QUARTERLY REPORT 2Q 2022

Drop in Free Cash Flow Raises Concerns

JUNE 30, 2022

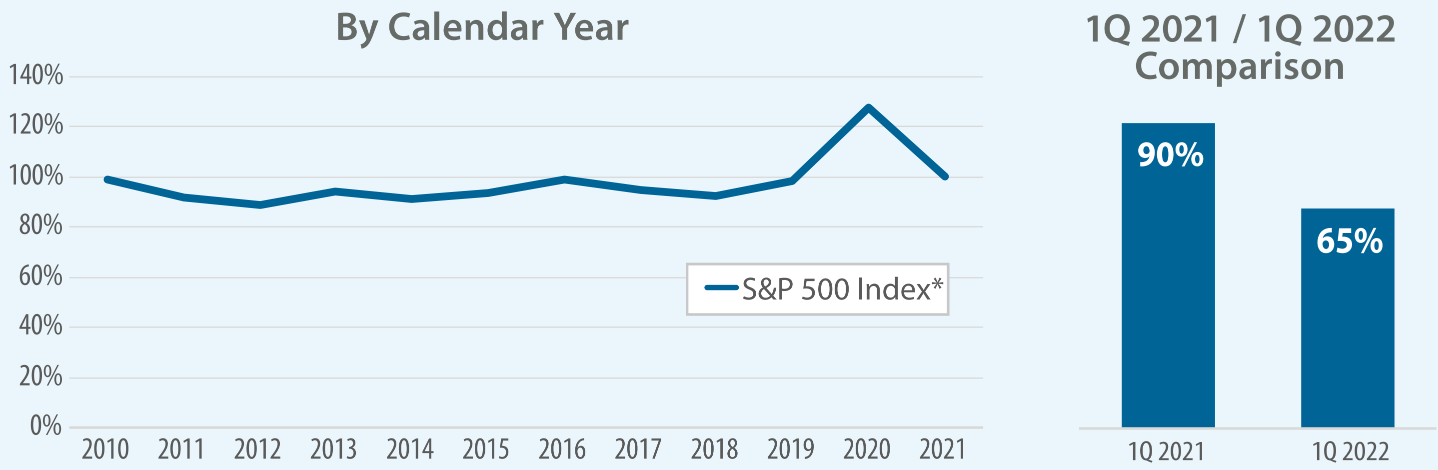
EVERYBODY LOVES A GOOD STORY. The stock market is filled with stories of strong earnings, future growth, and a better tomorrow just around the corner. Some of it will actually come true. Income investors tend to view these opportunities with skepticism—growth forever sounds great, but we have more confidence in the companies that back up their stories with dividends that grow over time.

While not agreeing on the importance of dividends, investors of all stripes have adopted an appreciation for free cash flow (FCF) in recent years. Focusing on cash flow after capital expenditures appeals to income investors as free cash flow represents the cash available to pay dividends, reduce leverage, or buy back shares. This new focus also represents distrust of stock market stories that are based on earnings as defined by accrual accounting.

Looking at the core of the S&P 500 Index, where free cash flow is a useful metric (i.e., leaving out financials, real estate and utilities where free cash flow does not apply), free cash has generally ranged from 90-100% of net income. The first year of pandemic, 2020, was an outlier as profits swooned with the economy, but many companies cut capital spending and made sales out of inventories. The relationship between net income and free cash flow normalized in 2021.

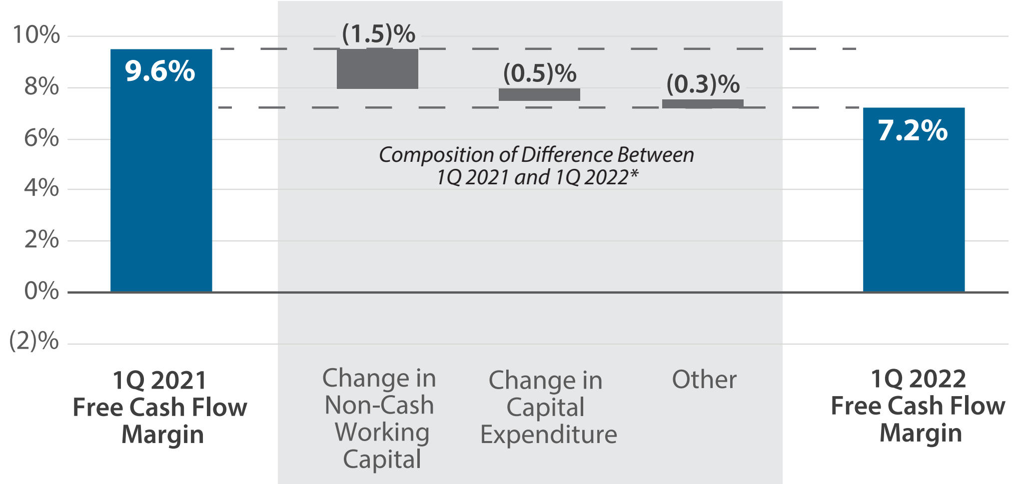
In the first quarter of 2022, the market witnessed a crack in the link between free cash flow and net income—free cash flow was only 65% of net income in 1Q 2022 compared to 90% in 1Q 2021. There is some seasonality to free cash flow, but the drop versus 1Q 2021 is concerning.

Free Cash Flow/Net Income Ratio Declined in 1Q 2022



As of March 31, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis.
*Created by screening all members of the S&P 500 Index as of calendar year end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. Free cash flow and adjusted net income are 12-month trailing. Values are aggregate.

Drivers of the Free Cash Flow Margin



As of March 31, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. *Change in non-cash working capital, change in capital expenditure, and other are measured as a percentage of revenue. Created by screening all members of the S&P 500 Index as of calendar year end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. Aggregate values for free cash flow, capital expenditures (capex), non-cash working capital and revenue are as of the reported quarters based on calendar year date. Free cash flow margin is free cash flow divided by revenue.

Investors who focus solely on earnings were enthused to see net income for the core S&P 500 (adjusted for unusual charges) rise 18% year-over-year in 1Q 2022. But in contrast, free cash flow fell by 15% year-over-year in 1Q 2022. According to accrual accounting, 1Q 2022 was a great quarter, while through the free-cash-flow lens, we see signs of a potential recession.

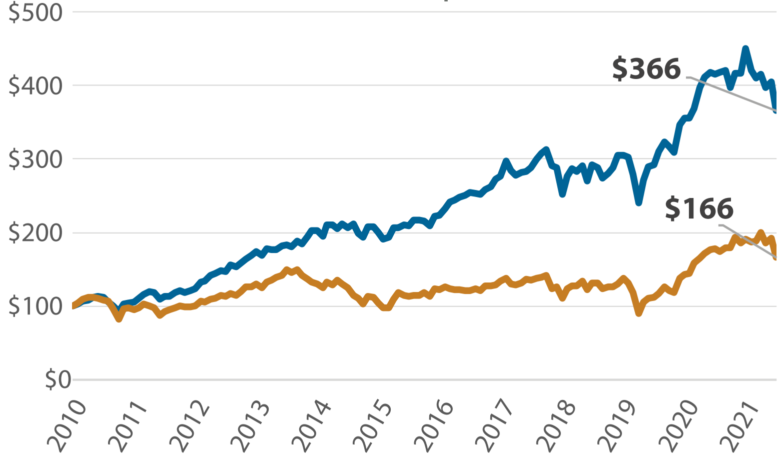
The earnings that Wall Street tracks are based on accrual accounting. Much of accrual accounting makes sense, but investor skepticism mounts when normally stable financial line items begin to bulge, reducing free cash flow. A spike in non-cash working capital can signal a breakdown in the conversion of revenue into free cash flow. Higher receivables may indicate that collections are becoming difficult. Higher inventories frequently result in price discounts to “blow out” inventories in future periods. In some industries, such as apparel or technology, inventories can diminish in value over time. A barrel of oil will still be worth the going price for oil a year later, but last year’s clothes or mobile phones will need to be discounted to compete with new goods.

Increases in capital spending can also be a warning sign for investors. Accrual accounting spreads capital spending over time, reducing the impact on earnings. In contrast, the free cash flow approach recognizes that an increase in capital spending immediately reduces a firm’s ability to pay dividends or any other positive use of cash.

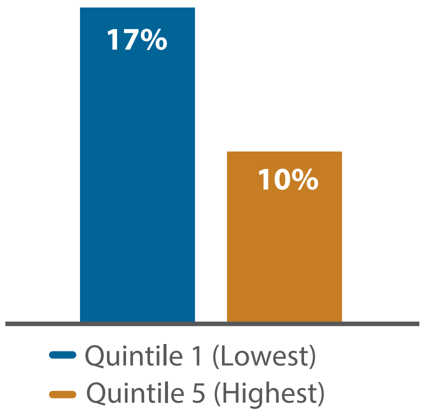
Last year, in 1Q 2021, revenue was converted into free cash flow at a rate of 9.6% for the core of the S&P 500. In 1Q 2022, this conversion rate dropped to 7.2%, roughly 25% lower. Delving into the causes for this remarkable drop, we see that two-thirds of the issue came from an increase in non-cash working capital, primarily from higher in-ventories. As companies were reporting their 1Q 2022 earnings, we noted bulging inventories at a number of companies—it even drove some of the portfolio sell decisions in our Income-Equity Strategies. An optimistic explanation for the increase would be that supply chain difficulties are causing managers to build inventories to reduce the chance of stock-outs, either of inputs or finished goods. It is possible, however, that aggregate demand is slowing down, clogging the system with inventories that may be hard to sell in the future. No one knows exactly how this will play out, but we believe higher inventories represents a red flag for investors, causing us to redouble our focus on companies with good free cash flow.

Companies with Lower Capex to Revenue Ratios Outperform

Growth of $100



Annualized Returns



As of June 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Portfolios for growth of $100 were created by screening all members of the S&P 500 Index as of calendar year end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. The resulting universe of stocks was then quintiled by trailing capex/revenue where quintile 1 had the lowest capex/revenue and quintile 5 the highest. All quintiles are equal-weighted. Growth of $100 is through 6/30/2022 where annualized is for the period 2011 – 2021.

While a secondary cause of the recent drop in revenue-to-free cash flow conversion, we are watching trends in capital spending with a wary eye. Since the Global Financial Crisis, companies in the S&P 500 that spend a higher percentage of revenue on capital expenditures have underperformed those spending less. The quintile with the lowest ratio of capital spending-to-revenue had almost double the annual returns as the quintile with the highest ratio. This is an astounding result given that it does not involve the type of variable that either growth or value investors focus on, such as sales growth, price momentum, or valuation.

We'd note that this analysis does not include regulated utilities for a reason—the regulatory construct limits competition and allows utilities to raise rates to generate a reasonable return on capital. For utilities, a higher fraction of revenue going to capital expenditure has led to higher total shareholder returns over the same period.

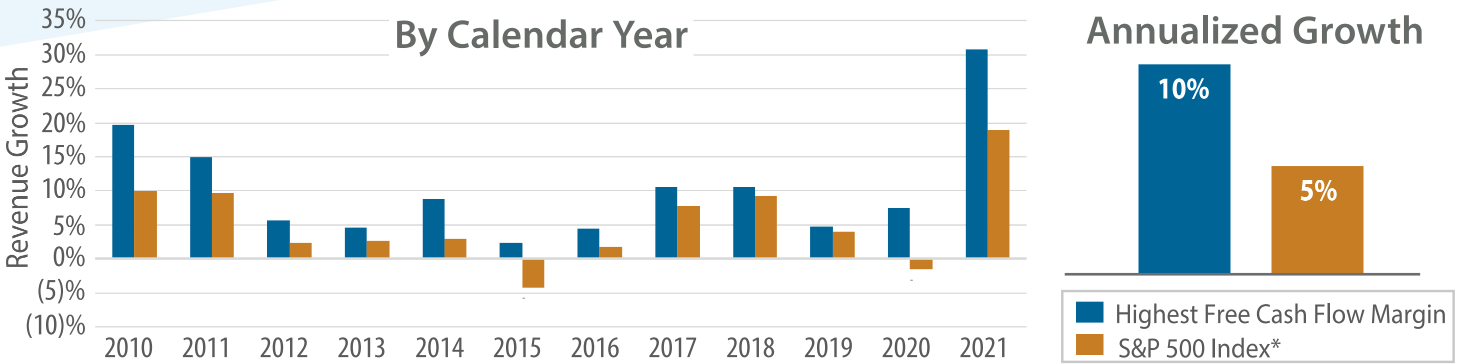
Setting regulated utilities aside, why would higher capital spending be bad for equity returns? After all, society needs companies to build factories and office buildings and the like. Part of the answer lies at the heart of how capitalism works—a large number of companies see an opportunity and many make the investment required. If we had only one auto company or one airline, no doubt prices would be sky high. Multiple companies chasing the same opportunity drive down prices, reducing the return on capital investment. Sometimes the result is a reasonable return, but competition can also be so fierce that the return on investment is subpar. Examples include decades of losses in the US airline industry, and, more recently, the price wars that have dampened profits in the wireless phone industry.

Competition isn't the only cause of poor investment returns for capital expenditure. Frequently, business cases are built on forecasts that turn out to be wildly wrong. The best-known examples tend to be acquisitions rather than capital expenditures, but the principle is the same. Consider Time Warner's purchase of AOL, or, more recently, AT&T's acquisition of Time Warner. Writing big checks based on long-term forecasts can be a risky enterprise. New technology, or new competition, is hard to foresee.

What of the notion that, "You have to spend money to make money"? The rise of capital-light business models shows that this just isn't so. The best examples of capital-light business models come from the software industry. Once written, a software program can be replicated with a finger click on a keyboard. Clearly, this is a better business model than one that requires high and ongoing capital spending, with one important caveat—there needs to be barriers to entry, otherwise the bountiful cash flows can be competed away.

Note: AT&T was not held in any Miller/Howard portfolios as of June 30, 2022.

Companies with Strong Free Cash Flow Margins Have Seen Faster Revenue Growth



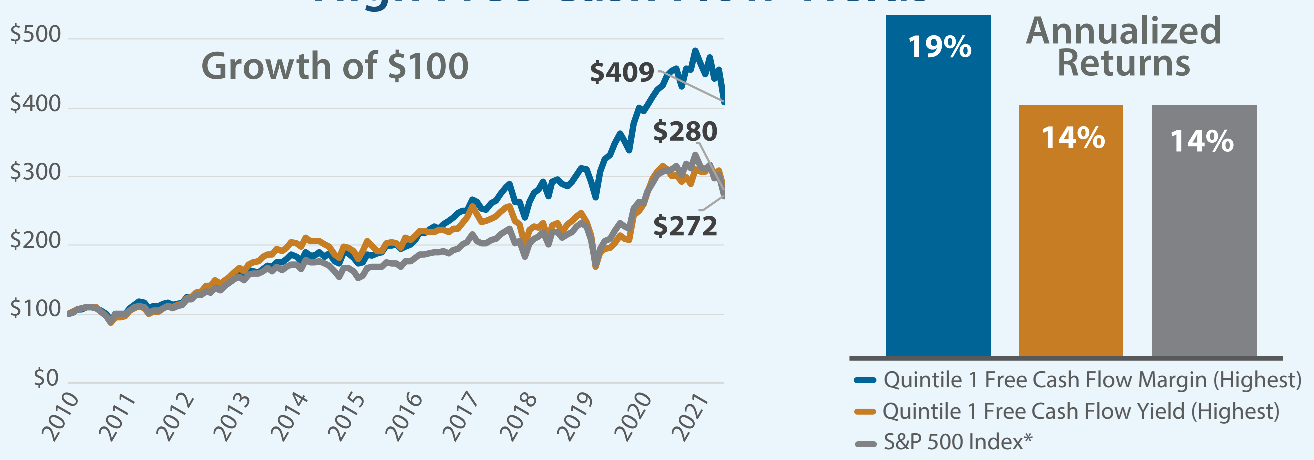
As of June 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Year-over-year revenue growth. *Created by screening all members of the S&P 500 Index as of calendar year end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. Aggregate revenue is trailing 12-Month. Calculated growth is year-over-year revenue growth. The resulting universe of stocks was then quintiled by free cash flow margin (free cash flow margin is free cash flow divided by revenue) where quintile 1 had the highest free cash flow margin and quintile 5 the lowest. Revenue growth for quintile 01 is aggregate.

In the period following the Global Financial Crisis, there was a confluence of factors that gave growth investors a tailwind. It turns out that the companies with the higher conversion rate of revenue-to-free cash flow also had higher-than-average revenue growth. Google and Facebook† are examples. Combined with low interest rates, growth investors were able to enjoy ever increasing revenues being converted into free cash flow at a high rate without paying heed to valuations.

Illustrating the point, the top quintile of free cash flow-to-revenue handily outperformed the market averages, while the top quintile of the value-based metric free cash flow yield (i.e., free cash flow to market capitalization) only performed in line with the market average.

Our view at Miller/Howard is that the market's focus on free cash flow has been correct, but over the longer term, the analysis of free cash flow must be combined with a sensitivity to valuation. Our mission is to build portfolios that produce high and rising income, so we have to start out with investments that have a high current dividend yield. Like growth investors, we appreciate business models with higher conversion rates of revenue into free cash flow because it allows for healthy production of free cash flow, the essential ingredient for paying dividends. Some may think that only "growthy" stocks have this characteristic, but pharmaceuticals and mature technology companies are two categories that tend to convert revenue to free cash flow at high rates.

High Free Cash Flow Margins Have Outperformed High Free Cash Flow Yields



As of June 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Free cash flow margin is free cash flow divided by revenue. Free cash flow yield is free cash flow divided by market capitalization Portfolios for growth of $100 were created by screening all members of the S&P 500 Index as of calendar year end dates. *Members of GICS sectors financial, real estate, and utilities have been excluded. The resulting universe of stocks was then quintiled by free cash flow/revenue as well as by trailing free cash flow yield where quintile 01 had the highest value and quintile 05 the lowest. All quintiles are equal-weighted. Growth of $100 is through 6/30/2022 where annualized is for the period 2011 – 2021.

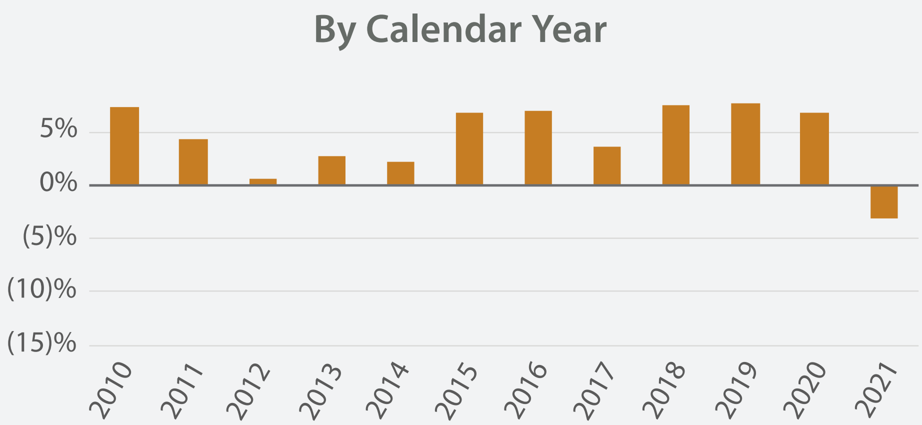
†Google and Facebook were not held in any Miller/Howard portfolios as of June 30, 2022.
Note: On previous versions of this piece, we incorrectly listed Amazon as an example of a company with high free cash flow margins.

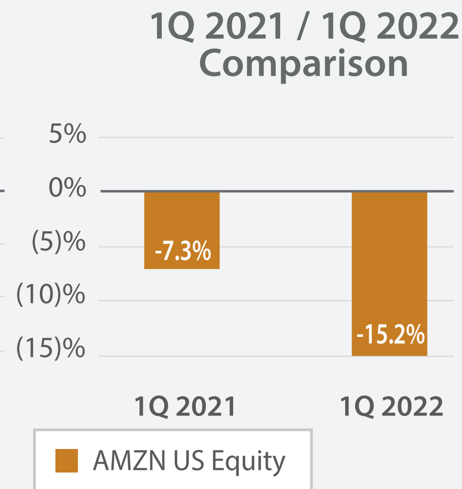
The Danger of Extrapolation: Amazon

As we watch some companies face free cash flow challenges in the current market, it's worth pointing out that for Amazon, one of only three companies with over a $1 trillion market capitalization, the evaporation of free cash flow has been mind-boggling. Many know Amazon as the poster child for the "valuation doesn't matter" mentality that gripped the investment world over the last decade. What is less well known is that Amazon†† has been losing control of its free cash flow.

The story is simple—Amazon extrapolated the business trends experienced during the pandemic, assuming that massive increases in capital spending and working capital would be rewarded. Free cash flow went negative beginning in 2021, forcing Amazon to borrow in order to fund its operations. Our view is that the discipline of paying a dividend (which Amazon does not) forces management to set priorities and be prudent with shareholder capital.

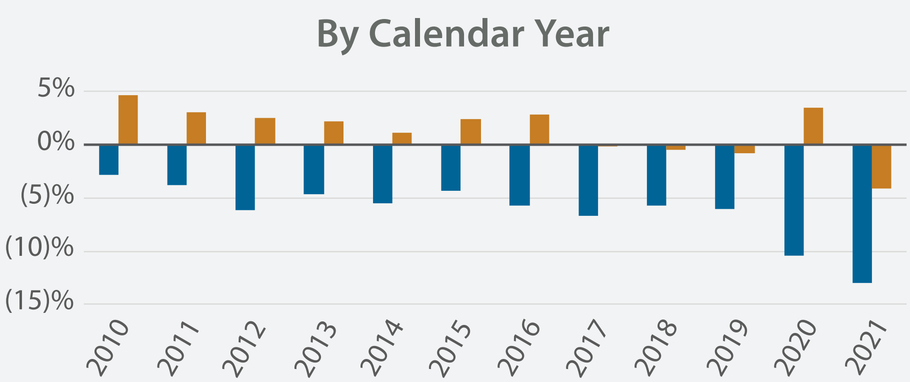
Amazon's Free Cash Flow Margin Has Gone Negative

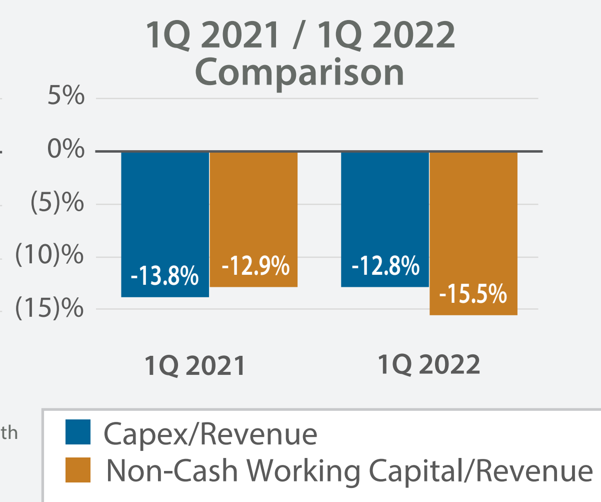




As of March 31, 2021. Sources: Bloomberg; Miller/Howard Research & Analysis. Free cash flow margin is free cash flow divided by revenue. Amazon trailing 12-month free cash flow/revenue by calendar year and by reported Q1 for 2021 and 2022.

Amazon's Non-Cash Working Capital and Capital Spending Are Growing Faster than Revenue

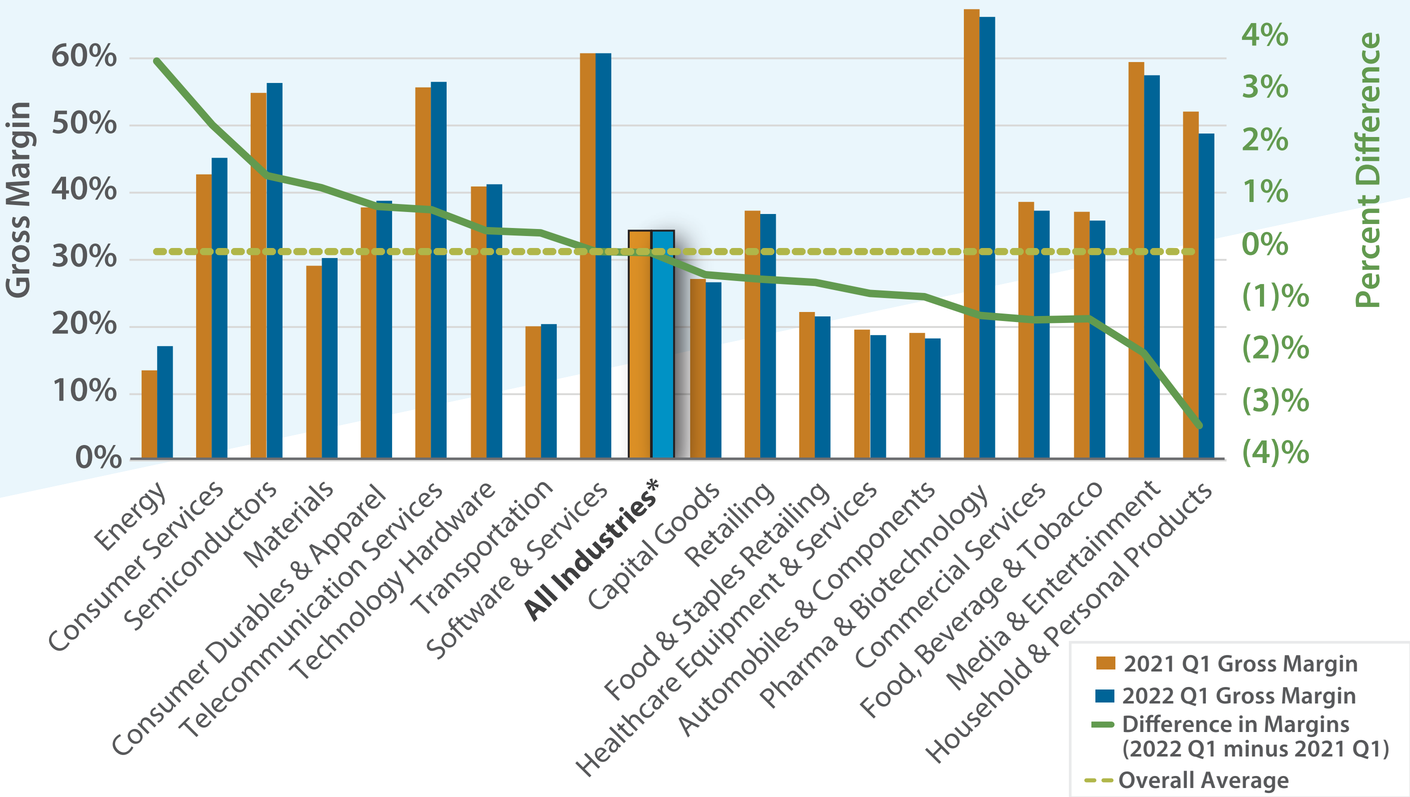




As of March 31, 2021. Sources: Bloomberg; Miller/Howard Research & Analysis. Amazon trailing 12-month capex/revenue and trailing 12-month non-cash working capital/revenue by calendar year and by reported Q1 for 2021 and 2022.

††Amazon is an online retailer that offers a wide range of products. The company products include books, music, computers, electronics and numerous other products. Amazon offers personalized shopping services, web-based credit card payment, and direct shipping to customers. Amazon also operates a cloud platform offering services globally. Amazon was not held in any Miller/Howard portfolios as of June 30, 2022.

Change in Gross Margin by Industry



As of June 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. *Created by screening all members of the S&P 500 Index as of 1Q end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. Industry members are based on members of the S&P 500 as of the comparison dates. Industry classification is based on GICS. Gross margin is based on aggregate revenue and aggregate gross profit per industry.

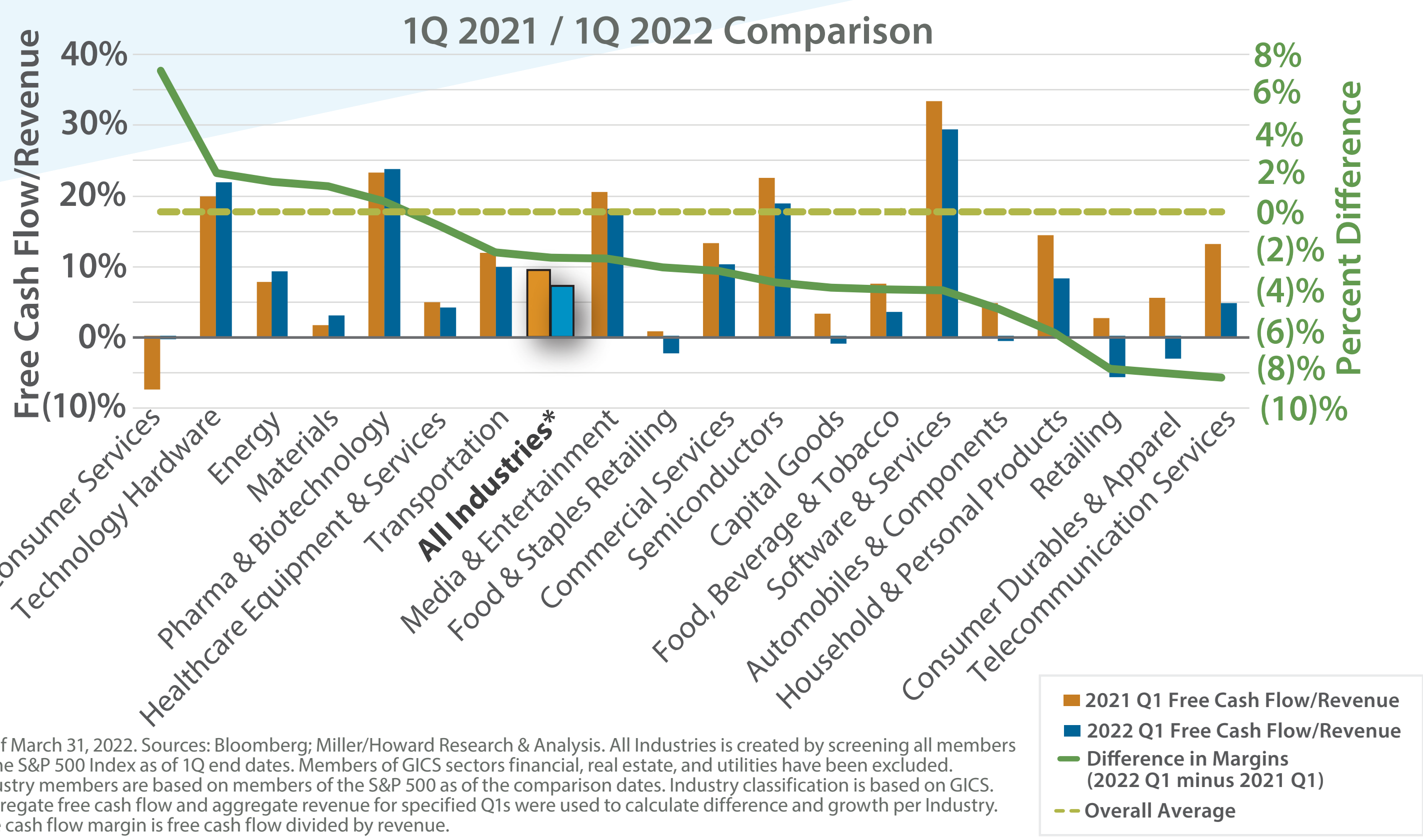
Since inflation began to spike in 4Q 2021, we have been charting the year-over-year comparison of gross margins. The chart above assesses how well companies in each industry have been able to adjust pricing and take other actions so that rising costs do not squeeze gross margins.

In the past two quarters, the average company in the S&P 500 successfully raised gross margins. In the most recent quarter, gross margins were unchanged, on average. In all cases, some industries struggled more than others with household and personal products showing the largest gross margin deterioration in each of the last three quarters.

Looking at the average of gross margins across industries, it's fair to conclude that prices for goods actually sold have kept up with costs. The problem is that gross profit is based on accrual accounting which tends to view rising inventories as innocuous, at least early in a downturn. Given our concerns over faltering free cash flow, we also reproduced the industry chart using free cash flow-to-revenue rather than gross margins (see chart on next page).

As previously discussed, aggregate free cash flow margins are down substantially, but the results differ greatly by industry. A number of industries actually saw the free cash flow margin go up. The largest expansion was in the consumer service industry. The consumer service industry is dominated by restaurants and other types of food service businesses. These firms have prospered as the pandemic has faded, and the risk of food spoilage keeps inventories low. The second highest free cash flow margin expansion was for the technology hardware industry. This industry uses a great deal of contract manufacturing, allowing companies to maintain both low inventories and low capital spending budgets. The third best was for the energy industry, which is benefitting from higher oil prices while, at the same, time exhibiting tremendous capital discipline.

Free Cash Flow Margin by Industry



As of March 31, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. All Industries is created by screening all members of the S&P 500 Index as of 1Q end dates. Members of GICS sectors financial, real estate, and utilities have been excluded. Industry members are based on members of the S&P 500 as of the comparison dates. Industry classification is based on GICS. Aggregate free cash flow and aggregate revenue for specified Q1s were used to calculate difference and growth per Industry. Free cash flow margin is free cash flow divided by revenue.

Even though some industries experienced expanding free cash flow margins in 1Q 2022, in aggregate we saw deterioration. The three industries with the largest deterioration in free cash flow margins were telecom services, consumer durables and apparel, and retailing. For all three industries, the growth in non-cash working capital was responsible for the largest drop in free cash flow.

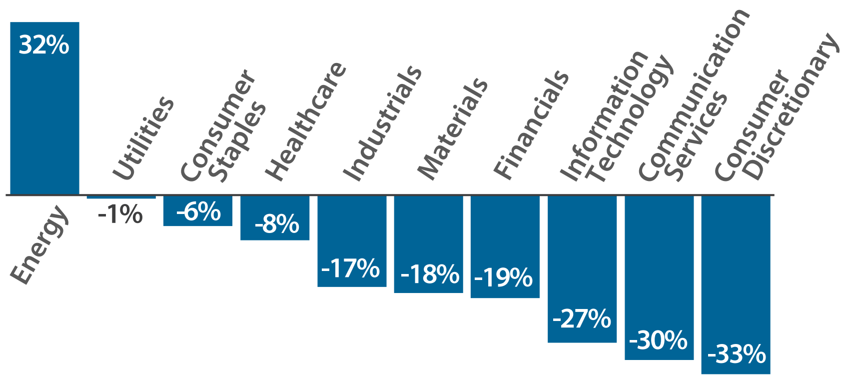
At Miller/Howard we believe bottom-up fundamental research is the best way to build strong portfolios. Sometimes it is useful, however, to take in the wider perspective. In the current environment, it might be easy to accept an explanation for high inventories from a single management team. You've read about supply-chain constraints, right? We're just building inventories to control risk. This might be a reasonable explanation for a single company, but when the trend exists in aggregate and across many different industries, we are forced to consider the possibility that we may be entering a downturn.

The current situation is very uncertain. Our view is that the best approach is to stick with companies that are maintaining high levels of free cash flow while others are faltering. These companies should be able to continue to pay high and rising dividends, in our opinion. It may turn out that the recent drop in aggregate free cash flow is just a momentary phenomenon, but either way, we expect our portfolios to continue to generate good income for our clients.

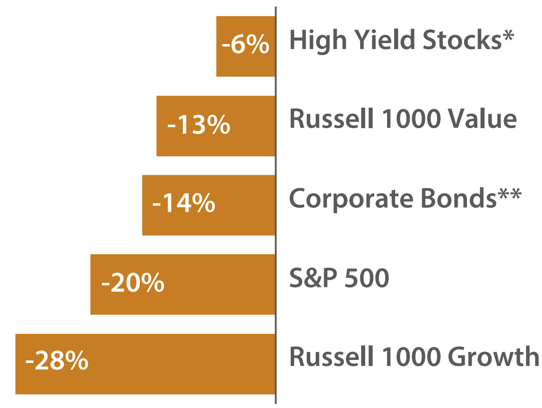
Some investors may wonder whether it is wise to hold equities in the face of a risky environment. Our view is that we expect our portfolios, as a whole, to produce earnings, cash flow and dividends in all periods, including during economic downturns. Stock prices may fluctuate as investors worry about economic cycles, but recoveries have always come. Recoveries tend to be unpredictable yet vigorous, making sitting on the sidelines very risky for investors with long time horizons.

Markets Turned in 2022

S&P 500 Index by Sector



Index and Style Returns



As of June 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis.
* High Yield Stocks (deciles 7-9) is a basket of dividend paying stocks. Decile 10 of dividend payers is excluded, as these companies may be at risk for dividend cuts. The basket was created by deciling all active dividend stocks as of 12/31/2021 where decile 10 was the highest yielding members and decile 1 the lowest. Returns for High Yield Stocks (deciles 7-9) are value weighted.
**The Bloomberg US Corporate Bond Index (LUACTRUU Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

BEGINNING IN MARCH, THE FED RAISED short-term rates three times in response to stubbornly high inflation: First by 25 basis points (0.25%), then by 50 basis points, and most recently by 75 basis points. Oil prices remained well over $100 per barrel. Year-to-date, the market has responded to the deteriorating environment in textbook fashion—with the defensive utility and consumer staples sectors outperforming cyclical sectors. The bond market is also flashing a warning sign, with the interest rate spread between 10-year BBB-rated corporate bonds and 10-year US government bonds continuing to widen.

One major indicator does not match the recession scenario. Wall Street analysts are still estimating that S&P 500 Index earnings per share will be up by 14% in 2022, hardly consistent with an economic downturn. We do not find this particularly reassuring given how free cash flow is deteriorating.

No one has a crystal ball when it comes to forecasting whether the stresses in the economy will lead to a recession. Both fiscal and monetary policy were used aggressively during the pandemic to address the unprecedented challenges. Now the Fed is tasked with taming inflation without sending the economy into a tailspin.

The economic uncertainty combined with higher interest rates has been a wake-up call for growth investors. In recent years, the high valuation of growth stocks has been based on forecasts of earnings growth far into the future. Now, forecasting does not seem so easy, and the cost of not getting paid in the short term has gone up. Today, value stocks offer more earnings per dollar invested. High dividend yield stocks make an even better offer, with good cash returns to investors coming out of current earnings. Both categories of stocks—value and high-dividend yield—have outperformed growth stocks and the broad market.

Absolute returns have been negative year-to-date, even for value and high-dividend-yield stocks. We continue to believe that the long-term payoff to owning equities will come primarily from earnings growth and dividends, not fluctuations in price/earnings (P/E) multiples. P/E multiples are fickle, and that is true both up and down. When uncertainty abates, P/E multiples can shift quickly, frequently undermining attempts to time

Continued on page 9

the market. We continue to advise investors to buy and hold stocks, allowing them to benefit from the dividends paid in challenging times, and positioning them to earn superior returns in a recovery.

Looking Ahead

Despite the economic concerns, our income stocks have continued to pay and even increase dividends. Miller/Howard's Income-Equity Strategies are currently yielding 3.8% (with MLPs) and 3.6% (No MLPs). Some investors might fret that these yields are not much above the 3.0% paid on 10-Year Treasuries. The key point to remember is that the bond interest rate of today will not change over the life of the bond. In contrast, we must believe that a stock has a good likelihood of dividend increases to be selected for our Income-Equity Strategies.

For the quarter, our Income-Equity Strategies were ahead of both the broad market Russell 1000 Index and the Russell 1000 Value Index. We view our portfolios as well-diversified, with a healthy mix of defensive and cyclical stocks. The key point is that all of our holdings pay high-dividend yields, have good prospects for dividend growth, and have strong enough balance sheets, in our view, to weather an economic slowdown.

See more about ***Income-Equity*** *on page 15.*

Portfolio Highlights

- **Dividend Increases.** Our Income-Equity Strategies had five dividend increases during the quarter, giving us 15 increases for the year-to-date. **Johnson & Johnson (JNJ), Portland General Electric (POR), Cardinal Health (CAH), Everest Re (RE),** and **LyondellBasell (LYB)** increased their regular dividends in the second quarter. In addition, **EOG Resources (EOG)** and **LyondellBasell** both declared special dividends.
- **Sales.** In response to the deteriorating economic environment, we sold five stocks with material cyclical risks: **Best Buy (BBY), Carter's (CRI), Whirlpool (WHR), Omnicom (OMC),** and **Citizens Financial Group (CFG)**. Inventories were disappointingly high at **Best Buy, Carter's,** and **Whirlpool,** reducing cash flow and creating challenges for future quarters. **Citizen's** is in the process of consolidating three recent acquisitions, raising risk over and above the economic headwinds. **Omnicom** would be vulnerable to a reduction in advertising spending if the economy does slip into a recession.
- **Buys.** We initiated positions in **Advance Auto Parts (AAP), Exelon (EXC),** and **United Parcel Service (UPS)**, all of which have defensive characteristics combined with growth potential. **Advance Auto Parts** has been aggressively raising its dividend as it benefits from consumers continuing to spend on maintaining their used vehicles. With the **Exelon** purchase, our Income-Equity Strategies are now overweight utilities. In our view, **Exelon** has significant opportunities to add to their regulated rate base, driven by the need to modernize the grid. **UPS** has significantly reduced capital spending in recent years, driving up free cash flow that, in turn, allowed for a large dividend increase.

MLP Strategy

Quarterly Report 2Q 2022

THE MIDSTREAM SECTOR'S PERFORMANCE during the quarter likely reflected investors' concerns around energy demand and the potential impact from a slowing global economy. While a potential recession could negatively impact crude and natural gas demand, we would point to several factors, including industry fundamentals and company valuations, that have the industry better positioned than in previous years.

Per barrel, crude prices averaged $93 in 2014, but were down to $49 in 2015, and $44 in 2016, before rebounding to $51 in 2017. Natural gas prices also largely followed this trend. But the pullback in prices was largely driven by increased supply, as the shale boom brought on significantly higher volumes. Beginning in 2011 and continuing through 2014, US crude production grew nearly one million barrels per day in each of those years.

It is different this time around. According to the US Energy Information Administration, US crude production is still roughly 10% below its all-time highs, while inventories are expected to end the year at the lowest level since January 2015. Natural gas production is expected to continue to move higher, driven by demand from the electric power sector and exports. However, inventories currently remain below the five-year average.

We believe the energy industry is healthy, and the supply/demand picture bodes well for the midstream sector, as does the continuing focus on free cash flow. In addition, valuations remain compelling. Looking at the chart below, EV/EBITDA multiples have declined significantly since 2015, with the exception of a slight bounce in 2021, when stock prices rebounded off of pandemic lows in anticipation of an economic recovery. In addition, free cash flow has continued to increase since 2015. We believe current valuations do not reflect the improvement in industry fundamentals.

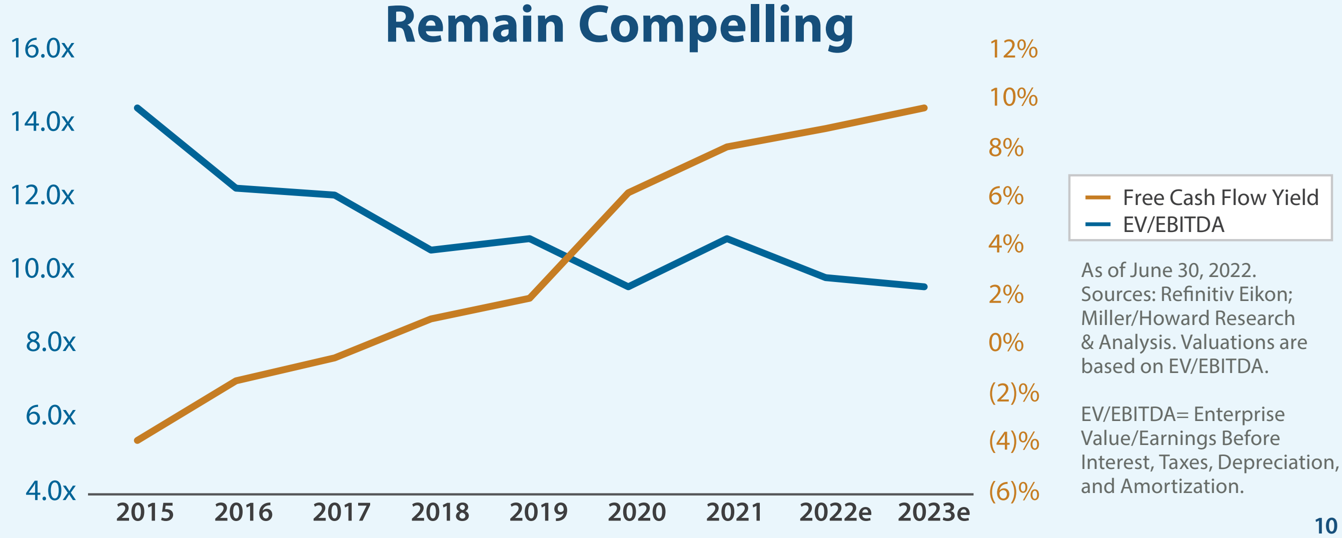
Portfolio Highlights

- **Distribution increases.** This quarter 6 of our 16 holdings announced dividend increases. The average increase was 26% year-over-year.
- **Sales:** We trimmed **Enterprise Products Partners (EPD)** and **Targa Resources (TRGP)**, while still maintaining a healthy position in each holding, and trimmed **Shell Midstream Partners (SHLX)** to raise cash for two new companies.
- **Buys:** We initiated a position in **Cheniere (LNG)** as the company has an attractive free cash flow yield and dividend coverage, and declining leverage. We also added **Hess Midstream (HESM)**, as the company continues to increase its dividend at solid rate and has a well-positioned balance sheet.

Looking Ahead

A recession would not be good for the health of the overall economy, but we believe the midstream industry is likely better positioned than other sectors. Many midstream contracts have built-in inflation escalators, almost all capital spending is financed with internally-generated cash flow, and industry fundamentals are much stronger than in recent memory. In our opinion, all of these factors—combined with a high relative yield—add up to a compelling opportunity.

Midstream Valuations and Free Cash Flow Yield Remain Compelling



As of June 30, 2022. Sources: Refinitiv Eikon; Miller/Howard Research & Analysis. Valuations are based on EV/EBITDA.

EV/EBITDA= Enterprise Value/Earnings Before Interest, Taxes, Depreciation, and Amortization.

Infrastructure

Quarterly Report 2Q 2022

OUR INFRASTRUCTURE STRATEGY PROVED MORE resilient than the broader market for the second quarter in a row, as fears of a recession built amid rising inflation and more hawkish action by the Federal Reserve.

The broad-based weakness witnessed in the market carried over into the Infrastructure portfolio, with all segments coming under pressure. While value outperformed growth, investors' desire to shed risk dominated portfolio performance during the quarter. More defensive sectors—communication services (telecom and cell towers) and utilities—led and accounted for the top five performers in absolute terms. Energy took a step back after a strong start to the year as crude and natural gas prices came off their highs on demand-destruction fears. Industrials, one of the more cyclical areas of the portfolio, also lagged during the quarter with our holdings in rails being among the hardest hit.

Looking Ahead

In early April, the yield curve inverted for the first time since August 2019. Inversion of the yield curve (typically defined as the yield on the 10-year Treasury minus the 2-year Treasury being negative) is generally considered to be an indicator of a future recession as inversion is common at the end of an economic cycle.

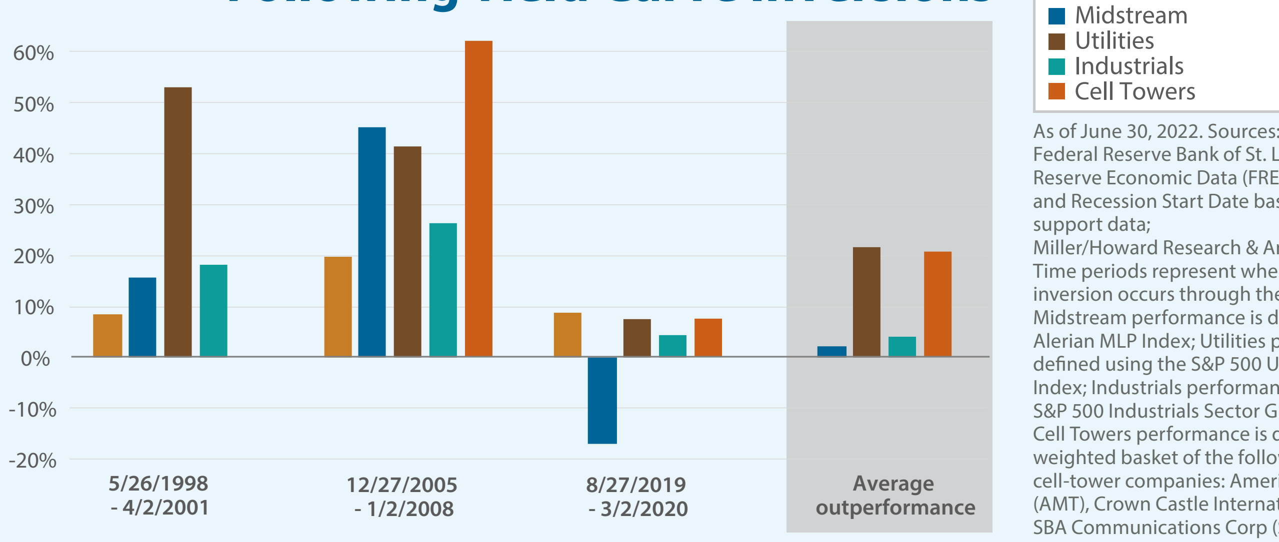
After the last three inversions, recessions followed anywhere between six months to three years later. During these periods, the major infrastructure sectors generally had positive returns and outperformed the S&P 500 Index.

Portfolio Highlights

- **New position:** We initiated a position in **BCE Inc. (BCE)**, Canada's largest communications company. We expect its fiber deployment to drive share gains and margin improvement and believe it is nearing an inflection in free cash flow.
- **Exiting position:** We exited our position in **MDU Resources (MDU)** amid continued efforts to de-risk the portfolio.
- **Goods to services:** The pandemic marked a shift in wallet share from services to goods. With this trend poised to normalize, we reduced our exposure to transportation and logistics names. During the quarter, we sold **Schneider National (SNDR)** and trimmed **United Parcel Service (UPS)** and **FedEx Corp. (FDX)**.
- **Inflation resistant:** We increased our positions in **American Tower (AMT), Entergy (ETR), Exelon (EXC), Waste Management (WM),** and **Williams (WMB)**. These names all have some ability to offset or pass on rising costs through pricing power, revenue escalators, or regulated cost-of-service based business models.

While the lingering possibility of recession is clearly top of mind for investors, Infrastructure appears well-positioned for this uncertain time period, in our view. Most importantly, we believe that Infrastructure's stable cash flows will continue to provide investors with a growing income stream.

Infrastructure Sectors Historically Outperform Following Yield Curve Inversions



As of June 30, 2022. Sources: Bloomberg; Federal Reserve Bank of St. Louis Federal Reserve Economic Data (FRED); Inversion Date and Recession Start Date based on FRED Daily support data;
Miller/Howard Research & Analysis.
Time periods represent when a yield curve inversion occurs through the start of a recession. Midstream performance is defined using the Alerian MLP Index; Utilities performance is defined using the S&P 500 Utilities GICS Level 1 Index; Industrials performance is defined using S&P 500 Industrials Sector GICS Level 1 Index; Cell Towers performance is defined by an equal-weighted basket of the following publicly traded cell-tower companies: American Tower Corp (AMT), Crown Castle International Corp (CCI), and SBA Communications Corp (SBAC).
All performance is total returns.

Utilities Plus

Quarterly Report 2Q 2022

THE UTILITY SECTOR OUTPACED THE BROADER market for the fourth consecutive quarter as rising inflation and more aggressive action by the Federal Reserve increased fears of a recession. Despite the relative outperformance, utilities were not immune to the market pressures that left every sector of the S&P 500 Index in negative territory.

Utilities' outperformance peaked in late May before giving up ground through quarter end. The group faced headwinds in the lead-up to the Fed's meeting in June, as the yield on the 10-Year Treasury spiked to nearly 3.5%, its highest level in over 10 years.

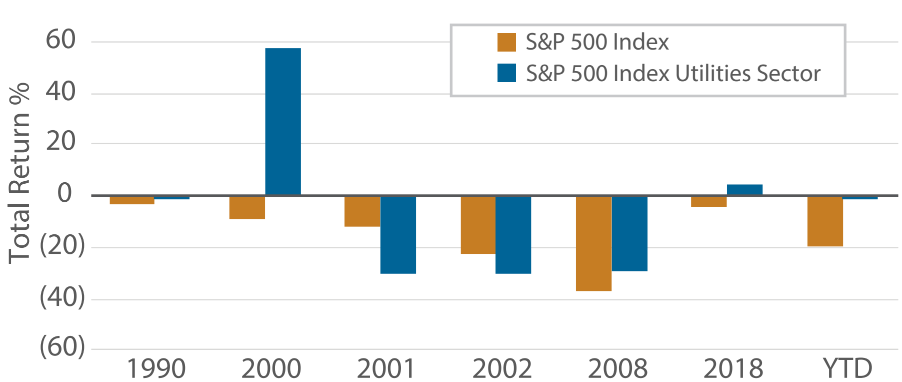
Among utilities, independent power producers and discounted gas local distribution companies (LDCs) outperformed on rising electricity costs and positive M&A valuations, respectively. In a continuation of the trends witnessed in the first quarter, water utilities and renewable energy developers underperformed. While relative performance was generally consistent with the outperformance of value over growth, solar tariffs created additional volatility for renewable energy names. In late March, the Department of Commerce opened an investigation to determine if solar panels from four Asian countries were circumventing tariffs, which essentially halted all shipments. In June, the US Government announced a two-year tariff exemption on solar panels from southeast Asia alleviating supply concerns.

Looking Ahead

The utilities' sector outperformance amid a tough tape is certainly not without precedent. Since 1990, the broad market (as measured by the S&P 500) has declined in six calendar years and during the first half of 2022. In these periods, utilities have outperformed the broad market five times. Notably, the two years of underperformance (2001 and 2002) coincided with the fallout from Enron's collapse. However, taken together, in the full three-year period following the collapse of the dotcom bubble (looking at January 2000 through December 2002), utilities still outperformed the broader market.

While the current rising-rate environment is a departure from the last 40 years, industry fundamentals suggest that utilities will continue to be just as resilient in challenging markets. Growth opportunities among utilities are the highest in recent memory with support tied to state and federal decarbonization targets. Unlike most industries where higher capital outlays are viewed as risky, spending levels at regulated utilities have a formulaic connection to earnings growth. With relatively inelastic demand, ample growth projects, and a regulatory construct designed to provide a reasonable return on investment, we expect utilities to continue to provide investors with a dependable and growing dividend stream.

Utilities Stocks Typically Outperform In Down Years



As of June 30, 2022. Source: Bloomberg.

Portfolio Highlights

- **Reducing risk:** We trimmed **MDU Resources (MDU)**, continuing the efforts made in the first quarter to reduce portfolio risk. **MDU's** construction materials and services segments add an element of cyclicality to its business model.
- **Adding on positive regulatory developments:** During the quarter, we added to **CMS Energy (CMS)** after it reached a positive settlement on its Integrated Resource Plan. Additionally, we added to **NextEra Energy (NEE)** after the announcement of a two-year solar-tariff exemption.

North American Energy

Quarterly Report 2Q 2022

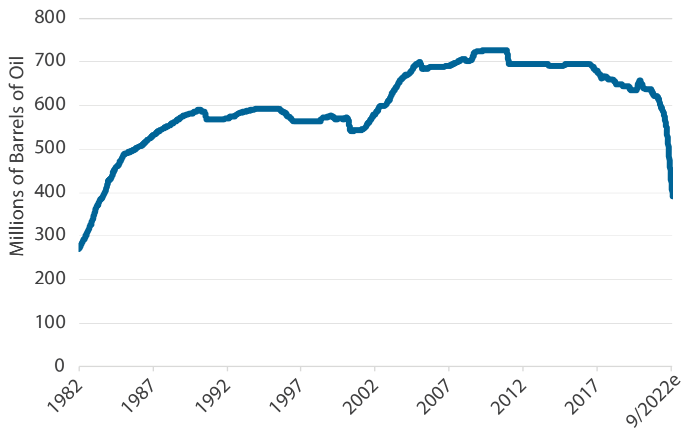
WITH RECESSION HEADLINES MOUNTING, energy finally succumbed to broader market headwinds this quarter. Though the sector's single digit decline once again outpaced the S&P 500 Index, it felt worse, as a sharp June selloff halted nearly uninterrupted strength from January to May.

Energy retreated on a narrative that demand may weaken due to recession, which in turn may result from the Federal Reserve's policy tightening, which in turn is being forced significantly by energy price inflation stemming in part due to robust demand. The uncertainty of this strange circularity and resulting selloff offers long-term investors opportunity, in our view, particularly among those that may have "missed" the energy rally of the past 18 months. While important to note that oil consumption actually grew in two of the last four recessions, the bigger appeal in our view is the downright cheapness of the stocks on earnings and cash flow, the strength of industry balance sheets, and the structural underinvestment in energy supply that got us here in the first place and that may take years to reverse.

Looking Ahead

In May, unprecedented global Strategic Petroleum Reserve (SPR) sales began in earnest, and OECD* governments are currently releasing roughly 1.5Mbpd to offset reduced Russian exports. While emergency supplies have, thus far, helped blunt even greater impacts of the war on consumers, we're watching closely, as current levels of SPR support may become unsustainable if Russian isolation persists into crucial winter months. At the present pace, we expect the United States will deplete nearly half of its strategic stockpiles by October, bringing emergency reserves back to 1984 levels–quite tight for any future national emergency.

Crude Oil in US Strategic Petroleum Reserve



As of June 30, 2022. Sources: Energy Information Administration (EIA); Miller/Howard Research & Analysis. Ending stocks from 12/31/82 through 9/30/22 (3Q22 estimated) based on the US Department of Energy's 3/31/22 announcement.

Portfolio Highlights

- **Energy and income.** With exploration and production (E&P) balance sheet deleveraging largely complete, returns to shareholders are accelerating. E&Ps are rapidly joining refiners and pipelines as among the highest dividend payers in the market. This portfolio currently indicates a 4.4% yield, a level we estimate is well supported at $40 oil. We anticipate that certain names will pay variable dividends in 2022, and we expect regular dividends to continue to grow.
- **Along the energy value chain.** In April and May, we made several portfolio trades that had the effect of reducing portfolio oil-beta following strong price appreciation. After the June pullback in the space, we reversed course and restored a more offensive positioning.
- **New holding.** Towards the end of this quarter, we added producer **Ovintiv** (**OVV**, formerly Encana). Ovintiv operates in multiple North American basins. The company has a robust commitment to buybacks and dividends as well as the ability to execute, indicating a 30%+ free cash flow yield with minimal debt that is well-termed.

* The Organization for Economic Co-operation and Development (OECD) is a forum for collaboration to develop policy standards to promote economic growth.

Small Cap Dividends

Quarterly Report 2Q 2022

INVESTOR CONCERNS OVER THE POTENTIALLY weakening economy led to a sell off of equities, both large and small, with the Russell 2000 Index dropping 17.2% in the quarter, just over a percentage point more than the broad market measured by the S&P 500 Index. As in the large-cap universe, defensive sectors such as consumer staples and utilities dropped by less.

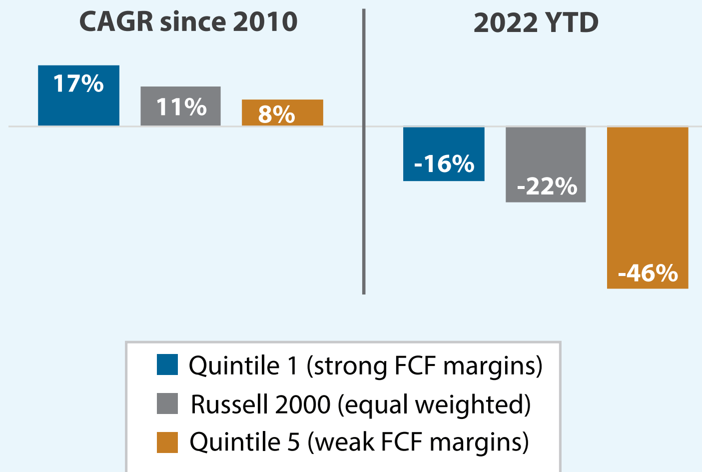
As we have pointed out in the past, the small-cap universe has a large fraction of companies that are unprofitable. The unprofitable companies are once again underperforming the universe this year, further substantiating our view that investors should avoid unprofitable small-caps. Our preference is to choose companies that generate strong free cash flow, defined as operating cash flow less capital expenditures. Consistent with the results for large-cap stocks, small-cap companies with the best revenue-to-free cash flow conversion rates have significantly outperformed since the Global Financial Crisis, and that outperformance has continued this year. Companies in the lowest quintile of free cash flow/revenue have underperformed significantly. Companies in the bottom quintile typically have negative free cash flow, meaning the companies need to draw down cash or raise capital in order to continue operations.

Our Small Cap Dividend Strategy was not immune to the market sell-off, but it did outperform the benchmark for the quarter.

Looking Ahead

Miller/Howard's Small Cap Dividends Strategy emphasizes investments into dividend-paying companies with positive earnings and healthy free cash flow. Looking at the sectors in which free cash flow is a useful metric (i.e., leaving out financials, utilities, and real estate), roughly half the Russell 2000 Index currently has negative free cash flow, making passive investing in small-caps treacherous, in our view. Despite the economic headwinds, our holdings continue to generate positive earnings and cash flow, meaning that the dividends paid have been earned. We believe our focus on dividends, profitability, and positive free cash flow allows investors to participate in the growth opportunities associated with small-caps while avoiding the unprofitable, negative free cash flow companies that historically have proven to be poor investments.

Total Returns among Small Cap Stocks



Total return data from 12/31/2009 - 6/30/2022. Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. CAGR = Compound annual growth rate. Quintiles are equal weighted and rebalanced yearly. Performance reflects the total returns of quintile 1 and quintile 5 for the free cash flow margins of the underlying holdings within the Russell 2000 Index. FCF margin is defined as free cash flow as a percent of revenue. Free cash flow is defined as cash from operations less capital expenditures. Financials, real estate, and utilities are excluded.

Portfolio Highlights

- **Dividend increases:** We saw dividend increases from five of our holdings, including **Bank OZK (OZK), Portland General Electric (POR), Ethan Allen (ETD), Newmark (NMRK),** and **Matson (MATX).**
- **Special dividends:** We received three special dividends during the quarter, including one by **Boise Cascade (BCC)** and two intra-quarter specials paid by **Oasis Petroleum (OAS).**
- **Sales:** We exited **ArcBest (ARCB), Hilltop Holdings (HTH), PS Business Parks (PSB), Vanda Pharmaceuticals (VNDA), Terex (TEX), Edgewell Personal Care (EPC), Hibbett (HIBB), Advanced Energy (AEIS),** and **TTEC Holdings (TTEC)**. In addition, the cash acquisition of **Tivity (TVTY)** closed.
- **Buys:** We initiated positions in **Sanderson Farms (SAFM), Universal Health (UHT), FNB Corporation (FNB), LXP Industrial (LXP), Unitil (UTL), Insperity (NSP), Adecoagro (AGRO), Allison Transmission (ALSN)** and **The Hackett Group (HCKT).**

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.
- We believe the portfolios are well-positioned for dividend growth throughout the full market cycle.

Income-Equity Strategy (with MLPs)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2Q 2022
Income-Equity Yield	4.8	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3	3.8
S&P 500 Yield	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.7
Ratio	2.1x	2.3x	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.2x
Income-Equity Projected Dividend Growth*	7.5	7.5	7.5	5.8	5.0	6.3	7.8	7.3	5.1	6.0	8.2
S&P 500 Projected Dividend Growth**	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	5.2
Ratio	1.5x	1.3x	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x	1.6x
Income-Equity Dividend Coverage Ratio	1.5x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.5x
Income-Equity Net Debt/EBITDA***	2.5x	2.6x	4.2x	2.8x	2.0x	1.9x	1.4x	1.9x	1.9x	1.2x	1.8x
Income-Equity P/E Ratio Trailing	14.1	13.4	16.4	14.2	17.2	17.7	12.6	12.8	16.7	14.0	10.5
S&P 500 P/E Trailing	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	19.0
Premium/Discount	-2%	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-42%	-44%

Income-Equity Strategy (No MLPs)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2Q 2022
Income-Equity (No MLPs) Yield	4.7	4.1	4.0	4.6	3.9	3.7	4.2	3.6	3.5	3.2	3.6
S&P 500 Yield	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.7
Ratio	2.1x	2.2x	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.1x
Income-Equity (No MLPs) Projected Dividend Growth*	7.6	8.2	7.7	5.9	5.0	6.4	7.9	7.5	5.2	6.0	8.7
S&P 500 Projected Dividend Growth**	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	5.2
Ratio	1.5x	1.4x	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x	1.7x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.4x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.6x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.5x	2.7x	2.6x	2.6x	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x	1.7x
Income-Equity (No MLPs) P/E Ratio Trailing	14.5	14.6	17.2	16.5	18.2	18.0	12.9	13.5	16.8	14.0	10.9
S&P 500 P/E Trailing	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	19.0
Premium/Discount	1%	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-43%

As of June 30, 2022. 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.

How ESG Data Informed Our Investment Decisions over the Last 12 Months:

Opportunities Identified:

We strive to invest in companies that are demonstrating strong management of ESG risks and industry-leading practices.

- We added a **Utility** holding, in large part, because we believe its decarbonization goals provide growth opportunities and potential upside to growth expectations through acceleration.
- We reaffirmed our investment in a large **Information Technology** company that has a strong Diversity & Inclusion program coupled with public disclosure of diversity metrics to illustrate the success of its implementation, including a refreshed and diverse board of directors.
- A **Midstream** company jumped ahead of several of its peers when it released a strong sustainability report, providing investors with insight into its ESG risk management strategy and practices.

Risks Avoided/Considered:

We avoided or reduced weight in companies with significant governance concerns in order to pursue better opportunities and allocate time to companies that don't present such ESG risks.

- The quality of management at a **Consumer Staples** company, we believe, was one of the reasons the company has suffered from several unforced errors over recent years, including lawsuits alleging unfair labor practices.
- Concerns about governance structures and oversight led us to pass on a **Media** company and a **Communication Services** company, each of which are controlled by a single family under a dual-class stock structure which disadvantages our clients, as minority holders of common stock. We also passed on a **Pharmaceuticals** company that had engaged in numerous related-party transactions with insiders (which may be tied to potential mismanagement of company resources and/or self-dealing).
- We chose to limit our exposure to a major **Energy** company, noting that fixing poor ESG is like fixing a bad balance sheet. It will definitely be a costly process that may leave the company well positioned one day, but between now and then it will detract from return on invested capital and be dilutive.

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.

Google, Facebook, and Amazon were not held in any Miller/Howard portfolios as of June 30, 2022.

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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Email compliance@mhinvest.com / Call (845) 679-9166

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