

AllianzGI Equity & Convertible Income Fund
Form N-CSRS
October 03, 2018

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 811-21989

AllianzGI Equity & Convertible Income Fund
(Exact name of registrant as specified in charter)

1633 Broadway, New York, New York
(Address of principal executive offices)

10019
(Zip code)

Scott Whisten 1633 Broadway, New York, New York 10019
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-739-3367

Date of fiscal year January 31
end:

Date of reporting period: July 31, 2018

ITEM 1. REPORT TO SHAREHOLDERS

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July 31, 2018 | Semi-Annual Report 1

Letter from the President

Dear Shareholder:

US economic expansion accelerated during the six-month fiscal reporting period ended July 31, 2018. In contrast, economic growth overseas moderated. Against this backdrop, the overall US equity market posted a modest gain, whereas international equities were weak. Elsewhere, the overall US bond market posted a small loss during the reporting period.

For the six-month reporting period ended July 31, 2018

• AllianzGI Diversified Income & Convertible Fund returned 2.61% on net asset value (NAV) and 12.37% on market price.

Thomas J. Fuccillo

• AllianzGI Equity & Convertible Income Fund returned 1.40% on NAV and 8.18% on market price.

*President & Chief
Executive Officer*

• AllianzGI NFJ Dividend, Interest & Premium Strategy Fund returned -1.04% on NAV and -1.48% on market price.

During the six-month period ended July 31, 2018, the Russell 3000 Index, a broad measure of US stock market performance, gained 1.30%; the Russell 1000 Value Index, a measure of large-cap value-style stocks, returned -1.60%; and the Russell 1000 Growth Index, a measure of growth style stocks, gained 3.10%. Convertible securities, as reflected by the ICE BofA Merrill Lynch All Convertibles Index, gained 3.73%.

Turning to the US economy, gross domestic product (GDP), the value of goods and services produced in the country, which is the broadest measure of economic activity and the principal indicator of economic performance, expanded at an annual pace of 2.3% during the fourth quarter of 2017. GDP growth then moderated to an annual pace of 2.2% during the first quarter of 2018. Finally, the Commerce Department's second estimate for the second quarter of 2018 released after the reporting period had ended showed that GDP grew at an annualized pace of 4.2%.

After raising interest rates three times in 2017, the US Federal Reserve (the Fed) again raised rates at its meetings in March and June 2018. The last hike pushed the federal funds rate to a range between 1.75% and 2.00%. At its meeting in June 2018, the Fed announced that it may raise rates an additional two times before the end of the year.

Outlook

Although we believe economic growth is poised to accelerate in the second half of 2018, the end of the economic cycle may be closer than anticipated by the consensus forecast. In our view, a pro-growth mix of economic policies has set conditions conducive to more rapid increases in consumer spending, business investment and labor compensation. Consumer spending is brisk and measures of business optimism seem to break records every month.

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Looking ahead to the second half of 2018, however, these outcomes cannot be assured. Households and businesses may well rethink their spending plans over the months ahead as they evaluate the meaning of tax changes, government spending, economic policy adjustments and new risks to their well-being. If capital expenditures by businesses go to unproductive investment, productivity fails to accelerate and inflation-adjusted workers' compensation does not increase, real economic growth could languish.

While Fed monetary policymakers will continue to base their interest-rate decisions on the flow of inflation, wage and labor market data, how the Fed implements monetary policy over the next several years may be at least as important as the timing and magnitude of its policy decisions.

Meanwhile, the interconnectedness of the US economy to other countries remains intricate and deep. Even as trade relations deteriorate, we believe the forces of globalization and technological revolution promise to defeat the forces of nationalism, populism and withdrawal from multilateral arrangements. Even if US-China and US-European Union trade relations play out acrimoniously over the years ahead, for example, we believe a complicated and extensive flow of goods, services, resources and intellectual property between each of the two nations and union, respectively, will continue to be based on a co-dependency built up over the last three decades.

On behalf of Allianz Global Investors U.S. LLC, thank you for investing with us. We encourage you to consult with your financial advisor and to visit our website, us.allianzgi.com/closedendfunds, for additional information. We remain dedicated to serving your investment needs.

Thomas J. Fuccillo

President & Chief Executive Officer

Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

AllianzGI Diversified Income & Convertible Fund

For the period of February 1, 2018 through July 31, 2018, as provided by Doug Forsyth, CFA, Portfolio Manager.

For the six-month period ended July 31, 2018, the AllianzGI Diversified Income & Convertible Fund (the Fund) returned 2.61% on net asset value (NAV) and 12.37% on market price.

During the reporting period, the Russell 1000 Growth Index, a measure of growth style stocks, returned 3.10%; convertible securities, as reflected by the ICE BofA Merrill Lynch All Convertibles All Qualities Index, returned 3.73%; and high yield bonds, as reflected by the ICE BofA Merrill Lynch High Yield Master II Index, returned 0.55%.

Market Environment

A number of factors influenced the high yield bond, convertible bond, and large capitalized equity markets during the reporting period, including improving corporate fundamentals, healthy US economic trends, the US Federal Reserve's (the Fed) actions and commentary, rising interest rates, and the impact of growing geopolitical concerns on international markets.

Corporate fundamentals continued to improve with most issuers reporting better-than-expected financial results and positive outlooks, citing increasing demand, a more favorable regulatory environment and recent tax-reform benefits. In fact, first-quarter earnings growth for US companies increased to 26% on a year-over-year basis, according to Thomson Reuters, one of the strongest quarters in years. In addition, both net leverage and interest coverage ratios improved over the reporting period.

US economic trends remained healthy with low unemployment, home price growth, higher retail sales, rising capital expenditures, and elevated consumer confidence which hit a 14-year high in the first-quarter. Notably, these trends continued to support a positive operating environment for US issuers.

Against this favorable economic and corporate backdrop, the Fed raised its key interest rate 25 basis points in both March 2018 and June 2018 and is at a range of 1.75% to 2.00%. The Fed signaled two more rate hikes by year-end 2018 with continued balance sheet reduction.

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While the US economy remained healthy, the global environment was mixed. Global trade tensions, a surging US dollar, Italian government changes, a delayed Brexit agreement and continued conflicts in the Middle East weighed on global markets during the reporting period. While these issues impacted investor sentiment, the US markets remained resilient and reflected a relative safe-haven for investors.

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Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Portfolio Specifics

The Fund provided consistent income, the primary goal of the portfolio, and generated a positive total return over the reporting period.

In the high yield sleeve, industries that aided relative performance were theatres and entertainment, automotive, and banking. In contrast, energy, printing and publishing, and financial services industries hampered relative performance.

In the convertible sleeve, sectors that contributed positively to relative performance were healthcare, technology, and industrials. On the other hand, consumer discretionary, media, and consumer staples sectors pressured relative performance.

In the equity sleeve, energy, consumer staples and materials sectors helped relative performance. Conversely, the information technology, industrials, and consumer discretionary sectors hindered relative performance.

The Fund took advantage of new opportunities provided by the elevated volatility environment over the latter half of the reporting period and was able to retain many of the option premiums within the months.

Outlook

In our view, the US economy remains healthy. We believe growth is supported by elevated consumer and business confidence, low unemployment, favorable lending conditions, government spending growth and tax cuts. In addition, corporate profits are estimated to grow significantly in 2018.

We also believe the Tax Cuts and Jobs Act implemented in December 2017 should provide upside benefits to earnings estimates with tax obligations of US corporations likely moving notably lower. Based on bottom-up estimates, it is our opinion that the current earnings trajectory could result in double-digit year-over-year earnings growth for the S&P 500 Index in 2018. Potential risks to the economy include geopolitical issues, including rising global trade tensions, higher energy prices, a stronger US dollar, monetary policy surprises by the Fed or higher than expected inflation.

The Fed is expected to take a gradual approach toward monetary policy adjustments. Interest-rate hikes and balance-sheet reduction efforts signal confidence in the US economy's ability to grow. The purpose of these adjustments would be to achieve a normalized environment after an extended period of extreme accommodation. Until the Fed either moves aggressively or is well into the tightening cycle, monetary policy should

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not be expected to drive an extended sell-off of risk-assets. Overseas, monetary policies continue to be constructive.

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Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

AllianzGI Equity & Convertible Income Fund

For the period of February 1, 2018 through July 31, 2018, as provided by Doug Forsyth, CFA, Portfolio Manager.

For the six-month period ended July 31, 2018, the AllianzGI Equity & Convertible Income Fund (the Fund) returned 1.40% on net asset value (NAV) and 8.18% on market price.

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Market Environment

A number of factors influenced the convertible bond and large capitalized equity markets during the reporting period including improving corporate fundamentals, healthy US economic trends, the US Federal Reserve's (the Fed) actions and commentary, rising interest rates, and the impact of growing geopolitical concerns on international markets.

Corporate fundamentals continued to improve with most issuers reporting better-than-expected financial results and positive outlooks, citing increasing demand, a more favorable regulatory environment and recent tax-reform benefits. In fact, first-quarter earnings growth for US companies increased to 26% on a year-over-year basis, according to Thomson Reuters, one of the strongest quarters in years. In addition, both net leverage and interest coverage ratios improved over the reporting period.

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Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

Portfolio Specifics

The Fund provided consistent income, the primary goal of the portfolio, and generated a positive total return over the reporting period.

In the convertible sleeve, sectors that contributed positively to relative performance were healthcare, utilities, and consumer staples. On the other hand, technology, media, and materials sectors pressured relative performance.

In the equity sleeve, energy, materials, and consumer staples sectors helped relative performance. Conversely, the information technology, healthcare, and consumer discretionary sectors hindered relative performance.

The Fund took advantage of new opportunities provided by the elevated volatility environment over the latter half of the reporting period and was able to retain many of the option premiums within the months.

Outlook

In our view, US economy remains healthy. We believe growth is supported by elevated consumer and business confidence, low unemployment, favorable lending conditions, government spending growth and tax cuts. In addition, corporate profits are estimated to grow significantly in 2018.

We also believe the Tax Cuts and Jobs Act implemented in December 2017 should provide upside benefits to earnings estimates with tax obligations of US corporations likely moving notably lower. Based on bottom-up estimates, it is our opinion that the current earnings trajectory could result in double-digit year-over-year earnings growth for the S&P 500 Index in 2018. Potential risks to the economy include geopolitical issues, including rising global trade tensions, higher energy prices, a stronger US dollar, monetary policy surprises by the Fed or higher than expected inflation.

The Fed is expected to take a gradual approach toward monetary policy adjustments. Interest-rate hikes and balance-sheet reduction efforts signal confidence in the US economy's ability to grow. The purpose of these adjustments would be to achieve a normalized environment after an extended period of extreme accommodation. Until the Fed either moves aggressively or is well into the tightening cycle, monetary policy should not be expected to drive an extended sell-off of risk-assets. Overseas, monetary policies continue to be constructive.

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

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For the period of February 1, 2018 through July 31, 2018, as provided by the Value Equity, US team.

For the six-month period ended July 31, 2018, the AllianzGI NFJ Dividend Interest & Premium Strategy Fund (the Fund) returned -1.04% on net asset value (NAV) and -1.48% on market price.

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Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

During the reporting period, the Russell 1000 Value Index, a measure of large-cap value style stocks, returned -1.60%; convertible securities, as reflected by the ICE BofA Merrill Lynch All Convertibles All Qualities Index, returned 3.73%.

Market Overview

A number of factors influenced the convertible bond and equity markets during the reporting period including improving corporate fundamentals, healthy US economic trends, the US Federal Reserve's (the Fed) actions and commentary, rising interest rates, and the impact of growing geopolitical concerns on international markets.

Corporate fundamentals continued to improve with most issuers reporting better-than-expected financial results and positive outlooks, citing increasing demand, a more favorable regulatory environment and recent tax-reform benefits. In fact, first-quarter earnings growth for US companies increased to 26% on a year-over-year basis, according to Thomson Reuters, one of the strongest quarters in years. In addition, both net leverage and interest coverage ratios improved over the reporting period.

US economic trends remained healthy with low unemployment, home price growth, higher retail sales, rising capital expenditures, and elevated consumer confidence which hit a 14-year high in the first-quarter. Notably, these trends continued to support a positive operating environment for US issuers.

Against this favorable economic and corporate backdrop, the Fed raised its key interest rate 25 basis points in both March 2018 and June 2018 and is at a range of 1.75% to 2.00%. The Fed signaled two more rate hikes by year-end 2018 with continued balance sheet reduction.

While the US economy remained healthy, the global environment was mixed. Global trade tensions, a surging US dollar, Italian government changes, a delayed Brexit agreement and continued conflicts in the Middle East weighed on global markets during the reporting period. While these issues impacted investor sentiment, the US markets remained resilient and reflected a relative safe-haven for investors.

Within the Russell 1000 Value index, just four of eleven GICS economic sectors delivered positive returns, led by strength across energy, utilities, real estate and health care. In contrast, consumer staples and telecommunications sectors posted the steepest declines, followed by more cyclical value areas of the market, including the financials, industrials and materials sectors.

At the start of the fiscal year, volatility remained elevated for a short period of time as the Chicago Board Options Exchange Volatility Index (CBOE VIX) spiked to 37 in early February. Towards the end of the semi-annual period, strong corporate earnings and

Fund Insights

AllianzGI Diversified Income & Convertible Fund/AllianzGI Equity & Convertible Income Fund/AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited) (continued)

guidance helped the VIX move back towards lows reached in early 2018.

Portfolio Specifics

The equity portion of the Fund modestly trailed the Russell 1000 Value Index due to slightly negative stock selection and sector allocations. In terms of security selection, equity holdings in the industrials and information technology sectors benefitted performance over the reporting period. However, those gains were overwhelmed by poor selection across the consumer staples and energy sectors. From a sector allocation perspective, an overweight in information technology and underweight in consumer discretionary boosted the Fund's performance. Conversely, underweight positions across more bond proxy-like areas of the market, including real estate and utilities sectors, detracted from results.

In the convertible sleeve, sectors that contributed positively to relative performance were healthcare, utilities, and consumer staples. On the other hand, technology, media, and energy sectors pressured relative performance.

During the period, many option positions expired below strike and the portfolio was able to retain those set premiums. The team continues to implement the single-stock covered call option overlay by maintaining diversification of sector coverage, strike price and maturity dates.

Outlook

In our view, the US economy remains healthy. We believe growth is supported by elevated consumer and business confidence, low unemployment, favorable lending conditions, government spending growth and tax cuts. In addition, corporate profits are estimated to grow significantly in 2018.

We also believe the Tax Cuts and Jobs Act implemented in December 2017 should provide upside benefits to earnings estimates with tax obligations of US corporations likely moving notably lower. Based on bottom-up estimates, it is our opinion that the current earnings trajectory could result in double-digit year-over-year earnings growth for the S&P 500 Index in 2018. Potential risks to the economy include geopolitical issues, including rising global trade tensions, higher energy prices, a stronger US dollar, monetary policy surprises by the Federal Reserve or higher than expected inflation.

The Fed is expected to take a gradual approach toward monetary policy adjustments. Interest-rate hikes and balance-sheet reduction efforts signal confidence in the US economy's ability to grow. The purpose of these adjustments would be to achieve a normalized environment after an extended period of extreme accommodation. Until the Fed either moves aggressively or is well into the tightening cycle, monetary policy should not be expected to drive an extended sell-off of risk-assets. Overseas, monetary policies continue to be constructive.

Performance & Statistics

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited)

Total Return(1)	Market Price	NAV
Six Months	12.37%	2.61%
1 Year	21.85%	14.35%
Commencement of Operations (5/27/15) to 7/31/18	8.94%	8.81%

Market Price/NAV Performance

Commencement of Operations (5/27/15) to 7/31/18

Market Price/NAV

Market Price	\$24.09
NAV(2)	\$23.47
Premium to NAV	2.64%
Market Price Yield(3)	8.32%
Leverage Ratio(4)	30.32%

NAV
Market Price

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares and includes the effect of any expense reductions, if any. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets attributable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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- (2) The NAV disclosed in the Fund's financial statements may differ due to accounting principles generally accepted in the United States of America.
- (3) Market Price Yield is determined by dividing the annualized current (declared August 1, 2018) monthly dividend per common share (comprised of net investment income and net capital gains, if any) by the market price per common share at July 31, 2018.
- (4) Represents Mandatory Redeemable Preferred Shares, Senior Secured Notes and amounts drawn under the short-term margin loan facility (Leverage) outstanding, as a percentage of total managed assets. Total managed assets refer to total assets (including assets attributable to Leverage) minus liabilities (other than liabilities representing Leverage).

Performance & Statistics

AllianzGI Equity & Convertible Income Fund

July 31, 2018 (unaudited)

Total Return(1)	Market Price	NAV
Six Months	8.18%	1.40%
1 Year	23.25%	15.97%
5 Year	12.35%	9.63%
10 Year	10.09%	8.43%
Commencement of Operations (2/27/07) to 7/31/18	7.33%	7.37%

Market Price/NAV Performance

Commencement of Operations (2/27/07) to 7/31/18

Market Price/NAV

Market Price	\$23.06
NAV(2)	\$24.09
Discount to NAV	-4.28%
Market Price Yield(3)	6.59%

NAV
Market Price

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares and includes the effect of any expense reductions, if any. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares

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outstanding. Holdings are subject to change daily.

(2) The NAV disclosed in the Fund's financial statements may differ due to accounting principles generally accepted in the United States of America.

(3) Market Price Yield is determined by dividing the annualized current quarterly dividend per share (comprised of net investment income and net capital gains, if any) by the market price per share at July 31, 2018.

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Performance & Statistics

AllianzGI NFJ Dividend, Interest & Premium Strategy Fund

July 31, 2018 (unaudited)

Total Return(1)	Market Price	NAV
Six Months	-1.48%	-1.04%
1 Year	3.82%	7.81%
5 Year	3.58%	4.56%
10 Year	4.79%	4.50%
Commencement of Operations (2/28/05) to 7/31/18	4.06%	4.84%

Market Price/NAV Performance

Commencement of Operations (2/28/05) to 7/31/18

Market Price/NAV

Market Price	\$12.86
NAV(2)	\$14.71
Discount to NAV	-12.58%
Market Price Yield(3)	2.24%

NAV
Market Price

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all dividends and distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares and includes the effect of any expense reductions, if any. Total return for a period of more than one year represents the average annual total return. Total return for a period of less than one year is not annualized.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market price yield and NAV will fluctuate with changes in market conditions. This data is provided for information purposes only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are traded in the open market through a stock exchange. NAV is equal to total assets less total liabilities divided by the number of shares

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(2) The NAV disclosed in the Fund's financial statements may differ due to accounting principles generally accepted in the United States of America.

(3) Market Price Yield is determined by dividing the annualized current quarterly dividend per share (comprised of net investment income and net capital gains, if any) by the market price per share at July 31, 2018.

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Schedule of Investments
AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited)

Principal Amount (000s)		Value
Convertible Bonds & Notes	67.0%	
	Aerospace & Defense 0.2%	
\$305	Aerojet Rocketdyne Holdings, Inc., 2.25%, 12/15/23	\$434,042
	Apparel & Textiles 0.2%	
930	Iconix Brand Group, Inc., 5.75%, 8/15/23 (g)	590,041
	Auto Components 0.4%	
845	Meritor, Inc., 3.25%, 10/15/37 (a)(b)	841,004
	Auto Manufacturers 1.6%	
1,600	Navistar International Corp., 4.75%, 4/15/19 (g)	1,657,424
1,280	Tesla, Inc. (g), 0.25%, 3/1/19	1,321,664
790	2.375%, 3/15/22	853,107
		3,832,195
	Biotechnology 5.6%	
400	Alder Biopharmaceuticals, Inc., 2.50%, 2/1/25	465,296
680	AMAG Pharmaceuticals, Inc., 3.25%, 6/1/22	741,350
	BioMarin Pharmaceutical, Inc. (g), 0.599%, 8/1/24	1,724,080
1,630	1.50%, 10/15/20	294,542
240	Exact Sciences Corp., 1.00%, 1/15/25 (g)	1,925,600
1,850	Illumina, Inc., 0.50%, 6/15/21 (g)	2,334,074
1,640	Insmad, Inc., 1.75%, 1/15/25 (g)	1,383,319
1,470	Ionis Pharmaceuticals, Inc., 1.00%, 11/15/21	866,040
870	Ligand Pharmaceuticals, Inc., 0.75%, 5/15/23 (a)(b)	1,768,107
1,665	Medicines Co., 2.75%, 7/15/23	651,101
615	Novavax, Inc., 3.75%, 2/1/23 (a)(g)	188,395
325	PTC Therapeutics, Inc., 3.00%, 8/15/22 (g)	1,260,473
1,215		13,602,377
	Building Materials 0.8%	
1,990	Patrick Industries, Inc., 1.00%, 2/1/23 (a)(b)(g)	1,925,886
	Commercial Services 1.6%	
1,390	Euronet Worldwide, Inc., 1.50%, 10/1/44 (g)	1,801,559
1,875	Square, Inc., 0.50%, 5/15/23 (a)(b)(g)	2,057,074
		3,858,633
	Computers 2.4%	
750	Lumentum Holdings, Inc., 0.25%, 3/15/24 (g)	842,705
1,325	Nutanix, Inc., zero coupon, 1/15/23 (a)(b)(g)	1,584,477
1,700	Pure Storage, Inc., 0.125%, 4/15/23 (a)(b)(g)	1,799,129
635	Vocera Communications, Inc., 1.50%, 5/15/23 (a)(b)	708,515
900	Western Digital Corp., 1.50%, 2/1/24 (a)(b)(g)	883,041
		5,817,867
	Diversified Financial Services 0.8%	
700	Encore Capital Europe Finance Ltd., 4.50%, 9/1/23	715,750
305	Encore Capital Group, Inc., 3.25%, 3/15/22 (g)	302,314

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Diversified Financial Services (continued)	
\$115	LendingTree, Inc., 0.625%, 6/1/22	\$149,811
675	PRA Group, Inc., 3.00%, 8/1/20 (g)	651,878
		1,819,753
	Electric Utilities 0.4%	
930	NRG Energy, Inc., 2.75%, 6/1/48 (a)(b)(g)	906,567
	Electrical Equipment 0.7%	
	SunPower Corp. (g),	
1,115	0.875%, 6/1/21	875,231
1,035	4.00%, 1/15/23	833,774
		1,709,005
	Electronics 1.1%	
1,425	II-VI, Inc., 0.25%, 9/1/22 (a)(b)(g)	1,502,172
1,245	OSI Systems, Inc., 1.25%, 9/1/22 (g)	1,207,735
		2,709,907
	Energy-Alternate Sources 0.8%	
1,830	NextEra Energy Partners L.P., 1.50%, 9/15/20 (a)(b)(g)	1,873,457
3,615	SunEdison, Inc., 3.375%, 6/1/25 (a)(b)(d)(f)	81,337
		1,954,794
	Engineering & Construction 0.2%	
480	Dycom Industries, Inc., 0.75%, 9/15/21 (g)	535,985
	Entertainment 1.4%	
2,030	Live Nation Entertainment, Inc., 2.50%, 3/15/23 (a)(b)	2,137,546
1,135	Marriott Vacations Worldwide Corp., 1.50%, 9/15/22 (a)(b)	1,177,132
		3,314,678
	Equity Real Estate Investment Trusts (REITs) 0.8%	
1,690	Extra Space Storage L.P., 3.125%, 10/1/35 (a)(b)(g)	1,870,416
	Healthcare-Products 1.9%	
1,890	Insulet Corp., 1.375%, 11/15/24 (a)(b)(g)	2,061,534
2,539	Wright Medical Group, Inc., 1.625%, 6/15/23 (a)(b)	2,511,800
		4,573,334
	Healthcare-Services 2.1%	
695	Anthem, Inc., 2.75%, 10/15/42 (g)	2,415,141
560	Molina Healthcare, Inc., 1.125%, 1/15/20	1,440,211
940	Teladoc, Inc., 1.375%, 5/15/25 (a)(b)(g)	1,216,939
		5,072,291
	Insurance 0.6%	
1,390	AXA S.A., 7.25%, 5/15/21 (a)(b)	1,522,517
	Internet 7.6%	
1,220	Altaba, Inc., zero coupon, 12/1/18 (g)	1,664,434
1,325	Booking Holdings, Inc., 0.90%, 9/15/21 (g)	1,574,595
1,320	Ctrip.com International Ltd., 1.00%, 7/1/20	1,309,848
1,525	IAC FinanceCo., Inc., 0.875%, 10/1/22 (a)(b)(g)	1,725,190
895	Okta, Inc., 0.25%, 2/15/23 (a)(b)(g)	1,091,571
2,010	Palo Alto Networks, Inc., 0.75%, 7/1/23 (a)(b)(g)	1,983,948

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Internet (continued)	
\$1,310	Pandora Media, Inc., 1.75%, 12/1/23 (g)	\$1,289,695
825	Q2 Holdings, Inc., 0.75%, 2/15/23 (a)(b)(g)	962,615
1,120	RingCentral, Inc., zero coupon, 3/15/23 (a)(b)(g)	1,219,546
940	Twilio, Inc., 0.25%, 6/1/23 (a)(b)(g)	990,300
1,155	Twitter, Inc., 0.25%, 6/15/24 (a)(b)	1,053,454
960	Wix.com Ltd., zero coupon, 7/1/23 (a)(b)	920,584
1,130	Zendesk, Inc., 0.25%, 3/15/23 (a)(b)(g)	1,222,437
1,235	Zillow Group, Inc., 1.50%, 7/1/23	1,231,383
		18,239,600
	Iron/Steel 0.7%	
615	Allegheny Technologies, Inc., 4.75%, 7/1/22 (g)	1,271,400
310	Cleveland-Cliffs, Inc., 1.50%, 1/15/25	446,366
		1,717,766
	Lodging 0.8%	
1,075	Caesars Entertainment Corp., 5.00%, 10/1/24 (g)	1,933,828
	Machinery-Diversified 0.9%	
1,500	Chart Industries, Inc., 1.00%, 11/15/24 (a)(b)(g)	2,146,953
	Media 2.0%	
	DISH Network Corp.,	
1,095	2.375%, 3/15/24	956,645
2,115	3.375%, 8/15/26 (g)	1,926,670
	Liberty Media Corp.,	
835	1.00%, 1/30/23	944,794
1,025	2.125%, 3/31/48 (a)(b)(g)	1,034,956
		4,863,065
	Oil, Gas & Consumable Fuels 3.5%	
1,830	EnSCO Jersey Finance Ltd., 3.00%, 1/31/24 (g)	1,741,379
2,620	Nabors Industries, Inc., 0.75%, 1/15/24 (g)	2,056,412
1,140	Oasis Petroleum, Inc., 2.625%, 9/15/23 (g)	1,431,933
1,470	Oil States International, Inc., 1.50%, 2/15/23 (a)(b)(g)	1,589,948
1,190	Transocean, Inc., 0.50%, 1/30/23 (g)	1,655,735
		8,475,407
	Pharmaceuticals 5.6%	
475	Clovis Oncology, Inc., 1.25%, 5/1/25	431,517
650	Depomed, Inc., 2.50%, 9/1/21 (g)	574,234
1,420	DexCom, Inc., 0.75%, 5/15/22	1,649,711
785	Flexion Therapeutics, Inc., 3.375%, 5/1/24	919,922
1,445	Horizon Pharma Investment Ltd., 2.50%, 3/15/22 (g)	1,410,557
2,795	Jazz Investments I Ltd., 1.50%, 8/15/24 (a)(b)	2,911,747
1,340	Neurocrine Biosciences, Inc., 2.25%, 5/15/24 (g)	1,967,125
890	Sarepta Therapeutics, Inc., 1.50%, 11/15/24 (a)(b)(g)	1,554,277
1,050	Supernus Pharmaceuticals, Inc., 0.625%, 4/1/23 (a)(b)(g)	1,186,505
960	Teva Pharmaceutical Finance Co. LLC, 0.25%, 2/1/26, Ser. C (g)	905,778
		13,511,373

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AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Pipelines 0.9%	
\$2,640	Cheniere Energy, Inc., 4.25%, 3/15/45 (g)	\$2,077,701
	Retail 0.6%	
1,655	RH, zero coupon, 6/15/23 (a)(b)(g)	1,526,046
	Semiconductors 5.9%	
625	Advanced Micro Devices, Inc., 2.125%, 9/1/26	1,491,185
1,805	Cypress Semiconductor Corp., 2.00%, 2/1/23 (a)(b)(g)	1,961,999
470	Integrated Device Technology, Inc., 0.875%, 11/15/22	561,118
795	Intel Corp., 3.25%, 8/1/39 (g)	1,844,564
2,960	Microchip Technology, Inc., 1.625%, 2/15/27	3,538,120
1,425	Micron Technology, Inc., 3.00%, 11/15/43, Ser. G (g)	2,576,289
125	Novellus Systems, Inc., 2.625%, 5/15/41 (g)	715,200
940	Synaptics, Inc., 0.50%, 6/15/22	932,147
465	Teradyne, Inc., 1.25%, 12/15/23 (g)	677,315
		14,297,937
	Software 9.8%	
1,610	Akamai Technologies, Inc., 0.125%, 5/1/25 (a)(b)	1,620,763
1,455	Alteryx, Inc., 0.50%, 6/1/23 (a)(b)	1,604,351
1,745	Atlassian, Inc., 0.625%, 5/1/23 (a)(b)	1,931,902
1,560	Avaya Holdings Corp., 2.25%, 6/15/23 (a)(b)	1,546,620
955	Citrix Systems, Inc., 0.50%, 4/15/19 (g)	1,454,981
	Envestnet, Inc.,	
375	1.75%, 12/15/19 (g)	408,318
1,590	1.75%, 6/1/23 (a)(b)	1,707,631
920	Five9, Inc., 0.125%, 5/1/23 (a)(b)	916,474
1,140	Guidewire Software, Inc., 1.25%, 3/15/25 (g)	1,138,660
1,670	MINDBODY, Inc., 0.375%, 6/1/23 (a)(b)	1,647,361
780	MongoDB, Inc., 0.75%, 6/15/24 (a)(b)	799,127
815	New Relic, Inc., 0.50%, 5/1/23 (a)(b)(g)	885,950
700	Nice Systems, Inc., 1.25%, 1/15/24 (g)	964,883
640	Proofpoint, Inc., 0.75%, 6/15/20 (g)	923,897
1,000	PROS Holdings ,Inc., 2.00%, 6/1/47	989,500
845	RealPage, Inc., 1.50%, 11/15/22 (g)	1,193,186
1,435	ServiceNow, Inc., zero coupon, 6/1/22	1,978,822
1,905	Workday, Inc., 0.25%, 10/1/22 (a)(b)(g)	2,013,825
		23,726,251
	Telecommunications 2.0%	
495	Ciena Corp., 3.75%, 10/15/18 (g)	630,360
1,850	GCI Liberty, Inc., 1.75%, 9/30/46 (a)(b)	1,942,396
1,120	GDS Holdings Ltd., 2.00%, 6/1/25 (a)(b)	843,908
440	Intelsat S.A., 4.50%, 6/15/25 (a)(b)	608,855
695	InterDigital, Inc., 1.50%, 3/1/20 (g)	841,297
		4,866,816
	Transportation 3.1%	
1,950	Air Transport Services Group, Inc., 1.125%, 10/15/24 (a)(b)(g)	1,905,911
985	Atlas Air Worldwide Holdings, Inc., 1.875%, 6/1/24 (g)	1,246,807

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Principal Amount (000s)		Value
	Transportation (continued)	
\$1,925	Echo Global Logistics, Inc., 2.50%, 5/1/20 (g)	\$2,130,659
1,755	Greenbrier Cos., Inc., 2.875%, 2/1/24 (g)	2,087,353
		7,370,730
	Total Convertible Bonds & Notes (cost-\$159,506,557)	161,644,765
Common Stock	Shares 36.2%	
	Aerospace & Defense 0.8%	
3,900	Boeing Co. (g)	1,389,570
2,600	Raytheon Co. (g)	514,878
		1,904,448
	Automobiles 0.3%	
72,600	Ford Motor Co. (g)	728,904
	Banks 1.6%	
58,200	Bank of America Corp.	1,797,216
18,400	JPMorgan Chase & Co. (g)	2,115,080
		3,912,296
	Beverages 0.4%	
9,000	PepsiCo, Inc.	1,035,000
	Biotechnology 2.3%	
13,200	AbbVie, Inc.	1,217,436
2,500	Biogen, Inc. (g)(i)	835,925
15,200	Gilead Sciences, Inc. (g)	1,183,016
1,843	Regeneron Pharmaceuticals, Inc. (g)(i)	678,242
9,000	Vertex Pharmaceuticals, Inc. (g)(i)	1,575,450
		5,490,069
	Building Products 0.4%	
24,752	Johnson Controls International PLC	928,448
	Chemicals 0.6%	
16,600	Chemours Co.	760,446
11,400	DowDuPont, Inc.	783,978
		1,544,424
	Construction & Engineering 0.3%	
15,300	Fluor Corp. (g)	784,125
	Diversified Telecommunication Services 0.1%	
32,499	Frontier Communications Corp.	169,645
	Electronic Equipment, Instruments & Components 0.4%	
9,600	Amphenol Corp., Class A	897,696
	Energy Equipment & Services 0.4%	
12,800	Schlumberger Ltd. (g)	864,256

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AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Food & Staples Retailing 1.5%	
6,800	Costco Wholesale Corp.	\$1,487,228
37,600	Kroger Co. (g)	1,090,400
16,700	Walgreens Boots Alliance, Inc. (g)	1,129,254
		3,706,882
	Healthcare Equipment & Supplies 1.2%	
21,400	Baxter International, Inc. (g)	1,550,430
2,600	Intuitive Surgical, Inc. (g)(i)	1,321,294
		2,871,724
	Healthcare Providers & Services 2.0%	
20,825	Envision Healthcare Corp. (g)(i)	921,715
3,500	Laboratory Corp. of America Holdings (g)(i)	613,690
9,300	McKesson Corp. (g)	1,168,080
8,600	UnitedHealth Group, Inc.	2,177,692
		4,881,177
	Hotels, Restaurants & Leisure 1.1%	
8,100	McDonald's Corp.	1,276,074
14,900	Starbucks Corp.	780,611
3,700	Wynn Resorts Ltd.	617,086
		2,673,771
	Household Durables 0.4%	
21,700	DR Horton, Inc. (g)	948,290
	Industrial Conglomerates 0.6%	
3,500	3M Co. (g)	743,120
4,200	Honeywell International, Inc.	670,530
		1,413,650
	Internet & Catalog Retail 1.6%	
1,500	Amazon.com, Inc. (g)(i)	2,666,160
3,200	Netflix, Inc. (i)	1,079,840
		3,746,000
	Internet Software & Services 2.5%	
8,500	Alibaba Group Holding Ltd., ADR (g)(i)	1,591,455
2,200	Alphabet, Inc., Class A (g)(i)	2,699,884
9,900	Facebook, Inc., Class A (g)(i)	1,708,542
		5,999,881
	IT Services 1.9%	
6,000	International Business Machines Corp. (g)	869,580
14,800	PayPal Holdings, Inc. (g)(i)	1,215,672
18,400	Visa, Inc., Class A (g)	2,516,016
		4,601,268
	Machinery 1.4%	
13,300	Caterpillar, Inc.	1,912,540
9,500	Deere & Co.	1,375,505
		3,288,045

Schedule of Investments

AllianzGI Diversified Income & Convertible Fund

July 31, 2018 (unaudited) (continued)

Shares		Value
	Media 1.2%	
31,500	Comcast Corp., Class A	\$1,127,070
13,573	LiveStyle, Inc. (d)(f)(i)(k)	1
15,900	Walt Disney Co. (g)	1,805,604
		2,932,675
	Multi-Line Retail 0.7%	
19,600	Target Corp. (g)	1,581,328
	Oil, Gas & Consumable Fuels 1.1%	
14,900	Occidental Petroleum Corp.	1,250,557
60,184	Southwestern Energy Co. (i)	309,346
9,500	Valero Energy Corp.	1,124,325
		2,684,228
	Pharmaceuticals 1.4%	
13,761	Allergan PLC	2,533,262
16,200	Bristol-Myers Squibb Co.	951,750
		3,485,012
	Road & Rail 0.7%	
11,800	Union Pacific Corp.	1,768,702
	Semiconductors & Semiconductor Equipment 3.5%	
6,200	Broadcom, Inc.	1,374,974
23,000	Intel Corp. (g)	1,106,300
25,300	Micron Technology, Inc. (g)(i)	1,335,587
8,100	NVIDIA Corp. (g)	1,983,366
17,200	QUALCOMM, Inc. (g)	1,102,348
13,500	Texas Instruments, Inc.	1,502,820
		8,405,395
	Software 3.6%	

Because any subsidiary C corporation through which the Fund indirectly invests in certain MLPs is treated as a regular taxable corporation for U.S. federal income tax purposes, such subsidiary C corporation will incur tax expenses. In calculating its daily net asset value, the Fund will, among other things, account for any subsidiary C corporation's deferred tax liability and/or asset balances. The Fund will assess whether a valuation allowance is required to offset some or all of any deferred tax assets of any subsidiary C corporation used by the Fund in connection with the calculation of its net asset value per share each day; however, to the extent the final valuation allowance differs from the estimates the Fund used in calculating its daily net asset value, the application of such final valuation allowance could have a material impact on its net asset value.

Tax Law Change Risk. Under current law, qualified dividend income received by individual shareholders is taxed at the maximum U.S. federal tax rate of 15% for individuals, provided a holding period requirement and certain other requirements are met. This reduced rate of tax on qualified dividend income is currently scheduled to revert to ordinary income rates for taxable years beginning after December 31, 2012. The maximum 15% U.S. federal income tax rate for long-term capital gain under current law is scheduled to revert to 20% for such taxable years.

PLAN OF DISTRIBUTION

The Fund may sell its Common Shares, and certain of its Common Shareholders may sell their Common Shares, on an immediate, continuous or delayed basis, in one or more offerings under this Prospectus and any related Prospectus Supplement. The aggregate amount of securities that may be offered by the Fund is limited to \$75 million. The Fund may offer its Common Shares: (1) directly to one or more purchasers; (2) through agents; (3) through underwriters; or (4) through dealers. Each Prospectus Supplement relating to an offering of securities will state the terms of the offering, including as applicable:

- the names of any agents, underwriters or dealers;
- any sales loads or other items constituting underwriters' compensation;
- any discounts, commissions, or fees allowed or paid to dealers or agents;
- the public offering or purchase price of the offered securities and the net proceeds the Fund will receive from the sale; and
- any securities exchange on which the offered securities may be listed.

Direct Sales

The Fund may sell its Common Shares, or certain of its Common Shareholders may sell their Common Shares, directly to, and solicit offers from, institutional investors or others who may be deemed to be underwriters as defined in the 1933 Act for any resales of the securities. In this case, no underwriters or agents would be involved. The Fund, or any selling Common Shareholder, may use electronic media, including the Internet, to sell offered securities directly. The terms of any of those sales will be described in a Prospectus Supplement.

If the Fund's Common Shares are to be offered for sale by certain of its Common Shareholders, each Prospectus Supplement relating to such offering will indicate the nature of any position, office, or other material relationship which the selling Common Shareholder has had within the past three years with the Fund or any of its predecessors or affiliates, and will state the amount of securities of the class owned by such Common Shareholder prior to the offering, the amount to be offered for the Common Shareholder's account, the amount and (if one percent or more) the percentage of the class to be owned by such Common Shareholder after completion of the offering.

By Agents

The Fund may offer its Common Shares through agents that the Fund or they designate. Any agent involved in the offer and sale will be named and any commissions payable by the Fund will be described in the Prospectus Supplement. Unless otherwise indicated in the Prospectus Supplement, the agents will be acting on a best efforts basis for the period of their appointment.

Sales of the Fund's Common Shares may be made in transactions that are deemed to be "at the market" as defined in Rule 415 under the 1933 Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange.

By Underwriters

The Fund may offer and sell securities from time to time to one or more underwriters who would purchase the securities as principal for resale to the public, either on a firm commitment or best efforts basis. If the Fund sells securities to underwriters, the Fund will execute an underwriting agreement with them at the time of the sale and will name them in the Prospectus Supplement. In connection with these sales, the underwriters may be deemed to have received compensation from the Fund in the form of underwriting discounts and commissions. The underwriters also

may receive commissions from purchasers of securities for whom they may act as agent. Unless otherwise stated in the Prospectus Supplement, the underwriters will not be obligated to purchase the securities unless the conditions set forth in the underwriting agreement are satisfied, and if the underwriters purchase any of the securities, they will be required to purchase all of the offered securities. The underwriters may sell the offered securities to or through dealers, and those dealers may receive discounts, concessions or commissions from the underwriters as well as from the purchasers for whom they may act as agent. Any public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If a Prospectus Supplement so indicates, the Fund may grant the underwriters an option to purchase additional shares of common stock at the public offering price, less the underwriting discounts and commissions, within 45 days from the date of the Prospectus Supplement, to cover any overallotments.

By Dealers

The Fund may offer and sell securities from time to time to one or more dealers who would purchase the securities as principal. The dealers then may resell the offered securities to the public at fixed or varying prices to be determined by those dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in the Prospectus Supplement.

General Information

Agents, underwriters, or dealers participating in an offering of securities may be deemed to be underwriters, and any discounts and commission received by them and any profit realized by them on resale of the offered securities for whom they act as agent may be deemed to be underwriting discounts and commissions under the 1933 Act.

The Fund may offer to sell securities either at a fixed price or at prices that may vary, at market prices prevailing at the time of sale, at prices related to prevailing market prices, or at negotiated prices.

To facilitate an offering of common stock in an underwritten transaction and in accordance with industry practice, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the market price of the common stock or any other security. Those transactions may include over-allotment, entering stabilizing bids, effecting syndicate covering transactions, and reclaiming selling concessions allowed to an underwriter or a dealer.

An over-allotment in connection with an offering creates a short position in the common stock for the underwriter's own account.

An underwriter may place a stabilizing bid to purchase the common stock for the purpose of pegging, fixing, or maintaining the price of the common stock.

Underwriters may engage in syndicate covering transactions to cover over-allotments or to stabilize the price of the common stock by bidding for, and purchasing, the common stock or any other securities in the open market in order to reduce a short position created in connection with the offering.

The managing underwriter may impose a penalty bid on a syndicate member to reclaim a selling concession in connection with an offering when the common stock originally sold by the syndicate member is purchased in syndicate covering transactions or otherwise.

Any of these activities may stabilize or maintain the market price of the securities above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Under agreements entered into with the Fund, underwriters and agents may be entitled to indemnification by the Fund against certain civil liabilities, including liabilities under the 1933 Act, or to contribution for payments the underwriters or agents may be required to make.

The underwriters, agents, and their affiliates may engage in financial or other business transactions with the Fund and its Subsidiary in the ordinary course of business.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than eight percent of the initial gross proceeds from the sale of any security being sold with respect to each particular offering of Common Shares made through a single Prospectus Supplement.

The aggregate offering price specified on the cover of this Prospectus relates to the offering of the securities not yet issued as of the date of this Prospectus.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the underwriters may from time to time act as a broker or dealer and receive fees in connection with the execution of its portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter.

A Prospectus and accompanying Prospectus Supplement in electronic form may be made available on the websites maintained by underwriters. The underwriters may agree to allocate a number of securities for sale to their online brokerage account holders. Such allocations of securities for internet distributions will be made on the same basis as other allocations. In addition, securities may be sold by the underwriters to securities dealers who resell securities to online brokerage account holders.

DISTRIBUTIONS

The Fund makes and intends to make regular Distributions to its Common Shareholders out of funds legally available theretofore. The Fund has made quarterly Distributions in amounts ranging from \$0.40 to \$0.44 per share since inception, with the first such distribution made on August 25, 2011. There is no assurance that the Fund will continue to pay regular Distributions or that it will do so at a particular rate.

The Fund is treated as a RIC under Subchapter M of the Code. To maintain its RIC status, the Fund must distribute during each taxable year at least 90% of its "investment company taxable income" (which generally consists of ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any) and net tax-exempt interest out of the assets legally available for distribution. A portion of the distributions the Fund receives from its investments will be treated as a return of capital and therefore generally would not be treated as "investment company taxable income." While it is anticipated that the Fund would distribute some or all of such return of capital, it is not required to do so in order to maintain its RIC status. The Fund cannot predict with respect to a given quarter how much of its investment company taxable income will be included in the Distribution made for that quarter. However, the Fund intends to pay to Common Shareholders on an annual basis at least 90% of its investment company taxable income. Distributions may also include gains from premiums on options the Fund as written, cash received as return of capital from the Fund's portfolio investments or return of investors' capital. A "return of capital" represents a return of a Common Shareholder's original investment in the Fund's Common Shares and should not be confused with a dividend from earnings and profits. Any such returns of capital, while not taxable, will lower a Common Shareholder's basis and may result in higher taxes in the future.

In order to avoid certain U.S. federal excise taxes imposed on RICs, the Fund must distribute during each calendar year an amount at least equal to the sum of (1) 98% of its ordinary income for the calendar year, (2) 98.2% of its capital gains in excess of its capital losses for the one-year period ending on November 30, the last day of the Fund's taxable year (which the Fund intends to elect to continue to use for this purpose), and (3) any ordinary income and net capital gains for preceding years that were not distributed or taxed during such years. The Fund currently intends to make sufficient Distributions to satisfy the annual distribution requirement and to avoid the U.S. federal excise taxes.

Although the Fund currently intends to distribute realized net capital gains (i.e., net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such Distributions, the Fund may in the future decide to retain such capital gains for investment and designate such retained amount as a deemed Distribution. The consequences of the Fund's retention of net capital gains are as described under "Tax Matters."

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

The 1940 Act generally limits the Fund's long-term capital gain distributions to one per year, except for certain permitted distributions related to the Fund's qualification as a RIC. This limitation does not apply to that portion of the Fund's Distributions that is not characterized as long-term capital gain. Although the Fund has no current plans to do so, it may in the future apply to the SEC for an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting it to make periodic distributions of long-term capital gains provided that its Distribution policy with respect to Common Shares calls for periodic (e.g., quarterly) Distributions in an amount equal to a fixed percentage of its average net asset value over a specified period of time or market price per common share at or about the time of distribution or pay-out of a level dollar amount. The Fund cannot assure you that if it applies for this

exemption, the requested relief will be granted by the SEC in a timely manner, if at all.

Unless you elect to receive your common share Distributions in cash, they will automatically be reinvested into additional Common Shares pursuant to the Fund's distribution reinvestment plan. Distributions will be treated the same for U.S. federal income tax purposes whether paid in cash or reinvested into additional Common Shares. See "Distribution Reinvestment Plan."

DISTRIBUTION REINVESTMENT PLAN

The Fund has adopted the DRIP which provides that unless you elect to receive your Distributions in cash, they will be automatically reinvested by the Plan Administrator, U.S. Bancorp Fund Services, LLC, in additional Common Shares of the Fund. If you elect to receive your Distributions in cash, you will receive them paid by check mailed directly to you by the Plan Administrator.

No action is required on the part of a registered Common Shareholder or a Common Shareholder who holds Common Shares with a brokerage firm that participates in the DRIP to have their Distributions reinvested in additional Common Shares. Unless you or your brokerage firm decides to opt out of the DRIP by providing prior written notice to the Plan Administrator, the number of Common Shares that you will receive will be determined as follows:

(1) If the Fund's Common Shares are trading at or above net asset value at the time of valuation, the Plan Administrator will receive newly-issued Common Shares from the Fund for each participant's account. The number of Common Shares to be credited to a participant will be determined by dividing the dollar amount of the participant's Distribution by the greater of (i) the net asset value per common share at the time of valuation, or (ii) 95% of the market price per common share one day prior to the Distribution payment date.

(2) If the Fund's Common Shares are trading below net asset value at the time of valuation, upon notice from the Fund, the Plan Administrator will receive the Distribution in cash and will purchase Common Shares in the open market, on the NYSE or elsewhere, for the participants' accounts, except that the Plan Administrator will endeavor to terminate unfulfilled orders in the open market and cause the Fund to issue the remaining Common Shares if, following the commencement of the purchases, the market value of the Common Shares, including brokerage commissions, exceeds the net asset value at the time of valuation. Provided the Plan Administrator can terminate purchases on the open market, the remaining Common Shares will be issued by the Fund at a price equal to the greater of (i) the net asset value at the time of valuation, or (ii) 95% of the then-current market price. It is possible that the average purchase price per Common Share paid by the Plan Administrator may exceed the market price at the time of valuation, resulting in the purchase of fewer Common Shares than if the Distribution had been paid entirely in Common Shares issued by the Fund.

Participation in the DRIP is voluntary. Common Shareholders participating in the DRIP may withdraw from the DRIP at any time by giving notice to the Plan Administrator, in writing or by telephone, or in accordance with such reasonable requirements as the Fund and the Plan Administrator may agree upon. Such withdrawal will be effective as of the next business.

The Plan Administrator will maintain all participants' accounts in the DRIP and will give written confirmation of all transactions in the accounts, including information that a participant may need for tax records. Common Shares in a participant's account will be held by the Plan Administrator in non-certificated form. The Fund's appointed Agent will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to the Fund. Any proxy that a participant receives will include all Common Shares that the participant has received under the DRIP.

There is no brokerage charge for reinvestment of a participant's Distributions in Common Shares. However, all participants will pay a pro rata share of brokerage commissions incurred by the Plan Administrator when it makes open market purchases.

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The automatic reinvestment of Distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such distributions. See “Tax Matters.”

If you hold your Common Shares with a brokerage firm that does not participate in the DRIP, you will not be able to participate in the DRIP and any Distribution reinvestment may be effected on different terms than those described above. Consult your financial adviser for more information.

The Plan Administrator’s fees under the DRIP will be borne by the Fund. There is no direct service charge to participants in the DRIP; however, the Fund reserves the right to amend or terminate the DRIP, including amending the DRIP to include a service charge payable by the participants, if in the judgment of the Board the change is warranted. Any amendment to the DRIP, except amendments necessary or appropriate to comply with applicable law or the rules and policies of the SEC or any other regulatory authority, require the Fund to provide at least 30 days written notice to each participant. Additional information about the DRIP may be obtained from U.S. Bancorp Fund Services, LLC at 615 East Michigan Street, Milwaukee, Wisconsin 53202.

USE OF LEVERAGE

The Fund seeks to enhance its total returns through the use of Financial Leverage, presently in the form of Indebtedness, but which in the future could be in the form of the issuance of preferred shares. Under the 1940 Act, the Fund may use Financial Leverage in the form of Indebtedness in an aggregate amount of up to 33 1/3% of the Fund's total assets immediately after such borrowing, and may use Financial Leverage through issuance of preferred shares in an aggregate amount of up to 50% of the Fund's total assets, including assets obtained through the use of Financial Leverage, immediately after such issuance. Under normal market conditions, the Fund utilizes Financial Leverage (currently in the form of Indebtedness) in an amount that represents approximately 25% of its total assets (which also represents approximately 37.5% of net assets), including proceeds from such Financial Leverage. However, as market conditions develop, the Fund may use Financial Leverage in amounts that represent greater than 25% leverage up to the above-stated amounts permitted by the 1940 Act. The Fund also may utilize derivatives and other portfolio techniques (such as short selling and uncovered call writing) that have the economic effect of leverage by creating additional investment exposure. "Effective leverage" is the combination of the amount of leverage in the Fund's capital structure plus the amount of leverage from any such derivatives and other portfolio techniques. The Fund's effective leverage ratio will vary from time to time, based upon changes in market conditions and variations in the value of the portfolio's holdings. To the extent obligations created by the Fund's use of leverage may be deemed to constitute senior securities, the Fund will segregate or earmark liquid assets with its custodian in accordance with 1940 Act Release No. 10666 (Apr. 18, 1979) to cover these obligations. The Fund's effective leverage will not exceed 40% of the Fund's total assets. Depending on the type of Financial Leverage involved, the Fund's use of Financial Leverage may require the approval of the Board. The Fund anticipates that any Indebtedness the Fund incurs in the future will be in the form of bank debt and other forms of borrowings.

The Fund and the Subsidiary have entered into the Agreement with a bank to borrow up to a limit of \$75 million in aggregate with the Subsidiary. The Fund is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2012, the Fund had \$67 million in outstanding borrowings, at an interest rate of 1.16%. Borrowings under the Agreement are secured by the assets of the Fund. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, the Fund pays a commitment fee of 0.25% on the unused amount of the credit facility. The carrying amount of the borrowings at \$67 million approximated its fair value. For the nine months ended August 31, 2012, the average borrowings under the Agreement and the average interest rate were \$58.5 million and 1.20%, respectively. In addition, the credit facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms, or by the issuance of preferred shares or debt securities.

The Fund may enter into additional credit facilities that may represent an aggregate amount up to 33 1/3% of total assets (which represents 50% of net assets). The Fund anticipates that any senior securities or preferred shares that the Fund issues will be in the form of mandatory redeemable preferred shares, but the Fund may issue other forms of preferred shares if the terms of such preferred shares are more attractive. Financial Leverage creates a greater risk of loss, as well as potential for more gain, for Common Shares than if Financial Leverage is not used. The Fund's Common Shares are junior in liquidation and distribution rights to any Financial Leverage. The Fund expects to invest the net proceeds derived from any use of Financial Leverage according to the investment objective and policies described in this Prospectus.

Financial Leverage creates risk for Common Shareholders, including the likelihood of greater volatility of net asset value and market price of, and Distributions on, the Common Shares, and the risk of fluctuations in dividend rates or interest rates on Financial Leverage which may affect the return to the holders of the Common Shares or may result in fluctuations in the Distributions paid by the Fund on the Common Shares. To the extent that the return on securities purchased with funds received from Financial Leverage exceeds their cost (including increased expenses to us), the

Fund's total return will be greater than if Financial Leverage had not been used. Conversely, if the return derived from such securities is less than the cost of Financial Leverage (including increased expenses to the Fund), the Fund's total return will be less than if Financial Leverage had not been used, and therefore, the amount available for distribution to Common Shareholders will be reduced. In the latter case, SCA in its best judgment nevertheless may determine to maintain the Fund's leveraged position if it expects that the long-term benefits of so doing will outweigh the near-term impact of the reduced return to Common Shareholders.

The fees paid to SCA will be calculated on the basis of the Fund's total assets, including proceeds from Financial Leverage. During periods in which the Fund uses Financial Leverage, the investment management fee payable to SCA may be higher than if the Fund did not use a leveraged capital structure. Consequently, the Fund and SCA may have differing interests in determining whether to leverage the Fund's assets. The Board monitors the Fund's use of Financial Leverage and this potential conflict. The use of Financial Leverage creates risks and involves special considerations. See "Risks—Leverage Risk."

The Fund may incur Indebtedness without prior approval of Common Shareholders. In this regard, the Fund may obtain proceeds through Indebtedness and may secure any such Indebtedness by mortgaging, pledging or otherwise subjecting as security its assets. In connection with such Indebtedness, the Fund may be required to maintain minimum average balances with the lender or to

pay a commitment or other fee to maintain a revolving credit facility. Any such requirements will increase the cost of borrowing over the stated interest rate.

Under the requirements of the 1940 Act, the Fund, immediately after issuing any senior securities representing indebtedness, must have an “asset coverage” of at least 300% after such issuance. With respect to such issuance, asset coverage means the ratio which the value of the Fund’s total assets, less all liabilities and indebtedness not represented by senior securities (as defined in the 1940 Act), bears to the aggregate amount of senior securities representing indebtedness issued by the Fund.

The rights of the Fund’s lenders to receive interest on and repayment of principal of any Indebtedness will be senior to those of the Fund’s Common Shareholders, and the terms of any such Indebtedness may contain provisions which limit certain of its activities, including the payment of Distributions to the Fund’s Common Shareholders in certain circumstances. Under the 1940 Act, the Fund may not declare any dividend or other distribution on any class of its capital stock, or purchase any such capital stock, unless its aggregate indebtedness has, at the time of the declaration of any such dividend or distribution, or at the time of any such purchase, an asset coverage of at least 300% after declaring the amount of such dividend, distribution or purchase price, as the case may be.

In an event of default under any Indebtedness, the lenders also have the right to cause a liquidation of collateral (i.e., sell securities in the Fund’s portfolio and its other assets) and, if any such default is not cured, the lenders may be able to control the liquidation as well. If an event of default occurs or in an effort to avoid an event of default, the Fund may be forced to sell securities at inopportune times and, as a result, receive lower prices for such security sales.

Furthermore, the 1940 Act (in certain circumstances) grants the Fund’s lenders certain voting rights in the event of default in the payment of interest on or repayment of principal.

Certain types of preferred shares may subject the Fund to certain affirmative covenants relating to asset coverage and portfolio composition and may impose special restrictions on the Fund’s use of various investment techniques or strategies or on its ability to pay Distributions on Common Shares in certain circumstances. In addition, the Fund may be subject to certain negative covenants relating to transactions with affiliates, mergers and consolidations among others. The Fund also may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which issue ratings for the preferred shares issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed on the Fund by the 1940 Act. It is not anticipated that these covenants or guidelines will impede SCA from managing the Fund’s portfolio in accordance with its investment objective and policies.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the value of the Fund’s total assets less all liabilities and indebtedness not represented by senior securities is at least 200% of the sum of the liquidation value of the outstanding preferred shares plus the aggregate amount of senior securities representing indebtedness. In addition, the Fund is not permitted to declare any cash dividend or distribution on Common Shares unless, at the time of such declaration, its preferred shares plus senior securities representing indebtedness has an “asset coverage” of at least 200%. The Fund intends, to the extent possible, to maintain asset coverage on such preferred shares plus senior securities representing indebtedness of at least 200%. If necessary, the Fund will purchase or redeem any of its preferred shares or senior securities representing indebtedness to maintain an asset coverage ratio of at least 200%. The terms of any preferred shares may include asset coverage maintenance provisions which will require the redemption of the preferred shares in the event of non-compliance by the Fund and may also prohibit Distributions on Common Shares in such circumstances. In order to meet redemption requirements, the Fund may have to liquidate portfolio securities. Such liquidations and redemptions would cause the Fund to incur related transaction costs and could result in capital losses to the Fund. If the Fund has preferred shares outstanding, two of the Trustees will be elected by the holders of preferred shares as a class. The Fund’s remaining Trustees will be

elected by holders of Common Shares and any preferred shares voting together as a single class. In the event that the Fund fails to pay dividends on any preferred shares for two years, holders of such preferred shares would be entitled to elect a majority of the Fund's Trustees.

If the Fund is unable to refinance any preferred shares when they mature, it may be forced to sell securities in its portfolio to repay such preferred shares. Furthermore, if the Fund does not repay any preferred shares when they mature, it will trigger an event of default (which will increase the interest rate and give the holders of such preferred shares certain rights) and will trigger a higher dividend rate on any preferred shares.

The Fund may also borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of Distributions and the settlement of securities transactions which otherwise might require untimely dispositions of its securities. As noted above, the Fund and the Subsidiary have entered into the Agreement with a bank to borrow up to a limit of \$75 million in aggregate with the Subsidiary. The Fund is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2012, the Fund had \$67 million in outstanding borrowings, at an interest rate of 1.16%. The Fund may enter into additional credit facilities that may represent an aggregate amount up to 33 1/3% of total assets (which represents 50% of net assets).

The use of preferred shares will leverage your investment in Common Shares. Common Shareholders will bear the costs associated with the use of preferred shares, and if the Fund issues preferred shares, Common Shareholders will bear the offering costs of the preferred share issuance. The Board of the Fund may authorize the use of leverage through preferred shares without the approval of Common Shareholders.

EFFECTS OF LEVERAGE

The following table is furnished in response to requirements of the SEC. It is designed to illustrate the effect of Financial Leverage on Common Shares total return during the Fund's first full year of operations, assuming investment portfolio total returns (comprised of income and changes in the value of securities held in the Fund's portfolio) of -10%, -5%, 0%, 5% and 10%. These assumed investment portfolio returns are hypothetical figures and are not necessarily indicative of the investment portfolio total returns experienced or expected to be experienced by the Fund. Furthermore, the assumed investment portfolio total returns are after (net of) all of the Fund's expenses other than expenses associated with leverage, but such Financial Leverage expenses are deducted when determining the Common Shares total return. See "Risks."

The table further reflects the use of Financial Leverage representing 25% of the Fund's total assets net of expenses and the Fund's estimated annual interest expense on its leverage of 0.50%.

Assumed Portfolio Total Return (Net of Expenses)	(10)%	(5)%	0 %	5 %	10 %
Common Shares Total Return	(13.64)%	(6.99)%	(0.35)%	6.35 %	13.00 %

Common Shares total return is composed of two elements: Common Shares Distributions paid by the Fund (the amount of which is largely determined by the Fund's net distributable income after paying interest on its leverage) and gains or losses on the value of the securities that the Fund owns. As required by SEC rules, the table above assumes that the Fund is more likely to suffer capital losses than to enjoy capital appreciation. For example, to assume a total return of 0%, the Fund must assume that the interest it receives on its investments is entirely offset by losses in the value of those investments.

MANAGEMENT

TRUSTEES AND OFFICERS

The Fund's business and affairs are managed under the direction of the Board including supervision of the duties performed by SCA. The Fund's Board currently consists of ten Trustees. The Board consists of a majority of Trustees who are not "interested persons" as defined in Section 2(a)(19) of the 1940 Act. These individuals are referred to as the Fund's "Independent Trustees." The Board elects the Fund's officers, who serve at the Board's discretion and are responsible for the Fund's day-to-day operations. Additional information regarding the Fund's Board and its committees is set forth under "Management" in the SAI.

INVESTMENT ADVISER

Salient Capital Advisors, LLC, a Texas limited liability company, is the Fund's investment adviser and is registered with the SEC under the Advisers Act. SCA is a wholly-owned subsidiary of Salient Partners, L.P., a Delaware limited partnership ("Salient"). Prior to its acquisition and renaming by Salient in January 2011, SCA operated as RDG Capital LLC, a Houston-based asset management firm specializing in MLP and energy sector investments. As of July 31, 2012, SCA managed assets of approximately \$2.4 billion, including \$950 million in MLPs and Energy Infrastructure Companies. Salient and its affiliates managed assets of approximately \$17.6 billion as of July 31, 2012.

SCA is responsible for managing the Fund's business affairs and providing certain clerical, bookkeeping and other administrative services. The manager of SCA is Salient Capital Management, LLC, a Delaware limited liability company ("SCM"). SCM is governed by a Board of Managers that is comprised of five managers, one of whom is considered "Independent."

SCA's management of the Fund's portfolio is led by portfolio managers Greg A. Reid and Frank "Ted" Gardner, with risk management overseen by Lee Partridge, Salient's Chief Investment Officer. The Fund's portfolio managers draw on the research and analytical support of the entire investment team at Salient, as well as the experience and expertise of Salient's founders, John A. Blaisdell, Andrew B. Linbeck and Jeremy Radcliffe. In addition, the portfolio managers are supported by an experienced compliance and financial accounting team headed by Paul A. Bachtold, SCA's Chief Compliance Officer, and John E. Price, SCA's Chief Financial Officer.

Greg A. Reid serves as President and Chief Executive Officer of Salient's MLP Business and Portfolio Manager for the various MLP strategies. Prior to joining Salient in January 2011, Mr. Reid served as the Founder and Chief Executive Officer from 2010 to 2011 of SCA, then known as RDG Capital LLC ("RDG"), a Houston-based asset management firm specializing in MLP and energy sector investments that was spun off from Telemus Capital Partners ("Telemus") in June 2010. SPLP acquired RDG in January 2011 and renamed the company "Salient Capital Advisors, LLC." Mr. Reid was Managing Partner of Telemus' Houston office from May 2007 to June 2010 at which time he formed RDG to acquire Telemus. Prior to joining Telemus in 2007, Mr. Reid was employed by Merrill Lynch's Private Banking Group from 1997 to 2007 and he was employed by Goldman Sachs from 1991 to 1997. Mr. Reid has over 15 years of experience investing in MLPs and Energy Companies dating back to his employment at Goldman Sachs in 1995. Mr. Reid received his undergraduate degree from Texas A&M University in 1987 and his MBA from the J.L. Kellogg Graduate School of Management at Northwestern University in 1991, and he later earned his Certified Investment Management Analyst designation from the Wharton School at the University of Pennsylvania. In addition, Mr. Reid is registered with the Financial Industry Regulatory Authority as a General Securities Representative and a General Securities Principal.

Frank T. Gardner III serves as a Director and Portfolio Manager for SCA. Prior to joining SCA in early 2011, Mr. Gardner was a Portfolio Manager and Director of Research for RDG from 2010 to 2011. Prior to RDG,

Mr. Gardner was a Portfolio Manager for Telemus from 2007 to 2010. Prior to joining Telemus, he was an MLP research analyst for Raymond James Equity Research (“Raymond James”) from 2004 to 2007. During his tenure at Raymond James, he followed 35 public MLPs and initiated coverage on 22 MLPs in the midstream, maritime, coal and refining industries. He was also actively involved in due diligence related to Raymond James’ investment banking transactions. Prior to joining Raymond James, Mr. Gardner was a financial advisor at UBS Financial Services. Mr. Gardner earned a Bachelor of Business Administration degree from The University of Texas at Austin and an MBA from the University of St. Thomas. He is also a CFA Charterholder.

Lee Partridge is a Managing Director of SCA and Chief Investment Officer for Salient. Mr. Partridge also directly oversees the investment program for a \$7.7 billion investment portfolio of a public employee retirement association. Prior to joining Salient in November 2010, Mr. Partridge was the founder and Chief Executive Officer of Integrity Capital, LLC, which spanned traditional and alternative investment strategies from September 2009 to November 2010 and held various positions at the Teacher Retirement System of Texas (“Teacher Retirement System”) from May 2001 to September 2009, including head of fixed income and deputy chief investment officer, where he was responsible for global asset allocation, risk management, portfolio construction, external managers, hedge funds, derivative strategies, equity trading, futures trading and risk management. Prior to joining the Teacher Retirement System, Mr. Partridge was involved with securities trading and sales and managed a number of life insurance and depository institution portfolios, as both principal and advisor, from September 1993 to May 2001. Mr. Partridge received a Bachelor of Science

degree in Psychology from the University of Houston in December 1989 and an MBA from Rice University in May 1992. Mr. Partridge holds both the CFA and CAIA designations.

John A. Blaisdell is the Chief Executive Officer and a Managing Director of SCA and a founding partner of Salient. Prior to joining Salient in December 2002, Mr. Blaisdell served as Chief Executive Officer of Wincrest Ventures, LP (“Wincrest”), a private investment holding company for a high-net-worth Texas family from 1997 to December 2002. At Wincrest, he developed and managed large portfolios broadly diversified across a range of asset classes, executed several large private equity transactions, and served in various financial and wealth advisory capacities. Prior to joining Wincrest, Mr. Blaisdell was a partner, President and Chief Operating Officer of Leisure Management International (“LMI”) for seven years. Under his leadership, LMI grew to become one of the industry leaders in the management of sports and entertainment facilities around the world. Mr. Blaisdell has served on the Board of Trustees of many public, private and charitable organizations in Florida and Texas. Mr. Blaisdell received a Bachelor of Science degree from Barry University in 1983 and an MBA from the University of Miami in 1987.

Andrew B. Linbeck is a Managing Director of SCA. Prior to co-founding Salient in August 2002, Mr. Linbeck was a partner and executive officer of The Redstone Companies, L.P., a Houston based investment firm, and certain affiliates thereof (collectively “Redstone”) from 1998 through 2002. Prior thereto, Mr. Linbeck served as an Executive Vice President for PaineWebber, Inc. from 1994 to 1998. He began his career in the financial services industry in 1987 at Kidder, Peabody & Co. He serves on the boards of and is an advisor to several non-profit organizations. Mr. Linbeck received a Bachelor of Arts degree from the University of Notre Dame in 1987, and later graduated from the Executive Management Program at the Jones School of Business at Rice University in 1994.

Jeremy Radcliffe is a Managing Director and the Chief Operating Officer of Salient, where his primary responsibility is managing the daily operations of the firm. Prior to forming Salient in 2002, he was a partner and managed certain of the private equity investments of Redstone from 1998 to 2002. A native Houstonian, Mr. Radcliffe is a magna cum laude graduate of Princeton University (1996), where he earned an Artium Baccalaureatus degree in Classics while specializing in Latin, Roman history and architecture.

Parag Sanghani, CFA, is a Senior Research Analyst for SCA, assisting in the management of the Adviser’s MLP securities complex. Prior to joining the Adviser in 2011, Mr. Sanghani was a Senior MLP Analyst with Telemus from 2008 through 2009, assisting in the management of the firm’s \$100+ million MLP portfolio. Previously, Mr. Sanghani was a Financial Analyst with Exterran Holdings (“Exterran”) from 2007 through 2008, where he provided consulting services during the company’s merger integration process. Before Exterran, from 2004 through 2006, Mr. Sanghani was a Senior Research Associate with Raymond James, where he published detailed research reports on the energy industry and followed 17 companies within the oil service and coal sectors. Mr. Sanghani graduated from the University of Texas at Austin in 2002 with a Bachelor of Business Administration in Finance and earned a Masters in Finance from London Business School in 2010. He is a member of the CFA Society of Houston and a CFA Charterholder.

Hollis Ghobrial is a Senior Research Analyst for SCA. His responsibilities include MLP research and management of custom tailored MLP portfolios for separately managed accounts. Prior to joining Salient in 2007, he was an MLP analyst at Sanders Morris Harris Group in 2007 and worked at Viscogliosi Bros., LLC from 2005 to 2006. Mr. Ghobrial graduated from Trinity University in San Antonio in 2002 with a degree in finance and received an MBA from Rice University in 2005.

Paul A. Bachtold is Chief Compliance Officer for Salient. Prior to joining Salient in 2010, Mr. Bachtold served as the President of Bachtold & Associates from 2008 to 2010. Mr. Bachtold was previously with Barclays Global Investors, N.A. from 2005 to 2008, and Wells Fargo Bank, N.A. from 2000 to 2005. Mr. Bachtold received his undergraduate

degree from Augustana College in 1996 and an MBA from St. Mary's College in 2003.

John E. Price is the Chief Financial Officer and a Managing Director of Salient. He also serves as the Principal Financial Officer and Treasurer on the firm's investment funds. Prior to joining Salient in 2003, Mr. Price assisted in the creation and establishment of a family office and private investment holding company for a high net worth Houston family, where he was employed from 1997 to 2003. From 1993 to 1997, Mr. Price was with Arthur Andersen, L.L.P., where he was a Manager in the Assurance and Business Advisory Services department. Prior thereto, Mr. Price was an analyst and later a broker for a regional commercial insurance wholesaler. He earned his undergraduate degree in Accounting, summa cum laude, from Texas Christian University. He obtained his Masters of Business Administration, graduating with honors, from the Executive MBA Program at Rice University. Mr. Price is a licensed Certified Public Accountant and is a member of the Texas Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

The SAI provides information about the Fund's portfolio managers' compensation, other accounts managed by them, and their ownership of securities issued by the Fund. See "Portfolio Manager Information" in the SAI.

The principal office of SCA and Salient is located at 4265 San Felipe, Suite 800, Houston, Texas 77027. For additional information concerning SCA, including a description of the services to be provided by SCA, see "Investment Management Agreement" below.

INVESTMENT MANAGEMENT AGREEMENT

Pursuant to an investment management agreement, SCA will provide the Fund with portfolio investment services and management and administrative assistance in connection with the operation of the Fund in return for a management fee. Under the terms of the Investment Management Agreement between the Fund and SCA, the Fund has agreed to pay SCA a management fee, computed and paid monthly at an annual rate of 1.20% of the Fund's average monthly total assets. Until May 25, 2013, SCA has contractually agreed to waive or reimburse the Fund for a portion of its management fee in an amount equal on an annual basis to 0.20% of the Fund's average monthly total assets.

For purposes of calculating the management fee, the "average total assets" for each monthly period are determined by averaging the total assets on the last business day of that month with the total assets on the last business day of the prior month (or as of the commencement of operations for the initial period if a partial month). The Fund's total assets shall be equal to the Fund's average monthly gross asset value (which includes assets attributable to or proceeds from the Fund's use of Financial Leverage), minus the sum of the Fund's accrued and unpaid Distributions on any outstanding Common Shares and accrued and unpaid dividends on any outstanding preferred shares (if any) and accrued liabilities (other than liabilities associated with borrowings or leverage utilized by the Fund and any accrued taxes). Liabilities associated with borrowings or leverage, for purposes of the preceding sentence, include, with respect to Financial Leverage, the principal amount of any debt that the Fund issues, the liquidation value of any outstanding preferred shares (if any), as well as other liabilities such as short positions and put or call options held or written by the Fund.

In addition to SCA's management fee, the Fund pays all other costs and expenses of the Fund's operations, such as compensation of the Fund's Independent Trustees (but not those affiliated with SCA) and expenses related to Trustees meetings, custodian, transfer agency, administrative, accounting and disbursement expenses, legal fees, expenses associated with the Fund's use of Financial Leverage, expenses of independent auditors, marketing and certain advertising expenses, expenses of personnel including those who are affiliates of SCA reasonably incurred in connection with arranging or structuring portfolio transactions for the Fund, expenses of repurchasing the Fund's securities, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any.

The Investment Management Agreement will remain in effect until January 30, 2013 and may be continued from year to year, so long as its continuation is approved at least annually by a majority of the Fund's Independent Trustees and either a majority of the Fund's Trustees or a "majority of the outstanding voting securities" (as defined under the 1940 Act) of the Fund. The Investment Management Agreement may be terminated at any time without the payment of any penalty upon 60 days' written notice by either party, or by action of the Board or by a vote of a majority of the Fund's outstanding voting securities (accompanied by appropriate notice). It also provides that it will automatically terminate in the event of its assignment to a party other than an affiliate of SCA.

The Fund has agreed to indemnify SCA and any affiliate of SCA, and each of their shareholders, members, trustees, directors, officers, and employees and any of their affiliated persons, executors, heirs, assigns, successors, or other legal representatives (each an "Indemnified Person") against any and all costs, losses, claims, damages, or liabilities, joint or several, including, without limitation, reasonable attorneys' fees and disbursements, resulting in any way from the performance or non-performance of any Indemnified Person's duties in respect of the Fund, except those resulting from the willful misfeasance, bad faith or gross negligence of an Indemnified Person or the Indemnified Person's reckless disregard of such duties and, in the case of criminal proceedings, unless such Indemnified Person had reasonable cause to believe its actions unlawful (collectively, "disabling conduct"). Notwithstanding any of the foregoing, the indemnification provisions of the Investment Management Agreement shall not be construed so as to relieve the Indemnified Person of, or provide indemnification with respect to, any liability (including liability under federal securities laws, which, under certain circumstances, impose liability even on persons who act in good faith) to

the extent (but only to the extent) that such liability may not be waived, limited, or modified under applicable law or that such indemnification would be in violation of applicable law, but shall be construed so as to effectuate the provisions of this paragraph to the fullest extent permitted by law.

Because SCA's fee is based upon a percentage of the Fund's total assets, SCA's fee will be higher to the extent the Fund employs Financial Leverage. In this regard, if the Fund uses Financial Leverage in an amount equal to 25% of the Fund's total assets, the management fee payable to SCA would be 1.60% (before giving effect to any management fee waiver) of the Fund's net assets attributable to Common Shares. See "Fees and Expenses."

A discussion regarding the basis for approval by the Board of the Fund's Investment Management Agreement with SCA was provided in the Fund's initial shareholders report. The basis for subsequent continuations of the Investment Management Agreement will be provided in annual or semi-annual reports to Common Shareholders for the periods during which such continuations occur.

NET ASSET VALUE

The Fund determines its net asset value no less frequently than as of the last day of each month based on the most recent close of regular session trading on the NYSE, and the Fund will make its net asset value available for publication at least monthly. The Fund currently anticipates calculating its net asset value and making it available on the Fund's website, www.salientpartners.com, on a

weekly basis. Net asset value is computed by dividing the value of all of the Fund's assets (including accrued interest and Distributions), less all of the Fund's liabilities (including accrued expenses, Distributions payable, and any Indebtedness) and the liquidation value of any outstanding preferred shares (if any), by the total number of Common Shares outstanding.

The price of an equity security traded upon one or more U.S. or foreign exchanges will be determined as follows: (1) if the security is traded on only one exchange, the value of the security will be the last sale price on that exchange on the valuation day and if traded on a foreign exchange only and it is a holiday in such country, the value of the security will be the last sales price on the foreign exchange on the day prior to the holiday; or (2) if the security is traded on more than one exchange, or upon one or more exchanges and in the over-the-counter ("OTC") market, the value of the security will be the last sale price on the valuation day on the primary market on which the security is traded. In either of the foregoing cases, if there are no sales of the security on the valuation day, the price of the security will be the mean of the closing bid and asked prices on the valuation day on the relevant exchange. The price of an equity security not traded on any exchange but listed on the NASDAQ National Market System ("NASDAQ") will be the NASDAQ Official Closing Price on NASDAQ. For OTC securities that are not listed on NASDAQ, the value of the security will be the last sale price on such other OTC market on the valuation day. If a preferred security (other than preferred equity securities that are stated on a bond basis and preferred debt securities that are stated on an equity basis) is not listed on an exchange or NASDAQ, then the price will be supplied by a pricing vendor, except in the case of auction rate preferred shares (if any) issued by a closed-end registered investment company, which will be valued at par.

For private investments in public equities, if any, SCA will value the security at the time of purchase at cost, with any subsequent valuation based on the market price for such issuer adjusted for any unaccredited discount recorded at the time of purchase. For private investments that do not have a market price and for which the use of net asset value as a practical expedient under ASC 820 would not be applicable, a third party firm that provides valuation services will be engaged to provide a valuation for such investments on a quarterly basis.

Debt securities will be valued at prices supplied by a pricing vendor; except that (1) for corporate debt obligations (including convertible securities listed on an exchange or NASDAQ), the value of the security will be the last sale price on that exchange or NASDAQ on the valuation day; and (2) short-term instruments purchased with a remaining maturity of (or put option exercisable in) 60 days or less, maturing at par, will be valued at amortized cost unless the investment adviser determines that such value is not reliable, in which case the investment adviser may rely on a value from the appropriate pricing vendor.

Exchange-traded options and futures contracts will be valued as follows: (1) option contracts on securities, currencies and other financial instruments traded on one or more exchanges will be valued on the valuation day at the last bid/ask price for options held long/short, respectively, from any exchange on which the option is listed. If no such bid/ask price is reported, such instruments will be valued at the last sales price on the valuation day as reported by such exchange. If no sales price is reported by such exchange on the valuation day, SCA's Valuation Committee, in conjunction with the administrator, will determine the fair value of such options in good faith using information that is available at that time. Flexible Exchange Options (also known as "Flex Options") traded at the Chicago Board Options Exchange and cleared by the Options Clearing Corporation ("OCC") will be valued by the OCC. Futures positions on securities and currencies will be valued at closing settlement prices on the valuation day. OTC options, interest rate, currency and credit default swaps that are not priced by a pricing vendor will be priced based upon broker-dealer pricing which may be the counterparty to the option. If no pricing is available or if it is deemed to be unreliable, volatility quotes may be used in conjunction with an option valuation model or in the case of OTC options, pricing of exchange traded options written on the same security with similar characteristics. Total return swaps not valued by a pricing vendor will be valued according to market index data in conjunction with a valuation model. The Fund may

hold a substantial amount of securities that are privately issued, illiquid or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Fund for which, in the judgment of SCA, reliable market quotations are not readily available, a pricing service does not provide a valuation, or provides a valuation that in the judgment of SCA is stale or does not represent fair value, valuations will be determined in a manner that most fairly reflects fair value of the security on the valuation date.

The Fund may hold a substantial amount of securities that are privately issued, illiquid or otherwise restricted as to resale. For these securities, as well as any other portfolio security held by the Fund for which, in the judgment of SCA, reliable market quotations are not readily available, a pricing service does not provide a valuation, or provides a valuation that in the judgment of SCA is stale or does not represent fair value, valuations will be determined in a manner that most fairly reflects fair value of the security on the valuation date.

Because any subsidiary C corporation through which the Fund invests in MLPs is treated as a regular taxable corporation, for U.S. federal income tax purposes any subsidiary C corporation will incur tax expenses. In calculating its daily net asset value, the Fund will, among other things, account for any subsidiary C corporation's deferred tax liability and/or asset balances.

Any subsidiary C corporation used by the Fund will accrue, in accordance with generally accepted accounting principles, a deferred income tax liability balance at the currently effective statutory U.S. federal income tax rate (currently 35%) plus an assumed state and local income tax rate, for its future tax liability associated with the capital appreciation of its investments and the

distributions received on equity securities of MLPs considered to be return of capital. Any deferred tax liability balance of any subsidiary C corporation used by the Fund will reduce the Fund's net asset value.

Any subsidiary C corporation used by the Fund will accrue, in accordance with generally accepted accounting principles, a deferred tax asset balance which reflects an estimate of such subsidiary C corporation's future tax benefit associated with net operating losses and unrealized losses. Any deferred tax asset balance will increase its net asset value. To the extent a subsidiary C corporation has a deferred tax asset balance, the Fund will assess, in accordance with generally accepted accounting principles, whether a valuation allowance, which would offset the value of some or all of such subsidiary C corporation's deferred tax asset balance, is required. Pursuant to Financial Accounting Standards Board Accounting Standards Codification 740 (FASB ASC 740), the Fund will assess a valuation allowance to reduce some or all of such subsidiary C corporation's deferred tax asset balance if, based on the weight of all available evidence, both negative and positive, it is more likely than not that some or all of the deferred tax asset will not be realized. The Fund will use judgment in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence will be commensurate with the extent to which such evidence can be objectively verified. Its assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability (which are dependent on, among other factors, future Master Limited Partnership cash distributions), the duration of statutory carryforward periods and the associated risk that operating loss carryforwards may be limited or expire unused. However, this assessment generally may not consider the potential for market value increases with respect to a subsidiary C corporation's investments in equity securities of MLPs or any other securities or assets. Significant weight is given to the Fund's forecast of future taxable income, which is based on, among other factors, the expected continuation of Master Limited Partnership cash distributions at or near current levels. Consideration is also given to the effects of the potential of additional future realized and unrealized gains or losses on investments and the period over which deferred tax assets can be realized, as federal tax net operating loss carryforwards expire in twenty years and federal capital loss carryforwards expire in five years. Recovery of a deferred tax asset is dependent on continued payment of the Master Limited Partnership cash distributions at or near current levels in the future and the resultant generation of taxable income. The Fund will assess whether a valuation allowance is required to offset some or all of any deferred tax asset of a subsidiary C corporation in connection with the calculation of its net asset value per share each day; however, to the extent the final valuation allowance differs from the estimates the Fund used in calculating its daily net asset value, the application of such final valuation allowance could have a material impact on its net asset value.

Any subsidiary C corporation's deferred tax liability and/or asset balances are estimated using estimates of effective tax rates expected to apply to taxable income in the years such balances are realized. The Fund will rely to some extent on information provided by MLPs regarding the tax characterization of the distributions made by such MLPs, which may not be provided to the Fund on a timely basis, to estimate a subsidiary C corporation's deferred tax liability and/or asset balances for purposes of financial statement reporting and determining the Fund's net asset value. If such information is not received from such MLPs on a timely basis, the Fund will estimate the tax characterization of the distributions received by a subsidiary C corporation based on average historical tax characterization of distributions made by MLPs. The Fund's estimates regarding a subsidiary C corporation's deferred tax liability and/or asset balances are made in good faith; however, the daily estimate of a subsidiary C corporation's deferred tax liability and/or asset balances used to calculate its net asset value could vary dramatically from such subsidiary C corporation's actual tax liability and, as a result, the determination of such subsidiary C corporation's actual tax liability may have a material impact on its net asset value. The Fund's daily net asset value calculation will be based on then-current estimates and assumptions regarding a subsidiary C corporation's deferred tax liability and/or asset balances and any applicable valuation allowance, based on all information available to the Fund at such time. From time to time, the Fund may modify estimates or assumptions regarding a subsidiary C corporation's deferred tax liability and/or asset balances and any applicable valuation allowance as new information becomes available. Modifications of its estimates or assumptions regarding a subsidiary C corporation's deferred tax liability and/or asset balances and any applicable

valuation allowance, changes in generally accepted accounting principles or related guidance or interpretations thereof, limitations imposed on net operating losses (if any) and changes in applicable tax law could result in increases or decreases in its net asset value per share, which could be material.

DESCRIPTION OF SHARES

The following description is based on relevant portions of Delaware law, the Declaration of Trust and Bylaws. This summary is not necessarily complete, and the Fund refers you to Delaware statutory trust law and the Declaration of Trust and Bylaws for a more detailed description of the provisions summarized below.

SHARES OF BENEFICIAL INTEREST

The Fund's authorized shares consist of an unlimited number of shares of beneficial interest, \$.01 par value per share, all of which are initially classified as Common Shares. As of November 1, 2012, the Fund had 6,140,406 Common Shares outstanding. The Fund's Common Shares are traded on the NYSE under the symbol "SMF." As of November 1, 2012, the last reported sales price of a Common Share of the Fund on the NYSE was \$26.00. There are no outstanding options or warrants to purchase its shares. No shares

have been authorized for issuance under any equity compensation plans. Under Delaware law, the Fund's Common Shareholders generally are not personally liable for its debts or obligations.

The Board may, without any action by the Fund's Common Shareholders, from time to time increase or decrease the aggregate number of shares or the number of shares of any class or series that the Fund has authority to issue under the Declaration of Trust and under the 1940 Act. In addition, the Declaration of Trust authorizes the Board to approve the issuance of other securities, including preferred shares, without the approval of the holders of Common Shares. Although the Fund has no present intention of doing so, the Fund could issue a class or series of shares that could delay, defer or prevent a transaction or change in control of the Fund that might otherwise be in the Common Shareholders' best interest.

COMMON SHARES

General. All Common Shares offered pursuant to this Prospectus will be, upon issuance, duly authorized, fully paid and nonassessable. All Common Shares offered pursuant to this Prospectus will be of the same class and will have identical rights, as described below. Holders of Common Shares are entitled to receive Distributions when authorized by the Board and declared by the Fund out of assets legally available for the payment of Distributions. Holders of Common Shares have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of its securities. Common Shares are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. All Common Shares have equal earnings, assets, distribution, liquidation and other rights.

Distributions. Distributions may be paid to the holders of Common Shares if, as and when authorized by the Board and declared by the Fund out of funds legally available therefor.

The yield on Common Shares will likely vary from period to period depending on factors, including the following:

- market conditions;
- the timing of the Fund's investments;
- the securities comprising the Fund's portfolio;
- changes in interest rates (including changes in the relationship between short-term rates and long-term rates);
- the amount and timing of the use of Financial Leverage by the Fund;
- the effects of Financial Leverage on Common Shares (discussed above under "Use of Leverage");
- the timing of the investment of proceeds from this offering and proceeds from Financial Leverage; and
- the Fund's net assets and operating expenses.

Consequently, the Fund cannot guarantee any particular yield on Common Shares, and the yield for any given period is not an indication or representation of future yield on Common Shares.

Limitations on Distributions. So long as senior securities representing indebtedness are outstanding, holders of Common Shares will not be entitled to receive any Distributions from the Fund unless (1) there is no event of default existing under the terms of such Indebtedness, (2) the Fund's asset coverage (as defined in the 1940 Act) with respect to any outstanding Indebtedness would be at least 300% and (3) the assets in the Fund's portfolio meet certain asset coverage requirements as set forth by each applicable rating agency, in each case, after giving effect to Distributions.

If any preferred shares are outstanding, holders of Common Shares or other shares will not be entitled to receive any Distributions from the Fund unless (1) the Fund has paid all accumulated dividends on the preferred shares, (2) the Fund has redeemed the full number of preferred shares required to be redeemed by any provision for mandatory redemption contained in the articles supplementary of such preferred shares, (3) the Fund's asset coverage (as defined in the 1940 Act) with respect to outstanding debt securities and preferred shares would be at least 200%, (4) the assets in its portfolio meet certain asset coverage requirements as set forth by each applicable rating agency, in each case, after giving effect to Distributions and (5) there is no event of default existing under the terms of any borrowings, in each case, after giving effect to such Distributions. See "Use of Leverage."

Liquidation Rights. Common Shareholders are entitled to share ratably in the assets legally available for distribution to Common Shareholders in the event of liquidation, dissolution or winding up, after payment of or adequate provision for all known debts and liabilities, including any outstanding debt securities or other borrowings and any interest thereon. These rights are subject to the preferential rights of any other class or series of the Fund's Common Shares, including preferred shares (if any).

Voting Rights. Each outstanding Common Share entitles the holder to one vote on all matters submitted to a vote of Common Shareholders, including the election of Trustees. The presence of the holders of Common Shares entitled to cast a majority of the votes entitled to be cast shall constitute a quorum at a meeting of Common Shareholders. The Declaration of Trust provides that, except as otherwise provided in the Bylaws, a Trustee shall be elected by the affirmative vote of the holders of a majority of the shares

outstanding and entitled to vote thereon. There is no cumulative voting in the election of Trustees. Consequently, at each annual meeting of Common Shareholders, the holders of a majority of the outstanding shares entitled to vote will be able to elect all of the successors of the class of Trustees whose terms expire at that meeting, provided that holders of preferred shares, if any are outstanding, have the right to elect two Trustees at all times. Pursuant to the Declaration of Trust and Bylaws, the Board may amend the Bylaws to alter the vote required to elect Trustees.

Under NYSE rules applicable to listed companies, the Fund normally will be required to hold an annual meeting of Common Shareholders in each fiscal year. If the Fund is converted into an open-end company or if for any reason the shares are no longer listed on the NYSE (or any other national securities exchange, the rules of which require annual meetings of Common Shareholders), the Fund may amend the Bylaws so that the Fund is not otherwise required to hold annual meetings of Common Shareholders.

Issuance of Additional Shares. The provisions of the 1940 Act generally require that the public offering price of Common Shares of a closed-end investment company (less underwriting commissions and discounts) must equal or exceed the net asset value of such company's common shares (calculated within 48 hours of the Fund's pricing), unless such sale is made with the consent of a majority of the company's outstanding Common Shareholders. Any sale of Common Shares by the Fund will be subject to the requirements of the 1940 Act.

CREDIT FACILITY

The Fund may borrow money to the extent permitted by the 1940 Act and the Fund and the Subsidiary have entered into the Agreement with a bank to borrow up to a limit of \$75 million in aggregate with the Subsidiary. The Fund is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2012, the Fund had \$67 million in outstanding borrowings, at an interest rate of 1.16%. Borrowings under the Agreement are secured by the assets of the Fund. Interest is charged at a rate above LIBOR and is payable monthly. Under the terms of the Agreement, the Fund pays a commitment fee of 0.25% on the unused amount of the credit facility. The carrying amount of the borrowings at \$67 million approximated its fair value. For the nine months ended August 31, 2012, the average borrowings under the Agreement and the average interest rate were \$58.5 million and 1.20%, respectively. In addition, the credit facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms or by the issuance of preferred shares or debt securities. The Fund may enter into credit facilities that may represent an amount up to 33 1/3% of total assets (which represents 50% of net assets). The Fund may enter into definitive agreements with respect to such credit facilities in an amount not to exceed the limits permitted under the 1940 Act. Such credit facilities may be committed or uncommitted and are not expected to be convertible into any other securities of the Fund. Outstanding amounts are expected to be prepayable by the Fund prior to final maturity without significant penalty and it is not expected that there will be any sinking fund or mandatory retirement provisions. Outstanding amounts would be payable at maturity or such earlier times as required by the agreement. The Fund may be required to prepay outstanding amounts under a credit facility or incur a penalty rate of interest in the event of the occurrence of certain events of default. The Fund would be expected to indemnify the lenders under any credit facility against liabilities they may incur in connection with such credit facility. The Fund may be required to pay commitment fees under the terms of any such credit facility.

In addition, the Fund expects that such credit facilities would contain covenants that, among other things, likely will limit the Fund's ability to pay dividends in certain circumstances, incur additional debt, change its fundamental investment policies and engage in certain transactions, including mergers and consolidations, and may require asset coverage ratios in addition to those required by the 1940 Act. The Fund may be required to pledge its assets and to maintain a portion of its total assets in cash or high-grade securities as a reserve against interest or principal payments and expenses. The Fund expects that any credit facility would have customary covenant, negative covenant and default provisions. There can be no assurance that the Fund will enter into additional agreements for credit facilities on terms and conditions representative of the foregoing, or that additional material terms will not apply. Moreover,

any future credit facility may be short-term and any renewal, if offered, may be on terms different to, and less favorable than, those discussed above. Failure to renew such short-term credit facility may have a materially adverse impact on the Fund. Lastly, any such credit facility may in the future be replaced or refinanced by one or more credit facilities having substantially different terms.

PREFERRED SHARES

The Declaration of Trust authorizes the Board to approve the issuance of other securities, including preferred shares, without the approval of the holders of Common Shares. Holders of Common Shares have no preemptive right to purchase any preferred shares that might be issued. The Fund may elect to issue preferred shares as part of its leverage strategy; however, the Fund presently does not anticipate issuing preferred shares. In the event the Fund was to issue preferred shares, it would be subject to a 200% asset coverage requirement.

Prior to issuance of shares of each class or series, the Board is required by the Declaration of Trust to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board could authorize the issuance of preferred shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a

premium price for holders of Common Shares or otherwise be in their best interest. You should note, however, that any issuance of preferred shares must comply with the requirements of the 1940 Act.

Among other requirements, including other voting rights, the 1940 Act requires that the holders of any preferred shares, voting separately as a single class, have the right to elect at least two Trustees at all times. The remaining Trustees will be elected by holders of Common Shares and preferred shares, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, the holders of any preferred shares have the right to elect a majority of the Trustees at any time two years' dividends on any preferred shares are unpaid.

CERTAIN PROVISIONS OF THE DELAWARE STATUTORY TRUST ACT AND THE FUND'S DECLARATION OF TRUST

Anti-Takeover Provisions in the Declaration of Trust. The Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board and could have the effect of depriving Common Shareholders of an opportunity to sell their Common Shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions may have the effect of discouraging attempts to acquire control of the Fund, which attempts could have the effect of increasing the expenses of the Fund and interfering with the normal operation of the Fund. The Board is divided into three classes, with the term of one class expiring at each annual meeting of Common Shareholders. At each annual meeting, one class of Trustees is elected to a three-year term. This provision could delay for up to two years the replacement of a majority of the Board. A Trustee may be removed from office for cause only, provided the aggregate number of Trustees after such removal shall not be fewer than three, and only by action taken by a majority of the remaining Trustees followed by the holders of at least seventy-five percent of the Common Shares then entitled to vote in an election of such Trustee. In addition, the Declaration of Trust requires the favorable vote of the holders of at least 75% of the outstanding shares of each class of the Fund, voting as a class, then entitled to vote to approve, adopt or authorize certain transactions with 5%-or-greater holders of a class of shares and their associates, unless the Board shall by resolution have approved a memorandum of understanding with such holders, in which case normal voting requirements would be in effect. For purposes of these provisions, a 5%-or-greater holder of a class of shares (a "Principal Shareholder") refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of any class of beneficial interest of the Fund. The transactions subject to these special approval requirements are: (i) the merger or consolidation of the Fund or any subsidiary of the Fund with or into any Principal Shareholder; (ii) the issuance of any securities of the Fund to any Principal Shareholder for cash (other than pursuant to any automatic distribution reinvestment plan); (iii) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period); or (iv) the sale, lease or exchange to the Fund or any subsidiary thereof, in exchange for securities of the Fund, of any assets of any Principal Shareholder (except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purposes of such computation all assets sold, leased or exchanged in any series of similar transactions within a twelve-month period). The Board has determined that provisions with respect to the Board and the 75% voting requirements described above, which voting requirements are greater than the minimum requirements under Delaware law or the 1940 Act, are in the best interest of Common Shareholders generally. Reference should be made to the Declaration of Trust on file with the Securities Exchange Commission for the full text of these provisions.

Classified Board. Under the Declaration of Trust, the Board is divided into three classes of Trustees serving staggered three-year terms. The term of the first class will expire in 2013 and the terms of the second and third classes will expire in 2014 and 2015, respectively, and when their successors are duly elected and qualified. At each annual

meeting of its Common Shareholders, the successors to the class of Trustees whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of Common Shareholders held in the third year following the year of their election. Each trustee will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualified. A classified board may render a change in control of the Fund or removal of its incumbent management more difficult. The Fund believes, however, that the longer time required to elect a majority of a classified Board will help to ensure the continuity and stability of its management and policies.

CLOSED-END FUND STRUCTURE; REPURCHASE OF COMMON SHARES AND CONVERSION TO
OPEN-END FUND

CLOSED-END FUND STRUCTURE

The Fund is a non-diversified, closed-end management investment company. Closed-end funds differ from open-end management investment companies (commonly referred to as “mutual funds”). Closed-end funds generally list their shares for trading on a securities exchange and do not redeem their shares at the option of the shareholder. In contrast, mutual funds issue securities redeemable at net asset value at the option of the shareholder and typically engage in a continuous offering of their shares. Mutual funds are subject to continuous asset in-flows and out-flows that can complicate portfolio management, whereas closed-end funds generally can stay more fully invested in securities consistent with the closed-end fund’s investment objective and policies.

Accordingly, closed-end funds have greater flexibility than open-end funds to make certain types of investments, including investments in illiquid securities.

Shares of closed-end investment companies listed for trading on a securities exchange frequently trade at a discount to their net asset value, but in some cases trade at a premium. Since inception, the market price of the Common Shares has fluctuated and at times has traded below the Fund's net asset value, and at times has traded above net asset value. The market price may be affected by net asset value, dividend or distribution levels (which are dependent, in part, on expenses), supply of and demand for the shares, stability of Distributions, trading volume of the shares, general market and economic conditions and other factors beyond the control of the closed-end fund. The foregoing factors may result in the market price of Common Shares being greater than, less than or equal to net asset value. The Board has reviewed the Fund's structure in light of its investment objective and policies and has determined that the closed-end structure is in the best interests of the Fund's Common Shareholders. However, the Board may review periodically the trading range and activity of its shares with respect to its net asset value and may take certain actions to seek to reduce or eliminate any such discount (if such discount exists). Such actions may include open market repurchases or tender offers for Common Shares at net asset value or its possible conversion to an open-end mutual fund. There can be no assurance that the Board will decide to undertake any of these actions or that, if undertaken, such actions would result in Common Shares trading at a price equal to or close to net asset value per common share. Based on the determination of the Board that the closed-end structure is desirable in light of the Fund's investment objective and policies, it is highly unlikely that the Board would vote to convert the Fund to an open-end investment company.

REPURCHASE OF COMMON SHARES

Because shares of closed-end management investment companies frequently trade at a discount to their net asset values, the Board has determined that from time to time it may be in the interest of its Common Shareholders for the Fund to take corrective actions to reduce trading discounts in Common Shares. The Board, in consultation with SCA, may review the possibility of open market repurchases of and/or tender offers for Common Shares and will consider such factors as the market price of Common Shares, the net asset value of Common Shares, the liquidity of the assets of the Fund, the effect on the Fund's expenses, whether such transactions would impair the Fund's status as a regulated investment company or result in a failure to comply with applicable asset coverage requirements, general economic conditions and such other events or conditions that may have a material effect on the Fund's ability to consummate such transactions. There are no assurances that the Board will, in fact, decide to undertake either of these actions or, if undertaken, that such actions will result in Common Shares trading at a price equal to or approximating their net asset value. The Board, in consultation with SCA, may from time to time review other possible actions to reduce trading discounts in Common Shares.

CONVERSION TO OPEN-END FUND

To convert the Fund to an open-end investment company, the Fund's Declaration of Trust requires the favorable vote of a majority of the Board followed by the favorable vote of the holders of at least 75% of the outstanding shares of each affected class or series of shares of the Fund, voting separately as a class or series, unless such amendment has been approved by at least 80% of the Trustees, in which case the favorable vote of "a majority of the outstanding voting securities" will be required, which as defined in the 1940 Act and used herein means the lesser of (a) 67% or more of the shares of the Fund present or represented by proxy at a meeting if the holders of more than 50% of the outstanding shares are present or represented at the meeting or (b) more than 50% of outstanding shares of the Fund. The foregoing vote would satisfy a separate requirement in the 1940 Act that any conversion of the Fund to an open-end investment company be approved by Common Shareholders. Conversion of the Fund to an open-end investment company would require the redemption of any outstanding preferred shares, which could eliminate or alter

the leveraged capital structure of the Fund with respect to Common Shares. Following any such conversion, it is also possible that certain of the Fund's investment policies and strategies would have to be modified to assure sufficient portfolio liquidity. In the event of conversion, Common Shares would cease to be listed on the NYSE or other national securities exchanges or market systems. Shareholders of an open-end investment company may require the company to redeem their shares at any time, except in certain circumstances as authorized by or under the 1940 Act, at their net asset value, less such redemption charge, if any, as might be in effect at the time of a redemption. The Fund expects to pay all such redemption requests in cash but reserves the right to pay redemption requests in a combination of cash or securities. If such partial payment in securities is made, investors may incur brokerage costs in connection with converting such securities to cash. If the Fund were converted to an open-end fund, it is likely that new shares would be sold at net asset value plus a sales load. The Board believes, however, that the closed-end structure is desirable in light of the Fund's investment objective and policies. Therefore, you should assume that it is not likely that the Board would vote to convert the Fund to an open-end fund.

TAX MATTERS

The following discussion of U.S. federal income tax matters is based on the advice of the Fund's counsel, K&L Gates LLP.

The discussion in this section and in the SAI is a general summary of certain U.S. federal income tax considerations applicable to the Fund and to an investment in Common Shares. This summary does not purport to be a complete description of the U.S. federal income tax considerations applicable to such an investment. For example, the Fund has not included tax consequences that the Fund assumes to be generally known by investors or certain considerations that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including Common Shareholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, pension plans and trusts and financial institutions. This summary assumes that investors hold Common Shares as capital assets within the meaning of the Code. The discussion is based upon the Code, Treasury regulations and administrative and judicial interpretations, each as of the date of this Prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. The Fund has not sought and will not seek any ruling from the IRS regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if the Fund invested in tax-exempt securities or certain other investment assets.

A “U.S. shareholder” generally is a beneficial owner of Common Shares who is for U.S. federal income tax purposes:

a citizen or individual resident of the United States;

a corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any State or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust if a court within the United States can exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of that trust (or the trust was in existence on August 20, 1996, and validly elected to continue to be treated as a U.S. trust).

A “Non-U.S. shareholder” is a beneficial owner of Common Shares that is not a U.S. shareholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds Common Shares, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective shareholder that is a partner of a partnership holding Common Shares should consult its tax advisers with respect to the purchase, ownership and disposition of Common Shares.

Tax matters are very complicated and the tax consequences to an investor of an investment in Common Shares will depend on the facts of his, her or its particular situation. The Fund encourages investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

QUALIFICATION AS A RIC

The Fund intends to qualify for the special tax treatment afforded to RICs under Subchapter M of the Code. As long as the Fund qualifies, the Fund (but not its Common Shareholders) will not be subject to U.S. federal income tax on the part of the Fund’s net ordinary income and net realized capital gains that the Fund distributes to its Common

Shareholders. In order to qualify for treatment as a RIC for U.S. federal income tax purposes, the Fund must meet three key tests, which are described below, and be registered as a management company under the 1940 Act at all times during each taxable year. Failure to meet any of the quarterly tests would disqualify the Fund from RIC tax treatment for the entire year. However, in certain situations the Fund may be able to take corrective action within 30 days of the end of a quarter, or within 6 months of the end of a quarter if the failure is de minimis and certain other requirements are met, which would allow the Fund to remain qualified.

The Income Test. At least 90% of the Fund's gross income in each taxable year must be derived from dividends, interest, payments with respect to securities loans, gains from the sale of stock or securities, foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to the Fund's business of investing in such stock, securities or currencies. Net income from a "qualified publicly traded partnership" will also be included as qualifying income for purposes of the 90% gross income test. A "qualified publicly traded partnership" is a publicly traded partnership that is treated as a partnership for U.S. federal income tax purposes and that derives less than 90% of its gross income from the foregoing types of income. To the extent the Fund hold interests in entities that are taxed as grantor trusts for U.S. federal income tax purposes or are partnerships that are not treated as "qualified publicly traded partnerships," the income derived from such investments may not be treated as qualifying income for purposes of the 90% gross income test, depending on the underlying source of income to such partnerships or grantor trusts.

The Diversification Tests. The Fund must diversify its holdings so that, at the end of each quarter of each taxable year (i) at least 50% of the value of its total assets is represented by cash and cash items (including receivables), U.S. Government securities, the securities of other RICs and other securities, with such other securities limited for purposes of such calculation, in respect of any one issuer, to an amount not greater than 5% of the value of its total assets and not more than 10% of the outstanding voting securities of

such issuer, and (ii) not more than 25% of the value of its total assets is invested in (a) the securities (other than U.S. Government securities or the securities of other RICs) of any one issuer, (b) the securities (other than the securities of other RICs) of any two or more issuers that the Fund controls (by owning 20% or more of their voting power) and that are determined to be engaged in the same or similar trades or businesses or related trades or businesses, or (c) the securities of one or more qualified publicly traded partnerships. The Fund refers to these tests as the “Diversification Tests.”

The Annual Distribution Requirement. The Fund’s deduction for dividends paid to its Common Shareholders during the taxable year must equal or exceed 90% of the sum of (i) its investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid, and (ii) its net tax-exempt interest, if any (the excess of its gross tax-exempt interest over certain disallowed deductions). For purposes of this distribution test, the Fund may elect to treat as paid on the last day of the fiscal year all or part of any distributions that the Fund declares after the end of its taxable year. Such distributions must be declared before the due date for filing its tax return, including any extensions. The Fund intends to distribute at least annually substantially all of such income. The Fund will refer to this distribution requirement as the “Annual Distribution Requirement.”

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% U.S. federal excise tax at the fund level. To avoid the tax, the Fund must distribute during each calendar year an amount at least equal to the sum of (i) 98% of its ordinary income (not taking into account any capital gain or loss) for the calendar year, (ii) 98.2% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the one-year period ending on November 30, the last day of its taxable year (which the Fund intend to continue to elect to use for this purpose), and (iii) certain undistributed amounts from previous years on which the Fund paid no U.S. federal income tax. The Fund refers to this distribution requirement as the “Excise Tax Avoidance Requirement.” While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% U.S. federal excise tax, there can be no assurance that sufficient amounts of its taxable income and capital gain will be distributed to avoid entirely the imposition of the tax. In that event, the Fund will be liable for the tax only on the amount by which the Fund does not meet the foregoing distribution requirement.

A Distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to Common Shareholders of record on a date during such a month and paid by the Fund during January of the following year. Any such Distributions paid during January of the following year will be deemed to be received on December 31 of the year the Distributions are declared, rather than when the Distributions are received.

The Fund may be required to recognize taxable income in circumstances in which the Fund does not receive cash. For example, if the Fund hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or that were issued with warrants), the Fund must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by the Fund in the same taxable year. Because any original issue discount accrued will be included in its investment company taxable income for the year of accrual, the Fund may be required to make a Distribution to its Common Shareholders in order to satisfy the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, even though the Fund will not have received any corresponding cash amount.

Investments by the Fund in certain “passive foreign investment companies” (“PFICs”) could subject the Fund to U.S. federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments which cannot be eliminated by making Distributions to Common Shareholders. Elections may be

available to the Fund to mitigate the effect of this provision provided that the PFIC complies with certain reporting requirements, but the elections would generally function to accelerate the recognition of income without a corresponding receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed above applicable to qualified dividend income.

In order to increase its investments in MLPs, the Fund may invest in one or more subsidiary C corporations that invest in MLPs. In addition, equity securities issued by certain non-traded limited partnerships (or other “pass-through” entities, such as grantor trusts) in which the Fund invests may not produce qualifying income for purposes of determining its compliance with the 90% gross income test applicable to RICs. As a result, the Fund may form one or more wholly owned taxable subsidiaries to make and hold certain investments in accordance with its investment objective. The dividends received from such taxable subsidiaries will be qualifying income for purposes of the 90% gross income test. In general, the amount of cash received from such wholly owned subsidiaries will equal the amount of cash received from the limited partnerships or other pass-through entities as reduced by income taxes paid by such subsidiaries and other expenses.

The Fund is authorized to borrow funds and to sell assets in order to satisfy Distribution requirements. However, under the 1940 Act, the Fund is not permitted to make Distributions to its Common Shareholders while its debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. See “Description of Shares.” Moreover, its ability to dispose of assets to meet its Distribution requirements may be limited by other requirements relating to its status as a RIC, including the Diversification

Tests. If the Fund disposes of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, the Fund may make such dispositions at times that, from an investment standpoint, are not advantageous.

The remainder of this discussion assumes that the Fund qualifies as a RIC and has satisfied the Annual Distribution Requirement.

TAXATION OF U.S. SHAREHOLDERS

Distributions by the Fund generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of its “investment company taxable income” (which is, generally, its ordinary income plus net short-term capital gains in excess of net long-term capital losses) will be taxable as ordinary income to U.S. shareholders to the extent of its current or accumulated earnings and profits, whether paid in cash or reinvested in additional Common Shares. Distributions of its net capital gains (which are, generally, its net long-term capital gains in excess of net short-term capital losses) properly reported by the Fund as “capital gain dividends” will be taxable to a U.S. shareholder as long-term capital gains currently at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. shareholder’s holding period for his, her or Common Shares and regardless of whether paid in cash or reinvested in additional Common Shares. Distributions in excess of its earnings and profits first will reduce a U.S. shareholder’s adjusted tax basis in such Common Shareholder’s Common Shares as a non-taxable return of capital and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder. Such capital gain will be long-term capital gain and thus, will be taxed at a maximum rate of 15% for taxable years beginning on or before December 31, 2012, if the Distributions are attributable to Common Shares held by the U.S. shareholder for more than one year. To the extent that Distributions paid by the Fund are attributable to dividends received by the Fund from corporations, Distributions may be eligible for the maximum tax rate of 15% currently applicable to qualified dividend income, or for the dividends received deduction, in each case provided that certain holding period and other requirements are met. The favorable rates for qualified dividend income are currently scheduled to increase for taxable years beginning after December 31, 2012.

Under the DRIP, a U.S. shareholder can have all cash distributions automatically reinvested in additional Common Shares. See “Distribution Reinvestment Plan.” Any Distributions reinvested under the DRIP will nevertheless remain taxable to the U.S. shareholder. The U.S. shareholder will have an adjusted basis in the additional Common Shares purchased through the DRIP equal to the amount of the reinvested Distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. shareholder’s account.

Although the Fund currently intends to distribute any long-term capital gains at least annually, the Fund may in the future decide to retain some or all of its long-term capital gains, but designate the retained amount as a “deemed distribution.” The Fund cannot, however, treat any of its “investment company taxable income” as a “deemed distribution.” If the Fund designates any of its retained capital gains as a deemed distribution, among other consequences, the Fund will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by the Fund. The amount of the deemed distribution net of such tax will be added to the U.S. shareholder’s tax basis for his, her or Common Shares. Since the Fund expects to pay tax on any retained capital gains at its regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual shareholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. shareholder’s other U.S. federal income tax obligations or may be refunded to the extent it exceeds a Common Shareholder’s liability for U.S. federal income tax. A Common Shareholder that is not subject to U.S. federal income

tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes the Fund paid. In order to utilize the deemed distribution approach, the Fund must provide written notice to its Common Shareholders prior to the expiration of 60 days after the close of the relevant taxable year. The Fund will be subject to alternative minimum tax, also referred to as AMT, but any items that are treated differently for AMT purposes must be apportioned between the Fund and its Common Shareholders and this may affect Common Shareholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each Common Shareholder bear to its taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, the Fund may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If the Fund makes such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the Distribution is made. However, any dividend declared by the Fund in October, November or December of any calendar year, payable to Common Shareholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by its U.S. shareholders on December 31 of the year in which the dividend was declared.

A U.S. shareholder generally will recognize taxable gain or loss if the U.S. shareholder sells or otherwise disposes of his, her or Common Shares. Any gain arising from such sale or disposition generally will be treated as long-term capital gain if Common Shareholders has held his, her or its shares for more than one year and such shares are held as capital assets. Otherwise, it would be classified as short-term capital gain. However, any capital loss arising from the sale or disposition of Common Shares held for six months or less (determined by applying the holding period rules contained in Section 852(b)(4)(C) of the Code) will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares.

In addition, all or a portion of any loss recognized upon a disposition of Common Shares may be disallowed if Common Shares are purchased (whether through reinvestment of Distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. shareholders currently are subject to a maximum U.S. federal income tax rate of 15% (for taxable years beginning on or before December 31, 2012) on their net capital gain, i.e., the excess of realized net long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in its shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. The maximum U.S. federal income tax rate on the net capital gain of individual U.S. shareholders is currently scheduled to increase to 20% for taxable years beginning after December 31, 2012. Corporate U.S. shareholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses against ordinary income for a year, but may carry back such losses for three years or carry forward such losses for five years.

The Fund will send to each of its U.S. shareholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per Distribution basis, the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income (including the portion, if any, taxable at the lower effective rate currently applicable to "qualified dividends") and as long-term capital gain. In addition, the federal tax status of each year's Distributions generally will be reported to the IRS (including the amount of dividends, if any, eligible for treatment as "qualified dividends"). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. shareholder's particular situation. To the extent that Distributions paid by the Fund are attributable to dividends received by the Fund from corporations, dividends distributed by the Fund may be eligible for the dividends-received deduction or the preferential rate applicable to qualified dividends, in each case provided that certain holding period and other requirements are met. The favorable rates for qualified dividend income are currently scheduled to increase for taxable years beginning after December 31, 2012.

The Fund may be required to withhold U.S. federal income tax, or backup withholding, currently at a rate of 28% from all taxable Distributions to any non-corporate U.S. shareholder (1) who fails to furnish the Fund with a correct taxpayer identification number or a certificate that such Common Shareholder is exempt from backup withholding, or (2) with respect to whom notification has been received from the IRS to the effect that such Common Shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's U.S. federal income tax liability and may entitle such Common Shareholder to a refund, provided that proper information is timely provided to the IRS.

The Medicare Contribution Tax requires certain U.S. shareholders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of shares

for taxable years beginning after December 31, 2012. U.S. shareholders should consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of Common Shares.

TAXATION OF NON-U.S. SHAREHOLDERS

Whether an investment in Common Shares is appropriate for a Non-U.S. shareholder will depend upon that person's particular circumstances. An investment in Common Shares by a Non-U.S. shareholder may have adverse tax consequences because certain interest income and short-term capital gains that generally would not be subject to tax if earned directly by a Non-U.S. shareholder are transformed into dividends that are subject to U.S. federal income tax as described below. Non-U.S. shareholders should consult their tax advisers before investing in Common Shares.

Distributions of the Fund's "investment company taxable income" to Non-U.S. shareholders (including interest income and the excess of net short-term capital gain over net long-term capital losses) will generally be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of the Fund's current and accumulated earnings and profits unless the Distributions are effectively connected with a U.S. trade or business of the Non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States of the Non-U.S. shareholder. In such latter case, the Distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons, plus, in certain cases where the Non-U.S. shareholder is a

corporation, a branch profits tax at a 30% rate (or lower rate provided by an applicable treaty), and the Fund will not be required to withhold U.S. federal income tax if the Non-U.S. shareholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a Non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.

Actual or deemed distributions of the Fund's net capital gains (i.e., net long-term capital gains in excess of short-term capital losses) to a Non-U.S. shareholder, and gains realized by a Non-U.S. shareholder upon the sale of Common Shares, will not be subject to federal withholding tax and generally will not be subject to U.S. federal income tax unless (a) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the Non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment or fixed base maintained by the Non-U.S. shareholder in the United States, or (b) the Non-U.S. shareholder is an individual, has been present in the United States for 183 days or more during the taxable, and certain other conditions are satisfied. In addition, gain on the non-U.S. shareholder's sale of Common Shares will be subject to U.S. federal income tax if the Fund is or has been a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date the non-U.S. shareholder sells Common Shares and such Common Shareholder held more than 5% of Common Shares at any time during the five-year period preceding the disposition. Generally, a corporation is a U.S. real property holding corporation if the fair market value of its "U.S. real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business.

If the Fund distributes its net capital gains in the form of deemed rather than actual distributions (which the Fund may do in the future), a non-U.S. shareholder will be entitled to a U.S. federal income tax credit or tax refund equal to Common Shareholders' allocable share of the tax the Fund pay on the capital gains deemed to have been distributed. In order to obtain the refund, the non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of Common Shares that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty).

Under the DRIP, a non-U.S. shareholder can have all cash Distributions automatically reinvested in additional Common Shares. See "Distribution Reinvestment Plan." If the Distribution is a distribution of the Fund's "investment company taxable income" and is not effectively connected with a U.S. trade or business of the non-U.S. shareholder (or, if a treaty applies, it is not attributable to a permanent establishment or a fixed base), the amount distributed (to the extent of its current and accumulated earnings and profits) will be subject to withholding of U.S. federal income tax at a rate of 30% (or lower rate provided by an applicable treaty) and only the net after-tax amount will be reinvested in Common Shares. If the Distribution is effectively connected with a U.S. trade or business or attributable to a permanent establishment or fixed base, generally the full amount of the Distribution will be reinvested in the DRIP and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. shareholders. The non-U.S. shareholder will have an adjusted basis in the additional Common Shares purchased through the DRIP equal to the amount reinvested. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the non-U.S. shareholder's account.

A non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. shareholder provides the Fund or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Legislation enacted on March 18, 2010, commonly referred to as the “Foreign Account Tax Compliance Act” or “FATCA,” will generally impose a U.S. withholding tax of 30% on payments to certain foreign entities of U.S.-source dividends and the gross proceeds from dispositions of shares that produce U.S.-source dividends, unless various U.S. information reporting and due diligence requirements that are different from, and in addition to, the beneficial owner certification requirements described above have been satisfied. To avoid withholding under these provisions, certain non-U.S. shareholders may need to enter into information-sharing agreements with the IRS in which they agree to identify and report information to the IRS each year on their U.S. accounts and withhold on “passthrough payments” to certain accountholders or owners who do not provide information or comply with the FATCA requirements. Non-U.S. shareholders should consult their tax advisers regarding the effect, if any, of this legislation on their ownership and sale or disposition of our common shares. While these withholding tax provisions were to have been effective beginning in 2013, the U.S. Treasury Department and the IRS have indicated in a notice and in proposed regulations issued on February 8, 2012, that future regulatory guidance will provide for a phased-in implementation of these provisions, with withholding on withholdable payments, other than gross proceeds, to begin on January 1, 2014, and withholding on withholdable payments in the form of gross proceeds to begin on January 1, 2015. The preamble to the proposed regulations provides that withholding on certain “passthrough payments” will begin no earlier than January 1, 2017.

FAILURE TO QUALIFY AS A RIC

If, in any taxable year, the Fund fails to qualify as a RIC, the Fund would be taxed in the same manner as an ordinary corporation and Distributions from earnings and profits (as determined under U.S. federal income tax principles) to its Common Shareholders would not be deductible by the Fund in computing its taxable income. In such case, under current law Distributions to its Common Shareholders generally would be eligible (i) for treatment as qualified dividend income in the case of individual shareholders (provided that certain holding period and other requirements were met), and (ii) for the dividends-received deduction in the case of corporate shareholders. Distributions in excess of its current and accumulated earnings and profits would be treated first as a return of capital to the extent of Common Shareholders' tax basis, and any remaining Distributions would be treated as a capital gain. In addition, the Fund could be required to recognize unrealized gains, pay substantial taxes and interest and make substantial Distributions before re-qualifying as a RIC that is accorded special tax treatment.

Tax matters are very complicated, and the federal, state and local tax consequences of an investment in and holding of the Fund's securities will depend on the facts of each investor's situation. Investors are encouraged to consult their own tax advisers regarding the specific tax consequences that may affect them.

TAX RISKS

Investing in the Fund's securities involves certain tax risks, which are more fully described in the section "Risks—Tax Risks."

TRANSFER AGENT AND ADMINISTRATOR

U.S. Bancorp Fund Services, LLC acts as the Fund's transfer agent and dividend-paying agent. For its services, U.S. Bancorp Fund Services, LLC receives a fixed fee per account. The Fund will reimburse U.S. Bancorp Fund Services, LLC for certain out-of-pocket expenses, which may include payments by U.S. Bancorp Fund Services, LLC to entities, including affiliated entities, that provide sub-Common Shareholder services, recordkeeping and/or transfer agency services to its beneficial owners. The amount of reimbursements for these services per benefit plan participant fund account per year will not exceed the per account fee payable by the Fund to U.S. Bancorp Fund Services, LLC in connection with maintaining Common Shareholder accounts.

As administrator, U.S. Bancorp Fund Services, LLC provides certain administrative services for the Fund, including but not limited to preparing and maintaining books, records, and tax and financial reports, and monitoring compliance with regulatory requirements. U.S. Bancorp Fund Services, LLC is located at 615 East Michigan Street, Milwaukee, WI 53202.

CUSTODIAN

U.S. Bank N.A. is the custodian of Common Shares and other assets. U.S. Bank N.A. is located at 1555 N. River Center Drive, Suite 302; Milwaukee, Wisconsin 53212.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP is the independent registered public accounting firm for the Fund and provides audit and audit-related services in connection with certain SEC filings. KPMG is located at 191 W. Nationwide Blvd., Suite 500, Columbus, Ohio 43215.

LEGAL MATTERS

Certain legal matters in connection with the Common Shares will be passed upon for the Fund by K&L Gates LLP, 1 Lincoln Street, Boston, Massachusetts 02111.

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Common Shares

PROSPECTUS

[], 2012

The information in this prospectus supplement is not complete and may be changed. The Fund may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus supplement and the attached prospectus do not constitute an offer to sell these securities or a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION DATED NOVEMBER 16, 2012

Form of Prospectus Supplement
(To Prospectus dated [], 2012)

Salient MLP & Energy Infrastructure Fund
Up to [] Common Shares

Salient MLP & Energy Infrastructure Fund (the “Fund”) has entered into a sales agreement (the “Sales Agreement”) with [] (“[]”) relating to the Common Shares of beneficial interest (“Common Shares”) offered by this Prospectus Supplement and the accompanying Prospectus. In accordance with the terms of the Sales Agreement, the Fund may offer and sell up to [] of its Common Shares, \$0.01 par value per share, from time to time through [] as the Fund’s agent for the offer and sale of the Common Shares. Under the Investment Company Act of 1940, as amended (the “1940 Act”), the Fund may not sell any Common Shares at a price below the current net asset value of such Common Shares, exclusive of any distributing commission or discount. The Fund is a non-diversified, closed-end management investment company which commenced investment operations in May 2011. The Fund’s investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to its Common Shareholders.

The Fund’s Common Shares are listed on the New York Stock Exchange under the symbol “SMF.” As of [], 2012, the last reported sale price for the Fund’s Common Shares on the New York Stock Exchange was \$[] per share.

Sales of the Fund’s Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be “at the market” as defined in Rule 415 under the Securities Act of 1933, as amended (the “1933 Act”), including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange.

[] will be entitled to compensation of [] to [] basis points of the gross sales price per share for any Common Shares sold under the Sales Agreement, with the exact amount of such compensation to be mutually agreed upon by the Fund and [] from time to time. In connection with the sale of the Common Shares on the Fund’s behalf, [] may be deemed to be an “underwriter” within the meaning of the 1933 Act and the compensation of [] may be deemed to be underwriting commissions or discounts.

Investing in the Fund’s securities involves certain risks. You could lose some or all of your investment. See “Risks” beginning on page [36] of the accompanying Prospectus. You should consider carefully these risks together with all of the other information contained in this Prospectus Supplement and the accompanying Prospectus before making a decision to purchase the Fund’s securities.

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

Prospectus Supplement dated [], 2012

This Prospectus Supplement, together with the accompanying Prospectus, sets forth concisely the information that you should know before investing. You should read the accompanying Prospectus and this Prospectus Supplement, which contain important information, before deciding whether to invest in the Fund's securities. You should retain the Prospectus and Prospectus Supplement for future reference. A statement of additional information, dated [], 2012 as supplemented from time to time, containing additional information, has been filed with the Securities and Exchange Commission ("SEC") and is incorporated by reference in its entirety into this Prospectus Supplement and the accompanying Prospectus. This Prospectus Supplement, the accompanying Prospectus and the statement of additional information are part of a "shelf" registration statement that the Fund filed with the SEC. This Prospectus Supplement describes the specific details regarding this offering, including the method of distribution. If information in this Prospectus Supplement is inconsistent with the accompanying Prospectus or the statement of additional information, you should rely on this Prospectus Supplement. You may request a free copy of the statement of additional information, the table of contents of which is on page [77] of the accompanying Prospectus, request a free copy of the Fund's annual and semi-annual reports, request other information or make shareholder inquiries, by calling toll-free at (800) 809-0525, or by writing to the Fund at 4265 San Felipe, Suite 800, Houston, Texas 77027 or visiting the Fund's website (www.salientmlpfund.com). The Fund's annual and semi-annual reports also are available on the Fund's website, which also provides a link to the SEC's website, as described below, where the Fund's statement of additional information can be obtained. Information included on the Fund's website does not form part of this Prospectus Supplement or the accompanying Prospectus. You can review and copy documents the Fund has filed at the Commission's Public Reference Room in Washington, D.C. Call 1-202-551-8090 for information. The SEC charges a fee for copies. You can get the same information free from the SEC's website (<http://www.sec.gov>). You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the SEC's Public Reference Section, Washington, D.C. 20549-0102.

The Fund's securities do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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Prospectus Supplement

You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus in making your investment decisions. The Fund has not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. This Prospectus Supplement and the accompanying Prospectus do not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction where the offer or sale is not permitted. The information appearing in this Prospectus Supplement and in the accompanying Prospectus is accurate only as of the dates on their covers. The Fund's business, financial condition and prospects may have changed since such dates. The Fund will advise investors of any material changes to the extent required by applicable law.

Prospectus Supplement

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Until [], 2012 (25 days after the date of this Prospectus Supplement), all dealers that buy, sell or trade the Common Shares, whether or not participating in this offering, may be required to deliver the Prospectus and this Prospectus Supplement. This requirement is in addition to the dealers' obligation to deliver the Prospectus and this Prospectus Supplement when acting as underwriters and with respect to their unsold allotments or subscriptions.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This Prospectus Supplement, the accompanying Prospectus and the statement of additional information contain “forward-looking statements.” Forward-looking statements can be identified by the words “may,” “will,” “intend,” “expect,” “estimate,” “continue,” “plan,” “anticipate,” and similar terms and the negative of such terms. Such forward-looking statements may be contained in this Prospectus Supplement as well as in the accompanying Prospectus. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect the Fund’s actual results are the performance of the portfolio of securities the Fund holds, the price at which the Common Shares will trade in the public markets and other factors discussed in the Fund’s periodic filings with the SEC. Currently known risk factors that could cause actual results to differ materially from the Fund’s expectations include, but are not limited to, the factors described in the “Risks” section of the accompanying Prospectus. You are urged to review carefully those sections for a more detailed discussion of the risks of an investment in the Fund’s securities.

Although the Fund believes that the expectations expressed in the Fund’s forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in the Fund’s forward-looking statements. The Fund’s future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the “Risks” section of the accompanying Prospectus. All forward-looking statements contained or incorporated by reference in this Prospectus Supplement or the accompanying Prospectus are made as of the date of this Prospectus Supplement or the accompanying Prospectus, as the case may be. Except for the Fund’s ongoing obligations under the federal securities laws, the Fund does not intend, and the Fund undertakes no obligation, to update any forward-looking statement. The forward-looking statements contained in this Prospectus Supplement, the accompanying Prospectus and the statement of additional information are excluded from the safe harbor protection provided by section 27A of the 1933 Act.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about the Fund and the Fund's securities. It is not complete and may not contain all of the information you may want to consider. You should review the more detailed information contained in this Prospectus Supplement and in the accompanying Prospectus and in the statement of additional information, especially the information set forth under the heading "Risks" beginning on page [] of the accompanying Prospectus.

The Fund

The Fund is a non-diversified, closed-end management investment company, with total managed assets of approximately \$[] as of [], 2012. The Fund commenced operations in May 2011 following the Fund's initial public offering. The Fund's investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions to its Common Shareholders.

Investment Adviser

Salient Capital Advisors, LLC ("SCA"), the Fund's investment adviser, is responsible for providing portfolio investment services to the Fund, implementing and administering the Fund's investment strategy and providing management and administrative assistance in connection with its operations. SCA is a wholly-owned subsidiary of Salient Partners, L.P., a Delaware limited partnership, and SCA is registered as an investment adviser with the Securities and Exchange Commission ("SEC"). As of July 31, 2012, SCA managed assets of approximately \$2.4 billion, including \$950 million in MLPs and Energy Infrastructure Companies. Salient and its affiliates managed assets of approximately \$17.6 billion as of July 31, 2012.

Pursuant to the investment management agreement, the Fund has agreed to pay SCA, as compensation for the services rendered by it, a management fee equal on an annual basis to 1.20% of the average monthly total assets of the Fund, computed and paid monthly. See "Management" on page [61] of the accompanying Prospectus.

The Offering

The Fund and SCA entered into a Sales Agreement with [] ("[]") relating to the Common Shares offered by this Prospectus Supplement and the accompanying Prospectus. In accordance with the terms of the Sales Agreement, the Fund may offer and sell up to [] of the Fund's Common Shares, \$0.01 par value per share, from time to time through [] as the Fund's agent for the offer and sale of the Common Shares.

The Fund's Common Shares are listed on the New York Stock Exchange under the symbol "SMF." As of [], 2012, the last reported sale price for the Fund's Common Shares was \$[].

Sales of the Fund's Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. See "Plan of Distribution" in this Prospectus Supplement. The Fund's Common Shares may not be sold through agents, underwriters or dealers without delivery or deemed delivery of a Prospectus and a Prospectus Supplement describing the method and terms of the offering of the Fund's securities. Under the 1940 Act, the Fund may

not sell any Common Shares at a price below the current net asset value of such Common Shares, exclusive of any distributing commission or discount.

USE OF PROCEEDS

Unless otherwise specified in this Prospectus Supplement, the Fund currently intends to use the net proceeds from the sale of the Fund's Common Shares in this offering primarily to invest in accordance with the Fund's investment objective and policies (as described under "Investment Objective and Policies," beginning on page [27] of the accompanying Prospectus). The Fund anticipates that it will be possible to invest the proceeds of the Offering consistent with the Fund's investment objective and policies within three months.

CAPITALIZATION

Pursuant to the Sales Agreement with [] dated [], 2012, the Fund may offer and sell up to [] of the Fund's Common Shares, \$0.01 par value per share, from time to time through [] as the Fund's agent for the offer and sale of the Common Shares under this Prospectus Supplement and the accompanying Prospectus. There is no guaranty that there will be any sales of the Fund's Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. The table below assumes that the Fund will sell [] Common Shares at a price of \$[] per share (the last reported sale price per share of the Fund's Common Shares on the New York Stock Exchange on [], 2012). Actual sales, if any, of the Fund's Common Shares, and the actual application of the proceeds thereof may be different than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$[] depending on the market price of the Fund's Common Shares at the time of any such sale. To the extent that the market price per share of the Fund's Common Shares on any given day is less than the net asset value per share on such day, the Fund will instruct [] not to make any sales on such day.

The following table sets forth the Fund's capitalization at [], 2012:

on a historical basis;

on a pro forma as adjusted basis to reflect (1) the sale of [] of the Fund's Common Shares pursuant to the Fund's [] Sales Agreement since [], 2012 at an average price of \$[] per share, (2) the investment of net proceeds assumed from such offering in accordance with the Fund's investment objective and policies, after deducting the aggregate commission of \$[], (3) the issuance of [] of the Fund's Common Shares through the Fund's dividend reinvestment plan and (4) the increase of the Fund's borrowings pursuant to its Committed Facility Agreement from \$[] to \$[].

on a pro forma as further adjusted basis to reflect (1) the assumed sale of [] of the Fund's Common Shares at \$[] per share (the last reported sale price for the Fund's Common Shares on the New York Stock Exchange on [], 2012), in an offering under this Prospectus Supplement and the accompanying Prospectus, and [] shares sold from [] to [] under a previous Sales Agreement with [] and the issuance of [] of the Fund's Common Shares through the Fund's dividend reinvestment plan and (2) the investment of net proceeds assumed from such offerings in accordance with the Fund's investment objective and policies, after deducting the assumed aggregate commission of \$[] (representing an estimated commission paid to [] of 1% of the gross sales price per share in connection with sales of Common Shares effected by [] in each offering) and offering costs payable by the Fund of \$[];

	Actual	As Adjusted for Share Issuances and Additional Borrowings After []	As Further Adjusted for this Offering
Loan			
Common Shareholders' equity			
Common shares, \$0.01 par value per share, unlimited shares authorized, [] shares outstanding (actual) [] shares outstanding (as adjusted) and [] shares outstanding (as further adjusted)			
Undistributed net investment income (loss)			
Accumulated net realized gain (loss) on investments, written options, foreign currency transactions, and interest rate swaps			
Net unrealized appreciation (depreciation) on investments, written options, foreign currency transactions, and interest rate swaps			
Net assets applicable to Common Shareholders			
Total Capitalization			

SUMMARY OF FUND EXPENSES

The purpose of the table below is to help you understand all fees and expenses that you, as a Common Shareholder, would bear directly or indirectly. In accordance with SEC requirements, the table below shows the Fund's expenses as a percentage of its average net assets as of [], 2012, and not as a percentage of total assets. By showing expenses as a percentage of average net assets, expenses are not expressed as a percentage of all of the assets the Fund invests. The table and example are based on the Fund's capital structure as of [], 2012. As of [], 2012, the Fund had \$[] in borrowings outstanding, representing []% of total assets as of that date.

Common Shareholder Transaction Expenses:

Sales Load Paid by You (as a percentage of offering price)(1)	[]%
Offering Expenses (Borne by the Fund's Common Shareholders)	[]%
Distribution Reinvestment Plan Fees(2)	[]%
Total Shareholder Transaction Expenses (as a percentage of offering price)	[]%

Percentage of Net Assets Attributable to Common Shares
(Assumes Financial Leverage is Used)(3)

Annual expenses:

Management Fees(4)	[]%
Interest Payments on Borrowed Funds(5)	[]%
Subsidiary Deferred Income Tax Expenses(6)	[]%
Other Expenses(7)	[]%
Total Annual Expenses	[]%
Less Management Fee Waiver/Reimbursement(8)	([])%
Net Annual Expenses	[]%

(1) Represents the estimated commission with respect to the Common Shares being sold in this offering, which the Fund will pay to [] in connection with sales of common shares effected by [] in this offering. While [] is entitled to a commission of []% to []% of the gross sales price for common shares sold, with the exact amount to be agreed upon by the parties, it has been assumed, for purposes of this offering, that [] will receive a commission of []% of such gross sales price. This is the only sales load to be paid in connection with this offering. There is no guaranty that there will be any sales of the Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. Actual sales of the Common Shares under this Prospectus Supplement and the accompanying Prospectus, if any, may be less

than as set forth in the table. In addition, the price per share of any such sale may be greater or less than the price set forth in the table, depending on the market price of the Common Shares at the time of any such sale.

- (2) The expenses of administering the Fund's dividend reinvestment plan are included in Other Expenses. You will pay brokerage charges if you direct US Bancorp, as agent for the Fund's Common Shareholders (the "Plan Administrator"), to sell your Common Shares held in a distribution reinvestment account. See "Distribution Reinvestment Plan."
- (3) Estimates what the Fund's annual expenses would be as percentages of its net assets attributable to Common Shares assuming leverage is used. If no leverage were used, the Fund's gross annual expenses are estimated to be []%. This calculation is based on 1.20% management fees, 0% interest payments on borrowed funds, [] deferred income tax expense and []% other expenses for a net annual expense of []%, which reflects the deduction of 0.20% reimbursed management fee in the next year. Net annual expenses, management fees, other expenses, total annual expenses and the reimbursed management fee are expressed as a percentage of net assets attributable to Common Shares.
- (4) Pursuant to the terms of the investment management agreement between the Fund and SCA, the management fee is calculated at an annual rate of 1.20% of the average monthly consolidated total assets of the Fund. Management fees in the table above are calculated as a percentage of net assets attributable to Common Shares, which results in a higher percentage than the percentage attributable to average monthly consolidated total assets. See "Management—Investment Management Agreement."
- (5) Reflects interest expense on \$[] in borrowings under the credit facility described in the Prospectus under "Use of Leverage."
- (6) Salient MLP & Energy Infrastructure Fund, Inc., (the "Subsidiary") is classified for federal income tax purposes as a taxable regular corporation or so called Subchapter "C" Corporation. As a "C" Corporation, the Subsidiary (and thus indirectly the Fund) accrues deferred tax liability associated with the capital appreciation of its investments and the distributions received by the Subsidiary on equity securities of MLPs considered to be a return of capital and for any net operating gains. The Subsidiary's accrued deferred tax liability, if any, is reflected in the Fund's net asset value per share. The deferred income tax expense/(benefit) represents an estimate of the Subsidiary's potential tax expense/(benefit) if it were to recognize the unrealized gains/(losses) in the portfolio. An estimate of deferred income tax expense/(benefit) is dependent on the Subsidiary's net investment income/(loss) and realized and unrealized gains/(losses) on investments, and such expense/(benefit) may vary greatly from year to year and week to week depending on the nature of the Subsidiary's investments, the performance of those investments and general market conditions. Therefore, any estimate of deferred income tax expense/(benefit) cannot be reliably predicted from year to year. For the fiscal period ended November 30, 2011, the Subsidiary (and thus indirectly the Fund) had net operating gains of \$[] and accrued \$[] in net deferred tax expense/(benefit) primarily related to unrealized appreciation on investments.
- (7) Other Expenses in the table include costs incurred in connection with the Fund's operations, including but not limited to payments to the Fund's administrator, custodian, fund accountant, transfer agent, tax preparer, legal counsel, and its independent public accounting firm. Other Expenses are based on estimated amounts for the current fiscal period.
- (8) SCA has contractually agreed to waive or reimburse the Fund for a portion of its management fee in an amount equal on an annual basis to 0.20% of the Fund's average monthly total assets until May 25, 2013. Management fees and waivers are expressed as a percentage of net assets in the table.

Example

The following example illustrates the projected dollar amount of total cumulative expenses (including the sales load, estimated offering expenses, and the estimated costs associated with Financial Leverage (as defined in the Prospectus)) that Common Shareholders would pay over various periods on a \$1,000 investment in Common Shares, assuming Total Annual Expenses are as stated in the Annual Expenses table above for the entire period. The following

example assumes that all distributions are reinvested at net asset value and assumes an annual rate of return of 5% on the Fund's portfolio securities.

	1 Year(1)	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return:	\$ []	\$ []	\$ []	\$ []

(1) Year 1 includes approximately \$[] attributable to the sales load paid, the partial expense reimbursement payable to the underwriters, if any, and other estimated offering expenses.

The example and the expenses in the table above should not be considered a representation of future expenses. The example assumes that the estimated “Total Annual Expenses” set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. Actual expenses (including the cost of financial leverage and other expenses) may be greater or less than shown. Moreover, the Fund’s actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

MARKET AND NET ASSET VALUE INFORMATION

The Common Shares are listed on the New York Stock Exchange under the symbol “SMF.” the Fund’s Common Shares commenced trading on the New York Stock Exchange in May 2011.

The Common Shares have traded both at a premium and a discount to net asset value or NAV. The Fund cannot predict whether the Fund’s shares will trade in the future at a premium or discount to NAV. The provisions of the 1940 Act generally require that the public offering price of Common Shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company’s common stock (calculated within 48 hours of pricing). The Fund’s issuance of Common Shares may have an adverse effect on prices in the secondary market for the Fund’s Common Shares by increasing the number of Common Shares available, which may put downward pressure on the market price for the Fund’s Common Shares. Shares of common stock of closed-end investment companies frequently trade at a discount from NAV. See “Risks —Market Discount Risk” on page [36] of the accompanying Prospectus.

The following table sets forth for each of the periods indicated the high and low closing market prices for the Fund’s Common Shares on the New York Stock Exchange, the NAV per share and the premium or discount to NAV per share at which the Fund’s Common Shares were trading. NAV is determined on the last business day of each month. See “Net Asset Value” on page [62] of the accompanying Prospectus for information as to the determination of the Fund’s NAV.

Quarter Ended	Market Price(1)		NAV(2)		Premium/(Discount) to NAV(3)		Reported NYSE Volume
	High	Low	High	Low	High	Low	

Source: [].

(1) Based on high and low closing market price during the respective quarter.

(2)

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Based on the NAV calculated on the close of business on the last business day of each calendar quarter.

- (3) Based on the Fund's computations on the day of each of the high and low closing market prices during the respective quarter.

The last reported sale price, NAV per common share and percentage discount to NAV per common share on [], 2012, were \$[], \$[] and []%, respectively. As of [], 2012, the Fund had [] Common Shares outstanding and managed assets of approximately \$[].

The following table provides information about the Fund's outstanding securities as of [], 2012:

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding
Common Shares	Unlimited	[]	[]

USE OF PROCEEDS

Sales of the Fund's Common Shares, if any, under this Prospectus Supplement and the accompanying Prospectus may be made in negotiated transactions or transactions that are deemed to be "at the market" as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. There is no guaranty that there will be any sales of the Fund's Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. Actual sales, if any, of the Fund's Common Shares under this Prospectus Supplement and the accompanying Prospectus may be less than as set forth below in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth below in this paragraph, depending on the market price of the Fund's Common Shares at the time of any such sale. As a result, the actual net proceeds the Fund receives may be more or less than the amount of net proceeds estimated in this Prospectus Supplement. Assuming the sale of the [] Common Shares remaining under the Sales Agreement at the last reported sale price of \$[] per share for the Fund's Common Shares on the New York Stock Exchange as of [], 2012, the Fund estimates that the net proceeds of this offering will be approximately \$[] after deducting the estimated [] commissions and the Fund's estimated offering expenses. The estimated net proceeds do not take into account any actual sales that may have occurred between [], 2012 and the date of this Prospectus Supplement. The Fund currently intend to use the net proceeds from the sale of the Fund's Common Shares in this offering primarily to invest in accordance with the Fund's investment objective and policies. The Fund anticipates that it will be possible to invest the proceeds of the Offering consistent with the Fund's investment objective and within three months. [The Fund may also use proceeds from the sale of the Fund's securities to retire all or a portion of any short-term debt the Fund incurs in pursuit of the Fund's investment objective and policies, and for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for this purpose.]

PLAN OF DISTRIBUTION

Under the Sales Agreement among the Fund, SCA and [], upon written instructions from the Fund, [] will use its commercially reasonable efforts consistent with its sales and trading practices, to sell, as the Fund's sales agent, the Common Shares under the terms and subject to the conditions set forth in the Sales Agreement. []'s sales efforts will continue until the Fund instructs [] to suspend sales. SCA will instruct [] as to the amount of Common Shares to be sold by []. SCA may instruct [] not to sell Common Shares if the sales cannot be effected at or above the price designated by the Fund in any instruction. The Fund or [] may suspend the offering of Common Shares upon proper notice and subject to other conditions.

[] will provide written confirmation to the Fund not later than the opening of the trading day on the New York Stock Exchange following the trading day on which Common Shares are sold under the Sales Agreement. Each confirmation will include the number of shares sold on the preceding day, the net proceeds to the Fund and the compensation payable by the Fund to [] in connection with the sales.

The Fund will pay [] commissions for its services in acting as agent in the sale of Common Shares. [] will be entitled to compensation of [] to [] basis points of the gross sales price per share of any Common Shares sold under the Sales Agreement, with the exact amount of such compensation to be mutually agreed upon by the Fund and [] from time to time. There is no guaranty that there will be any sales of the Fund's Common Shares pursuant to this Prospectus Supplement and the accompanying Prospectus. Actual sales, if any, of the Fund's Common Shares under this Prospectus Supplement and the accompanying Prospectus may be less than as set forth in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth in this paragraph, depending on the market price of the Fund's Common Shares at the time of any such sale. Assuming [] of the Fund's Common Shares offered hereby are sold at a market price of \$[] per share (the last

reported sale price for the Fund's Common Shares on the New York Stock Exchange on [], 2012), the Fund estimates that the total cost for the offering,

excluding compensation payable to [] under the terms of the Sales Agreement, would be approximately \$[].

Settlement for sales of Common Shares will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Fund and [] in connection with a particular transaction, in return for payment of the net proceeds to the Fund. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the Common Shares on the Fund's behalf, [] may, and will with respect to sales effected in an "at the market offering", be deemed to be an "underwriter" within the meaning of the 1933 Act, and the compensation of [] may be deemed to be underwriting commissions or discounts. The Fund has agreed to provide indemnification and contribution to [] against certain civil liabilities, including liabilities under the 1933 Act. The Fund has also agreed to reimburse [] for other specified expenses.

The offering of the Fund's Common Shares pursuant to the Sales Agreement will terminate upon the earlier of (1) the sale of all Common Shares subject the Sales Agreement or (2) termination of the Sales Agreement. The Sales Agreement may be terminated in the Fund's sole discretion at any time by giving notice to []. In addition, [] may terminate the Sales Agreement under the circumstances specified in the Sales Agreement and in its sole discretion at any time following a period of 12 months from the date of the Sales Agreement by giving notice to the Fund .

The principal business address of [] is [].

AVAILABLE INFORMATION

The Fund is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the 1940 Act and are required to file reports, including annual and semi-annual reports, proxy statements and other information with the SEC. These documents are available on the SEC's EDGAR system and can be inspected and copied for a fee at the SEC's public reference room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Additional information about the operation of the public reference room facilities may be obtained by calling the SEC at (202) 551-5850.

This Prospectus Supplement and the accompanying Prospectus do not contain all of the information in the Fund's registration statement, including amendments, exhibits, and schedules. Statements in this Prospectus Supplement and the accompanying Prospectus about the contents of any contract or other document are not necessarily complete and in each

instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about the Fund can be found in the Fund's registration statement (including amendments, exhibits, and schedules) on Form N-2 filed with the SEC. The SEC maintains a web site (<http://www.sec.gov>) that contains the Fund's registration statement, other documents incorporated by reference, and other information the Fund has filed electronically with the SEC, including proxy statements and reports filed under the Exchange Act.

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

SUBJECT TO COMPLETION DATED NOVEMBER 16, 2012

SALIENT MLP & ENERGY INFRASTRUCTURE FUND

STATEMENT OF ADDITIONAL INFORMATION

Salient MLP & Energy Infrastructure Fund (referred to herein as the “Fund”), a Delaware statutory trust, is a non-diversified closed-end management investment company. Salient Capital Advisors, LLC (referred to herein as “SCA”) is the Fund’s investment adviser, responsible for implementing and administering the Fund’s investment strategy. SCA is managed by Salient Capital Management, LLC, a Delaware limited liability company (“SCM”). SCA and SCM are subsidiaries of Salient Partners, L.P., a Delaware limited partnership (“SPLP”) (collectively, SCA, SCM, SPLP and their affiliated companies are hereinafter referred to as “Salient”).

This Statement of Additional Information (the “SAI”) relating to the offering of the Fund’s common shares of beneficial interest (the “Common Shares”) does not constitute a Prospectus but should be read in conjunction with the Fund’s Prospectus relating thereto dated [], 2012 (the “Prospectus”) and any related supplement thereto (“Prospectus Supplement”). This SAI does not include all of the information that a prospective investor should consider before purchasing any of Common Shares. Investors should obtain and read the Fund’s Prospectus and any related Prospectus Supplement prior to purchasing any of the Fund’s Common Shares. A copy of the Fund’s Prospectus and any related Prospectus Supplement may be obtained from the Fund without charge by calling (800) 809-0525 or on the Securities and Exchange Commission’s website (www.sec.gov). Capitalized terms used but not defined in this SAI have the meanings ascribed to them in the Prospectus and any related Prospectus Supplement.

This SAI is dated [], 2012.

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GLOSSARY OF KEY TERMS

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

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

“Marine Midstream Energy Infrastructure Companies” means public companies that provide transportation and distribution services of energy-related products through the ownership and operation of marine transportation vessels (including tankers, barges and tugboats).

“Midstream Assets” means assets used in transporting, storing, gathering, processing, distributing, marketing and/or delivering of natural gas, natural gas liquids, crude oil or refined products or coal.

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

“Midstream MLPs” means MLPs that principally own and operate Midstream Assets. Midstream MLPs also include (a) MLPs that provide transportation and distribution services of energy related products through the ownership of marine transportation vessels and (b) MLP Affiliates of Midstream MLPs.

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

“MLPs” means entities that are structured as Master Limited Partnerships and includes Midstream MLPs and other energy MLPs. “Master Limited Partnerships” means limited partnerships and limited liability companies that are publicly traded and are treated as partnerships for U.S. federal income tax purposes.

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

“Other Energy Infrastructure Companies” means Energy Infrastructure Companies, excluding MLPs and Midstream Energy Infrastructure Companies.

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide a high level of total return with an emphasis on making quarterly cash distributions ("Distributions") to its Common Shareholders ("Common Shareholders"). The Fund's investment objective is considered a fundamental policy and therefore may not be changed without the approval of the holders of a "majority of the outstanding voting securities." When used with respect to the Fund's voting securities, a "majority of the outstanding voting securities" means (i) 67% or more of Common Shares present at a meeting, if the holders of more than 50% of Common Shares are present or represented by proxy, or (ii) more than 50% of Common Shares, whichever is less.

The Fund seeks to achieve its investment objective by investing at least 80% of its total assets in securities of MLPs and Energy Infrastructure Companies. A majority of the Fund's investments consist of investments in Midstream MLPs and Midstream Energy Infrastructure Companies. There can be no assurance that the Fund will achieve its investment objective. There can be no assurance that the Fund will achieve the Fund's investment objective.

INVESTMENT POLICIES

The following investment policies, along with the Fund's investment objective, are the Fund's only fundamental policies — that is, policies that cannot be changed without the approval of the holders of a majority of the outstanding voting securities:

- (1) The Fund may not purchase or sell real estate unless acquired as a result of the ownership of securities or other instruments; provided, however, that this restriction does not prevent the Fund from investing in issuers which invest, deal, or otherwise engage in transactions in real estate or interests therein, or investing in securities that are secured by real estate or interests therein.
- (2) The Fund may not purchase or sell commodities as defined in the Commodity Exchange Act, as amended, and the rules and regulations thereunder, unless acquired as a result of the ownership of securities or other instruments; provided, however, that this restriction does not prevent the Fund from engaging in transactions involving futures contracts and options thereon or investing in securities that are secured by physical commodities.
- (3) The Fund may not borrow money or issue senior securities, except to the extent permitted by the Investment Company Act of 1940, as amended (the "1940 Act"), or any rules, exemptions or interpretations thereunder that may be adopted, granted or issued by the SEC. See "Use of Leverage" and "Risks—Leverage Risk" in the Prospectus.
- (4) The Fund may not make loans to other persons except (a) through the lending of the Fund's portfolio securities, (b) through the purchase of debt obligations, loan participations and/or engaging in direct corporate loans in accordance with the Fund's investment objective and policies, and (c) to the extent the entry into a repurchase agreement is deemed to be a loan. The Fund may also make loans to other investment companies to the extent permitted by the 1940 Act or any exemptions therefrom which may be granted by the SEC.
- (5) The Fund may not act as an underwriter except to the extent that, in connection with the disposition of portfolio securities, the Fund may be deemed to be an underwriter under applicable securities laws.
- (6) The Fund will concentrate the Fund's investments in the energy and energy infrastructure industries through investments in MLPs, Energy Infrastructure Companies, Midstream MLPs, Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies; and the Fund may not concentrate the Fund's investments in any other particular "industry" as that term is used in the 1940 Act and as interpreted, modified or otherwise permitted by regulatory authority having jurisdiction, from time to time.

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The following investment policies are considered non-fundamental and may be changed by the Board of Trustees (the “Board”) without the approval of the holders of a “majority of the outstanding” voting securities, provided that the holders of such voting securities receive at least 60 days’ prior written notice of any change. Under normal market conditions:

The Fund will invest at least 80% of its total assets in securities of MLPs and Energy Infrastructure Companies.

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

The Fund may directly invest up to but not more than 25% (or such higher amount as permitted by any applicable tax diversification rules) of its total assets in equity or debt securities of MLPs. This limit does not apply to securities issued by MLP

Affiliates, that are not treated as publicly traded partnerships for U.S. federal income tax purposes, or investments made into MLPs by the Subsidiary.

The Fund may invest up to but not more than 25% of its total assets into subsidiary C corporations which in turn may invest up to 100% of their assets into equity or debt securities of MLPs.

The Fund will invest at least 50% of its total assets in securities of Midstream MLPs and Midstream Energy Infrastructure Companies.

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

The Fund may invest up to but not more than 25% of its total assets in debt securities of Energy Infrastructure Companies. All or a portion of the Fund’s debt securities may be rated below investment grade (BB+/Ba1 or lower) by a nationally recognized ratings agency at the time of investment, and no more than 15% of the Fund’s total assets may be invested in unrated debt securities. Debt securities that are rated below investment grade are commonly referred to as “high yield” or “junk.” Investing in junk bonds is speculative and presents a high degree of risk. See “Risks—Debt Securities.” For the purposes of determining if an investment satisfies this test, SCA will look to the highest credit rating from a nationally recognized ratings agency on such debt investment.

The Fund may invest up to, but not more than, 10% of its total assets in any single issuer other than any subsidiary C corporation owned by the Fund.

The Fund may write covered call options on up to 30% of the value of total assets in its portfolio for the purpose of generating realized gains as part of the Fund’s hedging strategy.

The Fund utilizes financial leverage, presently in the form of bank debt (“Indebtedness”), but which in the future could be in the form of the issuance of preferred shares (together with Indebtedness, “Financial Leverage”). Under normal market conditions, the Fund utilizes Financial Leverage (currently in the form of Indebtedness) in an amount that represents approximately 25% of its total assets, including proceeds from such Financial Leverage. However, as market conditions develop, the Fund may use Financial Leverage in amounts that represent greater than 25% leverage up to the above-stated amounts permitted by the 1940 Act. The Fund also may utilize derivatives and other portfolio techniques (such as short selling and uncovered call writing) that have the economic effect of leverage by creating additional investment exposure. “Effective leverage” is the combination of the amount of leverage in the Fund’s capital structure plus the amount of leverage from any such derivatives and other portfolio techniques. The Fund’s effective leverage ratio will vary from time to time, based upon changes in market conditions and variations in the value of the portfolio’s holdings. To the extent obligations created by the Fund’s use of leverage may be deemed to constitute senior securities, the Fund will segregate or earmark liquid assets with its custodian in accordance with 1940 Act Release No. 10666 (Apr. 18, 1979) to cover these obligations. The Fund’s effective leverage will not exceed 40% of the Fund’s total assets. The Fund and the Subsidiary have entered into a

credit facility with a bank to borrow up to a limit of \$75 million in aggregate with the Subsidiary. The Fund is required to maintain certain net asset levels during the term of the Agreement. As of October 31, 2012 the Fund had \$67 million in outstanding borrowings, at an interest rate of 1.16%. The Fund may enter into additional credit facilities that may represent an aggregate amount up to 33 1/3% of total assets.

The percentage limitations applicable to the Fund's portfolio described above apply only at the time of investment, and the Fund will not be required to sell securities due to subsequent changes in the value of securities it owns. However, although the Fund may not be required to sell securities due to subsequent changes in value, if such changes cause the Fund to have invested less than 80% of its total assets in securities of MLPs and Energy Infrastructure Companies, the Fund will be required to make future purchases of securities in a manner so as to bring the Fund into compliance with this investment policy. The Fund will invest primarily in companies located in North America, but may invest in companies located anywhere in the world. The Fund will invest in companies of any market capitalization.

For purposes of the temporary investment positions that the Fund may take (see “The Fund’s Investments — The Fund’s Portfolio — Temporary Defensive Position” in this SAI), and in general (unless otherwise noted), cash and cash equivalents are defined to include, without limitation, the following:

- (1) U.S. Government securities, which are obligations of, or securities guaranteed by, the U.S. Government, its agencies or instrumentalities.
- (2) Certificates of deposit issued against funds deposited in a bank or a savings and loan association. Such certificates are for a definite period of time, earn a specified rate of return, and are normally negotiable. The issuer of a certificate of deposit agrees to pay the amount deposited plus interest to the bearer of the certificate on the date specified thereon. Under current FDIC regulations, the maximum insurance payable as to any one certificate of deposit is \$250,000; therefore, certificates of deposit the Fund purchase may not be fully insured.
- (3) Repurchase agreements, which involve purchases of debt securities. At the time the Fund purchases securities pursuant to a repurchase agreement, the Fund simultaneously agrees to resell and redeliver such securities to the seller, who also simultaneously agrees to buy back the securities at a fixed price and time. This assures the Fund a predetermined yield during the holding period, since the resale price is always greater than the purchase price and reflects an agreed-upon market rate. Such actions afford an opportunity for the Fund to invest temporarily available cash.
- (4) Commercial paper, which consists of short-term unsecured promissory notes, including variable rate master demand notes issued by corporations to finance their current operations. Master demand notes are direct lending arrangements between the Fund and a corporation. There is no secondary market for such notes. However, they are redeemable by the Fund at any time. SCA will consider the financial condition of the corporation (e.g., earning power, cash flow, and other liquidity measures) and will continuously monitor the corporation’s ability to meet all of its financial obligations, because the Fund’s liquidity might be impaired if the corporation were unable to pay principal and interest on demand. To be characterized by the Fund as “cash or cash equivalents,” investments in commercial paper will be limited to commercial paper rated in the highest categories by a rating agency and which mature within one year of the date of purchase or carry a variable or floating rate of interest.
- (5) Bankers’ acceptances, which are short-term credit instruments used to finance commercial transactions. Generally, an acceptance is a time draft drawn on a bank by an exporter or an importer to obtain a stated amount of funds to pay for specific merchandise. The draft is then “accepted” by a bank that, in effect, unconditionally guarantees to pay the face value of the instrument on its maturity date. The acceptance may then be held by the accepting bank as an asset or it may be sold in the secondary market at the going rate of interest for a specific maturity.
- (6) Bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest. There may be penalties for the early withdrawal of such time deposits, in which case the yields of these investments will be reduced.
- (7) Shares of money market funds in accordance with the applicable provisions of the 1940 Act.

THE FUND’S INVESTMENTS

Description of Midstream Assets

Midstream Assets are the assets used by Energy Infrastructure Companies in performing services related to energy logistics. These assets provide the link between the source point of energy products, such as natural gas and natural gas liquids and oil (i.e., where it is produced), and the end users (i.e., where it is consumed). Midstream Assets include

those assets used in transporting, storing, gathering, processing, distributing, marketing and/or delivering of natural gas, natural gas liquids, crude oil or refined products or coal.

Natural gas related Midstream Assets serve to collect natural gas from the wellhead in small diameter pipelines, known as gathering systems. After natural gas is gathered, it can be either delivered directly into a natural gas pipeline system or to gas processing and treatment plants for removal of natural gas liquids and impurities. After being processed, resulting “residue” natural gas is transported by large diameter intrastate and interstate pipelines across the United States to satisfy end-user demand. During the transportation process, natural gas may be placed in storage facilities, which may consist of salt caverns, aquifers and depleted gas reservoirs, for withdrawal at a later date. Finally, after being transported by the intrastate and interstate pipelines, natural gas enters small diameter distribution lines pipelines, usually owned by local utilities, for delivery to consumers of such natural gas.

Similarly, Midstream Assets transport crude oil by pipeline and truck and ships from the wellhead to the refinery. At the refinery, oil is refined into gasoline, distillates (such as diesel and heating oil) and other refined products. Refined products are then transported by pipeline from the refinery to storage terminals and are ultimately transported to end users such as gas stations, airports and other industrial users.

Owners of Midstream Assets generally do not own the energy products flowing through their assets and, as a result, are not directly exposed to commodity price risk. Instead, Midstream Assets often charge a fee determined primarily by volume handled and service provided. Furthermore, the fee charged for such service is often regulated by FERC or a similar state agency.

Description of MLPs

MLPs are entities that are publicly traded and are treated as partnerships for U.S. federal income tax purposes. (This discussion does not apply to securities issued by MLP Affiliates, that are not treated as publicly traded partnerships for U.S. federal income tax purposes.) MLPs are typically structured as limited partnerships or as limited liability companies treated as partnerships. The units for these entities are listed and traded on a U.S. securities exchange. To qualify as a Master Limited Partnership, the entity must receive at least 90% of its gross income from qualifying sources as set forth in Section 7704(d) of the Code. These qualifying sources include natural resource-based activities such as the exploration, development, mining, production, processing, refining, transportation, storage, gathering, processing, distribution and marketing of mineral or natural resources. Limited partnerships have two classes of interests: general partner interests and limited partner interests. The general partner typically controls the operations and management of the partnership through an equity interest in the partnership (typically up to 2% of total equity). Limited partners own the remainder of the partnership and have a limited role in the partnership's operations and management.

MLPs organized as limited partnerships generally have a general partner interest and two classes of limited partner interests—common units and subordinated units. The general partner interest may be held by either a private or publicly traded corporation or other entity. In many cases, the general partner owns common units, subordinated units and incentive distribution rights (“IDRs”) in addition to its general partner interest in the Master Limited Partnership.

MLPs are typically structured such that common units and general partner interests have first priority to receive quarterly cash distributions up to an established minimum amount (“minimum quarterly distributions” or “MQD”). Common units also accrue arrearages in distributions to the extent the MQD is not paid while any subordinated units remain outstanding. Once common units have been paid, subordinated units receive distributions in an amount up to the MQD; however, subordinated units do not accrue arrearages. Distributable cash in excess of the MQD that is paid with respect to both common and subordinated units generally is distributed to both common and subordinated units on a pro rata basis. Whenever a distribution is paid either to common unitholders or subordinated unitholders, the general partner is paid a proportional distribution. The holders of IDRs (usually the general partner) are eligible to receive incentive distributions if the general partner operates the business in a manner that results in distributions paid per unit surpassing specified target levels. As cash distributions to the limited partners increase, the IDRs receive an increasingly higher percentage of the incremental cash distributions. A common arrangement provides that the IDRs can reach a tier where the holder receives 48% of every incremental dollar paid to partners. These IDRs encourage the general partner to streamline costs, make investments and acquire assets in order to increase the partnership's cash flow and raise the quarterly cash distribution in order to reach higher tiers. Such results benefit all security holders of such Master Limited Partnership.

The MLPs in which the Fund may directly or indirectly invest are currently classified by the Fund as Midstream MLPs and MLPs other than Midstream MLPs that operate (i) other assets that are used in the energy sector, including assets used in exploring developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity, or (ii) that provide energy related services.

As described below, the Fund further sub-categorized these MLPs into the following groups:

Midstream MLPs own and operate the logistical assets used in the energy sector and are engaged in (a) the treating, gathering, compression, processing, transmission and storage of natural gas and the transportation, fractionation and storage of natural gas liquids (primarily propane, ethane, butane and natural gasoline); (b) the gathering, transportation and storage of crude oil; and (c) the transportation and storage of refined products (primarily gasoline, diesel fuel and jet fuel) and other hydrocarbon by-products. Midstream MLPs may also operate ancillary businesses including the marketing of commodities and logistical services. Midstream MLPs include MLPs that provide transportation and distribution services of energy-related products through the ownership and operation of marine transportation vessels (including tankers, barges and tugboats).

MLPs other than Midstream MLPs that operate other assets (i) that are used in the energy sector, including assets used in exploring developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity, or (ii) that provide energy related services. Such MLPs can be classified into one of the following groups:

“Upstream MLPs” are businesses engaged in the acquisition, exploitation, development and production of natural gas, natural gas liquids and crude oil. An Upstream MLP’s cash flow and distributions are driven by the amount of oil, natural gas, natural gas liquids and oil produced and the demand for and price of such commodities. As the underlying reserves of an Upstream MLP are produced, its reserve base is depleted. Upstream MLPs may seek to maintain or expand their reserves and production through the acquisition of reserves from other companies and the exploration and development of existing resources.

“Coal MLPs” are engaged in the owning, leasing, managing, production and sale of various grades of steam and metallurgical grades of coal. The primary use of steam coal is for electric generation (steam coal is used as a fuel for steam-powered generators by electrical utilities). The primary use of metallurgical coal is in the production of steel (metallurgical coal is used to make coke, which, in turn, is used as a raw material in the steel manufacturing process).

“Propane MLPs” are engaged in the distribution of propane to homeowners for space and water heating and to commercial, industrial and agricultural customers. Propane serves approximately 6% of the household energy needs in the United States, largely for homes beyond the geographic reach of natural gas distribution pipelines. Volumes are weather dependent and a majority of annual cash flow is earned during the winter heating season (October through March).

MLPs may also own other assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity or provide energy-related services, such as refining and distribution of specialty refined products. While these MLPs do not fit into one of the three categories listed above, they are publicly traded and generate qualified income and qualify for federal tax treatment as partnerships.

Description of Midstream Energy Infrastructure Companies

Midstream Energy Infrastructure Companies are companies that (i) derive at least 50% of their revenues or operating income from operating Midstream Assets or (ii) have Midstream Assets that represent a majority of their assets. These companies are typically structured as corporations and the common stock of such companies is typically listed and traded on a U.S. securities exchange. Often these companies are large, diversified Energy Infrastructure Companies with multiple operating divisions in addition to their midstream operations, such as exploration and production, electric generation and distribution and marketing and trading.

Description of Energy Infrastructure Companies

Energy Infrastructure Companies includes companies that (i) derive at least 50% of their revenues or operating income from operating assets that are used in the energy sector, including assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining or marketing of natural gas, natural gas liquids, crude oil, refined products, coal or electricity or providing services for the operation of such assets or (ii) have such assets that represent the majority of their assets. These companies operate, among other things, assets used in exploring, developing, producing, generating, transporting, transmitting, storing, gathering, processing, refining, distributing, mining, marketing or generation of natural gas, natural gas liquids, crude oil, refined petroleum products, coal or electricity.

Energy Infrastructure Companies can be broadly divided into five groups:

Upstream:	Companies engaged in exploring, developing and producing natural gas, natural gas liquids, crude oil and coal.
Midstream:	Companies engaged in transporting, gathering, processing, distributing, marketing, storing and delivering natural gas, natural gas liquids, crude oil and refined products for use by end users.
Downstream:	Companies engaged in refining and distributing crude oil and refined products to end customers.
Power:	Companies engaged in generating, transmitting and distributing electricity.
Energy Services:	Companies that provide services to the Upstream, Midstream and Downstream sectors of the energy industry.

For the purpose of this SAI, Other Energy Infrastructure Companies include all of the companies mentioned above except MLPs and Midstream Energy Infrastructure Companies.

Description of Canadian Income Trusts

Canadian Income Trust means a qualified income trust designated by the Canada Revenue Agency that derives income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources.

The Fund's Portfolio

At any given time, it is expected that the Fund's portfolio will have some or all of the following types of investments: (i) equity securities of MLPs, such as Midstream MLPs, including common units, preferred units, subordinated units and general partner interests, (ii) equity securities of Midstream Energy Infrastructure Companies, (iii) equity securities of Upstream MLPs, Coal MLPs and Propane MLPs, (iv) equity securities of Other Energy Infrastructure Companies and (v) debt securities of Energy Infrastructure Companies (including Midstream MLPs and Midstream Energy Infrastructure Companies). It is expected that the focus of the Fund's portfolio investments will be in securities of Midstream MLPs and Midstream Energy Infrastructure Companies. The Fund may invest in the equity securities of Midstream Energy Infrastructure Companies and MLPs either directly or indirectly through

one or more taxable subsidiary C corporations. A description of the Fund's investment policies and restrictions and more information about the Fund's portfolio investments are contained in this SAI and the Prospectus.

Equity Securities of MLPs. The following summarizes in further detail certain features of equity securities of MLPs. Also summarized below are certain features of i-shares, which represent an ownership interest issued by an MLP Affiliate.

Common Units. Common units represent a MLP limited partner interest and may be listed and traded on U.S. securities exchanges or over-the-counter, with their value fluctuating predominantly based on prevailing market conditions and the success of such MLP. The Fund intends to purchase common units in market transactions as well as in primary issuances directly from the MLP or other parties in private placements. Unlike owners of common stock of a corporation, owners of common units have limited voting rights and, in most instances, have no ability to annually elect directors. In the event of liquidation, common units have preference over subordinated units to the remaining assets of such MLP, but are subordinated to debt and preferred units in the event of a liquidation.

Subordinated Units. Subordinated units are typically issued by MLPs to their original sponsors, such as their management teams, corporate general partners, entities that sell assets to the MLP, and outside investors such as the Fund. The Fund may purchase subordinated units from these persons as well as newly issued subordinated units from the MLPs. Subordinated units have similar limited voting rights as common units and are generally not publicly traded. In the event of liquidation, common units and general partner interests have priority over subordinated units. Subordinated units are typically converted into common units on a one-to-one basis after certain time periods and/or performance targets have been satisfied. The purchase or sale price of subordinated units is generally tied to the common unit price less a discount. The size of the discount varies depending on the likelihood of conversion, the length of time remaining to conversion, the size of the block purchased relative to trading volumes, and other factors.

General Partner Interests. General partner interests of MLPs are typically retained by their respective original sponsors, such as its management teams, corporate partners, entities that sell assets to the MLP, and investors such as the Fund. A holder of general partner interests can be liable under certain circumstances for amounts greater than the amount of the holder's investment in such general partner interest. General partner interests often confer direct board participation rights and in many cases, operating control, over the MLP. General partner interests receive cash distributions, typically 2% of the MLP's aggregate cash distributions. General partner interests generally cannot be converted into common units. The general partner interest can be redeemed by the MLP if the unitholders of the MLP choose to remove the general partner, typically with a supermajority vote by the limited partners.

Incentive Distribution Rights ("IDRs"). Holders of IDRs are entitled to a larger share of the cash distributions after the distributions to common unit holders meet certain prescribed levels. IDRs are generally attributable to the holder's other equity interest (typically a general partner interest and subordinated units) in the MLP and permit the holder to receive a disproportionate share of the cash distributions above stated levels.

I-Shares. The Fund will directly invest in i-shares or other securities issued by MLP Affiliates. I-shares represent an ownership interest issued by an affiliated party of a MLP. The MLP Affiliate uses the proceeds from the sale of i-shares to purchase limited partner interests in the MLP in the form of i-units. I-units have similar features as common units in terms of voting rights, liquidation preference and distributions. However, rather than receiving cash, the MLP Affiliate receives additional i-units in an amount equal to the cash distributions received by the holders of the common units. Similarly, holders of i-shares will receive additional i-shares, in the same proportion as the MLP Affiliate's receipt of i-units, rather than cash distributions. I-shares themselves have limited voting rights which are similar to those applicable to common units. The MLP Affiliate issuing the i-shares is structured as a corporation for U.S. federal income tax purposes and is not treated as a partnership for U.S. federal income tax purposes.

Equity Securities of Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies. Equity securities of Midstream Energy Infrastructure Companies and Other Energy Infrastructure Companies consist of common equity, preferred equity and other securities convertible into equity securities of such companies. Holders of Common Shares are typically entitled to one vote per share on all matters to be voted on by shareholders. Holders of preferred equity can be entitled to a wide range of voting and other rights, depending on the structure of each separate security. Securities convertible into equity securities of Midstream Energy Infrastructure Companies generally convert according to set ratios into Common Shares and are, like preferred equity, entitled to a wide range of voting and other rights. These securities are typically listed and traded on U.S. securities exchanges or over-the-counter. The Fund intends to invest in equity securities of Midstream Energy Infrastructure Companies primarily through market transactions as well as primary issuances directly from such Companies or other parties in private placements.

Securities of Private Midstream Partnership and Private Midstream Energy Infrastructure Companies. The Fund's investments in the equity securities of private Midstream MLPs and private Midstream Energy Infrastructure Companies will typically be made with the expectation that such assets will be contributed to a newly-formed MLP or sold to or merged with an existing MLP in the future. The Fund expects that such companies will typically be LLCs and not structured as MLPs. The Fund's investments will typically be common units and subordinated units of such entity.

Debt Securities of Energy Infrastructure Companies. The debt securities in which the Fund will invest provide for fixed or variable principal payments and various types of interest rate and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred and payment-in-kind features. Certain debt securities are “perpetual” in that they have no maturity date. Certain debt securities are zero coupon bonds. A zero coupon bond is a bond that does not pay interest either for the entire life of the obligations or for an initial period after the issuance of the obligation. Up to but no more than 10% of the Fund’s total assets may be invested in unrated debt securities. The balance of such debt investments may be invested in debt securities which are rated, at the time of investment at least B- (or an equivalent rating) by a nationally recognized ratings agency at the time of investment. For the purposes of determining if an investment satisfies this test, the Fund will look to the highest credit rating on such debt instrument. If a security satisfies the Fund’s minimum rating criteria at the time of purchase and is subsequently downgraded below such rating, the Fund will not be required to dispose of such security.

Because the risk of default is higher for below investment grade and unrated debt securities than for investment grade securities, Salient’s research and credit analysis is a particularly important part of making investment decisions on securities of this type. Salient will attempt to identify those issuers of below investment grade and unrated debt securities whose financial condition Salient believes is sufficient to meet future obligations or has improved or is expected to improve in the future. Salient’s analysis focuses on relative values based on such factors as interest coverage, fixed charges coverage, asset coverage, operating history, financial resources, earnings prospects and the experience and managerial strength of the issuer. See “Risks—Debt Securities Risks—Below Investment Grade and Unrated Debt Securities Risk” in the Fund’s Prospectus.

Temporary Defensive Position. During periods in which SCA determines that it is temporarily unable to follow the Fund’s investment strategy or that it is impractical to do so, the Fund may deviate from the Fund’s investment strategy and invest all or any portion of the Fund’s assets in cash or cash equivalents. SCA’s determination that it is temporarily unable to follow the Fund’s investment strategy or that it is impractical to do so will generally occur only in situations in which a market disruption event has occurred and where trading in the securities selected through application of the Fund’s investment strategy is extremely limited or absent. In such a case, Common Shares may be adversely affected and the Fund may not pursue or achieve the Fund’s investment objective.

The Fund’s Use of Derivatives, Options and Hedging Strategies

Investment Practices

Option Strategy. The Fund currently may write covered call options in an amount up to 30% of the value of total assets in its portfolio with the purpose of generating realized gains. The Fund also may write uncovered call options, in an amount up to 10% of the value of total assets in its portfolio, and purchase put options as part of its hedging strategy (as discussed below). This option strategy is intended to generate returns from options premiums as a means to enhance distributions to the Fund’s Common Shareholders. A call option on a security is a contract that gives the holder of such call option the right to buy the security underlying the call option from the writer of such call option at a specified price at any time during the term of the option. At the time the call option is sold, the writer of a call option receives a premium (or call premium) from the buyer of such call option. If the Fund writes a call option on a security, it will have the obligation upon exercise of such call option to deliver the underlying security upon payment of the exercise price. When the Fund writes a call option, an amount equal to the premium received by the Fund will be recorded as a liability and will be subsequently adjusted to the current fair value of the option written. Premiums received from writing options that expire unexercised are treated by the Fund as realized gains from investments on the expiration date. If the Fund repurchases a written call option prior to its exercise, the difference between the premium received and the amount paid to repurchase the option is treated as a realized gain or realized loss. If a call option is exercised, the premium is added to the proceeds from the sale of the underlying security in determining whether the Fund has realized a gain or loss. The Fund, as the writer of the option, bears the market risk of an

unfavorable change in the price of the security underlying the written option. As the writer of a covered call option, the Fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying security decline. As the Fund writes covered calls over more of its portfolio, its ability to benefit from capital appreciation becomes more limited. Separately, in the Fund's hedging strategy, it may both write covered and uncovered call options and purchase put options to attempt to hedge various Fund investments and/or markets or indices, as well as interest rates. The Fund limits its use of uncovered calls to 10% of the value of total assets in its portfolio. As a writer of uncovered calls, the Fund would be subject to the risk of unlimited losses.

Uncovered Calls. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying security above the exercise price of the option. The securities necessary to satisfy the exercise of the call option may be unavailable for purchase except at much higher prices. Purchasing securities to satisfy the exercise of the call option can itself cause the price of the securities to rise further, sometimes by a significant amount, thereby exacerbating the loss. The buyer of a call option assumes the risk of losing its entire premium invested in the call option. Although writing uncovered call options can have speculative characteristics, the Fund does not intend to speculate but to use such tactics in the Fund's hedging strategies.

Interest Rate Swaps. The Fund currently expects to utilize hedging techniques such as interest rate swaps to mitigate potential interest rate risk on a portion of the Fund's Financial Leverage. Such interest rate swaps would principally be used to protect the Fund against higher costs on the Fund's Financial Leverage resulting from increases in short-term interest rates. The Fund anticipates that the majority of the Fund's interest rate hedges will be interest rate swap contracts with financial institutions.

Use of Short Sales, Arbitrage and Other Derivative-Based Strategies. The Fund may use short sales, arbitrage and other strategies to try to generate additional return. As part of such strategies, the Fund may (i) engage in paired long-short trades to arbitrage pricing disparities in securities held in the Fund's portfolio; (ii) purchase call options or put options; (iii) enter into total return swap contracts; or (iv) sell securities short. Paired trading consists of taking a long position in one security and concurrently taking a short position in another security within the same or an affiliated issuer. With a long position, the Fund purchase a stock outright; whereas with a short position, the Fund would sell a security that the Fund does not own and must borrow to meet the Fund's settlement obligations. The Fund will realize a profit or incur a loss from a short position depending on whether the value of the underlying stock decreases or increases, respectively, between the time the stock is sold and when the Fund replaces the borrowed security. See "Risks—Short Sales Risk." The Fund intends to limit its use of short sales to 30% of the value of total assets in the portfolio. A total return swap is a contract between two parties designed to replicate the economics of directly owning a security. The Fund may enter into total return swaps with financial institutions related to equity investments in certain MLPs and Canadian Income Trusts.

Other Risk Management Strategies. To a lesser extent, the Fund may use various hedging and other risk management strategies to seek to manage market risks. Such hedging strategies would be utilized to seek to protect against possible adverse changes in the market value of securities held in the Fund's portfolio, or to otherwise protect the value of the Fund's portfolio. The Fund may execute the Fund's hedging and risk management strategy by engaging in a variety of transactions, including buying or selling options or futures contracts on indexes. See "Risk Factors — Risks Related to The Fund's Investments and Investment Techniques — Derivatives Risk" in the Fund's Prospectus.

Portfolio Turnover. The Fund anticipates that its annual portfolio turnover rate will range between 30% and 50% , excluding the turnover from its hedging program, but the rate may vary greatly from year to year. Portfolio turnover rate is not considered a limiting factor in SCA's execution of investment decisions. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. The portfolio turnover rate for the Fund for the fiscal periods ended November 30, 2011 and May 31, 2012 was 18% and 40%, respectively.

Additional Risks and Special Considerations Concerning Derivatives. In addition to the risks described above and in the Fund's Prospectus, the use of derivative instruments involves certain general risks and considerations as described below.

Market Risk. Market risk is the risk that the value of the underlying assets may go up or down. Adverse movements in the value of an underlying asset can expose the Fund to losses. Market risk is the primary risk associated with derivative transactions. Derivative instruments may include elements of leverage and, accordingly, fluctuations in the value of the derivative instrument in relation to the underlying asset may be magnified. The successful use of derivative instruments depends upon a variety of factors, particularly SCA's ability to predict correctly changes in the relationships of such hedge instruments to the Fund's portfolio holdings, and there can be no assurance that SCA's judgment in this respect will be accurate. Consequently, the use of derivatives for hedging purposes might result in a worse overall performance for us, whether or not adjusted for risk, than if the Fund had not hedged the Fund's portfolio holdings.

Credit Risk. An issuer of a debt security may be unable to make interest payments and repay principal. The Fund could lose money if the issuer of a debt obligation is, or is perceived to be, unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of a security by rating agencies may further decrease its value. In addition, a portfolio company may issue to the Fund a debt security that has payment-in-kind interest, which represents contractual interest added to the principal balance and due at the maturity date of the debt security in which the Fund invests. It is possible that by effectively increasing the principal balance payable to the Fund or deferring cash payment of such interest until maturity, the use of payment-in-kind features will increase the risk that such amounts will become uncollectible when due and payable.

Correlation Risk. Correlation risk is the risk that there might be an imperfect correlation, or even no correlation, between price movements of a derivative instrument and price movements of investments being hedged. When a derivative transaction is used to completely hedge another position, changes in the market value of the combined position (the derivative instrument plus the position being hedged) result from an imperfect correlation between the price movements of the two instruments. With a perfect hedge, the value of the combined position remains unchanged with any change in the price of the underlying asset. With an imperfect hedge, the value of the derivative instrument and its hedge are not perfectly correlated. For example, if the value of a derivative instrument used in a short hedge (such as buying a put option or selling a futures contract) increased by less than the decline in value of the hedged investments, the hedge would not be perfectly correlated. This might occur due to factors unrelated to the value of the investments being hedged, such as speculative or other pressures on the markets in which these instruments are traded. In addition, the Fund's success in using hedging instruments is subject to SCA's ability to correctly predict changes in relationships of such hedge

instruments to the Fund's portfolio holdings, and there can be no assurance that SCA's judgment in this respect will be accurate. An imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to a risk of loss.

Liquidity Risk. Liquidity risk is the risk that a derivative instrument cannot be sold, closed out, or replaced quickly at or very close to its fundamental value. Generally, over-the-counter transactions are less liquid than exchange-traded derivatives since they are not standardized and often can only be closed out with the other party to the transaction. The Fund may be required by applicable regulations to maintain assets as "cover," maintain segregated accounts and/or make margin payments when the Fund take positions in derivative instruments. If the Fund is unable to close out the Fund's positions in such instruments, the Fund might be required to continue to maintain such accounts or make such payments until the position expires, matures, or is closed out. These requirements might impair the Fund's ability to sell a security or make an investment at a time when it would otherwise be favorable to do so, or require that the Fund sell a portfolio security at a disadvantageous time. The Fund's ability to sell or close out a position in an instrument prior to expiration or maturity depends upon the existence of a liquid secondary market or, in the absence of such a market, the ability and willingness of the counterparty to enter into a transaction closing out the position. Due to liquidity risk, there is no assurance that any derivatives position can be sold or closed out at a time and price that is favorable to the Fund.

Legal Risk. Legal risk is the risk of loss caused by the unenforceability of a party's obligations under a derivative transaction. While a party seeking price certainty agrees to surrender the potential upside in exchange for downside protection, the party taking the risk is looking for a positive payoff. Despite this voluntary assumption of risk, a counterparty that has lost money in a derivative transaction may try to avoid payment by exploiting various legal uncertainties about certain derivative products.

Systemic or "Interconnection" Risk. Systemic or interconnection risk is the risk that a disruption in the financial markets will cause difficulties for all market participants. In other words, a disruption in one market will spill over into other markets, perhaps creating a chain reaction. Much of the over-the-counter derivatives market takes place among the over-the-counter dealers themselves, thus creating a large interconnected web of financial obligations. This interconnectedness raises the possibility that a default by one large dealer could create losses for other dealers and destabilize the entire market for OTC derivative instruments.

Legislation and Regulatory Risk

At any time after the date of the Prospectus and SAI, new regulations may negatively affect the Fund's assets or the issuers of such assets. Changing approaches to regulation may have a negative impact on entities in which the Fund invests. There can be no assurance that future legislation, regulation or deregulation will not have a material adverse effect on the Fund or will not impair the ability of the issuers of the assets the Fund holds to achieve their business goals, and hence, for the Fund to achieve the Fund's investment objective.

MANAGEMENT

Trustees and Officers

The Fund's business and affairs are managed under the direction of the Board, including the duties performed for the Fund under the Investment Management Agreement. The Trustees set broad policies for the Fund and choose the Fund's officers. The Trustees who are not "interested persons" of SCA, its affiliates, or the Fund's underwriters as defined in the 1940 Act are referred to herein as "Independent Trustees." The Trustees who are "interested persons" (as defined by the 1940 Act) are referred to herein as "Interested Trustees."

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Under the Fund's Agreement and Declaration of Trust ("Declaration of Trust"), the Board is divided into three classes of Trustees serving staggered three-year terms. The term of the first class expired in 2012 and such class was re-elected by the Fund's Common Shareholders for a three year term expiring in 2015; terms of the second and third classes will expire in 2013 and 2014, respectively. At each annual meeting of the Fund's Common Shareholders, the successors to the class of Trustees whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election. Each Trustee will hold office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

The Fund's class I Trustees are Messrs. Powell, Johnson, Sherman and Reid, and their term will expire at the annual meeting of shareholders to be held in 2015.

The Fund's class II Trustees are Mr. Blaisdell, Dr. Harris and Ms. Bonding, and their term will expire at the annual meeting of shareholders to be held in 2013.

The Fund's class III Trustees are Messrs. Carroll, Schwinger and Linbeck, and their term will expire at the annual meeting of shareholders to be held in 2014.

None of the Fund's Independent Trustees or any of their immediate family members has ever been a director, officer or employee of SCA. The Fund has no employees. The Fund's officers are compensated by Salient.

The Trustees and officers of the Fund also may be directors or officers of some or all of the other registered investment companies managed by SCA (the “Fund Complex”). The table below shows, for each Trustee and executive officer, his or her full name, address and age, the position held with the Fund, the length of time served in that position, his or her principal occupation during the last five years, the number of portfolios in the Fund Complex overseen by the Trustee (the “Fund Complex” includes the Fund), and other directorships held by such Trustee during the last five years. The information in the table is current as of June 30, 2012. Unless otherwise noted, each Trustee or officer has served in his or her current principal occupation or (for Trustees) other directorships for the last five years. The address of each Trustee and officer is c/o Salient MLP & Energy Infrastructure Fund, 4265 San Felipe, Suite 800, Houston, Texas 77027.

Independent Trustees

Name and Age	Position(s) with Funds	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee	Other Directorships During the Past 5 Years
Karin B. Bonding Age: 72	Trustee (Since inception)	Lecturer, University of Virginia, since 1996; President of Capital Markets Institute, Inc. (fee-only financial planner and investment advisor) since 1996.	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010; Brandes Investment Trust (investment companies) (four funds), since 2006; Credit Suisse Alternative Capital Funds (investment companies) (six funds), 2005-2010.
Jonathan P. Carroll Age: 50	Trustee (Since inception)	President, Lazarus Financial LLC (holding company) since 2006; private investor for past sixteen years.	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund

				(investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010; Lazarus Financial LLC, Lazarus Energy Holdings LLC and affiliates, since 2006.
Dr. Bernard A. Harris	Trustee	Chief Executive Officer and Managing Partner, Vesalius Ventures, Inc. (venture investing), since 2002; President, The Space Agency (marketing) since 1999; President, The Harris Foundation (non-profit), since 1998; clinical scientist, flight surgeon and astronaut for NASA, 1986 to 1996.	5	The Endowment Funds (investment companies) (five funds), since 2009; Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010; Monebo Technologies Inc., since 2009; The National Math and Science Initiative, and Space Agency, since 2008; Sterling Bancshares, Inc., since 2007; Communities in Schools, since 2007; American Telemedicine Association, since 2007; BioHouston, since 2006; U.S. Physical Therapy, Inc., since 2005; Houston Technology Center, since 2004; The Harris Foundation, Inc., since 1998.
Age: 55	(Since inception)			
Richard C. Johnson	Trustee	Senior Counsel (retired), Baker Botts LLP (law firm); Managing Partner, Baker Botts, 1998 to 2002; practiced law at Baker Botts, 1966 to 2002 (1972 to 2002 as a partner).	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund
Age: 74	(Since inception)			

				(investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010.
G. Edward Powell Age: 74	Trustee, Lead Independent Trustee (Since inception)	Principal, Mills & Stowell (private equity), since 2002; Principal, Innovation Growth Partners (consulting), since 2002; Consultant to emerging and middle market businesses, 1994 to 2002; Managing Partner, Price Waterhouse & Co. (Houston office), 1982 to 1994.	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010; Energy Services International, Inc., since 2004; Therapy Track, LLC, since 2009.
Scott E. Schwinger Age: 46	Trustee (Since inception)	President, The McNair Group (management), since 2006; Senior Vice President and Chief Financial Officer, the Houston Texans (professional football team) (1999).	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (formerly the Salient Absolute Return Funds) (investment companies) (three funds), since 2010; The Make-A-Wish Foundation, since 2008; YES Prep Public Schools, since 2001.

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Interested Trustees/Officers

Name and Age	Position(s) with Funds	Principal Occupation(s) During the Past 5 Years	Number of Portfolios In Fund Complex Overseen By Trustee	Other Directorships During The Past 5 Years
John A. Blaisdell(1) Age: 51	Trustee (Since inception)	Member, Investment Committee of SCA, since 2002; Managing Director of Salient, since 2002.	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (investment companies) (three funds) since 2010.
Andrew B. Linbeck(1) Age: 47	Trustee (Since inception)	Member, Investment Committee of SCA, since 2002; Managing Director of Salient, since 2002.	5	The Endowment Funds (investment companies) (five funds); Salient MF Trust (investment company) (two funds), since 2012; Salient Midstream & MLP Fund (investment company), since 2012; Salient Alternative Strategies Funds (investment companies) (three funds) since 2010.
Greg A. Reid(1) Age: 46	Trustee, President and Chief Executive Officer (Since inception)	Member, Investment Committee of SCA and its predecessor, since 2010; Managing Partner (Houston), Telemus Capital Partners, 2007-2010; Merrill Lynch Private Banking Group, 1997-2007.	2	Salient Midstream & MLP Fund (investment company), since 2012.

Name and Age	Position(s) with Funds	Principal Occupation(s) During the Past 5 Years	Number of Portfolios In Fund Complex Overseen By Trustee	Other Directorships During The Past 5 Years
A. Haag Sherman(1) Age: 46	Trustee (Since inception)	Non-executive vice chairman of Salient, since 2012.	5	The Endowment Funds (investment companies) (five funds); Salient Midstream & MLP Fund (investment company) since 2012; Salient Alternative Strategies Funds (investment companies) (three funds), since 2010; Blue Dolphin Energy Infrastructure Company since 2012; Plains Capital Corporation, since 2009.

(1) This person's status as an "interested" Trustee arises from his affiliation with SCA.

Committees of the Board

The Board has four standing committees: the Nominating Committee, the Compliance Committee, the Valuation Committee and the Audit Committee.

Nominating Committee

The Board has formed a nominating committee (the "Nominating Committee") that recommends nominations for membership on the Board. It evaluates candidates' qualifications for Board membership and, with respect to nominees for positions as Independent Trustees, as well as their independence from SCA and other principal service providers. The Committee meets as necessary to identify and evaluate nominees for Trustee and to make its recommendations to the Fund's Board. The Nominating Committee is composed of all Independent Trustees.

While the Nominating Committee is solely responsible for the selection and nomination of potential candidates to serve on the Board, the Nominating Committee may consider and evaluate nominations properly submitted by Common Shareholders of the Fund. Nominations proposed by Common Shareholders will be properly submitted for consideration by the Committee only if a Common Shareholder submits a nomination in accordance with the procedures set forth in the charter of the Nominating Committee. It is in the Nominating Committee's sole discretion whether to seek corrections of a deficient submission or to exclude a nominee from consideration.

Compliance Committee

The Fund's Board has formed a Compliance Committee that is responsible for meeting with the Fund's Chief Compliance Officer ("CCO") to review matters relating to compliance with the federal securities laws. The Committee meets at least annually with the CCO without the presence of management to discuss issues arising, among other things, under the Master Fund's compliance program and operations. Messrs. Carroll, Powell and Johnson, each an

Independent Trustee, constitute the Compliance Committee. Mr. Johnson is the chair of the Compliance Committee.

Valuation Committee

The Board's Valuation Committee is responsible for overseeing the Fund's valuation policy, making recommendations to the Fund's Board on valuation-related matters, and overseeing implementation by the SCA's Valuation Committee of the Fund's valuation policy and procedures. Ms. Bonding, Messrs. Schwinger and Johnson and Dr. Harris constitute the Board Valuation Committee. Mr. Schwinger is the chair of this Committee.

In addition, the Fund's Board has authorized the establishment of SCA's Valuation Committee consisting of Messrs. Blaisdell, Linbeck and Reid (see "Management"), and additional officers of the Fund and representatives of SCA to serve as SCA's Valuation Committee. SCA's Valuation Committee is not a Board committee. The function of SCA's Valuation Committee, subject to oversight of the Board Valuation Committee and the Fund's Board, is generally to review the Fund's valuation methodologies, valuation determinations, and any information provided to SCA's Valuation Committee by SCA or the Administrator. SCA's Valuation Committee has been assigned to act in accordance with the Fund's valuation procedures as approved by the Fund's Board and to report to such Board and the Board Valuation Committee. Changes in its membership are subject to Board notification. The Board Valuation Committee reviews matters arising from considerations of SCA's Valuation Committee.

Audit Committee

The Fund’s Board has formed an audit committee (the “Audit Committee”) that is responsible for meeting with the Fund’s independent auditors, the Administrator and corporate officers to review financial statements, reports, issues and compliance matters. The Audit Committee reports significant issues to the Board and makes recommendations regarding the selection, retention or termination of the auditors, evaluates their independence, and reviews their fees. Messrs. Carroll, Powell, Schwinger and Dr. Harris, each an Independent Trustee, constitute the Audit Committee. Mr. Powell is chair of the Audit Committee.

Trustee Compensation

The Fund’s Trustees and officers who are “interested persons” by virtue of their employment by Salient serve without any compensation from the Fund. Each of the Fund’s Independent Trustees receives a \$15,000 annual retainer for serving as a trustee, such compensation to encompass attendance and participation at all Board meetings, and any Committee meetings thereof, including telephonic meetings, if any. In addition, the Independent Trustees are reimbursed for expenses incurred as a result of attendance at meetings of the Board and its committees.

The following table sets forth estimated compensation to be paid by the Fund to the Independent Trustees and officers during the Fund’s first full fiscal year after commencement of operations. The Fund has no retirement or pension plans.

Name of Trustee or Officer	Aggregate Compensation from the Fund	Total Compensation from the Fund and Fund Complex
Karen B. Bonding	\$ 15,000	\$ 30,000
Jonathan P. Carroll	\$ 15,000	\$ 30,000
Richard C. Johnson	\$ 15,000	\$ 30,000
Dr. Bernard A. Harris, Jr.	\$ 15,000	\$ 30,000
G. Edward Powell	\$ 15,000	\$ 30,000
Scott E. Schwinger	\$ 15,000	\$ 30,000

Security Ownership of Management

The following table sets forth the dollar range of the Fund’s equity securities beneficially owned by the Fund’s Trustees and equity securities in other investment companies overseen by the Trustees within the same family of investment companies beneficially owned by the Fund’s Trustees as of April 23, 2012.

Name of Trustee	Dollar Range of Equity Securities in the Fund as of April 23, 2012(1)(2)	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Trustee in the Fund Complex as of April 23, 2012(1)(2)
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Independent Trustees

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Karin B. Bonding	\$10,001 to \$50,000	None
Jonathan P. Carroll	None	None
Dr. Bernard A. Harris	None	None
Richard C. Johnson	None	None
G. Edward Powell	None	None
Scott E. Schwinger	None	None
Trustees who are “Interested Persons” (2)		
John A. Blaisdell	None	Over \$100,000
Andrew B. Linbeck	None	Over \$100,000
Gregory A. Reid	Over \$100,000	Over \$100,000
A. Haag Sherman	None	Over \$100,000

Name of Trustee	Dollar Range of Equity Securities in the Fund as of April 23, 2012(1)(2)	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Trustee in the Fund Complex as of April 23, 2012(1)(2)
Andrew B. Linbeck	None	Over \$100,000
Gregory A. Reid	Over \$100,000	Over \$100,000
A. Haag Sherman	None	Over \$100,000

(1) The dollar ranges of equity securities reflected in the table above are as follows: None; \$1 to \$10,000; \$10,001 to \$50,000; \$50,001 to \$100,000; or over \$100,000.

(2) Includes the portion of investments made by Salient beneficially owned and personal investments.

Information about Each Trustee's Qualifications, Experience, Attributes or Skills

The Board believes that each trustee has the qualifications, experience, attributes and skills ("Trustee Attributes") appropriate to their continued service as the Fund's Trustees in light of the Fund's business and structure. Each of the Trustees has a demonstrated record of business and/or professional accomplishment that indicates that they have the ability to critically review, evaluate and access information provided to them. Certain of these business and professional experiences are set forth in detail in the charts above. In addition, all of the Trustees have served as a member of the board of other funds advised by Salient and its affiliates, other funds, public companies, or non-profit entities or other organizations other than the Fund. They therefore have substantial boardroom experience and, in their service to us, have gained substantial insight as to the Fund's operation and have demonstrated a commitment to discharging oversight duties as Trustees in the interests of shareholders.

In addition to the information provided in the charts above, certain additional information regarding the Trustees and their Trustee Attributes is provided below. The information provided below, and in the charts above, is not all-inclusive. Many Trustee Attributes involve intangible elements, such as intelligence, integrity and work ethic, along with the ability to work together, to communicate effectively, to exercise judgment and to ask incisive questions, and commitment to shareholder interests.

John A. Blaisdell — Through his experience as a senior executive of financial organizations, Mr. Blaisdell contributes his experience in the investment management industry to the Board. The Board also benefits from his experience as a member of the board of other funds. Mr. Blaisdell serves as the Chairman of the Board.

Karin B. Bonding, CFA — Through her role as a teacher and her insights on financial markets, Ms. Bonding contributes her experience in marketing to the Board. The Board also benefits from her experience as a member of the board of other funds.

Jonathan P. Carroll — Through his experience as the executive of business enterprises, Mr. Carroll contributes experience in overseeing financial and investment organizations to the Board. The Board also benefits from his experience as a member of the board of other funds.

Dr. Bernard A. Harris — Through his experience as a senior officer of and board member of financial and other organizations, Dr. Harris contributes his management and oversight experience to the Board. The Board also benefits from his experience as a member of the board of other funds and operating companies.

Richard C. Johnson — Through his experience as an attorney, Mr. Johnson contributes his insight and management experience to the Board. The Board also benefits from his experience as a member of the board of other funds.

Andrew B. Linbeck — Through his experience as a senior executive of financial organizations, Mr. Linbeck contributes his experience in the investment management industry to the Board. The Board also benefits from his experience as a member of the board of other funds.

G. Edward Powell — Through his experience as a senior executive and accountant, Mr. Powell contributes his accounting and management experience to the Board. The Board also benefits from his experience as a member of the board of other funds and operating companies.

Gregory A. Reid — Through his experience as a senior executive of financial organizations, Mr. Reid contributes his experience in the investment industry to the Board.

A. Haag Sherman — Through his experience as a senior executive of financial organizations, Mr. Sherman contributes his experience in the investment management industry to the Board. The Board also benefits from his experience as a member of the board of other funds.

Scott E. Schwinger — Through his experience as a senior executive and financial officer of financial and business enterprises, Mr. Schwinger contributes his financial and management experience to the Board. The Board also benefits from his experience as a member of the board of other funds and operating companies.

Board Leadership Structure

The Fund's business and affairs are managed under the direction of the Board, including the duties performed for the Fund pursuant to the Fund's investment management agreement. Among other things, the Trustees set broad policies for the Fund, approve the appointment of the Fund's investment adviser, administrator and officers, and approve the engagement (upon recommendation of the Audit Committee), and reviews the performance of, the Fund's independent registered accounting firm. The role of the Board and of any individual Trustee is one of oversight and not of management of the day-to-day affairs of the Fund.

As part of each regular Board meeting, the Independent Trustees meet separately from SCA and, as part of at least one Board meeting each year, with the Fund's Chief Compliance Officer. The Board reviews its leadership structure periodically as part of its annual self-assessment process and believes that its structure is appropriate to enable the Board to exercise its oversight of the Fund.

Under the Fund's Bylaws, the Board may designate a Chairman to preside over meetings of the Board and meetings of shareholders, and to perform such other duties as may be assigned to him or her by the Board. The Fund does not have an established policy as to whether the Chairman of the Board shall be an Independent Trustee and believes that its flexibility to determine its Chairman and reorganize its leadership structure from time to time is in the best interests of the Fund and its shareholders.

Presently, John A. Blaisdell serves as Chairman of the Board and Greg A. Reid serves as President and Chief Executive Officer of the Fund. Each of Mr. Blaisdell and Mr. Reid is an "interested person" of the Fund, as defined in the 1940 Act, by virtue of his employment relationship with SCA. The Fund believes that Mr. Blaisdell's history with Salient's investment platform and experience in the field of energy-related investments qualifies him to serve as the Chairman of the Board. Similarly, the Fund believes that Mr. Reid's experience with Salient's investment platform and extensive experience in the field of energy-related investments qualifies him to serve as President and Chief Executive Officer of the Fund. The Board has determined that the composition of the Audit, Compliance and Nominating Committees are appropriate means to address any potential conflicts of interest that may arise from the Chairman's status as an interested person of the Fund. The Board believes that this Board leadership structure—a separate Chairman of the Board and Chief Executive Officer—is the optimal structure for the Fund at this time. Since the Chairman has the most extensive knowledge of the various aspects of the Fund's business and is directly involved in managing both the day-to-day operations and long-term strategy of the Fund, the Board has determined that Mr. Blaisdell is the most qualified individual to lead the Board and to serve in the key position as Chairman. The Board has also concluded that this structure allows for efficient and effective communication with the Board.

The Board has designated Mr. Powell as lead independent Trustee of the Fund. In this capacity, he will serve as liaison between the Independent Trustees and the Chairman, and perform such other duties as the Independent Trustees shall from time to time determine.

Board Role in Risk Oversight

The Board oversees the services provided by SCA, including certain risk management functions. Risk management is a broad concept comprised of many disparate elements (such as, for example, investment risk, issuer and counterparty risk, compliance risk, operational risk and business continuity risk). Consequently, Board oversight of different types of risks is handled in different ways, and the Board implements its risk oversight function both as a whole and through

Board committees. In the course of providing oversight, the Board and its committees receive reports on the Fund's activities, including regarding the Fund's investment portfolio and its financial accounting and reporting. The Board also meets at least quarterly with the Fund's Chief Compliance Officer, who reports on the compliance of the Fund with the federal securities laws and the Fund's internal compliance policies and procedures. The Audit Committee's meetings with the Fund's independent public accounting firm also contribute to its oversight of certain internal control risks. In addition, the Board meets periodically with representatives of the Fund and SCA to receive reports regarding the management of the Fund, including certain investment and operational risks, and the Independent Trustees are encouraged to communicate directly with senior management.

The Fund believes that Board roles in risk oversight must be evaluated on a case-by-case basis and that its existing role in risk oversight is appropriate. Management believes that the Fund has robust internal processes in place and a strong internal control environment to identify and manage risks. However, not all risks that may affect the Fund can be identified or processes and controls developed to eliminate or mitigate their occurrence or effects, and some risks are beyond any control of the Fund or Salient, its affiliates or other service providers.

CONTROL PERSONS AND PRINCIPAL HOLDERS

A control person is a person who beneficially owns more than 25% of the voting securities of a company. As of July 31, 2012 the officers and Trustees of the Fund as a group owned beneficially less than 1% of the outstanding shares of the Fund. In addition, to the best knowledge of the Fund, no shareholder owned 5% or more of the outstanding shares of the Fund as of the date of this SAI.

INVESTMENT ADVISER

SCA is registered with the Securities and Exchange Act (the "SEC") under the Investment Advisers Act of 1940, as amended. SCA provides the Fund with professional investment supervision and management and permits any of its officers or employees to serve without compensation from the Fund, with the exception of the Chief Compliance Officer, as the Fund's Trustees or officers if elected to such positions. SCA is located at 4265 San Felipe, Suite 800, Houston, Texas 77027. SCA is the product of the acquisition of RDG Capital LLC, a Houston-based asset management firm specializing in MLP investments. SPLP acquired RDG Capital LLC in January 2011 and renamed the company "Salient Capital Advisors, LLC."

SCA provides services pursuant to an investment management agreement (the "Investment Management Agreement"). The Investment Management Agreement will continue in effect from year to year after its initial two-year term so long as its continuation is approved at least annually by the Fund's Trustees including a majority of Independent Trustees or the vote of a majority of the Fund's outstanding voting securities. The Investment Management Agreement may be terminated at any time without the payment of any penalty upon 60 days' written notice by either party, or by action of the Board or by a majority vote of the Fund's outstanding voting securities (accompanied by appropriate notice), and will terminate automatically upon assignment. The Investment Management Agreement may also be terminated, at any time, without payment of any penalty, by the Board or by vote of a majority of the Fund's outstanding voting securities (as defined under the 1940 Act), in the event that it shall have been established by a court of competent jurisdiction that SCA or any officer or director of SCA has taken any action which results in a breach of the covenants of SCA set forth in the Investment Management Agreement. The Investment Management Agreement provides that SCA shall not be liable for any loss sustained by reason of the purchase, sale or retention of any security, whether or not such purchase, sale or retention shall have been based upon the investigation and research made by any other individual, firm or corporation, if such recommendation shall have been selected with due care and in good faith, except loss resulting from willful misconduct, bad faith or gross negligence on the part of SCA in performance of its obligations and duties, or by reason of its reckless disregard of its obligations and duties under the Investment Management Agreement. As compensation for SCA's services, the Fund pays SCA a fee as described in the Fund's Prospectus. See "Management — Investment Management Agreement" in the Fund's Prospectus.

In addition to SCA's management fee, the Fund pays all other costs and expenses of the Fund's operations, such as compensation of the Fund's Independent Trustees (but not those affiliated with Salient), a portion of the Chief Compliance Officer's compensation and expenses related to Trustees' meetings, custodian, transfer agency, administrative, accounting and disbursement expenses, legal fees, expenses associated with the Fund's Financial Leverage, expenses of independent auditors, marketing and certain advertising expenses, expenses of personnel including those who are affiliates of SCA reasonably incurred in connection with arranging or structuring portfolio transactions, expenses of repurchasing the Fund's securities if such should occur, expenses of preparing, printing and distributing shareholder reports, notices, proxy statements and reports to governmental agencies, and taxes, if any. All fees and expenses are accrued and deducted before payment of Distributions to investors.

For the fiscal period ended November 30, 2011, the Fund incurred \$1,074,384 in advisory fees. SCA had contractually agreed to waive or reimburse the Fund for a portion of its management fee in an amount equal on an annual basis to 0.20% of the Fund's average monthly total assets until May 25, 2013. Pursuant to the management fee waiver

agreement, SCA waived \$179,064 in advisory fees for the fiscal period ended November 30, 2011.

A discussion regarding the basis for approval by the Board of the Fund's Investment Management Agreement with the Fund's Advisor was provided in the Fund's initial shareholder report. The basis for subsequent continuations of the Investment Management Agreement will be provided in annual or semi-annual reports to shareholders for the periods during which such continuations occur.

CODE OF ETHICS

The Fund and SCA have each adopted a code of ethics under Rule 17j-1 of the 1940 Act, as required by federal securities laws. Under both codes of ethics, employees who are designated as access persons may engage in personal securities transactions, including transactions involving securities that are currently held by the Fund or, in limited circumstances, that are being considered for purchase or sale by us, subject to certain general restrictions and procedures set forth in the Fund's code of ethics. The personal securities transactions of the Fund's access persons and those of SCA will be governed by the applicable code of ethics.

SCA and its affiliates manage other investment companies and accounts. SCA may give advice and take action with respect to any of the other funds it manages, or for its own account, that may differ from action taken by SCA on the Fund's behalf. Similarly, with respect to the Fund's portfolio, SCA is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that SCA and access persons, as defined by applicable federal securities laws, may buy or sell for its or their own account or for the accounts of any other fund. SCA is not obligated to refrain from investing in securities held by the Fund or other funds it manages.

The Fund and SCA have text-only versions of the codes of ethics that will be available on the EDGAR Database on the SEC's internet web site at www.sec.gov. Those documents can be inspected and copied at the public reference facilities maintained by the SEC in Washington, D.C. Information about the operation of the public reference facilities may be obtained by calling the SEC at (202) 551-8090. Copies of such material may also be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, copies of the codes of ethics may be obtained from the Fund free of charge at (800) 809-0525. You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the SEC's Public Reference Section, 100 F Street, N.E., Room 1580, Washington, D.C. 20549.

PROXY VOTING PROCEDURES

SEC-registered advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that SCA votes proxies in the best interests of its clients. Registered advisers also must maintain certain records on proxy voting. In many cases, the Fund will invest in securities that do not generally entitle the Fund to voting rights in the Fund's portfolio companies. When the Fund does have voting rights, the Fund will delegate the exercise of such rights to SCA, to whom the Fund's Board has delegated the authority to develop policies and procedures relating to proxy voting. SCA's proxy voting policies and procedures are summarized below.

In determining how to vote, officers of SCA will consult with each other and the Fund's other investment professionals, taking into account the interests of the Fund and the Fund's investors as well as any potential conflicts of interest. When SCA's investment professionals identify a potentially material conflict of interest regarding a vote, the vote and the potential conflict will be presented to the Fund's Advisor's Proxy Voting Committee for a final decision. If SCA determines that such conflict prevents SCA from determining how to vote on the proxy proposal in the Fund's best interest, SCA will either (1) vote in accordance with a predetermined specific policy to the extent that SCA's policies and procedures include a pre-determined voting policy for such proposal or (2) disclose the conflict to the Fund's Board and obtain the Board's consent prior to voting on such proposal. An officer of SCA will keep a written record of how all such proxies are voted. SCA will retain records of (1) its proxy voting policies and procedures, (2) all proxy statements received regarding investor's securities (or it may rely on proxy statements filed on the SEC's EDGAR database in lieu thereof), (3) all votes cast on behalf of investors, (4) investor written requests for information regarding how Salient voted proxies of that investor and any written response to any (written or oral) investor requests for such information, and (5) any documents prepared by SCA that are material to making a decision on a proxy vote or that memorialized such decision. The aforementioned proxy voting records will be maintained, preserved and easily accessible for a period of not less than five years. SCA may rely on one or more third parties to make and retain the records of proxy statements and votes cast.

Information regarding how proxies relating to the Fund's portfolio securities are voted during the 12-month period ended June 30th of any year will be made available on or around August 30th of that year, (i) without charge, upon request, by calling (800) 809-0525 (toll-free/collect), and (ii) on the SEC's website at www.sec.gov.

SCA has adopted proxy voting guidelines that provide general direction regarding how it will vote on a number of significant and recurring ballot proposals. These guidelines are not mandatory voting policies, but rather are an

indication of general voting preferences. The following are a few examples of these guidelines:

SCA generally votes against proposals to classify the board and for proposals to repeal classified boards and to elect directors annually.

SCA generally votes against proposals to ratify a poison pill and for proposals that ask a company to submit its poison pill for shareholder ratification.

SCA generally votes against proposals to require a supermajority shareholder vote to approve charter and bylaw amendments and for proposals to lower such supermajority shareholder vote requirements.

SCA generally votes for management proposals to increase the number of shares of common stock authorized for issue provided management demonstrated a satisfactory reason for the potential issuance of the additionally authorized shares.

SCA generally votes for proposals to increase common share authorization for a stock split provided management demonstrates a reasonable basis for the split and for proposals to implement a reverse stock split provided management demonstrates a reasonable basis for the reverse split.

Absent special circumstances (e.g., actions taken in the context of a hostile takeover attempt) indicating an abusive purpose, SCA, on a case-by-case basis, votes for proposals that would authorize the creation of new classes of preferred stock with unspecified voting, conversion, dividend and distribution, and other rights.

Proposals to change a company's state of incorporation area examined on a case-by-case basis.

SCA, on a case-by-case basis, votes on mergers and acquisitions taking into account at least the following:

- anticipated financial and operating benefits;
- offer price (cost vs. premium);
- prospects of the combined companies,
- how the deal was negotiated; and
- changes in corporate governance and their impact on shareholder rights.

SCA generally does not support shareholder social and environmental proposals, and may vote such matters, on a case-by-case basis, where the proposal enhances the long-term value of the shareholder and does not diminish the return on investment

PORTFOLIO MANAGER INFORMATION

The following section discusses the accounts managed by the Fund's portfolio managers, the structure and method of the Fund's portfolio managers' compensation, and their ownership of the Fund's securities. This information is current as of March 31, 2012. The Fund pays SCA a management fee based on the Fund's average total assets.

Greg A. Reid and Frank "Ted" Gardner are compensated by Salient through distributions in respect of profits interests in Salient, based on the amount of assets that they manage (including the Fund). Pursuant to such profits interests, Messrs. Reid and Gardner receive a portion of the advisory fees applicable to those accounts. Furthermore, Lee Partridge, who is Salient's Chief Investment Officer, and who oversees risk management for the Fund, also has a profits interest in Salient, pursuant to which he receives a portion of the advisory fees applicable to certain accounts that he manages (including the Fund). With respect to certain accounts, such profits interests are based in part on the performance of those accounts. Some of the other accounts managed by Messrs. Gardner, Reid and Partridge may have investment strategies that are similar to ours. However, Salient manages potential conflicts of interest by allocating investment opportunities in accordance with its allocation policies and procedures.

Other Accounts Managed by Portfolio Managers

The following table reflects information regarding accounts for which the portfolio managers have day-to-day management responsibilities (other than us). Accounts are grouped into three categories: (i) registered investment companies, (ii) other pooled investment accounts, and (iii) other accounts. To the extent that any of these accounts pay advisory fees that are based on account performance, this information will be reflected in a separate table below. Information is shown as of June 30, 2012. Asset amounts are approximate and have been rounded.

Registered Investment Companies (Excluding us)	Other Pooled Investment Vehicles	Other Accounts
------------------------------------------------------	-------------------------------------	----------------

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Portfolio Manager	Number of Accounts	Total Assets in the Accounts (\$ in millions)	Number of Accounts	Total Assets in the Accounts (\$ in millions)	Number of Accounts	Total Assets in the Accounts (\$ in millions)
Frank "Ted" Gardner	1	173	0	0	0	0
Greg A. Reid	1	173	0	0	0	0
Lee Partridge	2	294	15	3,943	0	0

Other Accounts That Pay Performance-Based Advisory Fees Managed by Portfolio Managers

The following table reflects information regarding accounts for which the portfolio managers have day-to-day management responsibilities (other than us) and with respect to which the advisory fee is based on account performance. Information is shown as of June 30, 2012. Asset amounts are approximate and have been rounded.

	Registered Investment Companies (Excluding us)		Other Pooled Investment Vehicles		Other Accounts	
	Number of Accounts	Total Assets in the Accounts (\$ in millions)	Number of Accounts	Total Assets in the Accounts (\$ in millions)	Number of Accounts	Total Assets in the Accounts (\$ in millions)
Portfolio Manager						
Frank "Ted" Gardner	0	0	4	238	2	57
Greg A. Reid	0	0	4	238	2	57
Lee Partridge	0	0	0	0	1	8,511

Messrs. Gardner, Reid and Partridge are compensated by SCA through partnership distributions from Salient based on the amount of assets they manage, and they receive a portion of the advisory fees applicable to those accounts, which, with respect to certain amounts, as noted above, are based in part on the performance of those accounts. Some of the other accounts managed by Messrs. Gardner, Reid and Partridge, have investment strategies that are similar to the Fund's. However, Salient manages potential conflicts of interest by allocating investment opportunities in accordance with its allocation policies and procedures.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to the oversight of the Board, Salient is responsible for decisions to buy and sell securities for the Fund and for the placement of the Fund's securities business, the negotiation of the commissions to be paid on brokered transactions, the prices for principal trades in securities, and the allocation of portfolio brokerage and principal business. It is the policy of SCA to seek the best execution at the best security price available with respect to each transaction, and with respect to brokered transactions in light of the overall quality of brokerage and research services provided to SCA and its advisees. The best price to the Fund means the best net price without regard to the mix between purchase or sale price and commission, if any. Purchases may be made from underwriters, dealers, and, on occasion, the issuers. Commissions will be paid on the Fund's futures and options transactions, if any. The purchase price of portfolio securities purchased from an underwriter or dealer may include underwriting commissions and dealer spreads. The Fund may pay mark-ups on principal transactions. In selecting broker/dealers and in negotiating commissions, SCA considers, among other things, the firm's reliability, the quality of its execution services on a continuing basis and its financial condition. The selection of a broker-dealer may take into account the sale of products sponsored or advised by Salient and/or its affiliates. If approved by the Fund's Board, Salient may select an affiliated broker-dealer to effect transactions in the Fund's Fund, so long as such transactions are consistent with Rule 17e-1 under the 1940 Act.

Section 28(e) of the Securities Exchange Act of 1934, as amended, permits an investment adviser, under certain circumstances, to cause an account to pay a broker or dealer who supplies brokerage and research services a commission for effecting a transaction in excess of the amount of commission another broker or dealer would have charged for effecting the transaction. Brokerage and research services include (a) furnishing advice as to the value of securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities; (b) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement, and custody).

In light of the above, in selecting brokers, SCA may consider investment and market information and other research, such as economic, securities and performance measurement research, provided by such brokers, and the quality and

reliability of brokerage services, including execution capability, performance, and financial responsibility. Accordingly, the commissions charged by any such broker may be greater than the amount another firm might charge if Salient determines in good faith that the amount of such commissions is reasonable in relation to the value of the research information and brokerage services provided by such broker to SCA or to the Fund. SCA believes that the research information received in this manner provides the Fund with benefits by supplementing the research otherwise available to the Fund. The investment advisory fees paid by the Fund to SCA under the Investment Management Agreement are not reduced as a result of receipt by SCA of research services.

SCA may place portfolio transactions for other advisory accounts that it advises, and research services furnished by firms through which the Fund effect the Fund's securities transactions may be used by SCA in servicing some or all of its accounts; not all of such services may be used by SCA in connection with the Fund. Because the volume and nature of the trading activities of the accounts are not uniform, the amount of commissions in excess of those charged by another broker paid by each account for brokerage and research services will vary. However, SCA believes that such costs to the Fund will not be disproportionate to the benefits received by the Fund on a continuing basis. SCA seeks to allocate portfolio transactions equitably whenever concurrent decisions are made to purchase or sell securities by the Fund and another advisory account. In some cases, this procedure could have an adverse effect on the price or the amount of securities available to the Fund. In making such allocations between the Fund and other advisory accounts, the main factors considered by SCA are the investment objective, the relative size of the portfolio holdings of the same or

comparable securities, the availability of cash for investment, the size of investment commitments generally held, and the opinions of the persons responsible for recommending investments to the Fund and such other accounts and funds.

The Fund paid \$91,626 in aggregate brokerage commissions for the fiscal period ended November 30, 2011, including \$69,388 to Morgan Stanley, which represented 75.7% of the Fund's aggregate brokerage fees paid for the fiscal period, and 34.03% of the Fund's aggregate dollar amount of transactions involving brokerage commissions for the fiscal period.

LIMITATION ON LIABILITY OF TRUSTEES AND OFFICERS

The Fund is an organization of the type commonly known as a "Delaware statutory trust." The Fund's Declaration of Trust provides that the Trustees and officers of the Fund, in their capacity as such, will not be personally liable for errors of judgment or mistakes of fact or law; but nothing in the Declaration of Trust protects a Trustee against any liability to the Fund or its shareholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office. Voting rights are not cumulative, which means that the holders of more than 50% of Common Shares voting for the election of Trustees can elect 100% of the Trustees and, in such event, the holders of the remaining less than 50% of Common Shares voting on the matter will not be able to elect any Trustees.

The Fund's Declaration of Trust authorizes the Fund, to the maximum extent permitted by Delaware law and subject to the requirements of the 1940 Act, to obligate the Fund to indemnify any present or former trustee or officer or any individual who, while serving as the Fund's trustee or officer and, at the Fund's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or other enterprise as a trustee, officer, partner, director, manager or member, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

The Fund's Bylaws obligate the Fund, to the maximum extent permitted by Delaware law and subject to the requirements of the 1940 Act, to indemnify any present or former trustee or officer or any individual who, while serving as the Fund's trustee or officer and, at the Fund's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or other enterprise as a trustee, officer, partner, director, manager or member and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The Fund's Declaration of Trust and Bylaws also permit the Fund to indemnify and advance expenses to any individual who served any predecessor of the Fund in any of the capacities described above and any employee or agent of ours or the Fund's predecessor, if any.

In accordance with the 1940 Act, the Fund will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misconduct, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

TAX MATTERS

The following discussion of U.S. federal income tax matters is based on the advice of K&L Gates LLP, the Fund's counsel.

Matters Addressed

This section and the discussion in the Fund's Prospectus (see "Tax Matters") provide a general summary of the material U.S. federal income tax consequences to the persons who purchase, own and dispose of the Fund's securities. It does not address all U.S. federal income tax consequences that may apply to an investment in the Fund's securities or to particular categories of investors, some of which may be subject to special rules. Unless otherwise indicated, this discussion is limited to taxpayers who are U.S. persons, as defined herein. The discussion that follows is based on the provisions of the Internal Revenue Code of 1986, as amended (the "Code") and Treasury regulations promulgated thereunder as in effect on the date hereof and on existing judicial and administrative interpretations thereof. These authorities are subject to change and to differing interpretations, which could apply retroactively. Potential investors should consult their own tax advisers in determining the federal, state, local, foreign and any other tax consequences to them of the purchase, ownership and disposition of the Fund's securities. This discussion does not address all tax consequences that may be applicable to a U.S. person that is a beneficial owner of the Fund's securities, nor does it address, unless specifically indicated, the tax consequences to, among others, (i) persons that may be subject to special treatment under U.S. federal income tax law, including, but not limited to, banks, insurance companies, thrift institutions, regulated investment companies, real estate investment trusts, tax-exempt organizations and dealers in securities or currencies, (ii) persons that will hold the Fund's securities as part of a position in a "straddle" or as part of a "hedging," "conversion" or other integrated investment transaction for U.S. federal income tax purposes, (iii) persons whose functional currency is not the United States dollar, or (iv) persons that do not hold the Fund's securities as capital assets within the meaning of Section 1221 of the Code.

For purposes of this discussion, a “U.S. person” is (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all the substantial decisions of such trust. Notwithstanding clause (iv) above, to the extent provided in regulations, certain trusts in existence on August 20, 1996, and treated as U.S. persons prior to such date that elect to continue to be so treated also shall be considered U.S. persons.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds Common Shares, the tax treatment of a partner in a partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective shareholder that is a partner of a partnership holding Common Shares should consult its tax advisers with respect to the purchase, ownership and disposition of Common Shares. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the “IRS”) retroactively or prospectively.

Taxation of the Company

The Fund qualifies for the special tax treatment afforded to RICs under Subchapter M of the Code. As long as the Fund qualifies, the Fund (but not the Fund’s Common Shareholder) will not be subject to U.S. federal income tax on the part of the Fund’s net ordinary income and net realized capital gains that the Fund distributes to the Fund’s Common Shareholders. In order to qualify as a RIC for U.S. federal income tax purposes, the Fund must meet three key tests, which are described below, and be registered as a management company under the 1940 Act at all times during each taxable year. Failure to meet any of the quarterly tests would disqualify the Fund from RIC tax treatment for the entire year. However, in certain situations the Fund may be able to take corrective action within 30 days of the end of a quarter, or within 6 months of the end of a quarter if the failure is de minimis and certain other requirements are met, which would allow the Fund to remain qualified.

The Income Test. At least 90% of the Fund’s gross income in each taxable year must be derived from dividends, interest, payments with respect to securities loans, gains from the sale of shares or securities, foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to the Fund’s business of investing in such shares, securities or currencies. Net income from a “qualified publicly traded partnership” will also be included as qualifying income for purposes of the 90% gross income test. A “qualified publicly traded partnership” is a publicly traded partnership that is treated as a partnership for U.S. federal income tax purposes and that derives less than 90% of its gross income from the foregoing types of income. To the extent the Fund holds interests in entities that are taxed as grantor trusts for U.S. federal income tax purposes or are partnerships that are not treated as “qualified publicly traded partnerships,” the income derived from such investments may not be treated as qualifying income for purposes of the 90% gross income test, depending on the underlying source of income to such partnerships or grantor trusts.

The Diversification Tests. The Fund must diversify the Fund’s holdings so that, at the end of each quarter of each taxable year (i) at least 50% of the value of the Fund’s total assets is represented by cash and cash items (including receivables), U.S. Government securities, the securities of other RICs and other securities, with such other securities limited for purposes of such calculation, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund’s total assets and not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of the Fund’s total assets is invested in the securities (other than U.S. Government securities or the securities of other RICs) of any one issuer, the securities (other than the securities of other RICs) of any two or more issuers that the Fund controls (by owning 20% or more of their voting power) and that are determined to be engaged

in the same or similar trades or businesses or related trades or businesses, or the securities of one or more qualified publicly traded partnerships. The Fund refers to these tests as the “Diversification Tests.”

The Annual Distribution Requirement. The Fund’s deduction for dividends paid to the Fund’s Common Shareholders during the taxable year must equal or exceed 90% of the sum of (i) the Fund’s investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gain over net long-term capital loss and other taxable income, other than any net long-term capital gain, reduced by deductible expenses) determined without regard to the deduction for dividends paid, and (ii) the Fund’s net tax-exempt interest, if any (the excess of the Fund’s gross tax-exempt interest over certain disallowed deductions). For purposes of this distribution test, the Fund may elect to treat as paid on the last day of the fiscal year all or part of any dividends that the Fund declare after the end of the Fund’s taxable year. Such dividends must be declared before the due date for filing the Fund’s tax return, including any extensions. The Fund intends to distribute at least annually substantially all of such income. The Fund will refer to this distribution requirement as the “Annual Distribution Requirement.”

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax at the fund level. To avoid the tax, the Fund must distribute during each calendar year an amount at least equal to the sum of (i) 98% of the Fund’s ordinary income (not taking into account any capital gain or loss) for the calendar year, (ii) 98.2% of the Fund’s capital gains in excess of the Fund’s capital losses (adjusted for certain ordinary losses) for the one-year period ending on November 30, the last day of the Fund’s taxable year (which the Fund intends to continue to elect to use for this

purpose), and (iii) certain undistributed amounts from previous years on which the Fund paid no U.S. federal income tax. The Fund refers to this distribution requirement as the “Excise Tax Avoidance Requirement.” While the Fund intends to distribute any income and capital gain in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund’s taxable income and capital gain will be distributed to avoid entirely the imposition of the tax. In that event, the Fund will be liable for the tax only on the amount by which the Fund does not meet the foregoing distribution requirement.

A Distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to shareholders of record on a date during such a month and paid by the Fund during January of the following year. Any such Distributions paid during January of the following year will be deemed to be received on December 31 of the year the Distributions are declared, rather than when the Distributions are received.

The Fund may be required to recognize taxable income in circumstances in which the Fund does not receive cash. For example, if the Fund hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest or, in certain cases, increasing interest rates or that were issued with warrants), the Fund must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by the Fund in the same taxable year. Because any original issue discount accrued will be included in the Fund’s investment company taxable income for the year of accrual, the Fund may be required to make a Distribution to the Fund’s Common Shareholders in order to satisfy the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, even though the Fund will not have received any corresponding cash amount.

In order to increase the Fund’s investments in Master Limited Partnerships, the Fund invests in Salient MLP & Energy Infrastructure Fund, Inc., a wholly owned taxable subsidiary C corporation, and may invest more taxable subsidiary C corporations that invest in Master Limited Partnerships. In addition, equity securities issued by certain non-traded limited partnerships (or other “pass-through” entities, such as grantor trusts) in which the Fund invests may not produce qualifying income for purposes of determining the Fund’s compliance with the 90% gross income test applicable to RICs. As a result, the Fund may form one or more wholly owned taxable subsidiaries to make and hold certain investments in accordance with the Fund’s investment objective. The dividends received from such taxable subsidiaries will be qualifying income for purposes of the 90% gross income test. In general, the amount of cash received from such wholly owned subsidiaries will equal the amount of cash received from the limited partnerships or other pass-through entities as reduced by income taxes paid by such subsidiaries.

Although the Fund presently does not intend to do so, the Fund is authorized to borrow funds and to sell assets in order to satisfy Distribution requirements. However, under the 1940 Act, the Fund is not permitted to make Distributions to the Common Shareholders while the Fund’s debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. See “Description of Capital Structure.” Moreover, the Fund’s ability to dispose of assets to meet the Fund’s Distribution requirements may be limited by other requirements relating to the Fund’s status as a RIC, including the Diversification Tests. If the Fund disposes of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, the Fund may make such dispositions at times that, from an investment standpoint, are not advantageous.

The remainder of this discussion assumes that the Fund qualifies as a RIC and has satisfied the Annual Distribution Requirement.

Taxation of the Fund’s Investments

Certain of the Fund's investment practices are subject to special and complex U.S. federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert lower taxed long-term capital gains into higher taxed short-term capital gains or ordinary income, (iii) convert ordinary loss or a deduction into capital loss (the deductibility of which is more limited), (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the time as to when a purchase or sale of shares or securities is deemed to occur and (vi) adversely alter the characterization of certain complex financial transactions. The Fund intends to monitor the Fund's transactions and may make certain tax elections to mitigate the effect of these rules and prevent the Fund's disqualification as a RIC.

The Fund intends to invest in equity securities of Master Limited Partnerships that are expected to derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. The Fund expects that these Master Limited Partnerships will be treated as "qualified publicly traded partnerships" (as defined in Section 851(h) of the Code). Accordingly, it is expected that the net income derived by the Fund from such investments will qualify as "good income" for purposes of the 90% gross income test. If the Master Limited Partnerships in which the Fund invests, however, do not qualify as qualified publicly traded partnerships under the new rules or otherwise are not treated as corporations for U.S. federal income tax purposes, the income derived by the Fund from such investments may not qualify as "good income" under the 90% gross income test and, therefore, could adversely affect the Fund's status as a RIC.

The Master Limited Partnerships in which the Fund intends to invest are expected to be treated as partnerships for U.S. federal income tax purposes, and therefore, the cash distributions received by the Fund from a MLP may not correspond to the amount of income

allocated to the Fund by the Master Limited Partnership in any given taxable year. If the amount of income allocated by a MLP to the Fund exceeds the amount of cash received by the Fund from such Master Limited Partnership, the Fund may have difficulty making distributions in the amounts necessary to satisfy the requirements for maintaining RIC status and avoiding any income and excise taxes. Accordingly, the Fund may have to dispose of securities under disadvantageous circumstances in order to generate sufficient cash to satisfy the distribution requirements.

The Fund intends to invest in Canadian income trusts that are expected to derive income and gains from the exploration, development, mining or production, processing, refining, transportation (including pipeline transporting gas, oil, or products thereof), or the marketing of any mineral or natural resources. Canadian income trusts are generally treated as either corporations or partnerships for U.S. federal income tax purposes. If the Canadian income trusts in which the Fund invests are treated as corporations for U.S. federal income tax purposes, the income and gain generated by the Fund from such investments will generally be qualifying income, and a trust unit will generally be a qualifying asset, for purposes of the Fund's qualification as a RIC. Moreover, if the Canadian income trust is a PFIC (as defined below), the Fund will be subject to additional rules described below relating to tax consequences of an investment in a PFIC.

If the Canadian income trusts in which the Fund invests are treated as partnerships for U.S. federal income tax purposes, the effect on the Company will depend on whether the Canadian income trust is a qualified publicly traded partnership (as described above) or not. If the Canadian income trust is a qualified publicly traded partnership, the Fund's investment therein would generally be subject to the rules described above relating to investments in MLPs. If the Canadian income trust, however, is not treated as a qualified publicly traded partnership, then the consequences to the Fund of an investment in such Canadian income trust will depend upon the amount and type of income and assets of the Canadian income trust allocable to the Fund. The Fund intends to monitor its investments in Canadian income trusts to prevent its disqualification as a RIC.

Income received by the Fund with respect to non-U.S. securities may be subject to withholding and other taxes imposed by foreign countries. Tax conventions may reduce or eliminate such taxes. Due to the makeup of the Fund's investment portfolio, shareholders will not be entitled to claim a credit or deduction with respect to such foreign taxes.

Investments by the Fund in certain "passive foreign investment companies" ("PFIC") could subject the Fund to U.S. federal income tax (including interest charges) on certain distributions or dispositions with respect to those investments which cannot be eliminated by making distributions to shareholders. Elections may be available to the Fund to mitigate the effect of this provision provided that the PFIC complies with certain reporting requirements, but the elections generally accelerate the recognition of income without the receipt of cash. Dividends paid by PFICs will not qualify for the reduced tax rates discussed below under "Taxation of Shareholders."

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time the Fund accrue income or receivables or expenses or other liabilities denominated in a foreign currency and the time the Fund actually collects such income or receivables or pays such liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt securities denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

Taxation of Shareholders

Distributions by the Fund generally are taxable to U.S. shareholders as ordinary income or capital gains. Distributions of the Fund's "investment company taxable income" (which is, generally, the Fund's ordinary income plus net short-term capital gains in excess of net long-term capital losses) will be taxable as ordinary income to U.S. shareholders to the extent of the Fund's current or accumulated earnings and profits, whether paid in cash or reinvested in additional

Common Shares. Distributions of the Fund's net capital gains (which are generally the Fund's net long-term capital gains in excess of net short-term capital losses) properly designated by the Fund as "capital gain dividends" will be taxable to a U.S. shareholder as long-term capital gains currently at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. shareholder's holding period for his, her or its Common Shares and regardless of whether paid in cash or reinvested in additional Common Shares. Distributions in excess of the Fund's earnings and profits first will reduce a U.S. shareholder's adjusted tax basis in such shareholder's Common Shares as a non taxable return of capital and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. shareholder. Such capital gain will be long-term capital gain and thus, will be taxed at a maximum rate of 15% for taxable years beginning on or before December 31, 2012, if the Distributions are attributable to Common Shares held by the U.S. shareholder for more than one year. To the extent that Distributions paid by the Fund is attributable to dividends received by the Fund from corporations; the Fund's Distributions may be eligible for the maximum tax rate of 15% currently applicable to qualified dividend income, or for the dividends received deduction, in each case provided that certain holding period and other requirements are met. The favorable rates for qualified dividend income are currently scheduled to increase for taxable years beginning after December 31, 2012.

Under the DRIP, a U.S. shareholder can have all cash distributions automatically reinvested in additional Common Shares. See "Distribution Reinvestment Plan." Any Distributions reinvested under the DRIP will nevertheless remain taxable to the U.S. shareholder. The U.S. shareholder will have an adjusted basis in the additional Common Shares purchased through the DRIP

equal to the amount of the reinvested Distribution. The additional shares will have a new holding period commencing on the day following the day on which Common Shares are credited to the U.S. shareholder's account.

Although the Fund currently intends to distribute any long-term capital gains at least annually, the Fund may in the future decide to retain some or all of the Fund's long-term capital gains, but designate the retained amount as a "deemed distribution." The Fund cannot, however, treat any of the Fund's "investment company taxable income" as a "deemed distribution." If the Fund designates any of its retained capital gains as a deemed distribution, among other consequences, the Fund will pay tax on the retained amount, each U.S. shareholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. shareholder, and the U.S. shareholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by the Fund. The amount of the deemed distribution net of such tax will be added to the U.S. shareholder's tax basis for his, her or its Common Shares. Since the Fund expects to pay tax on any retained capital gains at the Fund's regular corporate tax rate, and since that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual shareholders will be treated as having paid and for which they will receive a credit will exceed the tax they owe on the retained net capital gain. Such excess generally may be claimed as a credit against the U.S. shareholder's other U.S. federal income tax obligations or may be refunded to the extent it exceeds a shareholder's liability for U.S. federal income tax. A shareholder that is not subject to U.S. federal income tax or otherwise required to file a U.S. federal income tax return would be required to file a U.S. federal income tax return on the appropriate form in order to claim a refund for the taxes the Fund paid. In order to utilize the deemed distribution approach, the Fund must provide written notice to the Common Shareholders prior to the expiration of 60 days after the close of the relevant taxable year. The Fund will be subject to alternative minimum tax, also referred to as AMT, but any items that are treated differently for AMT purposes must be apportioned between the Fund and the Common Shareholders and this may affect the Common Shareholders' AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued, such items will generally be apportioned in the same proportion that dividends paid to each shareholder bear to the Fund's taxable income (determined without regard to the dividends paid deduction), unless a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, the Fund may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If the Fund makes such an election, the U.S. shareholder will still be treated as receiving the dividend in the taxable year in which the Distribution is made. However, any dividend declared by the Fund in October, November or December of any calendar year, payable to Common Shareholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by the Fund's U.S. shareholders on December 31 of the year in which the dividend was declared.

A U.S. shareholder generally will recognize taxable gain or loss if the U.S. shareholder sells or otherwise disposes of his, her or its Common Shares. Any gain arising from such sale or disposition generally will be treated as long-term capital gain if the Common Shareholder has held his, her or its shares for more than one year and such shares are held as capital assets. Otherwise, it would be classified as short-term capital gain. However, any capital loss arising from the sale or disposition Common Shares held for six months or less (determined by applying the holding period rules contained in Section 852(b)(4)(C) of the Code) will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition Common Shares may be disallowed if Common Shares are purchased (whether through reinvestment of Distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. shareholders currently are subject to a maximum U.S. federal income tax rate of 15% (for taxable years beginning on or before December 31, 2012) on their net capital gain, i.e., the excess of realized net

long-term capital gain over realized net short-term capital loss for a taxable year, including a long-term capital gain derived from an investment in Common Shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. Corporate U.S. shareholders currently are subject to U.S. federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate shareholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to \$3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate shareholder in excess of \$3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate shareholders generally may not deduct any net capital losses against ordinary income for a year, but may carry back such losses for three years or carry forward such losses for five years.

The Fund will send to each of the Fund's U.S. shareholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per Distribution basis, the amounts includible in such U.S. shareholder's taxable income for such year as ordinary income (including the portion, if any, taxable at the lower effective rate currently applicable to "qualified dividends") and as long-term capital gain. In addition, the federal tax status of each year's Distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for treatment as "qualified dividends"). Distributions may also be subject to additional state, local, and foreign taxes depending on a U.S. shareholder's particular situation. To the extent that Distributions paid by the Fund is attributable to dividends received by the Fund from corporations, dividends distributed by the Fund

may be eligible for the dividends-received deduction or the preferential rate applicable to qualified dividends, in each case provided that certain holding period and other requirements are met. The favorable rates for qualified dividend income are currently scheduled to increase for taxable years beginning after December 31, 2012.

The Medicare Contribution Tax requires certain U.S. shareholders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale or other disposition of shares for taxable years beginning after December 31, 2012. U.S. shareholders should consult their tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of Common Shares.

The Fund may be required to withhold U.S. federal income tax, or backup withholding, currently at a rate of 28% from all taxable Distributions to any non-corporate U.S. shareholder (1) who fails to furnish the Fund with a correct taxpayer identification number or a certificate that such shareholder is exempt from backup withholding, or (2) with respect to whom notification has been received from the IRS to the effect that such shareholder has failed to properly report certain interest and dividend income to the IRS and to respond to notices to that effect. An individual's taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. shareholder's U.S. federal income tax liability and may entitle such shareholder to a refund, provided that proper information is timely provided to the IRS.

Taxation of Non-U.S. Shareholders

Whether an investment in Common Shares is appropriate for a non-U.S. shareholder will depend upon that person's particular circumstances. An investment in Common Shares by a non-U.S. shareholder may have adverse tax consequences because the interest income and certain short-term capital gains that generally would not be subject to tax if earned directly by a non-U.S. shareholder are transformed into dividends that are subject to U.S. federal income tax as described below. Non-U.S. shareholders should consult their tax advisers before investing in Common Shares.

Distributions of the Fund's "investment company taxable income" to non-U.S. shareholders (including interest income and the excess of net short-term capital gain over net long-term capital losses), will generally be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of the Fund's current and accumulated earnings and profits unless the Distributions are effectively connected with a U.S. trade or business of the non-U.S. shareholder, and, if an income tax treaty applies, attributable to a permanent establishment in the United States of the non-U.S. shareholder. In such latter case, the Distributions will be subject to U.S. federal income tax at the rates applicable to U.S. persons, plus, in certain cases where the non U.S. shareholder is a corporation, a branch profits tax at a 30% rate (or lower rate provided by an applicable treaty), and the Fund will not be required to withhold federal tax if the non-U.S. shareholder complies with applicable certification and disclosure requirements. Special certification requirements apply to a non-U.S. shareholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.

Actual or deemed distributions of the Fund's net capital gains (i.e., net long-term capital gains in excess of short-term capital losses) to a non-U.S. shareholder, and gains realized by a non-U.S. shareholder upon the sale of Common Shares, will not be subject to federal withholding tax and generally will not be subject to U.S. federal income tax unless (a) the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. shareholder and, if an income tax treaty applies, are attributable to a permanent establishment or fixed base maintained by the non-U.S. shareholder in the United States, or (b) the non-U.S. shareholder is an individual, has been present in the United States for 183 days or more during the taxable, and certain other conditions are satisfied. In addition, gain on the non-U.S. shareholder's sale of Common Shares will be subject to U.S. federal income tax if the Fund is or has been a "United States real property holding corporation" for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date the non-U.S. shareholder sells Common Shares and such Common Shareholder held more than 5% of the Fund's Common Shares at any time during the five-year period

preceding the disposition. Generally, a corporation is a United States real property holding corporation if the fair market value of its "United States real property interests" equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business.

If the Fund distributes the Fund's net capital gains in the form of deemed rather than actual distributions (which the Fund may do in the future), a non-U.S. shareholder will be entitled to a U.S. federal income tax credit or tax refund equal to the Common Shareholder's allocable share of the tax the Fund pays on the capital gains deemed to have been distributed. In order to obtain the refund, the non-U.S. shareholder must obtain a U.S. taxpayer identification number and file a federal income tax return even if the non-U.S. shareholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return. For a corporate non-U.S. shareholder, distributions (both actual and deemed), and gains realized upon the sale of Common Shares that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate (or at a lower rate if provided for by an applicable treaty).

Under the DRIP, a non-U.S. shareholder can have all cash Distributions automatically reinvested in additional Common Shares. See "Distribution Reinvestment Plan." If the Distribution is a distribution of the Fund's "investment company taxable income"

and is not effectively connected with a U.S. trade or business of the non-U.S. shareholder (or, if a treaty applies, it is not attributable to a permanent establishment or a fixed base), the amount distributed (to the extent of the Fund's current and accumulated earnings and profits) will be subject to withholding of U.S. federal income tax at a rate of 30% (or lower rate provided by an applicable treaty) and only the net after-tax amount will be reinvested in Common Shares. If the Distribution is effectively connected with a U.S. trade or business or attributable to a permanent establishment or fixed base, generally the full amount of the Distribution will be reinvested in the DRIP and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. shareholders. The non-U.S. shareholder will have an adjusted basis in the additional Common Shares purchased through the DRIP equal to the amount reinvested. The additional shares will have a new holding period commencing on the day following the day on which Common Shares are credited to the non-U.S. shareholder's account.

A non-U.S. shareholder who is a non-resident alien individual, and who is otherwise subject to withholding of U.S. federal income tax, may be subject to information reporting and backup withholding of U.S. federal income tax on dividends unless the non-U.S. shareholder provides the Fund or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a non-U.S. shareholder or otherwise establishes an exemption from backup withholding.

Legislation enacted on March 18, 2010, commonly referred to as the "Foreign Account Tax Compliance Act" or "FATCA," will generally impose a U.S. withholding tax of 30% on payments to certain foreign entities, of U.S.-source dividends and the gross proceeds from dispositions of shares that produces U.S.-source dividends, unless various U.S. information reporting and due diligence requirements that are different from, and in addition to, the beneficial owner certification requirements described above have been satisfied. To avoid withholding under these provisions, certain non-U.S. shareholders may need to enter into information-sharing agreements with the IRS in which they agree to identify and report information to the IRS each year on their U.S. accounts and withhold on "passthrough payments" to certain accountholders or owners who do not provide information or comply with the FATCA requirements. Non-U.S. shareholders should consult their tax advisers regarding the effect, if any, of this legislation on their ownership and sale or disposition of our common shares. While these withholding tax provisions were to have been effective beginning in 2013, the U.S. Treasury Department and the IRS have indicated in a notice and in proposed regulations issued on February 8, 2012, that future regulatory guidance will provide for a phased-in implementation of these provisions, with withholding on withholdable payments, other than gross proceeds, to begin on January 1, 2014, and withholding on withholdable payments in the form of gross proceeds to begin on January 1, 2015. The preamble to the proposed regulations provides that withholding on certain "passthrough payments" will begin no earlier than January 1, 2017.

PERFORMANCE RELATED AND COMPARATIVE INFORMATION

The Fund may quote certain performance-related information and may compare certain aspects of the Fund's portfolio and structure to other substantially similar closed-end funds. In reports or other communications to the Fund's Common Shareholders or in advertising materials, the Fund may compare the Fund's performance with that of (i) other investment companies listed in the rankings prepared by Lipper, Inc. ("Lipper"), Morningstar Inc. or other independent services; publications such as Barrons, Business Week, Forbes, Fortune, Institutional Investor, Kiplinger's Personal Finance, Money, Morningstar Mutual Fund Values, The New York Times, The Wall Street Journal and USA Today; or other industry or financial publications, or (ii) the Standard and Poor's Index of 500 Stocks, the Dow Jones Industrial Average, the NASDAQ Composite Index and other relevant indices and industry publications. Comparisons of ourselves to an alternative investment should be made with consideration of differences in features and expected performance. The Fund may obtain data from sources or reporting services, such as Bloomberg Financial and Lipper, that the Fund believes to be generally accurate.

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The Fund's performance will vary depending upon market conditions, the composition of the Fund's portfolio and the Fund's operating expenses. Consequently, any given performance quotation should not be considered representative of the Fund's performance in the future. In addition, because performance will fluctuate, it may not provide a basis for comparing an investment in the Fund's portfolio with certain bank deposits or other investments that pay a fixed yield for a stated period of time. Investors comparing the Fund's performance with that of other investment companies should give consideration to the quality and type of the respective investment companies' portfolio securities.

Past performance is not indicative of future results. At the time owners of the Fund's securities sell the Fund's securities, they may be worth more or less than the original investment.

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements of the Fund for the fiscal period ended November 30, 2011, including the related financial highlights for the period ended November 30, 2011, that appear in the Prospectus, have been audited by KPMG LLP, independent registered public accounting firm, as set forth in their report with respect thereto given upon the authority of such firm as experts in accounting and auditing, and are incorporated herein by reference.

KPMG LLP, located at 191 W. Nationwide Blvd., Suite 500, Columbus, Ohio 43215, is the independent registered public accountant for the Fund and provides audit and audit-related services in connection with certain SEC filings.

REPORTS TO SHAREHOLDERS

The financial statements of the Fund for the fiscal year ended November 30, 2011 are incorporated herein by reference to the Fund's most recent Annual Report to Common Shareholders filed with the SEC on Form N-CSR pursuant to Rule 30b2-1 under the 1940 Act. The financial statements of the Fund for the six months ended May 31, 2012 are incorporated herein by reference from the Fund's most recent Semi-Annual Report to Shareholders filed with the SEC on Form N-CSR pursuant to Rule 30b2-1 under the 1940 Act.

OTHER SERVICE PROVIDERS

U.S. Bank N.A., located at 1555 N. River Center Drive, Suite 302, Milwaukee, Wisconsin 53212, acts as the Fund's custodian. U.S. Bancorp Fund Services, LLC, located at 615 East Michigan Street, Milwaukee, Wisconsin 53202, provides certain administrative services for the Fund.

REGISTRATION STATEMENT

A Registration Statement on Form N-2, including amendments thereto, relating to the Fund's securities offered hereby, has been filed by the Fund with the SEC. The Fund's Prospectus, any related Prospectus Supplements, and this SAI do not contain all of the information set forth in the Registration Statement that the Fund has filed with the SEC. For further information with respect to the Fund and the Fund's securities offered hereby, reference is made to the Fund's Registration Statement. Statements contained in the Fund's Prospectus, any related Prospectus Supplement, and this SAI as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. Copies of the Registration Statement may be inspected without charge at the SEC's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

PART C — Other Information

Item 25. Financial Statements and Exhibits

(1) Financial Statements

Part A Financial Highlights

Part B Financial Statements are incorporated in Part B by reference to the Fund's November 30, 2011 annual shareholder report (audited) on Form N-CSR as filed with the Securities and Exchange Commission ("SEC") on February 7, 2012 and the Fund's May 31, 2012 semi-annual shareholder report (unaudited) on Form N-CSRS as filed with the SEC on August 1, 2012.

(2) Exhibits

- (a)(1) Certificate of Trust dated February 24, 2011 (1).
- (a)(2) Agreement and Declaration of Trust dated February 24, 2011 (1).
- (b) Bylaws (2).
- (c) Not Applicable.
- (d) See Exhibits (a)(1), (a)(2) and (b).
- (e) Distribution Reinvestment Plan (2).
- (f) Not Applicable.
- (g) Investment Management Agreement between Registrant and Salient Capital Advisors, LLC (2).
- (h) Form of Sales Agreement relating to Common Shares (6).
- (i) Not Applicable.
- (j)(1) Custody Agreement between Registrant and U.S. Bank N.A (3).
- (k)(1) Transfer Agent Servicing Agreement between Registrant and U.S. Bancorp Fund Services, LLC (3).
- (k)(2) Fund Administration Servicing Agreement between Registrant and U.S. Bancorp Fund Services, LLC (3).
- (k)(3) Fund Accounting Servicing Agreement between Registrant and U.S. Bancorp Fund Services, LLC (3).
- (k)(4) Advisory Fee Waiver Agreement (2).

- (l) Opinion and Consent of K&L Gates LLP filed herewith.
 - (m) Not Applicable
 - (n) Consent of Independent Registered Public Accounting Firm filed herewith.
 - (o) Not Applicable
-

- (p) Subscription Agreement between Salient Partners, L.P. and Registrant (2).
- (q) Not Applicable
- (r)(1) Code of Ethics of Registrant (2).
- (r)(2) Code of Conduct of Salient Capital Advisors, LLC (2).
- (s) Power of Attorney (6).

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- (1) Incorporated by reference to exhibits filed with Registrant's initial registration statement on Form N-2, as submitted to the SEC via EDGAR on March 7, 2011.
 - (2) Incorporated by reference to exhibits filed with the second pre-effective amendment to the Registrant's registration statement on Form N-2, as submitted to the SEC via EDGAR on May 4, 2011.
 - (3) Incorporated by reference to exhibits filed with the third pre-effective amendment to the Registrant's registration statement on Form N-2, as submitted to the SEC via EDGAR on May 19, 2011.
 - (4) Incorporated by reference to exhibits filed with the fourth pre-effective amendment to the Registrant's registration statement on Form N-2, as submitted to the SEC via EDGAR on May 23, 2011.
 - (5) Incorporated by reference to exhibits filed with the fifth pre-effective amendment to the Registrant's registration statement on Form N-2, as submitted to the SEC via EDGAR on May 25, 2011.
 - (6) Incorporated by reference to exhibits filed with the Registrant's initial shelf registration statement on Form N-2, as submitted to the SEC via EDGAR on August 30, 2012.

Item 26. Marketing Arrangements

Form of Sales Agreement relating to Common Shares in the shelf offering will be filed in an amendment to the Registrant's registration statement.

Item 27. Other Expenses and Distribution

The following table sets forth all expenses, other than underwriting discounts and commissions, to be incurred in connection with the offering described in this Registration Statement. All the amounts shown are estimates except for the SEC registration fee, the Financial Industry Regulatory Authority, Inc. ("FINRA") fee, and the New York Stock Exchange ("NYSE") listing fee.

SEC registration fee	\$8,595
Printing and engraving expenses	\$(1)
FINRA fee	\$11,750
NYSE listing fees	\$(1)
Accounting Fees and Expenses	\$(1)
Legal fees and expenses	\$(1)
Miscellaneous fees and expenses	\$(1)
Total	\$(1) *

(1) Expenses dependent upon amount of shares issued under the shelf registration.

(*)

These expenses will be borne by the Fund unless otherwise specified in a prospectus supplement.

Item 28. Persons Controlled by or Under Common Control

Without conceding such relationship, the following persons may be considered to be under common control with Registrant at the time of this filing:

Salient MLP & Energy Infrastructure Fund, Inc.
(A Delaware corporation and a wholly-owned subsidiary of the Registrant.)

Salient Midstream & MLP Fund;
Salient MF Trust, consisting of five series;
Salient Alternative Strategies Fund (formerly Salient Absolute Return Fund);

Salient Alternative Strategies I Fund (formerly Salient Absolute Return Institutional Fund); and Salient Alternative Strategies Master Fund (formerly Salient Absolute Return Master Fund). (Each, a Delaware statutory trust.)

Item 29. Number of Holders of Securities

As of November 1, 2012, the number of record holders of each class of securities of the Registrant was:

Title of Class	Number of Record Holders
Common Share, \$0.01 par value per share	2

Item 30. Indemnification

The Registrant is an organization of the type commonly known as a “Delaware statutory trust.” The Registrant’s Declaration of Trust provides that the Trustees and officers of the Registrant, in their capacity as such, will not be personally liable for errors of judgment or mistakes of fact or law; but nothing in the Declaration of Trust protects a Trustee against any liability to the Fund or its shareholders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

The Registrant’s Declaration of Trust authorizes the Registrant, to the maximum extent permitted by Delaware law and subject to the requirements of the Investment Company Act of 1940, as amended (the “1940 Act”), to obligate the Registrant to indemnify any present or former trustee or officer or any individual who, while serving as the Registrant’s trustee or officer and, at the Registrant’s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or other enterprise as a trustee, officer, partner, director, manager or member, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding.

The Registrant’s Bylaws obligate the Registrant, to the maximum extent permitted by Delaware law and subject to the requirements of the 1940 Act, to indemnify any present or former trustee or officer or any individual who, while serving as the Registrant’s trustee or officer and, at the Registrant’s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, limited liability company, employee benefit plan or other enterprise as a trustee, officer, partner, director, manager or member and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The Registrant’s Declaration of Trust and Bylaws also permit the Registrant to indemnify and advance expenses to any individual who served any predecessor of the Registrant in any of the capacities described above and any employee or agent of the Registrant or a predecessor of the Registrant, if any.

In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misconduct, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the “1933 Act”) may be permitted to Trustees, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against

such liabilities (other than the payment by the Registrant of expenses incurred or paid by a trustee, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such trustee, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 31. Business and Other Connections of Investment Adviser

The information in the SAI under the caption "Management — Trustees and Officers" is hereby incorporated by reference.

Part B and Schedules A and D of Form ADV of the Adviser (SEC File No. 801-71482), incorporated herein by reference, sets forth the officers of the Adviser and information as to any business, profession, vocation or employment of a substantial nature engaged in by those officers during the past two years.

Item 32. Location of Accounts and Records

The accounts, books or other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules promulgated thereunder, are kept by the Registrant or its adviser, custodian, transfer agent, administrator and fund accountant.

Item 33. Management Services

Not applicable.

Item 34. Undertakings

1. The Registrant undertakes to suspend the offering of its common shares until it amends the prospectus filed herewith if (1) subsequent to the effective date of its registration statement, the net asset value declines more than 10 percent from its net asset value as of the effective date of the registration statement, or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

2. Not Applicable.

3. Not Applicable.

4. The securities being registered will be offered on a delayed or continuous basis in reliance on Rule 415 under the 1933 Act. Accordingly, the Registrant undertakes:

(a) to file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(1) to include any prospectus required by Section 10(a)(3) of the 1933 Act;

(2) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(3) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(b) that, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof; and

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

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(d) that, for the purpose of determining liability under the 1933 Act to any purchaser, if the Registrant is subject to Rule 430C: each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the 1933 Act as part of this registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the 1933 Act, shall be deemed to be part of and included in this registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in this registration statement or prospectus that is part of this registration statement or made in a document incorporated or deemed incorporated by reference into this registration or prospectus that is part of this registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in this registration statement or prospectus that was part of this registration statement or made in any such document immediately prior to such date of first use.

(e) that for the purpose of determining liability of the Registrant under the 1933 Act to any purchaser in the initial distribution of securities:

The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

- (1) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the 1933 Act;
- (2) the portion of any advertisement pursuant to Rule 482 under the 1933 Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
- (3) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

5. The Registrant undertakes that:

- (a) For the purpose of determining any liability under the 1933 Act, as amended, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant under Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (b) For the purpose of determining any liability under the 1933 Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

6. The Registrant undertakes to send by first class mail or other means designed to ensure equally prompt delivery, within two business days of receipt of a written or oral request, any Statement of Additional Information.

7. Upon each issuance of securities pursuant to this Registration Statement, the Registrant undertakes to file a form of prospectus and/or form of prospectus supplement pursuant to Rule 497 and a post-effective amendment to the extent required by the 1933 Act and the rules and regulations thereunder, including, but not limited to a post-effective amendment pursuant to Rule 462(c) or Rule 462(d) under the 1933 Act.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, and the Investment Company Act of 1940, as amended, the Registrant has duly caused this amended Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in this City of Houston, and State of Texas, on the 16th day of November, 2012.

Salient MLP & Energy Infrastructure Fund

_____*
John A. Blaisdell, Trustee and Chairman

Pursuant to the requirements of the Securities Act, this amended Registration Statement has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
_____* John A. Blaisdell	Trustee, Chairman	November 16, 2012
_____* Karin B. Bonding	Trustee	November 16, 2012
_____* Jonathan P. Carroll	Trustee	November 16, 2012
_____* Dr. Bernard A. Harris, Jr.	Trustee	November 16, 2012
_____* Richard C. Johnson	Trustee	November 16, 2012
_____* Andrew B. Linbeck	Trustee	November 16, 2012
_____* G. Edward Powell	Trustee	November 16, 2012
_____* Scott E. Schwinger	Trustee	November 16, 2012
_____* A. Haag Sherman	Trustee	November 16, 2012
/s/ Gregory A. Reid Gregory A. Reid	Trustee, Chief Executive Officer	November 16, 2012
/s/ John E. Price	Principal Financial Officer	November 16, 2012

John E. Price

/s/ John E. Price

*By: John E. Price
(as Attorney-in-Fact)

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Index to Exhibits

- (l) Opinion and Consent of K&L Gates LLP.
- (n) Consent of Independent Registered Public Accounting Firm.