Miller/Howard INVESTMENTS

Where Have All the Dividends Gone?

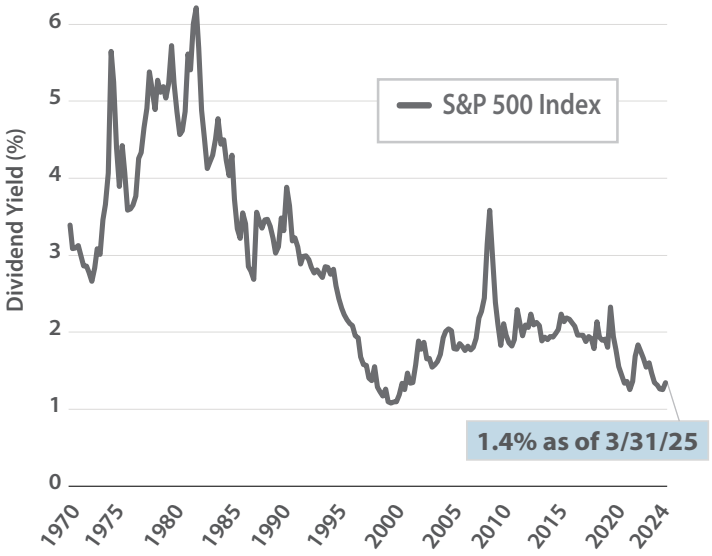
MARCH 31, 2025

WHERE HAVE ALL THE DIVIDENDS GONE for the broad market? Dividend yields were substantially higher 50 years ago—not surprising given the high inflation of that era. But why have yields dropped by over half in the past 30 years? As dividend investors, we can still find high-yielding equities, but why are stocks with good dividend yields so scarce? And more importantly, should we expect dividend payments to make a comeback?

The last three decades have been good for equity investors. Earnings grew for the S&P 500 Index at an average annual rate of 9% and price-to-earnings (P/E) multiples expanded, leading to a total annual return of 10.9%. Dividend growth over the same period, however, has been under 7% annualized, driving the indicated yield of the S&P 500 from over 3% in the early 1990s down to a puny 1.4% at the end of the first quarter of 2025.

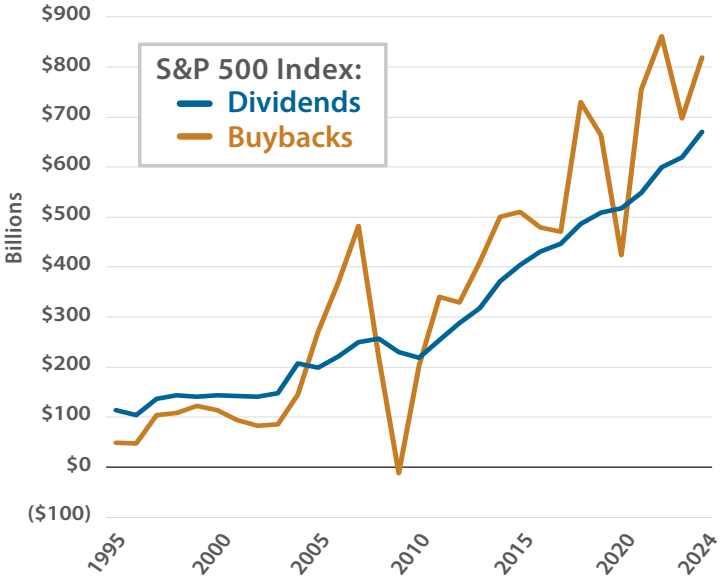
The most obvious factor squeezing dividend payments has been the growing popularity of stock buybacks. In 1994, aggregate dividends for the S&P 500 were over $100 billion, more than twice the aggregate dollars spent on share repurchases. By 2024, S&P 500 companies bought back $820 billion worth of stock while only paying $670 billion in dividends.

30 Years of Lower Dividend Yields



As of March 31, 2025. Source: Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index indicated dividend yield, shown quarterly.

Buybacks Now Exceed Dividends



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Dividends and buybacks are in aggregate.

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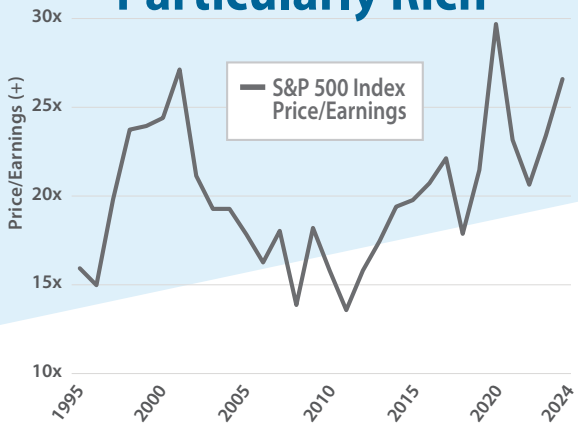
Are Buybacks Smart?

Have buybacks been a good use of capital? No doubt some CFOs have been adept at timing buybacks, but the overall track record has been questionable. In the go-go market of the late 1990s, S&P 500 aggregate buybacks were low—perhaps a missed opportunity. Buybacks subsequently soared, peaking in 2007, just in time for the Great Financial Crisis. Net buyback activity then plunged during the crisis, with the S&P 500 being a net equity issuer in 2009—a year when stocks were on sale. Buybacks have been better timed during the strong markets of the past 15 years, but the track record over the past three decades has been mixed at best.

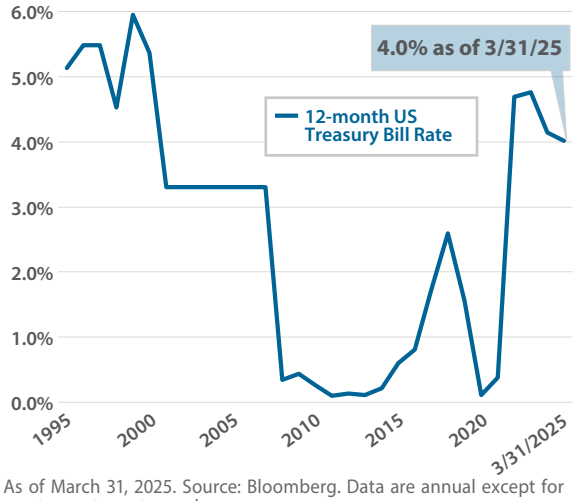
We are skeptical that anyone can consistently time the overall market. Arguably, a better way to evaluate stock buybacks is to ask whether they are accretive to earnings per share (EPS). Companies can use spare capital in a variety of ways to increase earnings—they can make acquisitions, increase capital spending, or invest in stocks or bonds. To set a low hurdle for buybacks, the increase in EPS due to a lower share count should at least be higher than what could be achieved by investing the additional cash in government bonds. During periods of near-zero interest rates, buybacks are accretive for most firms, with the exception being stocks that have truly nose-bleed P/E ratios. But recent conditions have not been favorable to buybacks—both interest rates and P/E ratios have moved higher. Using the statutory corporate tax rate, we estimate that almost 50% of the S&P 500 (on a cap-weighted basis) made dilutive share repurchases last year. In other words, companies would have expanded EPS more by investing in 12-month Treasury bills, making it hard to defend stock buybacks.

Valuations Are Particularly Rich



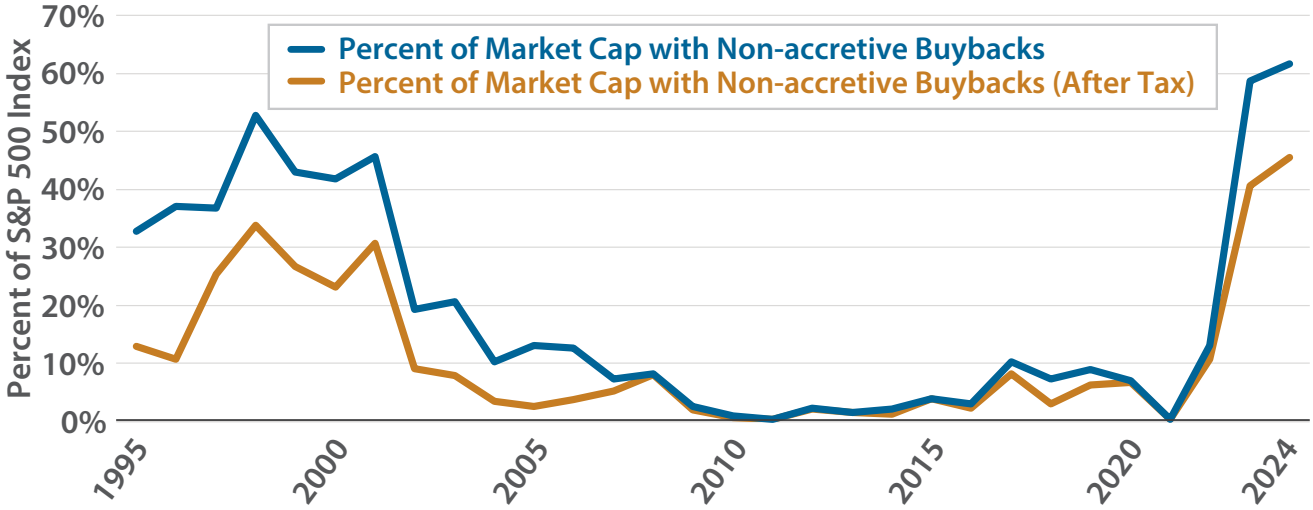
As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Trailing 12-month price-to-earnings (P/E) ratio is calculated using aggregate market capitalization and positive net income.

Interest Rates Have Risen



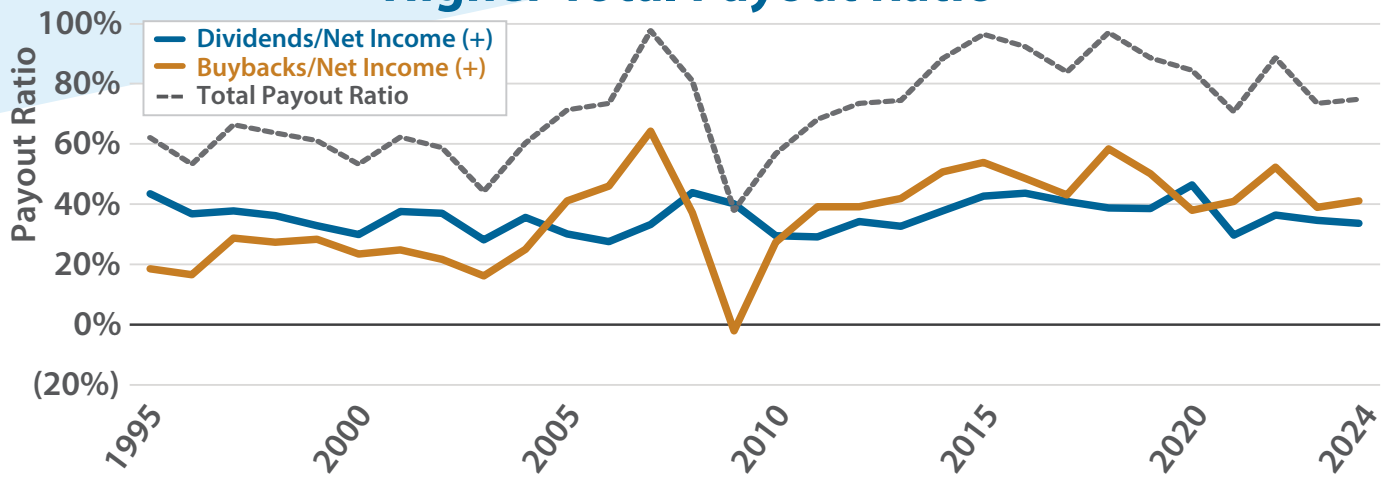
As of March 31, 2025. Source: Bloomberg. Data are annual except for most recent quarter-end.

Many Buybacks Have Not Been Accretive Recently



As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. A non-accretive buyback is defined as having an earnings yield less than the 12-month US Treasury yield. The after-tax calculation is based on the non-accretive buyback group, post-application of the statutory corporate tax rate. The percent of market cap is calculated as the aggregate of members for each group, divided by the aggregate market cap of the universe.

Buybacks Drove the S&P 500 Index's Higher Total Payout Ratio



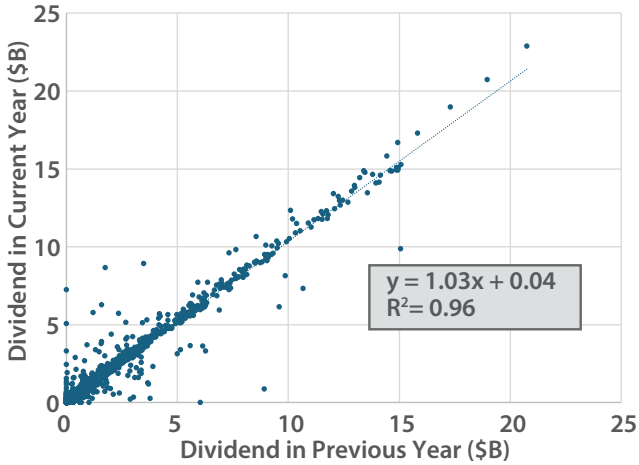
As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Dividends, buybacks and positive net income are in aggregate. Total payout ratio is the sum of dividends/positive net income and buybacks/positive net income (+ represents positive net income).

Companies Are Returning Plenty

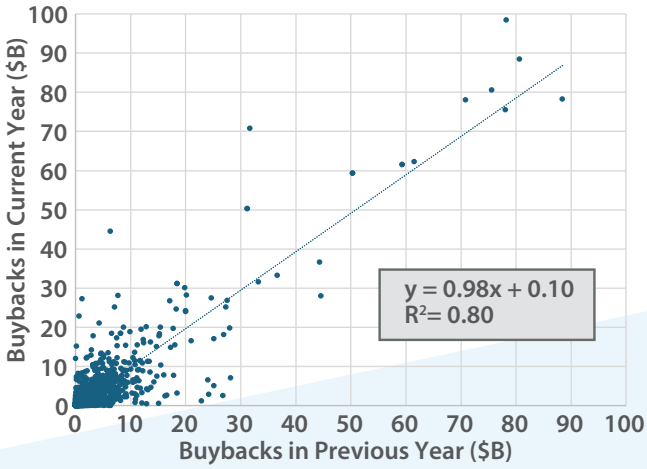
Sometimes investors complain that companies are not as generous as they used to be. Not true! Looking at the aggregate data for the S&P 500, the fraction of income paid out as dividends is roughly the same as 30 years ago. In contrast, the percentage of net income returned to shareholders in the form of buybacks has trended up over the last three decades, albeit with wide fluctuations. The total shareholder payout, including both dividends and buybacks, has averaged over 80% of income in the past 10 years, well above the roughly 60% of 30 years ago.

At Miller/Howard Investments, we view both dividends and buybacks as valuable returns of capital to shareholders. But, from an investor's standpoint, regular dividends are preferable to buybacks, in our view, because they are more likely to continue. One way to test our thesis is to examine how well dividends and buybacks in one year predict dividends and buybacks, respectively, in the subsequent year. We see two strong conclusions in favor of dividends: Dollars spent by a firm on dividends are highly predictive of dividend spending in the subsequent year, with 96% of the variation explained. Buybacks are less predictive of future buybacks. Dividend spending ***rises*** 3% per year on average. In contrast, buyback spending ***erodes*** by 2% per year on average.

Past and Future Dividends Are Highly Correlated....

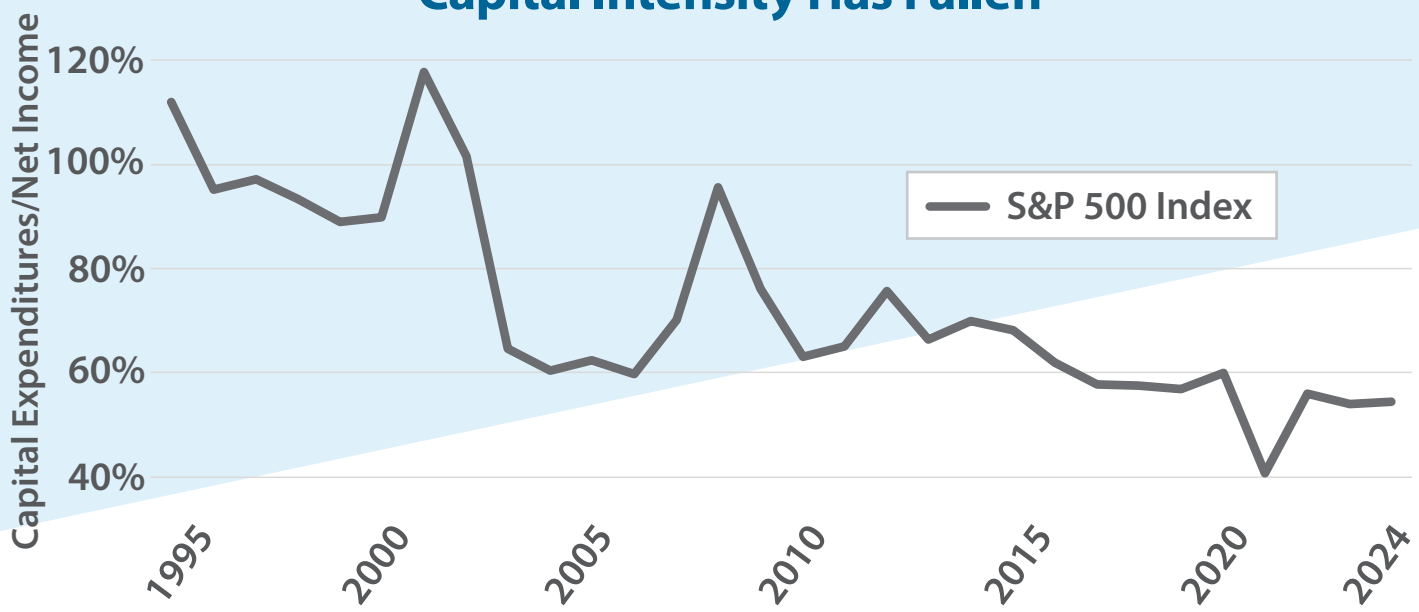


...But Past and Future Buybacks Are Less Linked



As of December 31, 2024. Source: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/2015. The buyback universe excludes members with net positive stock issuance.

Capital Intensity Has Fallen

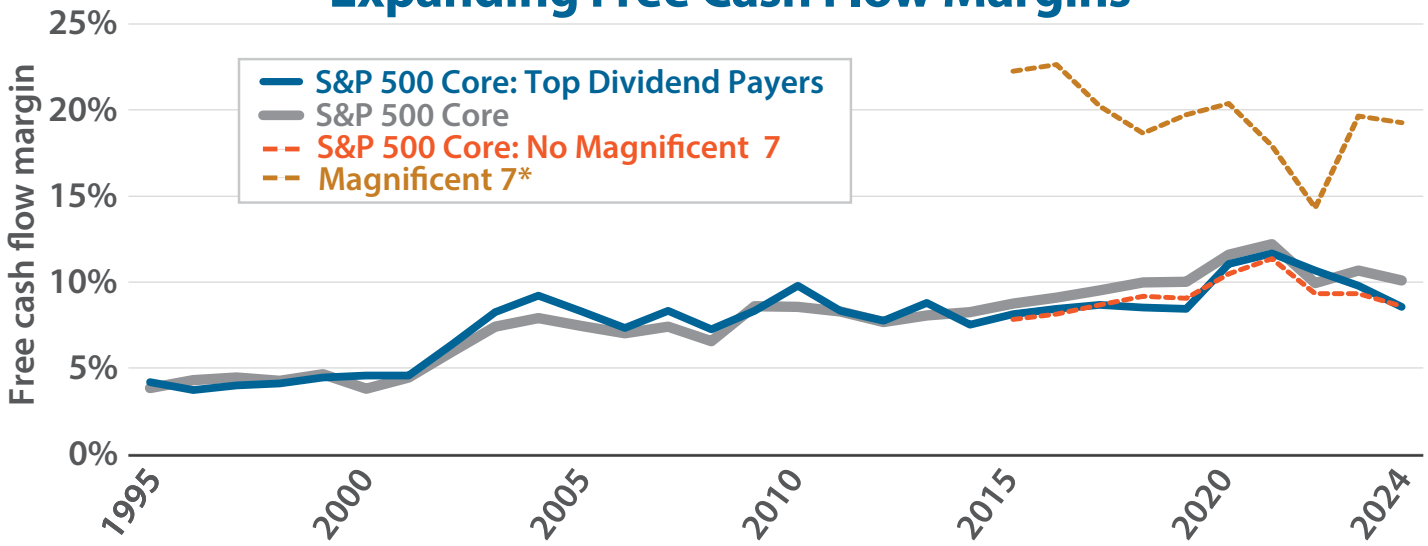


As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Capital expenditure and positive net income are aggregate.

Considering both dividends and buybacks, what explains the increasing payout of income to shareholders? Decades ago, a growing economy required that companies divert a significant fraction of earnings towards capital expenditure and working capital. In addition, intense competition kept a lid on corporate profit margins. In the past quarter century, we have seen a remarkable increase in the ability of S&P 500 companies to convert revenue into free cash flow. The forces behind this upswing include the adoption of capital-light business models and the emergence of dominant internet-based businesses.

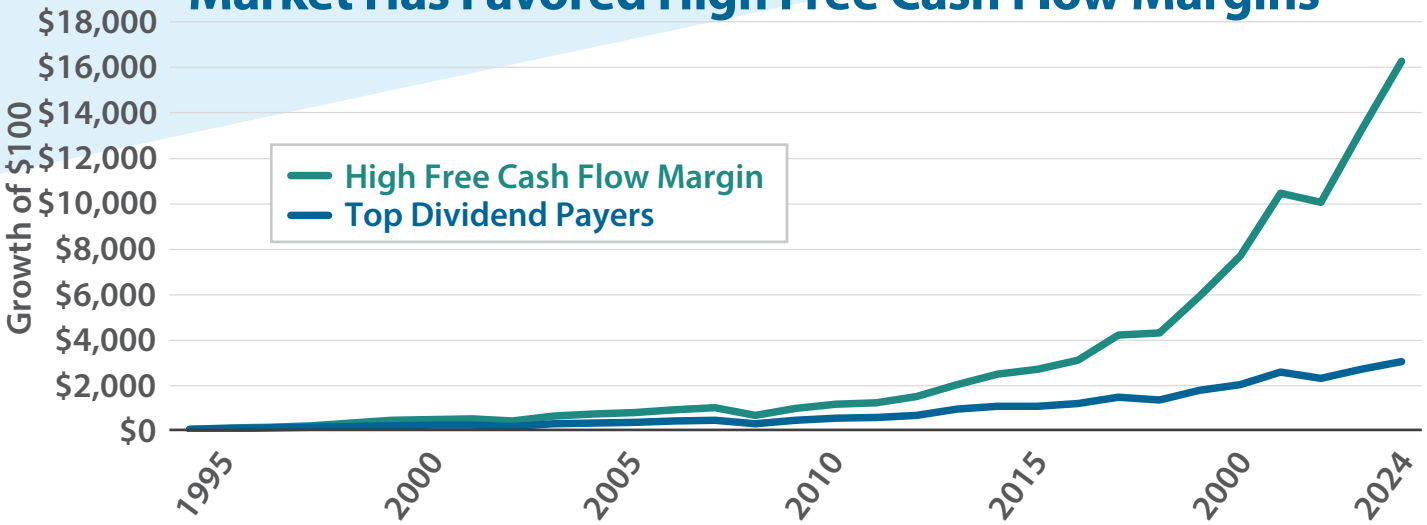
Companies in the top half of S&P 500 dividend yields have also seen an expansion in free cash flow margins, but they have trailed the overall S&P 500 over the past 10 years. The divergence has been driven entirely by the wide free cash flow margins of the biggest technology companies.

Expanding Free Cash Flow Margins



As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. The S&P 500 Core excludes the financials, real estate, & utilities sectors, where free cash flow is not a meaningful metric. *Members of the Magnificent 7 are Alphabet (GOOGL), Apple (AAPL), Amazon (AMZN), Microsoft (MSFT), Meta Platforms (META), Nvidia (NVDA), and Tesla (TSLA). TSLA joined the S&P 500 and Magnificent 7 calculation beginning with the calendar year 2021. Free cash flow and revenue are aggregate. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded. Miller/Howard does not hold six of the members of the Magnificent 7; TSLA is held in a portfolio that is not currently available to outside investors.

Market Has Favored High Free Cash Flow Margins



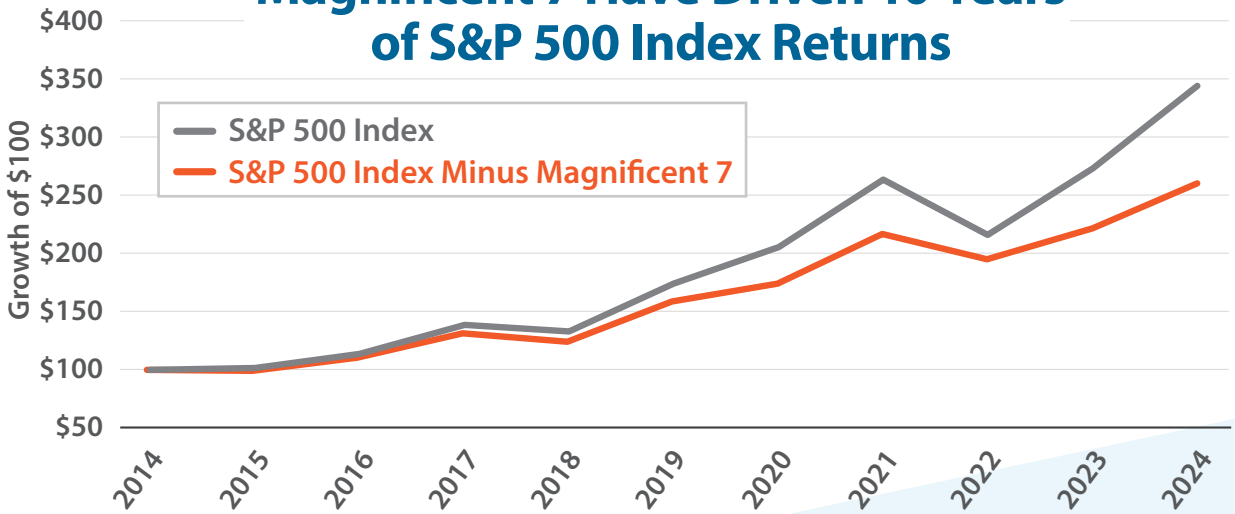
As of December 31, 2024. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Free cash flow margin quintiles were created using the S&P 500 Core, which is the S&P 500 universe members excluding the financials, real estate, & utilities sectors. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded.

High free cash flow margins have been well-rewarded by the stock market—the top quintile (the highest 20%) has outperformed massively over the past 30 years. It's questionable whether this can go on "forever" because free cash flow margins have no relationship to valuation. The trend runs counter to the maxim, "Everything has a price."

Our view at Miller/Howard is that the market's focus on free cash flow has been correct, but over the longer term, the analysis of free cash flow must be combined with a sensitivity to valuation. Our mission is to build portfolios that produce high and rising income, so we have to start out with investments that have a high current dividend yield. Like growth investors, we appreciate business models with higher conversion rates of revenue into free cash flow. We want the healthy production of free cash flow—the essential ingredient for paying dividends. Some may think that only "growthy" stocks have this characteristic, but that's not true. Pharmaceuticals and mature technology companies are two categories that tend to convert revenue to free cash flow at high rates.

But in recent years, the Magnificent 7*, with their high free cash flow margins, have dominated the returns of the S&P 500. Fully one-third of the S&P 500's total return over the past 10 years came from the Magnificent 7.

Magnificent 7 Have Driven 10 Years of S&P 500 Index Returns



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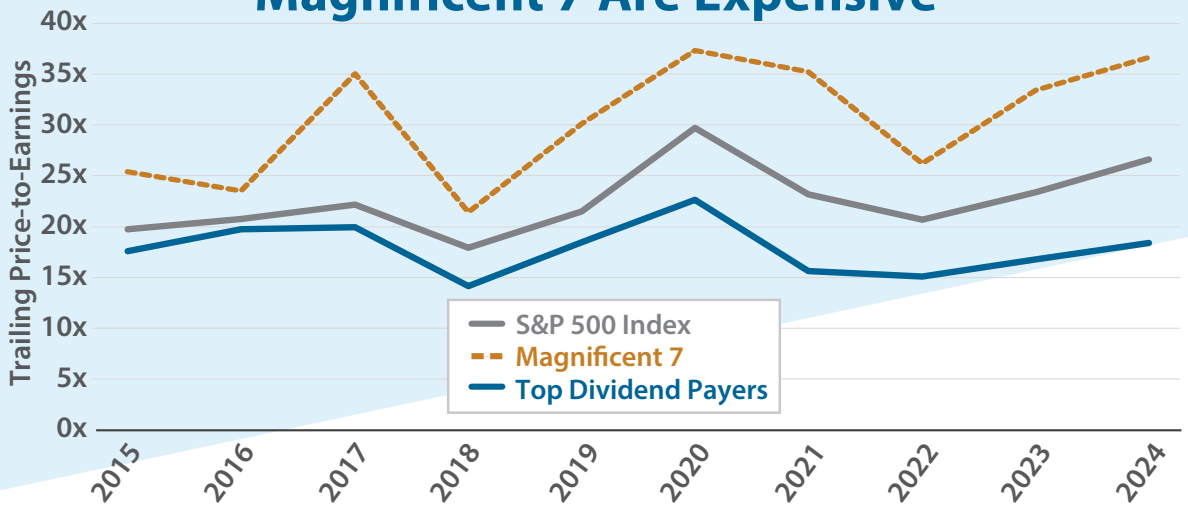
Magnificent 7 Are Expensive



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Threats to Mega Cap Growth's Dominance

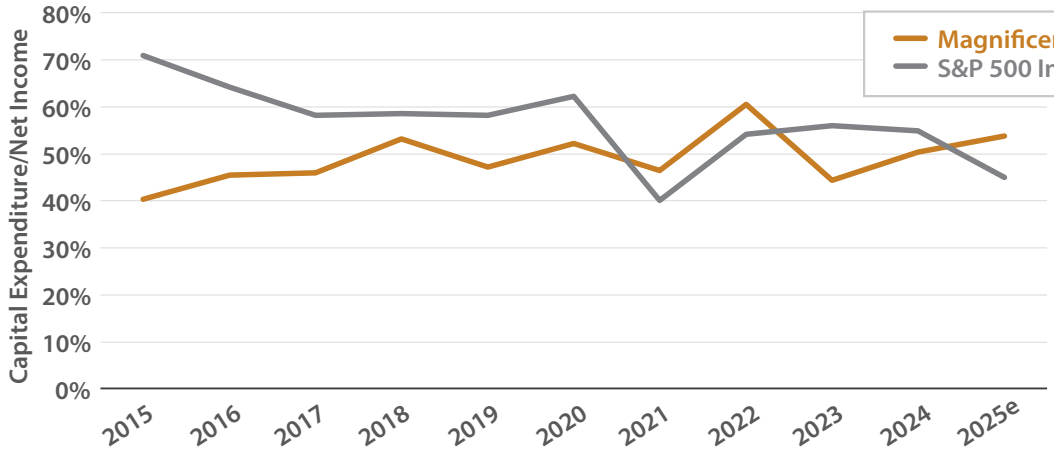
There are three interrelated factors that could bring the Magnificent 7's winning streak to an end.

High valuations. These stocks are expensive, with an average trailing price-to-earnings ratio of almost 37x. For this P/E to make sense, earnings growth will have to continue to gallop for more than the next decade. For dividend investors, a simple calculation illustrates how high a 37x P/E is: Even if the Magnificent 7 had the dividend payout ratio equal to the top half of S&P 500 dividend-yielders (which they don't!), the Magnificent 7 dividend yield would still average less than 1%.

Growing capital intensity. Building artificial intelligence (AI) capabilities is propelling up capital spending faster than income growth. The numbers wiggle each year, but the trend is clear. The Magnificent 7 have transformed from clearly capital-light business models to something that resembles the rest of the S&P 500.

Riskier outlook. In the first quarter, the market was beset by multiple unknowns, most prominently an escalating battle over tariffs with our leading trading partners. Investors reacted to the uncertainty by shifting to traditional defensive stocks such as utilities, healthcare, and telecommunications. Recall, this was not the case during the scariest months of the pandemic when large tech stocks outperformed. In our view, high valuations and questions about the long-term payoff to massive AI investments have combined to remove the low-risk halo from the Magnificent 7.

Magnificent 7 Becoming More Capital Intensive



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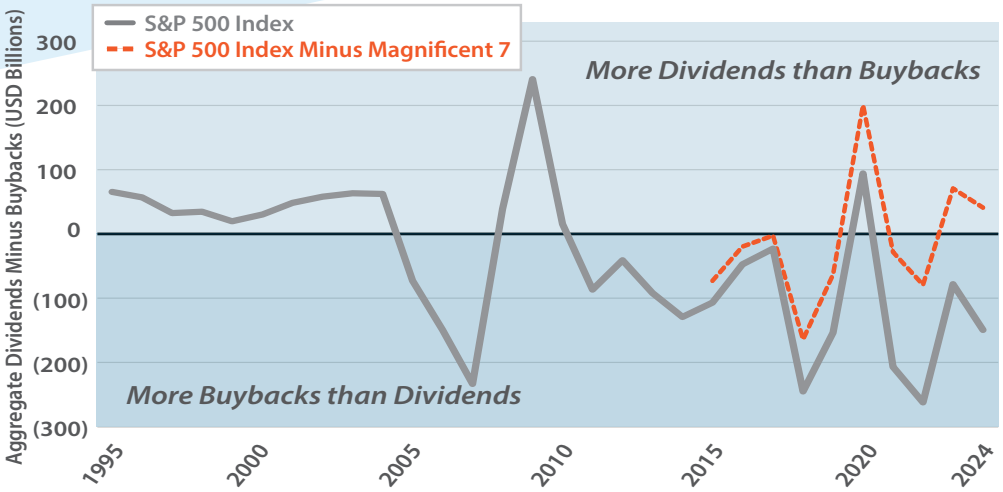
Magnificent 7 Skew the Picture

More Dividends Than Buybacks, Ex-Large Tech



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Where have the dividends gone?

The simple answer is that large tech companies have almost completely eschewed dividends in favor of stock buybacks. If we remove the Magnificent 7 from the S&P 500, dividends would have exceeded buybacks in the past two years, reverting to the pattern of 20 to 30 years ago.

We view the commitment to regular dividends as a signal of management's confidence in the company's long-term earnings power. Despite their evident success, dividend payments from the Magnificent 7 have been underwhelming. Growth investors remain enamored while income investors ask, "Why can't you commit to a better dividend?"

Even if the large-cap tech stocks raised their payout ratios dramatically, high valuations would keep dividend yields on the low side. Over the past 30 years, stocks in the top half of dividend yields have averaged P/E ratios almost 4 turns lower than the S&P 500 simply because this allows room for good dividend yields without pushing payout ratios too high.

Over the last 30 years, the top half of dividend yielders have had similar earnings growth and free cash flow margins to the overall S&P 500, with slightly lower revenue growth. The current wide differences between top dividend payers and the S&P 500 Index are anomalous—and driven by the largest tech companies. The differences between the broad market and dividend stocks could shrink in a variety of ways, with tech companies P/Es falling, growth rates and free cash flow margins moderating, or, most intriguingly, dividend paying behavior shifting. It may be hard to imagine now, but long-term trends can be telling, and over the very long term, high-paying dividend stocks have outperformed the S&P 500 handily.

Current Characteristics Are Unusual

	1995-2024 (Average)		2024 (Average)	
	S&P 500 Index	Top Dividend Payers	S&P 500 Index	Top Dividend Payers
Price/Earnings (+)	20.1x	16.2x	26.6x	18.4x
Earnings Growth (+)	8.9%	9.0%	11.1%	5.9%
Revenue Growth	5.3%	4.2%	7.0%	5.7%
FCF Margin (Core)	7.7%	7.6%	10.1%	8.6%

Table on left: As of December 31, 2024. Source: LSEG; Bloomberg; Miller/Howard Research & Analysis. Dividend payers were calculated by total year dividends divided by market capitalization. Top dividend-payers are the top half of dividend payers within the S&P 500 Core universe; non-payers were excluded. The S&P 500 Core excludes the financials, real estate, & utilities sectors, where free cash flow is not a meaningful metric.

Dividend Stocks Historically Outperform

(1928-2024)

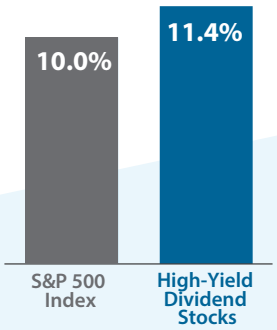


Chart on right: As of December 31, 2024. Sources: Morningstar Direct; Fama/French; Damodaran Historical Returns US (NYU Stern School of Business); Miller/Howard Research & Analysis. Annualized returns for High-Yield Stocks performance is based on an equal-weighted basket of the value-weighted historical returns of deciles 7, 8, & 9 of the Fama/French portfolios formed on dividend yield.

Income-Equity

QUARTERLY REPORT 1Q 2025

Effective 3/31/2025, the benchmark for our Income-Equity portfolios will be the Russell 1000 Value Index. We believe this benchmark is more representative of our high dividend yield investible universe.

COMMENTATORS FREQUENTLY EXAGGERATE the impact of public policy on investment outcomes. Explaining fluctuations in historical equity returns with political stories is virtually impossible, even for the most ardent partisans. In many ways, this held true in the first quarter, with the market shrugging off many announcements by the new administration, but with one glaring exception—tariffs. In its collective wisdom, the market made it very clear that it does not like tariffs, and especially uncertainty over tariff policy.

The uncertainty is immense. Are tariffs a negotiating strategy? That sounds temporary. "Permanent" auto tariffs? That sounded permanent—until it was paused. This level of uncertainty unnerves business decisionmakers at firms large and small, across multiple industries.

Not surprisingly, equity investors pivoted away from the riskier corners of the market towards both value and low-volatility stocks. Value stocks, as always, are a mixed bag. Some value stocks have low apparent valuations, but they are cheap for a reason—either poor execution or existential risks that make the market wary. Miller/Howard's focus on high and rising income means we try to avoid low-quality, controversial value stocks. Afterall, these risky names may have a dividend cut in their future.

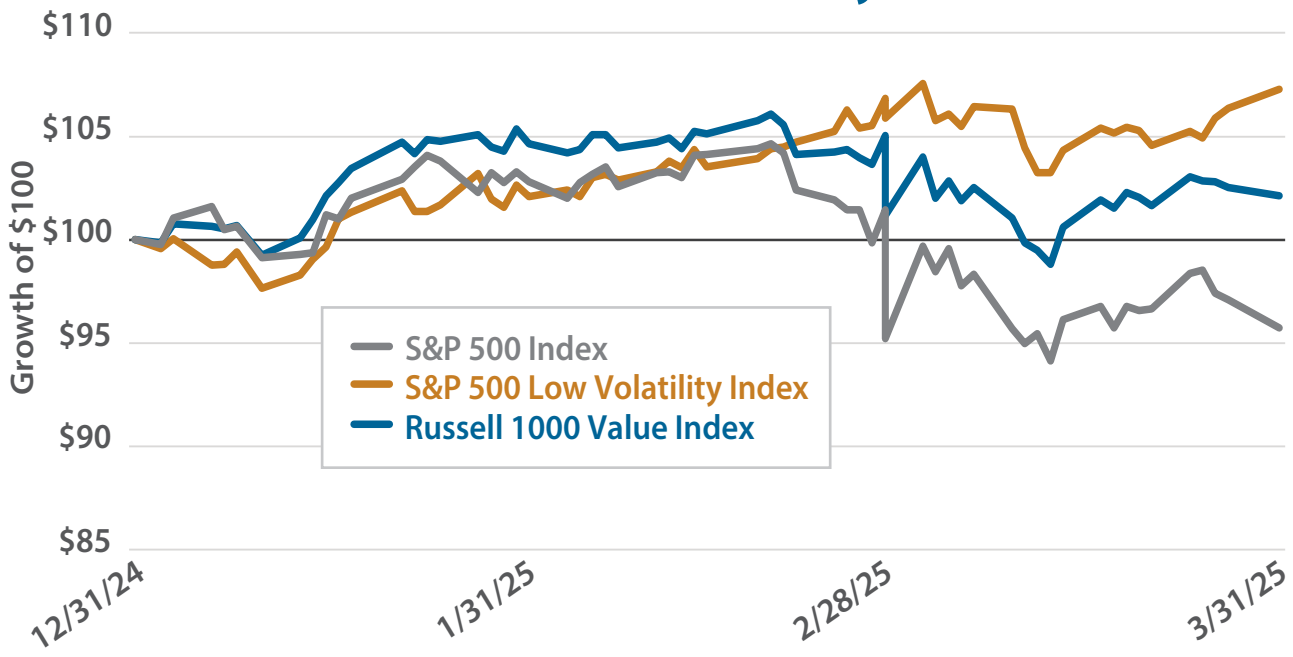
In contrast, we seek holdings that tend to have demonstrated earnings power yet attractive valuations that are not dependent on the latest growth theme. Low valuations and consistent earnings enable firms to pay good dividends without stretching payout ratios.

The real winner in the first quarter was low volatility, best exemplified by the S&P 500 Low Volatility Index which outperformed the S&P 500 Index by over 11.5%. Low-volatility stocks lagged the broad market in recent years, breaking the long-term historical pattern (for the past 50 years) of outpacing the S&P 500. This observation sometimes puzzles clients because boring stocks rarely keep up in go-go markets. But over the long term, downside protection in bad markets has been a key to the overall outperformance of low-volatility stocks.

Looking Ahead

Miller/Howard's Income-Equity portfolios have both value and low-volatility characteristics. While it is possible to find expensive, volatile stocks with

A Shift to Low-Volatility Stocks

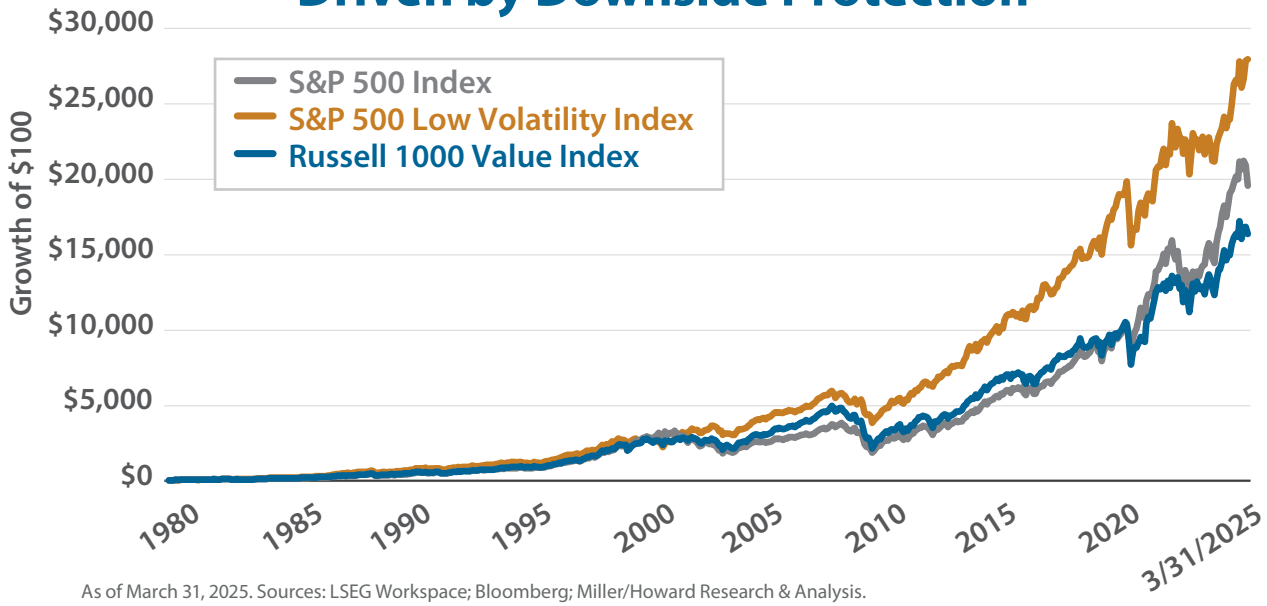


As of March 31, 2025. Sources: Bloomberg; Miller/Howard Research & Analysis.

Income-Equity *(continued)*

high dividend yields, we have found that those characteristics make dividend safety questionable and dividend growth less reliable. We feel that our investment philosophy sets us up well to endure a wide range of markets, and this choppy quarter is a good example. Our portfolios are tilted towards companies we judge to be less vulnerable to tariff increases. We believe the portfolios remain positioned to provide high and rising income for our clients over the long term.

Low-Volatility Historically Outperforms, Driven by Downside Protection



As of March 31, 2025. Sources: LSEG Workspace; Bloomberg; Miller/Howard Research & Analysis.

Portfolio Highlights

- In the first quarter, our Income-Equity portfolios outperformed both the Russell 1000 Value and the S&P 500 Indices. Over 40% of our holdings announced dividend increases in the quarter. Income-Equity now yields 3.8% while the no-MLP version yields 3.6%.
- **Dividend increases:** Income-Equity (no MLPs) had 16 dividend increases in the quarter, including **Jefferies Financial (JEF), STAG Industrial (STAG), East West Bancorp (EWBC), Comcast (CMCSA), TotalEnergies (TTE), CMS Energy (CMS), Gilead Sciences (GILD), Exelon (EXC), Cisco Systems (CSCO), Robert Half (RHI), Lamar Advertising (LAMR), Nutrien (NTR), Coca-Cola (KO), Old Republic (ORI), Canadian Natural Resources (CNQ),** and **JPMorgan Chase (JPM).** Income-Equity had the same 16 plus a 17th increaser, **Enterprise Products Partners (EPD)**.
- **Exited positions:** We exited our position in **Edison International (EIX)**. While the regulatory construct in California provides significant protections for utilities, the tragic scale of the wildfires increased tail risks and could threaten dividend safety. We exited our position in **Royal Bank of Canada (RY),** judging it to be expensive and considering its vulnerabilities to an escalating trade war.
- **New buys:** We initiated a position in **VICI Properties (VICI),** a REIT with a high yield that mainly owns casino properties. We bought **Citigroup (C)** which remains cheap despite growing evidence that earnings will benefit from ongoing expense cuts. We added **State Street (STT)** to the portfolio, attracted by its conservative, fee-based business model. We bought **Verizon (VZ)** with its high and well-covered dividend. Lastly, we initiated a position in **H&R Block (HRB)** which has capital-light business model, good free cash flow, and a well-covered dividend.

MLP & Midstream Energy Income

QUARTERLY REPORT 1Q 2025

MIDSTREAM ENERGY HAD A FINE QUARTER—ending in positive territory and easily outpacing the overall market. We believe investors continue to favor midstream for its high current income and growth of income. In addition, midstream fundamentals and valuations remain favorable, in our opinion.

Looking at history from 10 years ago, investors are getting a much healthier investment opportunity today, at a lower valuation:

- ***Valuations are attractive.*** During 2024, the sector traded 2.9 turns lower on EV/EBITDA than it did in 2015.
- ***Balance sheets are strong.*** The sector has growing EBITDA and declining debt, which has resulted in lower leverage. Leverage was 4.0x in 2024—about 13% lower than in 2015.
- ***Free cash flow is much higher.*** Several years ago, free cash flow (FCF) inflected, shifting from negative to positive, and the industry's higher FCF yield demonstrates more financial stability for midstream companies.

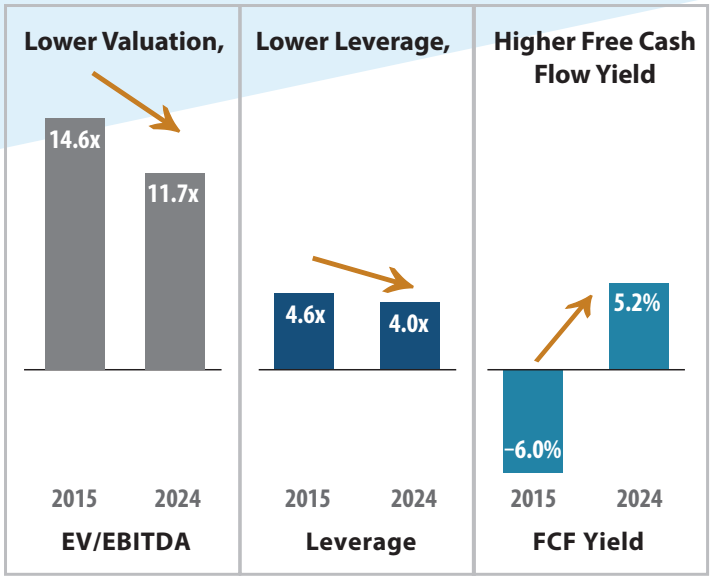
We believe this makes for a compelling value proposition—midstream offers low valuation, high quality, and strong free cash flow, all while paying high and rising income to clients.

Looking Ahead

Where are the risks? We will continue to monitor the situation around tariffs. In addition, OPEC+ announced a slight increase in production, but midstream companies tend to have little direct commodity price exposure. Third, an end of the Russia-Ukraine war could potentially impact natural gas dynamics. If Russian natural gas exports increase to Europe (likely below pre-war levels)—and that is a big if—Europe may need less liquefied natural gas (LNG) from the US. Those volumes could find a home elsewhere (likely Asia), but the end of the war may create some short-term volatility for the natural gas industry.

Lastly, and on a more positive note, we expect to see further distribution increases from our holdings during the upcoming earnings season.

Better Fundmentals at Lower Valuations



As of March 31, 2025. Sources: Company reports and Miller/Howard Research & Analysis. Capex includes contributions to joint ventures. EBITDA is from company filings and press releases. Enterprise value (EV) includes preferred equity. Based on the midstream energy universe, market-cap weighted.

Portfolio Highlights

- **Distribution increases:** This quarter 8 of our 16 holdings announced dividend increases. The average increase was 9.0% year-over-year.
- **Sales:** We sold **EnLink Midstream (ENLC)**, as it was taken over. We trimmed **Targa Resources (TRGP)** after a very strong multi-year run and **Cheniere, Inc. (LNG)**, as we slightly scaled back our exposure to natural gas exports. We trimmed **Energy Transfer (ET), MPLX LP (MPLX), ONEOK (OKE),** and **Western Midstream (WES)** to raise cash to deploy into a new name.
- **Buys:** We initiated a position in **Genesis Energy (GEL)** as we expect free cash flow to hit an inflection point in 2025. We also initiated a position in **Enbridge (ENB)** as it generates stable cash flows due to its contract structure and regulatory backdrop. We increased our weighting in **Enterprise Products (EPD), Hess Midstream (HESM), Plains All American (PAA),** and **Sunoco (SUN)** as those companies offer a combination of strong current income and potential for distribution increases.

Infrastructure

QUARTERLY REPORT 1Q 2025

INFRASTRUCTURE RECORDED A STRONG QUARTER, with the sector (defined as the DJ Brookfield Global Infrastructure Index) outperforming the S&P 500 Index by a wider margin than in any quarter over the past 20 years. Infrastructure provided downside protection relative to the broad market decline, amid tariff commentary that drove higher levels of uncertainty and fears of a recession.

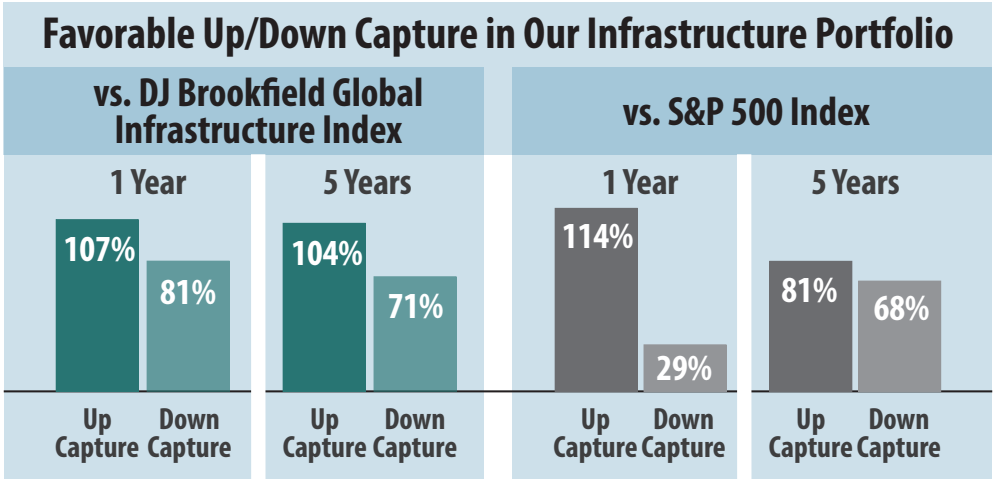
Within the portfolio, performance was generally consistent with the broad market's preference for lower volatility. Top performers included telecom providers, cell towers, waste management, transmission & distribution, and water-focused utilities. Performance within these groups was also supported by lower interest rates as the yield on the 10-year Treasury declined ~30 basis points. Midstream positions were fairly consistent from top to bottom, maintaining recent momentum on high income generation, improving balance sheets, and supportive valuations. Laggards were generally more cyclical or thematic and included transportation and logistics, renewable developers, independent power producers, and data centers.

Looking Ahead

A key component of Miller/Howard's Infrastructure portfolio is its focus on essential service providers with high barriers to entry. We have long argued that these characteristics lend themselves to stable cash flow generation, less sensitivity to the business cycle, and attractive risk-adjusted returns. This thesis is corroborated by the portfolio's up and down capture ratios. Over the last five years as of March 31st, our Infrastructure portfolio, versus the broad market, recorded 81% up capture and 68% down capture ratios. Compared to the portfolio's benchmark, these ratios are even stronger, with 104% up capture and only 71% down capture. With elevated levels of uncertainty in the market, we view Infrastructure as a compelling investment opportunity for clients.

Portfolio Highlights

- **Dividend increases:** This quarter, 17 of our 35 holdings announced dividend increases with an average increase of 5.0%.
- **Increasing waste management:** We initiated a position in **Waste Connections (WCN)** and expect the company to benefit from a differentiated strategy, focused on exclusive and secondary markets. We also added to **Waste Management (WM)** after a period of underperformance.
- **Communication adjustments:** We exited our position in **Crown Castle (CCI)** on the expectation that a sale of its small cell assets would result in a reduced payout and trimmed **Comcast (CMCSA)** as cable remains at risk of losing market share. We initiated a position in **AT&T (T)** expecting the company's fiber-centric wireline strategy and convergence opportunities to drive growth. We also increased our positions in **American Tower (AMT)** and **Equinix (EQIX)** on increased conviction in their growth profiles.
- **Data center exposure:** We trimmed our positions in **Constellation Energy (CEG), Entergy (ETR), NiSource (NI),** and **Williams (WMB).** Overall, these transactions reduce the portfolio's exposure to data center trends after a period of relative outperformance. We reallocated utility exposure to two of the highest quality utilities, **Atmos Energy (ATO)** and **American Water Works (AWK).**
- **Risk management:** We exited **HCA Healthcare (HCA)** on increased political risks following the election. We also trimmed **Targa Resources (TRGP)** – twice – to reduce the portfolio's oil beta.



As of March 31, 2025. Sources: Morningstar Direct; Miller/Howard Research & Analysis. Based on monthly returns data. See performance disclosure on page 16.

Utilities Plus

QUARTERLY REPORT 1Q 2025

UTILITIES DELIVERED POSITIVE RETURNS for the fifth time in the last six quarters. In contrast, the broad market declined during the quarter as tariff commentary led to higher levels of uncertainty and increased fears of a recession. The utility sector's outperformance was consistent with the broad market's preference for lower volatility. Utility performance was also supported by lower interest rates, as the yield on the 10-year Treasury declined ~30 basis points.

Within the sector, top performers were largely transmission and distribution-focused utilities and other lower-volatility names. Laggards tended to be utilities with higher levels of controversy—including California utilities with headwinds from devastating wildfires, renewable developers hit by shifting energy policy rhetoric, and independent power producers facing lingering uncertainty around co-location and DeepSeek developments.

Looking Ahead

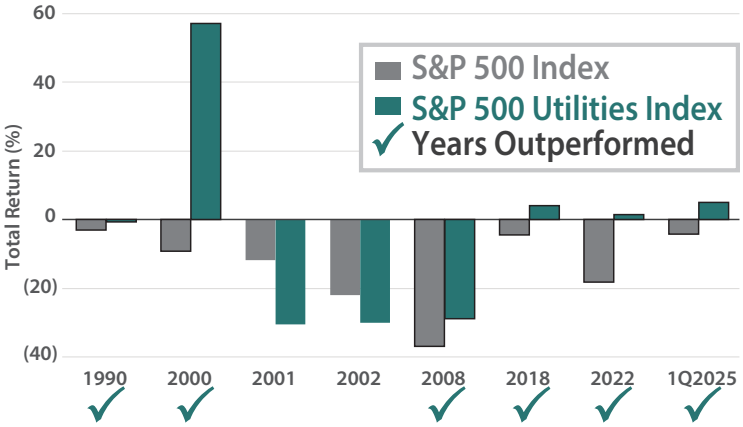
Utilities' reputation as a defensive asset class is well grounded. Since 1990, the S&P 500 Index has declined during seven calendar years and 1Q 2025. In these eight periods, utilities have outperformed the broad market six times. Notably, the two years of underperformance (2001 and 2002) coincided with the fallout from Enron's collapse. However, over the full three-year period following the dotcom bubble burst (2000-2002), utilities outperformed the broad market.

While an increasing use of tariffs would be a departure from decades of trade liberalization, we expect utilities to remain resilient. Utilities are relatively less exposed to cross-border dynamics than the broad market. The sector's tariff exposure would come from the secondary impacts of rising inflation and higher interest rates. With generally inelastic demand, ample growth projects, and a regulatory construct designed to provide a reasonable return on investment, we expect utilities to continue to deliver high and growing income with attractive risk-adjusted returns.

Portfolio Highlights

- **Dividend increases:** This quarter, 15 of our 31 holdings announced dividend increases with an average increase of 5.4%.
- **Focus on growth:** We initiated a position in **Xcel Energy (XEL)** and expect the company to benefit from top-tier growth and good a track record of execution. We exited our position in **National Grid (NGG)** on the expectation that its dividend will decline in 2025. We also increased our positions in **Atmos Energy (ATO), Ameren (AEE),** and **American Water Works (AWK).** Overall, these transactions improve the portfolio's dividend and earnings growth profile, factors that have historically led to outperformance.
- **Increased conviction:** We added to our position in **Evergy (EVRG)** due to its above-average balance sheet and discounted valuation.
- **California wildfires:** We exited our position in **Edison International (EIX)**. While the regulatory construct in California provides significant protections for utilities, the tragic scale of the wildfires increased tail risks.
- **Data center exposure:** We trimmed our positions in **Entergy (ETR), NiSource (NI),** and **Vistra Corp. (VST).** Overall, these transactions reduce the portfolio's exposure to data center and AI trends after a period of relative outperformance.

Utilities Have Provided Downside Protection



As of March 31, 2025. Sources: MorningStar Direct; Bloomberg; Miller/Howard Research & Analysis. The calendar years listed represent years since 1990 where the S&P 500 Index total return was less than zero percent. 1Q2025 illustrates the current calendar period through March 31, 2025.

North American Energy (without K-1s)

QUARTERLY REPORT 1Q 2025

THE ENERGY SECTOR, AS MEASURED BY THE S&P 500 Energy Index, outperformed the S&P 500 Index by nearly 15% this quarter. Was it the price of oil? Unlikely—oil was flat. Was it a market rotation away from technology stocks? We think so.

Among energy investors, it has become an inside joke that if you want to predict how energy stocks will do, become a tech analyst. Indeed, this quarter, an exodus from the crowded tech trade put a bid under energy. Unsurprisingly, the jolt of fast money that piled into energy seemed to concentrate among the oil majors that are less represented in our diversified portfolio. In addition, the sound of trade war drums weighed on Canadian producers, despite strong quarterly operational results. We made no changes to our Canadian positioning, as we remain bullish on longer-term fundamentals. We see both continuing American dependence on Canadian crude and more—not less—Canadian imports as the most likely outcome of the current controversy.

Looking Ahead

Ten weeks into the current administration, "drill baby, drill" has been slow to materialize. According to a recent Dallas Fed survey, energy executives report "conflicting messages" about achieving both "energy dominance" and "$50/barrel oil." Survey respondents noted that steel prices rose 30% amid anticipation of tariffs, and one noted, "I have never felt more uncertainty in my 40-plus-year career."

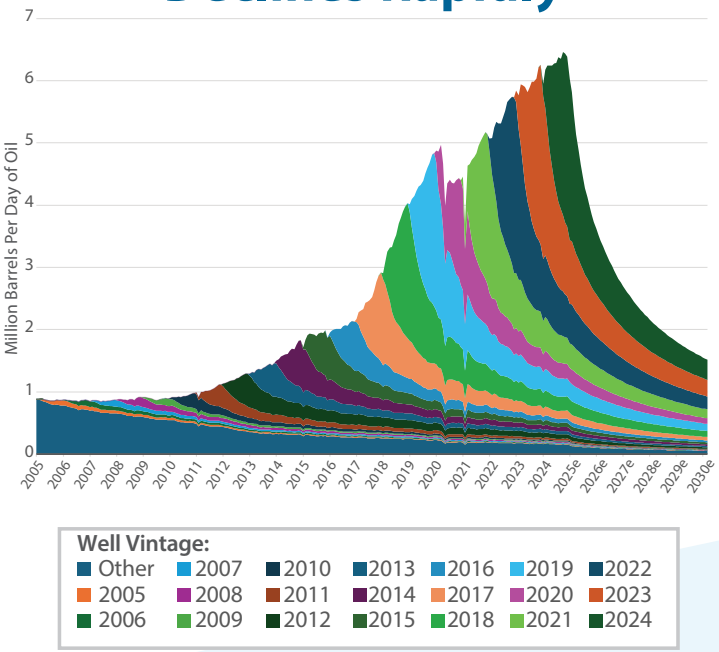
In this portfolio, we have long prioritized owning producers with outstanding remaining drilling inventory as we believe this will be a valuable distinguisher over time. We also believe long inventory life lowers relative volatility from short-term oil price fluctuations, as producers with less inventory are inherently tethered to shorter-term prices.

Why are longer-term prices much less volatile? To answer this, we looked at production by annual vintage in the world's largest oilfield, the Permian Basin. While prolific, Permian wells decline rapidly. If prices cratered and drillers responded with no new wells, Permian production would fall by *half* within 18 months, which in turn would likely restore prices to higher levels. Thus, the burden of the always active "invisible hand" in energy falls heaviest on those most reliant on the nearer term. Avoiding this dynamic—via companies better equipped to sustain long-term cash flows—remains a focus of our portfolio.

Portfolio Highlights

- **Energy and income:** The portfolio currently offers an indicated yield of 3.0%, which we project is well supported down to approximately $40/barrel oil, combined with a significantly larger variable return of capital commitment at higher commodity prices.
- **Along the energy value chain:** During the quarter, we trimmed midstream companies **Kinder Morgan (KMI)** and **South Bow (SOBO)** and sold **Targa Resources (TRGP)** following strong performance. We created a new position in upstream gas producer **Gulfport Energy (GPOR)** and increased **ConocoPhillips (COP),** making COP our largest holding. Gulfport shares are undervalued relative to natural gas prices, while Conoco offers strong long-term dividend growth, in our view.

Permian Well Production Declines Rapidly



Source: NoviLabs; Miller/Howard Research & Analysis. Well vintage is the first year a well is drilled.

Miller/Howard INVESTMENTS

Yield, Growth, Strength, Stability

- Our Income-Equity portfolios each offer a high dividend yield that is over 2.5x the yield on the S&P 500 Index, and have ample dividend coverage and reasonable leverage levels (net debt/EBITDA).
- Both portfolios trade at a significant discount to the broad market on price-to-earnings as well.
- We believe the portfolios are well-positioned for dividend growth throughout the full market cycle.

Income-Equity (with MLPs)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	1Q2025
Income-Equity Yield	4.7	4.0	3.7	4.3	3.7	3.6	3.3	3.6	3.7	3.6	3.8
S&P 500 Yield	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3	1.4
Ratio	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.0x	2.4x	2.7x	2.7x
Income-Equity Projected Dividend Growth*	5.8	5.0	6.3	7.8	7.3	5.1	6.0	6.1	5.5	5.5	5.4
S&P 500 Projected Dividend Growth**	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3	5.1
Ratio	1.4x	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x	1.3x	1.2x	1.0x	1.0x
Income-Equity Dividend Coverage Ratio	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.7x	2.1x	2.1x	2.1x
Income-Equity Net Debt/EBITDA***	2.8x	2.0x	1.9x	1.4x	1.9x	1.9x	1.2x	2.0x	1.8x	2.2x	2.4x
Income-Equity P/E Ratio Trailing	14.2	17.2	17.7	12.6	12.8	16.7	14.0	13.6	14.5	15.2	14.0
S&P 500 P/E Trailing	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7	22.9
Premium/Discount	-24%	-16%	-18%	-23%	-41%	-40%	-42%	-27%	-34%	-38%	-39%

Income-Equity (No MLPs)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	1Q2025
Income-Equity (No MLPs) Yield	4.6	3.9	3.7	4.2	3.6	3.5	3.2	3.5	3.4	3.4	3.6
S&P 500 Yield	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3	1.4
Ratio	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.0x	2.2x	2.6x	2.6x
Income-Equity (No MLPs) Projected Dividend Growth*	5.9	5.0	6.4	7.9	7.5	5.2	6.0	6.0	5.6	5.3	5.3
S&P 500 Projected Dividend Growth**	4.2	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3	5.1
Ratio	1.4x	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x	1.3x	1.2x	1.0x	1.0x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.8x	2.3x	2.3x	2.1x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.6x	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x	1.8x	1.6x	2.1x	2.3x
Income-Equity (No MLPs) P/E Ratio Trailing	16.5	18.2	18.0	12.9	13.5	16.8	14.0	13.8	14.6	15.3	14.9
S&P 500 P/E Trailing	18.8	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7	22.9
Premium/Discount	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-26%	-33%	-38%	-35%

As of March 31, 2025. Sources: Bloomberg; S&P; Miller/Howard Research & Analysis. The data above are based on representative accounts in our Income-Equity portfolios both with and without MLPs and are subject to change. Median P/E ratio trailing is published for our Income-Equity portfolios.

* 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 last page.

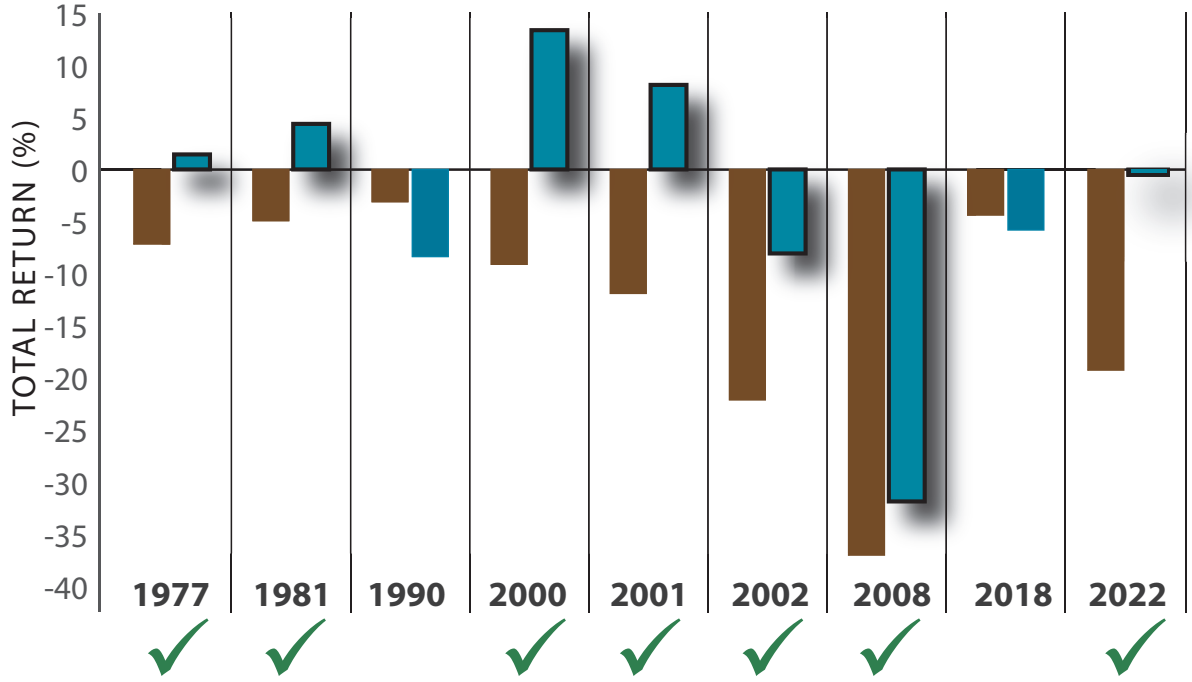
How Do Dividend Stocks Perform in Down Years?

Stocks are off to a rough start this year, and while it is far too early to know how this year will end up, **clients are asking how income strategies tend to perform in down markets.**

Looking back at the last 50 years, the S&P 500 Index has had 9 down years. High-yield equities, defined as deciles 7 through 9 of dividend yields, outperformed the S&P 500 in 78% of the down years, and actually had positive absolute returns 44% of the time. Overall, high-yield stocks outperformed the S&P 500 by almost 10% during the down years.

Dividend Stocks Have Fared Well in Down Years

(1975-2024)



■ S&P 500 Index
■ High-Yield Stocks
✓ Years Outperformed

As of December 31, 2024. Sources: Morningstar Direct; Fama/French Research data library; Miller/Howard Research & Analysis. Based on the rolling 10-year annualized total returns, ending each calendar year. *High-Yield Dividend Stocks data are provided by the Fama/French Research data library. The High-Yield Dividend Stocks portfolio uses Deciles 7 through 9 of portfolios created by dividend yield (valueweighted returns), where 1 is the lowest and 10 is the highest.

Of course, some equity income portfolios will do better, and some will do worse. What's important is that we are searching for investment candidates from a pool that has historically provided downside protection.

While it's gratifying to know that income stocks tend to outperform in down markets, our view continues to be that it's best not to try to time the market. Fluctuations in the overall market are very unpredictable but typically buy-and-hold investors are well rewarded.

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 portfolios. The firm is 100% employee-owned through an Employee Stock Ownership Plan (ESOP). We continue to evolve and develop portfolios that strive to provide investorswith 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.

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DEFINITIONS: High-Yield Stocks reflects a basket of the total returns for deciles 7, 8, & 9 as provided by Fama/French (value-weighted). **Inflation** is the year-over-year change of the Consumer Price Index for All Urban Consumers (CPI Index). **Free Cash Flow Margin** is free cash flow (defined as cash flow from operations minus capital expenditure) divided by revenue. **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. **EBITDA** = earnings before interest, taxes, depreciation, and amortization. **MLP** = Master Limited Partnership. **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 1000 Value Index** offers investors access to the broad value segment of US equity value universe and is constructed to provide a comprehensive and unbiased barometer of the broad value market.

ANNUALIZED PERFORMANCE	QTD	YTD	1 YR	3 YRS	5 YRS	7 YRS	10 YRS
Infrastructure (Gross)	7.87	7.87	23.86	7.48	17.41	10.83	8.63
Infrastructure (Pro Forma 0.75% Net)*	7.67	7.67	22.95	6.68	16.50	9.90	7.67
Infrastructure (Pro Forma 3% Net)**	7.08	7.08	20.26	4.32	13.97	7.58	5.44
S&P 500 Index	(4.27)	(4.27)	8.25	9.06	18.59	13.25	12.50
Dow Jones Brookfield Global Infrastructure Index	7.36	7.36	18.50	3.73	10.19	7.02	5.55

As of March 31, 2025. Source: Morningstar Direct. Parentheses represent negative performance data. Results are shown in US dollars. Past performance is not indicative of future results.
*Starting in 2021 net returns, unless otherwise indicated in red, are a simulation using a 0.75% annual fee, deducted monthly. MHI's highest annual management fee as stated in our ADV is 0.75%. All net returns for periods prior to 2021 show a 1% annual fee.
**Pro Forma 3% Net returns are a simulation of the effects of a bundled annual fee of 3%, deducted monthly, which would include advisor or consultant's fees, transaction costs, and maintenance fees. MHI's highest annual management fee as stated in our ADV is 0.75%.
Note: Investment returns include the reinvestment of dividends and other income. The Dow Jones index is net of dividend withholding taxes.

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