Miller/Howard INVESTMENTS

Hunting for Large Dividend Increases

SEPTEMBER 30, 2022

"HOW AM I DOING?"

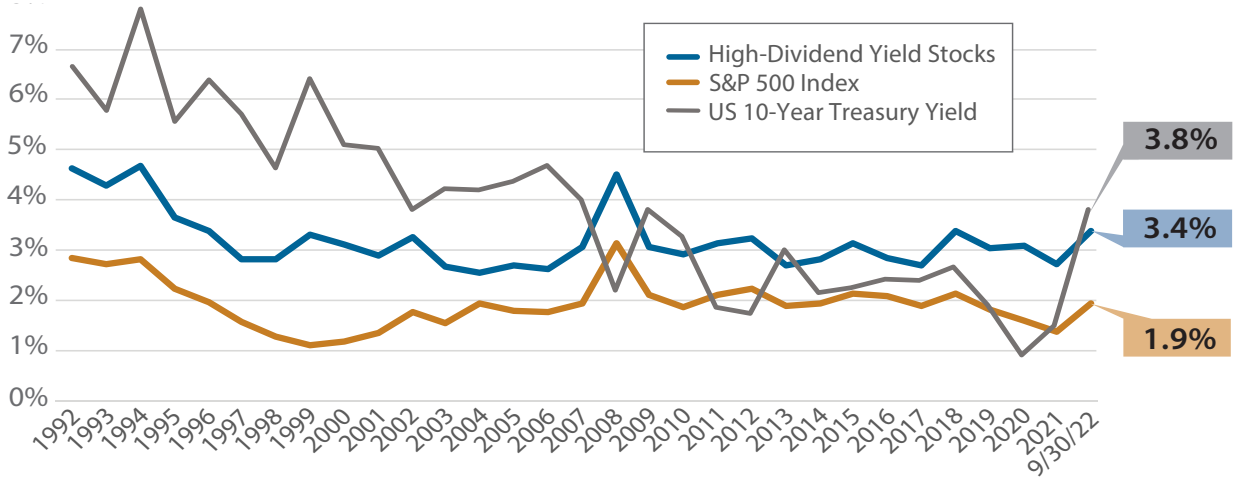
IT'S A NATURAL QUESTION FOR ANY investor to ask. We would all like assurances that we are on the path to achieving our long-term financial goals, but sometimes it can be difficult to have confidence given the day-to-day swings in the markets. We have written extensively about the performance of high-yield dividend stocks over long holding periods:

- ***High-yield stocks, held for rolling 10-year holding periods, have averaged 12.1% compound annual returns versus the S&P 500 Index's 10.3% over the past 50 years.***
  (See Miller/Howard 1Q 2022 Quarterly Report.)
- ***High-yield stocks, held for rolling 10-year holding periods, have outperformed the S&P 500 and bonds in every decade going back to the 1960s.***
  (See Miller/Howard 2Q 2021 Quarterly Report.)

Investors who ride out periods of equity market volatility have been well rewarded by sticking with high-yield stocks. Yet, "How am I doing?" remains a fair question from savers. With gyrating stock prices, there is no easy answer, and the question becomes more pointed as interest rates rise. As the quarter closed, the interest rate on a 10-year US Treasury bond was 3.8%. An investor might reasonably be tempted to lock in that return for the next 10 years rather than worry about the swings of the equity market. A simple rebuttal to this plan would be that over past 50 years, there were only two 10-year holding periods in which high-yield equities produced compound average returns of less than 3.8%, albeit still positive. *(See Miller/Howard 1Q 2022 Quarterly Report.)*

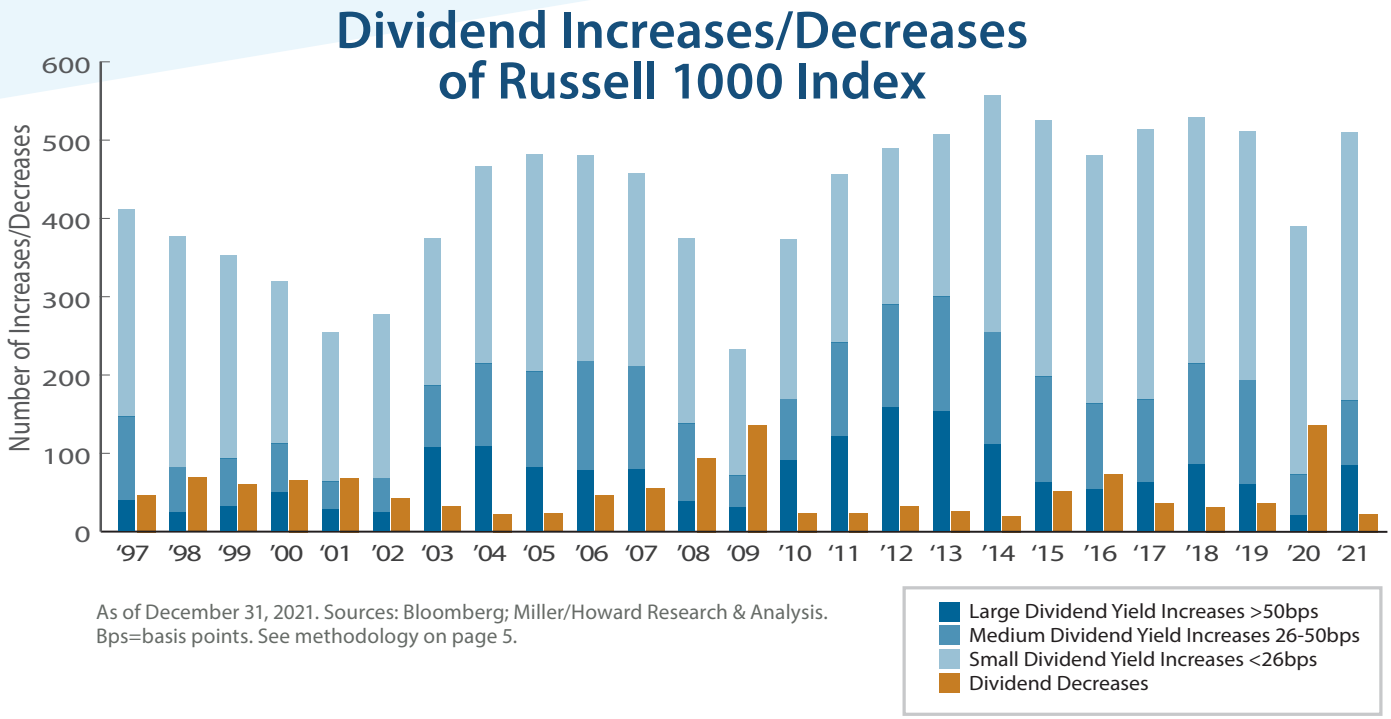
But there is no guarantee that history will repeat itself. The argument for equities is easiest when the dividend yield is well above the bond yield, such as we saw during 2020. With that set up, even dismal equity markets with flat dividends and stock prices over a 10-year period would lead equities to outperform bonds. As interest rates rise above dividend yields, it becomes more important to income investors that dividends grow.

Bond Yields Have Improved



Data as of September 30, 2022.
Source: Bloomberg; Miller/Howard Research & Analysis. High-Dividend Yield Stocks consists of Decile 7, 8, and 9 (where decile 10 is the highest yielding members and decile 1 the lowest) of a universe of US dividend paying common stocks with a market capitalization equal to or greater than $1 billion.

INVESTMENT PRODUCTS: ARE NOT FDIC INSURED • MAY LOSE VALUE • ARE NOT BANK GUARANTEED



As of December 31, 2021. Sources: Bloomberg; Miller/Howard Research & Analysis. Bps=basis points. See methodology on page 5.

The good news is that dividend increases are common and much more frequent than decreases. Looking at the stocks in the Russell 1000 Index over the past 25 years, 427 companies increased their dividend each year on average, while only 52 cut their dividend. And this is not ancient history—last year, 509 companies in the Russell 1000 raised their dividend while only 23 decreased. Naturally, there are more decreases during difficult years such the end of the Internet Bubble (2000-2001), the Global Financial Crisis (2008-2009) and the pandemic (2020). But even in these challenging years, increases still strongly outpaced decreases.

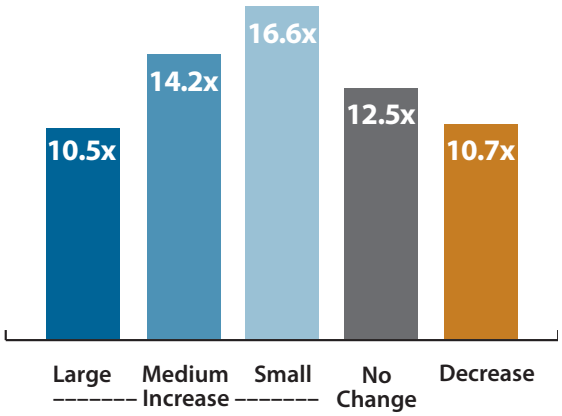
At Miller/Howard, we are dedicated to increasing the income our clients earn from their portfolios. Evaluating the impact of dividend hikes on portfolio income reveals the importance of large increases. Many companies brag about increasing their dividend year after year, but if a dividend is only rising by 1%, that will not generate the income growth we are after. More subtly, sometimes large-sounding increases are not so big after all. If a stock selling at $100 raises its dividend from one cent per quarter to two cents, that may lead to headlines touting a doubling of the dividend, but it's only a 0.04% increase in the annual yield—hardly worth mentioning.

In an effort to learn what factors have led to sizable dividend increases, we analyzed the dividend changes in the Russell 1000 over the past 25 years, focusing on the companies that were paying a dividend in the preceding year. We have separated all dividend increases into three categories: large (greater than 0.50% increase in dividend yield, as measured by the percentage point difference between ending and starting yield), medium (0.26-0.50% increase in yield) and small (less than 0.26% increase in yield). There is no grade inflation in this class—over time, only 17% of dividend increases have been big enough to meet our definition of "large." Small dividend increases have accounted for 61% of the increases.

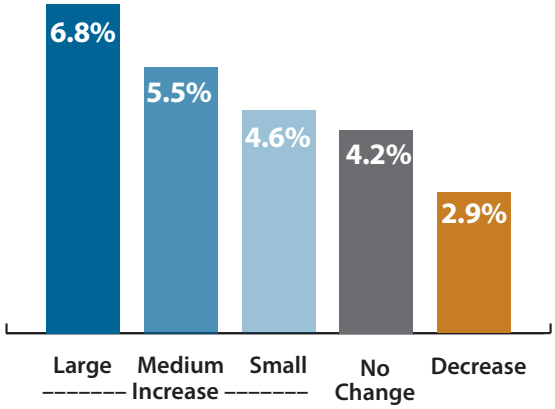
The percentage of large and medium increases has fluctuated over the years, primarily going up as market recoveries age. The increase in 2003 can also be attributed to a reduction in the income tax on dividends. The most important point is that every year offers opportunities to find large increasers, so **what characteristics are associated with the companies announcing the largest hikes?**

Valuation Versus Dividend Changes

Price/Earnings Ratio



Free Cash Flow Yield



As of September 30, 2022. Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. Increases: Large >50bps; Medium 26-50bps; Small <26bps. NOTE: Price/Earnings (P/E) Ratio is calculated using the universe of the earnings yield as of calendar year end selection dates for dividend payers in the Russell 1000 Index. Members with negative earnings have been excluded. Free Cash Flow (FCF) Yield is calculated using the trailing 12-month FCF and price as of end of calendar year selection dates for dividend payers in the Russell 1000 Index. For FCF Yield, financials, real estate, and utilities (as defined by Eikon) are excluded as it is not a meaningful metric for those sectors. See methodology on page 5.

Value is a natural place to start our hunt for large dividend increasers. After all, a company with a $100 stock and $10 of earnings per share has a lot more firepower to raise its dividend by 50 cents than a company with the same stock price and one-tenth of the earnings.

Looking at roughly 16,000 dividend decisions in the Russell 1000 over 25 years, the evidence on using price-to-earnings ratios to identify large increasers is mixed. Among companies raising their dividend, there is an unambiguous relationship between value and the size of the increase—lower price/earnings ratios are associated with larger dividend increases. The weakness of price/earnings as a prediction tool is that it does not do a good job distinguishing between likely increasers and potential dividend cutters. In fact, the average price/earnings ratio for the largest increasers is roughly equal to the ratio for dividend cutters.

Our view is that earnings can be a lagging indicator of the health of a business. Accrual accounting fails to sufficiently penalize companies for red flags on the cash flow statement such as rising inventories or increased capital spending. For the core of the market (which excludes financials, real estate, and utilities, where free cash flow is not a useful metric), we prefer free cash flow yield, defined as cash flow from operations less capital spending, divided by market capitalization. Free cash flow represents the actual cash that is available to pay dividends, reduce debt, or buy back shares. Accountants have good reason for creating accruals to adjust for items such as changes in working capital or capital spending, but ultimately, dividends must be paid out of cash flow, not earnings.

In fact, a direct relationship between free cash flow yield and the size of a dividend increase holds true across our categories. When we examine our database of Russell 1000 dividend decisions, we see that the largest dividend increasers had the highest average free cash flow yield in the preceding year. Dividend cutters had the lowest average free cash flow yield in the preceding year. Overall, we view free cash flow yield as the best value metric when hunting for large dividend increasers.

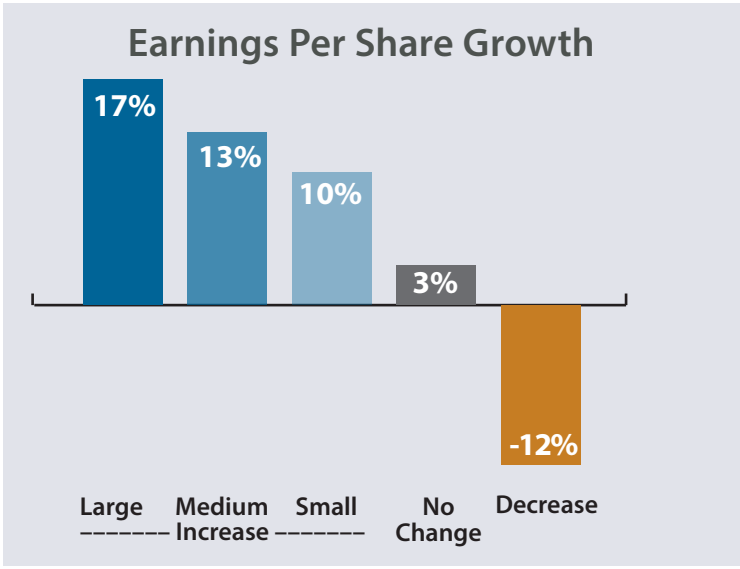
One of the key tenets of income investing is that dividends are dependable because management teams are loath to cut dividends. We have seen that dividend decreases do occur every year, but they are typically outnumbered by increases by roughly eight-to-one. In general, management teams are doing a good job of looking ahead, and largely avoiding increases that have to be reversed in a future year. One possible way management teams can avoid dividend cuts is by raising dividends only when their business is actually growing. We researched three measures: earnings per share (EPS) growth, free cash flow growth, and sales growth.

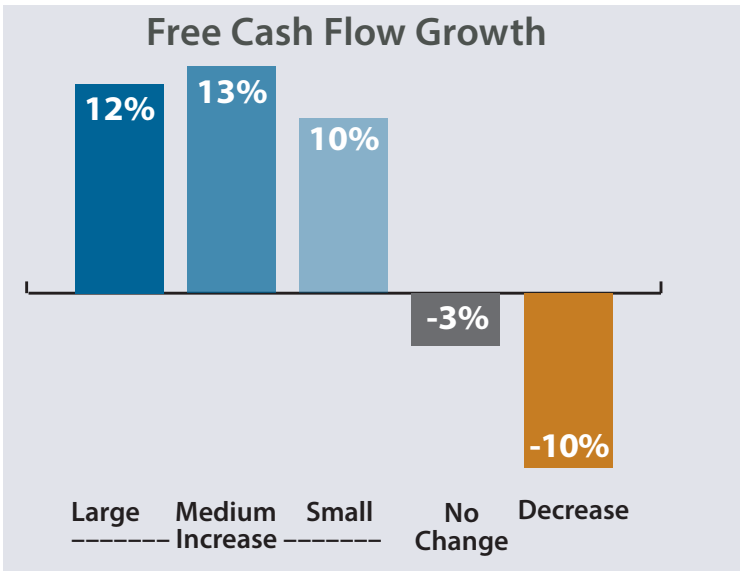
Examining EPS growth for the over 16,000 dividend decisions in our database, we conclude that large dividend increases are associated with rapid EPS growth. Companies that raised their dividend yield over 0.50% on average grew EPS by 17% in the year prior to the large dividend increase. Those announcing increases that raised yields by 0.26-0.50% also had high trailing growth in EPS at 13%. Even companies making small dividend increases had trailing EPS growth of 10%, well above the 3% EPS growth for companies holding their dividend flat. In contrast, dividend cutters averaged -12% EPS decline in the year before the cut.

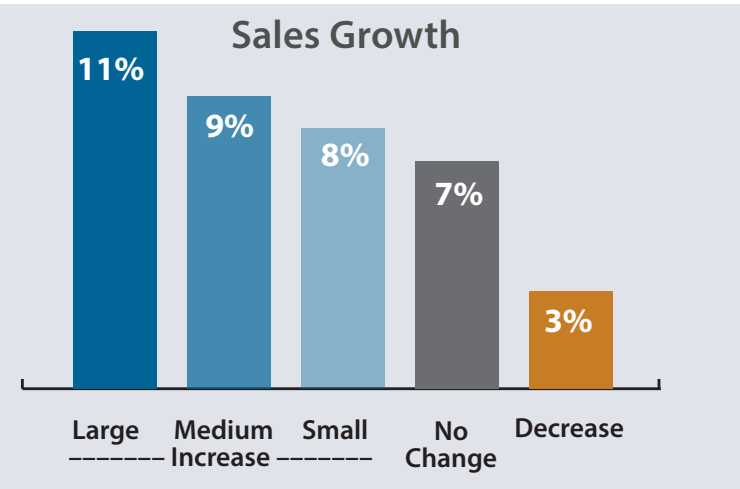
High free cash flow growth was also associated with dividend increases while companies that held their dividend flat averaged -3% free cash flow decrease in the prior year. Dividend cutters averaged a drop in free cash flow of -10%. While useful for predicting dividend increases, free cash flow growth is less useful than EPS growth in predicting the size of the dividend increase. One explanation for why EPS growth works better than free cash flow growth is that the latter tends to be noisy while EPS data is smoothed by construction. It appears that using the smoother data series works better when constructing growth factors.

Sales growth proved to be a useful variable for predicting dividend increase size, with higher growth associated with larger dividend increases. Dividend cutters averaged only 3% sales growth in the preceding year, well below the 7% average for companies holding their dividend flat.

Growth Versus Dividend Changes



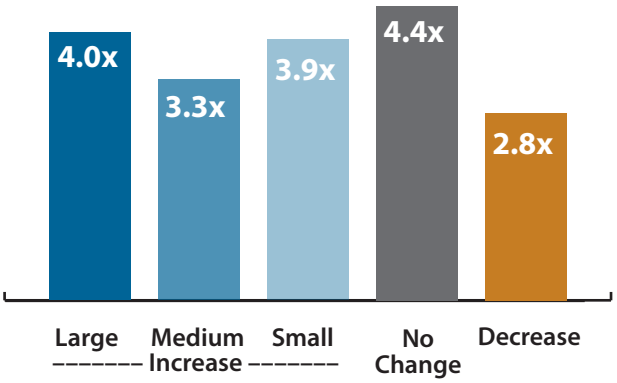




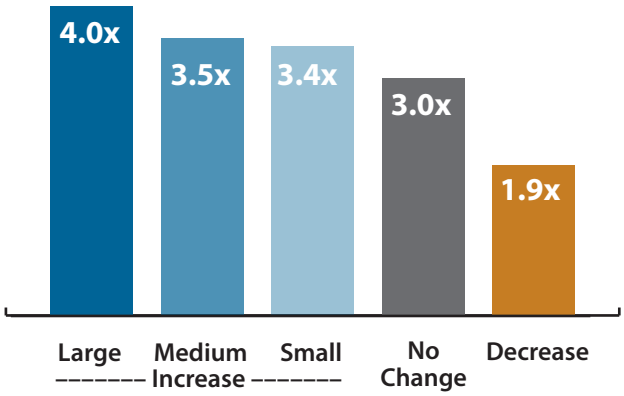
As of December 31, 2021. Sources: Bloomberg; Miller/Howard Research & Analysis. Increases: Large >50bps; Medium 26-50bps; Small <26bps. Outliers with growth values exceeding +/-100% are winsorized.
See methodology on page 5.

Dividend Coverage Versus Dividend Change

Earnings Coverage



Free Cash Flow Coverage



As of September 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Note: Earnings Coverage is calculated using the trailing 12-month earnings per share in relationship to the indicated annual dividend per share as of the calendar year end selection date. Members with negative earnings have been excluded. Free Cash Flow Coverage is calculated using the trailing 12-month FCF in relationship to the trailing 12-month dividends paid as of the calendar year end selection date. Coverage represented is for dividend payers in the Russell 1000 Index as of calendar year end selection dates. For free cash flow coverage, sectors financials, real estate, and utilities are excluded. Increases: Large >50bps; Medium 26-50bps; Small <26bps. Coverage exceeding +/-25x are winsorized. See methodology below.

Traditionally, high earnings coverage has been viewed as an indication of dividend safety. But does a high ratio of earnings to dividends portend large dividend increases? Our study indicates that earnings coverage does not help identify large increasers. In fact, the earnings coverage was actually highest for companies keeping their dividend flat. Consistent with conventional wisdom, the coverage ratio for dividend cutters was lower than for companies either increasing the dividend or holding it flat.

In contrast to earnings coverage, free cash flow coverage (the ratio of free cash flow-to-dividends) is much more useful in identifying large increasers.

For free cash flow coverage, the relationship holds across our five decision categories:

- **large increasers** have the highest average free cash flow coverage,
- followed by **medium increasers,**
- then **small increasers,**
- then companies holding their **dividend flat,**
- with **dividend cutters** having the lowest ratio of free cash flow to dividends.

Why would free cash flow coverage work better than earnings coverage?

Accrual accounting goes through many machinations to match revenue and expenses in the correct time period. For many uses this makes sense, but it can miss the point when it comes to measuring the ability to write large dividend checks. For example, large capital expenditures are clearly costs that can be matched to revenues far in the future, but they drain the ability of a company to pay dividends *now*.

Methodology for Charts on pages 2-7:
We screened for members of the Russell 1000 Index by Calendar Year end-date beginning in 1997. Among dividend paying members of the resulting universe, an annualized dividend was calculated for both the year and the prior year based on the fourth quarter dividend paid for year one and year minus one (fourth quarter dividend multiplied by 4). To calculate the change in yield, the calendar year end date price was used. For example: For 2021 data, we screened for members of the Russell 1000 Index as of 12/31/2020. For each dividend payer in the resulting universe, the 2021 Q4 dividend was multiplied by 4 as well as the previous period dividend (2020 Q4). The formula to calculate change in basis points was ((2021 Q4 dividend*4)-(2020Q4 dividend*4))/2020 calendar year end price. For annual payers, the annual dividend and prior annual dividend were compared. For semi-annual payers, the second dividend paid was multiplied by 2 rather than 4. Specials were excluded from all calculations. Calendar Years 2012 and 2013 were modified to adjust for dividend actions taken by companies in response to changes in tax laws around dividends.

High Debt Makes Dividend Increases Less Likely

Russell 1000 Dividend Changes

Net Debt/EBITDA	1997-2021 Dividend Increase	1997-2021 Flat Dividend	1997-2021 Dividend Decrease
>3x	39%	46%	15%
2-3x	57%	34%	9%
<2x	68%	27%	5%

Net Debt/EBITDA	Case Study Global Financial Crisis: 2008-2009 Dividend Increase	Case Study Global Financial Crisis: 2008-2009 Flat Dividend	Case Study Global Financial Crisis: 2008-2009 Dividend Decrease
>3x	23%	51%	26%
2-3x	40%	37%	23%
<2x	54%	40%	6%

As of December 31, 2021. Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. Note: We examined the period of 2008-2009 to see the impact of leverage on company dividends during a major recessionary environment. Net Debt to EBITDA is calculated as total debt minus cash dividend by EBITDA as of the calendar year end selection date. Sectors financials, real estate, and utilities have been excluded for net debt/EBITDA calculations. See methodology on page 5.

How does indebtedness affect dividend-paying behavior?

It turns out that the ratio of net debt/EBITDA is not helpful in predicting the size of dividend increases, but it is highly useful in separating likely dividend increasers from companies at risk of cutting their dividend.

For companies levered less than 2x EBITDA, 68% increased their dividend while only 5% cut. In contrast, companies levered over 3x increased their dividend only 39% of the time and cut 15% of the time. These results are for the entire 1997-2021 time period, but debt is more dangerous in troubled times. Looking at the results only for the Global Financial Crisis period, 2008-2009, we see that the most levered companies cut their dividend 26% of the time. In our opinion, any equity income portfolio that has roughly a quarter of its holdings cut the dividend would generate very disappointing results.

It can be easy for investors to talk themselves into buying levered companies. If sales forecasts come true, profit can zoom because interest payments do not rise with revenue. *"Everything will work out fine"* might actually be true most of the time. The problem is that, when setbacks occur, overly indebted companies are fragile and something has to give—frequently leading to a dividend cut.

At Miller/Howard, we want our clients to get paid for holding stocks, even in rocky times. For this reason, we focus on companies with strong balance sheets.

The companies in a good equity income strategy are healthy, growing businesses. They have to be in order to meet their dividend commitments.

Do Prior Dividend Changes Predict Future Changes?

Prior Year Change		Dividend Increase: Large	Dividend Increase: Medium	Dividend Increase: Small	Dividend Increase Subtotal	Flat Dividend	Dividend Decrease
Dividend Increase	Large	29%	24%	19%	72%	20%	8%
	Medium	11%	39%	32%	82%	12%	5%
	Small	3%	10%	70%	84%	11%	5%
Flat Dividend		6%	6%	14%	26%	61%	12%
Dividend Decrease		12%	7%	11%	30%	50%	20%

As of December 31, 2021. Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. Numbers may not sum due to rounding. For the above, we screened for dividend paying members of the Russell 1000 Index by calendar year end-date. Increases: Large >50bps; Medium 26-50bps; Small <26bps. See methodology on page 5.

Some might argue that looking for dividend decision patterns using company fundamentals is unnecessary—perhaps we can just study past behavior. It turns out there is some truth to this, but it is most useful for identifying companies that will make small increases or no change to the dividend.

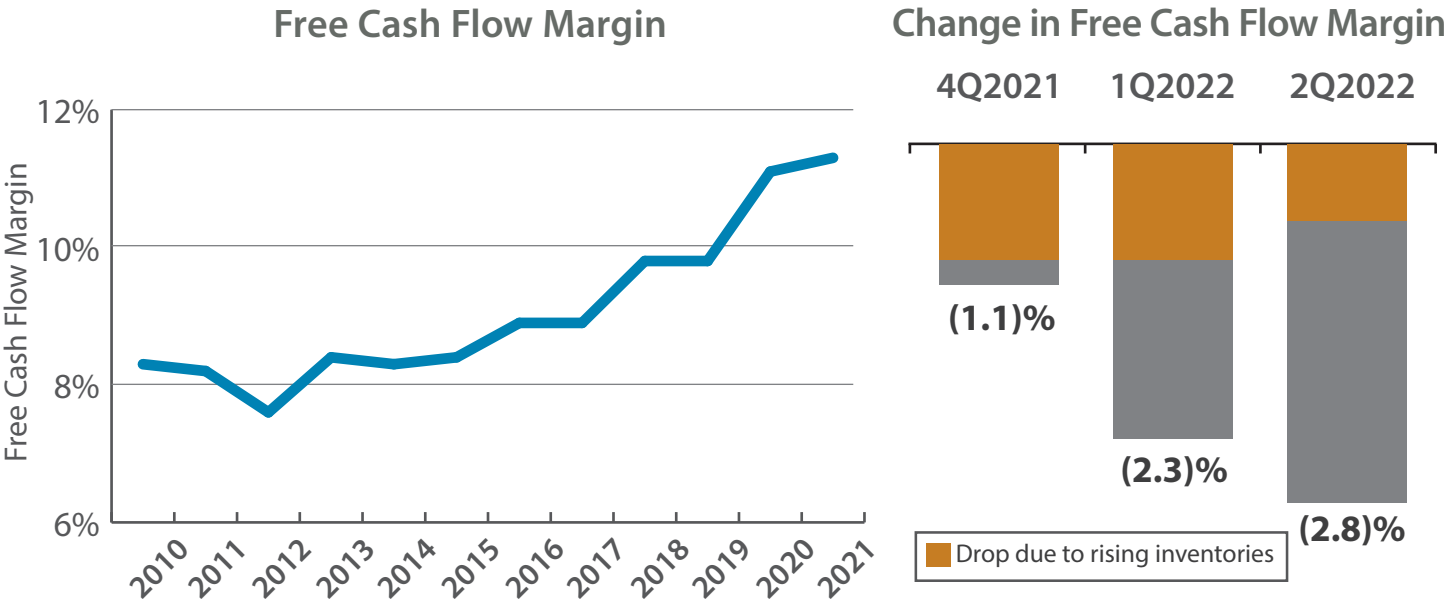
For companies that made a small increase in the previous year, there was an 84% chance that they would increase the dividend again, but the vast majority of the time it was only another small hike. For companies holding the dividend flat in the preceding year, 61% of the time they held it flat again.

But our hunt is for sizable dividend increases. Companies making a large dividend increase decided to make another large increase the second year 29% of the time. Those are better odds than you would get from companies that did not make a large increase last year, but it's still far from a sure thing. Our conclusion is that trailing behavior is useful, but it is best combined with fundamental factors.

Dividend behavior is tightly linked to strong fundamentals—a high free cash flow yield, growing EPS, growing sales, and low debt. In essence, the companies in a good equity income strategy are healthy, growing businesses. They have to be in order to meet their dividend commitments.

When evaluating performance, dividend increases offer a useful window into the long-term income potential of a portfolio. Dividend increases reflect management's confidence in their ability to pay dividends far into the future. Wall Street veterans often accuse corporate leaders of having overly optimistic forecasts. In our view, dividend decisions strip away much of the hubris and give investors a more honest assessment from management. This occurs for two reasons. First, paying dividends involves writing actual checks—not happy talk. Secondly, management teams understand that the market punishes cutters, forcing more than a modicum of conservatism into their dividend decisions. Overall, dividend increases outnumbering decreases by eight-to-one is the strongest evidence that dividend increases are a solid signal of future cash generation.

Free Cash Flow/Revenue Trended Up until 4Q 2021



As of September 30, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Based on the core S&P 500 Index (excluding financials, real estate, and utilities where free cash flow is not a meaningful metric). Change in inventories is aggregated from the cash flow statements of the modified S&P 500 Index members where a negative value indicates an increase in inventory and a positive value indicates a decrease.

HIGH AND GROWING DIVIDENDS REQUIRE a rising stream of unencumbered cash flow. Since the Global Financial Crisis, the market as a whole has been generating higher and higher amounts of free cash flow. Part of the story has been a growing economy driving higher revenues. The more remarkable element, however, has been a steady rise in the conversion rate of revenues into free cash flow, also known as free cash flow margins. The underlying cause of this trend has been growing profit margins combined with a shift to less capital-intensive business models.

Unfortunately, free cash flow conversion rates began to drop with 4Q 2021 earnings (in other words, those reported during the first quarter of 2022). We picked up the trend in our bottoms-up company research, and have now verified that free cash flow margins have fallen for three quarters in a row for the core of the S&P 500 Index (defined as all sectors except financials, real estate, and utilities where free cash flow is not a meaningful metric). Free cash flow actually turned downward while earnings were still broadly rising, proving to be an early signal that the economy was slowing.

One of the chief causes of the drop in free cash flow margins has been bulging inventories. Market bellwethers, such as Walmart and Target (not held by Miller/Howard), made headlines with their inventory troubles, but the problem is not confined to a small number of firms or specific sectors. Inventories for the core S&P 500 have risen faster than sales for three consecutive quarters. In our view, inventories rising faster than revenue represents a red flag for investors. Higher inventories frequently result in price discounts to "blow out" inventories in future periods, meaning that more bad news is coming. 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.

Total returns for our Income-Equity Strategies have been negative year-to-date, although they are still marginally ahead of the Russell 1000 Value Index and well ahead of broad market indices.

Continued on page 9

Looking Ahead

We continue to monitor both our holdings and the universe of high-yield equities, looking to ensure that our portfolios continue to produce the high and growing free cash flow necessary for high and growing dividends. While free cash flow production in the overall market has waned, many companies have kept tight control on inventories and capital spending, allowing their production of cash to continue unimpeded. We've recently added several portfolio holdings within the less cyclical sectors, such as healthcare and utilities, that provide us with opportunities that largely sidestep economic controversies. The cyclical stocks we continue to hold typically have very low valuations and strong balance sheets, which should, in our opinion, allow these stocks to weather bad times and provide upside potential when the economy rebounds.

Some investors may wonder whether it is wise to hold equities in today's troubled environment. We expect our Income-Equity portfolios, as a whole, to produce earnings, cash flow, dividends, and dividend increases in all periods, including economic downturns. Stock prices may falter as investors worry about economic cycles, but historically, recoveries have always come. Recoveries tend to be unpredictable yet vigorous, making sitting on the sidelines very risky for investors with long time horizons.

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

Portfolio Highlights

- **High Current Income Plus Growth.** Currently, our Income-Equity Strategy has a dividend yield of 4.1% while the no-MLP version has a yield of 3.9%. Our Income-Equity Strategies had three dividend increases in the quarter, giving us 18 declared increases year-to-date. **Walgreens Boots Alliance (WBA), Bank of New York Mellon (BK),** and **Texas Instruments (TXN)** announced dividend increases during the quarter. Texas Instruments' quarterly dividend is now double what it was when we first invested five years ago.

- **Sales.** We sold out of **Nutrien (NTR)** early in the quarter. While we held Nutrien, crop prices rose significantly, raising the demand for fertilizer and boosting Nutrien's stock price. Nutrien raised its dividend earlier this year, but not enough to keep its dividend yield within our target range. We sold **Advanced Auto Parts (AAP)** due to shrinking free cash flow, driven by rising inventories and capital spending.

- **Buys.** We initiated a position in **Lamar Advertising (LAMR)** which specializes in billboards. We believe that Lamar should benefit from an increase in driving as the impact of the pandemic fades. In addition, the gradual shift towards electronic billboards should continue to add to profitability in our view. We took a new position in **Huntsman (HUN).** Huntsman is exposed to fluctuations in demand for chemicals, but is exceptionally cheap with a strong balance sheet. We also initiated a position in **Comcast (CMCSA).** Comcast has strong and stable free cash flow and has begun to buy back shares in earnest.

MLP Strategy

Quarterly Report 3Q 2022

THE MIDSTREAM SECTOR CONTINUED ITS STRONG performance run, beating the broad market in six of the last eight quarters amid several sector tailwinds. The question we often hear from investors is: *"Can this continue?"* We see several factors that suggest yes.

Many midstream contracts have built in inflation escalators—a forceful offset to inflation and one not seen in other sectors. For the five-year period beginning July 1, 2021, Federal Energy Regulatory Commission (FERC) regulated that pipelines can increase their tariffs by the producer price index for finished goods (PPI-FG) minus 0.21%. As an example, **Magellan Midstream Partners (MMP)** increased its index rates by 8.7% in July 2022. Rates will be increased again next July according to this methodology. Most non-FERC regulated contracts also contain inflation escalators.

Midstream balance sheets are healthy. Management teams continue to talk about reducing debt, resulting in leverage ratios (based on net debt to EBITDA) generally between 3.0x-4.0x (versus the historical range of 4.0x-5.0x). Better balance sheets mean financially stronger companies, which has not always been the case in this sector.

Exploration and production (E&P) companies continue to focus on free cash flow and improving their balance sheets. Having strong customers is a positive development for midstream companies. Driven by financial discipline, production has been steady while demand has rebounded, resulting in low inventories.

Portfolio Highlights

- **Distribution Increases.** This quarter, 5 of our 17 holdings announced dividend increases. The average increase was 19.3% year-over-year.
- **Sales:** We trimmed **Targa Resources (TRGP), Crestwood Energy Partners (CEQP),** and **DCP Midstream (DCP),** while still maintaining a healthy position in each holding.
- **Buys:** We increased our weight in **MMP,** as we feel the company should benefit from higher refined product demand. We initiated a position in **Williams Companies (WMB),** a large, natural gas-focused C-corp.

Lastly, and maybe most importantly, we believe it is difficult to underestimate what the turnaround in free cash flow (FCF) has done for midstream. The midstream universe had negative FCF as recently as 2015 and now offers double digit FCF yields. The industry has repaired balance sheets, cut capital spending, benefitted from projects, and returned value to shareholders through dividend increases and share buybacks.

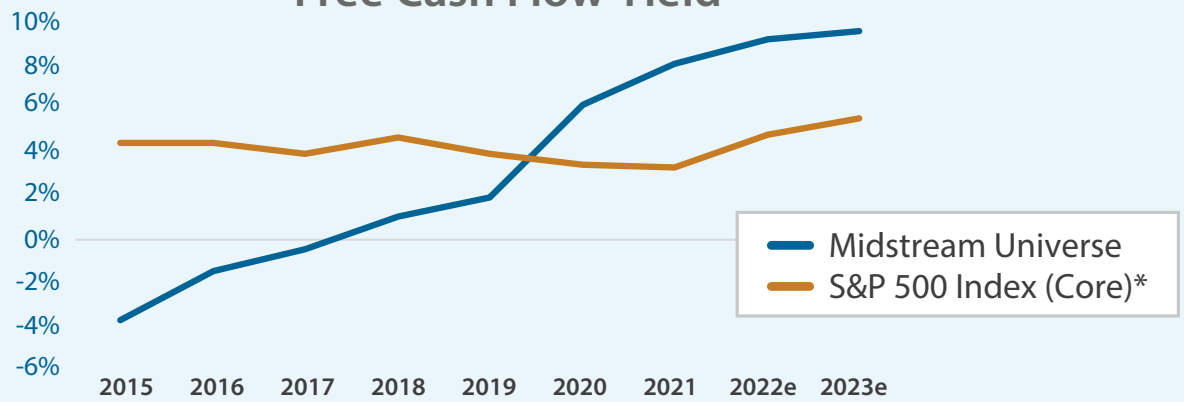
We believe these factors will continue to provide a tailwind to the midstream sector.

Looking Ahead

We continue to monitor the economy. A recession could impact energy demand, but in our view, midstream is better positioned than other sectors. Inflation protection, higher yields, attractive dividend growth, share buybacks, better industry fundamentals, and strong free cash flow continue to draw investors' focus to the midstream sector.

Midstream Trades at a Free Cash Flow Advantage

Free Cash Flow Yield



As of September 30, 2022. Sources: 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 September 2022, there were 54 companies in the universe. * GICS sectors financials & real estate have been excluded for free cash flow yield calculation. Free cash flow yield is market capitalization weighted.

Infrastructure

Quarterly Report 3Q 2022

THE MILLER/HOWARD INFRASTRUCTURE Strategy underperformed the broad market in the face of hawkish action by the Federal Reserve. Despite lagging during the quarter, Infrastructure's relative performance remains well above the broad market year-to-date.

Infrastructure's performance was idiosyncratic and didn't closely track the market's general preference for growth over value. Within the portfolio, there was a wide dispersion of returns and, more surprisingly, a wide dispersion of returns within sectors. Energy led the portfolio with names exposed to liquefied natural gas (LNG) showing particular strength. Industrials were generally down with parcel companies coming under the most pressure and waste management providing a positive outlier. Utilities struggled while facing headwinds from rising rates although renewable developers exhibited strength driven by the Inflation Reduction Act. Communication services (telecom and cell towers) was the biggest laggard in the quarter as long-duration assets came under pressure from rising interest rates.

Looking Ahead

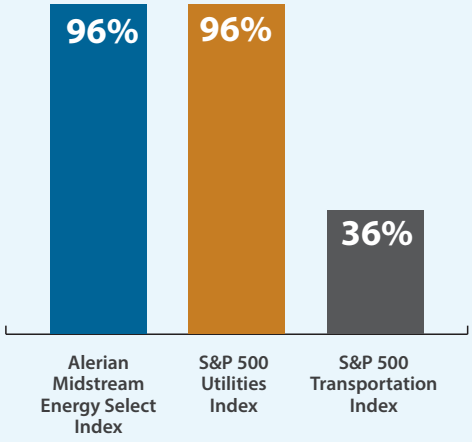
An under-appreciated characteristic of essential service providers is that their cash flows are resilient in the face of inflation. Infrastructure companies often have pricing power, revenue escalators, some degree of commodity-price exposure, or a regulatory construct that allows them to recover cost increases.

These attributes contributed to the portfolio's strong year-to-date relative performance versus the strategy's benchmark and the broad market. Looking at the S&P 500 Utilities, Alerian Midstream Energy Select, and S&P 500 Transportation indices, which cover the lion's share of our portfolio, 96%, 96%, and 36% of constituents of the respective indices outperformed the S&P 500 Index. While transportation was a weaker pool, 60% of the industrials in our portfolio outperformed.

Over half of the holdings in our Infrastructure Strategy are members of the S&P 500 Index, but they comprise less than 4% of the broad market index weight (i.e., the Infrastructure Strategy has a 96% active share versus the S&P 500). This underexposure to infrastructure stocks may be a risk to client portfolios in turbulent times. We believe our Infrastructure Strategy is uniquely positioned to weather a difficult market environment and provide an income solution for investors.

Infrastructure Stocks Outperformed

Percent of Constituents Outperforming S&P 500 Index Year-to-Date



As of September 30, 2022.
Sources: Eikon; Miller/Howard Research & Analysis.

Portfolio Highlights

- **New Positions:** We initiated positions in **Ameren Corp. (AEE)** and **Antero Midstream (AM).** We expect **AEE** to benefit from an above-average earnings growth of 6%-8% and a track record of execution. **AM** provides the highest dividend yield in the portfolio, supported by a stable business model and strong free cash flow.
- **Exiting Positions:** We exited our position in **Vodafone (VOD)** and **FedEx (FDX).** Both of these companies are facing difficult macroeconomic headwinds in international markets.
- **Reducing Risk:** In a continuing effort to reduce risk in the portfolio, we reduced our positions in **AES Corp. (AES), Targa Resources Corp. (TRGP), Fortis Inc. (FTS),** and **Kinder Morgan (KMI)** and added to our positions in **Waste Management (WM), BCE Inc. (BCE), Exelon Corp. (EXC), NiSource Inc. (NI),** and **NextEra Energy (NEE).** We also trimmed **Cheniere Energy (LNG)** and **Sempra Energy (SRE)** after their position sizes exceeded risk thresholds in the wake of strong relative performance tied to their LNG exposure.

Utilities Plus

Quarterly Report 3Q 2022

AFTER OUTPERFORMING THE BROADER market for four consecutive quarters, utilities lagged the S&P 500 Index in 3Q. Utilities looked poised to extend their streak until rising interest rates finally caught up with the group. Performance peaked in mid-September before stumbling as the August Consumer Price Index report highlighted persistent inflation and dashed hopes of a more moderate interest rate trajectory.

Among utilities, relative performance was generally consistent, with the market preferring growth over value during the quarter. Renewable developers and nuclear power generators outperformed on the passage of the Inflation Reduction Act (IRA) which included a series of tax credits for zero-emission generation. Gas local distribution companies (LDCs) and utilities with international exposure lagged during the quarter.

Looking Ahead

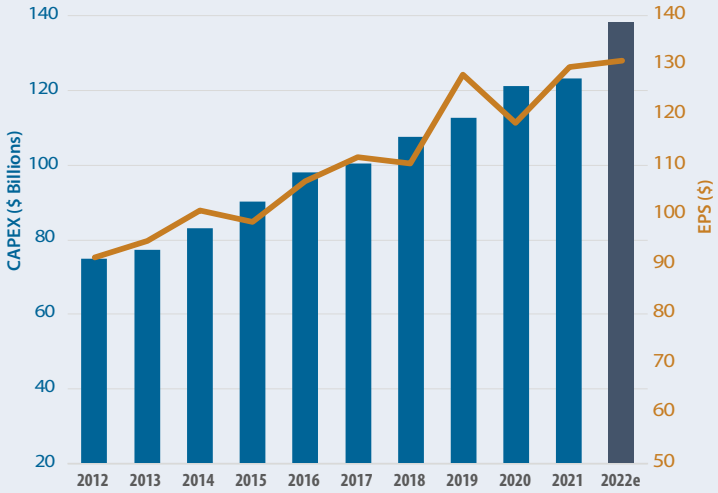
For much of the last year, utilities benefitted from their safe-haven status as investors dealt with mounting evidence of a recession. During this time, we frequently pointed out that the group's outperformance ran counter to data suggesting that rising rates had historically not been constructive for the group. This point became more salient as the yield on the 10-year Treasury moved above 3%, surpassing the dividend yield on S&P 500 Utilities Index. While the dynamic doesn't condemn the group, the evaporation of utilities' yield advantage puts increased importance on growth of income.

As we have frequently noted, growth opportunities among utilities are the highest in recent memory. Utility companies are looking to replace aging infrastructure, modernize the grid, and shift their generation towards renewable energy. This year, capital expenditures among electric utilities are expected to continue to march higher. Since the regulatory construct is designed to provide a reasonable return on capital deployed, earnings have historically tracked capital expenditures. Assuming a constant payout ratio, we expect that EPS growth should make its way to investors through dividend increases.

We believe our portfolio's preference for names exhibiting above-average growth leaves Utilities Plus well positioned to provide investors with a rising income stream.

Higher Capital Spending Has Led to Higher Earnings

Electric Utility Capex & EPS



As of September 30, 2022.
Sources: Bloomberg; Miller/Howard Research & Analysis.

Portfolio Highlights

- **IRA Winner:** We added to **Constellation Energy Corp. (CEG)** as the company is one of the most direct beneficiaries of the IRA, which essentially creates a floor price for nuclear generation assets.
- **Coming Back:** After a period of relative weakness, we increased our position in **PPL Corp. (PPL)**. The company has made progress on revamping its portfolio. We had trimmed the position in 1Q due to the risks associated with its transition.
- **Runoff:** We sold **SJW Group (SJW)** in order to reduce our exposure to water utilities.
- **Reducing Risk:** In a continuing effort to reduce portfolio risk, we trimmed **MDU Resources Group (MDU), AES Corp. (AES),** and **Evergy Inc. (EVRG)** and added to **American Electric Power Co. (AEP), Exelon (EXC),** and **WEC Energy Group (WEC).**

North American Energy

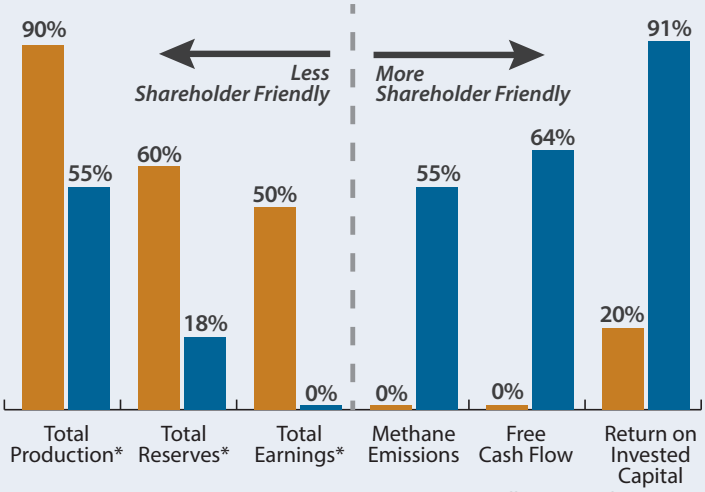
Quarterly Report 3Q 2022

OIL PRICES DECLINED 25% THIS QUARTER, driven by a slowing global economy and ongoing national Strategic Petroleum Reserve (SPR) releases that have flooded the world with roughly six times more oil than has been lost from the Ukraine conflict. The situation with natural gas, for which there is no SPR, has been decidedly different. Europe scrambling to replace lost Russian gas supplies from the US and elsewhere has created record profits for US exporters, like portfolio holding **Cheniere Energy (LNG).**

This quarter most energy stocks were up despite a drop in oil prices, and the portfolio posted modestly positive absolute returns. In our opinion, a few factors seem to be at play. First, stock valuations entering the quarter already reflected much lower than prevailing commodity prices, in our view. Second, many companies created a bid for their own stocks, as industry buybacks reached record levels. Third, lower commodity prices reduce expectations for future production growth, lessening likelihood of future oversupply.

Upstream CEO's Annual Bonus Metrics

Percentage of North American Energy Strategy Upstream Holdings, Owned Currently vs. 2014



Sources: Company proxy statements; Miller/Howard Research & Analysis. Return on invested capital includes capital efficiency metrics including ROE, ROIC, and ROCE. Free cash flow represents cash from operations less capital expenditures and similar representations.
*Not per share

Portfolio Highlights

- **Energy and Income.** With exploration & production (E&P) balance sheet deleveraging largely complete, returns to shareholders are accelerating. Many E&Ps have now surpassed refiners and pipelines as among the highest dividend yielders in the market. This portfolio currently indicates a 4.9% yield (over 5.5% including expected 2022 E&P variable dividends). We estimate that this yield is well-supported at $40 per barrel oil, and that it carries a projected 12-month dividend growth of 10%.
- **Along the Energy Value Chain.** We made few changes to the broad orientation of the portfolio this quarter. Our largest subsector remains upstream producers. E&Ps continue to demonstrate strong capital discipline and high returns at current commodity prices.

Looking Ahead

There is another element that we believe will help generate structurally better returns over time: improving corporate governance, the G in ESG. Too often in the past, we've witnessed bad governance separate investors from energy profits, as poorly designed incentives prioritized growth over higher *per share* cash generation and capital efficiency.

Well, change is underway.

We compared management bonus incentives for our E&P holdings—current versus January 2014 (i.e., prior to the OPEC-shale price war). In 2014, E&Ps were mainly incentivized to grow reserves, production, and absolute profits—*regardless of how this growth diluted and impaired existing shareowners*. In sharp contrast, today's executives are heavily incented to maximize returns on capital and cash generation, and to adopt best practices with respect to potentially costly externalities, like methane emissions. As active owners, we're proud to have played a role in compelling this industry realignment that, in the face of $100+ oil this year, led to steadfast production restraint, large buybacks, and cash dividends that we expect to support stock prices over time.

Small Cap Dividends

Quarterly Report 3Q 2022

GLOBAL ECONOMIC UNCERTAINTY combined with rising interest rates led to a volatile third quarter for small cap equities. Investors shifted in favor of growth stocks, with unprofitable biotech companies dominating the top performers.

Our focus continues to be investing in companies with strong free cash flow (FCF), defined as cash flow from operations less capital spending. In our view, investing in companies with strong current free cash flow is less dependent on forecasting what will happen many years from now. Our approach is also sensitive to changes in the current situation, in that rising inventories or increased capital spending immediately reduce free cash flow. In contrast, accrual-based metrics tend to smooth out these effects. This has been particularly helpful in the current environment as many companies have bulging inventories, typically a harbinger of trouble ahead.

Although free cash flow aggregated across small cap stocks turned negative this year, there are still plenty of companies with positive free cash flow. The total return for positive FCF small cap stocks has outpaced those with negative FCF for seven of the nine quarters since inception of our Small Cap Dividend Strategy. This quarter, the market's tilt toward unprofitable biotechs led to our strategy underperforming its benchmark. Our dividend yield remains relatively high and almost double that of the benchmark.

Looking Ahead

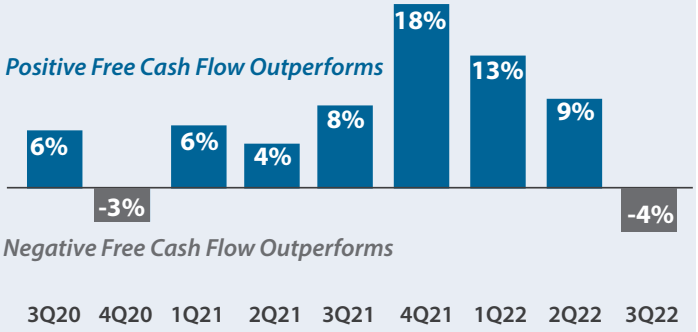
Miller/Howard's Small Cap Dividend Strategy continues to prioritize investments in small cap companies with healthy dividends, solid balance sheets, and strong free cash flow. Slightly more than half of the core Russell 2000 Index (i.e. excluding financials, real estate, and utilities where FCF is not a useful metric) currently has negative free cash flow—this proportion has only grown over the last several quarters. We believe our active approach allows investors to participate in the growth opportunities associated with small caps while still focusing on high-quality, profitable, free-cash-flow-yielding stocks.

Portfolio Highlights

- **Dividend Increases:** Six of our holdings announced dividend increases, including **Bank OZK (OZK), EMCOR (EME), Chord Energy (CHRD), Avnet (AVT), AdvanSix (ASIX)** and **Premier (PINC).**
- **Special Dividends:** One of our holdings declared a special dividend: **Ethan Allen (ETD).**
- **Dividend Decrease:** **Encompass Health (EHC)** reduced its dividend in conjunction with the spin-off of Enhabit (EHAB).
- **Sales:** We exited **Stewart Information Services (STC), Standard Motor Products (SMP), LXP Industrial (LXP), Hillenbrand (HI),** and **Avnet (AVT).** We also closed our position in **Sanderson Farms (SAFM)** following its cash acquisition in July.
- **Buys:** We initiated positions in **Encompass Health (EHC), DT Midstream (DTM), SpartanNash (SPTN), Preferred Bank (PFBC), Patterson (PDCO), Apple Hospitality (APLE),** and **Greif (GEF).**

Companies with Positive vs Negative Free Cash Flow

Relative Returns within the Russell 2000 Index*



As of September 30, 2022. Relative returns reflect the difference in average returns at each quarter end.
Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis.
*The IWM ETF is used as a proxy for the Russell 2000 Index.
Free Cash Flow is defined as cash from operations less capital expenditures.
Excludes financials, real estate, and utilities.

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	3Q 2022
Income-Equity Yield	4.8	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3	4.1
S&P 500 Yield	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.9
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	6.5
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	4.1
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	2.6x
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	2.0x
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	9.6
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	17.6
Premium/Discount	-2%	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-42%	-45%

Income-Equity Strategy (No MLPs)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	3Q 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	4.0
S&P 500 Yield	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.9
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	6.8
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	4.1
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	1.8x
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	9.7
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	17.6
Premium/Discount	1%	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-45%

As of September 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.

Miller/Howard's ESG Integration and Engagement: 2021-2022 Accomplishments

PARTNERSHIP ACTIVITY

- **Signed &/or submitted 28** investor statements or letters urging improved ESG action by regulators, sectors, and governments
- **Worked with >9** investor groups & NGOs

PROXY VOTING

Of 6,043 ballot items across 518 meetings, our research led us to vote contrary to management's recommendations 19.6% of the time.

RESOLUTION WITHDRAWN

NextEra announces **"Goal to Reach Real Zero by 2045"** emissions target.◊◊

ENGAGEMENT

- 34 companies engaged on ENVIRONMENTAL issues
- 12 companies engaged on SOCIAL issues
- 20 companies engaged on GOVERNANCE issues

DIVESTMENT

- **Custom exclusions for clients** (where feasible under custodian restrictions)

Sustainable Income Opportunities® – Doing Good and Doing Well.

*See more information at mhinvest.com, including insight papers that articulate our positions on specific issues and past **ESG Reports.** There you can also access a database of the shareholder proposals we filed.*

◊◊ NextEra Energy set industry-leading Real Zero™ goal to eliminate emissions from its operations. Proxy Data for FY 2021; Engagement Data from 2Q21-2Q22

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

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

This report represents Miller/Howard Investments' views. The statistics and projections cited in this report have been provided by sources generally considered to be reliable, but are not guaranteed. Opinions and estimates offered constitute Miller/Howard Investments' judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is solely informational. The information and analyses contained herein are not intended as tax, legal, or investment advice and may not be appropriate for your specific circumstances; accordingly, you should consult your own tax, legal, investment, or other advisors, at both the outset of any transaction and on an ongoing basis, to determine such appropriateness. The material may also contain forward-looking statements that involve risk and uncertainty, and there is no guarantee they will come to pass. **Any investment returns—past, hypothetical, or otherwise—are not indicative of future performance.** The information provided should not be considered a recommendation to buy or sell any security, and should not be considered investment, legal, or tax advice. Securities mentioned are being shown for informational purposes only. Buy and sell rationales are the express opinions of MHI's investment team. These securities should not be considered a recommendation to buy, sell, or hold any of the securities and are not intended to imply that any one security listed above, or the portfolio as a whole, is suitable for a particular client. There is no assurance that the securities purchased have remained or will remain in the portfolio or that securities sold have not been or will not be repurchased. To receive a list of all recommendations for the previous year, please email compliance@mhinvest.com. 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. The returns on a portfolio that utilizes environmental, social, or governance (ESG) criteria for stock selection may be lower or higher than portfolios where ESG factors are not considered, and the investment opportunities available to such portfolios may differ.

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). **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. **Alerian Midstream Energy Select Index** is a composite of North American energy infrastructure companies. The capped, float-adjusted, capitalization-weighted index, whose constituents are engaged in midstream activities. **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. **S&P 500 Transportation Index,** one of the S&P Select Industry Indices, comprises stocks in the S&P Total Market Index that are classified in the GICS transportation sub-industry. **S&P 500 Utilities Index®** is an unmanaged, market-value-weighted total-return index of all utility stocks in the S&P 500 Index. **Russell 1000 Index®** measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index® and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Index® represents approximately 92% of market capitalization of the US market. **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. **US Treasury 10-Year Yields** are yield to maturity and pretax. Indexes have increased in precision as of May 20, 2008, to 4 decimal places. The rates comprise Generic US Government on-the-run government bill/note/bond indexes.

For more information and to request materials:
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Email internals@mhinvest.com / Call (845) 679-9166

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