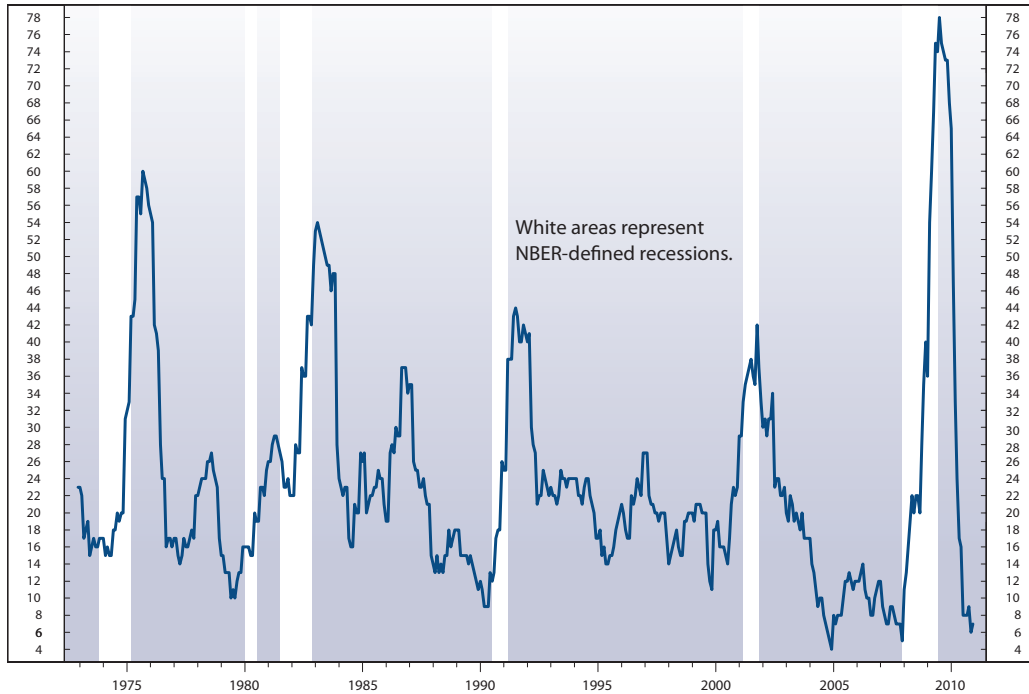


Number of S&P 500 Dividend Cutters

Companies that have cut dividends in the past 12 months (12/31/1972–12/31/2010)



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*"We ask the ultimate question, 'Is this dividend safe and will it grow?'"*

When people hear Miller/Howard invests in dividend stocks, they often think that we are a Large Cap Value manager. But traditional Value managers look for cheap stocks that may have accidental yields. Miller/Howard is a dividend manager that begins any analysis with a company's willingness and ability to pay its dividend. We buy Growth & Value, Small to Large Caps, Domestic & International stocks. We ask the ultimate question, "Is this dividend safe and will it grow?"

Dividends were being cut at the end of 2008 and into 2009 at the fastest pace since 1975. Stories of the carnage were easy to find: Dow Chemical reduced their dividend in February of 2009 for the first time in 97 years. Bank of America, State Street, and Pfizer (all S&P Dividend Aristocrats - firms that had raised dividends every year for the past 25 years) all announced dividend cuts. Dividend reductions within the S&P 500 set a record in 2009, when 78 stocks reduced their dividends in the trailing 12 months.

While preserving the stability of our dividend yield is of primary importance to us, we also emphasize a company's ability to grow the dividend in our investment process.

Though we can't guarantee that we'll avoid all dividend cuts in our strategy, we work hard to avoid holding companies that are in danger of cutting their dividend. Our goal is to maintain a high current income level with growth of income. In fact, the holdings in our Income-Equity Strategy announced 24 dividend increases in 2009 and 40 dividend increases in 2010.

We continue to believe that companies with strong balance sheets and recurring business models are the types of companies that investors want to hold. In this uncertain environment, investors are increasingly interested in getting paid for taking the risk of owning a stock.

Here are a few metrics that we look at when evaluating a company's ability to pay their dividend:

#### Cash Flow Coverage

This metric answers a simple question: How much cash is the business generating relative to how much they are paying in dividends.

#### Free Cash Flow

This shows how much cash flow available after all fixed expenses have been met and how much is available for shareholders. Some examples are – debt repayments, capital expenditure obligations, and interest coverage.

#### Interest Coverage

Interest on debt is a prior claim as companies need to meet their interest obligation before they can pay dividends.

#### Payout Ratios

Confirms that earnings are sufficient to pay the dividends long term.

#### Future Debt Obligations

Monitor debt and bank lines, and the specific covenants of those bank lines, as well as the debt maturities. Will debt or its covenants limit a company's ability to pay dividends?

#### Volatility of Earnings / Macro Business Environment

Is the company in a cyclical or non-cyclical business? How consistent are earnings and how consistent have projections been in the past?

#### Herd Mentality

Companies are more likely to reduce dividends if their competitors have already taken that painful step. Whether it is hoarding cash to fortify their balance sheets or because it is no longer seen as a competitive advantage to have a high yield, the recent environment may make it easier for companies to reduce their dividends.

#### Philosophy of Management

Is there a possibility that management will want to use their excess cash for other purposes? Will they look to acquire weaker competitors? Will they use current market conditions to retire future obligations (debt maturing in a few years or convertible preferred shares, for example) at discount prices?

#### Other Incentives for a Dividend Cut

Are there incentives to cut the dividend, such as new or temporary tax rulings, other government mandates (TARP, for example) competitive hoarding of cash in the company's industry, repurchase of debt at a discount, etc.?

These are just some of the factors at play in our evaluation of a company's ability to maintain their dividend payments. A company's ability to maintain and grow their dividend payments during tough economic times is a strong signal of their financial health and competitive position.

#### Portfolio Team

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*Dividend yield is one component of performance and should not be the only consideration for investment. This information is intended solely to report on investment strategies as reported by the Investment Manager. Opinions and estimates offered constitute their judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Equity portfolios are subject to the basic stock market risk that a particular security, or securities in general, may decrease in value. The stocks of small and medium-sized companies are often associated with higher risk than stocks of larger companies, including higher volatility. When investing in value securities, the market may not necessarily have the same value assessment as the manager, and, therefore, the performance of the securities may decline. Past performance is no guarantee of future results.*