QUARTERLY REPORT 4Q 2021

Miller/Howard INVESTMENTS

Omicron and Inflation: How Strong are the Headwinds?

DECEMBER 31, 2021

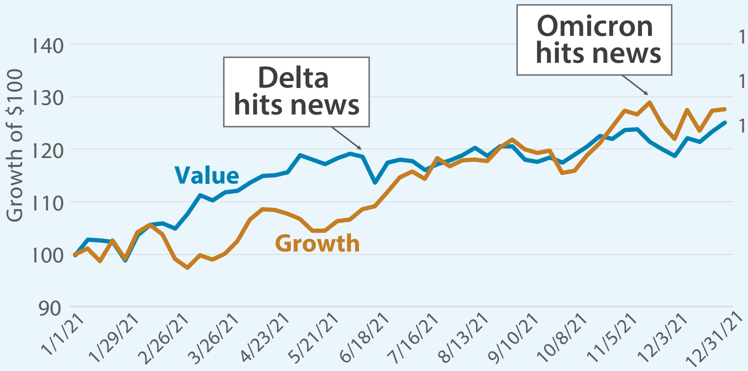
EQUITY RETURNS WERE ROBUST IN THE FOURTH quarter, consistent with the arguments we made last quarter in "The Case for Optimism." We pointed out that both the consumer and business sectors were in great shape, and low interest rates made bonds unattractive relative to equities. While we are still bullish on equities, recent developments regarding COVID-19 and inflation create headwinds for the stock market.

The rebounding economy has buoyed equities throughout the year, but investors toggled between growth and value stocks depending on COVID-19 headlines. Investors shifted towards value stocks late in 2020 with the vaccine announcements offering hope for a sharp economic recovery. Value's outperformance continued during the first part of 2021, but the emergence of the Delta variant raised the specter of a more prolonged pandemic, boosting growth stocks.

The Omicron variant made headlines starting in mid-November, and the new variant quickly spread around the world. Prior to Omicron, there was hope that we were rapidly getting to the point where the vast majority of Americans would have immunity, either by vaccination, previous infection, or both. The Omicron variant has upended this calculus given the widespread incidence of repeat cases and breakthrough infections. Omicron is so infectious that it looks like it will work through the population rapidly. Indeed, as of this writing, cases in South Africa—where Omicron was first reported—have already peaked, and hospitalizations and deaths are running below the levels seen in prior waves.

Experts have long expected COVID-19 to become endemic, meaning that the population has enough immunity through vaccinations and natural infection to keep the number of cases low, akin to the flu. Omicron may have restarted the clock, but its high transmissibility should shorten the course. In the meantime, physicians are much more knowledgeable about how to treat the disease, mitigating some of the worst consequences. In addition, both Pfizer and Merck have developed therapeutics that reduce the probability of severe disease if taken in the first few days following the onset of symptoms. Despite the daily barrage of negative headlines, we still believe that we are months, rather than years, away from the end of the pandemic dominating daily behavior.

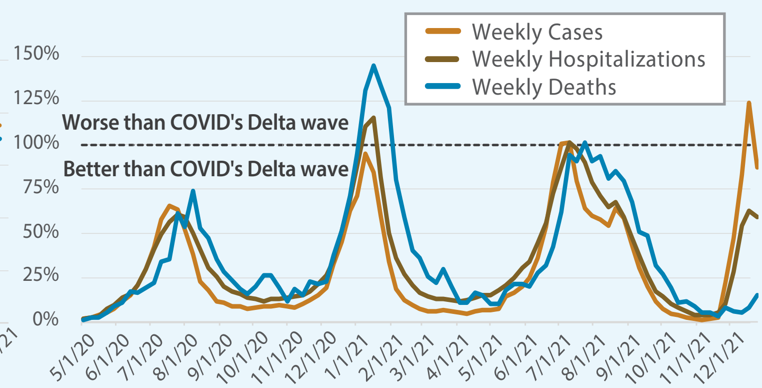
Investors Toggled between Growth and Value Stocks



As of December 31, 2021. Sources: Bloomberg; Google Trends.
Total returns of the Russell 1000 Value Index and the Russell 1000 Growth Index.

COVID-19 in South Africa

% of Delta Variant Peak



As of December 25, 2021. Sources: Johns Hopkins; Our World in Data.
Delta variant cases and hospitalizations peaked the week ended 7/10/21.
Deaths peaked the week ended 7/24/21.

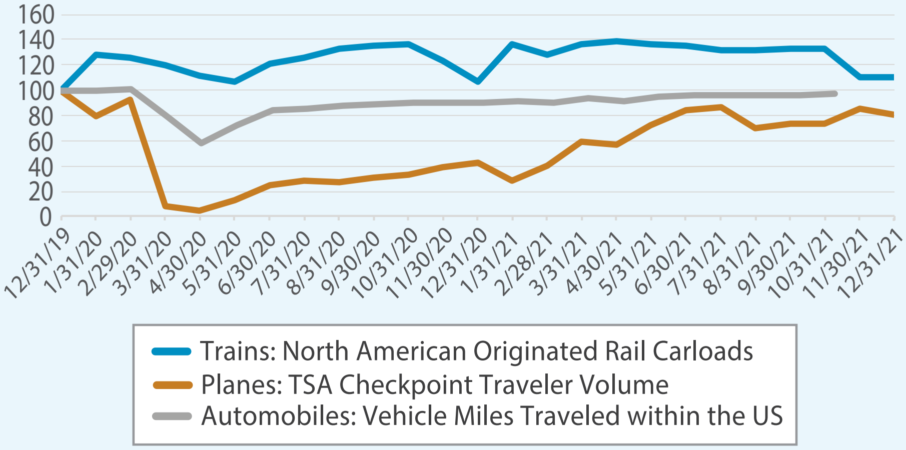
Despite concerns regarding COVID-19, most economic activity has returned to normal. Looking at the use of trains, planes, and automobiles to move people and goods, we see that railroad usage never really dropped. Both miles driven and number of airport travelers fell dramatically during the early days of the pandemic, but now have largely returned to 2019 levels. Overall US Gross Domestic Product (GDP) is up, running 8% above 2019.

Many parts of the economy continue to lag, reflecting the reality that the pandemic is still with us. Soft demand can be seen in low attendance at sporting events, half-empty restaurants and cinemas, and the continued struggle to sell passages on cruises. As the pandemic fades, we expect demand for experiences to rebound.

The one aspect of the economy that could be permanently changed is office work. On average, less than half of US office workers are back in the office. Results have varied by city, with office attendance typically highest in Austin and lowest in San Francisco. Even in Austin, the commercial property occupancy rate did not reach 60% of pre-pandemic levels before plummeting just ahead of the holiday season to under 25%.

Almost two years into the pandemic, this is remarkable especially considering how many other activities have returned to normal. Work from home seems to be here to stay. The shift to remote work has contributed to the tremendous growth in new business formation, more than ever witnessed in the United States.

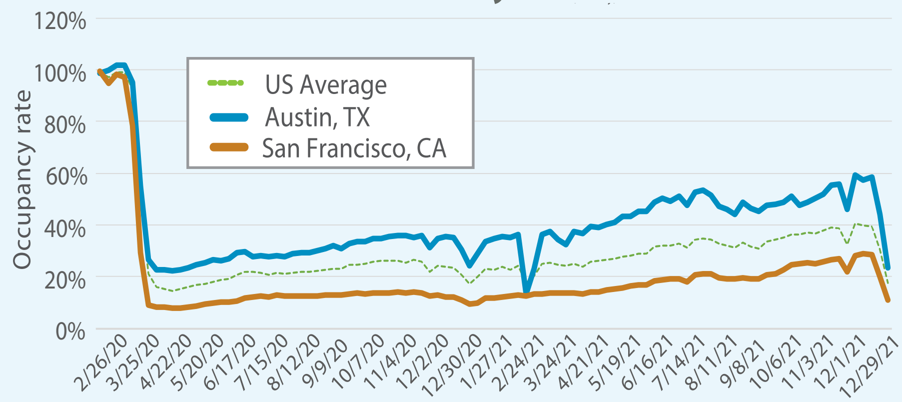
Trains, Planes, and Automobiles



As of December 31, 2021. Sources: Bloomberg; US Department of Transportation; Association of American Railroads; Transportation & Security Administration. 12/31/19=100.
TSA Checkpoint Traveler Volume is the month-end 7-day rolling average of airline passenger throughput.
Rail Car and TSA Checkpoint data as of 12/31/2021. Vehicle Miles Traveled data as of 10/31/21.

Kastle Back to Work Barometer*

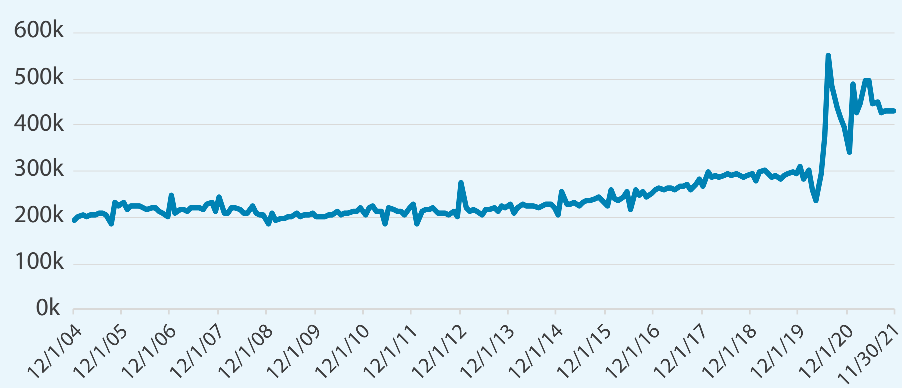
Weekly



As of December 29, 2021. Source: Bloomberg.
* Displays commercial property occupancy rate based on entries in Kastle-secured buildings.

US Business Formation Statistics:

Monthly Business Applications



As of November 30, 2021. Sources: Bloomberg; US Census Bureau.

Our conclusion is that the US economy has proven to be remarkably resilient. GDP growth has jumped back and unemployment continues to drop. Work from home is expected to unleash productivity gains, and the remaining pockets of demand weakness will provide opportunities for growth in a post-pandemic world.

The economy's strong performance has translated into superb sales and profits. At the beginning of the year, Wall Street analysts were in a grim mood, forecasting S&P 500 Index earnings per share of $170 for 2021. This forecast proved to be overly pessimistic, with earnings for the almost-complete 2021 now expected to come in at almost $210 per share. Early forecasts were also wildly off for S&P 500 sales per share, now on track to be about 8% higher than initial estimates. Analysts are expecting 2022 to be only average in terms of sales and earnings per share growth, despite the strong starting point for both businesses and consumers (see Miller/Howard's 3Q 2021 Quarterly Report). We believe 2022 forecasts will, again, prove to be overly pessimistic.

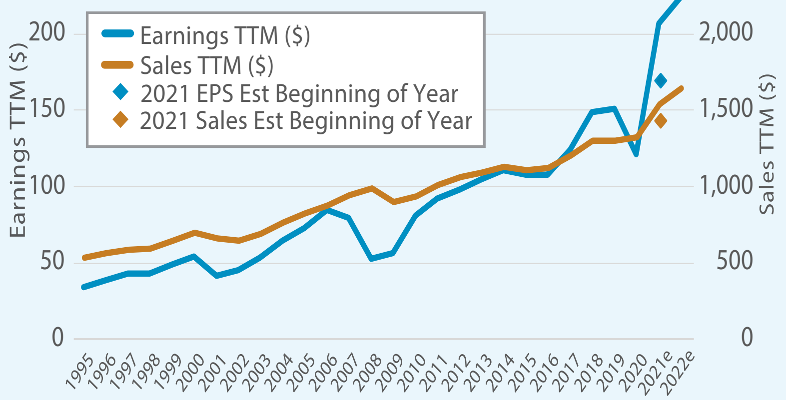
Earnings expansion was the principal driver of stock market returns in 2021. The increase in earnings estimates was largest for value stocks, but the impact was somewhat offset by a fairly large contraction in price-to-earnings multiples (P/E). Despite outstanding returns in 2021, stocks in the Russell 1000 Value Index are entering 2022 with substantially lower P/E multiples—a good set up for the coming year, in our view. In contrast, Russell 1000 Growth Index earnings estimates increased less than those of value stocks over the year, yet growth stocks outperformed because their P/E multiples contracted minimally compared to value stocks.

The battle between growth and value will hinge mainly on inflation, both how it evolves and how the Federal Reserve reacts. The ideal environment for value stocks, in our view, would be a growing economy accompanied by moderate inflation with higher interest rates, both at the short and long end of the yield curve. This would cause investors to put a greater discount on distant earnings, placing more emphasis on near-term earnings—to the benefit of value stocks. Higher interest rates would also give a substantial boost to financial stocks which are far more prevalent in the value benchmark.

The most likely scenarios in which growth stocks outperform would be a material extension in the pandemic or a policy error by the Fed that pushes the economy into a recession. Since so much of the uncertainty hinges on inflation, let's take a closer look at the recent spike.

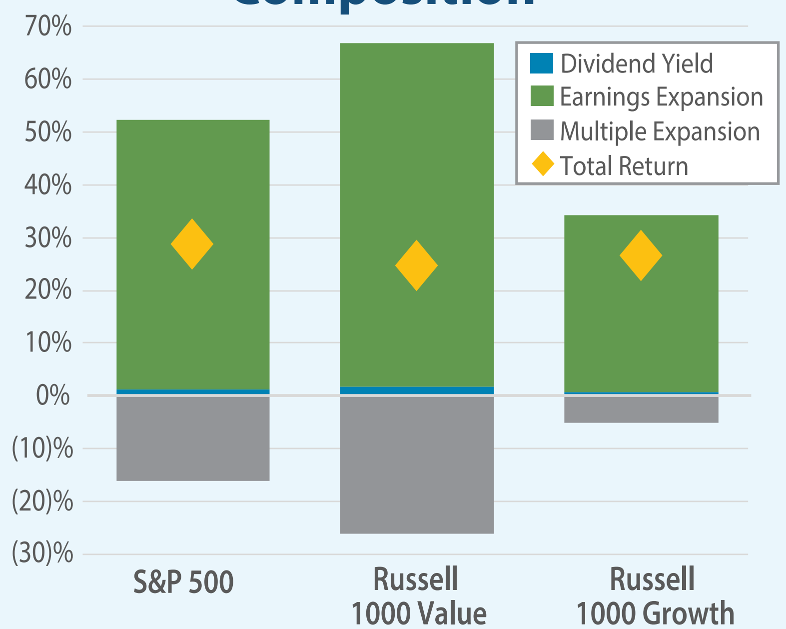
S&P 500: Earnings & Sales per Share

Since 1995



As of December 31, 2021. Source: Bloomberg.

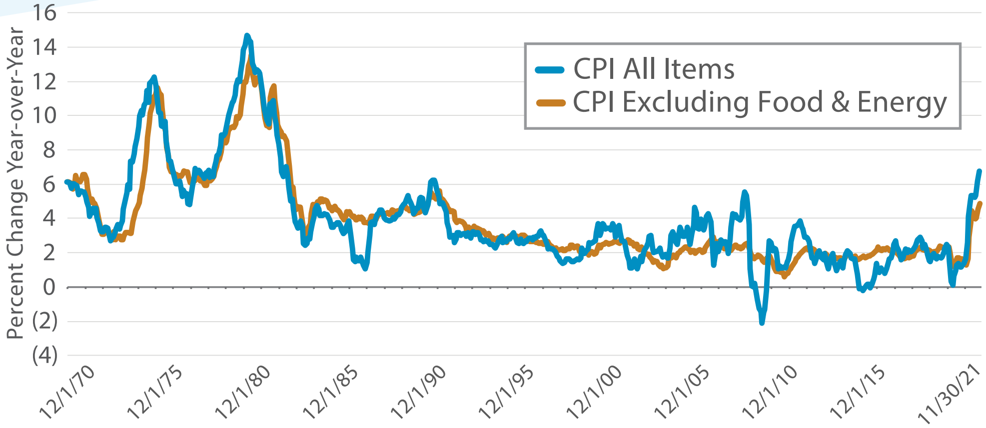
2021 Total Return Composition



As of December 31, 2021. Sources: Bloomberg; Miller/Howard Research & Analysis.

Inflation Spiked in 4Q 2021

Jan 1970 - Nov 2021



As of November 30, 2021.
Source: Bloomberg; Bureau of Labor Statistics.
CPI = Consumer Price Index.

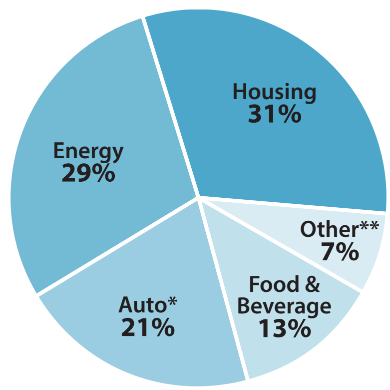
Inflation spiked to 6.8% in November, the highest reading since the early 1980s. The core Consumer Price Index (CPI), meaning excluding food and energy, also increased to a level not seen since the early 1990s. The persistent and widespread inflation has caused the Fed to stop using "transitory" as a descriptor.

The largest contributor to the recent run-up in inflation has been the cost of housing. For owner-occupied units, the CPI is based on a survey question on what owners think they could get in rent for their homes. The Zillow Rent Index is constructed using actual rent data and is probably a more accurate measure of housing inflation, suggesting that the CPI is understating this important category. Given that it will take a substantial amount of time for housing supply to catch up with demand, we expect this component of inflation to be with us for a while.

We feel that the other major contributors—energy, automobiles, and food & beverage—are more likely to be transitory. Energy prices are notoriously volatile, and higher prices historically bring on more supply, particularly from US shale basins that require short lead times.

Contribution to Inflation

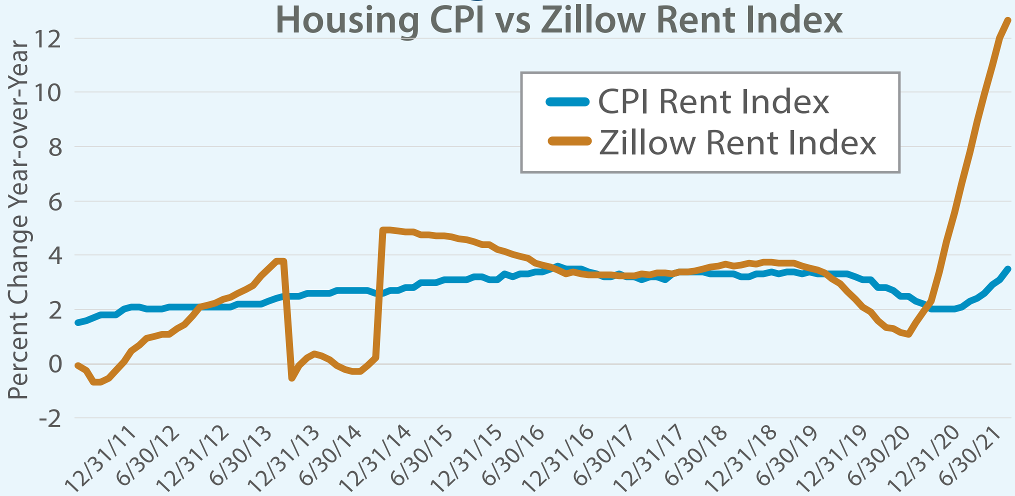
Year-Over-Year CPI Growth: 6.8%



As of November 30, 2021.
Sources: US Bureau of Labor Statistics; Federal Reserve Economic Data (FRED), created and maintained by the Research Department at the Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis.
* Auto combines categories New Vehicles, Used Cars and Trucks, Motor Vehicle Maintenance and Repair, and Motor Vehicle Parts and equipment as provided by the US Bureau of Labor Statistics.
** Other is all remaining CPI categories after removing categories Housing, Energy, Auto*, and Food & Beverage as provided by the US Bureau of Labor Statistics.

Housing Cost Inflation

Housing CPI vs Zillow Rent Index

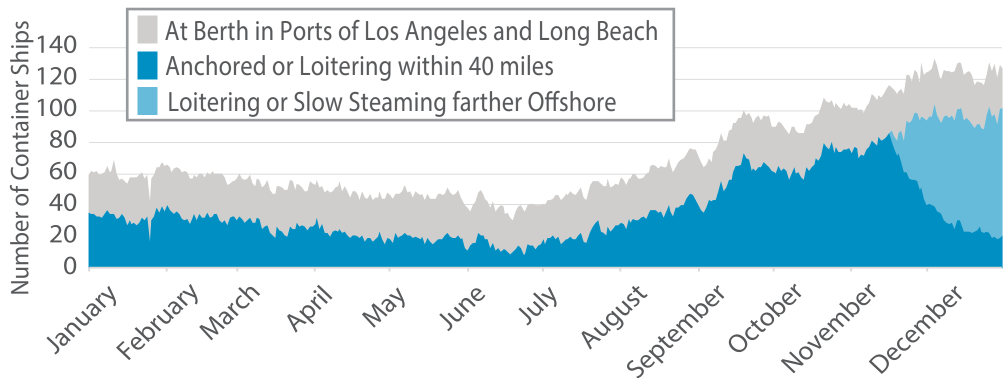


As of November 30, 2021.
Sources: Bloomberg; US Bureau of Labor Statistics.
CPI Rent Index definition: For an owner-occupied unit, the cost of shelter is the implicit rent that owner occupants would have to pay if they were renting their homes. Owner Equivalent Rent, or OER, is based on the following question that the Consumer Expenditure Survey asks of consumers who own their primary residence: "If someone were to rent your home today, how much do you think it would rent for monthly, unfurnished and without utilities?"

We believe that some of the inflation we are seeing today has been caused by supply disruptions in the economy. Some of these can be traced directly to the pandemic—for example, many semiconductor plants had to be closed temporarily following outbreaks of COVID-19. Other bottlenecks are indirect but nonetheless significant. COVID-19 shifted consumer spending from services to hard goods, much of which come from Asia. Bottlenecks in both shipping and trucking have led to shortages at retailers. As a result, the normal mechanism of supply and demand has pushed prices up, but we should expect this aspect of inflation to reverse as supply bounces back.

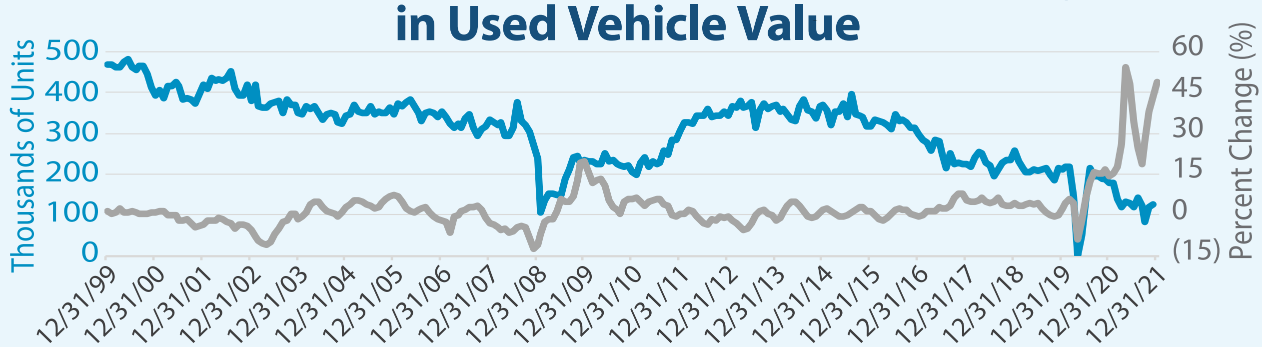
Parts shortages have caused auto production to plunge, leading to extremely low inventories on dealer lots. Customers have bid up the prices of both new and used vehicles, with the spike in used car prices being the largest ever. The increase in both new and used auto prices has been an important part of the inflation spike. We expect this to prove transitory once supply conditions normalize.

Container Ships Waiting
at the Ports of Los Angeles and Long Beach



Data from January 1, 2021 to December 31, 2021. Source: Marine Exchange of Southern California.

Domestic US Auto Production & YoY Change in Used Vehicle Value

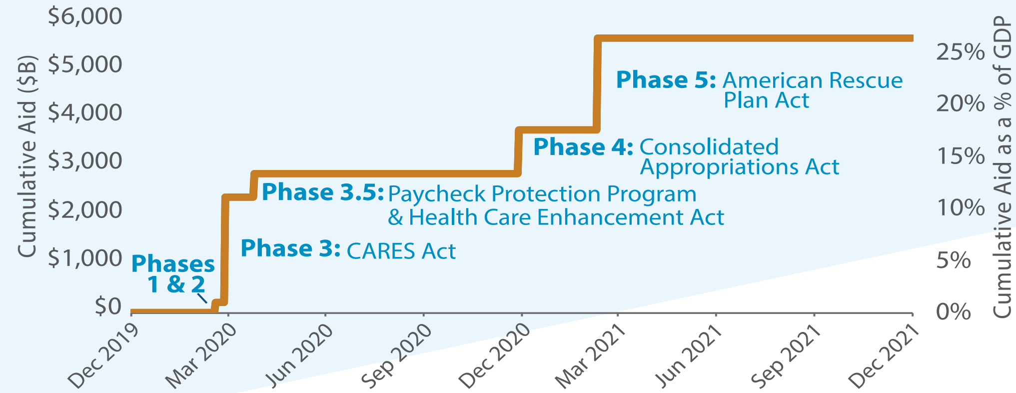


Manheim Index as of 12/31/21. Auto Production as of 11/30/21. Sources: Bloomberg; US Bureau of Economic Analysis. Domestic auto production is defined as all autos assembled within the US on a monthly basis.

Inventory/Sales Ratio for the Domestic US Auto Industry

As of November 30, 2021. Sources: Bloomberg; US Bureau of Economic Analysis.
Inventory is defined as the domestic US unit inventory of new vehicles assembled in the US, Canada, or Mexico. Sales is defined as domestic US unit sales of new vehicles assembled in the US, Canada, and Mexico on a monthly basis. Excludes vehicles produced elsewhere and exports.

Federal COVID-19 Stimulus and Relief Packages



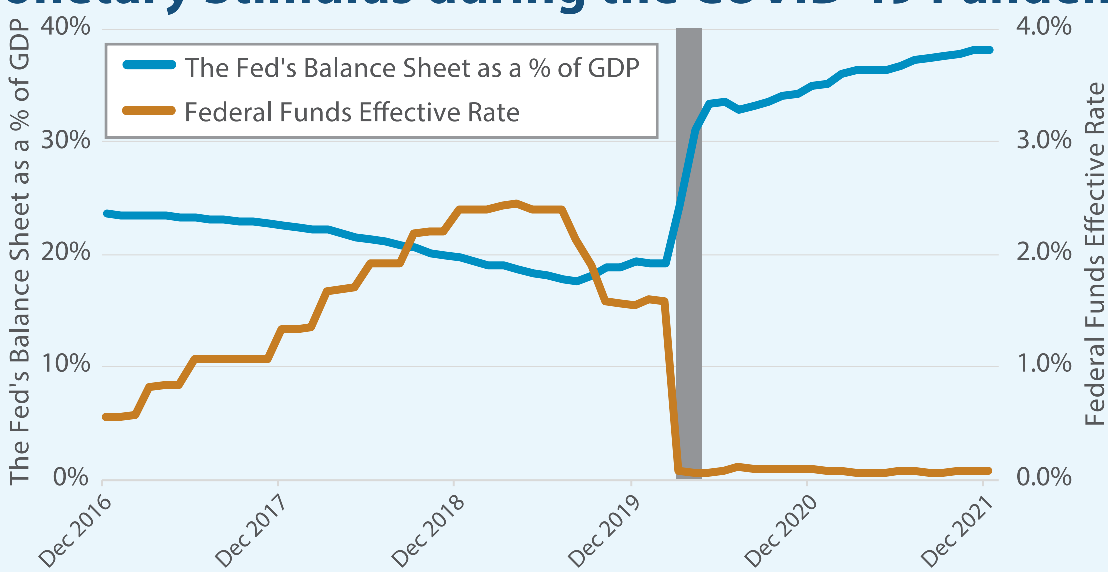
As of December 31, 2021. Source: Miller/Howard Research & Analysis. Cumulative aid is displayed as a % of 2020 GDP.

The best argument for a portion of inflation being more than merely transitory is the unprecedented monetary and fiscal stimulus that has been used to offset the economic impact of the pandemic. Critics argue that this stimulus will overheat the economy, resulting in inflation.

There is no debating that the stimulus was massive. The Fed dropped the federal funds rate in two steps in March 2020, going from a target range of 1.50-1.75% to 0-0.25% in total, representing a dramatic decrease in the cost of bank funding. The purpose of the decrease was to encourage bank lending. The Fed also rapidly grew its balance sheet by increasing bond purchases and upping its repo program. Combined, these moves reduced interest rates and increased liquidity. The Fed also engaged in direct lending through several programs, with the Paycheck Protection Program (PPP) loans being the most prominent.

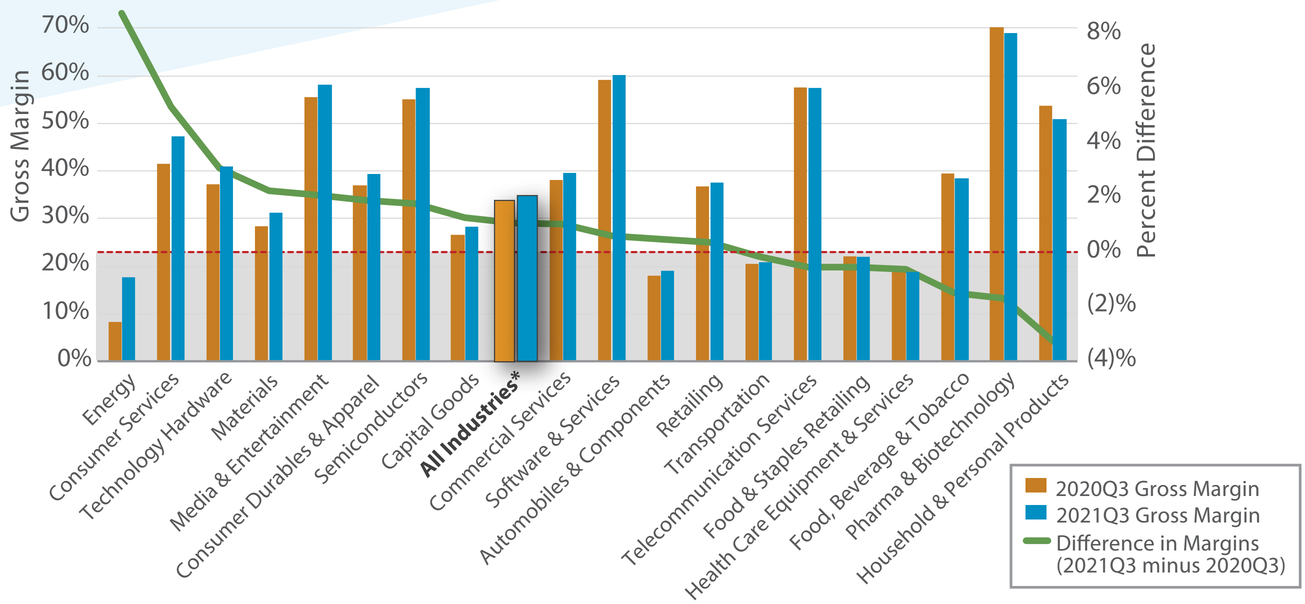
Fiscal stimulus to address the fallout from the pandemic was also massive, with *additional* spending totaling more than a quarter of a 2020's GDP. Bills passed in 2020 and 2021 provided a panoply of programs including direct cash payments, expanded unemployment benefits, mortgage and student loan forbearance, interest moratoriums, and grants to state and local governments, hospital, universities, transportation systems, and so on. It's worth pointing out that inflation hawks have been warning for decades that deficit spending would result in a return of 1970s inflation. These predictions have been dead wrong up until now, but the hawks may be right this time given the unprecedented fiscal and monetary stimulus.

Monetary Stimulus during the COVID-19 Pandemic



As of December 31, 2021. Sources: Bloomberg; Federal Reserve Bank of NY.
The grey bar represents a recessionary period as designated by the Federal Reserve.

Change in Gross Margin by Industry



As of December 2021. Sources: Bloomberg; Miller/Howard Research & Analysis. * Industry excludes members of GICS Sector Classifications Financials, Real Estate, and Utilities as gross margin is less meaningful for these sectors. Industry members are based on members of the S&P 500 Index as of the comparison dates. Industry clasification is based on GICS. Members with missing data have been excluded from totals.

Higher inflation is a real possibility, so we must ask, *"How will it affect our investments?"*

Clients tend to worry that the companies in our portfolios will be unable to pass along cost inflation. The truth is that any well-diversified portfolio will have some companies that benefit from inflation and others that are hurt—one firm's product is another firm's cost. We looked at year-over-year changes in gross margins for sectors in the S&P 500 to see how well firms passed along cost inflation in the third quarter. While there were some sectors that faced difficulties, S&P 500 companies (excluding financials, real estate, and utilities) grew gross margins in 3Q 2021, meaning revenues grew faster than the cost of goods sold. Despite occasional variation, firms will generally raise prices in line with inflation. Even firms in highly competitive industries will see prices go up as inflation drives costs up for all competitors.

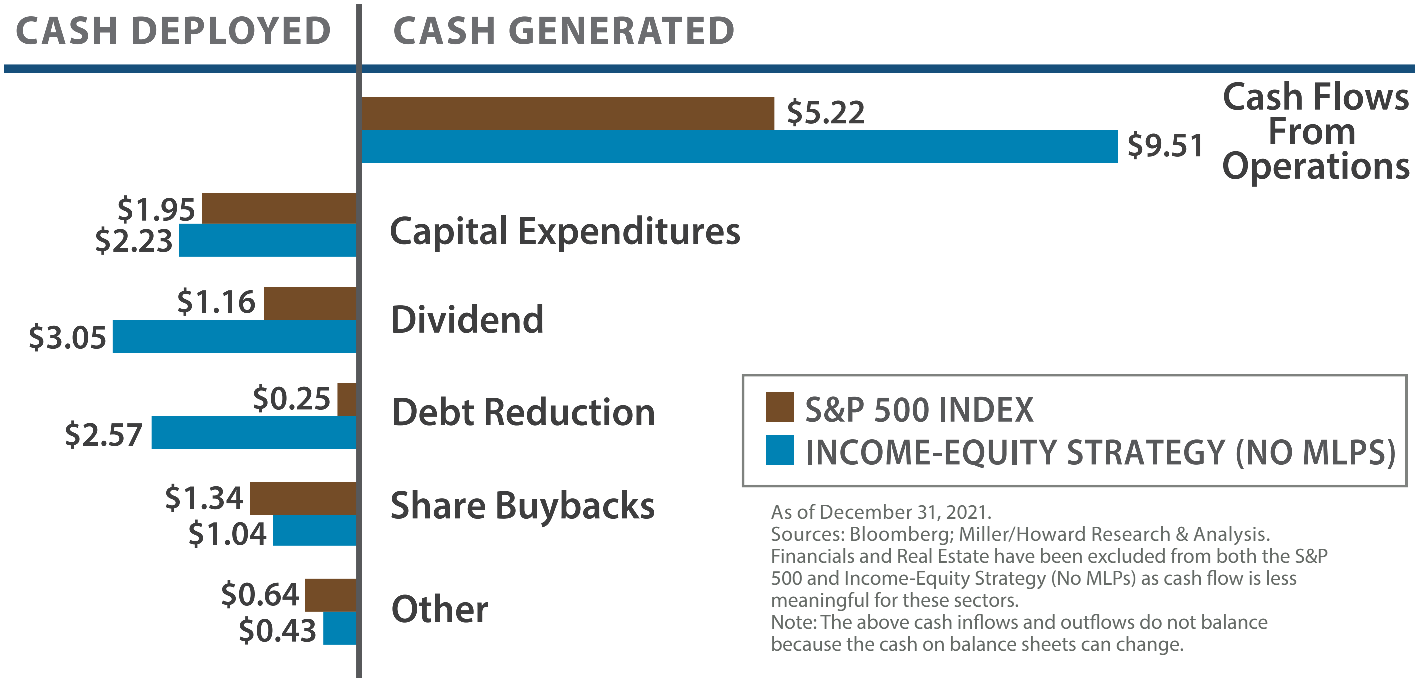
In contrast to equities, most bonds cannot adjust for inflation. A bond promises a fixed coupon. Outside of the inflation-indexed niche, bonds will continue to yield a fixed return even when inflation is eroding away the coupon's value.

The best equity valuation metric to compare to bond yields is the earnings yield, or the inverse of a price/earnings multiple. This represents the return a company earns relative to the price of the stock. We prefer companies that pay out a healthy portion of their earnings as dividends, but retained earnings are also valuable as they can be reinvested to grow future earnings and dividends.

Currently, the S&P 500 has a forward earnings yield of roughly 4.7%, well above the 1.5% yield on the 10-year Treasury. Looking back at all rolling 10-year investment periods starting in 1955, the S&P 500 has grown earnings 100% of the time. Equities offer a higher earnings yield plus a strong probability of growth in earnings over long investment periods. The threat of inflation only improves the case for equities, as companies serve as pass-through vehicles for higher prices, while bond investors are stuck clipping coupons that are declining in real value.

The stock market is still dominated by growth companies selling at high P/Es—multiples that can only be justified by forecasts for rapid earnings growth far into the future. At Miller/Howard, we prefer stocks with lower valuations than the broad market combined with a healthy portion of earnings being returned to investors in the form of dividends. Focusing on higher earnings ***now*** with higher dividends ***now*** makes our portfolios much less dependent on earnings forecasted for 2030 and beyond. If the pandemic and the resulting spike in inflation have taught us anything, it's that forecasting is difficult. Our approach for navigating this uncertainty is to focus on companies with strong balance sheets, good dividend yields, and an outlook for dividend growth that is not dependent on overly aggressive forecasts.

Cash Flow
per $100 Invested



As of December 31, 2021.
Sources: Bloomberg; Miller/Howard Research & Analysis.
Financials and Real Estate have been excluded from both the S&P 500 and Income-Equity Strategy (No MLPs) as cash flow is less meaningful for these sectors.
Note: The above cash inflows and outflows do not balance because the cash on balance sheets can change.

CASH. WE INVEST IT, AND WE EXPECT A RETURN. But how much cash are the businesses we own generating, and where is that cash going? Looking at the S&P 500 Index over the past year (excluding financials and real estate), a $100 dollar investment yielded $5.22 of cash flow from operations. Of that cash flow, $1.95 was devoted to capital expenditures, leaving $3.39 of free cash flow. The rewards to shareholders were $1.16 of dividends, $1.34 of share repurchases, and 25 cents allocated to debt reduction. Do those numbers represent a good deal?

Investing is all about choices, so let's compare the S&P 500 with Miller/Howard's Income-Equity (No MLPs) Strategy. (As with the S&P 500, we have left financials and real estate out of the analysis because cash flow is less meaningful for these sectors.) For Income-Equity (No MLPs) over the past year, $100 yielded $9.51 of cash flow from operations. Of that, $2.23 went to capital expenditures and $1.04 to share repurchases—both close to the S&P 500 numbers. The real difference is that investors saw $3.05 paid out in dividends and another $2.57 used to pay down debt. Income-Equity (No MLPs) investors got more cash flow overall, resulting in higher dividends and more cash devoted to strengthening balance sheets.

While we continue to focus on finding companies with good free cash flow, strong balance sheets, and high dividend yields, performance in the short term is largely driven by changes in earnings and fluctuating price-to-earnings (P/E) multiples. Fortunately for investors, earnings were up substantially for the broad market and value stocks, both for the year and the fourth quarter. P/E multiples dropped by only a small amount (see chart on page 3), allowing the higher earnings to generate good total returns.

For the fourth quarter, the results for the Income-Equity Strategies were total returns marginally ahead of the Russell 1000 Value Index, while the broad market (as defined by the Russell 1000 Index and the S&P 500) rallied ahead of the Income-Equity Strategies. For the full calendar year, the Income-Equity Strategies both posted strong, double-digit returns, outperforming the Russell 1000 Value. The Income-Equity Strategies also beat the Russell 1000 for the year and were modestly ahead of the S&P 500.

Continued on page 9

Portfolio Highlights

- **Dividend Increases.** Income-Equity (No MLPs) had seven dividend increases in the fourth quarter, including double-digit percentage increases at **MDC Holdings (MDC), Broadcom (AVGO),** and **Eastman Chemical (EMN). AbbVie (ABBV), Merck (MRK), KeyCorp (KEY),** and **Amcor (AMCR)** also increased their dividends. The with-MLPs version had an eighth increaser, **MPLX LP (MPLX)**, which hiked its dividend and paid a special dividend. In both portfolios, as announced in the third quarter, **Old Republic (ORI)** paid a special dividend this quarter, contributing to the material increase in the income generated by our portfolios relative to 4Q 2020.

- **Sales.** We sold **Allstate (ALL)** following a spike in "severity", which is industry jargon for the cost of repairing or replacing vehicles damaged in accidents. Higher severity was driven by higher auto parts and used vehicle prices. We believe that a combination of higher insurance rates and a normalization of the used vehicle market will ultimately return auto insurers to previous profitability levels, but that this process could be prolonged and messy. We sold **Amcor (AMCR)** as the synergy benefits from the Bemis acquisition are coming to an end. We sold **Sabra (SBRA)** because the extension of the pandemic is putting stress on Sabra's tenants.

- **Buys.** We bought **Johnson & Johnson (JNJ)**, a quality company selling at a reasonable valuation. JNJ plans to split off its consumer division, a move that should create value for shareholders. We bought **Snap-On (SNA)** which should benefit from higher used car prices. In addition, we feel the growth in electric vehicles should cause mechanics to require additional tools.

Looking Ahead

The year 2020 generated much handwringing regarding our Income-Equity holdings, including fears that credit losses would halt bank dividends, and a swooning economy would punish cyclical companies. In 2021, our optimism largely proved to be correct. Most banks and other cyclicals prospered despite the challenges of the pandemic. Overall, our holdings have continued to grind out higher earnings, leading to higher dividends for the vast majority of our stocks.

Even in 2020, fully 71% of holdings raised their regular dividends. In 2021, the percentage of holdings raising their dividends was 92% and 86%, respectively, for Income-Equity and Income-Equity (No-MLP) Strategies. Dividend yield is currently 3.3% for Income-Equity and 3.2% for the no-MLP version. Our dividend yield is well above the 1.4% yield of the S&P 500 and the 1.5% yield paid on US 10-year Treasuries.

We continue to favor companies with high free cash flow and strong balance sheets for our Income-Equity portfolios. While we do have some defensive holdings, such as healthcare and consumer staples, our portfolios retain a cyclical tilt that we believe should do well in a recovery.

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 4Q 2021

OIL PRICES GYRATED OVER THE COURSE OF THE fourth quarter, buffeted by fears that the new COVID variant would reduce oil demand, combined with announcements of increased supply coming from both OPEC+, and a release from the US Strategic Petroleum Reserve. US natural gas prices were soft early in the quarter due to warm weather, but they ultimately rebounded with colder temperatures and the potential for higher liquefied natural gas (LNG) exports to Europe.

While this type of volatility is never welcomed, long-term midstream energy industry fundamentals remain strong. The US Energy Information Administration (EIA) stated that its December 2021 Permian oil production forecast is now above pre-COVID levels and at an all-time high of 5 million barrels per day. (March 2020 was the previous high.) The EIA also expects production to increase by another 71 thousand barrels per day in January 2022. In addition, the EIA forecasts that global consumption of petroleum and liquid fuels will increase by 4% in 2022 to an average of 100.5 million barrels per day.

By and large, the midstream companies we invest in are more sensitive to volumes than prices, and, therefore, we believe it is more important to focus on the long-term industry outlook rather than short-term commodity price movements. The volatile commodity price environment resulted in a weak quarterly performance for midstream, but it did not overshadow a very strong year, with the sector handily outpacing the overall market.

Portfolio Highlights

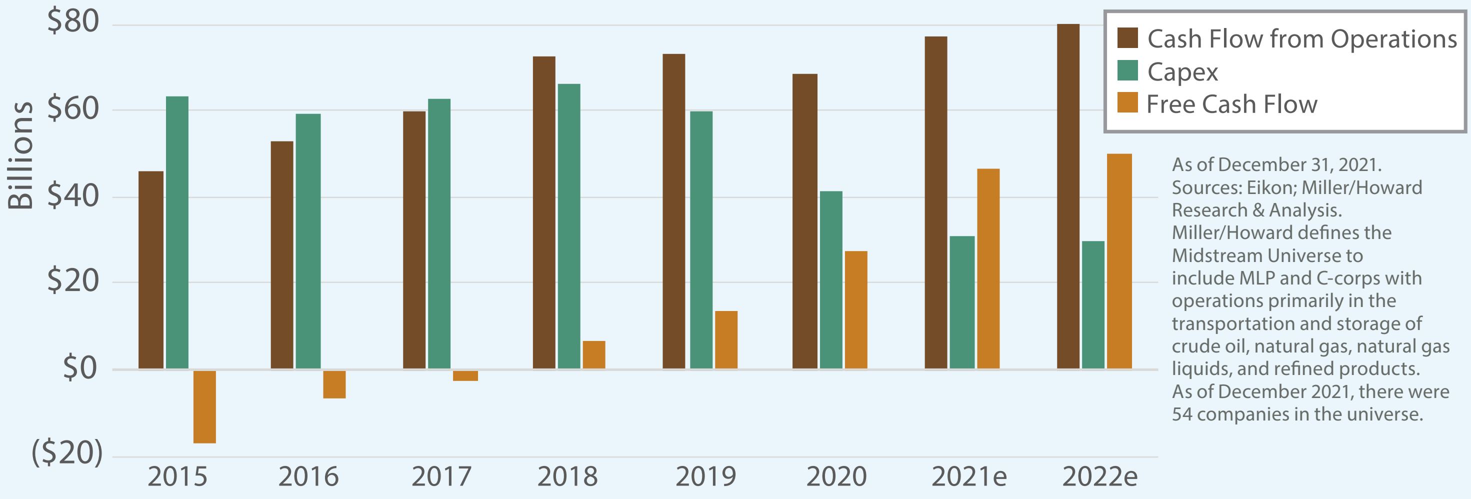
- **Distributions increases.** This quarter, 5 of our 16 holdings announced dividend increases. The average increase was 6.4% year-over-year.
- **Portfolio holdings:** We did not make changes to the portfolio during the quarter.

Looking Ahead

Despite the commodity price roller coaster ride during the quarter, we remain focused on long-term fundamentals. We believe that midstream companies are much better positioned to withstand uncertain industry conditions due to growing free cash flow (FCF). As can be seen on the chart below, the industry's shift to prioritize FCF is what separates the higher-quality sector of today from the past. Cash flow from operations has been steadily increasing (except in COVID-impacted 2020), while capex has been steadily declining. As a result, free cash flow has crossed over from being negative for the sector to positive and growing over the last several years. FCF can be used in a variety of positive ways: distribution increases, debt reduction, share repurchases, or, as in the case of portfolio holding **MPLX LP (MPLX)**, an announcement of a special distribution.

While periodic commodity price volatility is likely never going away (as is the case with most commodities), the sector's improved financial position, including stronger balance sheets, less reliance on debt and equity markets to finance growth projects, and most importantly, vastly improved free-cash-flow yields, point to a better investment outlook.

Midstream Universe: Improved Financial Position



As of December 31, 2021. Sources: Eikon; Miller/Howard Research & Analysis. Miller/Howard defines the Midstream Universe to include MLP and C-corps with operations primarily in the transportation and storage of crude oil, natural gas, natural gas liquids, and refined products. As of December 2021, there were 54 companies in the universe.

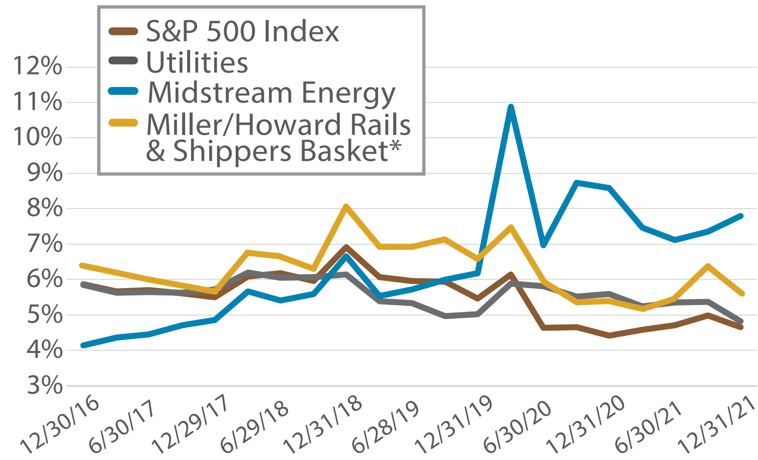
Infrastructure

Quarterly Report 4Q 2021

IN SOME WAYS, THE FOURTH QUARTER FELT like déjà vu all over again. Last quarter, we detailed a shift from cyclical to defensive and longer duration assets as the Delta variant spread. This same dynamic repeated itself as the Omicron variant emerged in late November, driving relative strength in utilities and cell towers, and a pullback in energy. Further evidence of risk-off positioning could be observed in the outperformance of lower-yielding positions in the portfolio.

A notable difference from the third quarter was a bounce back in performance. The Infrastructure portfolio exhibited broad-based strength with industrials leading performance as transportation & logistics exposure benefited from strong demand and pricing power amid a tight shipping market. Overall, the portfolio finished the year on a high note, posting strong absolute and relative performance in the quarter. For the year, the portfolio largely kept pace with the broader market, and outperformed its most commonly-cited infrastructure indices.

Forward Earnings Yield



As of December 31, 2021. Source: Bloomberg.
*An equal weighted bucket of UNP, CSX, NSC, CNI, CP, FDX, and UPS.
Note: Utilities is the S&P 500 Utilities Sector Index; Midstream energy is the Alerian Midstream Energy Select Index (AMEI).

Looking Ahead

Our infrastructure thesis has long focused on the belief that essential service providers with high entry barriers generate stable cash flows that provide investors with a growing income stream. While this tenet remains unchanged, we believe the investment case is becoming more compelling in the current market environment.

Over the last 18 months, the three largest sectors in our infrastructure universe—utilities, midstream, and transportation & logistics—have found themselves trading at a discount (i.e., higher earnings yield) to the broader equity market. Over this time period, we have leaned into these opportunities, increasing exposure to midstream and transportation & logistics.

Strong macro tailwinds from the ongoing energy transition, rising exports of hydrocarbons, and accelerating e-commerce combined with discounted valuations provide an attractive backdrop for investors and reinforces our conviction that our Infrastructure portfolio is well positioned heading into 2022.

Portfolio Highlights

- **Dividend increases:** 10 of the 39 holdings in the Infrastructure Strategy announced dividend increases during the quarter. The average increase was 9.1% year-over-year.
- **Kansas City Southern acquired: Canadian Pacific Railway (CP)** completed its acquisition of **Kansas City Southern (KSU)**. **KSU** shareholders received a combination of **CP** shares and cash. **KSU** shares were placed into a trust until the US Surface Transportation Board issues a final approval. Following approval, **CP** will be the only single-line railroad linking the US, Mexico, and Canada.
- **Tactical allocations:** We increased our position in **Dominion Energy (D)** after a period of relative weakness. We trimmed the position earlier in the year following a strong move in utilities.
- **Sales:** We exited our position in **PPL Corp. (PPL)** based on an elevated risk profile and potential dividend cut stemming from its business transition.

Utilities Plus

Quarterly Report 4Q 2021

UTILITIES HAD A STRONG FINISH TO THE YEAR, recording their best quarter of 2021. Utilities benefited as investors took a more defensive stance when the World Health Organization classified a new variant, Omicron, at the end of November. The group outperformed the broader market for the next three weeks, as investors grappled with Omicron's severity and potential implications. The market reaction echoed the risk-off environment during the third quarter, when case counts surged as a result of the Delta variant.

Utilities also caught a tailwind from a flattening yield curve which has historically been positive for the sector. The yield on 10-year Treasuries came off October highs to end the quarter roughly flat at 1.5%. Meanwhile, the spread between the 10- and 2-year narrowed by ~50 basis points.

Among utilities, names providing renewable exposure, those exiting non-utility businesses, or laggards through the third quarter outperformed during the fourth quarter.

Looking Ahead

Over the last few years, utilities have found themselves left out, as they have failed to neatly fit into a number of investment theses. Thematically, utilities haven't been considered growth, value, or reopening plays. The resulting indifference among investors has caused utilities to decline to a paltry 2.5% of the S&P 500 Index, its lowest level in over 20 years. However, this apathy has created an increasingly favorable backdrop for income-focused investors. In late 2019, utilities traded at one of its tightest dividend spreads versus the S&P 500 in the last 15 years, but utilities' spread has expanded back above the 15-year median. A similar dynamic can be seen in utilities' yield spread versus the 10-year, which has widened by over 100 basis points since late 2018, and currently sits comfortably above its long-term median.

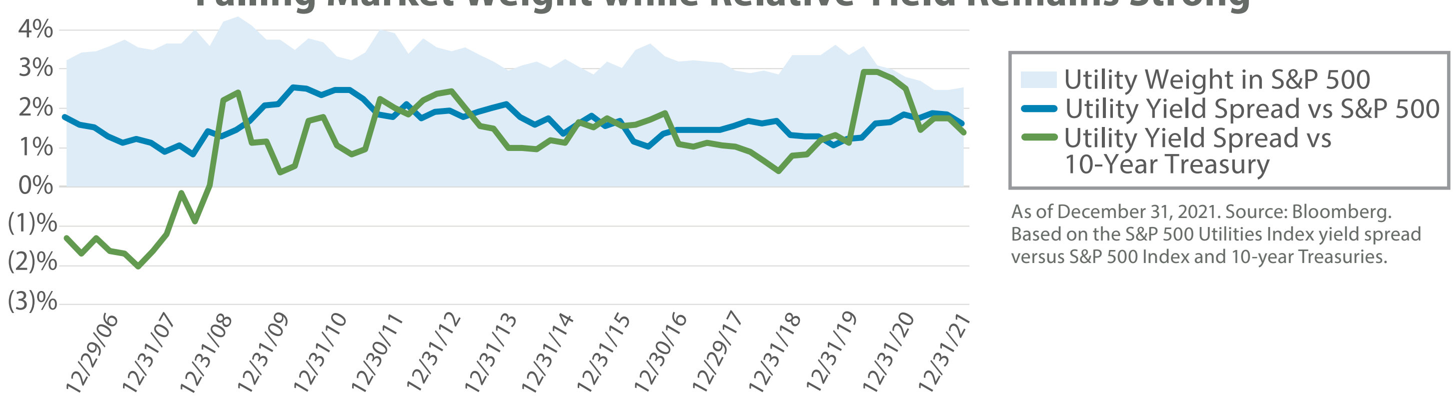
This re-rating is at odds with improving fundamentals, as growth opportunities have arguably never been higher due to the transition to renewable generation and electrification. While interest rates could potentially provide a headwind, valuation appears to reflect some degree of a move higher. Above all, we remain confident that utilities' defensive business model will continue to provide an attractive income stream to investors.

Portfolio Highlights

- **Asset sales:** A number of utilities monetized assets to unlock value, fund growth opportunities, and improve balance sheets. **Dominion Energy (D)** announced an agreement to sell gas transportation and storage assets. **Sempra Energy (SRE)** announced an agreement to sell a 10% interest in Sempra Infrastructure Partners, a platform that consists of clean power, energy networks, and liquefied natural gas (LNG) and net-zero solutions. **SRE** also closed on the sale of a 20% interest in the entity announced earlier in the year. **American Electric Power (AEP)** announced an agreement to sell its generation, distribution, and transmission assets in Kentucky.
- **New position:** We initiated a position in **AEP** after the announced sale of its KY assets which eliminated its expected equity needs in 2022.
- **Tactical Allocations:** We trimmed our positions in **CenterPoint Energy (CNP)** and **NextEra Energy Partners (NEP)** after periods of relative outperformance. We had increased both positions earlier in the year. We also trimmed **Duke Energy (DUK).** We exited **Portland General Electric (POR)** after it recovered from last year's trading losses.

Utilities Sector Has Been Under Appreciated

Falling Market Weight while Relative Yield Remains Strong



As of December 31, 2021. Source: Bloomberg. Based on the S&P 500 Utilities Index yield spread versus S&P 500 Index and 10-year Treasuries.

Miller/Howard INVESTMENTS

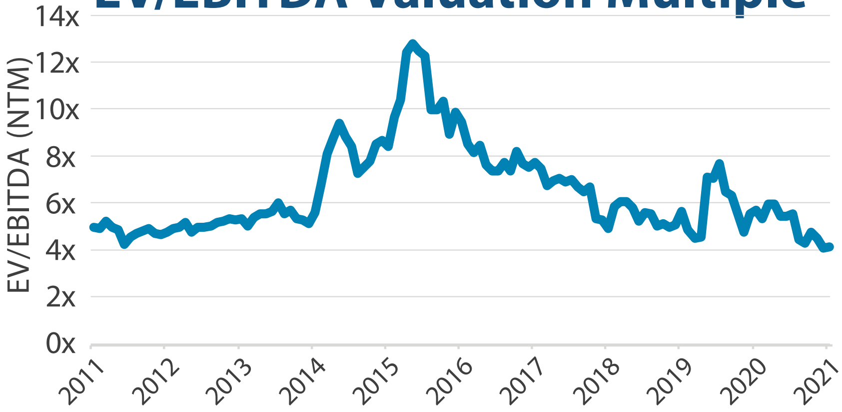
Drill Bit to Burner Tip®

Quarterly Report 4Q 2021

THE 4TH QUARTER WAS REMARKABLY similar to the third. Following a sharp rally, energy drifted lower on the emergence of a new coronavirus variant—this time Omicron, last time Delta—before investors ultimately concluded that "this too shall pass," igniting a furious quarter-end rally that restored earlier gains.

This quarter, the market received another reminder that the energy transition will take time, and that profit opportunities for traditional American energy companies remain robust. As an unusually cold winter descended upon Europe, Russia curtailed critical energy supplies, exacerbating untimely nuclear power plant outages. This, in turn, sent European gas and power prices skyrocketing and introduced the possibility of emergency warming shelters. In late December, however, an armada of 30 US liquefied natural gas (LNG) tankers—carrying highly-profitable, American-sourced natural gas—embarked for Europe, helping remedy the situation for now.

Energy Exploration & Production EV/EBITDA Valuation Multiple



As of December 31, 2021. Source: Bloomberg.
Data reflects the S&P 1500 Oil & Gas E&P Index.

Looking Ahead

In 2021, we made few changes to this portfolio relative to prior years. In contrast to most of the past decade, known for energy market volatility, 2021 wavered little from our initially envisioned course of post-lockdown-driven market healing. Rebounding global demand met steadfast supply discipline among major OPEC, Russian, and US producers, helping prices.

For American energy companies—our focus in this portfolio—2021 was a year to repair balance sheets and to begin returning cash to investors. As we look to 2022, we anticipate a continuation of supportive macro trends, and an acceleration of these shareholder-friendly policies. For investors, it may be difficult to believe there is much fruit left on the vine following the best energy sector performance in at least 30 years, but we believe this view is mistaken. As shown in the chart, 2021's stock rally has not nearly kept pace with improving earnings, and energy producers now sit at their most attractive valuations in a decade. 2021's rally has been fueled not by optimism, but came in spite of pessimism. We find it hard to believe this ends with chunky free-cash-flow yields still in double digit territory.

Portfolio Highlights

- **Energy and income.** With exploration and production (E&P) balance sheet deleveraging largely complete, returns to shareholders are accelerating. This quarter, nearly one in five portfolio holdings declared a dividend increase, boosting payouts over 50% vs. last year, on average. E&Ps are rapidly joining refiners and pipelines as among the highest dividend payers in the market. This portfolio currently offers a 3.9% yield and 3.7% for our No-K1 version (over 4% including variable dividends from E&Ps) that we estimate is supported at $40 oil, and that carries projected 12-month growth of 10%.

- **Along the energy value chain.** Our energy subsector weightings remained relatively unchanged. We added **Coterra Energy (CTRA)**, an oil & gas producer formed via the merger of Cabot Oil & Gas and Cimarex Energy. At strip pricing, we estimate cash flow generation in excess of 20% of market cap. As **CTRA** is largely debt free, we expect most of this will be distributed via dividends and buybacks. We also bought **Equitrans Midstream (ETRN)** and exited our positions in **PDC Energy (PDCE)** and **Pembina Pipeline Corp (PBA)**.

Small Cap Dividends

Quarterly Report 4Q 2021

CONSISTENT WITH THE LONG-TERM PATTERN, stocks of profitable and dividend-paying small-cap companies outperformed both in the fourth quarter and for the year. This represented a reversal from the second half of 2020, when investors piled into unprofitable and non-dividend-paying small cap stocks.

The market's swing back to its traditional preference provided a strong tailwind for our portfolio—and the Small Cap Dividend Strategy significantly outperformed the Russell 2000 Index in the fourth quarter and for the full year.

Like their large-cap peers, our small-cap holdings faced a challenging environment as inflation surged. Many of our companies reported that they were aggressively raising prices to stay ahead of inflation. Examples include transportation companies **ArcBest (ARCB)** and **Matson (MATX)**, jewelry and watch companies **Signet Jewelers (SIG)** and **Movado (MOV)**, industrial distributor **Applied Industrial Tech (AIT),** and technology company **Avnet (AVT)**. Although fewer in number, some holdings did report difficulties or delays in raising prices. We sold **Wolverine World Wide (WWW)** after finding out that they would wait until Spring 2022 to hike prices. Some companies expect price increases as soon as contracts will allow; examples include **Medifast (MED), LeMaitre Vascular (LMAT)**, and **Methode Electronics (MEI).**

Looking Ahead

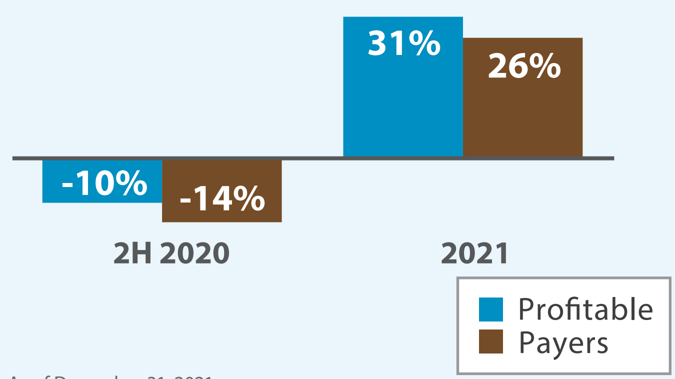
As the economy recovers from the pandemic, we expect the cyclically-tilted small-cap universe to do well. Risks in this universe abound, with almost one third of the Russell 2000 currently unprofitable and over a half not paying dividends. Miller/Howard's Small Cap Dividend Strategy continues to focus on companies with positive earnings or free cash flow, strong balance sheets, and reasonable valuations. Our dividend yield is significantly above that of the Russell 2000. Our approach allows investors to participate in the exciting opportunities available in the small-cap universe without exposing their savings to unprofitable ventures.

Portfolio Highlights

- **Dividend increases:** Thirteen of our holdings announced dividend increases, including **Bank OZK (OZK), Kulicke & Soffa Industries (KLIC), Heartland Financial (HTLF), MDC Holdings (MDC), Boise Cascade (BCC), National Healthcare (NHC), Spire (SR), Vishay International (VSH), Amkor (AMKR), Movado (MOV), Ethan Allen Interiors (ETD), Ensign Group (ENSG)**, and **Enlink Midstream (ENLC).**
- **Sales:** We exited **PDC Energy (PDCE), Dana (DAN), Benchmark Electronics (BHE), Heartland Financial (HTLF), Wolverine World Wide (WWW), National Healthcare (NHC),** and **Worthington Industries (WOR).**
- **Buys:** We initiated positions in **Enlink Midstream (ENLC), Heidrick & Struggles (HSII), Standard Motor Products (SMP), Fulton Financial (FULT), Shutterstock (SSTK), A10 Networks (ATEN)**, and **AdvenSix (ASIX).**

Relative Returns within the Russell 2000 Index*

Profitable vs Unprofitable Companies
Dividend-Paying Stocks vs Non-Payers



As of December 31, 2021.
Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis.
* The IWM ETF is used as a proxy for the Russell 2000.
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 the compounded simple averages of trailing performance of index members at each respective quarter end.

Miller/Howard INVESTMENTS

Yield, Growth, Strength, Stability

- Our Income-Equity Strategies each offer a high dividend yield that is over 2x 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	2021
Income-Equity Yield	5.1	4.8	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3
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	2.3x
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	6.0
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	5.9
Ratio	1.1x	1.5x	1.3x	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x
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	2.0x
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	1.2x
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	14.0
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	26.2
Premium/Discount	-1%	-2%	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-47%

Income-Equity Strategy (No MLPs)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	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	3.2
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	2.3x
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	6.0
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	5.9
Ratio	1.2x	1.5x	1.4x	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x
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	2.0x
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	14.0
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	26.2
Premium/Discount	0%	1%	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-47%

Sources: 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.

At Miller/Howard,
our ESG and Portfolio Management Teams work together
to evaluate companies with a goal of providing
Sustainable Income Opportunities®

STOCK SELECTION & ESG INTEGRATION

PRIMARY PURPOSE

- Risk Identification & Assessment

PROCESS

PM & ESG Teams analyze performance on ESG factors such as:

- **Environmental management**
- **Human rights policies**
- **Corporate governance structures**

SHAREHOLDER ADVOCACY & ACTIVE OWNERSHIP

PRIMARY PURPOSE

- Risk Mitigation
- Identification of Opportunities

PROCESS

- **Engagement** with company management
- **Filing shareholder proposals** on annual general meetings' voting ballots
- **Partnerships:** Ceres, Interfaith Center on Corporate Responsibility, UNPRI, and others.

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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.

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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.

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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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