Miller/Howard INVESTMENTS

Does Dividend Investing Work with Tech Stocks?

JUNE 30, 2023

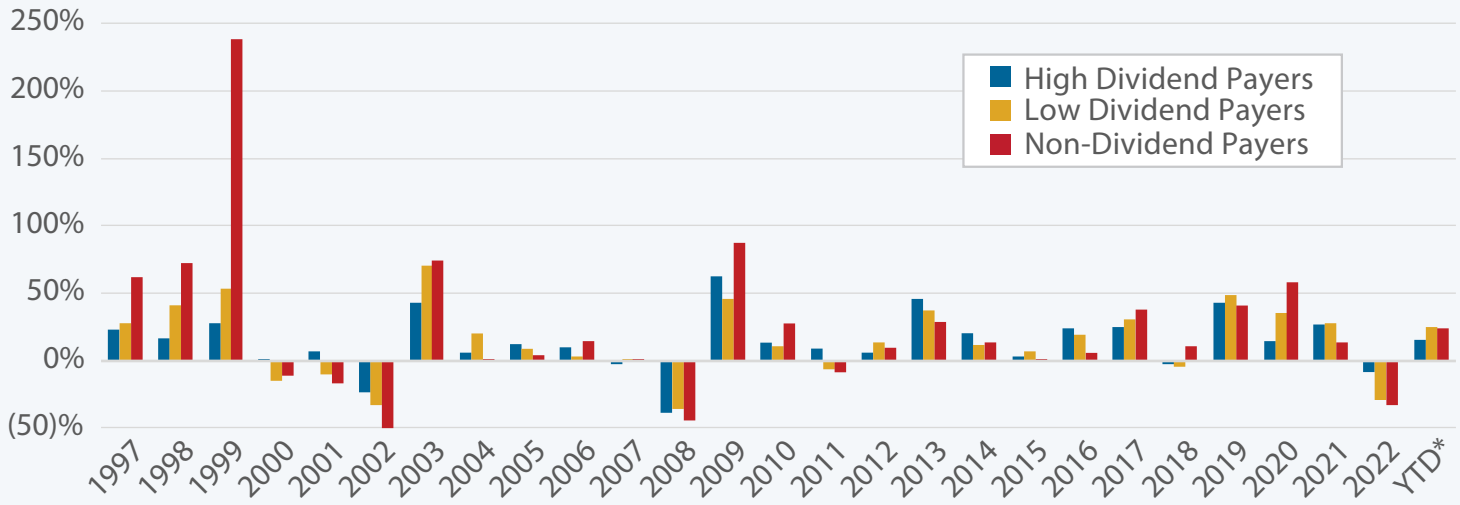
TECH STOCKS ARE ON THE RUN AGAIN THIS year, with investors drawn both to the promise of artificial intelligence (AI) and the safe haven appeal of large tech companies with cash-heavy balance sheets. Nvidia Corporation (NVDA, not held) was the big winner, up an astounding 190% from the beginning of the year. It would be understandable if income-focused investors feel they are on the sidelines, missing all of the excitement.

But how have high-dividend-paying tech stocks fared over the long term? High-yielding stocks have outperformed the broad market over the long term, as we have shown in past quarterlies. For technology stocks, it's a tighter race.

To answer the question, we separated tech stocks into three groups: non-dividend payers, low-dividend payers (bottom 50% of yields), and high-dividend payers (top 50% of yields). Looking at the 25 year period of 1997-2022, non-paying tech stocks outperformed dividend-paying tech stocks. This conclusion is, however, entirely driven by the internet bubble of the late 1990s. If we restrict our period to 2000-2022, high-dividend paying tech stocks outperformed both low-dividend paying tech stocks and non-payers.

Will Your Dividends Rise in a Recession?
See page 3.

High, Low, and Non-Dividend Paying Tech Stocks
Total Return by Calendar Year



Source: Bloomberg. Universe was BICS Technology members of the Russell 1000 Index, broken into 3 groups: High Dividend Payers, Low Dividend Payers, and Non-Payers. Payers were broken into High or Low based on indicated dividend yield where higher was considered better. High was the top 50% by indicated yield; Low was the bottom 50% by indicated yield. All 3 data sets are equal-weighted and were rebalanced as of calendar year end dates (except 2023 year-to-date, which is as of June 30, 2023).

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What should we conclude? It depends on how you view the internet bubble. In our view, it was a period in which many stocks became completely unmoored from valuation. Bankruptcy awaited many companies at the end of the decade. But the problem wasn't just with unprofitable, money-losing dot coms. Many well-established large cap tech companies became so overvalued that, when the crash came, it took years to recover. For example, a buyer of Microsoft (MSFT, not held) shares at its peak in 1999 would not get back to break-even until 2014. A buyer of **Cisco (CSCO)** shares at its early 2000 peak never got back into the black. Both Microsoft and Cisco are thought of as good companies—the problem was with the market, not the companies. During the internet bubble, the market lost its ability to put a reasonable value on businesses.

If we set the internet bubble aside, diversified, high-paying dividend stocks have the best historic returns. At Miller/Howard, we have long argued that a regular dividend represents a signal from management that they are confident in the long-term future of their business. It is not a commitment made lightly because the market punishes dividend cutters severely. For this reason alone, we might expect high-dividend tech stocks to outperform. But the track record of tech stocks suggests another underlying reason why dividend stocks outperform: High-dividend paying tech stocks have the lowest volatility, non-payers have the highest volatility, and low-dividend paying tech stocks fall in between.

Historical Results Dominated by Internet Bubble

Average Returns & Volatility for Tech Stocks

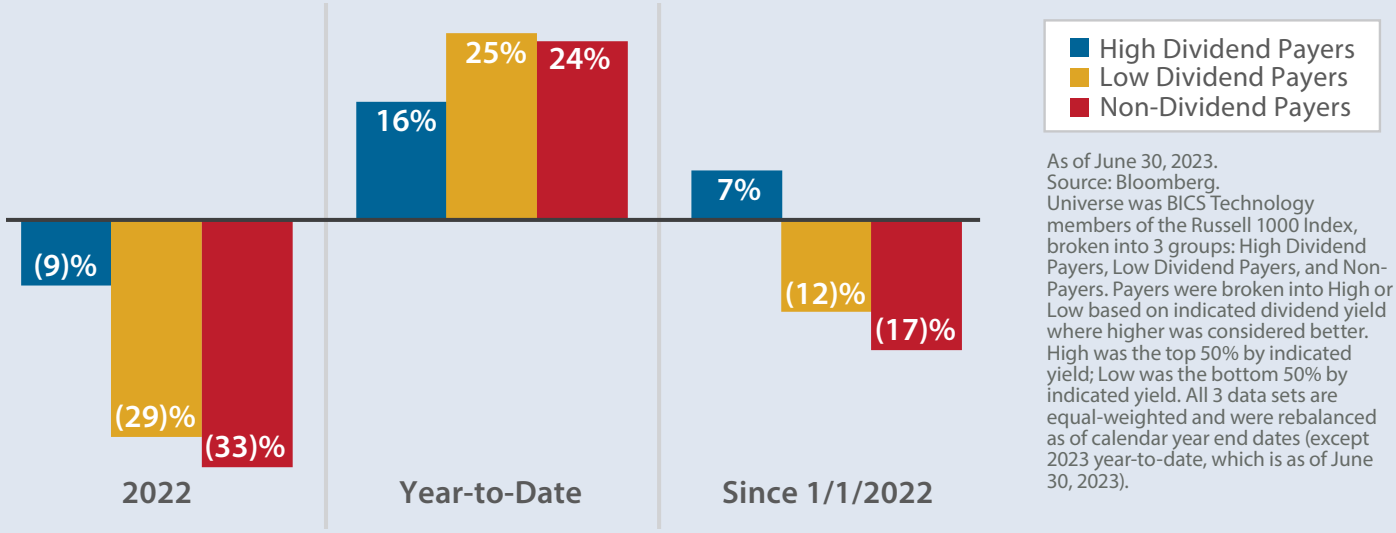
	High Payers	Low Payers	Non-Payers
1997-2022 Performance	12%	11%	15%
1997-2022 Standard Deviation	21%	27%	55%
2000-2022 Performance	11%	8%	7%
2000-2022 Standard Deviation	22%	26%	33%

Source: Bloomberg. Universe was BICS Technology members of the Russell 1000 Index, broken into 3 groups: High Dividend Payers, Low Dividend Payers, and Non-Payers. Payers were broken into High or Low based on indicated dividend yield where higher was considered better. High was the top 50% by indicated yield; Low was the bottom 50% by indicated yield. All 3 data sets are equal-weighted and were rebalanced as of calendar year end dates.

Volatility can be a return killer. The math is a bit involved, but it is easiest understood by considering that when a stock drops 50% one year, it needs to go up 100% the next to break even. The first half 2023 performance for non-payers and low-dividend paying tech stocks look snappy, but returns over the past year and a half actually favor high-dividend tech payers. The reason is volatility—both non-payers and low-dividend paying tech had significantly steeper losses in 2022, putting their investors in much deeper holes than owners of high-dividend tech payers.

Volatility can be a Return Killer

Recent Performance of Tech Stocks



As of June 30, 2023.
Source: Bloomberg.
Universe was BICS Technology members of the Russell 1000 Index, broken into 3 groups: High Dividend Payers, Low Dividend Payers, and Non-Payers. Payers were broken into High or Low based on indicated dividend yield where higher was considered better. High was the top 50% by indicated yield; Low was the bottom 50% by indicated yield. All 3 data sets are equal-weighted and were rebalanced as of calendar year end dates (except 2023 year-to-date, which is as of June 30, 2023).

Will Your Dividends Rise in a Recession?

Income investors find themselves in rough seas. While inflation has eased this year, it remains above the Fed's target, and the Fed is signaling that higher interest rates are still likely. Traditional, early indicators of a pending recession, such as surveys of manufacturing purchasing managers and bank loan officers, continue to flash red. We have also seen several large cyclical companies guide estimates down due to weakening consumer demand. With potential problems looming, can we still expect dividends to ratchet up, even if we end up having a recession?

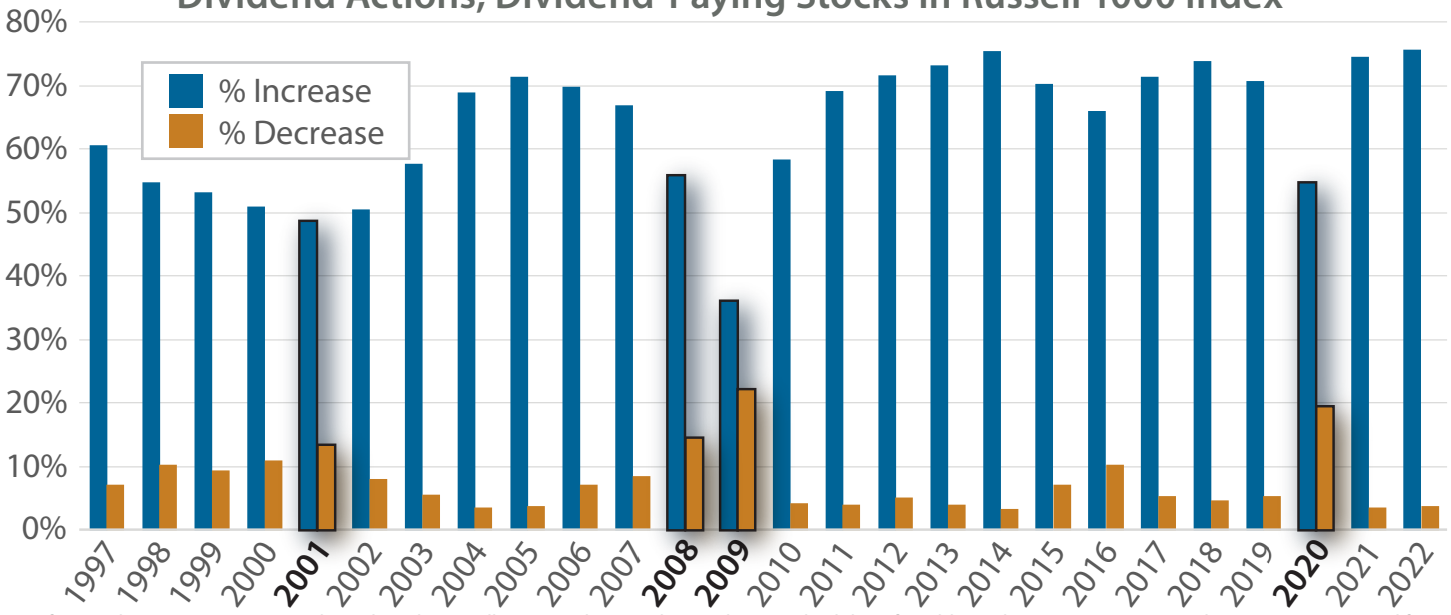
First, the good news. On average, across the calendar years 1997-2022, 63% of dividend payer actions in the Russell 1000 Index were dividend increases, while only 8% of actions were dividend decreases. Frequent dividend increases give equities one of their key advantages over bonds—what we like to call *"unfixed income."* The picture gets more challenging in recessions. During the three recessions in the past 30 years, the percentage of payers raising their dividend dropped while cuts became more frequent. Overall, increases still outnumbered decreases by almost 3-to-1 during recession years.

That may sound comforting, but it comes with a huge caveat—dividend increases tend to be smaller than dividend cuts. Over the past 26 years, the average dividend increase was 0.38%, based on change in yield—meaning that a stock with a dividend yield of 4.00% at the end of the trailing year would have a yield of 4.38% before any stock price changes. Dividend cuts tend to be much larger, primarily because 56% of cuts are full eliminations of the dividend. On average, dividend cuts have eliminated 3.63% of yield, meaning a 4.00% yielder would drop to 0.37%.

Given the potential damage dividend cuts can have on portfolio income, Miller/Howard seeks to invest in stocks that our research suggests are likely to increase dividends, while attempting to avoid dividend cuts. Our view is that a great deal can be learned from past dividend-paying behavior.

Dividend Increases Outpace Decreases, Even During Recessions

Dividend Actions, Dividend-Paying Stocks in Russell 1000 Index



As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Methodology for tables & charts on pages 3 - 7, and page 12: 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. Of note, for the tables and chart on page 7, dividend declaration date was used to determine dividend action prior and post WHO Announcement. Declaration date was used to better capture actions taken in response to the pandemic. Recessionary years 2001, 2008, 2009, and 2020 are as defined by The National Bureau of Economic Research (NBER).

Looking at dividend increasers and cutters in the Russell 1000 during the past three recessions, we can draw the following conclusions:

- ***Dividend decreasers were much more likely to be financially levered.*** On average, cutters had a net debt/EBITDA average of 2.4x, while increasers had an average leverage ratio of 1.2x. At Miller/Howard, we believe that it is always prudent to avoid excessive leverage, but the financial stress of a recession makes leverage even more threatening to your dividends.
- ***Companies that raise dividends during recessions tended to enter the period with stronger growth tailwinds.*** We found that trailing revenue growth and EPS growth were both substantially higher for raisers than for cutters. The lesson is simple—entering a recession in strong financial shape makes dividend increases more likely and helps fireproof dividends from cuts.
- ***Dividend increasers averaged higher free cash flow (as a percentage of market capitalization) than dividend cutters.*** Strong free cash flow requires a combination of good profitability, working capital control, and moderate capital spending—all of which leave cash available for dividends.

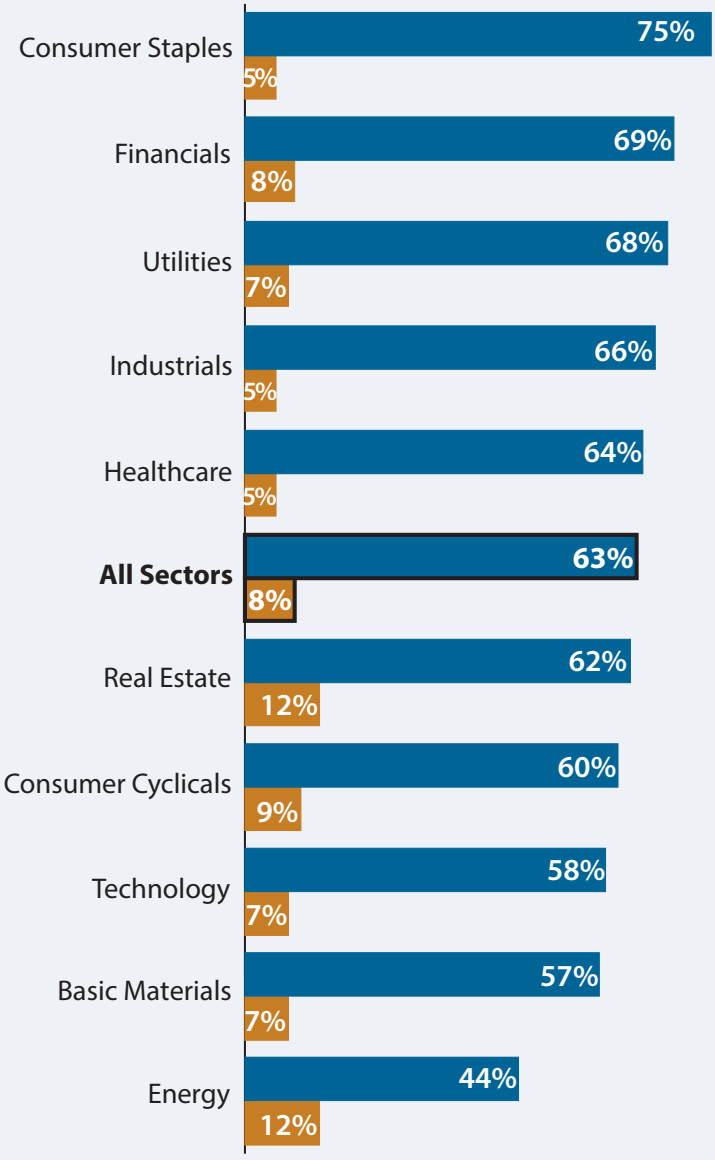
In terms of sector performance, the patterns are not as crisp. Consumer staples, healthcare, and utilities lived up to their defensive reputations, delivering high levels of dividend increases. Consumer cyclicals, basic materials, and energy had a higher incidence of dividend cuts, in line with long-term thinking on cyclicals. It's harder to spin a story about some of the other sectors. A fair criticism of our study is that we have combined three completely different recessions, so the next three pages examine each recession separately.

Characteristics of Dividend Increasers/Decreasers
During Recent Recessionary Periods

	INCREASERS	DECREASERS
Net Debt/EBITDA*	1.2x	2.4x
Sales Growth	10.0%	4.0%
EPS Growth	30.0%	5.0%
Free Cash Flow Yield*	5.0%	2.4%

As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages are for the recessionary years 2001, 2008, 2009, and 2020, as defined by The National Bureau of Economic Research (NBER). See methodology on page 3. *Excludes sectors financials, real estate, and utilities.

Sector Members that Increased or Decreased Their Dividends
During Recent Recessionary Periods



As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages are for the recessionary years 2001, 2008, 2009, and 2020, as defined by The National Bureau of Economic Research (NBER). See methodology on page 3.

2001: Popping the Internet Bubble

It was the party that would never end, until it did. The period is now called the "Internet Bubble," but at the time the phrase "New Economy" was bandied about—a pretentious term that should have been a red flag for all investors. Inflation began to rise in 1999, peaking at 3.8% in early 2000. To fight inflation, the Fed started raising interest rates, taking the Fed Funds upper bound target from 4.75% in early 1998 to 6.50% in May 2000. The stock market began to roll over in March 2000, driven by concern over valuations and the deteriorating economic outlook. The recession followed in 2001, with unemployment rising and economic growth shrinking.

How did dividends hold up? Overall, there were still plenty of dividend hikes, with increases outnumbering decreases by 3.6 times. With a few exceptions, the patterns fit the classic playbook:

- ***Dividend increasers tended to have lower leverage, higher trailing sales and EPS growth, and higher free cash flow yields.***
- ***Dividend decreasers were the opposite—more levered, with slower trailing sales and EPS growth and inferior free cash flow.***

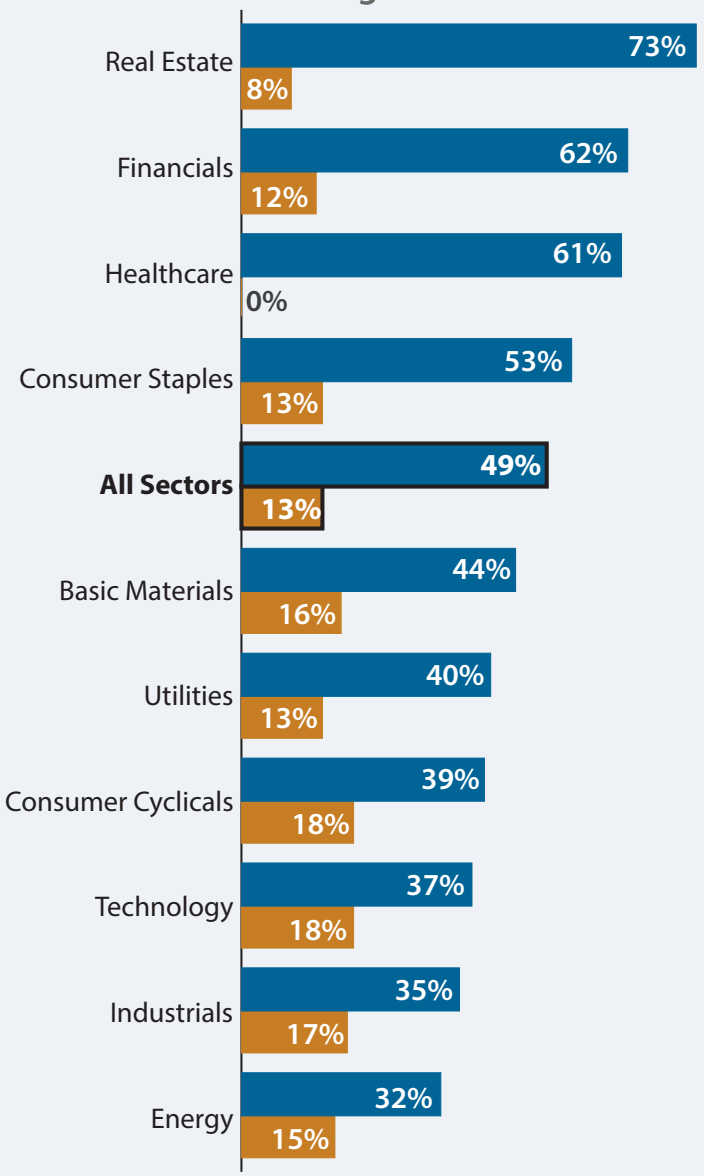
For the most part, sector dividends aligned with historical patterns. Healthcare and consumer staples both had a high number of increasers relative to decreasers. More cyclical sectors, such as energy, industrials, consumer cyclicals, and basic materials, still had more increases than cuts, but decreases were a higher proportion of the mix. For once, real estate and financials were distant from the stress in the economy, and so dividend performance in those sectors was a positive surprise. In contrast, the collapse of the Internet Bubble directly impacted the dividend-paying ability of tech stocks. Some utilities in this period were hit by "New Economy" deregulation causing an unusually high incidence of dividend cuts in this normally defensive sector.

Characteristics of Dividend Increasers/Decreasers During 2001

	INCREASERS	DECREASERS
Net Debt/EBITDA*	1.1x	3.1x
Sales Growth	32.1%	14.5%
EPS Growth	37.8%	22.3%
Free Cash Flow Yield*	4.2%	(0.5)%

As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2001-December 31, 2001. See methodology on page 3. *Excludes sectors financials, real estate, and utilities.

Sector Members that Increased or Decreased Their Dividends During 2001



As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2001-December 31, 2001. See methodology on page 3.

2008-2009: Great Financial Crisis

The key domino precipitating this crisis was loose lending to financially weak borrowers, who used the easy money to bid up home prices. Excessive leverage pervaded the financial and real estate sectors, making them vulnerable to a drop in asset prices. Once the dominos started falling, dividend increases faded, and dividend decreases ramped up.

Dividend disappointments were concentrated in the three sectors at the heart of the crisis: financials, real estate, and consumer cyclicals. Dividend cuts had the following themes:

- ***Mortgage lenders and home builders were at the center of the crisis, and many reduced or eliminated dividends.***
- ***Dividend cuts were also common in consumer cyclical companies, particularly those that sell durable goods that are frequently bought with credit.***
- ***Real estate, insurance companies, and investment banks with large investment portfolios were also compelled to cut dividends in order to rebuild capital following the drop in asset values.***

In contrast, the defensive sectors (consumer staples, utilities, and healthcare) proved to be fairly reliable dividend increasers.

The characteristics we find useful in predicting dividend increases and decreases in a typical year largely worked during the crisis. Dividend increasers in the core of the market (i.e., not including financials, utilities, or real estate) had lower leverage than those that cut dividends. Increasers also tended to begin the year with stronger revenue and EPS growth than decreasers.

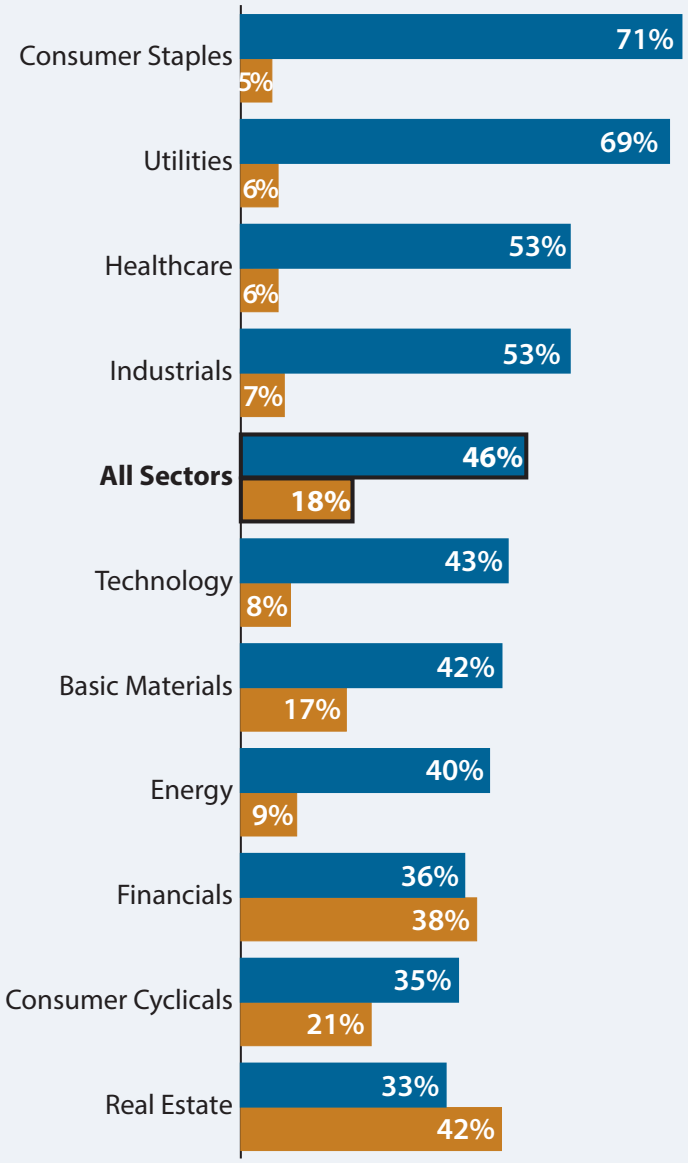
The one factor that did not work in the Great Financial Crisis was free cash flow (FCF) yield (FCF/market capitalization), as dividend cutters actually had higher FCF yields than increasers, contrary to the long-term trend. We view this as a timing mismatch. One defining characteristic of the 2008-2009 crisis is that it played out more slowly than the 2001 and 2020 recessions. Equity prices fell sharply in 2008, helping to raise FCF yield. Most of the dividend cuts were in 2009—after equity prices had already fallen dramatically.

Characteristics of Dividend Increasers/Decreasers During 2008-2009

	INCREASERS	DECREASERS
Net Debt/EBITDA*	0.9x	2.3x
Sales Growth	11.2%	3.8%
EPS Growth	11.9%	(69.7)%
Free Cash Flow Yield*	5.4%	8.7%

As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2008-December 31, 2009. See methodology on page 3. *Excludes sectors financials, real estate, and utilities.

Sector Members that Increased or Decreased Their Dividends During 2008-2009



As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2008-December 31, 2009. See methodology on page 3.

2020: Lockdown

We were off to a good dividend year in 2020, prior to news of the pandemic, with roughly 24 dividend increases early in the year for every decrease. The World Health Organization (WHO) declared that the COVID-19 outbreak was officially a pandemic on March 11th. The downward economic spiral was not caused directly by the pandemic but by the lockdown that occurred to varying degrees throughout the world. Many companies cut dividends to conserve cash.

Similar to previous recessions, dividend cutters tended to have higher leverage and slower trailing EPS and sales growth. Most of the companies that cut were directly exposed to the lockdown. Examples included energy, hotels, restaurants, airlines, casinos, retail stores, and commercial real estate companies.

Raising the Odds of Dividend Growth During Recessions

Based on the past three recessions, we believe companies with low leverage and stronger-than-average revenue and EPS growth are less likely to cut their dividends. Said another way, we see it as a risky time to invest in wobbly companies hoping for a turnaround.

Companies in defensive sectors (consumer staples, healthcare, and utilities) have historically been more likely to continue with dividend increases during a recession. One takeaway from our investigation of the individual recessions is that each period had its unique origin—tech in 2001, banks in 2008-2009, and travel & leisure in 2020. It's still too early to know for certain if we will have a recession, and if we do, what sector will be the most stressed. Given the high level of uncertainty, we continue to advise income investors to lean towards companies with healthy businesses and strong balance sheets—characteristics that should protect dividend growth and overall portfolio income levels.

2020 Characteristics of Dividend Increasers/Decreasers

Pre & Post WHO Announcement

Pre-WHO	INCREASERS	DECREASERS
Net Debt/EBITDA*	1.5x	2.6x
Sales Growth	4.9%	(0.6)%
EPS Growth	7.6%	(45.8)%
Free Cash Flow Yield*	3.6%	(1.5)%

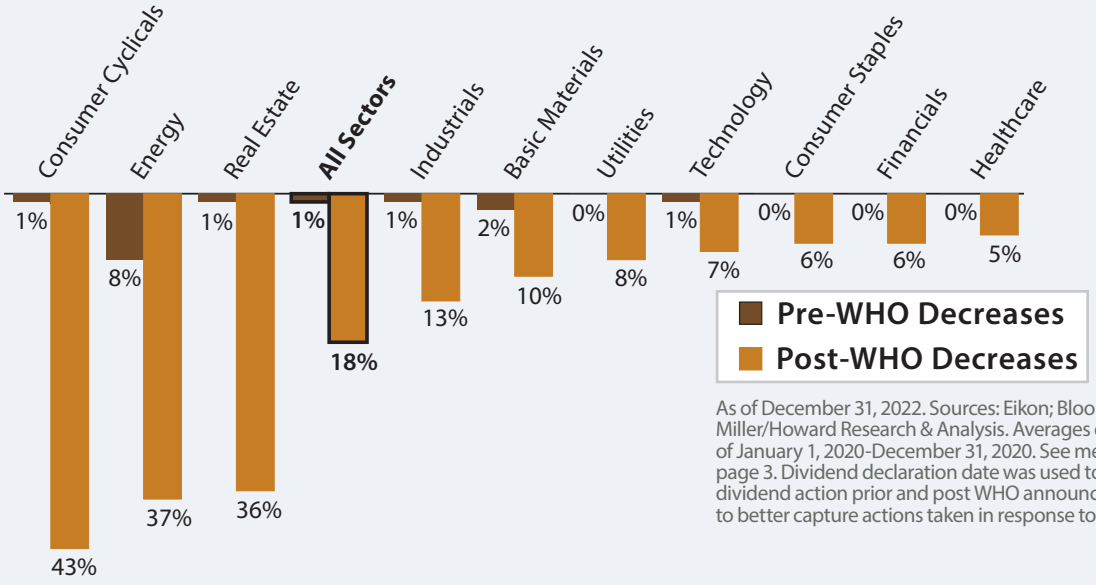
Post-WHO	INCREASERS	DECREASERS
Net Debt/EBITDA*	1.5x	3.0x
Sales Growth	3.6%	1.2%
EPS Growth	7.6%	(51.7)%
Free Cash Flow Yield*	4.2%	4.9%

Declared Dividend Actions during 2020	INCREASERS	DECREASERS
Pre-WHO	193	8
Post-WHO	209	126

As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2020-December 31, 2020. See methodology on page 3. Dividend declaration date was used to determine dividend action prior and post WHO announcement (3/11/20) to better capture actions taken in response to the pandemic. *Excludes sectors financials, real estate, and utilities.

2020 Sector Members that Increased or Decreased Their Dividends

Pre- & Post-WHO Announcement Dividend Cuts



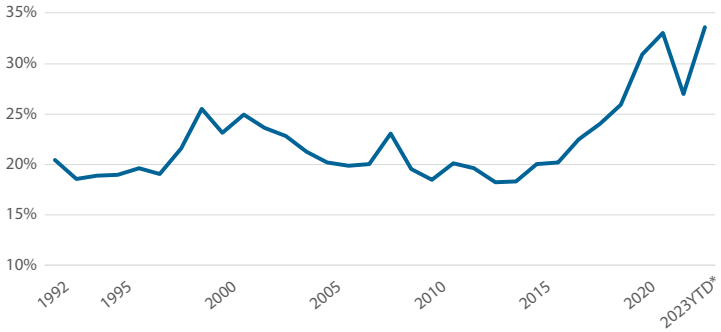
As of December 31, 2022. Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis. Averages over the period of January 1, 2020-December 31, 2020. See methodology on page 3. Dividend declaration date was used to determine dividend action prior and post WHO announcement (3/11/20) to better capture actions taken in response to the pandemic.

THE EQUITY MARKET RALLIED THIS YEAR, with the S&P 500 Index up almost 17%. Broad market performance has been driven by a narrow set of large-cap communications and technology stocks. The stocks we are dubbing the *"New Super Seven"* (Meta, Alphabet, Apple, Amazon, Netflix, Microsoft, and Nvidia, all not held) are ahead of the market this year after trailing the market significantly in 2022. So far this year, the New Super Seven have been responsible for an astounding 68% of the year-to-date performance of the S&P 500. These large-cap companies pay little or no dividends, and have high price-to-earnings (P/E) multiples, but are, nonetheless, viewed as businesses that would not be greatly affected by a recession.

Currently, market-capitalization weighted benchmarks such as the S&P 500 are highly concentrated in the biggest names. The top 10 market cap stocks in the S&P 500 made up 34% of the index at quarter end, the highest level in the last 30 years. This is not typical, and it represents, in our view, heightened risk for passive investors.

Market Concentration is the Highest in 30 Years

Weight of Largest 10 Holdings in the S&P 500 Index

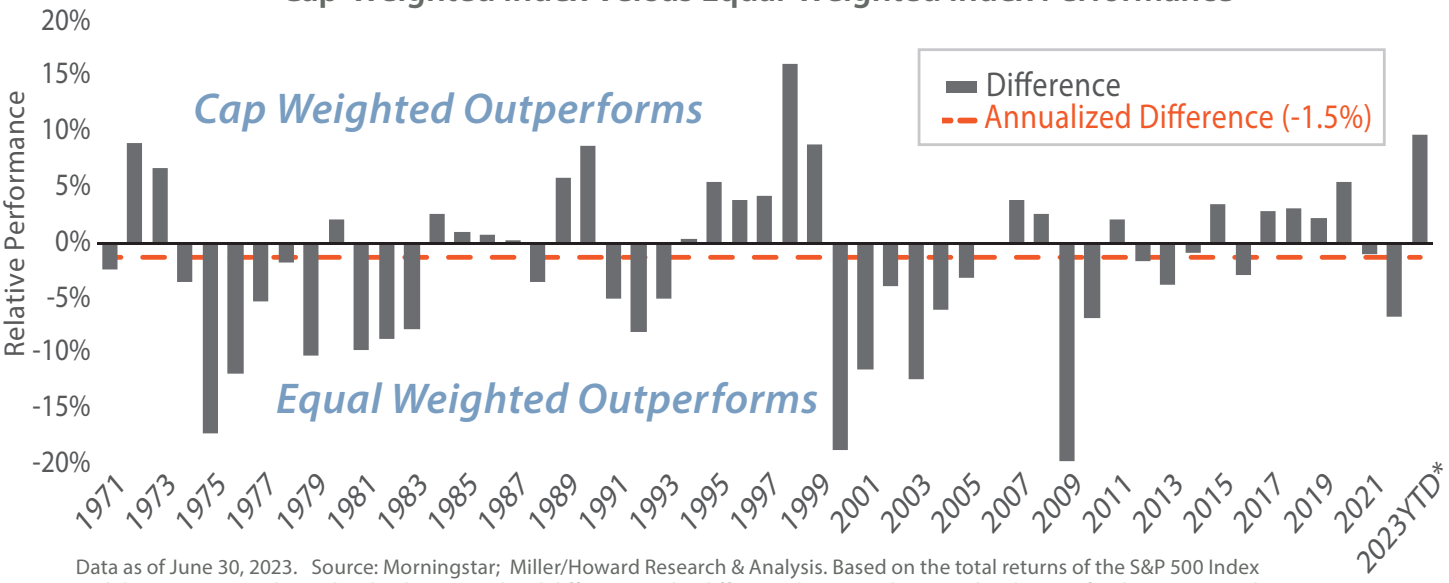


As of June 30, 2023. Source: Bloomberg. Data reflects each calendar year end date, as well as June 30, 2023.

This is not the first time that the market has been enamored with the largest-cap companies. One way to show history is to compare the returns of the S&P 500 Index with its equal-weighted version (same stocks, just equal weights). Since 1971, the equal-weighted version has outperformed the cap-weighted S&P 500 in 55% of years, with a compounded average growth rate of 12.2% versus 10.7%—a difference of 1.5%. Historically, investors relying on the biggest companies to continually produce the best investment results have been proven wrong.

Unusual Outperformance for the Cap-Weighted Index

Cap-Weighted Index Versus Equal-Weighted Index Performance



Data as of June 30, 2023. Source: Morningstar; Miller/Howard Research & Analysis. Based on the total returns of the S&P 500 Index and the S&P 500 Equal-Weighted Index. Annualized difference is the difference between the annualized return for the S&P 500 Index vs the S&P 500 Equal-Weighted Index. 2023 year-to-date (YTD) is as of June 30, 2023.

Looking Ahead

The outlook for the economy continues to be mixed at best. Inflation has come down a bit but remains above the Fed's 2% target, and it's expected we will see additional interest rate hikes. The bond market is still bearish, with the 2-year Treasury yielding over a full percentage point more than the 10-year. Surveys of industrial purchasing managers still indicate that orders are softening. The Fed's survey of bank loan officers continues to show that credit standards are tightening. These weak metrics combined with the aggressive Fed rate hikes would have been the recipe for a recession in the past, albeit with varying lags.

The aftermath of the pandemic makes the situation unique. Stimulative government payments combined with loan forbearance programs left consumers flush with cash, although balances are gradually dropping back towards normal. Most importantly, the labor market continues to be robust with low unemployment, high levels of job openings, and good wage growth.

Overall, the economic outlook remains highly uncertain, so we have strived to invest in companies that should produce dividend growth regardless of whether we have a recession or not. Our research is focused on stable companies with strong balance sheets and reasonable valuations, leading to well-supported dividends. As a result, the portfolios are overweight in technology, healthcare, and utilities, and underweight in cyclical sectors including industrials, financials, and consumer discretionary. Our tilt away from cyclicals explains much of our underperformance against the Russell 1000 Value Index this quarter, as cyclical sectors performed relatively well, even while many companies warned that consumer spending is slowing down.

Our Income-Equity holdings remain true to our mission, yielding 3.5% and 3.7% for the no-MLP and with-MLP versions, respectively. We continue to look for companies across all sectors that pay a high dividend, have financial strength, and show good prospects for dividend growth. Given the current economic uncertainties, we are gravitating towards investments that can likely grow dividends even in the face of a recession.

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

Portfolio Highlights

- **Dividend Increases:** Five of our holdings increased their regular dividend this quarter, including **Johnson & Johnson (JNJ), Portland General Electric (POR), Cardinal Health (CAH), LyondellBasell (LYB),** and **Royal Bank of Canada (RY).**
- **Bank Increases for 3Q:** Following successful Fed stress-test results, three of our bank holdings, **Bank of New York Mellon (BK), Goldman Sachs (GS),** and **JPMorgan Chase & Co (JPM),** announced their intention to raise dividends in 3Q 2023.
- **Sales:** We exited our position in **KeyCorp (KEY)** early in the quarter as we expect capital requirements will increase for midsized banks, putting downward pressure on profitability. We sold **Extra Space Storage (EXR)** because we believe higher interest rates and a recently announced acquisition have added substantially to risk. We sold our remaining position in **Eastman Chemical (EMN)** as we view its accelerating capital expenditure as ill-timed and potentially hindering its ability to grow dividends.
- **Buys:** We initiated a position in **MSC Industrial Direct (MSM)** following its announcement that they would consolidate two share classes to one, facilitating better governance, which should, in our opinion, lead to better financial performance. We added **Royal Bank of Canada (RY)** due to its high dividend yield and, in our view, low risk profile. We took a position in **Conagra Brands (CAG)**, a defensive business with a high yield. In the no-MLP version of the strategy, we bought **Phillips 66 (PSX)** as a high-yielding stock with, in our eyes, good dividend coverage and a stellar balance sheet. In the with-MLP version, we bought **Enterprise Products Partners (EPD),** finding attractive its high yield, strong free cash flow, and good dividend coverage.

MLP Strategy

QUARTERLY REPORT 2Q 2023

THE MIDSTREAM SECTOR HAD ANOTHER good quarter, despite trailing the broad market and weaker commodity prices. This is likely attributable to the focus on free cash flow (FCF), strong distribution increases, and a sector yield that remains compelling compared to other asset classes.

We have written extensively about free cash flow and the inflection point that midstream hit a few years ago. We have mainly focused on the free cash flow yield (cash flow from operations minus capital expenditures [capex] divided by market cap), but this quarter, we want to highlight free cash flow coverage (cash flow from operations minus capex divided by distributions paid). In other words, FCF coverage measures how much cash the company generates for each dollar it pays out in distributions.

The midstream sector's free cash flow coverage had been increasing since 2015. For many years, the coverage ratio was below one, meaning companies were raising money to cover the distribution.

Now, cash flow from operations has grown enough to fund capital expenditures and the distributions, resulting in higher free cash flow ratios. We believe the higher ratios not only make current distributions more secure, but also support the potential for future distribution increases.

Because of the free cash flow that midstream generates, there is little need to access the capital markets. The sector's improved financial position, including stronger balance sheets, less reliance on debt and equity markets to finance growth projects, and most importantly, vastly improved free cash flow coverage ratios, point to a better investment opportunity.

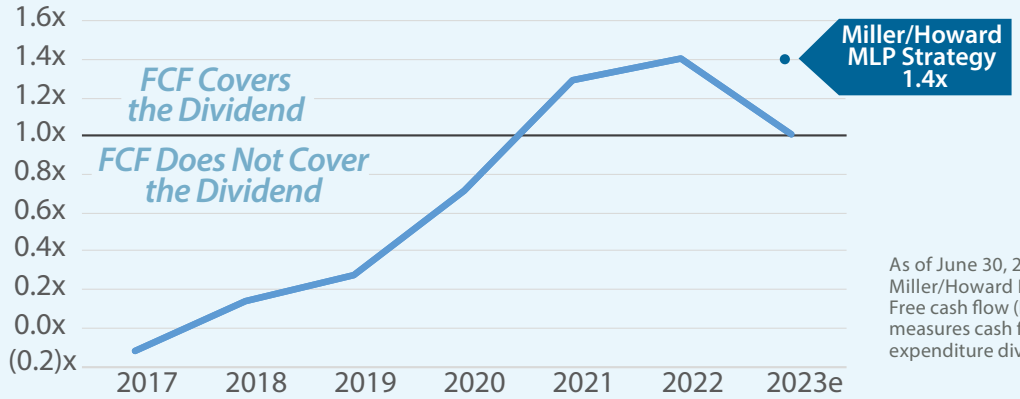
Portfolio Highlights

- **Distribution Increases:** This quarter, 3 of our 17 holdings announced dividend increases. The average increase was 34% year-over-year.
- **Sales:** We sold **DCP Midstream (DCP),** as it was taken over by its sponsor.
- **Buys:** We increased our weight in **Antero Midstream (AM)**, which has also reached an inflection point in free cash flow (FCF) that we believe should enable debt reduction and share buybacks. We also increased our weight in **Enterprise Products Partners (EPD)**, which has good FCF coverage and was recently upgraded to an A- credit rating. We initiated a position in **Sunoco LP (SUN)**, whose business model has proven to be stable in multiple macro environments and above-average FCF should enable debt reduction and, ultimately, share repurchases, in our view.

Looking Ahead

Several large midstream companies are guiding to higher capital expenditures in 2023, causing analysts' expectations for FCF coverage for the midstream sector to bend down to 1.0x. We view this trend with caution, believing companies with higher FCF coverage will prove to be better long-term investments. Dividends in the Miller/Howard's MLP Strategy are currently covered 1.4x expected 2023 free cash flow—well above the sector average. Our high coverage gives us confidence that dividends in our strategy are relatively safe with room to grow.

Midstream Universe: Free Cash Flow Dividend Coverage Remains Strong



As of June 30, 2023. Sources: Refinitiv Eikon; Miller/Howard Research & Analysis.
Free cash flow (FCF) coverage is a ratio that measures cash flow from operations minus capital expenditure divided by distributions paid.

Infrastructure

QUARTERLY REPORT 2Q 2023

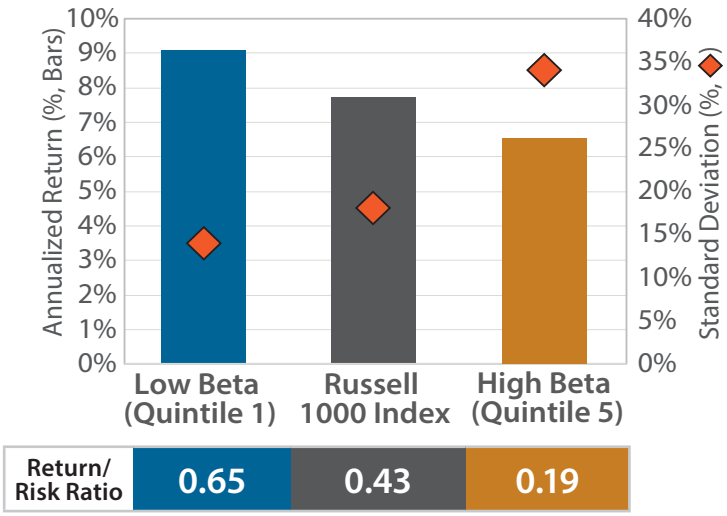
THE INFRASTRUCTURE STRATEGY WAS ROUGHLY flat in the quarter, failing to keep pace with the broader market which was led by a surging information technology sector. The portfolio's allocation to utilities and energy created a headwind as they were the only sectors to finish the quarter in negative territory. Refiners and shippers also came under pressure from sector-specific headwinds.

From a macro standpoint, interest rate sensitivity continued to impact returns as cell towers and utilities lagged in the face of rising short-term interest rates. International exposure was a tailwind to absolute performance with non-US holdings generally besting US positions. Valuation was an influential factor as holdings with lower price-to-earnings multiples (P/E) or higher free cash flow yields outperformed.

Looking Ahead

The Infrastructure Strategy invests in essential service providers with high barriers to entry. In our view, demand for these services should be stable relative to the broad economy. If a recession does materialize, we would expect more stable investments to outperform the cyclical sectors.

Lower Beta Stocks Offer Better Risk/Return Ratios



Sources: Bloomberg; Miller/Howard Research & Analysis. Members of the Russell 1000 Index were quintiled by market beta and rebalanced at calendar year end over a 25-year period through 12/31/2022. Quintile members are equal-weighted.

Portfolio Highlights

- **Dividend Increases:** This quarter, the holdings in our portfolio announced 4 dividend increases with an average increase of over 15% year-over-year.
- **New Position:** We initiated a position in **HCA Healthcare (HCA),** the largest hospital operator in the US. We expect HCA to benefit from scale, increasing market share in growing markets, and an inflection in margins despite the inflationary environment.
- **Exiting Positions:** We exited our position in **UGI Corp. (UGI)** on concerns its propane business would continue to deteriorate and **SBA Communications (SBAC)** on concerns that interest rates would continue to create headwinds for cell tower companies.
- **Reducing Risk Profile:** We trimmed our positions in **CenterPoint Energy (CNP), Marathon Petroleum (MPC), Grupo Aeroportuario del Centro Norte (OMAB), Cheniere Energy (LNG)**, and **Williams (WMB).** We increased our positions in **PPL Corp. (PPL), Enbridge (ENB), BCE Inc. (BCE),** and **National Grid (NGG).** Thematically, these transactions—along with the previously mentioned buys and sells—were a continuation of our efforts to reduce portfolio beta.

While it is intuitive that stable stocks would perform better in a downturn, clients are usually surprised to learn that stable stocks have outperformed the broad market over the long term. Beta measures how much a stock tends to move with the market. Over the past 25 years, the lowest beta quintile of stocks in the Russell 1000 Index outperformed the Russell 1000, while the highest beta quintile of stocks underperformed. Consistent with these results, the overall volatility of low beta stocks has been less than the Russell 1000 and substantially less than the high beta quintile.

Over the past 3 years, the Miller/Howard Infrastructure Strategy currently has a beta of 0.75, meaning it has had dampened reactions to fluctuations in the S&P 500 Index. In our view, the low-beta characteristic of our Infrastructure Strategy positions it to generate performance with relatively low volatility over long holding periods.

Utilities Plus

QUARTERLY REPORT 2Q 2023

UTILITIES HAVE SPENT MUCH OF THIS YEAR stuck in the doldrums as the broad market rallied. Interest rates appear to be a primary contributor to the sector's underperformance since last fall, as the yield on the 10-year Treasury surpassed the group's dividend yield.

Relative performance among utilities was not as clearly delineated along the lines of growth and value as the broad market. Independent power producers—particularly those with nuclear assets—led the group while gas local distribution companies (LDCs) and renewable developers lagged.

Looking Ahead

The dividend history of the utility sector exemplifies the durability of the regulated business model. Looking at utilities within the Russell 1000 Index over the last 25 years, on average 69% of utilities increased their dividend. The percentage of utilities increasing their dividend each year has trended up over time, coinciding with the shift toward a fully-regulated business model. What's more, the percentage of utilities increasing dividends showed no material change during recessions. This is in stark contrast to the entire Russell 1000, where during recession years, dividend increases decline. Based on this history, we believe that utility dividend increases should be more reliable in a recession.

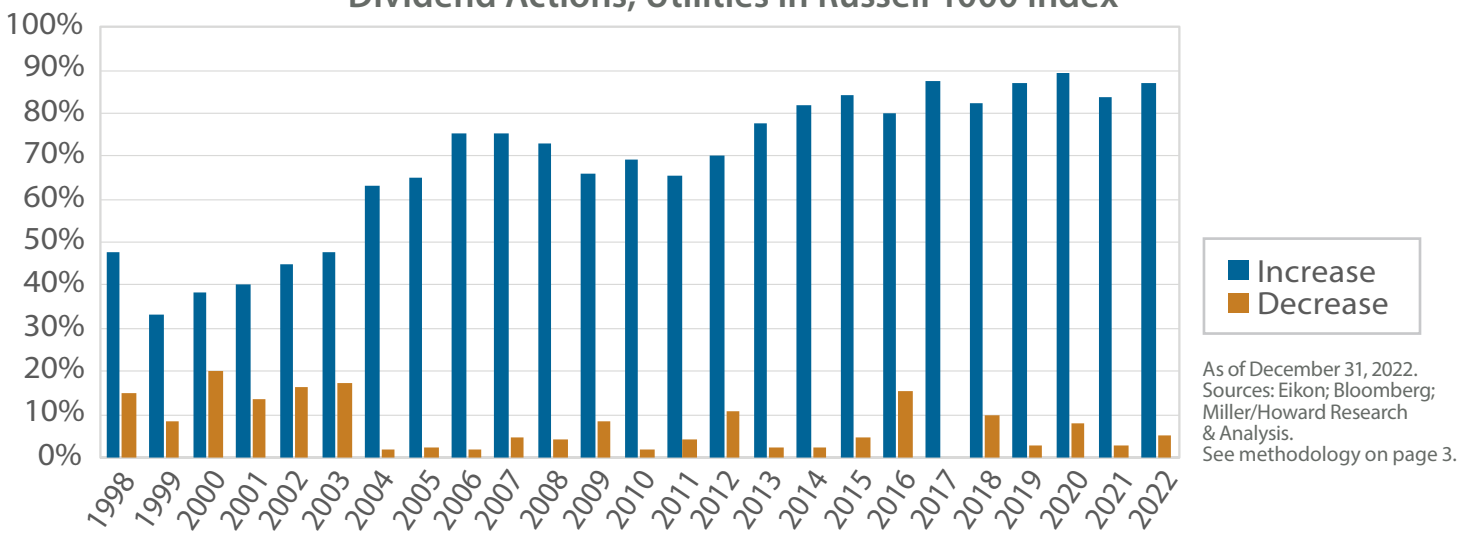
Despite an uncertain macroeconomic backdrop, we remain confident in the Utility Plus Strategy's ability to provide investors with a dependable and growing income stream.

Portfolio Highlights

- **Dividend Increases:** This quarter, the holdings in our portfolio announced 4 dividend increases with an average increase of 6.8% year-over-year.
- **New Position:** We initiated a position in **National Grid (NGG)** on the expectation it would benefit from a strong growth profile and the inflation protection embedded in the UK regulated model.
- **Trimming Positions:** We trimmed our positions in **CenterPoint Energy (CNP)** and **Vistra Energy (VST)** after periods of relative strength and **AES Corp. (AES)** due to its higher-risk business model.
- **Usual Suspects:** We increased our positions in **PPL Corp. (PPL), Southern Co. (SO),** and **Portland General Electric (POR)** for the fourth, third, and second consecutive quarters, respectively. We also added to **Dominion Energy (D)** after weakness from the company's business review created an asymmetrical return profile.
- **Exiting Positions:** We exited our position in **Knife River (KNF)** after it was spun out from **MDU Resources Group (MDU)** as the strategy fit was no longer appropriate. We also sold **UGI Corp. (UGI)** on concerns that its propane business would continue to deteriorate.

Utilities Are Frequent Dividend Increasers

Dividend Actions, Utilities in Russell 1000 Index



As of December 31, 2022.
Sources: Eikon; Bloomberg; Miller/Howard Research & Analysis.
See methodology on page 3.

North American Energy

QUARTERLY REPORT 2Q 2023

ENERGY STOCKS TRADED IN A NARROW RANGE this quarter, reflective of macro uncertainties. Oil prices drifted downward on weaker demand tied to reduced durable goods manufacturing post-pandemic, and lax enforcement of Western sanctions against Russian and Iranian exports. Since January 2022, the US has drained 41% of its Strategic Petroleum Reserve to mitigate war-related supply disruptions. In actuality, Russian exports are *up* significantly versus pre-invasion levels.

We frequently note that this portfolio, in contrast to passive energy strategies, is not simply a proxy bet on crude oil prices. We view the energy landscape far more dynamically, offering opportunity in a variety of oil price environments. This quarter, natural gas producers and pipelines delivered strong relative returns, as gas price futures rose 26%.

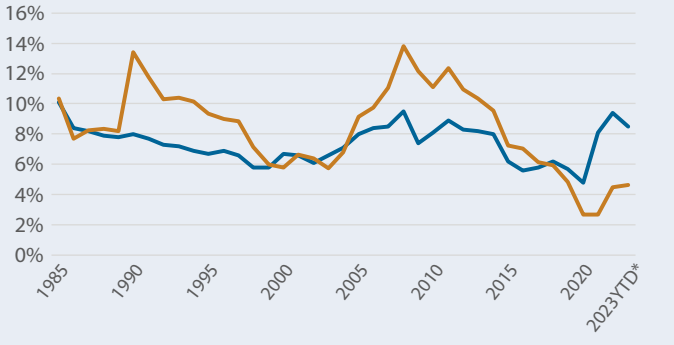
Looking Ahead

A common misconception is that energy-related expenditures are becoming a smaller portion of our nation's GDP. An oil shock today would have less impact than, say, in the early-1970's, but spending on energy as a percentage of our economy has been more or less flat for nearly 40 years. As a cyclical industry with volatile pricing, there's a tendency for this statistic to ebb and flow over time. What is unusual amid the latest surge in energy prices is the lack of a corresponding benefit to underlying equities. During 1Q 2023, energy expenditures accounted for nearly 9% of GDP. This is at the upper end of the 40-year range, and consistent with energy's historical weight in the overall market of approximately 10%. Today, however, energy equities remain mired near 4% of the market, near the bottom of the range. It's not for lack of energy industry profits. Currently, energy stocks offer a 9% free cash flow yield—roughly double the broad market. We're often asked by investors, *"Have we missed the rally?"* We believe the data suggest the opposite—that energy equities have done well in recent years despite undue pessimism. Reversing that psychology remains a source of opportunity for the space, in our view.

Portfolio Highlights

- **Energy and Income:** The portfolio currently offers an indicated yield of 3.6%, which we expect to be supplemented by buybacks and special dividends. Most exploration and production companies (E&Ps) now commit to a base quarterly dividend that is supported by approximately $40/barrel oil, in our view, combined with a formulaic return of capital commitment at higher commodity prices.
- **Along the Energy Value Chain:** This quarter, we initiated a position in pressure pumper **Liberty Energy (LBRT),** which we think will benefit from fleet electrification trends and industry consolidation. We bought two E&Ps: Bakken oil producer **Chord Energy (CHRD)** that's delivered strong well performance backed by a fortress balance sheet, and Marcellus gas producer **Range Resources (RRC)**, which has among the lowest break-even costs among peers, in our view. We trimmed our refiners **Marathon Petroleum (MPC)** and **Valero Energy (VLO)** following strong performance.

Energy Stocks are a Larger Portion of the Economy than the Stock Market



As of June 30, 2023, with data as of 1Q23. Sources: US Energy Information Administration (EIA); US Bureau of Economic Analysis, Gross Domestic Product (GDP), retrieved from FRED, Federal Reserve Bank of St. Louis for 2021, 2022 calculations; Bloomberg; Miller Howard Research & Analysis.

Small Cap Dividend

QUARTERLY REPORT 2Q 2023

A LOT CAN HAPPEN IN THREE YEARS. Miller/Howard's Small Cap Dividends Strategy has outperformed its benchmark, the Russell 2000 Index, as well as the broad market S&P 500 Index, since inception on June 30, 2020. In the most recent quarter, however, the strategy slightly trailed the Russell 2000.

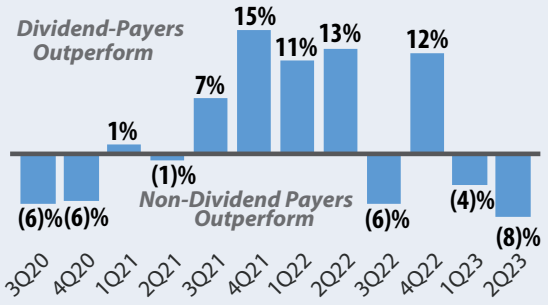
We believe the small-cap universe is rich with "hidden gems"—stocks with growth potential that haven't yet graduated into large-cap status. At Miller/Howard, our preference is for small-cap companies that are profitable, have positive free cash flow, and pay dividends. In contrast, many small-cap investors prefer lottery-ticket type investments—companies that are currently losing money but offer stories with sparkling futures. Large fractions of the index have negative profits, no dividends, and negative free cash flow—characteristics that have underperformed over the long term.

Looking Ahead

We focus our fundamental research on high-quality stocks, producing a portfolio that is well-diversified across market sectors. We embrace the "diamond in the rough" aspect of the small-cap space. We seek out stocks that have proven their potential for compounding growth: profitable, dividend-paying companies with strong free cash flow. The result is a well-diversified portfolio of high-quality companies that we believe will outperform the Russell 2000 over long holding periods.

Dividend Payers vs. Non-Payers

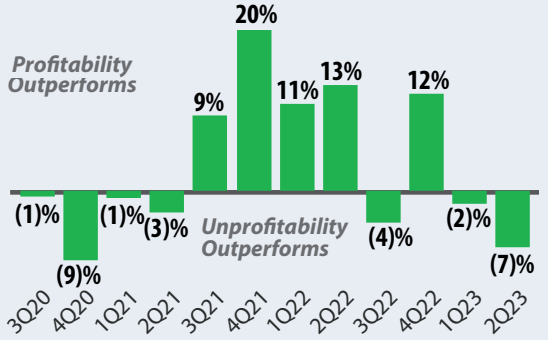
Relative Performance within the Russell 2000 Index



Long-Term Annualized Relative Returns*
+8.7%

Profitable vs. Unprofitable Companies

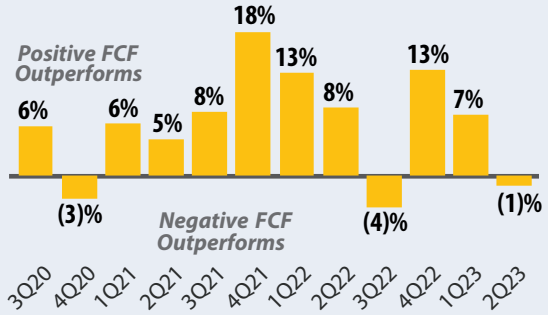
Relative Performance within the Russell 2000 Index



Long-Term Annualized Relative Returns*
+10.0%

Positive FCF vs. Negative FCF

Relative Performance within the Russell 2000 Index



Long-Term Annualized Relative Returns*
+12.4%

As of June 30, 2023. Sources: Bloomberg; Eikon; Miller/Howard Research & Analysis. Quarterly performance reflects relative average returns. *Hypothetical relative returns of a portfolio invested on January 31, 1995 (earliest period with performance data available in Bloomberg) and held to June 30, 2023. Stocks in the Russell 2000 Index were divided into six baskets (dividend-paying vs. non-paying, profitable vs. unprofitable, positive FCF vs. negative FCF) and rebalanced at month end. Dividend baskets are equal-weighted. Profitability and FCF baskets are market-cap-weighted. See definitions at the end of this presentation.

Portfolio Highlights

- **Dividends:** Currently, the dividend yield on our portfolio is 2.5%. Nine holdings raised their dividend, including **Emcor (EME), Portland General Electric (POR), Evercore (EVR), Insperity (NSP), Ethan Allen (ETD), Adecoagro (AGRO), Universal Health Realty Income Trust (UHT), Fulton Financial (FULT),** and **Matson (MATX).**
- **Special Dividends:** Holding **Boise Cascade (BCC)** declared a special dividend.
- **Sales:** We exited **First Financial (FFBC), QCR Holdings (QCRH), Korn Ferry (KFY), EnLink Midstream (ENLC), Medifast (MED), Assured Guaranty (AGO),** and **Methode Electronics (MEI).**
- **Buys:** We initiated positions in **OneMain Financial (OMF), MSC Industrial Direct (MSM), Liberty Energy (LBRT), Simulations Plus (SLP), Janus Henderson (JHG),** and **Winmark (WINA).**

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)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2Q23
Income-Equity Yield	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3	3.6	3.7
S&P 500 Yield	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.6
Ratio	2.3x	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.0x	2.4x
Income-Equity Projected Dividend Growth*	7.5	7.5	5.8	5.0	6.3	7.8	7.3	5.1	6.0	6.1	5.9
S&P 500 Projected Dividend Growth**	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	5.0
Ratio	1.3x	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x	1.3x	1.2x
Income-Equity Dividend Coverage Ratio	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.7x	2.0x
Income-Equity Net Debt/EBITDA***	2.6x	4.2x	2.8x	2.0x	1.9x	1.4x	1.9x	1.9x	1.2x	2.0x	2.1x
Income-Equity P/E Ratio Trailing	13.4	16.4	14.2	17.2	17.7	12.6	12.8	16.7	14.0	13.6	14.3
S&P 500 P/E Trailing	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	19.9
Premium/Discount	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-40%	-42%	-27%	-28%

Income-Equity Strategy (No MLPs)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2Q23
Income-Equity (No MLPs) Yield	4.1	4.0	4.6	3.9	3.7	4.2	3.6	3.5	3.2	3.5	3.5
S&P 500 Yield	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.6
Ratio	2.2x	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.0x	2.2x
Income-Equity (No MLPs) Projected Dividend Growth*	8.2	7.7	5.9	5.0	6.4	7.9	7.5	5.2	6.0	6.0	5.9
S&P 500 Projected Dividend Growth**	5.9	4.7	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	5.0
Ratio	1.4x	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x	1.3x	1.2x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.8x	2.2x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.7x	2.6x	2.6x	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x	1.8x	1.8x
Income-Equity (No MLPs) P/E Ratio Trailing	14.6	17.2	16.5	18.2	18.0	12.9	13.5	16.8	14.0	13.8	14.5
S&P 500 P/E Trailing	17.4	18.4	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	19.9
Premium/Discount	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-26%	-27%

As of June 30, 2023. 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.

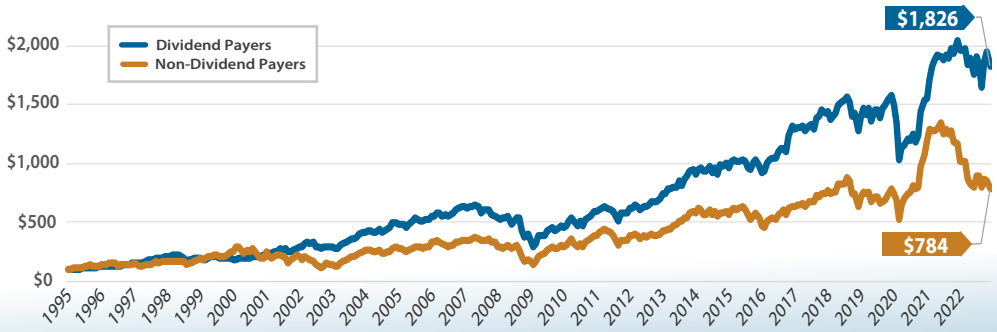
Celebrating 3 Years of Our Small Cap Dividend Strategy!

	Small Cap Dividend Strategy	Russell 2000 Index†
Market Cap ($Bil)	$3.4	$2.9
Dividend Yield	2.6%	1.5%
Dividend Payers as a % of Portfolio	89%	46%
TrailingFree Cash FlowYield†	10.2%	2.0%
Forward Price-to-Earnings Ratio	14.0x	36.2x
Trailing Price-to-Book Ratio*	1.9x	2.0x
Profitable Companies as % of Portfolio	97%	69%
Companies w/ Positive FCF as % of Holdings†	91%	50%
Trailing Net Debt/ EBITDA††	0.8x	2.4x

As of June 30, 2023. Source: Bloomberg; Eikon; FTSE Russell; Miller/Howard Research & Analysis. Weighted average unless specified. Extreme outliers are excluded. † Does not include real estate or financials. †† Does not include financials. * Weighted harmonic average. IWM ETF (iShares Russell 2000 Index ETF) is used as a proxy for the Russell 2000 Index except for market cap, dividend yield, and price-to-book.

Our approach emphasizes dividends, valuations, and low leverage.

Small-cap dividend stocks have generally outperformed non-payers.



Sources: Bloomberg; FTSE Russell; Miller/Howard Research & Analysis. The chart illustrates the hypothetical value of $100 invested on January 31, 1995 and held to December 31, 2022. Based on the stocks in the Russell 2000 Index divided into two groups (dividend-paying vs. non-dividend paying), equal-weighted, and rebalanced at month end.

Miller/Howard Investments Inc. is an independent, research-driven investment boutique with over three decades of experience managing portfolios for major institutions 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. 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 portfolios include environmental, social, and governance (ESG) research and/or screening, direct engagement with companies, filing shareholder resolutions, proxy voting, coalition building, and/or 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. **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. **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. **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. **MLP** = Master Limited Partnership.

Methodology for tables & charts on pages 3 - 7, & 12: 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.

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To receive a list of all recommendations for the previous year, please email compliance@mhinvest.com.

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