Miller/Howard INVESTMENTS

The Case for Optimism

SEPTEMBER 30, 2021

HOW MANY TIMES HAVE YOU HEARD WALL STREET gurus claim that the stock market is in a bubble? To paraphrase the old saw about economists, market pundits have identified ten of the last two stock market bubbles. But we must acknowledge that the recent run in US equities has been spectacular. An investment in the S&P 500 Index in the past 12 months generated an astounding 30% return—well above its longer-term average of 11%. No one argues that returns can continue at this torrid pace, but what is the case for the market turning down for an extended period?

The best bearish arguments focus on valuation and Fed policy. The forward price-to-earnings (P/E) ratio is now at 20x for the broad market (based on the S&P 500), well above the average of 17x we have seen since 1990. But if high P/Es were a reliable sign of a market top, 2021 should have been a down year. Instead, we have seen earnings estimates rise during the year, suggesting that market participants saw a recovery in earnings sooner than Wall Street analysts. High P/Es make returns from multiple expansion less likely going forward, but earnings growth and dividends can still push the market to new highs in our view.

A better bear argument hinges on the Fed tightening monetary policy to fight inflation, either by directly raising the federal funds rate or by tapering its bond-buying program. Inflation numbers have increased recently, and so far, the Fed has viewed this as a temporary phenomenon. Even if inflation does persist, causing the Fed to begin tightening, higher interest rates will not necessarily lead to a prolonged drop in the stock market. Yes, multiples on expensive stocks would likely fall with higher interest rates as earnings in distant years become more discounted. We expect this impact would be offset by the continual payment of dividends and the upward trend in earnings for the broad market driven by economic growth. Earnings in the financial sector would also get a specific boost from higher interest rates. Inflation poses a legitimate threat to P/E multiples, but we believe that earnings growth and dividends should continue to drive healthy market returns, particularly for stocks with moderate valuations.

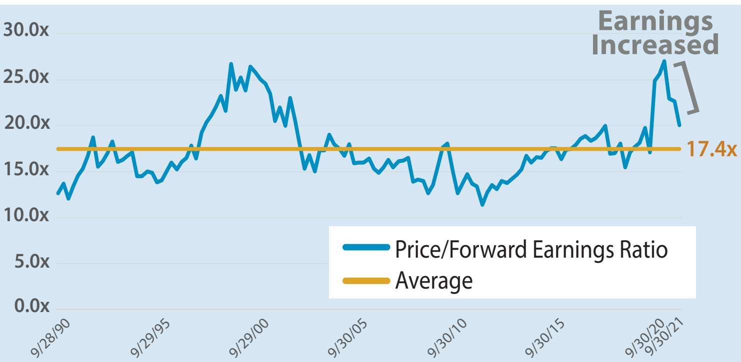
No one can entirely dismiss bear cases for the market, but what is the case for optimism? When the pandemic finally fades, are we set up for a strong recovery?

S&P 500 Index

Growth of $100

As of September 30, 2021. Source: Morningstar Direct.
*1/31/1990 - 9/30/2021
**As of 9/30/2021

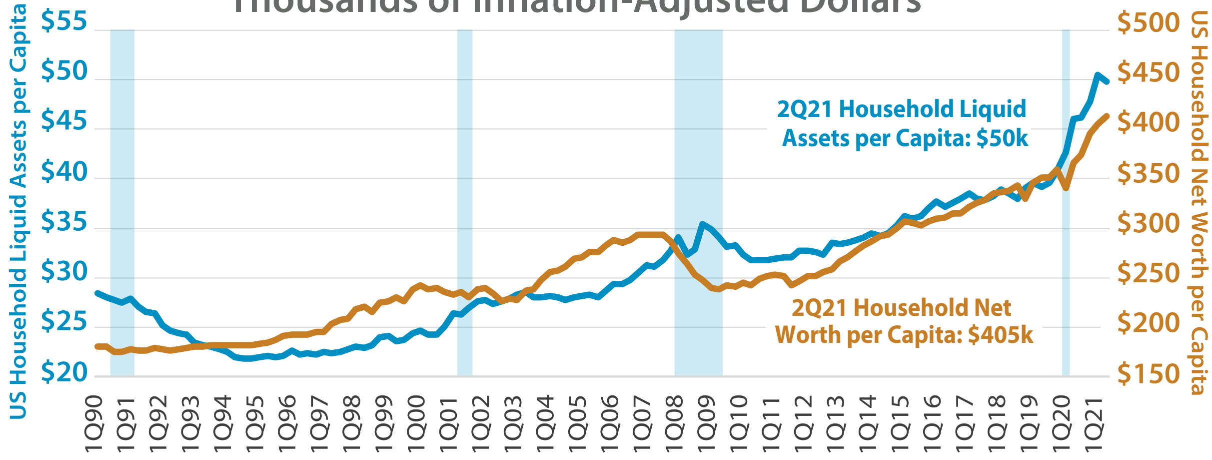
Price/Earnings Ratio***



As of September 30, 2021. Source: Bloomberg.
*** Forward Estimate

US Household Net Worth and Cash Equivalents per Capita

Thousands of Inflation-Adjusted Dollars



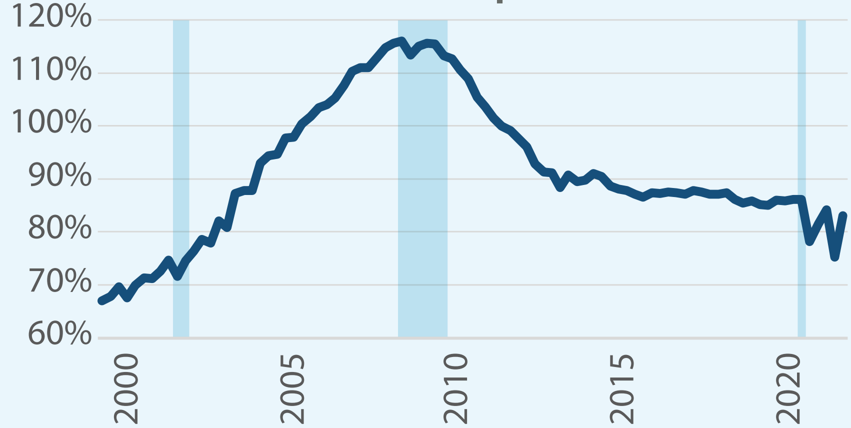
As of June 30, 2021. Sources: Federal Reserve, Bureau of Labor Statistics; Bloomberg. 4Q20 Consumer Price Index = 1. Cash & Cash Equivalents is defined as financial assets that are liquid household deposits.

The Consumer is Strong

When it comes to the consumer, it really is different this time, at least relative to the 2008 bubble. The consumer drives almost 70% of the US economy and has never been in better shape. Consumer net worth is higher than ever, currently $405,000 per person. A fair pushback would be that this reflects a run-up in home prices. But even cash per capita is at an all-time high at $50,000 per person. Rising asset prices combined with generous government support has left the average consumer with plenty of spending power.

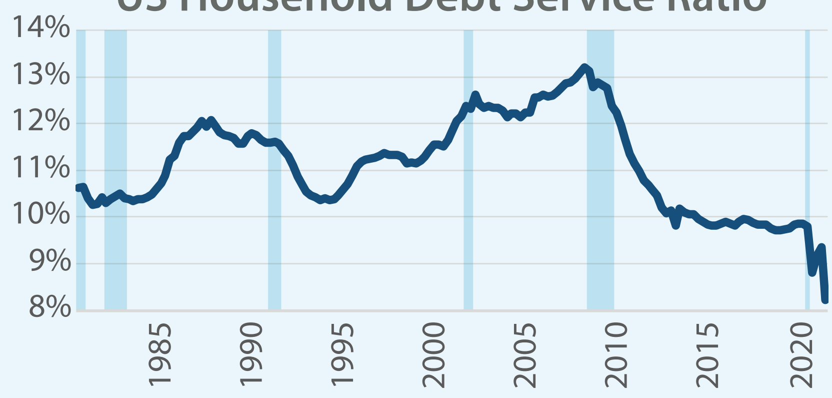
The consumer is also remarkably unencumbered by debt. Looking at the ratio of debt to disposable income, we see that the average consumer has de-levered extensively since 2008. Yet this understates the case because interest rates on consumer debt have also come down significantly. The debt service ratio measures the percentage of disposable income that goes to interest on mortgages and other debt. The graph of the debt service ratio shows how dramatically interest payments have fallen relative to disposable income.

Total Consumer Debt as a Percent of Disposable Income



As of June 30, 2021. Source: The Federal Reserve; Bloomberg.

US Household Debt Service Ratio*



As of March 31, 2021. Source: The Federal Reserve; Bloomberg.
*The household debt service ratio (DSR) is the ratio of total required household debt payments to total disposable income, reported quarterly.

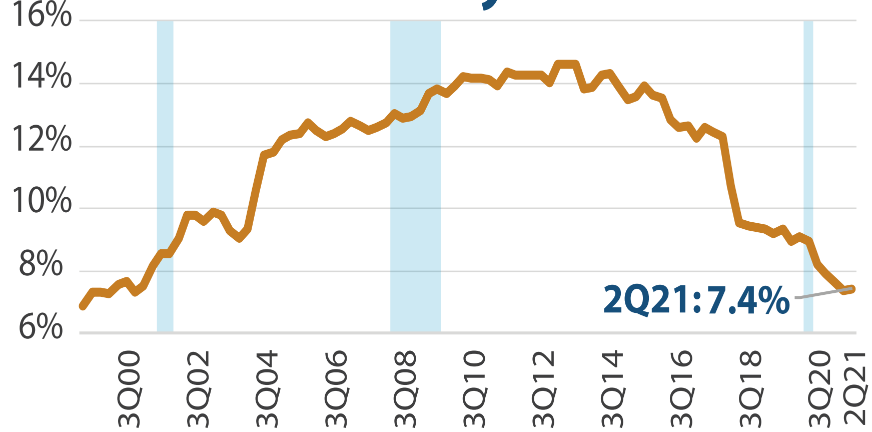
Some argue that statistics on the average consumer are overly influenced by wealthy people and that there is a substantial fraction of consumers in dire straits. We have examined this issue from multiple perspectives and still conclude that even the lower-income consumers are better off than normal. One interesting metric is the percent of consumers with bills at third-party collection agencies. Seven percent of US consumers have bills in collection, typically medical and utility bills. Seven percent still sounds high, but it is roughly half of what it was at the peak in 2013. Many of these bills can be for small amounts. Serious debt problems are best measured by bankruptcies and foreclosures, both of which are at record lows.

But are problems for the consumer just around the corner? A good forward-looking metric is the percent of consumer debt that is 30 days or more delinquent. Thirty days is often just a missed payment but clearly could be the start of a serious downward slide. As the graph shows, consumer debt delinquency is also at an all-time low.

In addition to improvements in consumer balance sheets, the labor market is also steadily getting better. Unemployment dropped to 4.8% in September, continuing the march lower that began in May 2020. Job openings as measured by the Bureau of Labor & Statistics are at an all-time high.

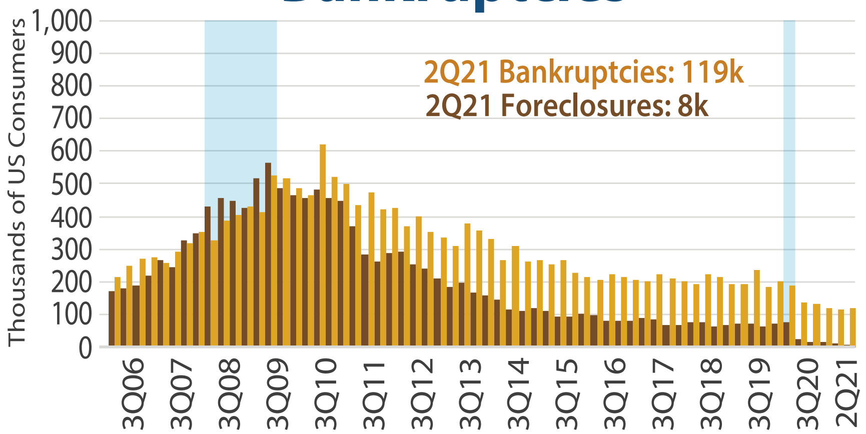
Every way we look at it, we conclude that the consumer is poised to spend in a recovery.

Percent of US Consumers with Third Party Collections



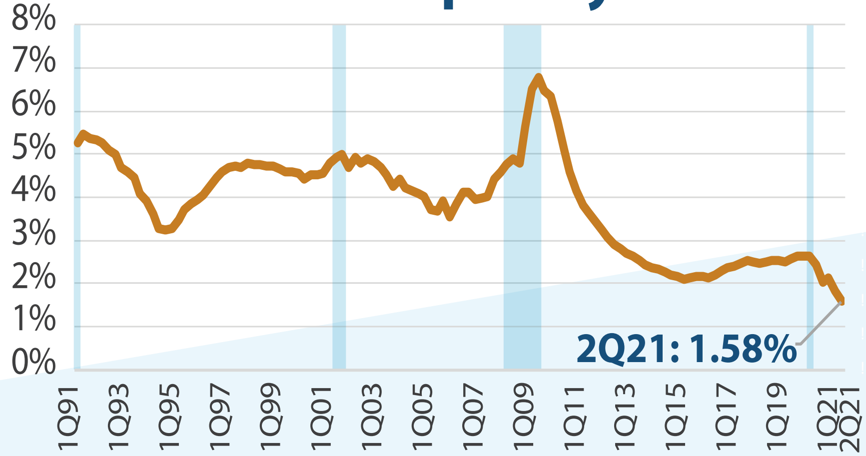
As of June 30, 2021. Source: New York Fed Consumer Credit Panel/Equifax.

Number of US Consumers with New Foreclosures or Bankruptcies



As of June 30, 2021. Source: New York Fed Consumer Credit Panel/Equifax.

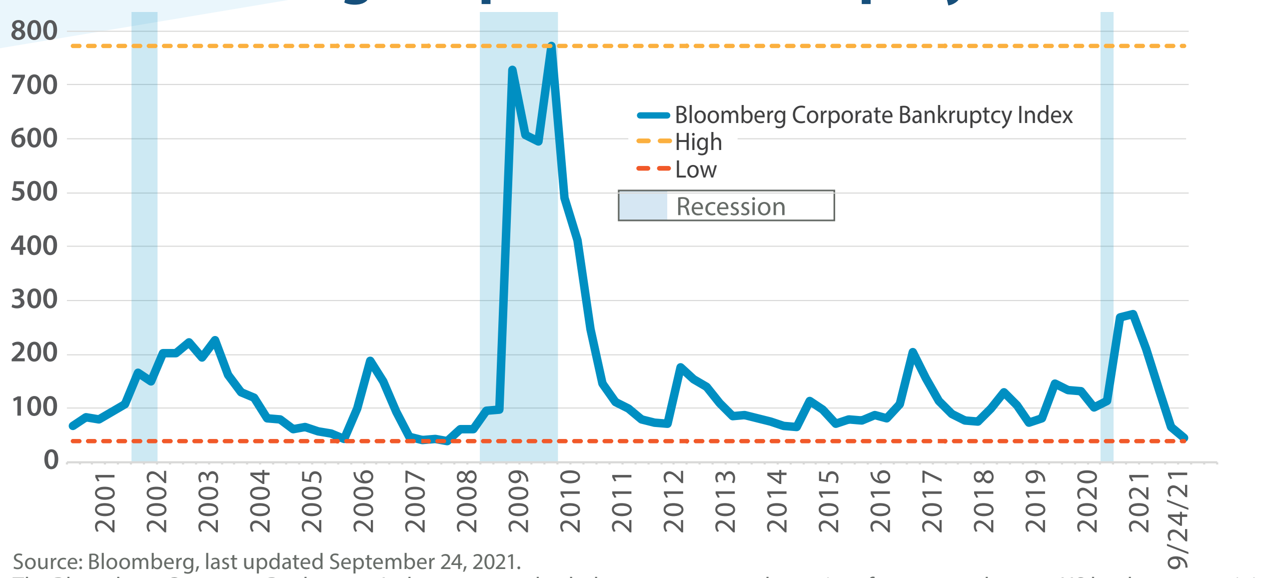
Total US Consumer Credit Card Delinquency Rate



As of June 30, 2021. Source: The Federal Reserve.

Recession

Bloomberg Corporate Bankruptcy Index



Source: Bloomberg, last updated September 24, 2021.
The Bloomberg Corporate Bankruptcy Index measures both the occurrence and severity of current and recent US bankruptcy activity for corporations with at least $50 million in reported liabilities. The index is a barometer of bankruptcy activity that equally considers the number of bankruptcies and the US dollar amount of liabilities relative to their 2000 to 2012 medians which are set at 100. Each known bankruptcy observation is discounted daily from a full weighting to zero over the following year.

How's Business?

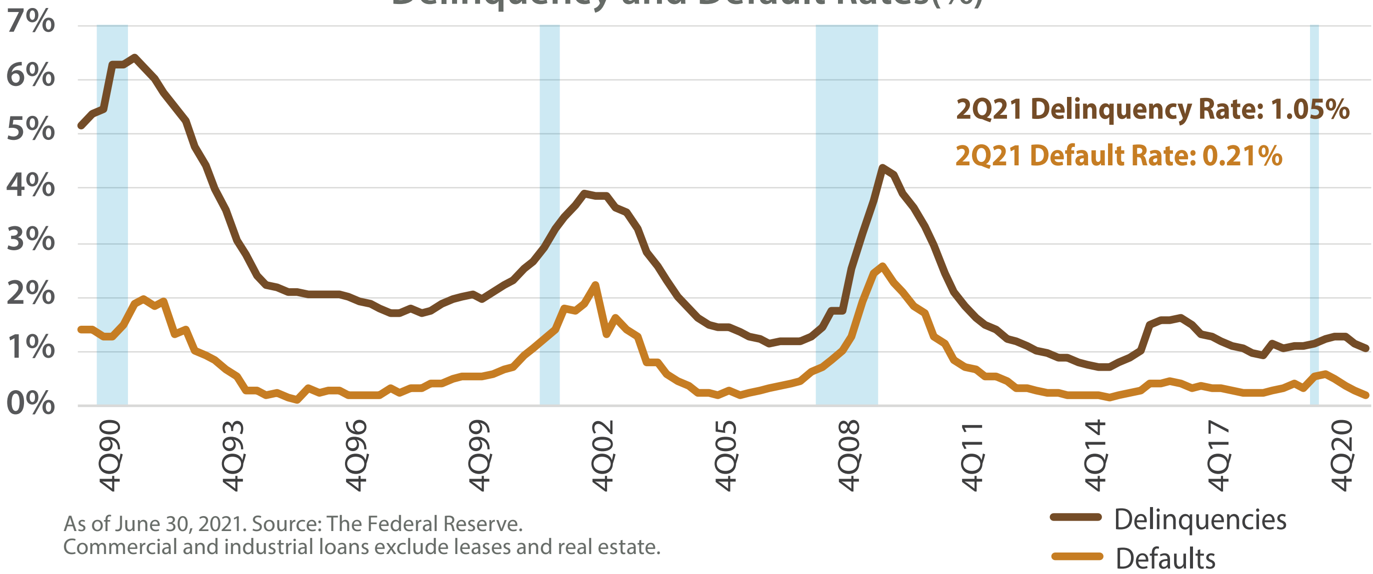
Earnings announcements have been complicated this year, with many companies reporting strong demand for their products but frequently complaining about supply chain disruptions. Our focus here, however, is on the overall health of the business sector. Are companies well-situated for a recovery?

Business was impacted by the pandemic, arguably more than the consumer. The Bloomberg Bankruptcy Index rose substantially last year, but it was nowhere close to what we witnessed following 2008. Bankruptcies in 2021 have dropped to one of lowest levels ever, suggesting that the shakeout is over.

Positive indications also come from the performance of commercial and industrial loans at US banks. Both delinquencies and defaults are at low levels. Overall, it appears that US business has the financial strength to shift into high gear as normal life returns.

Commercial and Industrial Loans

Delinquency and Default Rates(%)



As of June 30, 2021. Source: The Federal Reserve.
Commercial and industrial loans exclude leases and real estate.

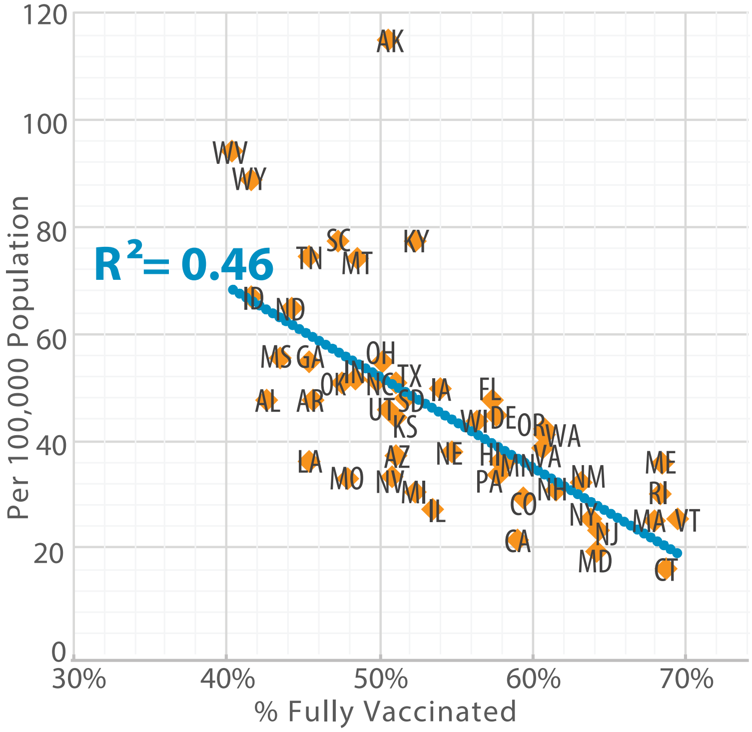
COVID-19 Headwinds Should Abate

Both the consumer and the business sector are well-positioned for a recovery, but the economy will continue to be choppy as long as COVID-19 restricts normal activity. While some parts of the economy have returned to normal, the pandemic continues to disrupt domestic industries such as healthcare, retail, travel, and hospitality, as well as creating havoc with global supply chains. The spread of the virus has been difficult to predict, but evidence suggests we are approaching the final stage.

First, the vaccine has been very effective. One way to see that is to examine the current case rates for all 50 states versus the percent of the population that is vaccinated. Higher vaccination rates are clearly associated with lower new case rates. Other factors, however, are also at work. Sending children back to school is arguably our most decisive move towards normalization. Despite best efforts, children will contract COVID-19 and bring it home. We have seen spikes in cases following the first day of school in many places across the country. States with later school starts, such as those in the Northeast, may have a new wave of COVID-19 cases despite higher vaccination rates.

September Daily Average New COVID-19 Cases

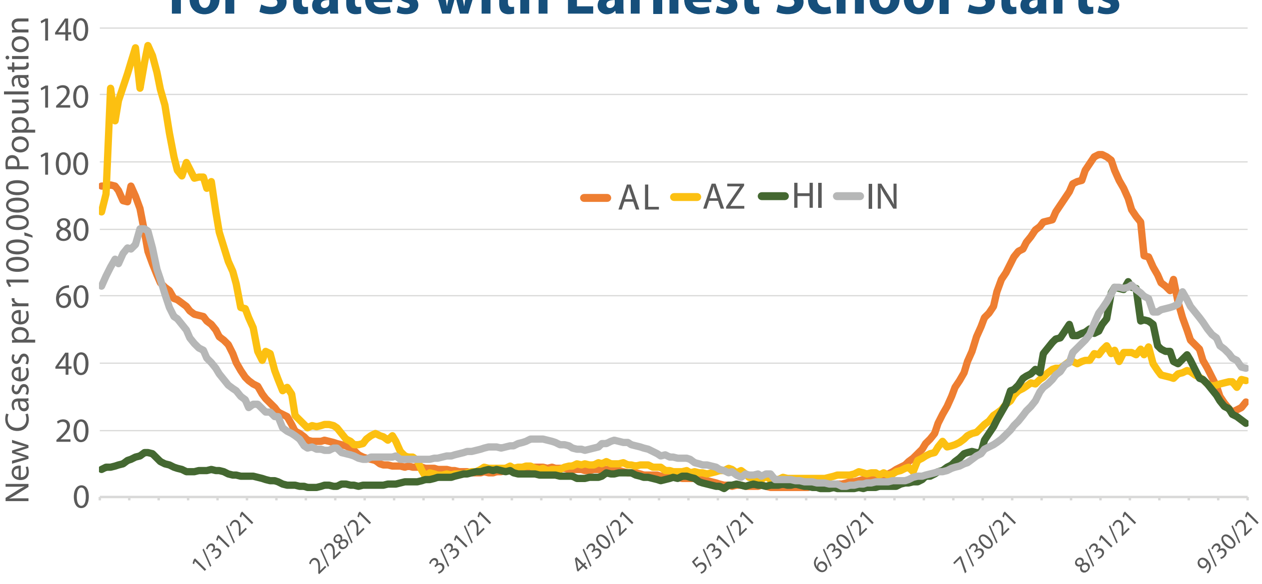
Versus Vaccination Rate by State



As of September 30, 2021. Source: Centers for Disease Control and Prevention (CDC); Miller/Howard Research & Analysis.

The good news is that effect seems to be waning for the states with the earliest starting dates. Looking at new case rates over time for Alabama, Indiana, Hawaii, and Arizona, new case rates have already fallen off their peaks.

Daily New COVID-19 Cases for States with Earliest School Starts



As of September 30, 2021. Source: Centers for Disease Control and Prevention (CDC); Miller/Howard Research & Analysis. Seven-day moving average. School starts were researched using state and municipal school district public resources as well as the Public Holidays Global website.

Estimated COVID-19 Immunity Status of the US Population

	Source of Protection	Level of Immunity
55.6%	Fully Vaccinated	0.005% Probability of Severe Case
27.4%	Prior Infection/No Vaccine	Reinfection Reported but Rare
17.0%	No Prior Infection/No Vaccine	High Risk

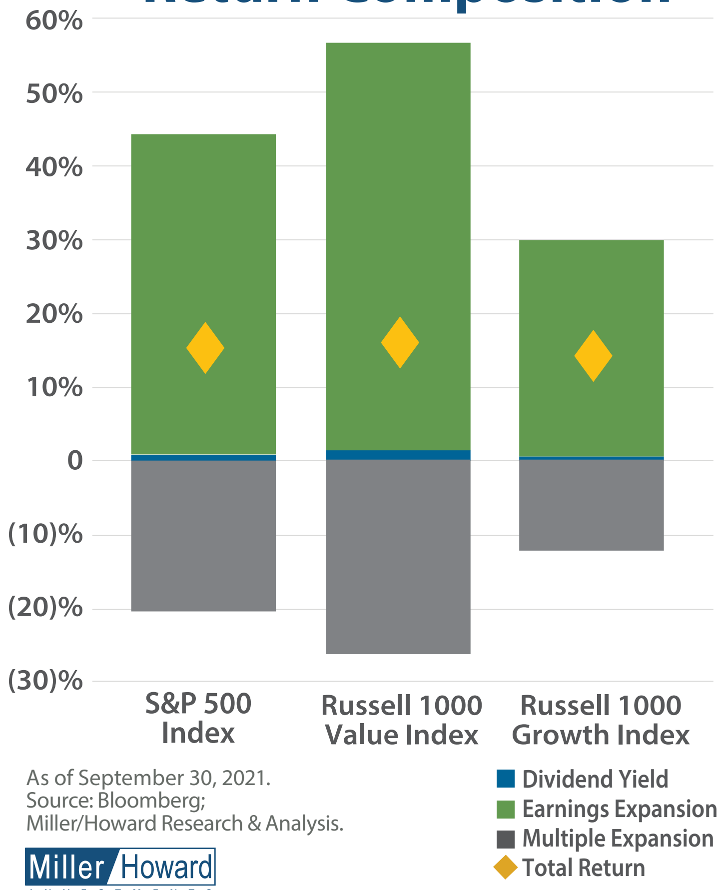
As of September 30, 2021. Source: Centers for Disease Control and Prevention (CDC); Miller/Howard Research & Analysis.

The main reason why we believe the end of the pandemic is on the horizon is that the virus is running out of people to infect. At quarter-end, 56% of Americans were fully vaccinated and this number continues to grow. Vaccinated people can be infected, but the rate is very low, particularly for severe cases. People can also gain immunity by contracting the virus. Reinfections have been reported but are still rare. Estimating the cumulative number of cases is difficult because many people either have no symptoms or a mild enough case that they never get tested. The Center for Disease Control estimates that only 1 in 4.2 cases is reported. This implies that 55% of Americans have already had COVID-19. Adjusting for people who contracted the virus and then were vaccinated, we estimate that 83% of the US population may now have reasonably good immunity, either through vaccination, infection, or both.

Everyday, more Americans get vaccinated or contract COVID-19. At current rates, another 1% of Americans gain some level of immunity every two weeks. Given that we estimate that only 17% of Americans were at high risk (no vaccine and no prior case) at the end of the quarter, we are approaching the point at which the virus will struggle to find victims who are easy to infect. Once case rates drop in earnest, most people will view the risk of infection as tolerable, analogous to the flu or the common cold. At that point, we believe economic activity should normalize.

The biggest caveat to this conclusion is that it depends on the virus not mutating in a way that undermines the effectiveness of vaccines or prior infections. We continue to monitor this issue, but currently, our view is that we are months rather than years away from the end of the pandemic.

Year-to-Date Total Return Composition



As of September 30, 2021.
Source: Bloomberg;
Miller/Howard Research & Analysis.

But Markets are Already Up!

A reasonable rebuttal to our optimism would be that broad market returns have been well above average, even during the worst pandemic in 100 years. *How crazy is that?* At Miller/Howard, we view earnings growth and dividends as the high-quality sources of stock market returns. Fluctuations in P/E multiples can significantly impact returns in a particular year, but as we have written (see Miller/Howard Quarterly 1Q 2021), P/E multiples are fickle and unlikely to be a sustainable source of investment returns over the long term.

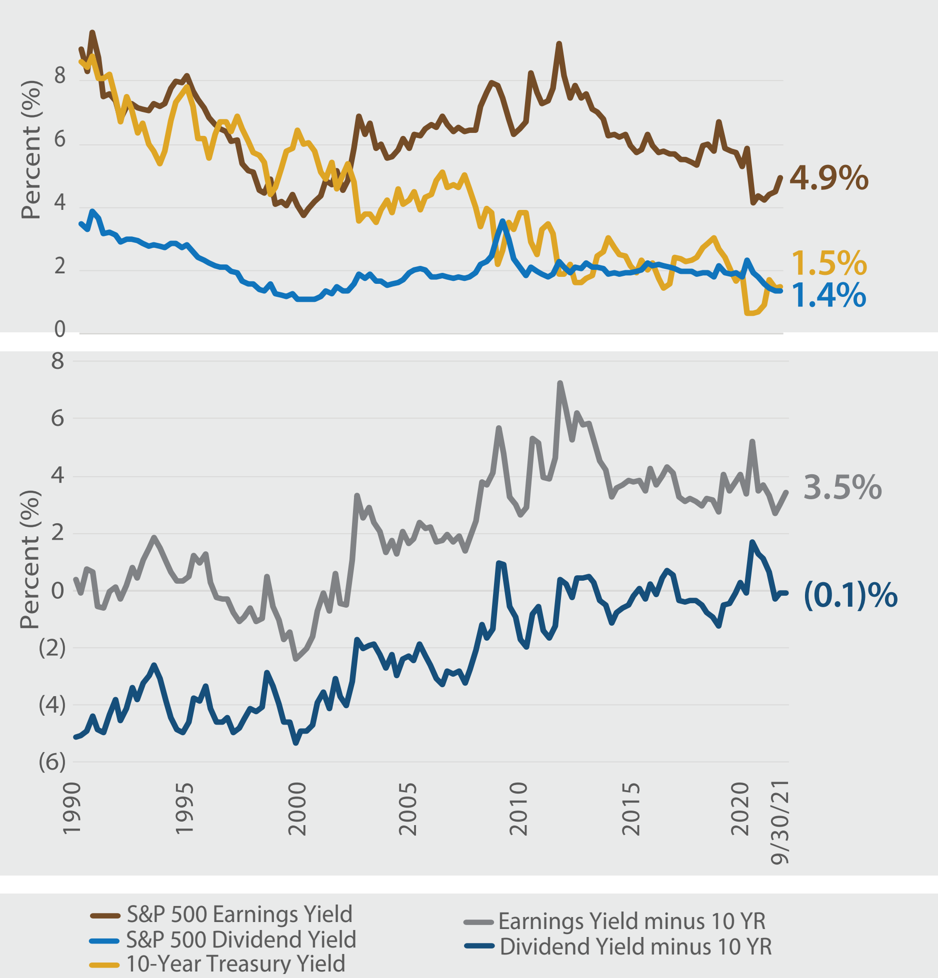
Keeping this framework in mind, returns in 2021 have been driven by the sustainable factors—earnings growth and dividends. Earnings have grown tremendously off an admittedly weak 2020. P/E multiples have actually contracted this year as earnings have grown faster than stock prices. Valuations are more palatable now than at the beginning of the year.

The case for optimism centers on the remarkable strength of both the consumer and business sectors. Factors such as the Delta variant or supply chain disruptions may cause short-term delays in the recovery, but once the recovery comes, the economy is primed to be strong.

Given this setup, are equities a good buy at current prices?

Let's start by comparing stocks and bonds, the two large, liquid asset classes on the investor menu. Bonds are easy to value – the interest rate is the buy-and-hold return. One simple way to compare the return on equities to bonds is to look at the dividend yield on equities. Currently, the dividend yield on the broad market is roughly the same as the interest rate on the 10-year Treasury. Thirty years ago, the interest rate on the 10-year Treasury was substantially higher than the S&P 500's dividend yield. Put simply, bond investors required the higher interest rates to compensate for the lack of growth. Now, markets have evolved to the point where the interest rate on the 10-year Treasury is roughly the same as the dividend yield on the broad stock market, even though bonds still do not offer any income growth. Through the dividend lens, even the modest yield of the S&P 500 looks attractive.

S&P 500 Earnings & Dividend Yield vs. 10-Year Treasury Yield



As of September 30, 2021. Source: Bloomberg; Miller/Howard Research & Analysis.

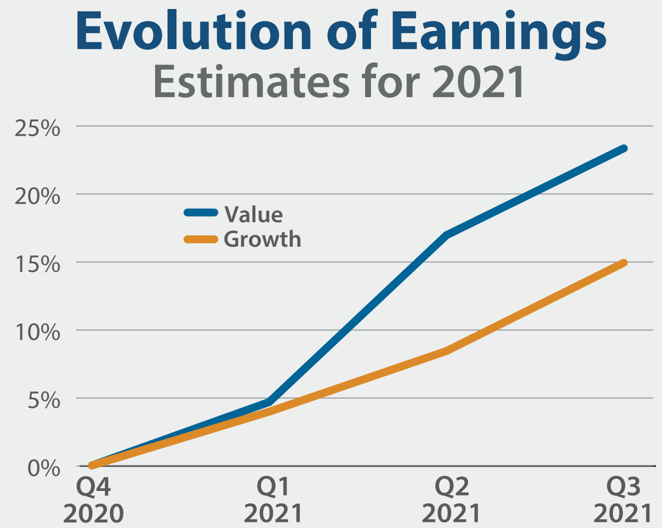
A better valuation metric for comparing equities to bonds is the earnings yield, or the inverse of the P/E multiple. Some might argue that dividends should be the metric to compare to bond coupons. After all, dividends and bond coupons are both "money in your pocket." As much as we like dividends at Miller/Howard, we view earnings as the right comparison. The portion of earnings not paid as dividends provide companies with the capital to grow earnings and dividends in the future. Thirty years ago, the earnings yield on the S&P 500 was roughly the same as the 10-year Treasury interest rate, suggesting investors thought that the growth prospects for equities offset the risks involved. Now, the spread between the equity earnings yield and Treasury rate has ballooned out, offering investors substantially more earnings in equities relative to bond interest, again leading to the conclusion that equities are attractive relative to bonds.

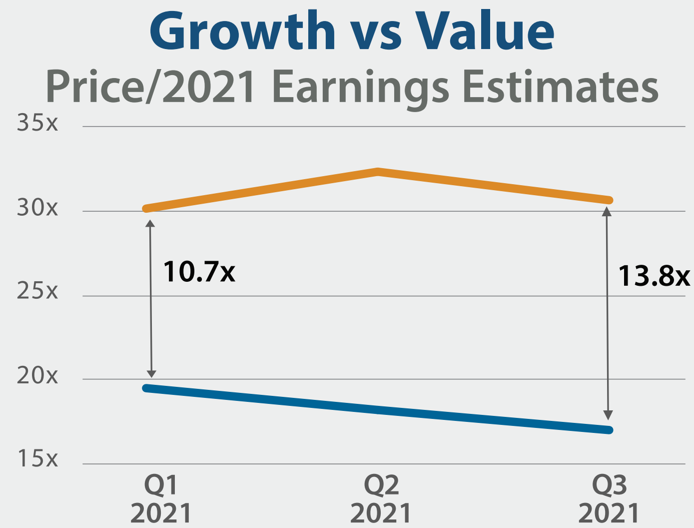
This is just the defense of equities as an asset class. The favorable points above can be dialed up with the right portfolio exposures. Miller/Howard strategies have substantially higher earnings yields and dividend yields relative to the broad market, making them, in our view, a good place to put money to work in a recovery.

Worries about the broad equity market are understandable, but fixed income alternatives suffer in a low interest rate environment. Buy-and-hold investors in high dividend yield stocks have done better over 10-year holding periods than the S&P 500 and bond alternatives. (See our 2Q 2021 Quarterly, page 6.) In our view, today's entry point for dividend investors is particularly attractive given the setup for a recovery and current valuations.

Income-Equity Strategies

Quarterly Report 3Q 2021





As of September 30, 2021. Source: Bloomberg; Miller/Howard Research & Analysis.

THE EQUITY MARKET INCHED HIGHER DURING THE quarter, but beneath the surface there was a more pitched battle between growth and value. During the quarter, the Delta variant emerged as a threat to the recovery. News of a delayed recovery tends to shift investors towards expensive growth stocks as their prospects are more connected to earnings in the distant future versus the uncertain near-term. In contrast, signs of inflation raise the likelihood of the Fed increasing interest rates, which in turn, typically shifts investors towards value stocks. The tug-of-war between the two themes continued throughout the quarter, ending with the Russell 1000 Growth Index returning 1.2%, while the Russell 1000 Value Index returned -0.8%.

Year-to-date, value stocks are marginally ahead of growth, but the components of return have been quite different. Analysts have raised 2021 earnings estimates throughout the year for both value and growth companies, with the outlook for value earnings surging beginning in the second quarter. Based on the evolution of earnings estimates alone, value would have outperformed, but investor worries about the recovery pushed value's price-to-earnings (P/E) multiple lower. Despite outperforming growth stocks year-to-date, value stocks are currently cheaper relative to growth stocks than at the beginning of the year.

Miller/Howard's Income-Equity Strategies had better returns than the Russell 1000 Value for the third quarter but were marginally behind the Russell 1000 Index. The Income-Equity Strategies also both remain ahead of the Russell 1000 Value and the Russell 1000 for the year.

Looking Ahead

We continue to believe that our portfolios should do well in a recovery. Our Income-Equity portfolios have a tilt towards cyclical stocks, with financials and consumer discretionary stocks being two of our largest sector allocations. In our view, the banks in our portfolio should benefit from the added borrowing by consumers and firms that would come from a recovery, and our insurance holdings should also see higher demand with a rebounding economy. In the consumer discretionary sector, we hold a variety of companies including advertising agencies, retailers, and manufacturers of consumer products. We believe that our consumer discretionary holdings should benefit from a rebound in demand, yet all have strong enough balance sheets to weather any unforeseen disruptions.

Technology remains important in our portfolios, although the sector weights have come down over the past year. We now hold **Texas Instruments (TXN), NetApp (NTAP), Broadcom (AVGO),** and **Cisco (CSCO),** all of which have strong growth prospects, yet attractive valuations in our view. Unlike many younger

Continued on page 9

Portfolio Highlights

- **Dividend Increases.** Five of the holdings in our Income-Equity Strategies increased their dividends in the third quarter. **Texas Instruments (TXN)** once again showed its dedication to shareholders, increasing its dividend by 13%. This is the fourth consecutive double-digit percentage increase since we made our initial investment. Two of our bank holdings, **Regions Financial (RF)** and **Bank of New York (BK)** raised their dividends by 10% following excellent results in this year's Fed stress test. **Cummins (CMI)** and **Highwoods Properties (HIW)** raised their dividends by 7% and 4%, respectively.
- **Sales.** We sold **Magna (MGA)** following their planned announcement of the acquisition of Veoneer (VNE). We viewed the proposed deal as a poor use of capital and likely to slow Magna's share repurchases and dividend increases going forward. (Veoneer later terminated the deal with Magna in favor of a better offer.) We sold **Cousins Properties (CUZ)** to shift portfolio weights towards higher-yielding holdings. We sold **Coca-Cola (KO)** over concerns regarding its high valuation and the potential for a dispute with the IRS to result in a significant tax liability.
- **Buys.** We bought **OneMain Holdings (OMF)**, a non-bank provider of personal loans. OneMain is benefitting from the favorable credit environment and management is exceptionally dedicated to paying dividends, both regular and special. We took a position in **Walgreens (WBA)** based on its low valuation, high dividend yield, and stable business model. We initiated a position in **LyondellBasell (LYB)**. Chemical markets are currently robust given the combination of 2020 plant shutdowns and strongly recovering demand. Despite the tailwinds, Lyondell trades at a low valuation and yields just under 5%.

tech companies, we believe our holdings should significantly benefit from an upturn in the economy.

While optimistic about a recovery, we continue to balance our cyclical holdings with dividend-payers in stable, less economically-sensitive industries. We hold three pharmaceutical companies, **Merck (MRK), Gilead (GILD),** and **AbbVie (ABBV).** All three have strong cash flows and balance sheets, making their high dividends reasonably safe. The investment controversy surrounding these pharma companies is whether they can develop or acquire new products to replace their current blockbuster drugs. The low valuations on these stocks reflects what we believe to be undue pessimism by investors on the prospects for new drugs.

Other stocks providing balance against our cyclicals include **General Mills (GIS), Portland General Electric (POR),** and **Walgreens (WBA).** They pay good dividends supported by stable business models and have a conservative amount of debt.

The dividend yield on our Income-Equity Strategy is now 3.6%. The No-MLP version yield is 3.5%. Both yields are roughly 2.5 times the yield on the S&P 500 Index, and we are seeing dividend increases across our portfolios. Our income advantage over the broad market is significant, yet we also believe that we have enough cyclical tilt to perform well in a recovery. We continue to monitor a variety of risks, with inflation and COVID-19 trends being most important.

See more about
Income-Equity
on page 15.

For more insight from our ***Portfolio Managment Team,*** *see our blog at mhinvest.com.*

MLP Strategy

Quarterly Report 3Q 2021

MIDSTREAM ENERGY'S STREAK OF POSTING +20% returns in three consecutive quarters came to an end. The Delta variant's potential impact on demand and the uncertainty from Hurricane Ida weighed on the energy sector for much of the quarter. From an income perspective, midstream energy continues to offer a compelling yield–the MLP Strategy yields 7.1%–and the potential to increase shareholders' return either through increasing distributions, share repurchases, or a combination of the two.

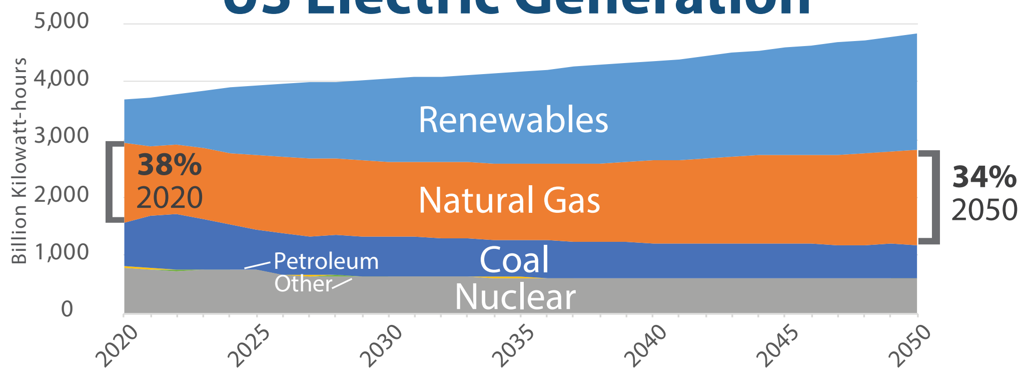
Commodity prices remained strong, with near-term crude contracts in the mid-$70/barrel range and natural gas prices well above $5/MMBtu for the next several months. To date, exploration and production (E&P) companies have remained financially disciplined, leading to more certainty in the industry. We view this positively for midstream companies, as the management teams we have spoken with prefer a steady operating environment. It provides for better planning, optimization of assets, and lower capex, which keeps the focus on free cash flow.

Looking Ahead

While there is room for all sources of energy, we believe that natural gas will continue to play a major role in the energy landscape for many decades. As can be seen in the chart below, the US Energy Information Administration (EIA) projects that the share of renewables in the US electricity generation mix will increase to 42% in 2050 from 20% in 2020. Wind and solar generation are responsible for most of that growth. The renewable share is projected to increase as nuclear and coal-fired generation decrease. For investors in the midstream sector, the most interesting projection is that the natural gas-fired generation share remains relatively constant in the mid-30% range of total electricity generation from 2020 to 2050.

Natural gas offers several advantages compared with other power sources, but in particular, it can be dispatched on demand compared with renewables, and has lower CO^2 emissions relative to coal and oil products. We view the forecast for natural gas usage in electricity generation—on an absolute basis it is projected to increase over 17% from 2020 to 2050—as a compelling case for midstream investing. The forecasted increase in demand for natural gas in electricity generation is supportive of midstream energy companies that transport and store the commodity. We believe this increasing usage will continue to underpin the midstream companies' cash flow generation and ability to pay high and growing income. Renewables continue to grab almost all of the headlines, but we believe natural gas will continue to play an important role in the US energy outlook, and that this portfolio remains well-positioned to benefit.

US Electric Generation



Source: The US Energy Information Administration (EIA); Miller/Howard Research & Analysis.

Portfolio Highlights

- **Distributions increases.** This quarter, 2 of our 16 holdings announced dividend increases. The average increase was 3.1% year-over-year.
- **Portfolio holdings:** We did not make changes to the portfolio during the quarter.

Infrastructure

Quarterly Report 3Q 2021

FOR THE LAST YEAR, PORTFOLIO PERFORMANCE has been inextricably tied to interest rate movements. This quarter was no different. In the first half of the quarter, interest rates slid on the spread of the Delta variant. Fears around the economic fallout pushed investors towards less cyclical and longer-duration assets, with cell towers and utilities leading the portfolio. Later in the quarter, rates surged on inflation fears as the Fed stepped up commentary around tapering and rate hikes. Amid this backdrop, leaders and laggards reversed, with midstream energy leading the portfolio. Midstream was also boosted by strong natural gas and crude prices. Transportation and logistics holdings were arguably the most idiosyncratic as the group grappled with bottlenecks in the global supply chain.

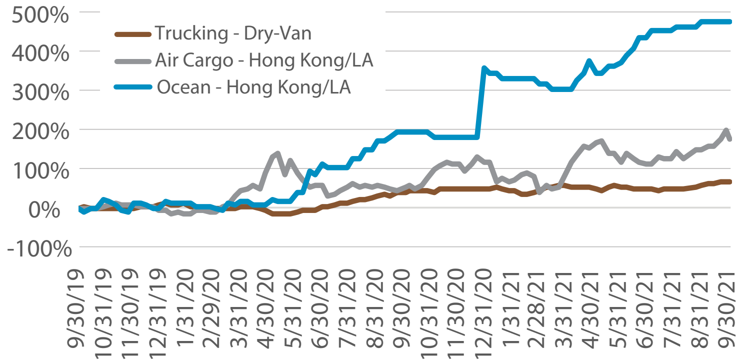
Looking Ahead

With much of the world reopened, behavior has shifted closer to normalcy. While this is certainly encouraging, COVID-19's impact is not behind us. The unprecedented shutdown and reopening has, unsurprisingly, created ripples and a new set of challenges that will not be resolved overnight.

While overall consumer demand has generally remained strong, supply for many products has been hampered by manufacturing capacity, raw material and parts availability, and labor shortages. Transportation and logistics bottlenecks have exacerbated delays and inflationary pricing as container, ocean freight, air freight, and trucking prices hit multi-year highs.

Freight Cost Inflation

Since 9/30/2019



As of September 30, 2021. Source: Bloomberg; Miller/Howard Research & Analysis.

Transportation & Logistics Bottlenecks	
Ports	32 ships are anchored at the Port of LA, whereas 9 were anchored on average in Q2
Rails	Struggling with first and last mile deliveries

As of September 30, 2021. Source: Miller/Howard Research & Analysis.

The good news is the pandemic will end, or at least end in the sense that it will have a limited impact on our day-to-day lives as the prevalence of the illness diminishes. With time, supply chains will undoubtedly normalize. In the meantime, we believe that our Infrastructure Strategy is uniquely positioned to not only weather the storm, but also benefit from current pressure points and their ultimate resolution.

Portfolio Highlights

- **More cyclical:** In late August, we increased the portfolio's cyclical exposure by trimming utilities after a period of relative outperformance and reallocating the capital to midstream energy, which had pulled back over the summer.
- **New additions:** We added **ONEOK Inc. (OKE)** with the expectation that it will benefit from increasing natural gas and natural gas liquids (NGL) recovery in the Bakken region. We also added **Spire Inc. (SR)** which trades at a heavily discounted multiple, reflecting a worst-case scenario on one of its pipelines.
- **Adjusting Allocations:** We increased our position in **Marathon Petroleum Corp. (MPC)** on weakness after trimming our position on strength in Q2. We also increased **Sempra (SRE), Kinder Morgan Inc (KMI), Williams Cos (WMB), FedEx Corp. (FDX),** and **MDU Resources (MDU).** Additionally, we trimmed **CenterPoint Energy (CNP)** and **American Tower Corp. (AMT)** after periods of relative strength. We had previously increased our positions in late 2020 and February 2021, respectively, after periods of relative weakness. We also trimmed **Entergy Corp. (ETR)** and **Dominion Energy (D).**

Utilities Plus

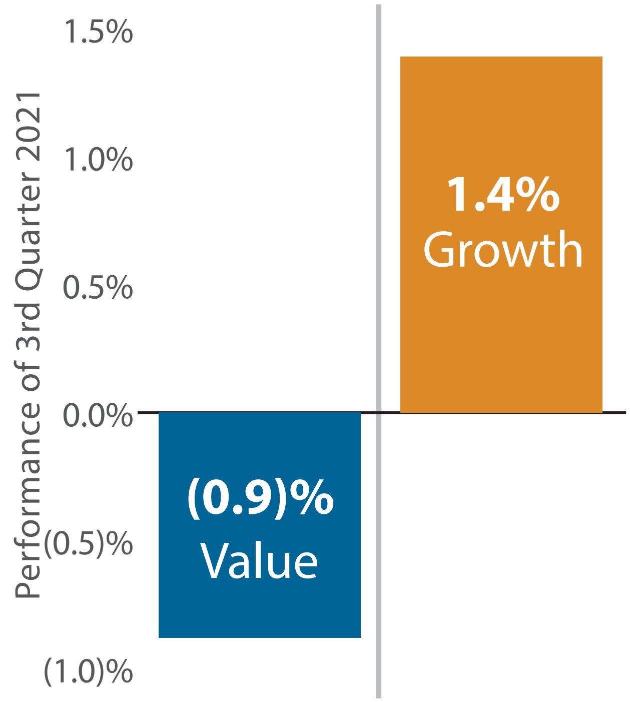
Quarterly Report 3Q 2021

UTILITIES OUTPACED THE BROADER MARKET FOR the first quarter since the onset of the pandemic. Utilities outperformed the S&P 500 Index by as much as 7%, as COVID-19 cases surged and investors looked to reduce risk. As fears of inflation drove interest rates higher through quarter end, utilities' relative outperformance eroded.

Within the S&P 500 Utilities Index, growth outperformed value (as measured by forward price-to-earnings). Growth's outperformance was most pronounced as interest rates declined, but the group managed to hold on to its relative gains despite the yield on the 10-year Treasury increasing marginally in the quarter. The growth contingent was led by water and electric utilities. Merchant power producers also outperformed on progress related to state and federal initiatives supporting nuclear power. Gas local distribution companies (LDCs) lagged during the quarter as investor sentiment continued to weigh on the group.

Value vs. Growth

S&P 500 Utilities Index



As of September 30, 2021. Source: Bloomberg; Miller/Howard Research & Analysis. The S&P 500 Utilities was divided into two equal-weighted buckets by forward price-to-earnings (P/E) as of 6/30/2021. Value is defined as the members with low P/E; growth is defined as the members with high P/E.

Looking Ahead

We have long espoused that utilities were an underappreciated way to gain exposure to the nation's energy transition towards renewables, and would do much of the heavy lifting required to meet state and federal mandates. Currently, additional support is being considered at the state and national levels. We see strong public support for future clean energy development and electric vehicle adoption.

Potentially offsetting this tailwind is the strong run up in natural gas prices which have increased by approximately 50% by the end of the quarter to over $5/Mcf. While natural gas prices are generally a pass-through expense for utilities, they threaten to put upward pressure on customer bills. In recent years, declining natural gas prices have helped create headroom for rate increases. Given that utilities are looking to balance the pressure of higher customer bills with system enhancements, rising commodity costs could temper rate base growth.

Although these issues bear monitoring, we remain confident that utilities' stable business model will continue to provide income and growth of income to investors regardless of their outcomes.

Portfolio Highlights

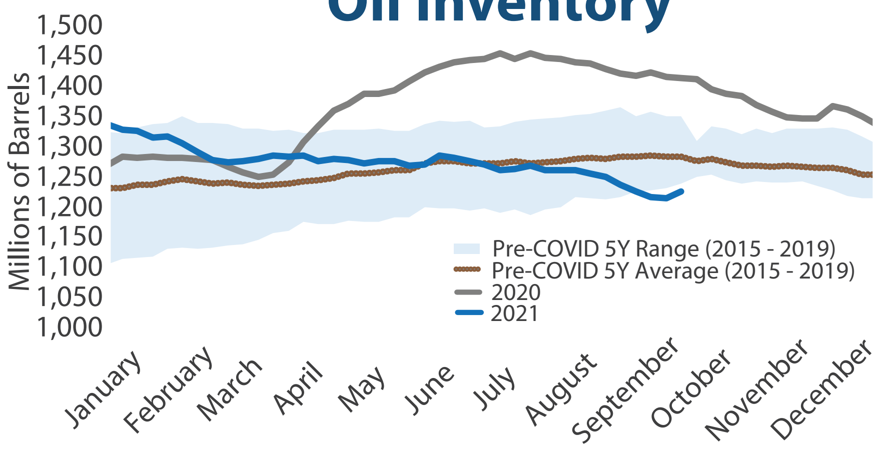
- **Analyst day underscores growth: CenterPoint Energy (CNP)** held an analyst day that highlighted a top-tier growth profile. CNP expects 8% EPS growth through 2024 and 6%-8% growth each year through 2030. CNP was the largest holding in the strategy at the end of this quarter.
- **Increased conviction:** We increased our position in **Sempra Energy (SRE)** on a higher capital plan at its Texas utility and progress on its infrastructure transactions. Later in the quarter, we added to **Spire Inc. (SR)** as its heavily discounted valuation reflected a worst-case scenario on one of its pipelines.
- **Tactical Allocations:** We trimmed our positions in **NextEra Energy Inc. (NEE)** and **NextEra Energy Partners (NEP)** after periods of relative outperformance. We had previously increased our positions in both names last quarter. We also increased our position in **MDU Resources (MDU)** after a period of relative underperformance. We also trimmed **Vistra Corp (VST)** to reallocate capital.

Drill Bit to Burner Tip®

Quarterly Report 3Q 2021

AFTER A FIRST HALF THAT FEATURED persistent strength, volatility returned to the energy space this quarter over fears that the Delta variant would reduce oil demand. As case counts rose in July and August and return-to-office plans were pushed out, the energy sector sold off sharply, before fully recovering 2021 gains in a furious late-September rally that coincided with declining daily cases and reopening announcements in Asia and Europe.

Total US Commercial Oil Inventory



As of September 24, 2021. Source: EIA. Total US Commercial Oil Inventory is defined as the total stock of US crude oil and petroleum products excluding the Strategic Petroleum Reserve.

We took advantage of stock price weakness to reinforce our pro-cyclical portfolio positioning. The market, in our view, ignored a rapidly tightening supply/demand picture, driven by underinvestment in new supplies, shale E&P (exploration & production) discipline, and the likelihood that Delta would prove transient. Towards the end of the quarter, natural gas prices squeezed higher on fears that a colder than normal "La Niña" winter would compound unusual shoulder-season market tightness due to record global utility demand for the cleanest burning fossil fuel.

Looking Ahead

In many respects, we believe the outlook for this portfolio looks as bright as we can remember. Fifteen years into the shale era, investors appear to have finally succeeded in compelling producers to prioritize cash flow and returns over growth, even as E&Ps are flush with cash due to high commodity prices. In turn, production growth is stagnant, which reduces opportunities for midstream companies to spend cash on expansion projects that would otherwise accrue to shareholders. As a consequence, the nominal amount of industry free cash flow, used to support dividends and buybacks, is the highest in at least two decades. Yet energy valuations remain at significant discounts to the broader market, a favorable setup for income-seeking investors. Looking ahead, we're laser-focused on drilling activity, as we haven't forgotten that gratuitous shale growth has spoiled every commodity price rally of the shale era. Now though, we believe this time really does seem different, and for investors in the space, that's a good thing.

Portfolio Highlights

- **Energy and income.** This portfolio continues to be an under-appreciated source of dividends. As the domestic shale industry matures and consolidates, E&Ps are rapidly joining refiners and pipelines as among the highest-dividend payers in the market. While not the absolute highest-yielding energy vehicle, this portfolio offers a 3.8% yield (over 4% including E&P variable dividends) that we estimate is well-supported at $40 oil, and that carries projected 12-month growth of 10%.

- **Along the energy value chain.** At the beginning of the quarter, we opportunistically initiated a position in natural gas pipeline **DT Midstream (DTM)**, a recent spinoff from diversified utility DTE Energy (not held). In September, we trimmed DTM following a strong run to add driller **Halliburton (HAL).** We also added to oil-producer **ConocoPhillips (COP)**, following its well-considered 225,000 acre acquisition in the Permian Basin.

Small Cap Dividends

Quarterly Report 3Q 2021

AFTER A METEORIC RISE OVER THE PAST YEAR, small-cap stocks reversed course with the Russell 2000 Index down -4.4% for the quarter. Much of the downdraft was focused on stocks that had done well in the pandemic environment but lost favor with investors who see a recovery on the horizon. Our largest detractors have all benefitted from pandemic-driven demand. **Owens & Minor (OMI)** has been our best stock since inception, but the stock backtracked this quarter over concerns that the hospital supply distributor may see lower demand as COVID-19 recedes. **Medifast (MED),** a provider of weight loss programs and our second biggest detractor, traded off this quarter over worries that their success has been bolstered by people working from home. Lastly, **Select Medical (SEM)** has also seen strong investment, but its rehabilitation facilities have had a surge of patients from hospitals looking to free beds–a trend that will likely slow as the pandemic ends.

Despite the headwind from the reversals in stocks that benefited during the pandemic, Miller/Howard's Small Cap Dividend Strategy outperformed the Russell 2000 Index for the quarter. Our relative performance was buoyed by small-cap investors reverting to their long-time pattern of preferring profitable companies.

In recent quarters, unprofitable companies have led, but in our 2Q 2021 Quarterly, we shared the long-term benefits of investing in profitable small-cap companies. Adjusted for one-time charges, all of our holdings are in profitable companies. In contrast, roughly half of Russell 2000 companies are unprofitable.

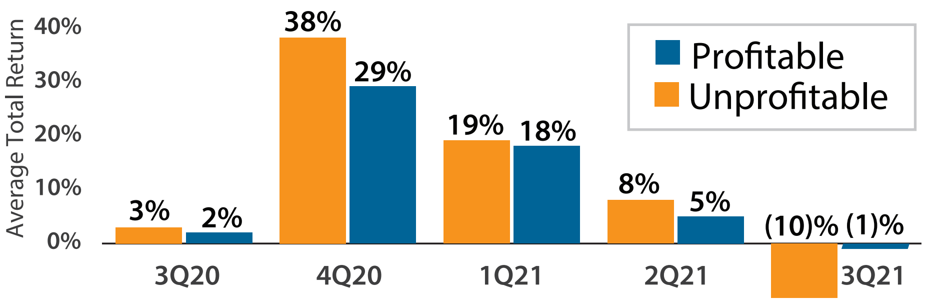
Our best holdings for the quarter were companies poised to benefit from the recovery. Our largest contributor was **ArcBest (ARCB)**, a trucking and intermodal transportation company. **Newmark (NMRK)**, our second biggest contributor, is a commercial real estate advisory firm seeing strong interest for its services as clients prepare for the recovery. **Equitrans Midstream (ETRN)**, our third largest contributor, could see higher volumes on its pipelines given the recovery in natural gas prices.

Looking Ahead

Our portfolio continues to focus on companies with positive earnings or free cash flow, with strong balance sheets, and selling at reasonable valuations. Our portfolio has a yield that is well above the Russell 2000, and the strong free cash flow of our holdings supports prospects for dividend increases over time.

Average Performance within the Russell 2000 Index*

Unprofitable Companies vs Profitable Companies



As of September 30, 2021.
Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. Unprofitable is defined as members of the Russell 2000 Index* with negative trailing GAAP net income as of each quarter end. Profitable is defined as members of the Russell 2000 Index* with positive trailing GAAP net income as of each quarter end. Total returns for both Profitable and Unprofitable are simple averages based on the trailing performance of index members at each quarter end.
* The IWM ETF is used as a proxy for the Russell 2000.
GAAP = Generally Accepted Accounting Principles.

Portfolio Highlights

- **Dividend increases:** Nine of our holdings increased their dividend including **Bank OZK (OZK), Heartland Financial (HTLF), Highwoods Properties (HIW), Associated Banc-Corp (ASB), Cactus (WHD), Louisiana-Pacific (LPX), Kforce (KFRC), Avnet (AVT),** and **TTEC Holdings (TTEC).** In addition, **Ethan Allen Interiors (ETD)** paid a special dividend.
- **Sales:** Following the unusually strong performance for small-cap stocks in the first year since launch, we repositioned the portfolio towards stocks with attractive current valuations. Sales included **Triton (TRTN), Southwest Gas (SWX), Commercial Metals (CMC), Rush Enterprises (RUSHA), HNI (HNI), Winnebago (WGO), Shutterstock (SSTK), KB Home (KBH), Meridian Bioscience (VIVO), Primoris (PRIM), Spectrum Brands (SPB), Big Lots (BIG),** and **Altra Industrial Motion (AIMC).**
- **Buys:** We initiated positions in **Terex (TEX), Portland General Electric (POR), Tivity (TVTY), Korn Ferry (KFY), Signet Jewelers (SIG), Equitrans Midstream (ETRN), Oxford Industries (OXM), LeMaitre Vascular (LMAT), Hibbett (HIBB), Apogee (APOG), Edgewell Personal Care (EPC), Patrick Industries (PATK),** and **Matson (MATX).**

Yield, Growth, Strength, Stability

- Our Income-Equity Strategies each offer a high dividend yield that is 2.5x the yield on the S&P 500 Index, and have ample dividend coverage and reasonable leverage levels (net debt/EBITDA).
- Both portfolios trade at a significant discount to the broad market on price-to-earnings as well. Value investing historically has done best coming out of a recession, so the historically low valuations should set the Income-Equity Strategies up for a strong recovery, in our view.
- We believe the portfolios are well-positioned for dividend growth as economic conditions continue to improve.

Income-Equity Strategy (with MLPs)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	3Q 2021
Income-Equity Yield	5.1	4.8	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.6
S&P 500 Yield	2.1	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.4
Ratio	2.4x	2.1x	2.3x	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.5x
Income-Equity Projected Dividend Growth*	6.8	7.5	7.5	7.5	5.8	5.0	6.3	7.8	7.3	5.1	7.0
S&P 500 Projected Dividend Growth**	5.9	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.5
Ratio	1.1x	1.5x	1.3x	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.3x
Income-Equity Dividend Coverage Ratio	1.4x	1.5x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.2x
Income-Equity Net Debt/EBITDA***	2.4x	2.5x	2.6x	4.2x	2.8x	2.0x	1.9x	1.4x	1.9x	1.9x	1.3x
Income-Equity P/E Ratio Trailing	13.3	14.1	13.4	16.4	14.2	17.2	17.7	12.6	12.8	16.7	12.8
S&P 500 P/E Trailing	13.4	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	25.8
Premium/Discount	-1%	-2%	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-50%

Income-Equity Strategy (No MLPs)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	3Q 2021
Income-Equity (No MLPs) Yield	5.0	4.7	4.1	4.0	4.6	3.9	3.7	4.2	3.6	3.5	3.5
S&P 500 Yield	2.1	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.4
Ratio	2.4x	2.1x	2.2x	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.5x
Income-Equity (No MLPs) Projected Dividend Growth*	7.0	7.6	8.2	7.7	5.9	5.0	6.4	7.9	7.5	5.2	7.0
S&P 500 Projected Dividend Growth**	5.9	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.5
Ratio	1.2x	1.5x	1.4x	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.3x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.4x	1.4x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.2x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.4x	2.5x	2.7x	2.6x	2.6x	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x
Income-Equity (No MLPs) P/E Ratio Trailing	13.5	14.5	14.6	17.2	16.5	18.2	18.0	12.9	13.5	16.8	12.9
S&P 500 P/E Trailing	13.4	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	25.8
Premium/Discount	0%	1%	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-50%

Source: Bloomberg; S&P; Miller/Howard Research & Analysis.
The data above are based on representative accounts in our Income-Equity Strategies both with and without MLPs and are subject to change. Median P/E ratio trailing is published for our Income-Equity Strategies.
* Projected Dividend Growth—Miller/Howard Portfolio Team's 3-year annualized projected dividend growth 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.

** Bloomberg Dividend per Share 3-year forward estimates.
*** Excludes financials.
Dividend yields shown for Miller/Howard portfolios exclude cash.
All data are as of year-end, unless otherwise noted.
Common stocks do not assure dividend payments. Dividends are paid only when declared by an issuer's board of directors, and the amount of any dividend may vary over time. Dividend yield is one component of performance and should not be the only consideration for investment. See definitions and full disclosure on page 16.

Miller/Howard's Climate Change Risk Management

We assess and manage our climate-related risks and opportunities through a multi-level approach:

Firm-level – Our strategy encompasses and benefits all of Miller/Howard, from executive and board oversight to participation from each department.

Portfolio-level – Using quantitative and qualitative analysis, we ensure that our portfolios have suitable levels of risk for our philosophy and goals.

Company-level – Once a company enters our portfolios, we vote all proxy ballots according to our ESG Policy, and we become "active owners" through our shareholder advocacy program, in which we engage them on topics such as disclosure of emissions and science-based emissions reduction targets, Paris Accord-aligned lobbying activities, and analyze of how they might fare under different climate scenarios in the future.

We strive to provide Sustainable Income Opportunities® using our Guiding Values as our compass.

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Miller/Howard Investments Inc. is an independent, research-driven investment boutique with nearly three decades of experience managing portfolios for major institutions, mutual funds, and individuals in dividend-focused investment strategies. The firm is 100% employee-owned through an Employee Stock Ownership Plan (ESOP).

We continue to evolve and develop strategies that strive to provide investors with various levels of current income and dividend growth. Our objectives are to generate total returns in line with the broad equity market and provide a high and rising stream of income with the lower volatility that an investor might seek from bonds or other income alternatives. With a primary goal of reliable income and long-term returns, coupled with a belief that investors can play an important role in securing a sustainable future, our shareholder advocacy efforts include environmental, social, and governance (ESG) research and/or screening, direct engagement with companies, filing shareholder resolutions, proxy voting, coalition building, and public policy involvement.

DEFINITIONS: Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)—A non-GAAP measure used to provide an approximation of a company's profitability. This measure excludes the potential distortion that accounting and financing rules may have on a company's earnings; therefore, EBITDA is a useful tool when comparing companies that incur large amounts of depreciation expense because it excludes these noncash items, which could understate the company's true performance. **High-Dividend Yield Stocks** consists of Decile 7, 8, and 9 of a universe of US dividend paying common stocks with a market capitalization equal to or greater than $1 billion. **Net Debt to EBITDA—**A measure that computes the company's ability to pay off its debt by utilizing the earnings before interest, taxes, depreciation, and amortization (EBITDA). **Enterprise Value/EBITDA (EV/EBITDA)**—A valuation ratio used to compare the enterprise value (the market value of the company's total operating assets including debt and equity) to the company's EBITDA. The metric allows comparisons across companies with differing capital structures and tax rates. **Price-Earnings Ratio (P/E)—**The ratio of a company's share price to its earnings per share. The ratio is used as a valuation tool and can help determine whether a company is overvalued or undervalued. **S&P 500 Index**® widely regarded as the best single gauge of large-cap US equities and serves as the foundation for a wide range of investment products. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **The S&P Composite 1500® Energy Index** comprises those companies included in the S&P Composite 1500 that are classified as members of the GICS® energy sector. **The Russell 1000® Growth Index** measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe and is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. Investors cannot invest directly in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

For more information and to request materials:
Visit www.mhinvest.com or contact our Internal Sales Desk:
Email internals@mhinvest.com / Call (845) 679-9166

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Notification to Clients: Contact your Advisor with any material changes to your financial profile that would impact your appropriateness for investment.

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