fund are subject to a lien, granted to the Senior Notes holders, to the extent of the borrowings outstanding and any additional expenses. The Senior Notes holders and the lender have equal access to the lien (See Note 5).

The table below summarizes the key terms of each series of Senior Notes at November 30,

2018.

Security	Amount	Rate	Maturity	Estimated Fair Value
Senior secured notes:				
Series A	\$ 27,420,382	3.27%	February 7, 2020	\$ 27,233,752
Series B	\$ 34,471,338	3.87%	February 7, 2023	\$ 34,176,650
Series C	\$ 41,522,293	4.02%	February 7, 2025	\$ 41,176,275
Series D	\$ 15,668,790	3.33%	August 26, 2022	\$ 15,228,476
Series E	\$ 3,917,197	3.76%	August 26, 2026	\$ 3,778,014
Series F	\$ 33,695,652	3.89%	October 15, 2020	\$ 33,570,925
Series G	\$ 47,847,826	4.51%	October 15, 2023	\$ 48,691,872
Series H	\$ 42,456,522	4.66%	October 15, 2025	\$ 43,498,646
	<b>\$ 247,000,000</b>			<b>\$ 247,354,610</b>

The Senior Notes are not listed on any exchange or automated quotation system. The estimated fair value of the Senior Notes was calculated, for disclosure purposes, based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure. The Senior Notes are categorized as Level 3 within the fair value hierarchy.

**7. Mandatory redeemable preferred stock**

At November 30, 2018, the Fund had 480 shares of fixed rate Mandatory Redeemable Preferred Stock ( MRPS ) outstanding with an aggregate liquidation value of \$48,000,000. Offering costs incurred by the Fund in connection with the MRPS issuance are being amortized to expense over the respective life of each series of MRPS.

The table below summarizes the key terms of each series of the MRPS at November 30, 2018.

Series	Term Redemption Date	Rate	Shares	Liquidation Preference Per Share	Aggregate Liquidation Value	Estimated Fair Value
Series A	3/26/2020	3.69%	49	\$ 100,000	\$ 4,900,000	\$ 4,856,085
Series B	3/28/2022	4.07%	41	\$ 100,000	\$ 4,100,000	\$ 4,023,752
Series C	3/26/2024	4.26%	140	\$ 100,000	\$ 14,000,000	\$ 13,693,411
Series D	7/23/2024	4.37%	30	\$ 100,000	\$ 3,000,000	\$ 2,929,588
Series E	7/23/2026	4.55%	70	\$ 100,000	\$ 7,000,000	\$ 6,821,266
Series F	8/7/2022	4.01%	41	\$ 100,000	\$ 4,100,000	\$ 3,990,912
Series G	8/7/2024	4.30%	109	\$ 100,000	\$ 10,900,000	\$ 10,605,231
					<b>\$ 48,000,000</b>	<b>\$ 46,920,245</b>

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The MRPS are not listed on any exchange or automated quotation system. The estimated fair value of the MRPS was calculated, for disclosure purposes, based on estimated market yields and credit spreads for comparable instruments with similar maturity, terms and structure. The MRPS are categorized as Level 3 within the fair value hierarchy.

Holders of MRPS are entitled to receive quarterly cumulative cash dividends payable on the first business day following each quarterly dividend date (February 15, May 15, August 15 and November 15). In the event of a rating downgrade of any series of the MRPS below A by Fitch Ratings Inc., the applicable dividend rate will increase, according to a predetermined schedule, by 0.5% to 4.0%.

The MRPS rank senior to the Fund's outstanding common stock and on parity with any other preferred stock. The Fund may, at its option, redeem the MRPS, in whole or in part, at the liquidation preference amount plus all accumulated but unpaid dividends plus the make whole amount equal to the discounted value of the remaining scheduled payments. If the Fund fails to maintain a total leverage (debt and preferred stock) asset coverage ratio of at least 225% or is in default of specified rating agency requirements, the MRPS are subject to mandatory redemption under certain provisions.

The Fund may not declare dividends or make other distributions on shares of its common stock unless the Fund has declared and paid full cumulative dividends on the MRPS, due on or prior to the date of the common stock dividend or distribution, and meets the MRPS asset coverage and rating agency requirements.

The holders of the MRPS have one vote per share and vote together with the holders of common stock of the Fund as a single class except on matters affecting only the holders of MRPS or the holders of common stock. Pursuant to the 1940 Act, holders of the MRPS have the right to elect two Directors of the Fund, voting separately as a class.

## **8. Stock repurchase program**

On November 16, 2015, the Fund announced that the Fund's Board of Directors (the Board) had authorized the Fund to repurchase in the open market up to approximately 10% of the Fund's outstanding common stock when the Fund's shares are trading at a discount to net asset value. The Board has directed management of the Fund to repurchase shares of common stock at such times and in such amounts as management reasonably believes may enhance stockholder value. The Fund is under no obligation to purchase shares at any specific discount levels or in any specific amounts. During the year ended November 30, 2018, the Fund did not repurchase any shares.

## **9. Transfer of net assets**

On November 16, 2018, the Fund acquired the assets and certain liabilities of ClearBridge American Energy MLP Fund Inc. (the Acquired Fund), pursuant to a plan of reorganization approved by shareholders of both the Acquired Fund and the Fund. Total shares issued by

**Table of Contents****Notes to financial statements (cont d)**

the Fund and the total net assets of the Acquired Fund and the Fund on the date of the transfer were as follows:

Acquired Fund	Shares Issued by the Fund	Total Net Assets of the Acquired Fund	Total Net Assets of the Fund
ClearBridge American Energy MLP Fund Inc.	40,517,975	\$ 439,010,871	\$ 338,008,552

As part of the reorganization, for each share they held, shareholders of the Acquired Fund received 0.691518 shares of the Fund. The Fund did not issue any fractional shares to shareholders of the Acquired Fund. In lieu thereof, the Fund purchased all fractional shares at the current net asset value of the shares and remitted the cash proceeds to former shareholders of the Acquired Fund in proportion to their fractional shares.

The total net assets of the Acquired Fund before acquisition included a total distributable loss, net of income taxes, of \$415,835,940. Total net assets of the Fund immediately after the transfer were \$777,019,423. The transaction was structured to qualify as a tax-free reorganization under the Code.

Proforma results of operations of the combined entity for the entire year ended November 30, 2018, as though the acquisition had occurred as of the beginning of the year (rather than on the actual acquisition date), are as follows:

Net investment loss, net of income taxes	(Unaudited) \$ (12,161,122)
Net realized gain, net of income taxes	19,352,654
Change in net unrealized depreciation, net of income taxes	(18,368,798)
<b>Decrease in net assets from operations</b>	<b>\$ (11,177,266)</b>

Because the combined investment portfolios have been managed as a single portfolio since the acquisition was completed, it is not practicable to separate the amounts of revenue and earnings of the Acquired Fund that have been included in the Fund's accompanying Statement of Operations since the close of business on November 16, 2018.

**10. Income taxes**

On December 22, 2017, the U.S. government signed into law comprehensive tax reform legislation commonly known as the Tax Cuts and Jobs Act of 2017 (the Tax Act). The Tax Act makes broad and complex changes to the Code, including but not limited to, (1) reducing the U.S. federal corporate income tax rate from 35% to 21%; (2) repealing the corporate alternative minimum tax (AMT); (3) creating a new limitation on the deductibility of business interest expense; and (4) changing the rules related to usage of net operating loss carryforwards. These changes generally go into effect for tax years beginning after December 31, 2017.

The modifications to the Code also significantly impact the MLPs in which the Fund invests. The indirect ramification of these changes on the Fund are, as of yet, unknown.

The U.S. Securities and Exchange Commission (SEC) also issued Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on accounting for the income tax effects of



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the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the enactment of the Tax Act for companies to complete the accounting under ASC 740. In accordance with SAB 118, in the financial statements that include the reporting period in which the Tax Act was enacted, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If the company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. As a result of the reduction in the U.S. federal corporate income tax rate under the Tax Act, the Fund has revalued its net deferred tax liability. This decrease was reflected in the Fund's net asset value reported on December 22, 2017. No material adjustment has been recorded to the provisional revaluing of net deferred tax liability subsequent to the enactment of the Tax Act. As of November 30, 2018, the accounting for the income tax effects of the Tax Act is complete.

The Fund's current and deferred income tax provision for the respective categories on the Statement of Operations are as follows:

	Net Investment Loss	Net Realized Gain	Change in Net Unrealized Depreciation	Total
Current tax expense (benefit)	\$ (2,273,777)			\$ (2,273,777)
Deferred tax expense (benefit)	(9,505,445)	\$ 15,886,084	\$ (15,787,962)	(9,407,323)
<b>Total tax expense (benefit)</b>	<b>\$ (11,779,222)</b>	<b>\$ 15,886,084</b>	<b>\$ (15,787,962)</b>	<b>\$ (11,681,100)</b>

The Fund's federal and state income tax provision consist of the following:

	Federal	State	Total
Current tax expense (benefit)	\$ (2,266,761)	\$ (7,016)	\$ (2,273,777)
Deferred tax expense (benefit)	(8,289,877)	(1,117,446)	(9,407,323)
<b>Total tax expense (benefit)</b>	<b>\$ (10,556,638)</b>	<b>\$ (1,124,462)</b>	<b>\$ (11,681,100)</b>

Total income taxes have been computed by applying the U.S. federal statutory income tax rate of 21% plus a blended net state income tax rate of 2.2%. The Fund applied this rate to net investment income (loss) and realized and unrealized gains (losses) on investments before income taxes in computing its total income tax expense (benefit).

During the year, the Fund's combined federal and state income tax rate decreased from 37.1% to 23.2% due to the enactment of the Tax Act, which reduced the U.S. federal corporate income tax rate from 35% to 21%, and due to changes in the composition of MLP investments and underlying MLP activity in various state tax jurisdictions. This decrease

**Table of Contents****Notes to financial statements (cont'd)**

resulted in the additional income tax benefit and corresponding increase in the Fund's effective tax rate (as there is a loss in net assets from operations before taxes) outlined below.

The provision for income taxes differs from the amount derived from applying the statutory income tax rate to net investment income (loss) and realized and unrealized gains (losses) before income taxes as follows:

Provision at statutory rates	21.00%	\$ (3,408,829)
State taxes, net of federal tax benefit	2.20%	(357,115)
Non-deductible distributions on MRPS	(1.48)%	240,739
Dividends received deduction	1.45%	(234,686)
Change in U.S federal tax rate	47.59%	(7,724,480)
Change in blended state tax rate from 2.5% to 2.2%	1.01%	(163,326)
Other, net	0.19%	(33,403)
<b>Total tax expense (benefit)</b>	<b>71.96%</b>	<b>\$ (11,681,100)</b>

Components of the Fund's net deferred tax asset (liability) as of November 30, 2018 are as follows:

**Deferred tax assets**

Net operating loss carryforward	\$ 53,915,115
Capital loss carryforward	48,286,271
Unrealized losses on investment securities	21,256,524
Other deferred tax assets	3,146,123

**Deferred tax liabilities**

Basis reduction resulting from differences in the book vs. taxable income received from MLPs	(51,584,477)
<b>Net deferred tax asset (liability) before valuation allowance</b>	<b>75,019,556</b>
Less: valuation allowance	(83,838,777)
<b>Total net deferred tax asset (liability)</b>	<b>\$ (8,819,221)</b>

At November 30, 2018 the Fund had federal and state net operating loss carryforwards of \$232,784,960 and \$92,436,546 (net of state apportionment), respectively (deferred tax asset of \$53,915,115), including \$215,537,058 and \$77,884,781 (net of state apportionment) from the Acquired Fund, respectively. Several states compute net operating losses before apportionment, therefore the value of the state net operating loss carryforward disclosed may fluctuate for changes in apportionment factors. Realization of the deferred tax asset related to the net operating loss carryforwards is dependent, in part, on generating sufficient taxable income in each respective jurisdiction prior to expiration of the loss carryforwards. During the year ended November 30, 2018 the Fund wrote off state net operating loss carryforwards of \$9,633,801 (deferred tax asset of \$447,895) from the Acquired Fund due to limitations imposed by various state tax jurisdictions resulting from the acquisition. The Acquired Fund had a full valuation allowance recorded against the deferred tax asset, therefore the write-off had no impact on the Fund's net asset value or results of operations. If not utilized, the federal net operating loss carryforward expires in tax years 2032, 2033, 2036 and 2037, and the state net operating loss carryforwards expire in tax years between 2018 and 2037.

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Additionally, at November 30, 2018 the Fund had a capital loss carryforward of \$208,130,480 (deferred tax asset of \$48,286,271), including \$154,967,880 from the Acquired Fund, which may be carried forward for 5 years. During the year ended November 30, 2018, the Fund utilized \$19,790,815 of capital loss carryforward available from previous years. If not utilized, this capital loss will expire in tax years 2019 and 2020. For corporations, capital losses can only be used to offset capital gains and cannot be used to offset ordinary income. Therefore, the use of this capital loss carryforward is dependent upon the Fund generating sufficient net capital gains prior to the expiration of the loss carryforward.

At November 30, 2018 the Fund also had a minimum tax credit carryforward of \$2,488,719, including \$807,550 from the Acquired Fund, which is available to offset against future regular federal tax liabilities. The minimum tax credit does not carry an expiration. The Tax Act repealed corporate AMT for tax years beginning after December 31, 2017 and provides that existing minimum tax credit carryforwards be refundable, subject to certain annual limitations, over the next four taxable years. As such, the Fund has reclassified this carryforward to an income tax receivable on the Statement of Assets and Liabilities.

As a result of the acquisition discussed in Note 9, the Fund's pre-acquisition loss carryovers are now subject to an annual limitation of approximately \$8.0 million under Section 382 of the Code. Additionally, under Section 384 of the Code, the Fund is limited in its ability to use the Acquired Fund's loss carryovers to offset the recognition of its built-in gains in assets that existed at the time of the acquisition for a period of five-years.

The amount of net operating loss and capital loss carryforwards differed from the amounts disclosed in the prior year financial statements due to differences between the estimated and actual amounts of taxable income received from the MLPs for the prior year and the acquisition of tax attributes from the Acquired Fund. Additionally, the acquisition caused the taxable year of the Acquired Fund to close, which accelerated by one year the schedule for expiration of its loss carryovers.

Tax carryovers, net of taxes, of \$85,447,041 acquired from the Acquired Fund have resulted in the Fund having a net deferred tax asset at November 30, 2018. Significant declines in the fair market value of the Acquired Fund's portfolio of investments, in conjunction with cumulative net operating losses and capital losses incurred and expected to be incurred, resulted in the Acquired Fund recording a full valuation allowance on its net deferred tax asset prior to the acquisition. Based on the Fund's assessment, as described in Note 1(j), and due to limitations imposed under Section 384 as discussed above, it has determined that it is not more likely than not that it will be able to generate significant future taxable income of the appropriate character in order to realize the Acquired Fund's deferred tax assets. Accordingly, the Fund has determined that the valuation allowance acquired on November 16, 2018 should remain at this time.

The Fund determined that it is more likely than not that its pre-acquisition deferred tax assets will be realized through future taxable income of the appropriate character. When assessing the recoverability of its deferred tax assets, significant weight is given to the effects of potential future realized gains on investments (reversal of existing deferred tax

**Table of Contents****Notes to financial statements (cont d)**

liability) and the period over which these deferred tax assets can be realized. Based on the Fund's deferred tax liability balance at November 30, 2018, and taking into consideration the limitations imposed under Section 382 as discussed above, no valuation allowance has been established on the Fund's pre-acquisition deferred tax assets. Significant declines in the fair market value of its portfolio of investments may change the Fund's assessment regarding the recoverability of its pre-acquisition deferred tax assets and may result in an additional valuation allowance being recorded. If a valuation allowance is required to reduce any deferred tax asset in the future, it could have a material impact on the Fund's net asset value and results of operations in the period it is recorded.

At November 30, 2018, the cost basis of investments for Federal income tax purposes was \$1,016,602,971. At November 30, 2018, gross unrealized appreciation and depreciation of investments for Federal income tax purposes were as follows:

Gross unrealized appreciation	\$ 218,267,746
Gross unrealized (depreciation)	(101,008,463)
<b>Net unrealized appreciation (depreciation) before tax</b>	<b>\$ 117,259,283</b>
<b>Net unrealized appreciation (depreciation) after tax</b>	<b>\$ 90,055,129</b>

**11. Distribution to common shareholders subsequent to November 30, 2018**

The following distribution to common shareholders has been declared by the Fund's Board of Directors and is payable subsequent to the period end of this report:

Record Date	Payable Date	Amount
2/15/2019	2/28/2019	\$ 0.2300

**12. Recent accounting pronouncements**

The Fund has adopted the disclosure provisions of Financial Accounting Standards Board Accounting Standards Update 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230) Restricted Cash*. ASU 2016-18 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Prior to the issuance of ASU 2016-18, GAAP did not include specific guidance on the cash flow classification and presentation of changes in restricted cash or restricted cash equivalents. Upon evaluation, the Fund has concluded that ASU 2016-18 does not materially impact the financial statement amounts; however, as required, additional or enhanced disclosure has been included.

In August 2018, the Securities and Exchange Commission released its Final Rule on Disclosure Update and Simplification (the Final Rule) which is intended to simplify an issuer's disclosure compliance efforts by removing redundant or outdated disclosure requirements without significantly altering the mix of information provided to investors. Effective with the current reporting period, the Fund adopted the Final Rule with the most notable impacts being that the Fund is no longer required to present the components of distributable earnings on the Statement of Assets and Liabilities or the amount of undistributed net investment income on the Statements of Changes in Net Assets.

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## Report of independent registered public accounting firm

### To the Board of Directors and Shareholders of ClearBridge Energy Midstream Opportunity Fund Inc.

#### Opinion on the financial statements

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of ClearBridge Energy Midstream Opportunity Fund Inc. (formerly known as ClearBridge Energy MLP Opportunity Fund Inc.) (referred to hereafter as the Fund ) as of November 30, 2018, the related statements of operations and cash flows for the year ended November 30, 2018 and the statement of changes in net assets and the financial highlights for each of the two years in the period ended November 30, 2018, including the related notes (collectively referred to as the financial statements ). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of November 30, 2018, the results of its operations and its cash flows for the year then ended, and the changes in its net assets and the financial highlights for each of the two years in the period ended November 30, 2018 in conformity with accounting principles generally accepted in the United States of America.

The financial statements of the Fund as of and for the year ended November 30, 2016 and the financial highlights for each of the periods ended on or prior to November 30, 2016 (not presented herein, other than the financial highlights) were audited by other auditors whose report dated January 25, 2017 expressed an unqualified opinion on those financial statements and financial highlights.

#### Basis for opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ( PCAOB ) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of November 30, 2018 by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Baltimore, Maryland

January 18, 2019

We have served as the auditor of one or more investment companies in Legg Mason investment company group since at least 1973. We have not been able to determine the specific year we began serving as auditor.

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## Board approval of management and subadvisory agreements (unaudited)

### Background

The Investment Company Act of 1940, as amended (the 1940 Act ), requires that the Board of Directors (the Board ) of ClearBridge Energy Midstream Opportunity Fund Inc. (formerly ClearBridge Energy MLP Opportunity Fund Inc.) (the Fund ), including a majority of its members who are not considered to be interested persons under the 1940 Act (the Independent Directors ) voting separately, approve on an annual basis the continuation of the investment management contract (the Management Agreement ) with the Fund's manager, Legg Mason Partners Fund Advisor, LLC (the Manager ), and the sub-advisory agreement (the Sub-Advisory Agreement ) with the Manager's affiliate, ClearBridge Investments, LLC (formerly ClearBridge Advisors, LLC) (the Sub-Adviser ). At a meeting (the Contract Renewal Meeting ) held in-person on November 7 and 8, 2018, the Board, including the Independent Directors, considered and approved the continuation of each of the Management Agreement and the Sub-Advisory Agreement for an additional one-year term. To assist in its consideration of the renewals of the Management Agreement and the Sub-Advisory Agreement, the Board received and considered a variety of information (together with the information provided at the Contract Renewal Meeting, the Contract Renewal Information ) about the Manager and the Sub-Adviser, as well as the management and sub-advisory arrangements for the Fund and the other closed-end funds in the same complex under the Board's supervision (the Legg Mason Closed-end Funds ), certain portions of which are discussed below. A presentation made by the Manager and the Sub-Adviser to the Board at the Contract Renewal Meeting in connection with its evaluations of the Management Agreement and the Sub-Advisory Agreement encompassed the Fund and other Legg Mason Closed-end Funds. In addition to the Contract Renewal Information, the Board received performance and other information throughout the year related to the respective services rendered by the Manager and the Sub-Adviser to the Fund. The Board's evaluation took into account the information received throughout the year and also reflected the knowledge and familiarity gained as members of the Boards of the Fund and other Legg Mason Closed-end Funds with respect to the services provided to the Fund by the Manager and the Sub-Adviser.

At a meeting held by conference call on October 31, 2018, the Independent Directors in preparation for the Contract Renewal Meeting met in a private session with their independent counsel to review Contract Renewal Information in respect of the Legg Mason Closed-end Funds, including the Fund, received to date. No representatives of the Manager or the Sub-Adviser participated in this meeting. The discussion below reflects all of these reviews.

The Manager provides the Fund with investment advisory and administrative services pursuant to the Management Agreement and the Sub-Adviser provides the Fund with certain investment sub-advisory services pursuant to the Sub-Advisory Agreement. The discussion below covers both the advisory and administrative functions being rendered by the Manager, each such function being encompassed by the Management Agreement, and the investment sub-advisory functions being rendered by the Sub-Adviser.

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### **Board approval of management agreement and sub-advisory agreement**

In its deliberations regarding renewal of the Management Agreement and the Sub-Advisory Agreement, the Board, including the Independent Directors, considered the factors below.

### **Nature, extent and quality of the services under the management agreement and sub-advisory agreement**

The Board received and considered Contract Renewal Information regarding the nature, extent, and quality of services provided to the Fund by the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, during the past year. The Board also reviewed Contract Renewal Information regarding the Fund's compliance policies and procedures established pursuant to the 1940 Act.

The Board reviewed the qualifications, backgrounds, and responsibilities of the Fund's senior personnel and the portfolio management team primarily responsible for the day-to-day portfolio management of the Fund. The Board also considered, based on its knowledge of the Manager and its affiliates, the Contract Renewal Information and the Board's discussions with the Manager and the Sub-Adviser at the Contract Renewal Meeting, the general reputation and investment performance records of the Manager and the Sub-Adviser and their affiliates and the financial resources available to the corporate parent of the Manager and the Sub-Adviser, Legg Mason, Inc. ( "Legg Mason" ), to support their activities in respect of the Fund and the other Legg Mason Closed-end Funds.

The Board considered the responsibilities of the Manager and the Sub-Adviser under the Management Agreement and the Sub-Advisory Agreement, respectively, including the Manager's coordination and oversight of the services provided to the Fund by the Sub-Adviser and others. The Management Agreement permits the Manager to delegate certain of its responsibilities, including its investment advisory duties thereunder, provided that the Manager, in each case, will supervise the activities of the delegee. Pursuant to this provision of the Management Agreement, the Manager does not provide day-to-day portfolio management services to the Fund. Rather, portfolio management services for the Fund are provided by the Sub-Adviser pursuant to the Sub-Advisory Agreement.

In reaching its determinations regarding continuation of the Management Agreement and the Sub-Advisory Agreement, the Board took into account that Fund shareholders, in pursuing their investment goals and objectives, likely purchased their shares based upon the reputation and the investment style, philosophy and strategy of the Manager and the Sub-Adviser, as well as the resources available to the Manager and the Sub-Adviser.

The Board concluded that, overall, the nature, extent, and quality of the management and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement have been satisfactory under the circumstances.

At meetings held in person on May 9 and 10, 2018 and by conference call on May 22, 2018, the Board received and approved a proposal from the Manager for a merger (the "Merger" )

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**Board approval of management and subadvisory agreements (unaudited) (cont d)**

of the Fund with and into another Legg Mason closed-end Fund – ClearBridge American Energy MLP Fund Inc. ( CBA ). The proposal contemplated that the Fund would be the surviving fund in the Merger. The Merger required satisfaction of various conditions, including approval of the respective shareholders of each of the Fund and CBA. Although it was, and is, believed that the Merger will benefit the shareholders of the Fund, as well as the shareholders of CBA, over time, the Board did not consider the Merger or its impact as a factor, positive or negative, for consideration in the Board’s determination to approve continuation of the Management and Sub-Advisory Agreements given the need for satisfaction of all conditions precedent for the Merger and, if satisfied, the speculative nature of any resulting impact at the time of the Merger. Following receipt of shareholder approval from the respective shareholders of the Fund and CBA and satisfaction of other conditions precedent, the Merger was completed on November 16, 2018.

**Fund performance**

The Board received and considered information regarding Fund performance, including information and analyses (the Broadridge Performance Information ) for the Fund, as well as for a group of funds (the Performance Universe ) selected by Broadridge Financial Solutions, Inc. ( Broadridge ), an independent provider of investment company data. The Board was provided with a description of the methodology Broadridge used to determine the similarity of the Fund with the funds included in the Performance Universe. The Performance Universe included the Fund and all leveraged closed-end energy MLP funds, as classified by Broadridge, regardless of asset size. The Performance Universe consisted of twenty-four funds, including the Fund, for the 1-year period ended June 30, 2018; twenty-three funds, including the Fund, for the 3-year period ended such date; and seventeen funds, including the Fund, for the 5-year period ended such date. The Board noted that it had received and discussed with the Manager and the Sub-Adviser information throughout the year at periodic intervals comparing the Fund’s performance against its benchmark and its peer funds as selected by Broadridge.

The Broadridge Performance Information comparing the Fund’s performance to that of the Performance Universe based on net asset value per share showed, among other things, that among the funds in the Performance Universe, the Fund’s performance was ranked seventeenth (first being best in these performance rankings) for the 1-year period ended June 30, 2018; fifteenth for the 3-year period ended such date; and tenth for the 5-year period ended such date. The Fund’s performance for each of the 1-, 3-, and 5-year periods was worse than the median performance for Performance Universe. In reviewing the Fund’s performance, the Manager noted that the Fund’s performance relative to the Performance Universe was adversely affected by enactment of corporate tax reform in December 2017 as the reform was more beneficial to older Performance Universe funds. The Manager noted further that during the 12-month period through June 30, 2018, the Fund generated a higher yield than the Performance Universe average yield. The Manager also expressed a belief that the Fund’s emphasis on fee-based transportation oriented infrastructure should



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continue to benefit the Fund over the long-term. In addition to the Fund's performance relative to the Performance Universe, the Board considered the Fund's performance in absolute terms and the Fund's performance relative to its benchmark. On a net asset value basis, the Fund outperformed its benchmark for the 1-year period ended June 30, 2018 but underperformed its benchmark for each of the 3-, and 5-year periods ended such date.

Based on the reviews and discussions of Fund performance and considering other relevant factors, including an agreement by the Manager to implement a fee waiver of 0.05% for a one year period commencing November 19, 2018 and ending December 1, 2019 and other factors noted above, the Board concluded, under the circumstances (including the Fund's limited performance history), that continuation of the Management Agreement and the Sub-Advisory Agreement for an additional one-year period would be consistent with the interests of the Fund and its shareholders.

### **Management fees and expense ratios**

The Board reviewed and considered the management fee (the Management Fee) payable by the Fund to the Manager under the Management Agreement and the sub-advisory fee (the Sub-Advisory Fee) payable to the Sub-Adviser under the Sub-Advisory Agreement in light of the nature, extent and overall quality of the management, investment advisory and other services provided by the Manager and the Sub-Adviser. The Board noted that the Sub-Advisory Fee is paid by the Manager, not the Fund, and, accordingly, that the retention of the Sub-Adviser does not increase the fees or expenses otherwise incurred by the Fund's shareholders.

Additionally, the Board received and considered information and analyses prepared by Broadridge (the Broadridge Expense Information) comparing the Management Fee and the Fund's overall expenses with those of funds in an expense group (the Expense Group) selected and provided by Broadridge. The comparison was based upon the constituent funds' latest fiscal years. The Expense Group consisted of the Fund and nine other leveraged closed-end energy MLP funds, as classified by Broadridge. The ten funds in the Expense Group had average net common share assets ranging from \$236.8 million to \$892.2 million. Six of the other Expense Group funds were larger than the Fund and three were smaller.

The Broadridge Expense Information, comparing the Management Fee as well as the Fund's actual total expenses to the Fund's Expense Group, showed, among other things, that the Management Fee on a contractual basis was ranked second among the funds in the Expense Group (first being lowest and, therefore, best in these expense component rankings) and was better (i.e., lower) than the Expense Group median for that expense component. The Fund's actual Management Fee (i.e., giving effect to any voluntary fee waivers implemented by the Manager with respect to the Fund and by the managers of the other Expense Group funds) was ranked third among the funds in the Expense Group whether compared on the basis of common share assets only or on the basis of common share and

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**Board approval of management and subadvisory agreements (unaudited) (cont d)**

leveraged assets. In each case, the Fund's actual Management Fee was better than the Expense Group median for that expense component. The Broadridge Expense Information further showed that, among the Expense Group funds, the Fund's actual total expenses ranked eighth compared on the basis of common share assets only and ranked ninth on the basis of common share and leveraged assets. In each case the Fund's actual total expenses were worse than the Expense Group median for that expense component. In reviewing the Broadridge Expense Information comparisons of the Fund's actual total expenses, the Manager noted, among other things, that the Fund's investment-related expenses, including distributions on its then outstanding mandatory redeemable preferred shares ( MRPS ) and interest expense on its senior secured notes, were higher than investment-related expenses of most of the other Expense Group funds, which relied more on less costly lines of credit for leverage. The Fund's MRPS and senior secured notes have been replaced with a line of credit with a lower rate than the MRPS and notes, potentially decreasing the Fund's investment-related expenses over time. The Board noted that the small number of funds in the Expense Group made meaningful expense comparisons difficult. The Board further noted the Manager's agreement to implement the fee waiver.

The Board also reviewed Contract Renewal Information regarding fees charged by the Manager to other U.S. clients investing primarily in an asset class similar to that of the Fund, including, where applicable, institutional and separate accounts. The Board was advised that the fees paid by such institutional, separate account and other clients (collectively, institutional clients ) generally are lower, and may be significantly lower, than the Management Fee. The Contract Renewal Information discussed the significant differences in scope of services provided to the Fund and to institutional clients. Among other things, institutional clients have fewer compliance, administration and other needs than the Fund and the Fund is subject not only to heightened regulatory requirements relative to institutional clients but also to requirements for listing on the New York Stock Exchange. The Contract Renewal Information noted further that the Fund is provided with administrative services, office facilities, Fund officers (including the Fund's chief executive, chief financial and chief compliance officers), and that the Manager coordinates and oversees the provision of services to the Fund by other fund service providers. The Contract Renewal Information included information regarding management fees paid by open-end mutual funds in the same complex (the Legg Mason Open-end Funds ) and such information indicated that the management fees paid by the Legg Mason Closed-end Funds generally were higher than those paid by the Legg Mason Open-end Funds. The Manager, in response to an inquiry from the Board as to the reasons for the fee differential, provided information as to differences between the services provided to the Fund and the other Legg Mason Closed-end Funds and the services provided to the Legg Mason Open-end Funds. The Board considered the fee comparisons in light of the different services provided in managing these other types of clients and funds.

Taking all of the above into consideration, the Board determined that the Management Fee and the Sub-Advisory Fee were reasonable in light of the nature, extent and overall quality

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of the management, investment advisory and other services provided to the Fund under the Management Agreement and the Sub-Advisory Agreement.

### **Manager profitability**

The Board, as part of the Contract Renewal Information, received an analysis of the profitability to the Manager and its affiliates in providing services to the Fund for the Manager's fiscal years ended March 31, 2018 and March 31, 2017. The Board also received profitability information with respect to the Legg Mason fund complex as a whole. In addition, the Board received Contract Renewal Information with respect to the Manager's revenue and cost allocation methodologies used in preparing such profitability data. The profitability to the Sub-Adviser was not considered to be a material factor in the Board's considerations since the Sub-Advisory Fee is paid by the Manager, not the Fund. The profitability analysis presented to the Board as part of the Contract Renewal Information indicated that profitability to the Manager had decreased during the period covered by the analysis and remained at a level that the Board did not consider to be excessive in light of judicial guidance and the nature, extent and overall quality of the investment advisory and other services provided to the Fund.

### **Economies of scale**

The Board received and discussed Contract Renewal Information concerning whether the Manager realizes economies of scale if the Fund's assets grow. The Board noted that because the Fund is a closed-end fund with no current plans to seek additional assets beyond maintaining its dividend reinvestment plan, any significant growth in its assets generally will occur through appreciation in the value of the Fund's investment portfolio, rather than sales of additional shares in the Fund. The Board determined that the Management Fee structure, which incorporates no breakpoints reducing the Management Fee at specified increased asset levels, was appropriate under present circumstances.

### **Other benefits to the manager and the sub-adviser**

The Board considered other benefits received by the Manager, the Sub-Adviser and their affiliates as a result of their relationship with the Fund and did not regard such benefits as excessive.

\* \* \* \* \*

In light of all of the foregoing and other relevant factors, the Board determined, under the circumstances, that continuation of the Management Agreement and the Sub-Advisory Agreement would be consistent with the interests of the Fund and its shareholders and unanimously voted to continue each Agreement for a period of one additional year. No single factor reviewed by the Board was identified by the Board as the principal factor in determining whether to approve continuation of the Management Agreement and the Sub-Advisory Agreement, and each Board member may have attributed different weights to the various factors. The Independent Directors were advised by separate independent legal counsel throughout the process. Prior to the Contract Renewal Meeting, the Board received

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**Board approval of management and subadvisory agreements (unaudited) (cont d)**

a memorandum prepared by the Manager discussing its responsibilities in connection with the proposed continuation of the Management Agreement and the Sub-Advisory Agreement as part of the Contract Renewal Information and the Independent Directors separately received a memorandum discussing such responsibilities from their independent counsel. Prior to voting, the Independent Directors also discussed the proposed continuation of the Management Agreement and the Sub-Advisory Agreement in private sessions with their independent legal counsel at which no representatives of the Manager or the Sub-Adviser were present.

40 ClearBridge Energy Midstream Opportunity Fund Inc.

**Table of Contents****Additional information** (unaudited)**Information about Directors and Officers**

The business and affairs of ClearBridge Energy Midstream Opportunity Fund Inc. (the Fund) are conducted by management under the supervision and subject to the direction of its Board of Directors. The business address of each Director is c/o Jane Trust, Legg Mason, 100 International Drive, 11th Floor, Baltimore, Maryland 21202. Information pertaining to the Directors and officers of the Fund is set forth below.

The Fund's annual proxy statement includes additional information about Directors and is available, without charge, upon request by calling the Fund at 1-888-777-0102.

**Independent Directors****Robert D. Agdern**

Year of birth	1950
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Member of the Advisory Committee of the Dispute Resolution Research Center at the Kellogg Graduate School of Business, Northwestern University (2002 to 2016); formerly, Deputy General Counsel responsible for western hemisphere matters for BP PLC (1999 to 2001); formerly, Associate General Counsel at Amoco Corporation responsible for corporate, chemical, and refining and marketing matters and special assignments (1993 to 1998) (Amoco merged with British Petroleum in 1998 forming BP PLC).
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	None

**Carol L. Colman**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2011
Principal occupation(s) during past five years	President, Colman Consulting Company (consulting)
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	None

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**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Independent Directors cont d**

**Daniel P. Cronin**

Year of birth	1946
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2011
Principal occupation(s) during past five years	Retired; formerly, Associate General Counsel, Pfizer Inc. (prior to and including 2004)
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	None

**Paolo M. Cucchi**

Year of birth	1941
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class I
Term of office <sup>1</sup> and length of time served	Since 2011
Principal occupation(s) during past five years	Emeritus Professor of French and Italian (since 2014) and formerly, Vice President and Dean of The College of Liberal Arts (1984 to 2009) and Professor of French and Italian (2009 to 2014) at Drew University
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	None

**William R. Hutchinson**

Year of birth	1942
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2011
Principal occupation(s) during past five years	President, W.R. Hutchinson & Associates Inc. (Consulting) (since 2001)
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	Director (Non-Executive Chairman of the Board (since December 1, 2009)), Associated Banc Corp. (banking) (since 1994)

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**Independent Directors cont d**

**Eileen A. Kamerick**

Year of birth	1958
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class III
Term of office <sup>1</sup> and length of time served	Since 2013
Principal occupation(s) during past five years	National Association of Corporate Directors Board Leadership Fellow and financial expert; Adjunct Professor, The University of Chicago Law School (Since 2018), Adjunct Professor, Washington University in St. Louis and University of Iowa law schools (since 2007); formerly, Senior Advisor to the Chief Executive Officer and Executive Vice President and Chief Financial Officer of ConnectWise, Inc. (software and services company) (2015 to 2016); Chief Financial Officer, Press Ganey Associates (health care informatics company) (2012 to 2014); Managing Director and Chief Financial Officer, Houlihan Lokey (international investment bank) and President, Houlihan Lokey Foundation (2010 to 2012)
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	Trustee of AIG Funds and Anchor Series Trust (Since 2018); Hochschule Mining plc (precious metals company) (since 2016); Director of Associated Banc-Corp (financial services company) (since 2007); Westell Technologies, Inc. (technology company) (2003 to 2016)

**Nisha Kumar<sup>2</sup>**

Year of birth	1970
Position(s) held with Fund <sup>1</sup>	Director and Member of Nominating and Audit Committees, Class II
Term of office <sup>1</sup> and length of time served	Since 2019
Principal occupation(s) during past five years	Managing Director and the Chief Financial Officer and Chief Compliance Officer of Greenbriar Equity Group, LP (since 2011); formerly, Chief Financial Officer and Chief Administrative Officer of Rent the Runway, Inc. (2011); Executive Vice President and Chief Financial Officer of AOL LLC, a subsidiary of Time Warner Inc. (2007 to 2009). Member of the Council on Foreign Relations.
Number of portfolios in fund complex overseen by Director (including the Fund)	23
Other board memberships held by Director during past five years	Director of the India Fund, Inc. (since 2016); GB Flow Investment LLC; EDAC Technologies Corp.; Nordco Holdings, LLC; and SEKO Global Logistics Network, LLC; formerly, Director of Aberdeen Income Credit Strategies Fund (2017 to 2018); Director of The Asia Tigers Fund, Inc. (2016 to 2018)

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**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Interested Director and Officer**

**Jane Trust, CFA<sup>3</sup>**

Year of birth	1962
Position(s) held with Fund <sup>1</sup>	Director, Chairman, President and Chief Executive Officer, Class II
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Senior Managing Director of Legg Mason & Co., LLC ( Legg Mason & Co. ) (since 2018); Managing Director of Legg Mason & Co. (2016 to 2018); Officer and/or Trustee/Director of 146 funds associated with Legg Mason Partners Fund Advisor, LLC ( LMPFA ) or its affiliates (since 2015); President and Chief Executive Officer of LMPFA (since 2015); formerly, Senior Vice President of LMPFA (2015); Director of ClearBridge, LLC (formerly, Legg Mason Capital Management, LLC) (2007 to 2014); Managing Director of Legg Mason Investment Counsel & Trust Co. (2000 to 2007)
Number of portfolios in fund complex overseen by Director (including the Fund)	137
Other board memberships held by Director during past five years	None

**Additional Officers**

**Todd F. Kuehl**

Legg Mason

100 International Drive, 9th Floor, Baltimore, MD 21202

Year of birth	1969
Position(s) held with Fund <sup>1</sup>	Chief Compliance Officer
Term of office <sup>1</sup> and length of time served	Since 2017
Principal occupation(s) during past five years	Managing Director of Legg Mason & Co. (since 2011); Chief Compliance Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006); formerly, Chief Compliance Officer of Legg Mason Private Portfolio Group (prior to 2010); formerly, Branch Chief, Division of Investment Management, U.S. Securities and Exchange Commission (2002 to 2006)

**Jenna Bailey**

Legg Mason

100 First Stamford Place, 5th Floor, Stamford, CT 06902

Year of birth	1978
Position(s) held with Fund <sup>1</sup>	Identity Theft Prevention Officer
Term of office <sup>1</sup> and length of time served	Since 2015
Principal occupation(s) during past five years	Identity Theft Prevention Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2015); Compliance Officer of Legg Mason & Co. (since 2013); Assistant Vice President of Legg Mason & Co. (since 2011); formerly, Associate Compliance Officer of Legg Mason & Co. (2011 to 2013)



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**Additional Officers cont d**

**Robert I. Frenkel**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1954

Secretary and Chief Legal Officer

Since 2011

Vice President and Deputy General Counsel of Legg Mason (since 2006); Managing Director and General Counsel U.S. Mutual Funds for Legg Mason & Co. (since 2006) and Legg Mason & Co. predecessors (since 1994); Secretary and Chief Legal Officer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006)

**Thomas C. Mandia**

Legg Mason

100 First Stamford Place, 6th Floor, Stamford, CT 06902

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1962

Assistant Secretary

Since 2011

Managing Director and Deputy General Counsel of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); Secretary of LMPFA (since 2006); Assistant Secretary of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2006) and Legg Mason & Co. predecessors (prior to 2006); Secretary of LM Asset Services, LLC ( LMAS ) (since 2002) and Legg Mason Fund Asset Management, Inc. ( LMFAM ) (since 2013) (formerly registered investment advisers)

**Richard F. Sennett**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth

Position(s) held with Fund<sup>1</sup>

Term of office<sup>1</sup> and length of time served

Principal occupation(s) during past five years

1970

Principal Financial Officer

Since 2011

Principal Financial Officer and Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2011 and since 2013); Managing Director of Legg Mason & Co. and Senior Manager of the Treasury Policy group for Legg Mason & Co.'s Global Fiduciary Platform (since 2011); Chief Accountant within the SEC's Division of Investment Management (2007 to 2011); formerly, Assistant Chief Accountant within the SEC's Division of Investment Management (2002 to 2007)

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**Additional information (unaudited) (cont d)**

**Information about Directors and Officers**

**Additional Officers cont d**

**Jennifer S. Berg**

Legg Mason

100 International Drive, 7th Floor, Baltimore, MD 21202

Year of birth	1973
Position(s) held with Fund <sup>1</sup>	Treasurer
Term of office <sup>1</sup> and length of time served	Since 2018
Principal occupation(s) during past five years	Director of Legg Mason & Co. (since 2014); Treasurer of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2018); formerly, Vice President of Legg Mason & Co. (2011 to 2014)

**Jeanne M. Kelly**

Legg Mason

620 Eighth Avenue, 49th Floor, New York, NY 10018

Year of birth	1951
Position(s) held with Fund <sup>1</sup>	Senior Vice President
Term of office <sup>1</sup> and length of time served	Since 2011
Principal occupation(s) during past five years	Senior Vice President of certain mutual funds associated with Legg Mason & Co. or its affiliates (since 2007); Senior Vice President of LMPFA (since 2006); President and Chief Executive Officer of LMAS and LMFAM (since 2015); Managing Director of Legg Mason & Co. (since 2005) and Legg Mason & Co. predecessors (prior to 2005); formerly, Senior Vice President of LMFAM (2013 to 2015)

Directors who are not interested persons of the Fund within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act").

<sup>1</sup> The Fund's Board of Directors is divided into three classes: Class I, Class II and Class III. The terms of office of the Class I, II and III Directors expire at the Annual Meetings of Stockholders in the year 2021, year 2019 and year 2020, respectively, or thereafter in each case when their respective successors are duly elected and qualified. The Fund's executive officers are chosen each year, to hold office until their successors are duly elected and qualified.

<sup>2</sup> Effective January 1, 2019, Ms. Kumar became a Director.

<sup>3</sup> Ms. Trust is an interested person of the Fund as defined in the 1940 Act because Ms. Trust is an officer of LMPFA and certain of its affiliates.

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**Annual chief executive officer and principal financial officer certifications**  
(unaudited)

The Fund's Chief Executive Officer ( CEO ) has submitted to the NYSE the required annual certification and the Fund also has included the Certifications of the Fund's CEO and Principal Financial Officer required by Section 302 of the Sarbanes-Oxley Act in the Fund's Form N-CSR filed with the SEC for the period of this report.

ClearBridge Energy Midstream Opportunity Fund Inc.

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## Other shareholder communications regarding accounting

### matters (unaudited)

The Fund's Audit Committee has established guidelines and procedures regarding the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters (collectively, "Accounting Matters"). Persons with complaints or concerns regarding Accounting Matters may submit their complaints to the Chief Compliance Officer ( "CCO"). Persons who are uncomfortable submitting complaints to the CCO, including complaints involving the CCO, may submit complaints directly to the Fund's Audit Committee Chair. Complaints may be submitted on an anonymous basis.

The CCO may be contacted at:

Legg Mason & Co., LLC

Compliance Department

620 Eighth Avenue, 49th Floor

New York, New York 10018

Complaints may also be submitted by telephone at 1-800-742-5274. Complaints submitted through this number will be received by the CCO.

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## Dividend reinvestment plan (unaudited)

Unless you elect to receive distributions in cash (i.e., opt-out), all dividends, including any capital gain dividends and return of capital distributions, on your Common Stock will be automatically reinvested by Computershare Trust Company, N.A., as agent for the stockholders (the Plan Agent), in additional shares of Common Stock under the Fund's Dividend Reinvestment Plan (the Plan). You may elect not to participate in the Plan by contacting the Plan Agent. If you do not participate, you will receive all cash distributions paid by check mailed directly to you by Computershare Trust Company, N.A., as dividend paying agent.

If you participate in the Plan, the number of shares of Common Stock you will receive will be determined as follows:

(1) If the market price of the Common Stock (plus \$0.03 per share commission) on the payment date (or, if the payment date is not a NYSE trading day, the immediately preceding trading day) is equal to or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date, the Fund will issue new Common Stock at a price equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the payment date or (b) 95% of the market price per share of the Common Stock on the payment date.

(2) If the net asset value per share of the Common Stock exceeds the market price of the Common Stock (plus \$0.03 per share commission) at the close of trading on the NYSE on the payment date, the Plan Agent will receive the dividend or distribution in cash and will buy Common Stock in the open market, on the NYSE or elsewhere, for your account as soon as practicable commencing on the trading day following the payment date and terminating no later than the earlier of (a) 30 days after the dividend or distribution payment date, or (b) the payment date for the next succeeding dividend or distribution to be made to the stockholders; except when necessary to comply with applicable provisions of the federal securities laws. If during this period: (i) the market price (plus \$0.03 per share commission) rises so that it equals or exceeds the net asset value per share of the Common Stock at the close of trading on the NYSE on the payment date before the Plan Agent has completed the open market purchases or (ii) if the Plan Agent is unable to invest the full amount eligible to be reinvested in open market purchases, the Plan Agent will cease purchasing Common Stock in the open market and the Fund shall issue the remaining Common Stock at a price per share equal to the greater of (a) the net asset value per share at the close of trading on the NYSE on the day prior to the issuance of shares for reinvestment or (b) 95% of the then current market price per share.

Common Stock in your account will be held by the Plan Agent in non-certificated form. Any proxy you receive will include all shares of Common Stock you have received under the Plan. You may withdraw from the Plan (i.e., opt-out) by notifying the Plan Agent in writing at 462 South 4th Street, Suite 1600 Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151. Such withdrawal will be effective immediately if notice is received by the Plan Agent not less than ten business days prior to any dividend or distribution record date;

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## Dividend reinvestment plan (unaudited) (cont d)

otherwise such withdrawal will be effective as soon as practicable after the Plan Agent's investment of the most recently declared dividend or distribution on the Common Stock.

Plan participants who sell their shares will be charged a service charge (currently \$5.00 per transaction) and the Plan Agent is authorized to deduct brokerage charges actually incurred from the proceeds (currently \$0.05 per share commission). There is no service charge for reinvestment of your dividends or distributions in Common Stock. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Agent when it makes open market purchases. Because all dividends and distributions will be automatically reinvested in additional shares of Common Stock, this allows you to add to your investment through dollar cost averaging, which may lower the average cost of your Common Stock over time. Dollar cost averaging is a technique for lowering the average cost per share over time if the Fund's net asset value declines. While dollar cost averaging has definite advantages, it cannot assure profit or protect against loss in declining markets.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon receiving dividends and distributions. Investors will be subject to income tax on amounts reinvested under the Plan.

The Fund reserves the right to amend or terminate the Plan if, in the judgment of the Board of Directors, the change is warranted. The Plan may be terminated, amended or supplemented by the Fund upon notice in writing mailed to stockholders at least 30 days prior to the record date for the payment of any dividend or distribution by the Fund for which the termination or amendment is to be effective. Upon any termination, you will be sent cash for any fractional share of Common Stock in your account. You may elect to notify the Plan Agent in advance of such termination to have the Plan Agent sell part or all of your Common Stock on your behalf. Additional information about the Plan and your account may be obtained from the Plan Agent at 462 South 4th Street, Suite 1600 Louisville, KY 40202 or by calling the Plan Agent at 1-888-888-0151.

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ClearBridge

Energy Midstream Opportunity Fund Inc.

**Directors**

Robert D. Agdem

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

William R. Hutchinson

Eileen A. Kamerick

Nisha Kumar\*

Jane Trust

*Chairman*

**Officers**

Jane Trust

*President and Chief Executive Officer*

Richard F. Sennett

*Principal Financial Officer*

Todd F. Kuehl

*Chief Compliance Officer*

Jenna Bailey

*Identity Theft Prevention Officer*

Robert I. Frenkel

*Secretary and Chief Legal Officer*

Thomas C. Mandia

*Assistant Secretary*

Jennifer S. Berg

## Edgar Filing: ClearBridge Energy Midstream Opportunity Fund Inc. - Form N-CSR

### *Treasurer*

Jeanne M. Kelly

### *Senior Vice President*

\* Effective January 1, 2019, Ms. Kumar became a Director.

### **ClearBridge Energy Midstream Opportunity Fund Inc.**

620 Eighth Avenue 49th Floor New York, NY 10018

### **Investment manager**

Legg Mason Partners Fund Advisor, LLC

### **Subadviser**

ClearBridge Investments, LLC

### **Custodian**

The Bank of New York Mellon ( BNY )\*\*

### **Transfer agent**

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

\*\* Effective June 11, 2018, BNY became custodian.

### **Independent registered public accounting firm**

PricewaterhouseCoopers LLP Baltimore, MD

### **Legal Counsel**

Simpson Thacher & Bartlett LLP 425 Lexington Avenue New York, NY 10017-3909

### **New York Stock Exchange Symbol**

EMO



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## Legg Mason Funds Privacy and Security Notice

### **Your Privacy and the Security of Your Personal Information is Very Important to the Legg Mason Funds**

This Privacy and Security Notice (the **Privacy Notice**) addresses the Legg Mason Funds' privacy and data protection practices with respect to nonpublic personal information the Funds receive. The Legg Mason Funds include any funds sold by the Funds' distributor, Legg Mason Investor Services, LLC, as well as Legg Mason-sponsored closed-end funds. The provisions of this Privacy Notice apply to your information both while you are a shareholder and after you are no longer invested with the Funds.

### **The Type of Nonpublic Personal Information the Funds Collect About You**

The Funds collect and maintain nonpublic personal information about you in connection with your shareholder account. Such information may include, but is not limited to:

Personal information included on applications or other forms;

Account balances, transactions, and mutual fund holdings and positions;

Bank account information, legal documents, and identity verification documentation;

Online account access user IDs, passwords, security challenge question responses; and

Information received from consumer reporting agencies regarding credit history and creditworthiness (such as the amount of an individual's total debt, payment history, etc.).

### **How the Funds Use Nonpublic Personal Information About You**

The Funds do not sell or share your nonpublic personal information with third parties or with affiliates for their marketing purposes, or with other financial institutions or affiliates for joint marketing purposes, unless you have authorized the Funds to do so. The Funds do not disclose any nonpublic personal information about you except as may be required to perform transactions or services you have authorized or as permitted or required by law. The Funds may disclose information about you to:

Employees, agents, and affiliates on a **need to know** basis to enable the Funds to conduct ordinary business or to comply with obligations to government regulators;

Service providers, including the Funds' affiliates, who assist the Funds as part of the ordinary course of business (such as printing, mailing services, or processing or servicing your account with us) or otherwise perform services on the Funds' behalf, including companies that may perform statistical analysis, market research and marketing services solely for the Funds;

Permit access to transfer, whether in the United States or countries outside of the United States to such Funds' employees, agents and affiliates and service providers as required to enable the Funds to conduct ordinary business, or to comply with obligations to government regulators;

The Funds' representatives such as legal counsel, accountants and auditors to enable the Funds to conduct ordinary business, or to comply with obligations to government regulators;

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## Legg Mason Funds Privacy and Security Notice (cont d)

Fiduciaries or representatives acting on your behalf, such as an IRA custodian or trustee of a grantor trust. Except as otherwise permitted by applicable law, companies acting on the Funds' behalf, including those outside the United States, are contractually obligated to keep nonpublic personal information the Funds provide to them confidential and to use the information the Funds share only to provide the services the Funds ask them to perform.

The Funds may disclose nonpublic personal information about you when necessary to enforce their rights or protect against fraud, or as permitted or required by applicable law, such as in connection with a law enforcement or regulatory request, subpoena, or similar legal process. In the event of a corporate action or in the event a Fund service provider changes, the Funds may be required to disclose your nonpublic personal information to third parties. While it is the Funds' practice to obtain protections for disclosed information in these types of transactions, the Funds cannot guarantee their privacy policy will remain unchanged.

### **Keeping You Informed of the Funds' Privacy and Security Practices**

The Funds will notify you annually of their privacy policy as required by federal law. While the Funds reserve the right to modify this policy at any time they will notify you promptly if this privacy policy changes.

### **The Funds' Security Practices**

The Funds maintain appropriate physical, electronic and procedural safeguards designed to guard your nonpublic personal information. The Funds' internal data security policies restrict access to your nonpublic personal information to authorized employees, who may use your nonpublic personal information for Fund business purposes only.

Although the Funds strive to protect your nonpublic personal information, they cannot ensure or warrant the security of any information you provide or transmit to them, and you do so at your own risk. In the event of a breach of the confidentiality or security of your nonpublic personal information, the Funds will attempt to notify you as necessary so you can take appropriate protective steps. If you have consented to the Funds using electronic communications or electronic delivery of statements, they may notify you under such circumstances using the most current email address you have on record with them.

In order for the Funds to provide effective service to you, keeping your account information accurate is very important. If you believe that your account information is incomplete, not accurate or not current, if you have questions about the Funds' privacy practices, or our use of your nonpublic personal information, write the Funds using the contact information on your account statements, email the Funds by clicking on the Contact Us section of the Funds' website at [www.leggmason.com](http://www.leggmason.com), or contact the Funds at 1-888-777-0102.

Revised April 2018

NOT PART OF THE ANNUAL REPORT

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ClearBridge Energy Midstream Opportunity Fund Inc.

ClearBridge Energy Midstream Opportunity Fund Inc.

620 Eighth Avenue

49th Floor

New York, NY 10018

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Fund may purchase, at market prices, shares of its stock.

The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission ( SEC ) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). To obtain information on Form N-Q from the Fund, shareholders can call 1-888-777-0102.

Information on how the Fund voted proxies relating to portfolio securities during the prior 12-month period ended June 30th of each year and a description of the policies and procedures that the Fund uses to determine how to vote proxies related to portfolio transactions are available (1) without charge, upon request, by calling 1-888-777-0102, (2) at [www.lmcef.com](http://www.lmcef.com) and (3) on the SEC's website at [www.sec.gov](http://www.sec.gov).

This report is transmitted to the shareholders of ClearBridge Energy Midstream Opportunity Fund Inc. for their information. This is not a prospectus, circular or representation intended for use in the purchase of shares of the Fund or any securities mentioned in this report.

Computershare Inc.

462 South 4th Street, Suite 1600

Louisville, KY 40202

**LMFX014219 1/19 SR18-3514**

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**ITEM 2. CODE OF ETHICS.**

The registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller.

**ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.**

The Board of Directors of the registrant has determined that Eileen A. Kamerick, a member of the Board's Audit Committee, possesses the technical attributes identified in Instruction 2(b) of Item 3 to Form N-CSR to qualify as an audit committee financial expert and that she is independent for purposes of this item.

**ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

(a) Audit Fees. The aggregate fees billed in the previous fiscal years ending November 30, 2017 and November 30, 2018 (the Reporting Periods) for professional services rendered by the Registrant's principal accountant (the Auditor) for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$391,443 in November 30, 2017 and \$87,515 in November 30, 2018.

(b) Audit-Related Fees. The aggregate fees billed in the Reporting Period for assurance and related services by the Auditor that are reasonably related to the performance of the Registrant's financial statements were \$0 in November 30, 2017 and \$0 in November 30, 2018.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning (Tax Services) were \$53,000 in November 30, 2017 and \$89,000 in November 30, 2018. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns; (ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments, and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

There were no fees billed for tax services by the Auditors to service affiliates during the Reporting Periods that required pre-approval by the Audit Committee.

(d) All Other Fees. The aggregate fees for other fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item for the ClearBridge Energy Midstream Opportunity Fund Inc. were \$0 in November 30, 2017 and \$0 in November 30, 2018.

All Other Fees. There were no other non-audit services rendered by the Auditor to Legg Mason Partners Fund Advisors, LLC (LMPFA), and any entity controlling, controlled by or under common control with LMPFA that provided ongoing services to ClearBridge Energy Midstream Opportunity Fund Inc. requiring pre-approval by the Audit Committee in the Reporting Period.

(e) Audit Committee's pre-approval policies and procedures described in paragraph (c) (7) of Rule 2-01 of Regulation S-X.

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(1) The Charter for the Audit Committee (the Committee) of the Board of each registered investment company (the Fund) advised by LMPFA or one of their affiliates (each, an Adviser) requires that the Committee shall approve (a) all audit and permissible non-audit services to be provided to the Fund and (b) all permissible non-audit services to be provided by the Fund's independent auditors to the Adviser and any Covered Service Providers if the engagement relates directly to the operations and financial reporting of the Fund. The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

The Committee shall not approve non-audit services that the Committee believes may impair the independence of the auditors. As of the date of the approval of this Audit Committee Charter, permissible non-audit services include any professional services (including tax services), that are not prohibited services as described below, provided to the Fund by the independent auditors, other than those provided to the Fund in connection with an audit or a review of the financial statements of the Fund. Permissible non-audit services may not include: (i) bookkeeping or other services related to the accounting records or financial statements of the Fund; (ii) financial information systems design and implementation; (iii) appraisal or valuation services, fairness opinions or contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

Pre-approval by the Committee of any permissible non-audit services is not required so long as: (i) the aggregate amount of all such permissible non-audit services provided to the Fund, the Adviser and any service providers controlling, controlled by or under common control with the Adviser that provide ongoing services to the Fund (Covered Service Providers) constitutes not more than 5% of the total amount of revenues paid to the independent auditors during the fiscal year in which the permissible non-audit services are provided to (a) the Fund, (b) the Adviser and (c) any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Fund during the fiscal year in which the services are provided that would have to be approved by the Committee; (ii) the permissible non-audit services were not recognized by the Fund at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved by the Committee (or its delegate(s)) prior to the completion of the audit.

(2) For the ClearBridge Energy Midstream Opportunity Fund Inc., the percentage of fees that were approved by the audit committee, with respect to: Audit-Related Fees were 100% and 100% for November 30, 2017 and November 30, 2018; Tax Fees were 100% and 100% for November 30, 2017 and November 30, 2018; and Other Fees were 100% and 100% for November 30, 2017 and November 30, 2018.

(f) N/A

(g) Non-audit fees billed by the Auditor for services rendered to ClearBridge Energy Midstream Opportunity Fund Inc., LMPFA and any entity controlling, controlled by, or under common control with LMPFA that provides ongoing services to ClearBridge Energy Midstream Opportunity Fund Inc. during the reporting period were \$0 in November 30, 2017 and \$678,000 in November 30, 2018.

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(h) Yes. ClearBridge Energy Midstream Opportunity Fund Inc.'s Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates, which were not pre-approved (not requiring pre-approval), is compatible with maintaining the Accountant's independence. All services provided by the Auditor to the ClearBridge Energy Midstream Opportunity Fund Inc. or to Service Affiliates, which were required to be pre-approved, were pre-approved as required.

**ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.**

a) Registrant has a separately-designated standing Audit Committee established in accordance with *Section 3(a)58(A) of the Exchange Act*. The Audit Committee consists of the following Board members:

Robert D. Agdern

Carol L. Colman

Daniel P. Cronin

Paolo M. Cucchi

Leslie H. Gelb\*

William R. Hutchinson

Eileen A. Kamerick

Nisha Kumar \*\*

Dr. Riordan Roett\*

\* Messrs. Gelb and Roett retired as Board and Audit Committee members as of December 31, 2018.

\*\* Effective January 1, 2019, Ms. Kumar became a Director and Audit Committee member.

b) Not applicable

**ITEM 6. SCHEDULE OF INVESTMENTS.**

Included herein under Item 1.

**ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES**

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**CLEARBRIDGE INVESTMENTS**  
**PROXY VOTING POLICIES AND PROCEDURES**

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- III. How ClearBridge Votes
  
- IV. Conflicts of Interest
  - A. Procedures for Identifying Conflicts of Interest
  
  - B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest
  
  - C. Third Party Proxy Voting Firm Conflicts of Interest
  
- V. Voting Policy
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  - B. Proxy Contests
  
  - C. Auditors
  
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H. Executive and Director Compensation

I. State of Incorporation

J. Mergers and Corporate Restructuring

K. Social and Environmental Issues

L. Miscellaneous

VI. Other Considerations

A. Share Blocking

B. Securities on Loan

VII. Disclosure of Proxy Voting

VIII. Recordkeeping and Oversight

<sup>1</sup> This policy pertains to ClearBridge Investments, LLC and ClearBridge, LLC (collectively, ClearBridge Investments or ClearBridge ).

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**CLEARBRIDGE INVESTMENTS**

**Proxy Voting Policies and Procedures**

**I. TYPES OF ACCOUNTS FOR WHICH CLEARBRIDGE VOTES PROXIES**

ClearBridge votes proxies for each client that has specifically authorized us to vote them in the investment management contract or otherwise and votes proxies for each ERISA account unless the plan document or investment advisory agreement specifically reserves the responsibility to vote proxies to the plan trustees or other named fiduciary. These policies and procedures are intended to fulfill applicable requirements imposed on ClearBridge by the Investment Advisers Act of 1940, as amended, the Investment Company Act of 1940, as amended, and the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations adopted under these laws.

**II. GENERAL GUIDELINES**

In voting proxies, we are guided by general fiduciary principles. Our goal is to act prudently, solely in the best interest of the beneficial owners of the accounts we manage and, in the case of ERISA accounts, for the exclusive purpose of providing economic benefits to such persons. We attempt to provide for the consideration of all factors that could affect the value of the investment and will vote proxies in the manner that we believe will be consistent with efforts to maximize shareholder values.

**III. HOW CLEARBRIDGE VOTES**

Section V of these policies and procedures sets forth certain stated positions. In the case of a proxy issue for which there is a stated position, we generally vote in accordance with the stated position. In the case of a proxy issue for which there is a list of factors set forth in Section V that we consider in voting on such issue, we consider those factors and vote on a case-by-case basis in accordance with the general principles set forth above. In the case of a proxy issue for which there is no stated position or list of factors that we consider in voting on such issue, we vote on a case-by-case basis in accordance with the general principles set forth above. We may utilize an external service provider to provide us with information and/or a recommendation with regard to proxy votes but we are not required to follow any such recommendations. The use of an external service provider does not relieve us of our responsibility for the proxy vote.

For routine matters, we usually vote according to our policy or the external service provider's recommendation, although we are not obligated to do so and an individual portfolio manager may vote contrary to our policy or the recommendation of the external service provider. If a matter is non-routine, *e.g.*, management's recommendation is different than that of the external service provider and ClearBridge is a significant holder or it is a significant holding for ClearBridge, the issues will be highlighted to the appropriate investment teams and their views solicited by members of the Proxy Committee. Different investment teams may vote differently on the same issue, depending upon their assessment of clients' best interests.

ClearBridge's proxy voting process is overseen and coordinated by its Proxy Committee.

#### **IV. CONFLICTS OF INTEREST**

In furtherance of ClearBridge's goal to vote proxies in the best interests of clients, ClearBridge follows procedures designed to identify and address material conflicts that may arise between ClearBridge's interests and those of its clients before voting proxies on behalf of such clients.

##### **A. Procedures for Identifying Conflicts of Interest**

ClearBridge relies on the following to seek to identify conflicts of interest with respect to proxy voting:

1. ClearBridge's employees are periodically reminded of their obligation (i) to be aware of the potential for conflicts of interest on the part of ClearBridge with respect to voting proxies on behalf of client accounts both as a result of their personal relationships or personal or business relationships relating to another Legg Mason business unit, and (ii) to bring conflicts of interest of which they become aware to the attention of ClearBridge's General Counsel/Chief Compliance Officer.
2. ClearBridge's finance area maintains and provides to ClearBridge Compliance and proxy voting personnel an up-to-date list of all client relationships that have historically accounted for or are projected to account for greater than 1% of ClearBridge's net revenues.

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3. As a general matter, ClearBridge takes the position that relationships between a non-ClearBridge Legg Mason unit and an issuer (*e.g.*, investment management relationship between an issuer and a non-ClearBridge Legg Mason affiliate) do not present a conflict of interest for ClearBridge in voting proxies with respect to such issuer because ClearBridge operates as an independent business unit from other Legg Mason business units and because of the existence of informational barriers between ClearBridge and certain other Legg Mason business units. As noted above, ClearBridge employees are under an obligation to bring such conflicts of interest, including conflicts of interest which may arise because of an attempt by another Legg Mason business unit or non-ClearBridge Legg Mason officer or employee to influence proxy voting by ClearBridge to the attention of ClearBridge Compliance.
4. A list of issuers with respect to which ClearBridge has a potential conflict of interest in voting proxies on behalf of client accounts will be maintained by ClearBridge proxy voting personnel. ClearBridge will not vote proxies relating to such issuers until it has been determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented, as described in Section IV below.

**B. Procedures for Assessing Materiality of Conflicts of Interest and for Addressing Material Conflicts of Interest**

1. ClearBridge maintains a Proxy Committee which, among other things, reviews and addresses conflicts of interest brought to its attention. The Proxy Committee is comprised of such ClearBridge personnel (and others, at ClearBridge's request), as are designated from time to time. The current members of the Proxy Committee are set forth in the Proxy Committee's Terms of Reference.
2. All conflicts of interest identified pursuant to the procedures outlined in Section IV. A. must be brought to the attention of the Proxy Committee for resolution. A proxy issue that will be voted in accordance with a stated ClearBridge position on such issue or in accordance with the recommendation of an independent third party generally is not brought to the attention of the Proxy Committee for a conflict of interest review because ClearBridge's position is that any conflict of interest issues are resolved by voting in accordance with a pre-determined policy or in accordance with the recommendation of an independent third party.
3. The Proxy Committee will determine whether a conflict of interest is material. A conflict of interest will be considered material to the extent that it is determined that such conflict is likely to influence, or appear to influence, ClearBridge's decision-making in voting the proxy. All materiality determinations will be based on an assessment of the particular facts and circumstances. A written record of all materiality determinations made by the Proxy Committee will be maintained.
4. If it is determined by the Proxy Committee that a conflict of interest is not material, ClearBridge may vote proxies notwithstanding the existence of the conflict.

5. If it is determined by the Proxy Committee that a conflict of interest is material, the Proxy Committee will determine an appropriate method to resolve such conflict of interest before the proxy affected by the conflict of interest is voted. Such determination shall be based on the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc. Such methods may include:

disclosing the conflict to clients and obtaining their consent before voting;

suggesting to clients that they engage another party to vote the proxy on their behalf;

in the case of a conflict of interest resulting from a particular employee's personal relationships, removing such employee from the decision-making process with respect to such proxy vote; or

such other method as is deemed appropriate given the particular facts and circumstances, including the importance of the proxy issue, the nature of the conflict of interest, etc.\*

A written record of the method used to resolve a material conflict of interest shall be maintained.

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### **C. Third Party Proxy Voting Firm Conflicts of Interest**

With respect to a third party proxy voting firm described herein, the Proxy Committee will periodically review and assess such firm's policies, procedures and practices with respect to the disclosure and handling of conflicts of interest.

### **V. VOTING POLICY**

These are policy guidelines that can always be superseded, subject to the duty to act solely in the best interest of the beneficial owners of accounts, by the investment management professionals responsible for the account holding the shares being voted. There may be occasions when different investment teams vote differently on the same issue. A ClearBridge investment team (*e.g.*, ClearBridge's Social Awareness Investment team) may adopt proxy voting policies that supplement these policies and procedures. In addition, in the case of Taft-Hartley clients, ClearBridge will comply with a client direction to vote proxies in accordance with Institutional Shareholder Services (ISS) PVS Proxy Voting Guidelines, which ISS represents to be fully consistent with AFL-CIO guidelines.

\* Especially in the case of an apparent, as opposed to actual, conflict of interest, the Proxy Committee may resolve such conflict of interest by satisfying itself that ClearBridge's proposed vote on a proxy issue is in the best interest of client accounts and is not being influenced by the conflict of interest.

### **A. Election of Directors**

#### 1. Voting on Director Nominees in Uncontested Elections.

##### a. We withhold our vote from a director nominee who:

attended less than 75 percent of the company's board and committee meetings without a valid excuse (illness, service to the nation/local government, work on behalf of the company);

were members of the company's board when such board failed to act on a shareholder proposal that received approval of a majority of shares cast for the previous two consecutive years;

received more than 50 percent withheld votes of the shares cast at the previous board election, and the company has failed to address the issue as to why;

is an insider where: (1) such person serves on any of the audit, compensation or nominating committees of the company's board, (2) the company's board performs the functions typically performed by a company's audit, compensation and nominating committees, or (3) the full

board is less than a majority independent (unless the director nominee is also the company CEO, in which case we will vote FOR);

is a member of the company's audit committee, when excessive non-audit fees were paid to the auditor, or there are chronic control issues and an absence of established effective control mechanisms.

b. We vote for all other director nominees.

2. Chairman and CEO is the Same Person.

We vote on a case-by-case basis on shareholder proposals that would require the positions of the Chairman and CEO to be held by different persons. We would generally vote FOR such a proposal unless there are compelling reasons to vote against the proposal, including:

Designation of a lead director

Majority of independent directors (supermajority)

All independent key committees

Size of the company (based on market capitalization)

Established governance guidelines

Company performance

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3. Majority of Independent Directors

- a. We vote for shareholder proposals that request that the board be comprised of a majority of independent directors. Generally that would require that the director have no connection to the company other than the board seat. In determining whether an independent director is truly independent (e.g. when voting on a slate of director candidates), we consider certain factors including, but not necessarily limited to, the following: whether the director or his/her company provided professional services to the company or its affiliates either currently or in the past year; whether the director has any transactional relationship with the company; whether the director is a significant customer or supplier of the company; whether the director is employed by a foundation or university that received significant grants or endowments from the company or its affiliates; and whether there are interlocking directorships.
- b. We vote for shareholder proposals that request that the board audit, compensation and/or nominating committees include independent directors exclusively.

4. Stock Ownership Requirements

We vote against shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director, or to remain on the board.

5. Term of Office

We vote against shareholder proposals to limit the tenure of independent directors.

6. Director and Officer Indemnification and Liability Protection

- a. Subject to subparagraphs 2, 3, and 4 below, we vote for proposals concerning director and officer indemnification and liability protection.
- b. We vote for proposals to limit and against proposals to eliminate entirely director and officer liability for monetary damages for violating the duty of care.
- c. We vote against indemnification proposals that would expand coverage beyond just legal expenses to acts, such as negligence, that are more serious violations of fiduciary obligations than mere carelessness.
- d. We vote for only those proposals that provide such expanded coverage noted in subparagraph 3 above in cases when a director's or officer's legal defense was unsuccessful if: (1) the director was



found to have acted in good faith and in a manner that he reasonably believed was in the best interests of the company, *and* (2) if only the director's legal expenses would be covered.

7. Director Qualifications

- a. We vote case-by-case on proposals that establish or amend director qualifications. Considerations include how reasonable the criteria are and to what degree they may preclude dissident nominees from joining the board.
- b. We vote against shareholder proposals requiring two candidates per board seat.

**B. Proxy Contests**

1. Voting for Director Nominees in Contested Elections

We vote on a case-by-case basis in contested elections of directors. Considerations include: chronology of events leading up to the proxy contest; qualifications of director nominees (incumbents and dissidents); for incumbents, whether the board is comprised of a majority of outside directors; whether key committees (i.e.: nominating, audit, compensation) comprise solely of independent outsiders; discussion with the respective portfolio manager(s).

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### **2. Reimburse Proxy Solicitation Expenses**

We vote on a case-by-case basis on proposals to provide full reimbursement for dissidents waging a proxy contest. Considerations include: identity of persons who will pay solicitation expenses; cost of solicitation; percentage that will be paid to proxy solicitation firms.

## **C. Auditors**

### **1. Ratifying Auditors**

We vote for proposals to ratify auditors, unless an auditor has a financial interest in or association with the company, and is therefore not independent; or there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position or there is reason to believe the independent auditor has not followed the highest level of ethical conduct. Specifically, we will vote to ratify auditors if the auditors only provide the company audit services and such other audit-related and non-audit services the provision of which will not cause such auditors to lose their independence under applicable laws, rules and regulations.

### **2. Financial Statements and Director and Auditor Reports**

We generally vote for management proposals seeking approval of financial accounts and reports and the discharge of management and supervisory board members, unless there is concern about the past actions of the company's auditors or directors.

### **3. Remuneration of Auditors**

We vote for proposals to authorize the board or an audit committee of the board to determine the remuneration of auditors, unless there is evidence of excessive compensation relative to the size and nature of the company.

### **4. Indemnification of Auditors**

We vote against proposals to indemnify auditors.

## **D. Proxy Contest Defenses**

### **1. Board Structure: Staggered vs. Annual Elections**

- a. We vote against proposals to classify the board.
- b. We vote for proposals to repeal classified boards and to elect all directors annually.

2. Shareholder Ability to Remove Directors

- a. We vote against proposals that provide that directors may be removed *only* for cause.
- b. We vote for proposals to restore shareholder ability to remove directors with or without cause.
- c. We vote against proposals that provide that only continuing directors may elect replacements to fill board vacancies.
- d. We vote for proposals that permit shareholders to elect directors to fill board vacancies.

3. Cumulative Voting

- a. If plurality voting is in place for uncontested director elections, we vote for proposals to permit or restore cumulative voting.
- b. If majority voting is in place for uncontested director elections, we vote against cumulative voting.
- c. If plurality voting is in place for uncontested director elections, and proposals to adopt both cumulative voting and majority voting are on the same slate, we vote for majority voting and against cumulative voting.

4. Majority Voting

We vote for non-binding and/or binding resolutions requesting that the board amend a company's by-laws to stipulate that directors need to be elected with an affirmative majority of the votes cast, provided that it does not conflict with the state law where the company is incorporated. In addition, all resolutions need to

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provide for a carve-out for a plurality vote standard when there are more nominees than board seats (i.e. contested election). In addition, ClearBridge strongly encourages companies to adopt a post-election director resignation policy setting guidelines for the company to follow to promptly address situations involving holdover directors.

5. Shareholder Ability to Call Special Meetings

- a. We vote against proposals to restrict or prohibit shareholder ability to call special meetings.
- b. We vote for proposals that provide shareholders with the ability to call special meetings, taking into account a minimum ownership threshold of 10 percent (and investor ownership structure, depending on bylaws).

6. Shareholder Ability to Act by Written Consent

- a. We vote against proposals to restrict or prohibit shareholder ability to take action by written consent.
- b. We vote for proposals to allow or make easier shareholder action by written consent.

7. Shareholder Ability to Alter the Size of the Board

- a. We vote for proposals that seek to fix the size of the board.
- b. We vote against proposals that give management the ability to alter the size of the board without shareholder approval.

8. Advance Notice Proposals

We vote on advance notice proposals on a case-by-case basis, giving support to those proposals which allow shareholders to submit proposals as close to the meeting date as reasonably possible and within the broadest window possible.

9. Amendment of By-Laws

- a. We vote against proposals giving the board exclusive authority to amend the by-laws.

- b. We vote for proposals giving the board the ability to amend the by-laws in addition to shareholders.

10. Article Amendments (not otherwise covered by ClearBridge Proxy Voting Policies and Procedures). We review on a case-by-case basis all proposals seeking amendments to the articles of association.

We vote for article amendments if:

shareholder rights are protected;

there is negligible or positive impact on shareholder value;

management provides adequate reasons for the amendments; and

the company is required to do so by law (if applicable).

## **E. Tender Offer Defenses**

### **1. Poison Pills**

- a. We vote for shareholder proposals that ask a company to submit its poison pill for shareholder ratification.
- b. We vote on a case-by-case basis on shareholder proposals to redeem a company's poison pill. Considerations include: when the plan was originally adopted; financial condition of the company; terms of the poison pill.
- c. We vote on a case-by-case basis on management proposals to ratify a poison pill. Considerations include: sunset provision - poison pill is submitted to shareholders for ratification or rejection every 2 to 3 years; shareholder redemption feature - 10% of the shares may call a special meeting or seek a written consent to vote on rescinding the rights plan.

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2. Fair Price Provisions
  - a. We vote for fair price proposals, as long as the shareholder vote requirement embedded in the provision is no more than a majority of disinterested shares.
  - b. We vote for shareholder proposals to lower the shareholder vote requirement in existing fair price provisions.
3. Greenmail
  - a. We vote for proposals to adopt anti-greenmail charter or bylaw amendments or otherwise restrict a company's ability to make greenmail payments.
  - b. We vote on a case-by-case basis on anti-greenmail proposals when they are bundled with other charter or bylaw amendments.
4. Unequal Voting Rights
  - a. We vote against dual class exchange offers.
  - b. We vote against dual class re-capitalization.
5. Supermajority Shareholder Vote Requirement to Amend the Charter or Bylaws
  - a. We vote against management proposals to require a supermajority shareholder vote to approve charter and bylaw amendments.
  - b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for charter and bylaw amendments.
6. Supermajority Shareholder Vote Requirement to Approve Mergers
  - a. We vote against management proposals to require a supermajority shareholder vote to approve mergers and other significant business combinations.

- b. We vote for shareholder proposals to lower supermajority shareholder vote requirements for mergers and other significant business combinations.

7. White Squire Placements

We vote for shareholder proposals to require approval of blank check preferred stock issues.

**F. Miscellaneous Governance Provisions**

1. Confidential Voting

- a. We vote for shareholder proposals that request corporations to adopt confidential voting, use independent tabulators and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows: in the case of a contested election, management is permitted to request that the dissident group honor its confidential voting policy. If the dissidents agree, the policy remains in place. If the dissidents do not agree, the confidential voting policy is waived.
- b. We vote for management proposals to adopt confidential voting subject to the proviso for contested elections set forth in sub-paragraph A.1 above.

2. Equal Access

We vote for shareholder proposals that would allow significant company shareholders equal access to management's proxy material in order to evaluate and propose voting recommendations on proxy proposals and director nominees, and in order to nominate their own candidates to the board.

3. Bundled Proposals

We vote on a case-by-case basis on bundled or conditioned proxy proposals. In the case of items that are conditioned upon each other, we examine the benefits and costs of the packaged items. In instances when the joint effect of the conditioned items is not in shareholders' best interests and therefore not in the best interests of the beneficial owners of accounts, we vote against the proposals. If the combined effect is positive, we support such proposals.

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4. Shareholder Advisory Committees

We vote on a case-by-case basis on proposals to establish a shareholder advisory committee. Considerations include: rationale and cost to the firm to form such a committee. We generally vote against such proposals if the board and key nominating committees are comprised solely of independent/outside directors.

5. Other Business

We vote for proposals that seek to bring forth other business matters.

6. Adjourn Meeting

We vote on a case-by-case basis on proposals that seek to adjourn a shareholder meeting in order to solicit additional votes.

7. Lack of Information

We vote against proposals if a company fails to provide shareholders with adequate information upon which to base their voting decision.

**G. Capital Structure**

1. Common Stock Authorization

- a. We vote on a case-by-case basis on proposals to increase the number of shares of common stock authorized for issue, except as described in paragraph 2 below.
- b. Subject to paragraph 3, below we vote for the approval requesting increases in authorized shares if the company meets certain criteria:

Company has already issued a certain percentage (i.e. greater than 50%) of the company's allotment.

The proposed increase is reasonable (i.e. less than 150% of current inventory) based on an analysis of the company's historical stock management or future growth outlook of the company.

- c.



We vote on a case-by-case basis, based on the input of affected portfolio managers, if holding is greater than 1% of an account.

2. Stock Distributions: Splits and Dividends

We vote on a case-by-case basis on management proposals to increase common share authorization for a stock split, provided that the split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the split.

3. Reverse Stock Splits

We vote for management proposals to implement a reverse stock split, provided that the reverse split does not result in an increase of authorized but unissued shares of more than 100% after giving effect to the shares needed for the reverse split.

4. Blank Check Preferred Stock

- a. We vote against proposals to create, authorize or increase the number of shares with regard to blank check preferred stock with unspecified voting, conversion, dividend distribution and other rights.
- b. We vote for proposals to create ~~declawed~~ blank check preferred stock (stock that cannot be used as a takeover defense).
- c. We vote for proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.
- d. We vote for proposals requiring a shareholder vote for blank check preferred stock issues.

5. Adjust Par Value of Common Stock

We vote for management proposals to reduce the par value of common stock.

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6. Preemptive Rights

- a. We vote on a case-by-case basis for shareholder proposals seeking to establish them and consider the following factors:

Size of the Company.

Characteristics of the size of the holding (holder owning more than 1% of the outstanding shares).

Percentage of the rights offering (rule of thumb less than 5%).

- b. We vote on a case-by-case basis for shareholder proposals seeking the elimination of pre-emptive rights.

7. Debt Restructuring

We vote on a case-by-case basis for proposals to increase common and/or preferred shares and to issue shares as part of a debt-restructuring plan. Generally, we approve proposals that facilitate debt restructuring.

8. Share Repurchase Programs

We vote for management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms.

9. Dual-Class Stock

We vote for proposals to create a new class of nonvoting or sub voting common stock if:

It is intended for financing purposes with minimal or no dilution to current shareholders

It is not designed to preserve the voting power of an insider or significant shareholder

10. Issue Stock for Use with Rights Plan

We vote against proposals that increase authorized common stock for the explicit purpose of implementing a shareholder rights plan (poison pill).

#### 11. Debt Issuance Requests

When evaluating a debt issuance request, the issuing company's present financial situation is examined. The main factor for analysis is the company's current debt-to-equity ratio, or gearing level. A high gearing level may incline markets and financial analysts to downgrade the company's bond rating, increasing its investment risk factor in the process. A gearing level up to 100 percent is considered acceptable.

We vote for debt issuances for companies when the gearing level is between zero and 100 percent.

We view on a case-by-case basis proposals where the issuance of debt will result in the gearing level being greater than 100 percent. Any proposed debt issuance is compared to industry and market standards.

#### 12. Financing Plans

We generally vote for the adopting of financing plans if we believe they are in the best economic interests of shareholders.

### **H. Executive and Director Compensation**

In general, we vote for executive and director compensation plans, with the view that viable compensation programs reward the creation of stockholder wealth by having high payout sensitivity to increases in shareholder value. Certain factors, however, such as repricing underwater stock options without shareholder approval, would cause us to vote against a plan. Additionally, in some cases we would vote against a plan deemed unnecessary.

#### 1. OBRA-Related Compensation Proposals

##### a. Amendments that Place a Cap on Annual Grant or Amend Administrative Features

We vote for plans that simply amend shareholder-approved plans to include administrative features or place a cap on the annual grants any one participant may receive to comply with the provisions of Section 162(m) of the Internal Revenue Code.

##### b. Amendments to Added Performance-Based Goals

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We vote for amendments to add performance goals to existing compensation plans to comply with the provisions of Section 162(m) of the Internal Revenue Code.

c. Amendments to Increase Shares and Retain Tax Deductions Under OBRA

We vote for amendments to existing plans to increase shares reserved and to qualify the plan for favorable tax treatment under the provisions of Section 162(m) the Internal Revenue Code.

d. Approval of Cash or Cash-and-Stock Bonus Plans

We vote for cash or cash-and-stock bonus plans to exempt the compensation from taxes under the provisions of Section 162(m) of the Internal Revenue Code.

2. Expensing of Options

We vote for proposals to expense stock options on financial statements.

3. Index Stock Options

We vote on a case by case basis with respect to proposals seeking to index stock options. Considerations include whether the issuer expenses stock options on its financial statements and whether the issuer's compensation committee is comprised solely of independent directors.

4. Shareholder Proposals to Limit Executive and Director Pay

a. We vote on a case-by-case basis on all shareholder proposals that seek additional disclosure of executive and director pay information. Considerations include: cost and form of disclosure. We vote for such proposals if additional disclosure is relevant to shareholder's needs and would not put the company at a competitive disadvantage relative to its industry.

b. We vote on a case-by-case basis on all other shareholder proposals that seek to limit executive and director pay.

We have a policy of voting to reasonably limit the level of options and other equity-based compensation arrangements available to management to reasonably limit shareholder dilution and management compensation. For options and equity-based compensation arrangements, we vote FOR proposals or amendments that would result in the available awards being less than 10% of fully diluted outstanding shares (i.e. if the combined total of shares, common share equivalents and options available to be awarded under all current and proposed compensation plans is less than 10% of fully diluted shares). In the event the available awards exceed the 10% threshold, we would also consider the % relative to the common practice of its specific industry (e.g. technology firms). Other considerations would include, without limitation, the following:

Compensation committee comprised of independent outside directors

Maximum award limits

Repricing without shareholder approval prohibited

3-year average burn rate for company

Plan administrator has authority to accelerate the vesting of awards

Shares under the plan subject to performance criteria

5. Golden Parachutes

- a. We vote for shareholder proposals to have golden parachutes submitted for shareholder ratification.
- b. We vote on a case-by-case basis on all proposals to ratify or cancel golden parachutes. Considerations include: the amount should not exceed 3 times average base salary plus guaranteed benefits; golden parachute should be less attractive than an ongoing employment opportunity with the firm.

6. Golden Coffins

- a. We vote for shareholder proposals that request a company not to make any death benefit payments to senior executives' estates or beneficiaries, or pay premiums in respect to any life insurance policy covering a senior executive's life ( golden coffin ). We carve out benefits provided under a plan, policy or arrangement applicable to a broader group of employees, such as offering group universal life insurance.

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- b. We vote for shareholder proposals that request shareholder approval of survivor benefits for future agreements that, following the death of a senior executive, would obligate the company to make payments or awards not earned.

7. Anti Tax Gross-up Policy

- a. We vote for proposals that ask a company to adopt a policy whereby it will not make, or promise to make, any tax gross-up payment to its senior executives, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy; we also vote for proposals that ask management to put gross-up payments to a shareholder vote.
- b. We vote against proposals where a company will make, or promise to make, any tax gross-up payment to its senior executives without a shareholder vote, except for tax gross-ups provided pursuant to a plan, policy, or arrangement applicable to management employees of the company generally, such as relocation or expatriate tax equalization policy.

8. Employee Stock Ownership Plans (ESOPs)

We vote for proposals that request shareholder approval in order to implement an ESOP or to increase authorized shares for existing ESOPs, except in cases when the number of shares allocated to the ESOP is excessive (i.e., generally greater than five percent of outstanding shares).

9. Employee Stock Purchase Plans

- a. We vote for qualified plans where all of the following apply:

The purchase price is at least 85 percent of fair market value

The offering period is 27 months or less

The number of shares allocated to the plan is five percent or less of outstanding shares

If the above do not apply, we vote on a case-by-case basis.

- b. We vote for non-qualified plans where all of the following apply:

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All employees of the company are eligible to participate (excluding 5 percent or more beneficial owners)

There are limits on employee contribution (ex: fixed dollar amount)

There is a company matching contribution with a maximum of 25 percent of an employee's contribution

There is no discount on the stock price on purchase date (since there is a company match)

If the above do not apply, we vote against the non-qualified employee stock purchase plan.

### 10. 401(k) Employee Benefit Plans

We vote for proposals to implement a 401(k) savings plan for employees.

### 11. Stock Compensation Plans

- a. We vote for stock compensation plans which provide a dollar-for-dollar cash for stock exchange.
- b. We vote on a case-by-case basis for stock compensation plans which do not provide a dollar-for-dollar cash for stock exchange using a quantitative model.

### 12. Directors Retirement Plans

- a. We vote against retirement plans for non-employee directors.
- b. We vote for shareholder proposals to eliminate retirement plans for non-employee directors.

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13. Management Proposals to Reprice Options

We vote on a case-by-case basis on management proposals seeking approval to reprice options. Considerations include the following:

Historic trading patterns

Rationale for the repricing

Value-for-value exchange

Option vesting

Term of the option

Exercise price

Participation

14. Shareholder Proposals Recording Executive and Director Pay

- a. We vote against shareholder proposals seeking to set absolute levels on compensation or otherwise dictate the amount or form of compensation.
- b. We vote against shareholder proposals requiring director fees be paid in stock only.
- c. We vote for shareholder proposals to put option repricing to a shareholder vote.
- d. We vote for shareholder proposals that call for a non-binding advisory vote on executive pay ( say-on-pay ). Company boards would adopt a policy giving shareholders the opportunity at each annual meeting to vote on an advisory resolution to ratify the compensation of the named executive officers set forth in the proxy statement s summary compensation table.
- e. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.



- f. We vote on a case-by-case basis for all other shareholder proposals regarding executive and director pay, taking into account company performance, pay level versus peers, pay level versus industry, and long term corporate outlook.

15. Management Proposals On Executive Compensation

- a. For non-binding advisory votes on executive officer compensation, when management and the external service provider agree, we vote for the proposal. When management and the external service provider disagree, the proposal becomes a refer item. In the case of a Refer item, the factors under consideration will include the following:

Company performance over the last 1-, 3- and 5-year periods on a total shareholder return basis

Performance metrics for short- and long-term incentive programs

CEO pay relative to company performance (is there a misalignment)

Tax gross-ups to senior executives

Change-in-control arrangements

Presence of a clawback provision, ownership guidelines, or stock holding requirements for senior executives

- b. We vote annual for the frequency of say-on-pay proposals rather than once every two or three years.

16. Stock Retention / Holding Period of Equity Awards

We vote on a case-by-case basis on shareholder proposals asking companies to adopt policies requiring senior executives to retain all or a significant (>50 percent) portion of their shares acquired through equity compensation plans, either:

While employed and/or for one to two years following the termination of their employment; or

For a substantial period following the lapse of all other vesting requirements for the award, with ratable release of a portion of the shares annually during the lock-up period

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The following factors will be taken into consideration:

Whether the company has any holding period, retention ratio, or named executive officer ownership requirements currently in place

Actual stock ownership of the company's named executive officers

Policies aimed at mitigating risk taking by senior executives

Pay practices at the company that we deem problematic

**I. State/Country of Incorporation**

1. Voting on State Takeover Statutes

- a. We vote for proposals to opt out of state freeze-out provisions
- b. We vote for proposals to opt out of state disgorgement provisions.

2. Voting on Re-incorporation Proposals

We vote on a case-by-case basis on proposals to change a company's state or country of incorporation. Considerations include: reasons for re-incorporation (i.e. financial, restructuring, etc); advantages/benefits for change (i.e. lower taxes); compare the differences in state/country laws governing the corporation.

3. Control Share Acquisition Provisions

- a. We vote against proposals to amend the charter to include control share acquisition provisions.
- b. We vote for proposals to opt out of control share acquisition statutes unless doing so would enable the completion of a takeover that would be detrimental to shareholders.
- c. We vote for proposals to restore voting rights to the control shares.

- d. We vote for proposals to opt out of control share cashout statutes.

## **J. Mergers and Corporate Restructuring**

### **1. Mergers and Acquisitions**

We vote on a case-by-case basis on mergers and acquisitions. Considerations include: benefits/advantages of the combined companies (i.e. economies of scale, operating synergies, increase in market power/share, etc ); offer price (premium or discount); change in the capital structure; impact on shareholder rights.

### **2. Corporate Restructuring**

We vote on a case-by-case basis on corporate restructuring proposals involving minority squeeze outs and leveraged buyouts. Considerations include: offer price, other alternatives/offers considered and review of fairness opinions.

### **3. Spin-offs**

We vote on a case-by-case basis on spin-offs. Considerations include the tax and regulatory advantages, planned use of sale proceeds, market focus, and managerial incentives.

### **4. Asset Sales**

We vote on a case-by-case basis on asset sales. Considerations include the impact on the balance sheet/working capital, value received for the asset, and potential elimination of diseconomies.

### **5. Liquidations**

We vote on a case-by-case basis on liquidations after reviewing management's efforts to pursue other alternatives, appraisal value of assets, and the compensation plan for executives managing the liquidation.

### **6. Appraisal Rights**

We vote for proposals to restore, or provide shareholders with, rights of appraisal.

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7. Changing Corporate Name

We vote for proposals to change the corporate name, unless the proposed name change bears a negative connotation.

8. Conversion of Securities

We vote on a case-by-case basis on proposals regarding conversion of securities. Considerations include the dilution to existing shareholders, the conversion price relative to market value, financial issues, control issues, termination penalties, and conflicts of interest.

9. Stakeholder Provisions

We vote against proposals that ask the board to consider non-shareholder constituencies or other non-financial effects when evaluating a merger or business combination.

**K. Social and Environmental Issues**

1. In general we vote on a case-by-case basis on shareholder social and environmental proposals, on the basis that their impact on share value may be difficult to quantify. In most cases, however, we vote for disclosure reports that seek additional information, particularly when it appears the company has not adequately addressed shareholders' social and environmental concerns. In determining our vote on shareholder social and environmental proposals, we also analyze the following factors:
  - a. whether adoption of the proposal would have either a positive or negative impact on the company's short-term or long-term share value;
  - b. the percentage of sales, assets and earnings affected;
  - c. the degree to which the company's stated position on the issues could affect its reputation or sales, or leave it vulnerable to boycott or selective purchasing;
  - d. whether the issues presented should be dealt with through government or company-specific action;
  - e. whether the company has already responded in some appropriate manner to the request embodied in a proposal;
  - f. whether the company's analysis and voting recommendation to shareholders is persuasive;

- g. what other companies have done in response to the issue;
  - h. whether the proposal itself is well framed and reasonable;
  - i. whether implementation of the proposal would achieve the objectives sought in the proposal; and
  - j. whether the subject of the proposal is best left to the discretion of the board.
2. Among the social and environmental issues to which we apply this analysis are the following:
- a. Energy Efficiency and Resource Utilization
  - b. Environmental Impact and Climate Change
  - c. Human Rights and Impact on Communities of Corporate Activities
  - d. Equal Employment Opportunity and Non Discrimination
  - e. ILO Standards and Child/Slave Labor
  - f. Product Integrity and Marketing
  - g. Sustainability Reporting
  - h. Board Representation
  - i. Animal Welfare

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**L. Miscellaneous**

1. Charitable Contributions

We vote against proposals to eliminate, direct or otherwise restrict charitable contributions.

2. Political Contributions

In general, we vote on a case-by-case basis on shareholder proposals pertaining to political contributions. In determining our vote on political contribution proposals we consider, among other things, the following:

Does the company have a political contributions policy publicly available

How extensive is the disclosure on these documents

What oversight mechanisms the company has in place for approving/reviewing political contributions and expenditures

Does the company provide information on its trade association expenditures

Total amount of political expenditure by the company in recent history

3. Operational Items

- a. We vote against proposals to provide management with the authority to adjourn an annual or special meeting absent compelling reasons to support the proposal.
- b. We vote against proposals to reduce quorum requirements for shareholder meetings below a majority of the shares outstanding unless there are compelling reasons to support the proposal.
- c. We vote for by-law or charter changes that are of a housekeeping nature (updates or corrections).
- d. We vote for management proposals to change the date/time/location of the annual meeting unless the proposed change is unreasonable.

- e. We vote against shareholder proposals to change the date/time/location of the annual meeting unless the current scheduling or location is unreasonable.
  
- f. We vote against proposals to approve other business when it appears as voting item.

4. Routine Agenda Items

In some markets, shareholders are routinely asked to approve:

the opening of the shareholder meeting

that the meeting has been convened under local regulatory requirements

the presence of a quorum

the agenda for the shareholder meeting

the election of the chair of the meeting

regulatory filings

the allowance of questions

the publication of minutes

the closing of the shareholder meeting

We generally vote for these and similar routine management proposals.

5. Allocation of Income and Dividends

We generally vote for management proposals concerning allocation of income and the distribution of dividends, unless the amount of the distribution is consistently and unusually small or large.



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### 6. Stock (Scrip) Dividend Alternatives

- a. We vote for most stock (scrip) dividend proposals.
- b. We vote against proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

ClearBridge has determined that registered investment companies, particularly closed end investment companies, raise special policy issues making specific voting guidelines frequently inapplicable. To the extent that ClearBridge has proxy voting authority with respect to shares of registered investment companies, ClearBridge shall vote such shares in the best interest of client accounts and subject to the general fiduciary principles set forth herein without regard to the specific voting guidelines set forth in Section V. A. through L.

The voting policy guidelines set forth in Section V may be changed from time to time by ClearBridge in its sole discretion.

## **VI. OTHER CONSIDERATIONS**

In certain situations, ClearBridge may determine not to vote proxies on behalf of a client because ClearBridge believes that the expected benefit to the client of voting shares is outweighed by countervailing considerations. Examples of situations in which ClearBridge may determine not to vote proxies on behalf of a client include:

### **A. Share Blocking**

Proxy voting in certain countries requires share blocking. This means that shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (e.g. one week) with a designated depository. During the blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares have been returned to client accounts by the designated depository. In deciding whether to vote shares subject to share blocking, ClearBridge will consider and weigh, based on the particular facts and circumstances, the expected benefit to clients of voting in relation to the detriment to clients of not being able to sell such shares during the applicable period.

### **B Securities on Loan**

Certain clients of ClearBridge, such as an institutional client or a mutual fund for which ClearBridge acts as a sub-adviser, may engage in securities lending with respect to the securities in their accounts. ClearBridge typically does not direct or oversee such securities lending activities. To the extent feasible and practical under the circumstances, ClearBridge will request that the client recall shares that are on loan so that such shares can be voted if ClearBridge believes that the expected benefit to the client of voting such shares outweighs the detriment to the client of recalling such shares (e.g., foregone income). The ability to timely recall shares for proxy voting purposes typically is not entirely within the control of ClearBridge and requires the cooperation of the client and its other service providers. Under certain circumstances, the recall of shares in time for such shares to be voted may not be possible due to applicable proxy voting record dates and administrative considerations.

## **VII. DISCLOSURE OF PROXY VOTING**

ClearBridge employees may not disclose to others outside of ClearBridge (including employees of other Legg Mason business units) how ClearBridge intends to vote a proxy absent prior approval from ClearBridge's General Counsel/Chief Compliance Officer, except that a ClearBridge investment professional may disclose to a third party (other than an employee of another Legg Mason business unit) how s/he intends to vote without obtaining prior approval from ClearBridge's General Counsel/Chief Compliance Officer if (1) the disclosure is intended to facilitate a discussion of publicly available information by ClearBridge personnel with a representative of a company whose securities are the subject of the proxy, (2) the company's market capitalization exceeds \$1 billion and (3) ClearBridge has voting power with respect to less than 5% of the outstanding common stock of the company.

If a ClearBridge employee receives a request to disclose ClearBridge's proxy voting intentions to, or is otherwise contacted by, another person outside of ClearBridge (including an employee of another Legg Mason business unit) in connection with an upcoming proxy voting matter, he/she should immediately notify ClearBridge's General Counsel/Chief Compliance Officer.

If a portfolio manager wants to take a public stance with regards to a proxy, s/he must consult with ClearBridge's General Counsel/Chief Compliance Officer before making or issuing a public statement.

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**VIII. RECORDKEEPING AND OVERSIGHT**

ClearBridge shall maintain the following records relating to proxy voting:

a copy of these policies and procedures;

a copy of each proxy form (as voted);

a copy of each proxy solicitation (including proxy statements) and related materials with regard to each vote;

documentation relating to the identification and resolution of conflicts of interest;

any documents created by ClearBridge that were material to a proxy voting decision or that memorialized the basis for that decision; and

a copy of each written client request for information on how ClearBridge voted proxies on behalf of the client, and a copy of any written response by ClearBridge to any (written or oral) client request for information on how ClearBridge voted proxies on behalf of the requesting client.

Such records shall be maintained and preserved in an easily accessible place for a period of not less than six years from the end of the fiscal year during which the last entry was made on such record, the first two years in an appropriate office of the ClearBridge adviser.

To the extent that ClearBridge is authorized to vote proxies for a United States Registered Investment Company, ClearBridge shall maintain such records as are necessary to allow such fund to comply with its recordkeeping, reporting and disclosure obligations under applicable laws, rules and regulations.

In lieu of keeping copies of proxy statements, ClearBridge may rely on proxy statements filed on the EDGAR system as well as on third party records of proxy statements and votes cast if the third party provides an undertaking to provide the documents promptly upon request.

**ITEM 8. INVESTMENT PROFESSIONALS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.**

(a)(1):

NAME AND ADDRESS	LENGTH OF TIME SERVED Since 2011	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
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Richard  
Freeman

Co-portfolio manager of the fund; Mr. Freeman is a Senior Portfolio Manager and Managing Director of ClearBridge and has 42 years of investment industry experience. Mr. Freeman joined the subadviser or its predecessor in 1983.

Clearbridge

620 Eighth  
Avenue

New York, NY  
10018

Chris Eades      Since 2011

Co-portfolio manager of the fund; Managing Director, Co-Director of Research, Senior Research Analyst for Energy joined ClearBridge in 2006 as a senior research analyst for energy and was named co-director of research in 2009. He has 26 years of investment industry experience. Prior to joining ClearBridge, Mr. Eades served as an energy analyst and portfolio manager at Saranac Capital from 2002 to 2006.

Clearbridge

620 Eighth  
Avenue

New York, NY  
10018

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Peter Vanderlee, CFA      Since 2011      Co-portfolio manager of the fund; Managing Director and Portfolio Manager with ClearBridge Advisors. Mr. Vanderlee has 19 years of investment industry experience.

Clearbridge

620 Eighth Avenue

New York, NY 10018

Michael Clarfeld, CFA      Since 2011      Co-portfolio manager of the fund; Managing Director and Portfolio Manager of ClearBridge; he has been with ClearBridge since 2006 and has 18 years of investment industry experience. Prior to joining ClearBridge, Mr. Clarfeld was an equity analyst with Hygrove Partners, LLC and a financial analyst with Goldman Sachs.

Clearbridge

620 Eighth Avenue

New York, NY 10018

**Table of Contents****(a)(2): DATA TO BE PROVIDED BY FINANCIAL CONTROL**

The following tables set forth certain additional information with respect to the fund's portfolio managers for the fund. Unless noted otherwise, all information is provided as of November 30, 2018.

**Other Accounts Managed by Portfolio Managers**

The table below identifies the number of accounts (other than the fund) for which the fund's portfolio managers have day-to-day management responsibilities and the total assets in such accounts, within each of the following categories:

registered investment companies, other pooled investment vehicles, and other accounts. For each category, the number of accounts and total assets in the accounts where fees are based on performance is also indicated.

<b>Name of PM</b>	<b>Type of Account</b>	<b>Number of Accounts Managed</b>	<b>Total Assets Managed</b>	<b>Number of Accounts Managed for which Advisory Fee is Performance- Based</b>	<b>Assets Managed for which Advisory Fee is Performance- Based</b>
Richard Freeman	Other Registered Investment Companies	8	\$15.43 billion	None	None
	Other Pooled Vehicles	3	\$1.83 billion	None	None
	Other Accounts	77,200	\$24.78 billion	None	None
Chris Eades	Other Registered Investment Companies	3	\$ 2.01 billion	None	None
	Other Pooled Vehicles	1	\$240 million	None	None
	Other Accounts	3	\$8 million	None	None
Michael Clarfeld	Other Registered Investment Companies	7	\$10.08 billion	None	None
	Other Pooled Vehicles	2	\$280 million	None	None
	Other Accounts	34,796	\$10.83 billion	None	None
Peter Vanderlee	Other Registered Investment Companies	8	\$10.79 billion	None	None
	Other Pooled Vehicles	6	\$1.05 billion	None	None
	Other Accounts	36,679	\$11.33 billion	None	None

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(a)(3):

***Portfolio Manager Compensation Structure (ClearBridge)***

ClearBridge's portfolio managers participate in a competitive compensation program that is designed to attract and retain outstanding investment professionals and closely align the interests of its investment professionals with those of its clients and overall firm results. The total compensation program includes a significant incentive component that rewards high performance standards, integrity, and collaboration consistent with the firm's values. Portfolio manager compensation is reviewed and modified each year as appropriate to reflect changes in the market and to ensure the continued alignment with the goals stated above. ClearBridge's portfolio managers and other investment professionals receive a combination of base compensation and discretionary compensation, comprising a cash incentive award and deferred incentive plans described below.

*Base salary compensation.* Base salary is fixed and primarily determined based on market factors and the experience and responsibilities of the investment professional within the firm.

*Discretionary compensation.* In addition to base compensation managers may receive discretionary compensation.

Discretionary compensation can include:

Cash Incentive Award

ClearBridge's Deferred Incentive Plan (CDIP) a mandatory program that typically defers 15% of discretionary year-end compensation into ClearBridge managed products. For portfolio managers, one-third of this deferral tracks the performance of their primary managed product, one-third tracks the performance of a composite portfolio of the firm's new products and one-third can be elected to track the performance of one or more of ClearBridge managed funds. Consequently, portfolio managers can have two-thirds of their CDIP award tracking the performance of their primary managed product.

For centralized research analysts, two-thirds of their deferral is elected to track the performance of one of more of ClearBridge managed funds, while one-third tracks the performance of the new product composite.

ClearBridge then makes a company investment in the proprietary managed funds equal to the deferral amounts by fund. This investment is a company asset held on the balance sheet and paid out to the employees in shares subject to vesting requirements.

Legg Mason Restricted Stock Deferral a mandatory program that typically defers 5% of discretionary year-end compensation into Legg Mason restricted stock. The award is paid out to employees in shares subject to vesting requirements.

Legg Mason Restricted Stock and Stock Option Grants a discretionary program that may be utilized as part of the total compensation program. These special grants reward and recognize significant contributions to our clients, shareholders and the firm and aid in retaining key talent.

Several factors are considered by ClearBridge Senior Management when determining discretionary compensation for portfolio managers. These include but are not limited to:

*Investment performance.* A portfolio manager's compensation is linked to the pre-tax investment performance of the fund/accounts managed by the portfolio manager. Investment performance is calculated for 1-, 3-, and 5-year periods measured against the applicable product benchmark (*e.g.*, a securities index and, with respect to a fund, the benchmark set forth in the fund's Prospectus) and relative to applicable industry peer groups. The greatest weight is generally placed on 3- and 5-year performance.

Appropriate risk positioning that is consistent with ClearBridge's investment philosophy and the Investment Committee/CIO approach to generation of alpha;

Overall firm profitability and performance;

Amount and nature of assets managed by the portfolio manager;

Contributions for asset retention, gathering and client satisfaction;

Contribution to mentoring, coaching and/or supervising;

Contribution and communication of investment ideas in ClearBridge's Investment Committee meetings and on a day to day basis;

Market compensation survey research by independent third parties



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### *Potential Conflicts of Interest*

Potential conflicts of interest may arise when the fund's portfolio managers also have day-to-day management responsibilities with respect to one or more other funds or other accounts, as is the case for the fund's portfolio managers.

The subadviser and the fund have adopted compliance policies and procedures that are designed to address various conflicts of interest that may arise for the subadviser and the individuals that each employs. For example, the manager and the subadviser each seek to minimize the effects of competing interests for the time and attention of portfolio managers by assigning portfolio managers to manage funds and accounts that share a similar investment style. The subadviser has also adopted trade allocation procedures that are designed to facilitate the fair allocation of limited investment opportunities among multiple funds and accounts. There is no guarantee, however, that the policies and procedures adopted by the subadviser and the fund will be able to detect and/or prevent every situation in which an actual or potential conflict may appear. These potential conflicts include:

*Allocation of Limited Time and Attention.* A portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies.

*Allocation of Investment Opportunities.* If a portfolio manager identifies an investment opportunity that may be suitable for multiple funds and/or accounts, the opportunity may be allocated among these several funds or accounts, which may limit a fund's ability to take full advantage of the investment opportunity.

*Pursuit of Differing Strategies.* At times, a portfolio manager may determine that an investment opportunity may be appropriate for only some of the funds and/or accounts for which he or she exercises investment responsibility, or may decide that certain of the funds and/or accounts should take differing positions with respect to a particular security. In these cases, the portfolio manager may place separate transactions for one or more funds or accounts which may affect the market price of the security or the execution of the transaction, or both, to the detriment or benefit of one or more other funds and/or accounts.

*Selection of Broker/Dealers.* Portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the funds and/or accounts that they supervise. In addition to executing trades, some brokers and dealers provide brokerage and research services (as those terms are defined in Section 28(e) of the 1934 Act), which may result in the payment of higher brokerage fees than might have otherwise been available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the manager and/or subadviser determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts managed. For this reason, the subadviser has formed a brokerage committee that reviews, among other things, the allocation of brokerage to broker/dealers, best execution and soft dollar usage.

*Variation in Compensation.* A conflict of interest may arise where the financial or other benefits available to the portfolio manager differ among the funds and/or accounts that he or she manages. If the structure of the manager's management fee (and the percentage paid to the subadviser) and/or the portfolio manager's compensation differs among funds and/or accounts (such as where certain funds or accounts pay higher management fees or

performance-based management fees), the portfolio manager might be motivated to help certain funds and/or accounts over others. The portfolio manager might be motivated to favor funds and/or accounts in which he or she has an interest or in which the manager and/or its affiliates have interests. Similarly, the desire to maintain assets under management or to enhance the portfolio manager's performance record or to derive other rewards, financial or otherwise, could influence the portfolio manager in affording preferential treatment to those funds and/or accounts that could most significantly benefit the portfolio manager.

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**(a)(4): Portfolio Manager Securities Ownership**

The table below identifies the dollar range of securities beneficially owned by each portfolio managers as of November 30, 2018.

<b>Portfolio Manager(s)</b>	<b>Dollar Range of Portfolio Securities Beneficially Owned</b>
Richard Freeman	E
Chris Eades	E
Michael Clarfeld	C
Peter Vanderlee	C

Dollar Range ownership is as follows:

A: none

B: \$1 - \$10,000

C: 10,001 - \$50,000

D: \$50,001 - \$100,000

E: \$100,001 - \$500,000

F: \$500,001 - \$1 million

G: over \$1 million

**ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS**

Not applicable.

**ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

Not applicable.

**ITEM 11. CONTROLS AND PROCEDURES.**

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940,

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as amended (the 1940 Act ) are effective as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the disclosure controls and procedures required by Rule 30a-3(b) under the 1940 Act and 15d-15(b) under the Securities Exchange Act of 1934.

- (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 second fiscal quarter of the period covered by this report that have materially affected, or are likely to materially affect the registrant's internal control over financial reporting

ITEM 12. EXHIBITS.

- (a) (1) Code of Ethics attached hereto.

Exhibit 99.CODE ETH

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(a) (2) Certifications pursuant to section 302 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.CERT

(b) Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 attached hereto.

Exhibit 99.906CERT

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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, there unto duly authorized.

**ClearBridge Energy Midstream Opportunity Fund Inc.**

By: /s/ Jane Trust  
Jane Trust

Chief Executive Officer

Date: January 25, 2019

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

By: /s/ Jane Trust  
Jane Trust

Chief Executive Officer

Date: January 25, 2019

By: /s/ Richard F. Sennett  
Richard F. Sennett

Principal Financial Officer

Date: January 25, 2019