Miller/Howard INVESTMENTS, INC

OFF THE CHARTS

THE STRATEGIES

INCOME-EQUITY STRATEGY, pg 4

A diversified dividend-growth strategy providing high current income, growth of income, and growth of underlying principal. Stocks are high quality, high yield, and are projected to have a rising stream of income.

INCOME-EQUITY NO MLP STRATEGY, pg 4

A custom version of our Income-Equity Strategy that excludes exchange-traded Master Limited Partnerships (MLP's).

GLOBAL UTILITIES + INFRASTRUCTURE, pg 6

By focusing on opportunities in the broad, global utilities industry, this portfolio seeks to participate in the dynamic growth potential of the most important economic sector (essential services and infrastructure worldwide).

RISING DIVIDEND PLUS, pg 8

A portfolio of large- and mid-cap companies in which dividend growth is the key variable. We focus on companies with proven long-term success and special current opportunities and incorporate technical analysis into the portfolio process. RDP should generally be considered a value/momentum strategy.

DISTRIBUTION / MERGING UTILITIES, pg 10

An opportunistic portfolio of primarily regulated local monopoly distribution utility companies with strategic and financial takeover appeal.

MLP STRATEGY, pg 11

A high-yielding portfolio (with tax-deferred income) primarily composed of pipelines and energy facilities we feel have strong prospects for growth of distributions. Revenues are derived from durable and stable business assets that generate attractive yields to the unit holders while allowing for long-term organic growth.

Among the tiresome verbalizations that have littered the dialogue about investments this year ("green shoots," "lost decade," "new normal," etc.) is the aphorism frequently attributed to Warren Buffet: "It's only when the tide goes out that you learn who's been swimming naked." He was referring, we think, to the over-leveraged, the over-hyped, the weakly managed, in the world of business and investment. Well, that's become kind of obvious. What's more interesting to us is that the receding tide revealed a hidden ongoing assumption among investors that we live in a world in which the future won't be so very much different from the past. The recent abrupt changes have revealed, underneath that assumption of normalcy, an urgent craving for order within chaos, a desperation to know what the future will look like. No one really did know the future—by definition—but it seemed as though we lived in some kind of repetitive or cyclical…familiar…process. Even now thousands of market strategists and pundits of all stripes are only too willing to describe the contours of what is to come, except now their audience knows or should know that it is just atavistic ritual chanting to ward off the evil spirits.

Not only has the tide gone out, no one quite knows where it has gone, when it will return, or how high it will be. Thus the newly arisen desperation to know the future, and the almost mad parade of wise men, each with his own compelling theory supported by a handful of anecdotes from domestic or foreign history. Our preference here is a kind of humbled-back position: Firm conclusions are too difficult now because so much is *off the charts*. History is not a clear guide, and reason is only a modest tool in the prediction game.

In the financial sector virtually every measure went off the charts at some point in the past 24 months, and many are still there. Yes, the financial system seems to be somewhere in the process of regeneration, but we doubt there is anyone who knows exactly how long a healing will take, nor what scars or new shape will be found in the end result. One thing does seem evident: The long march upward in borrowing facilitated by the unquenchable desire of lenders to increase profits is over. We are in the midst of a shrinkage. One item just a few commentators have pointed out: Over the past 20 years debt grew substantially faster than actual economic growth. Was the "growth" then even real?

It can't be a coincidence that off-the-charts contraction in the financial sector has been accompanied by similarly off-the-charts contraction in the real world of making and selling goods and services. Asset prices have imploded at a rate not seen since the Great Depression, resulting in home prices, for example, that are below replacement cost. Industrial production is at its lowest level in the post-war era. So is capacity utilization. The drop in activity at the Port of Long Beach has never been greater. Rail and air freight statistics must be prompting carriers to drop the "e" in freight. Drops of 20% in sales among retailers are commonplace. And consumers, alleged to be 70% of the economy,

more ▸

"The eternal character of economic life is one of expansion and contraction, and neither mode will last forever."

SELECTED INDICES

	2nd Qtr 09	1 Yr
S&P 500	15.9%	(26.2)%
Equity Inc	19.0%	(24.1)%
Util Fund	13.0%	(30.3)%
BC Long	(7.1)%	7.4%
R3UTIL	8.3%	(23.2)%
R1000	16.4%	(26.7)%
R3000	16.8%	(26.6)%
R3000Val	16.8%	(28.7)%
DVY	13.7%	(23.2)%

S&P 500 = Standard & Poor's Index
Equity Inc = Avg Equity Income Fund (Lipper)
Util Fund = Avg Utility Fund (Morning Star)
BC Long = Barclays Capital US Treasury Long
R3UTIL = Russell 3000 Utilities
R1000 = Russell 1000
R3000 = Russell 3000
R3000Val = Russel 3000 Value
DVY = iShares Dow Jones Select Dividend ETF

aren't spending—savings are increasing at the fastest rate in a generation.

So we think signs of improvement that may appear (such as small increases in the Institute for Supply Management [ISM] numbers, which we do take seriously) reflect less the emergence of "green shoots" than the hitting, finally, of bedrock. The eternal character of economic life is one of expansion and contraction, and neither mode will last forever. We have recently witnessed the limits of expansion, and the waning of contraction will likely come into view before too long. But that hardly implies an instant bounce-back to the way things were. What also comes into view are the problems of destimulation, dealing with the servicing costs of greatly expanded government debt, dealing with social security and health costs at a time when aging demographics add friction to the solution, and finding a path to global competitiveness and growth. That's a tough menu, especially tough at a time when private debt is unlikely to provide much aid—not to mention the not yet fully realized potential problems of commercial real estate that could add substantial additional stress. First we need to scrape off that bedrock. Then add soil. After that, okay, green shoots.

To be sure, the course of the stock market is not necessarily that of the economy. As we all know, the market "anticipates" economic recovery. Except when it doesn't, as in the spring and early fall of 2007 and spring of 2008, when higher index prices "anticipated" nothing that came to pass. Nevertheless, there is "off the charts" liquidity available to the equity markets, and many investors will aggressively seek to replicate the bounty of times past. Soon enough earnings comparisons to the prior year will be easier, inventories will be rebuilt, those who escaped much of the damage will start buying large-scale assets and companies, and there is reason to think stocks may work higher, albeit in fits and starts and with air pockets when "the numbers" don't come in as hoped. *Here are some elements, both fundamental and technical, we would like to see enter the picture:*

Improvement in industrial production. One is hard put to find a strong market without this factor. Likewise, improvement in capacity utilitization. Considering the decades-long reductions in capacity that have characterized our economy, the currently low level of utilization is feeble indeed. There have been few "green shoots" when it comes to these critical figures.

Declining dollar. Few seem to note that the famous "lost decade" of Japan (which is heading for a lost "*two* decades") was accompanied, and perhaps caused by, a strong yen. We need a weak dollar to make our goods—such goods as we still produce—domestically and globally competitive. The more competitive our exports, the more jobs, and a virtuous circle then begins. A weak dollar will also attract foreign investment in real assets.

Continued improvement in ISM figures. We consider this a much better gauge of economic activity than government statistics.

Positive (upward) revisions in reported government statistics. We have recently seen fairly compelling evidence (always bearing in mind that history is only history) that a trend of upward revisions is a good indicator of economic improvement, while a trend of downward revisions shows continued contraction. It's as though the government can't quite keep up with the changes in the real world, in either direction. So far it's been downward revisions all the way.

Improvement in home prices, both new and used. Most observers believe that this is a key to recovery. Whether that's correct or not, improvement here will have an impact if for no other reason than the fact that so many people believe it should.

Upside earnings surprises. In most cases earnings will still be well below earlier levels, a context that should not be ignored by anyone who respects valuation models. But earnings expectations by analysts are at the lowest levels in 30 years. Both positive surprises and increases in expectations have been shown to impact stock prices with some consistency.

Continued improvement in yield spreads between treasuries and lower-rated (corporate and state) bonds. This is the age-old "confidence indicator," and we have no reason to think its efficacy is anything other than eternal.

An increase in volume of trading. On a technical level, it is urgent that volume of trading increase, to at least above the 50-day moving average of volume. We can't really point to any previous sustainable bull market that was not accompanied by vigorous volume (typically a new bull market sees historic record volume). The volume patterns currently, as of the end of June, are similar to spring and fall of 2007 and late summer of 2008. Ugh.

An increase in margin debt. One of the best coincident indicators of the market we have found—meaning an indicator that measures strength and sustainability—is an increase in margin debt. As with volume, we have not seen prior evidence of a sustainable bull market in the absence of rising margin debt. For the past two years, it has been shrinking.

Improved insider activity. Even with the price declines over the past two years, insider buying is at its lowest levels during that time. Perhaps the long line of CEOs who report that business is terrible and visibility poor are telling the truth for a change.

Greater bearishness among advisors and individual investors. These measures were strong (meaning positive, as they are read in contrary fashion) at the March lows, but quickly reverted to neutral. It will probably require a marked decline in the indices to turn these improvers of the breed and cheerleaders negative again, a state we would like to see. In addition, our proprietary indicator of options open interest—a statistical view of sentiment—is not supportive at the moment. Call buyers are too confident.

In all, the second quarter appears something of a respite. Both fundamentally and technically, more will be needed to nourish our optimistic side. But at a certain point one must take the step and assert that many, many companies are better buys than they were at higher prices, that life will go on, and that they will be bigger and more valuable as time goes by. That moment might well occur after another substantial decline or a multi-month period of stasis, but it does not quite appear that we are "there" yet.

The new era ahead will require greater selectivity and care in portfolios. Debt and balance sheet issues will not go away in a few quarters. Business will be harder across the board, without the performance-enhancing effects of leverage. We continue to think that solid low-leverage companies with repeating business models, plus strong companies benefiting from government infrastructure spending, represent the best accommodation between risk and reward.

"To be sure, the course of the stock market is not necessarily that of the economy."

GIPS Disclosure Information

Results are shown in US dollars. Included in the results are all unrestricted portfolios that have been managed for at least one full quarter, including those accounts no longer with the firm. Past performance is not indicative of future results. All composites contain fully discretionary accounts. Gross returns have been reduced by transactions costs and include the reinvestment of all income. Net return assumes a 3% annual advisory fee, charged quarterly, which includes wrap program fees. Other than brokerage commissions, this fee may also include portfolio monitoring, consulting services, custodial services, and investment management fees. Actual investment advisory fees incurred by clients may vary. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

Miller/Howard Investments Inc. is an independently registered investment advisor specializing in multi-cap, core equity management and dividend strategies.

Miller/Howard Investments Inc. claims compliance with the Global Investment Performance Standards (GIPS®). Compliance with the GIPS standards has been verified for the period of January 1, 2000, through December 31, 2006, by Ashland Partners & Company LLP. To receive a complete list and description of Miller/Howard Investments' composites and/or a presentation that adheres to the GIPS standards, contact Marilyn Marecek at 845-679-9166, or write Miller/Howard Investments, PO Box 549, Woodstock, NY 12498, or marilyn@mhinvest.com.

Annual ADV Update

If you would like a copy of our current ADV Part II, please contact Marilyn at:
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or
marilyn@mhinvest.com

The ADV will be mailed to you, free of charge.

INCOME-EQUITY WITH MLPs

Sector Weights

Consumer Discr	4.9
Technology	5.4
Business Services	6.3
Financials	6.6
Energy	6.7
Cash	7.1
Utilities	9.8
Telecom Services	10.1
Healthcare	11.2
Consumer Staples	12.4
Pipelines	19.5

Current Yield*	5.5%
Proj Dividend Growth**	7.9%
Beta†	0.7

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
† 10 Year annualized vs. S&P 500. Information is supplemental to the performance disclosure on page 9.

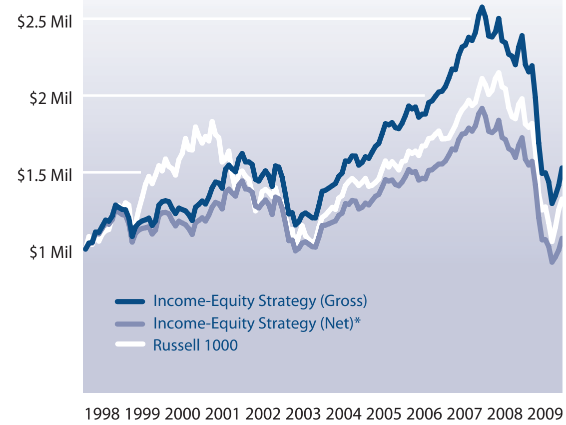
We seem to be somewhat less impressed by the March/April rally than many, who cite the large gains seen off the bottom ticks as a great portent for the future. For us the index price activity reflected not much more than a quick recovery from an equally quick "slip" of stocks in January and February, when the world appeared to be surely coming to an end and when many funds had an intense need for liquidity due to redemptions. When the net of the six months so far this year is basically unchanged, we find it hard to beat the drums—though our position is more open and observing now, rather than particularly bearish.

Too, the quality of "the rally" was, as most have conceded, fairly poor. Index levels were driven by stocks that had been sold the most in panic. Banks with ballooning losses and industrials with shriveling sales were the apple of investors' eyes through the first week of May, and if our portfolio had shone during the bounce-back we would have reason to doubt our ability to see the world with any perspicacity at all. (Even for the stocks that led we have our doubts about sustainability, as volume of trading in the markets has been on a steady decline. Demand has not been good in this rally, posing a fundamental contradiction for anyone believing that markets reflect the balance and the consequence of supply versus demand.) As the quarter evolved, no index price gains from the May 8th high were seen, but the kinds of quality companies we hold once again became attractive to investors and once again became the objects of such desire as the limited number of participants could muster—though we did as well have a few bounce-back types.

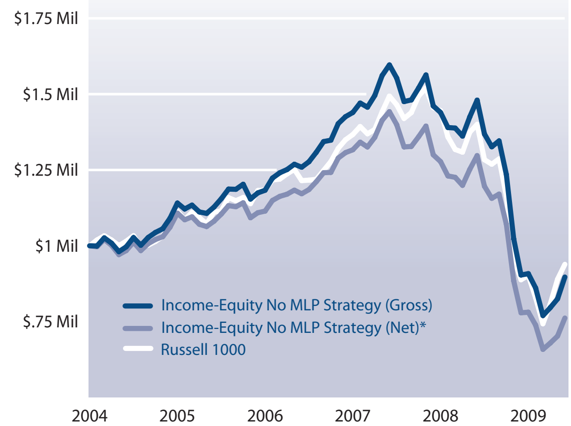
PORTFOLIO HIGHLIGHTS

The quarter's modest buying and selling activity was responsive to the evolving economy, and a bit opportunistic. Although the "casual dining" (sit-down, more expensive than fast-food) sector stocks have performed well this year, there has been a disconnect between the stocks and their underlying business, which is

Growth of $1 Mil Income-Equity with MLPs
(Since Composite Inception)



Growth of $1 Mil Income-Equity No MLPs
(Since Composite Inception)



The above data is shown as supplemental information and complements the performance disclosure located on page 9.
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

poor. Restaurant revenues are down across the board in this industry, with a negative impact on suppliers such as Sysco and McCormick. To us, there is a headwind that will not die for quite a while. Though we like the companies, we sold both of those on lackluster earnings and prospects. Also on the sell side we trimmed some of our MLP positions, taking down some gains after an extremely strong year to date.

We bought stocks that we believe are a little better positioned. Hoping to add some bank exposure once the worst of the banking crisis seemed past, we added small positions in two non-TARP takers. Bank of Montreal has solid financials, largely avoided the United States real estate debacle, and has an excellent

SELECTED LEADERS

RR Donnelley & Sons	Bounce-back, asset purchases no longer a concern
Bank of Montreal	Canadian banks relatively unscathed, strong financials
HSB Holdings	No need of government help, Asia ops promising
Unilever	Volume growth doing well considering the environment
Colgate-Palmolive	Sales and margins up, cost down, new products coming on
Spectra Energy	Rise in commodity prices enhances pipeline revenues
Kraft Foods	Large earnings beat, margins better, broad improvement
Thomson	Good earnings, renews stock buyback, consol share classes

SELECTED LAGGARDS

Paychex	Poor employment trends exert pressure, dividend safe
AT&T	Results good, beats expectations, investors indifferent
Johnson & Johnson	Raises dividend 6.5%, beats earnings, investors indifferent
CMS Energy	Positive reg. rulings, stabilizing after strong 1st Q
Microchip Tech	Semicon industry improving, stabilizing after strong 1st Q
Merck	Slight rev and earns disappointment, story and value intact

history of dividend increases. We also think the Canadian dollar will remain firm, as it is buoyed by commodity prices. HSB's (formerly Hong Kong & Shanghai Bank) "underlying" profit was actually ahead of last year. To be sure, they have encountered loan and balance sheet problems, but they have dealt with these problems in the private markets, without government help. We found Allstate a juicy morsel selling at about 6 times forward earnings, a great brand, and with very manageable impaired asset problems. The company halved its dividend last winter during the peak of the industry-wide "hoarding" phase. They can well afford to put it back where it was, which would double the dividend and give us just under a 7% yield on cost; we expect that move within a year. We bought China Mobile, the largest wireless carrier in the world, at a valuation similar to that of AT&T or Verizon—but their market is only 50% penetrated, as opposed to the nearly full saturation for the US carriers. We also added to our starter position in American Water after a secondary that reduced RWE to a minority position.

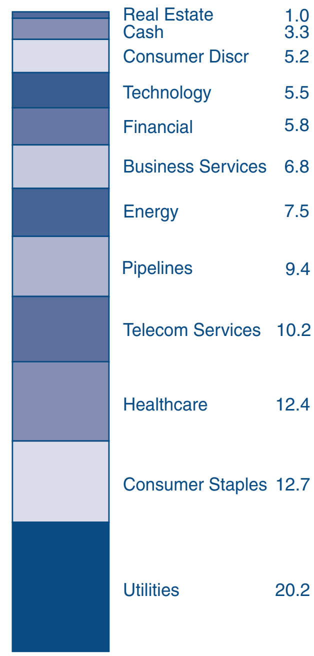
LOOKING FORWARD

Though our confidence in the market is not especially high (we envision both 10% appreciation potential and 10% risk for the indices over the next quarter or two), we do have a high confidence level that, after modestly trailing a rather speculative episode in the equity markets, our higher-quality stocks are once again appealing to investors as sobering thoughts regarding the future course of the economy temper the bargain sale mentality. Our businesses are performing well, as demonstrated by the fact that roughly one third of our companies have raised their dividends this year. Too, these are the stocks that large institutions will want when they finally rebalance into equities, not the loss-generating, dividend-cutting, debt-suffering, earnings-challenged items that were recently found gleaming in the dumpster.

See page 9 for GIPS Performance tables.

INCOME-EQUITY NO MLPs

Sector Weights



Current Yield*	5.2%
Proj Dividend Growth**	7.9%
Beta†	0.9

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
† 5 Year annualized vs. S&P 500. Information is supplemental to the performance disclosure on page 9.

"After all, if there is more economic activity, more electricity is used, more gas is burned, and more water flows under the dam."

Last time we suggested that jitters about the large-cap traditional utility indices had been having a dampening effect on our portfolio outlook for some time (though we hold none of the dominant stocks), but those concerns were a cloud that has blown away now that low valuations within the utilities sector have made the stocks broadly appealing. The utility indices provided decent returns, if hardly at the level of the unusually positive broader market this past quarter, but the notion that a better tone in the utility indices is helpful to us was certainly borne out. Our portfolio was right up there with the best, in an aggressive quarter.

Although most of the equity action this past quarter was generally felt to be elsewhere, in lower-quality stocks and bounce-backs, we were able to get the same kind of results in a portfolio of quality names (A-/BBB+ credit ratings) with continuing strong business, no credit problems, no dividend cuts, and a good supply of dividend increases. We're not the kind of managers who are out gunning for the top short-term returns, but when we get them we much prefer to have the experience in our kinds of stocks—where the gains are far more likely to be sustainable and less likely to drizzle away as the speculative crowd turns its attention elsewhere.

Utilities and related stocks are having 15 minutes of fame on the front pages now, as Congress debates legislation (the House has already passed one version) affecting pollution—known today as CO_2—renewable energy standards, energy efficiency standards, new nuclear energy, and most important, the renovation and "education" of the electric transmission grid. Since many of the large index stocks are coal-burners there's some chance of a sentimental drag here until the final outlines of a new order are drawn, but we've not yet seen anything that would change the age-old picture of electric utilities as a protected fiefdom that will receive fair treatment from regulators and recover their costs in rates. Merchant generators are another story, but overall the plans so far include basically free credits for utilities now that will eventually sunset—but not until 2030! What will the world look like in 2030? Will we be burning algae gas, eating algae dogs, and taking algae-produced medicine? If you look backward 21 years you very well may not have even been using a computer! Like the movement toward deregulation at the state level in the 1980s and 1990s, change in government rules will create winners and losers. As then, we hope to add the former and avoid the latter.

Right now, winners unequivocally include companies that are involved in rebuilding, expansion, and adding technology (intelligence) to the electric grid. Whether it is energy

SELECTED LEADERS

AES Corp	Large earnings beat, Brazil doing well, alt energy developing
General Cable	Large upside surprise and up guidance, investors recover sanity
Fluor	Quintessential infrastructure builder, was too cheap, stimulus benefits
Comp. de Saneamento	Brazil sewer/water, extremely cheap, regulatory support
China Mobile	Cheapest China wireless, expansion to Taiwan, slower growth still fine
Itron	Smart meter leader, new deals and DOE projects in the works

SELECTED LAGGARDS

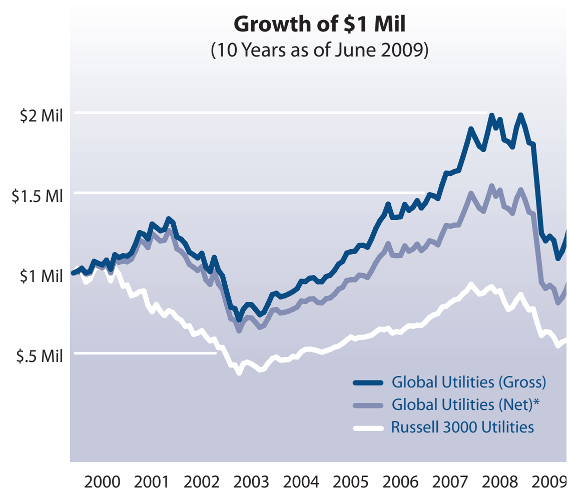
American Water	Secondary offering drops RWE to <50% owner, overhang diminishes
Quanta Services	Grid builder pauses after strong 1st Q, many analyst upgrades
AT&T + Verizon	Investors shun mature companies with safe high dividends in 2nd Q
CMS Energy	Pauses after strong relative 1st Q, supportive regulatory decisions
Northeast Utils	Large position, lucrative transmission growth on sched, still ignored

efficiency through Advanced Metering Technology or expansion so that new alternative energy projects can actually get their power to users, the grid must become as capacious and intelligent as possible. About 20% of our portfolio is focused on aspects of the grid, and we think it's likely to go higher.

LOOKING FORWARD

We think there's a good deal more to come, both near and long term for this portfolio. In the near term, both our stocks and the utility index types should appeal to investors hoping to build up equity positions but concerned about the many uncertainties in the environment. Too, over in the broad market the rally in financials and industrials may well be spent unless those companies can show gains in business to justify the gains in stock price—and we're dubious about that. This portfolio may avoid much of the risk of retracement there. As noted earlier, headline risk is present, but so far we see nothing in the debate that will inhibit our holdings and much that can add to their prosperity in the form of stimulus projects and what seems to be a much easier carbon cap-and-trade regime than many had feared.

Longer term, not only does an envisioned narrative begin here at historically very low valuations, but we hold a group of stocks whose business does not decline much in the event of further prolonged economic contraction or softness—and whose business is very responsive on the upside to economic improvement. After all, if there is more economic activity, more electricity is used, more gas is burned, and more water flows under the dam. We have made the analogy to 2002 before in terms of sector-wide valuation. But now we have many more companies that participate in the broad expansion of infrastructure as well as in the energy and telecom areas. There is so much to do in the way of renovating and expanding the enabling facilities of this country, and we hold the stocks that build and operate all the conduits we need today and for the eventual recovery.



The above data is shown as supplemental information and complements the performance disclosure located below.
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

Global Utilities + Infrastructure Composite Performance
GIPS composite disclosure shown in US dollars
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

Preliminary	Global Utilities + Infrastructure Gross	Global Utilities + Infrastructure Net*	Russell 3000 Utilities
Period to Date (3 mo's to 6/30/09)	16.7%	15.9%	8.3%
1 Year per annum (ending 6/30/09)	(30.7)%	(32.8)%	(23.2)%
3 Years per annum (ending 6/30/09)	(2.6)%	(5.5)%	(3.6)%
5 Years per annum (ending 6/30/09)	6.3%	3.2%	3.9%
7 Years per annum (ending 6/30/09)	6.0%	2.9%	3.7%
10 Years per annum (ending 6/30/09)	2.8%	(0.3)%	(4.9)%

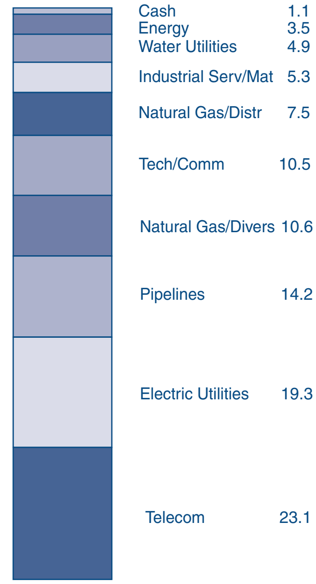
The Global Utilities + Infrastructure Composite (known as Better Than Bonds/Utilities prior to July 1, 2008) focuses on opportunities in the broad, global utilities industry participating in both the stability and the dynamic growth of the most important economic sector. For comparison purposes this strategy is measured against the Russell 3000 Utilities Index, which comprises over 200 utility stocks that are included in the Russell 3000 Index. We compare our returns to the Russell 3000 Utilities Index.

We make no claims that our portfolio will track the index closely.

In some charts and tables we show the S&P Utility Index to give investors some measure of how the broad universe of utilities has performed. *See GIPS disclosure information on page 3.*

GLOBAL UTILITIES + INFRASTRUCTURE

Sector Weights

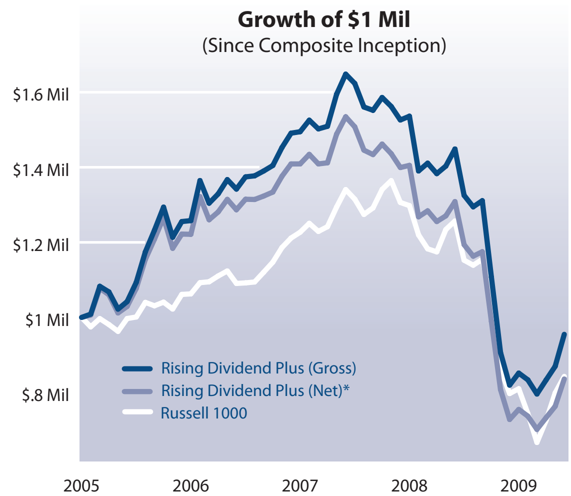


Current Yield*	3.8%
Proj Dividend Growth**	8.0%
Beta†	0.8

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
† 10 Year annualized vs. S&P 500. Information is supplemental to the performance disclosure on this page.

"... across the market there are many examples of what might be called "not-dog" stocks—companies that have been beaten down in anticipation of tough times, even though they are financially strong and well-managed."

Although our heaviest sector weight was in healthcare—a laggard sector—we had a solid quarter driven by a variety of individual companies with positively evolving stories or tailwinds. This strategy is delivering well despite the fact that the overall environment has recently favored the lowest-quality companies, or those with the most volatile commodity exposure. Indeed, across the market there are many examples of what might be called "not-dog" stocks—companies that have been beaten down in anticipation of tough times, even though they are financially strong and well-managed, and have still been able to deliver decent top and bottom line results that are more consistent with past performance than one would expect in a financial crisis.



The above data is shown as supplemental information and complements the performance disclosure located on page 9.
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

PORTFOLIO HIGHLIGHTS

Fluor, for example, rose nearly 50% after the company announced revenues that rose 20% over last year and retention of about six quarters ($30 billion) of backlog even after cancellation of a major refinery project in Kuwait. This is a central company in the development of infrastructure across many segments of the economy, and we expect that backlog will begin to rise again, not fall, based on the various infrastructure initiatives around the world. Valmont fell in 2008, apparently based on investor concerns about their irrigation equipment business. But the business really centers on towers for communication and electricity—and utility services were up 74% in the first quarter.

We bought Blackrock before it bid for BGI's index and exchange-traded funds business, making it the largest money manager in the world. At the time of our purchase we thought BLK was attractive with a growth kicker in the form of their clear inside track in servicing the government's needs for consultation and ongoing management of the vast financial bailout programs. Even in crisis there are beneficiaries. Our other good-performing stocks generally play a critical role in growing industries or sectors: CME group shows developing promise in derivatives and pollution credits, Oracle (new buy) is ready to build on its success with a move into cloud computing and what we believe will be a synergistic acquisition of Sun Micro and its Java software. Qualcomm is key in advanced mobile communications technology; they have been dominating this field as IBM once did in computing and data processing. Corning is a leader of glass for screens of all sizes, in a world that becomes more screen-based every day. Nokia (new buy) is the largest mobile handset maker in the world—though they clearly have work to do now in the smartphone area.

Our laggards remain high-quality high-value investments, whatever their price action for the past quarter. Some paused after a strong first quarter, like generic juggernaut Teva Pharmaceutical, McDonald's, and International Business Machines. Scotts Miracle Grow continues to benefit from an elimination of competition and a new "stay home" mentality among consumers. Healthcare reform should help distributors like AmerisourceBergen, which announced a 20% increase in its dividend, indicative of confidence about the future. Cardinal Health also boosted its dividend, by 25%; the stock was slack, although a spinoff of its higher-growth business may generate better total returns in the visible future.

We did do a bit of selling, mostly in order to make room for new purchases (Nokia, Corning, Blackrock, and Oracle). McCormick has suffered some from weakness in the restaurant business, though it remains worthwhile as an investment candidate when sales begin to improve. A slowdown in outsourcing initiatives and enterprise-level projects in general prompted our use of Accenture as a source of funds. Baxter and Medtronic haven't really been delivering the kind of growth for which we'd hoped, and the latter has continued to suffer from its frequent bouts of recalls and lawsuits, most recently suffering from accusations of corruption in a major bone density study. Though MDT reduced earnings guidance a bit, they did increase their dividend and announced an extension of their share buyback. This remains a company of interest to us, but with stronger new candidates a sale here was another way to reduce our healthcare sector overweight.

LOOKING FORWARD

In the months ahead it's doubtful that the broad market will be as perky as it was since early March. The natural skepticism of investors will return to modulate the exuberance that resulted when investors discovered the world was probably not coming to a total halt. We still want holdings with a solid market for their products and services (consumer nondurables and health remain appealing, despite our reduction in weight this past quarter), and companies with a critical niche in growing sectors. That's how we'd describe the portfolio today, and we expect no changes in that character. Increasingly, we think, the better stocks will be those with a special niche or edge, rather than simply representing sectors that drift in and out of favor. With high correlations between sectors and countries still dominating global markets for the most part, that's a bit of an imaginative call. Nevertheless, we continue to think that business success in general will be harder than it was, that weaker players will struggle more than usual, and that standout stories will increasingly attract investment dollars at the expense of "ordinary" companies. Tailwinds are scarce now; the narrowing group of companies fortunate enough to benefit from unique characteristics (including financial strength, niche dominance, and/or great brands) should begin to rise from the masses more than was the case during the recent years of group homogeneity.

Rising Dividend Plus Composite Performance
GIPS composite disclosure shown in US dollars
*Net return assumes a 3% annual advisory fee
that includes wrap program fees.

Preliminary	Rising Dividend Plus Gross	Rising Dividend Plus Net*	Russell 1000
Period to Date (3 mo's to 6/30/09)	13.8%	13.0%	16.4%
1 Year per annum (ending 6/30/09)	(28.5)%	(30.7)%	(26.7)%
3 Years per annum (ending 6/30/09)	(11.7)%	(14.3)%	(8.2)%

The Rising Dividend Plus Composite is a mid- and large-cap core strategy focusing on companies in which dividend growth is the key variable. For comparison purposes this strategy is measured against the Russell 1000 Index, which encompasses the extensive large-cap segment of the US equity universe representing approximately 92% of the US market. *See GIPS disclosure information on page 3.*

Income-Equity Strategy Composite Performance
GIPS composite disclosure shown in US dollars
*Net return assumes a 3% annual advisory fee
that includes wrap program fees.

Preliminary	Income-Equity Strategy Composite Includes MLPs Gross	Income-Equity Strategy Composite Includes MLPs Net*	Russell 1000
Period to Date (3 mo's to 6/30/09)	12.6%	11.8%	16.4%
1 Year per annum (ending 6/30/09)	(31.1)%	(33.1)%	(26.7)%
3 Years per annum (ending 6/30/09)	(9.7)%	(12.3)%	(8.2)%
5 Years per annum (ending 6/30/09)	(1.1)%	(4.0)%	(1.9)%
7 Years per annum (ending 6/30/09)	1.6%	(1.4)%	1.4%
10 Years per annum (ending 6/30/09)	1.4%	(1.6)%	(1.8)%

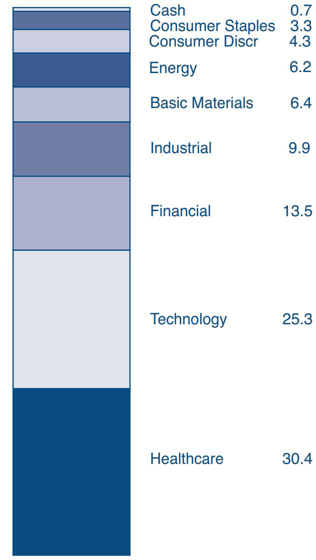
The Income-Equity Strategy Composite focuses on multi-cap, high-quality, high-yield, dividend-growth investments across the broad market, including American Depository Receipts. The No MLP portfolio excludes exchange-traded Master Limited Partnerships. For comparison purposes this strategy is measured against the Russell 1000 Index, which encompasses the extensive large-cap segment of the US equity universe representing approximately 92% of the US market. *See GIPS disclosure information on page 3.*

Preliminary	Income-Equity Strategy Composite No MLPs Gross	Income-Equity Strategy Composite No MLPs Net*	Russell 1000
Period to Date (3 mo's to 6/30/09)	12.6%	11.8%	16.4%
1 Year per annum (ending 6/30/09)	(34.5)%	(36.5)%	(26.7)%
3 Years per annum (ending 6/30/09)	(11.1)%	(13.8)%	(8.2)%
5 Years per annum (ending 6/30/09)	(2.7)%	(5.6)%	(1.9)%

The Income-Equity Strategy (No MLPs) Composite focus is on multi-cap, high-quality, high-yield dividend-growth investments across the broad market, including American Depository Receipts excluding exchange-traded Master Limited Partnerships. For comparison purposes this strategy is measured against the Russell 1000 Index, which encompasses the extensive large-cap segment of the US equity universe representing approximately 92% of the US market. *See GIPS disclosure information on page 3.*

RISING DIVIDEND PLUS

Sector Weights

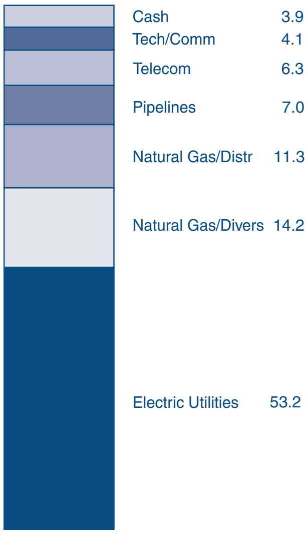


Current Yield*	1.8%
Proj Dividend Growth**	12.3%
Beta†	0.9

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
† 4 Year annualized vs. S&P 500. Information is supplemental to the performance disclosure on this page.

DISTRIBUTION / MERGING UTILITIES

Sector Weights



Current Yield*	4.1%
Proj Dividend Growth**	5.9%
Beta†	0.6

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized.
† 10 Year annualized vs. S&P 500. Information is supplemental to the performance disclosure on this page.

The Distribution/Merging Utilities Composite focus is to own broadly defined utility companies that we believe are likely takeover candidates. For comparison purposes this strategy is measured against the S&P Utility Index, which is an unmanaged, market-value-weighted total return index of all utility stocks in the S&P 500. We compare our returns to the S&P Utility Index.

We make no claims that our portfolio will track the index closely.

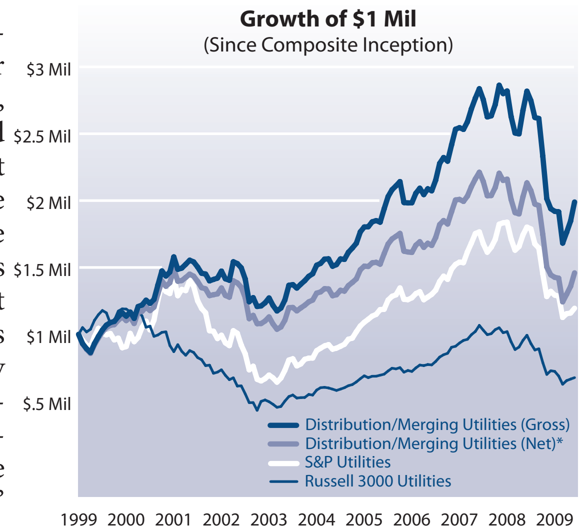
In some charts and tables we show the Russell 3000 Utility Index to give investors some measure of how the broad universe of utilities has performed. *See GIPS disclosure information on page 3.*

This strategy didn't track the S&P Utilites Index this quarter—in a good way. About half our stocks had double-digit gains this past quarter, including a range from traditional regulated utilities to independent power generators. It wasn't a quarter for the M&A activity that we seek, though it might as well have been, since the whole appeal of consolidation candidates is that they are selling well below private market value. In this case, the public markets acted as the corrective mechanism. One could not say this about every strong quarter, but when conventional utilities such as Black Hills, Constellation Energy, PNM Resources, and NiSource display gains of 15–25%, it looks more "driven" than a normal market.

We don't expect a great deal of takeover activity at this point. Though the financial markets are clearly more fluid than they were, rates on corporate debt are still elevated. And both buyers and banks are less willing to enter into debt transactions in any event—just like the rest of us. There are indeed asset sales going on here and abroad (notably in the MLP space, where weaker players are bumping up against debt stresses), and there are likely foreign buyers with money to spend (such as RWE, E.On, and National Grid) as they re-allocate resources and sell other assets, but we're a little more focused, for the time being, on holding companies that we'd want to own even in the absence of a deal. That's always our policy; realistically, however, we don't expect much in the way of corporate-level transactions until next year at the earliest.

Distribution/Merging Utilities Composite Performance
GIPS composite disclosure shown in US dollars
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

Preliminary	Distribution/Merging Utilities Gross	Distribution/Merging Utilities Net*	S&P Utilities
Period to Date (3 mo's to 6/30/09)	17.1%	16.2%	10.2%
1 Year per annum (ending 6/30/09)	(24.9)%	(27.2)%	(28.2)%
3 Years per annum (ending 6/30/09)	(1.4)%	(4.3)%	(1.2)%
5 Years per annum (ending 6/30/09)	5.7%	2.6%	7.1%
7 Years per annum (ending 6/30/09)	5.5%	2.5%	6.0%
10 Years per annum (ending 6/30/09)	7.2%	4.0%	2.4%



The above data is shown as supplemental information and complements the performance disclosure on this page.
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

Still, it can't hurt to "act as if," since that leads us to good values and reasonably well-protected franchises, with good long-term prospects on a stand-alone basis. What we won't own here—but might in other times—are smaller companies with frustrated financials. Sometimes those can be a likely strategic fit for an acquirer, but that's their only appeal.

The diverse possibilities of transactions in the various utility industries has shaped the portfolio, and last quarter there was great diversity in leaders and laggards. Our best performer was Vimpel Communications, which bounced back from the ashes of last winter's panic over anything Russian. Our relatively new position in Calpine (February) worked out well enough for us to trim the position back in June after about a doubling in price. NRG did well, too. In one of the few active deals of the moment, we're of the opinion that Excelon will raise its offer, and that NRG can still move higher on valuation even if no deal eventuates.

At the bottom of our list were strong companies without problems, mainly vanilla distribution companies that were in "pause" mode after strong performance in the first quarter, such as CMS Energy, Xel Energy, CH Energy, and WGL Holdings.

We don't expect a repeat of last quarter in the upcoming months, but valuations are still historically low and prospects remain fine for this most conservative of equity portfolios.

In the second quarter MLPs were the place to be, leading the way with the best quarter ever since inception of the Alerian MLP index in 1996, adding to already strong numbers in the first quarter, leaving other sectors in the dust. Why so good? We attribute this to a re-recognition of the nearly "bulletproof" fundamental characteristics of most MLP business models. In 2008 investors forgot about the solid, long-life revenue streams that arise from the MLP project development model, with revenues contracted in most cases for so long that these companies are most analogous to utilities, though with no cap on growth. Too, in 2008 there were a number of levered aggressive players (hedge funds), including Lehman Brothers, that put secular selling pressure on the sector when they were forced to raise cash. With those participants cleared from the picture and with the companies continuing to report fine revenues and distributions, buyers entered to fill a classic vacuum.

There was one real concern in 2008 that has since dissipated: Investors were rightly skeptical of MLPs' ability to raise capital during the financial crisis. The business model here involves raising capital for new projects that are essentially presold or preleased, so the funding spigots stayed open, at least selectively. In 2008 the MLP industry did raise about $14 billion (equal to about 12% of total market capitalization for the sector) and on a year-to-date basis it has raised about $7 billion. We've focused our portfolio on the financially strong MLPs that, as a group, have reloaded their balance sheets for future growth projects and distributions. Weaker MLPs, however, have not only been shut out of the capital markets but have been forced to sell assets and reduce distributions.

Predictability and distribution growth are the life blood of superior MLP stock market performance. Of the 80 MLPs in the Alerian MLP Index, 14 cut or eliminated their distributions in 2008, and thus far in 2009, six have cut distributions. By contrast, in 2008 all 20 of our holdings raised their distributions and there have been 11 increases thus far in 2009. Of these 11, three have increased twice and we forecast that all 20 portfolio holdings will increase their distributions at least once in 2009.

Though our primary interest in these times has been the larger and more conservative interstate pipeline companies, several smaller and more commodity-price-sensitive companies brought strong returns. Atlas Energy announced a merger with Atlas America, and led our list. Williams Partners benefited from improved natural gas liquids pricing. Teppco agreed to merge with our holding Enterprise Products, consolidating Dan Duncan's MLP empire. Genesis Energy increased its distribution by more than 10%, but was otherwise up on no news. Laggards included Kinder Morgan Energy Partners; here we are underweight relative to the index but will review the position as their major Rockies Express pipeline comes onstream this fall. Both El Paso Pipeline Partners and ONEOK Partners lagged due to stock price discounting for secondary offerings.

Can the good times continue to roll? Gains of the size we've seen lately do inspire thoughts of correction, but in truth the majority of holdings are not overbought on a technical basis and they remain significantly undervalued on a fundamental basis. There were plenty of buyers after a 10% sector correction in June, and our misgivings about the broader market aside, it sure snorts like a bull in this arena.

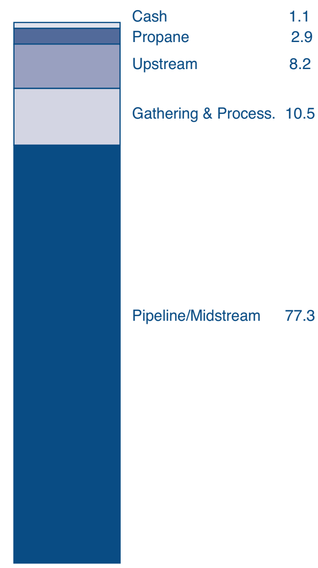
MLP Strategy Composite Performance
GIPS composite disclosure shown in US dollars
*Net return assumes a 3% annual advisory fee that includes wrap program fees.

Preliminary	Gross	Net	Alerian
Period to Date (3 mo's to 6/30/09)	19.8%	18.9%	19.3%
1 Year per annum (ending 6/30/09)	N/A	N/A	N/A

The MLP Strategy Composite focus is to own accounts invested in exchange-traded Master Limited Partnerships that offer the potential for high tax-deferred income and growth of income. This is a customized version of the Master Limited Partnership Portfolio that was limited to only small-cap MLP companies. For comparison purposes this strategy is measured against the Alerian MLP Index, which is a composite of energy master limited partnerships calculated by Standard & Poor's using a float-adjusted market capitalization methodology. *See GIPS disclosure information on page 3.*

MLP STRATEGY

Sector Weights



Current Yield*	9.3%
Proj Dividend Growth**	6.0%

Sector weights are taken from a representative account and are subject to change.
* Weighted average.
** Proj Dividend Growth is MHI Portfolio Team's projection based on data from various sources adjusted to reflect our view of future economic and market conditions. There is no assurance projections will be realized. Information is supplemental to the performance disclosure on this page.

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Home to Roost

The chickens
are circling and
blotting out the
day. The sun is
bright, but the
chickens are in
the way. Yes,
the sky is dark
with chickens,
dense with them.
They turn and
then they turn
again. These
are the chickens
you let loose
one at a time
and small—
various breeds.
Now they have
come home
to roost—all
the same kind
at the same speed.

—Kay Ryan

US Poet Laureate, Kay Ryan, is known for her economy of phrase and refreshment of clichés. Though written some years ago, this poem, we find, is particularly prescient, and we think it appropriate as a quick overview of our ongoing economic malaise.

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