Miller/Howard INVESTMENTS

Navigating Crosscurrents

SEPTEMBER 30, 2023

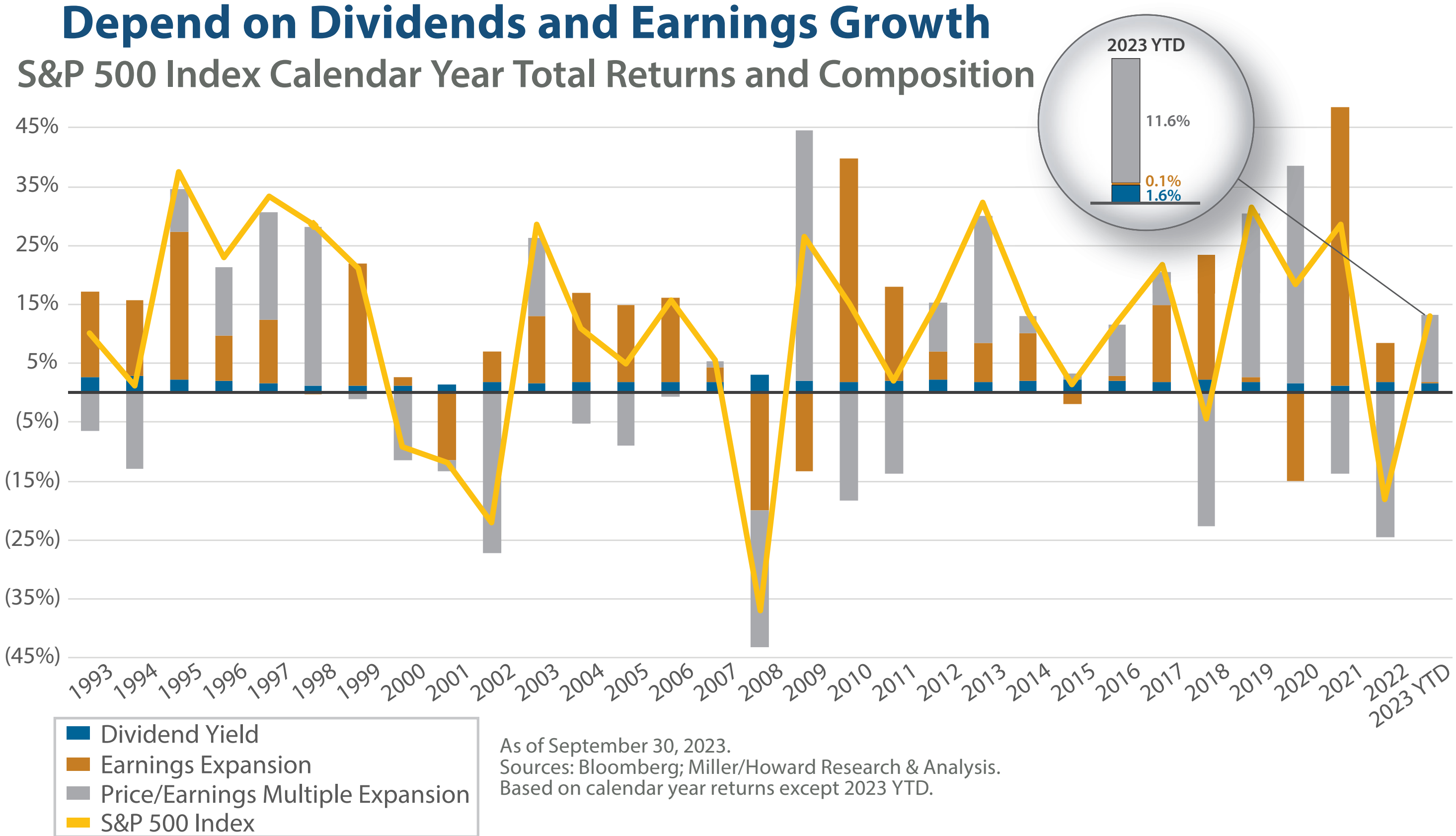
FOLLOWING A DISMAL 2022, THE S&P 500 Index has rallied hard this year, returning 13.1% over the first nine months of the year. That's a nice return, but scratching below the surface uncovers some unsettling details.

Decomposing the year-to-date S&P 500 Index total return into its three components (dividends, earnings expansion, and price/earnings (P/E) multiple expansion), we find that virtually all of this year's return has come from multiple expansion. As we have shown in past research [Miller/Howard's 1Q 2021 Quarterly Report], P/E multiple expansion is an undependable source of returns—gyrating up and down with the whims of the market. P/E multiple expansion was a long-term source of market returns over the last few decades, with multiples rising in response to falling interest rates. Going forward, we expect inflation fears to keep interest rates high, making P/E multiple expansion an even riskier source of returns.

Over the long term, dividends and earnings growth have been the most reliable source of investment returns. Dividends have continued to chug along this year, but economic weakness has put earnings expansion in short supply.

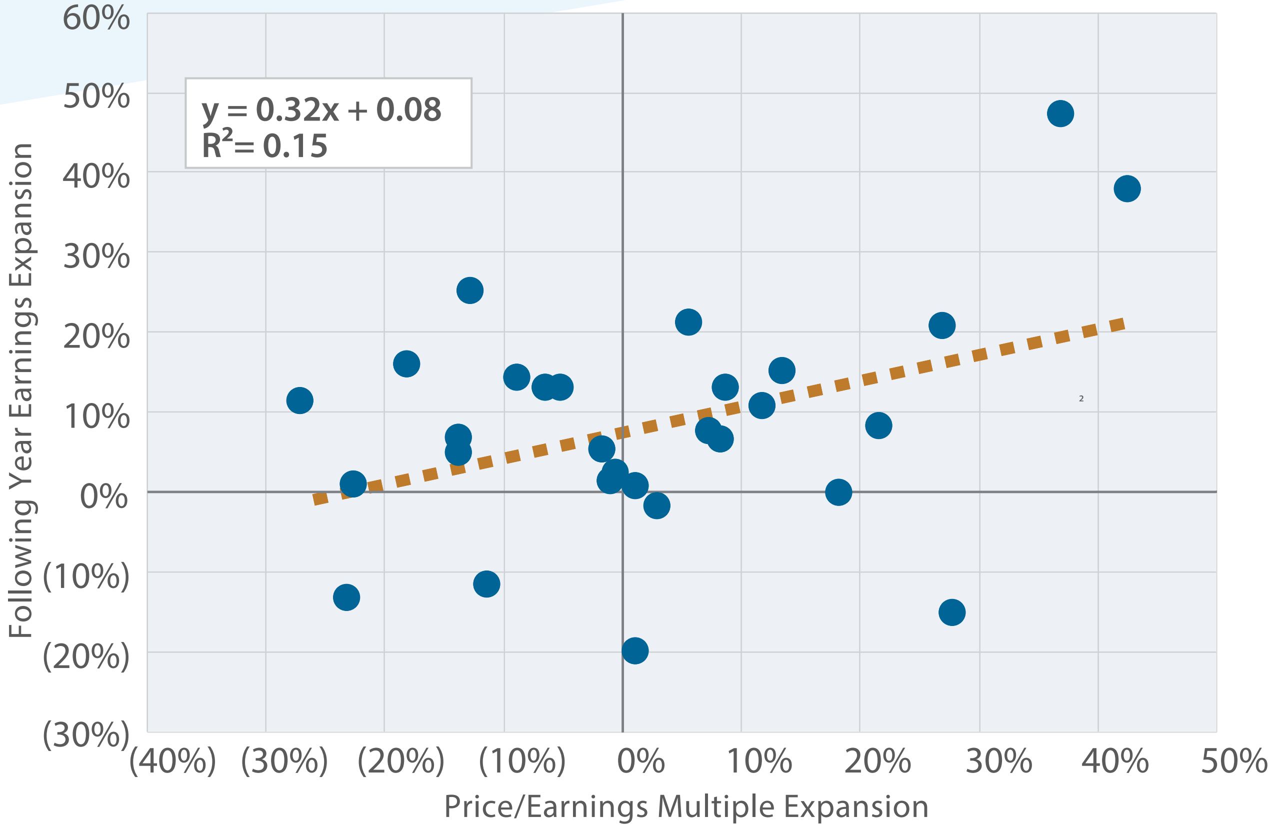
Depend on Dividends and Earnings Growth

S&P 500 Index Calendar Year Total Returns and Composition



As of September 30, 2023.
Sources: Bloomberg; Miller/Howard Research & Analysis.
Based on calendar year returns except 2023 YTD.

Does Price/Earnings Multiple Expansion Predict Earnings Growth?



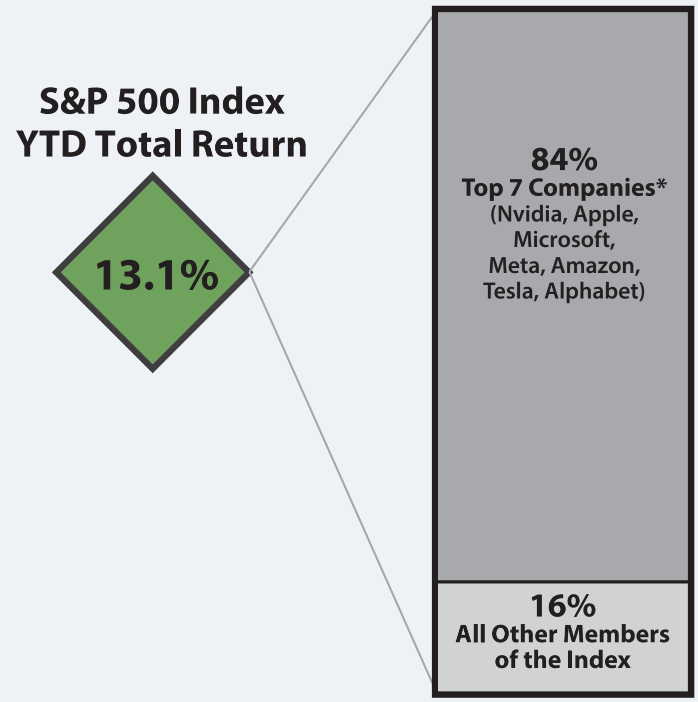
Source: Bloomberg; Miller/Howard Research & Analysis. The above scatter chart plots the S&P 500 Index estimated price/earings expansion ("multiple expansion") for calendar years 1993 through 2022 vs the S&P 500 Index estimated earnings expansion for the calendar year following the multiple expansion plot ("following year earnings expansion"). Estimates are consensus.

Some market observers argue that the market is all-knowing, meaning that every wiggle reveals some deep insight into the future. Followers of this school of thought are now pointing out that P/E multiple expansion is frequently followed by earnings growth in the subsequent year. Looking at the past 30 years, there is some basis for this argument, but the relationship is weak. The expansion of price-to-earnings multiples is positively correlated with earnings growth the following year, but the relationship only explains 15% of the variance.

A much better explanation for this year's market performance is excitement over the prospects for artificial intelligence (AI). Seven stocks that all have some link to artificial intelligence—Nvidia, Microsoft, Apple, Alphabet, Amazon, Meta, and Tesla*—have accounted for 84% of the S&P 500 year-to-date performance.

Overall, this year's positive broad market returns reflect a belief in AI's commercial potential combined with higher P/E multiples, hardly a vote of confidence in the general economic outlook.

Returns are Highly Concentrated



As of September 30, 2023.
Sources: Bloomberg; Miller/Howard Research & Analysis.

*As of September 30, 2023, Tesla was held in a Miller/Howard portfolio that is not yet available to investors. The rest of these companies were not held.

Chasing Tech Bubbles is Dangerous
Best Stocks of 1999

Company	1999 Total Return	Next 5-Years Total Return (1999 - 2004)	Next 10-Years Total Return (1999 - 2009)	Comments
QUALCOMM	2619%	-51%	-43%	
NEXTEL COMMUNICATIONS	337%	-42%	-	Acquired by Sprint 2005
LSI	319%	-82%	-84%	
NORTEL NETWORKS	306%	-93%	-100%	Bankruptcy 2009
ORACLE	290%	-51%	-12%	
NETAPP	270%	-20%	-17%	
NATIONAL SEMICONDUCTOR	217%	-16%	-24%	
TERADYNE	212%	-74%	-84%	
CABLETRON SYSTEMS	210%	-90%	-	Delisted 2006
COMVERSE TECHNOLOGY	206%	-66%	-87%	
High-Yield Stocks (Decile 7 - Decile 9)*	**-7%**	**62%**	**63%**	
S&P 500 Index	**21%**	**-11%**	**-9%**	

Sources: Bloomberg; Morningstar Direct; Fama-French; Miller/Howard Research & Analysis. *High-Yield Stocks (Decile 7 - Decile 9) are an equal-weighted basket of the returns of decile 7, decile 8, and decile 9 of the the Fama-French Value-Weighted Dividend Decile Dataset where decile 1 is the lowest yielding stocks and decile 10 is the highest. Based on cumulative returns. None of the names above were held as of September 30, 2023.

History rarely repeats itself, but it can be a useful tool to tamp down investor hubris. If you ask the typical investor how they viewed the future back in the late 1990s during the Tech Bubble, you will probably hear two points: internet and telecom technologies were going to change the world, and it was clear who was going to win. Both points fall into the category of 20/20 hindsight, but easily identifying the winners of long-term technical trends is especially problematic. Garnering enormous value from a new technology requires not mere participation, but having a market position that is simultaneously valuable, unique, and difficult to replicate.

Let's look at the 10 best performing stocks in the S&P 500 in 1999—the stocks that generated the most investor excitement in that peak year. All of these names were in the tech sector, and each stock returned over 200% (a triple!) for the year.

Surely, these stocks would continue to be great investments, right? Alas, no. Every single stock on the list underperformed the S&P 500 over the next five years. Those that survived through the subsequent 10 years also underperformed. Some of the names on the list have been successful companies, but valuation matters. Excitement over new technologies led investors to bid up stocks to prices that exceeded their true financial prospects.

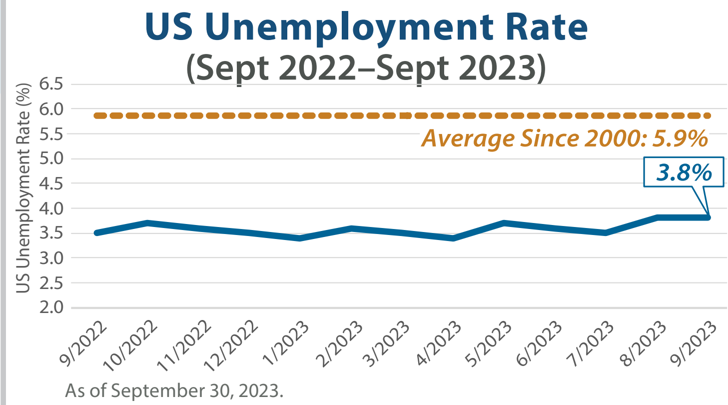
One ameliorating factor for today's tech favorites is that price/earnings multiples were higher during the Tech Bubble, suggesting that we could have more frenzy ahead of us. Some investors acknowledge the growing exuberance, but they have the idea that they will quickly step aside at the first sign of trouble. That's easier said than done.

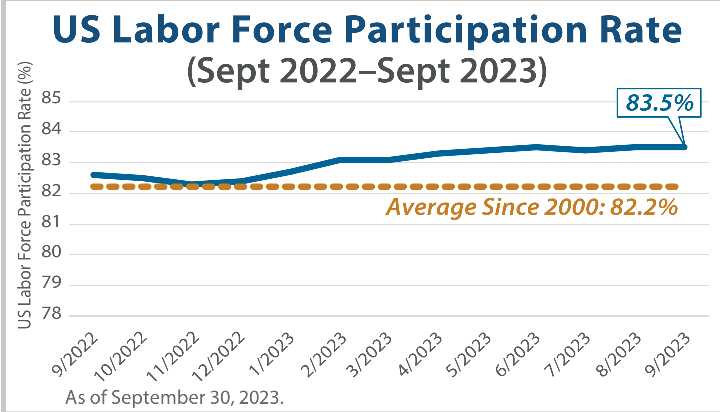
Our view continues to be that chasing today's winners is a dangerous game. Back in 1999, high-yield stocks generated a calendar year return of -7%, well behind the 21% return generated by the S&P 500. Disappointing, no doubt, but returns were up 63% over the next 10 years, while the S&P 500 was down -9%. Rather than depending on heroic forecasts, dividend investing relies on the power of compounding income over time.

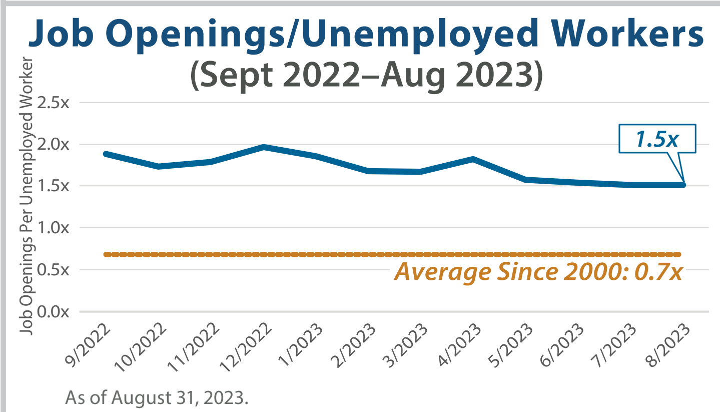
Economic uncertainty continues to be sky high, in our view. On the positive side, inflation has trended down as a result of the Fed's aggressive interest rate hikes combined with the resolution of most of the supply chain problems that were plaguing the global economy. Inflation is still well above the Fed's 2% target, but it is encouraging that inflation has ratcheted down so far with a very modest rise in unemployment.

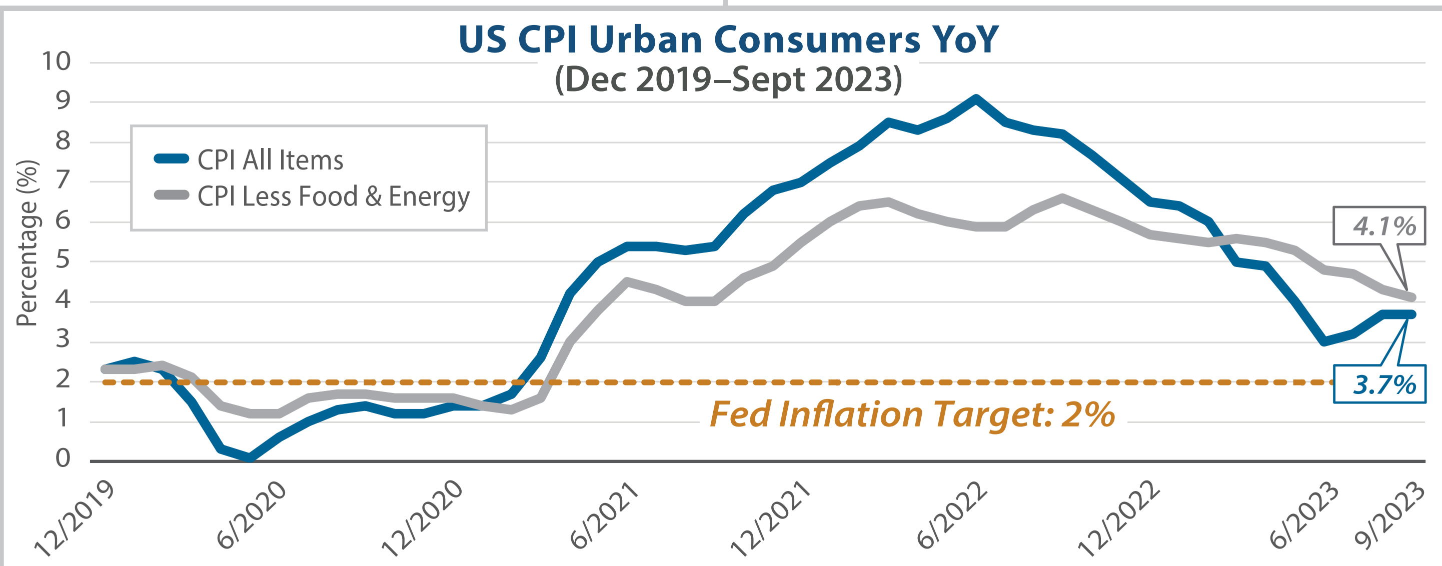
Labor market statistics remain almost uniformly good. Labor force participation for peak age workers (age 25-55) reached the highest rate in 20 years. The Fed would love to see higher labor supply dampen wage growth, creating a path for lower inflation without requiring a recession. The number of job openings per unemployed has come down but remains well above 1x. Note that the average number of job openings per unemployed person has averaged 0.7x since 2000, so today's labor market is truly a positive outlier.

There are those who argue the case for a soft-landing point to easing inflation and a robust labor market. They also make the case that the economy is not as interest-rate sensitive as it used to be. There is definitely some truth to this, as services have grown relative to manufacturing, and home buyers have shifted away from variable rate mortgages.









As of September 30, 2023. Sources: Bloomberg; Bureau of Labor Statistics. **Unemployment Rate:** number of unemployed persons as a percentage of the labor force (total number of employed plus unemployed); as determined by household labor force surveys. **Labor Force Participation Rate:** total labor force as a percent of the working age population (25-54 Years). **Job Openings**: US Job Openings By Industry Total SA. Number of specific job openings in an economy. **Job Vacancies** generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions. **Unemployed Workers**: total number of unemployed workers in the US labor force. **Unemployment** measures the number of people who are without work (not in paid employment or self-employed), currently available for work and seeking work (taking specific steps to find work). **CPI**=Consumer Price Index.

Dose Makes the Poison

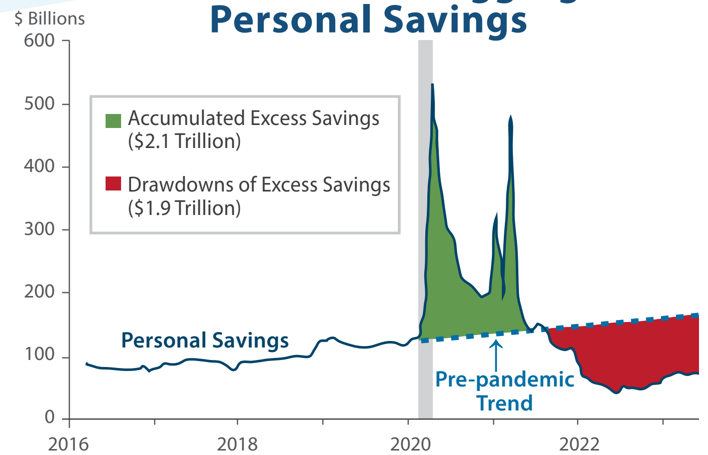
To evaluate the notion that interest rates don't matter much anymore, let's examine how we ended up with a resurgence of inflation. Since 2000, the United States has run enormous budget deficits. For years, inflation hawks argued that budget deficits would lead to inflation, and for years, those pessimists were wrong.

The pandemic presented us with enormous challenges, and both administrations spent heartily on a variety of programs to help individuals and businesses survive. Bills passed in 2020 and 2021 provided a panoply of programs including direct cash payments, expanded unemployment benefits, and loan forbearance. Combined with an inability to spend on restaurants and travel, personal savings ballooned.

Monetary policy has followed a similar storyline in recent years. Coming out of the Great Financial Recession, the Fed kept interest rates abnormally low for years. The Fed also engaged in quantitative easing–printing cash to buy bonds. As with fiscal spending, inflation hawks squawked, but contrary to textbook theory, inflation remained low. Given the exigencies of the pandemic, the Fed quickly dropped short-term rates to virtually zero and expanded its balance sheet (buying bonds) by an astounding 70% in the first three months of the crisis.

As the pandemic faded, consumers began to spend their excess savings and the lagged impact from monetary stimulus kicked in. Inflation accelerated, finally fulfilling the predictions of the inflation hawks.

Unusual Trends in Aggregate Personal Savings

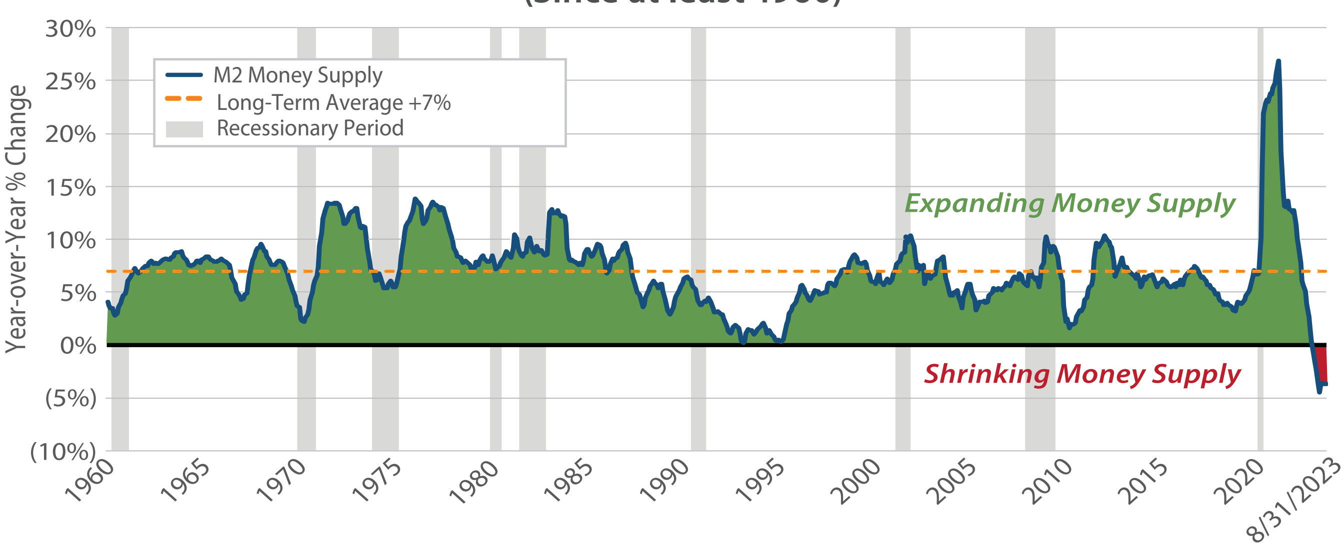


As of June 30, 2023. Sources: Bureau of Economic Analysis; Economic Research Department at the Federal Reserve Bank of San Francisco. Note: Excess savings calculated as the accumulated difference in actual de-annualized personal savings and the trend implied by data for the 48 months leading up to the first month of the 2020 recession as defined by the National Bureau of Economic Research.

For both fiscal spending and monetary policy, we can draw the same conclusion—too much money chasing too few goods can indeed cause inflation, at least when fiscal and monetary policy levers are pushed to the extreme. The medical adage, Dose Makes the Poison, captures the situation perfectly.

Now that the challenge has shifted to inflation-fighting, the question becomes whether the Fed has hit the brakes too hard. So far, inflation has been moderating without much of an uptick in unemployment, but it is concerning that money supply has shrunk for the first time in over 70 years. Money supply growth has not proven to be very predictive of economic growth or inflation in the last few decades, but the risk is that this unprecedented policy "dose" may prove to be poison.

Money Supply Shrinking for the First Time
(Since at least 1960)



As of August 31, 2023. Sources: Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis.

Warning Signals

Traditional recession indicators continue to flash yellow. The view of the bond market is usually summarized by comparing the interest rate on 2-year Treasury bonds versus those with a 10-year tenor. In good times, investors normally require a higher rate to take more duration risk. But when the bond market views the future with trepidation, long-term bond rates are lower, reflecting the view that the Fed will be forced to cut rates in the face of a recession. The yield curve has been inverted for over a year. Yield curve inversions have preceded the last eight recessions, going back decades.

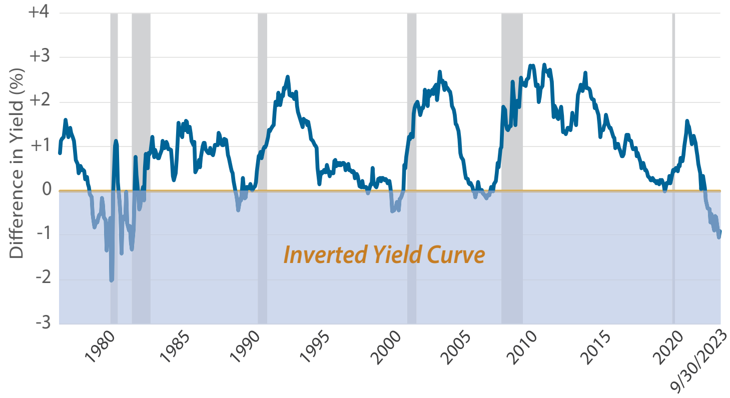
The Manufacturing Purchasing Managers Index is another indicator with a good track record of forecasting recessions. In aggregate, purchasing managers began to see a contraction in November 2022.

The Fed's regular survey of bank senior loan officers has also proved useful in forecasting past recessions. For firms that are too small to access the bond market, bank loans are an essential source of capital. Credit standards began tightening in the third quarter of 2022.

On the positive side, consumer loan delinquencies have bounced off their pandemic lows, but delinquencies for both consumers and businesses continue to be low. On the consumer side, this could worsen as the pandemic-initiated student-loan repayment moratorium ends.

Inversions Historically Precede Recessions

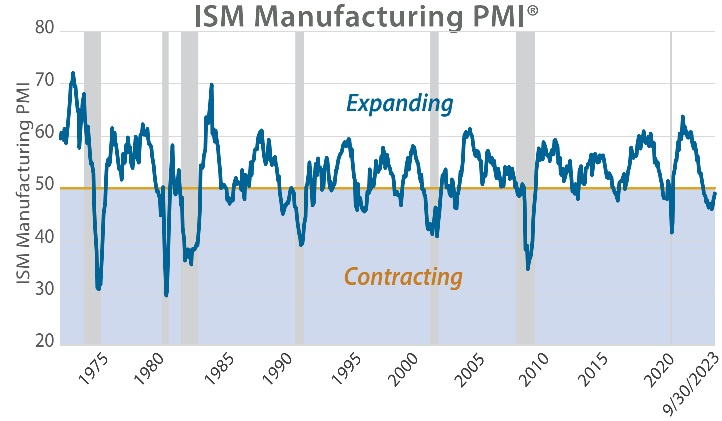
10-Year Treasury Constant Maturity Minus 2-Year



As of September 30, 2023. Sources: Federal Reserve Bank of St. Louis; Bloomberg; Miller/Howard Research & Analysis. Grey vertical lines represent recessionary periods.

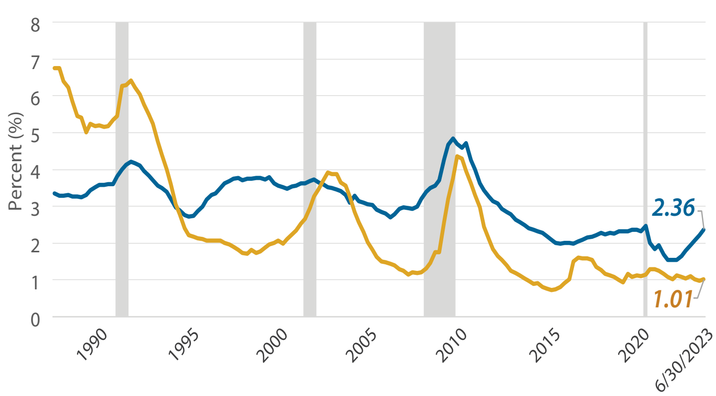
Contraction Seen Since Late 2022

ISM Manufacturing PMI®



As of September 30, 2023. Source: Federal Reserve Bank of St. Louis. A Manufacturing PMI® reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. A Manufacturing PMI® above 48.7 percent, over a period of time, indicates that the overall economy, or gross domestic product (GDP), is generally expanding; below 48.7 percent, it is generally declining. The distance from 50 percent or 48.7 percent is indicative of the extent of the expansion or decline. Grey vertical lines represent recessionary periods.

Loan Delinquency Rates Remain Low

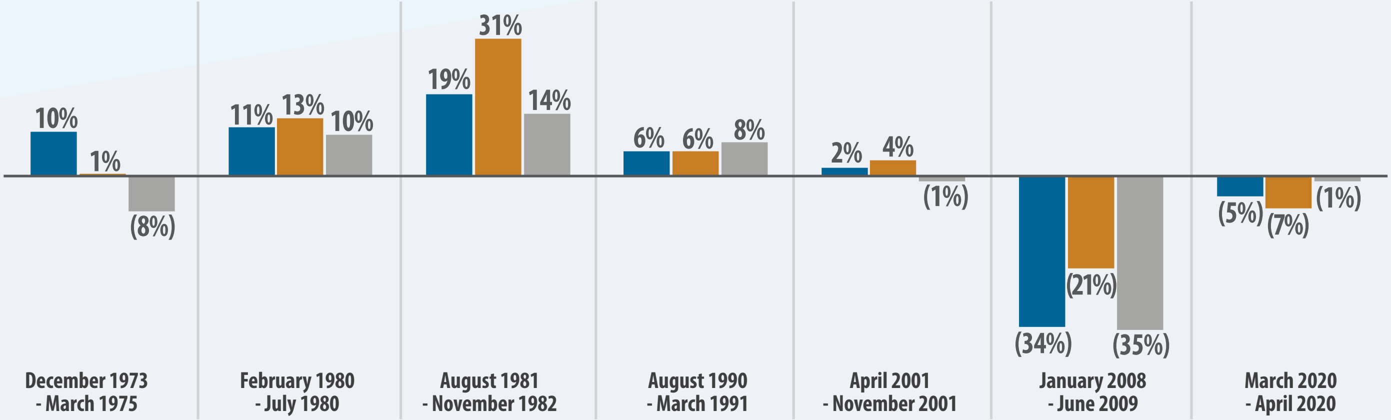


As of June 30, 2023.
Source: Federal Reserve Bank of St. Louis. Grey vertical lines represent recessionary periods.

US Banks Are Tightening Lending Standards

As of September 30, 2023. Source: Federal Reserve Bank of St. Louis. Note: Large- and middle-market firms have annual sales of $50 million or more. Data reflects the percent of domestic banks tightening standards for C&I loans to large- and middle-market firms. Grey vertical lines represent recessionary periods.

High-Yield Dividend Stocks and Low-Volatility Typically Outperform in Recessionary Periods



	Average
High-Yield Stocks*	(0.2%)
S&P 500 Low Volatility Index**	2.8%
S&P 500 Index	(3.7%)

As of December 31, 2022. Sources: Bloomberg; Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. Recessionary periods as defined by the NBER. * High-Yield Stocks (decile 7 - decile 9) are an equal-weighted basket of the returns of decile 7, decile 8, and decile 9 of the the Fama-French value-weighted dividend decile dataset where decile 1 is the lowest-yielding stocks and decile 10 is the highest. ** The S&P 500 Low Volatility Index is designed to measure the performance of the 100 least volatile stocks of the S&P 500 Index. Volatility is defined as the standard deviation of the security computed using the daily price returns over 252 trading days.

Investing without Hubris

The economic backdrop remains truly unprecedented. Bullish analysts can rightfully argue that unemployment is lower than we typically have seen at the beginning of a recession. Optimists also point out that inflation has dropped significantly, sometimes adding that perhaps the Fed will raise their 2% target. Bearish signals, however, cannot be ignored: an inverted yield curve, tightening loan standards, and weakness reported by companies in cyclical industries. What's an investor to do?

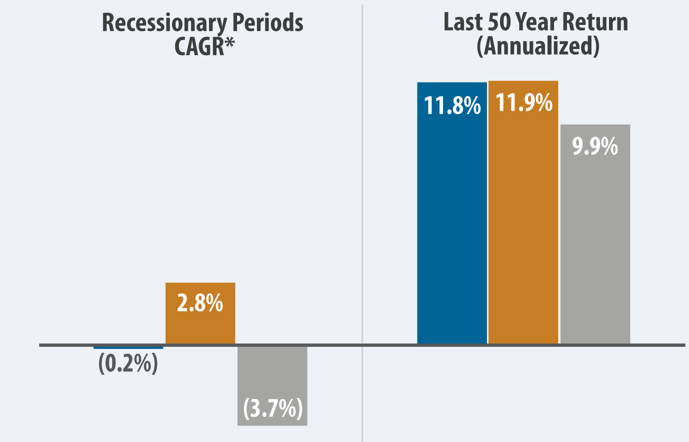
The first step is to drop the notion that investment success requires accurate forecasts. Wall Street firms employ a hoard of people who are paid to have table-pounding views of the future. Regardless of whether they are bullish or bearish, the hubris involved in the exercise is breathtaking. Let's all admit that we just do not know how this situation will end. The key is to choose an investment strategy that can work in various environments.

Looking at the eight recessions over the past 50 years, high-dividend-yield stocks (deciles 7-9) have outperformed the S&P 500 by a compound annual growth rate (CAGR) of 3.5% during recession months. This should not be a surprise as high-dividend-yield stocks typically continue to produce income during recessions. A high regular dividend also suggests that management views their business as mature, with a positive long-term outlook.

In a hard downturn, just being a high-dividend-yield stock may not be enough. Some high-dividend-yield stocks in cyclical industries could be at risk. Another layer of protection can be added by investing in stocks with low volatility. S&P 500 stocks in the lowest quintile of volatility have outperformed the overall market by a CAGR of 6.5% during recession months.

Investing in high-dividend-yield stocks with a tilt towards lower volatility opportunities has historically outperformed the broad market during recessions. But the story is better than that. Both high-dividend-yield and low-volatility stocks have significantly outperformed the broad market over the past 50 years. Investing without hubris means adopting an approach that has worked over long periods without requiring a crystal ball.

High-Yield Dividend Stocks and Low Volatility Outperformed Last 50 Years



As of December 31, 2022. Sources: Bloomberg; Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis. Recessionary Periods as defined by the NBER. *Recessionary Period CAGR was calculated by annualizing the monthly returns of recessionary periods beginning December 1973.

Time is Money, Once Again

A BETTER FUTURE, THAT'S WHAT WE ALL want. In the financial realm, this means delaying consumption in order to invest, and then receiving more for our patience sometime in the future. The real interest rate—defined as US Treasury Bond interest rates minus expected inflation—measures the real risk-free returns for being patient. For decades, real interest rates were positive, fluctuating with the strength of the economy, but always positive.

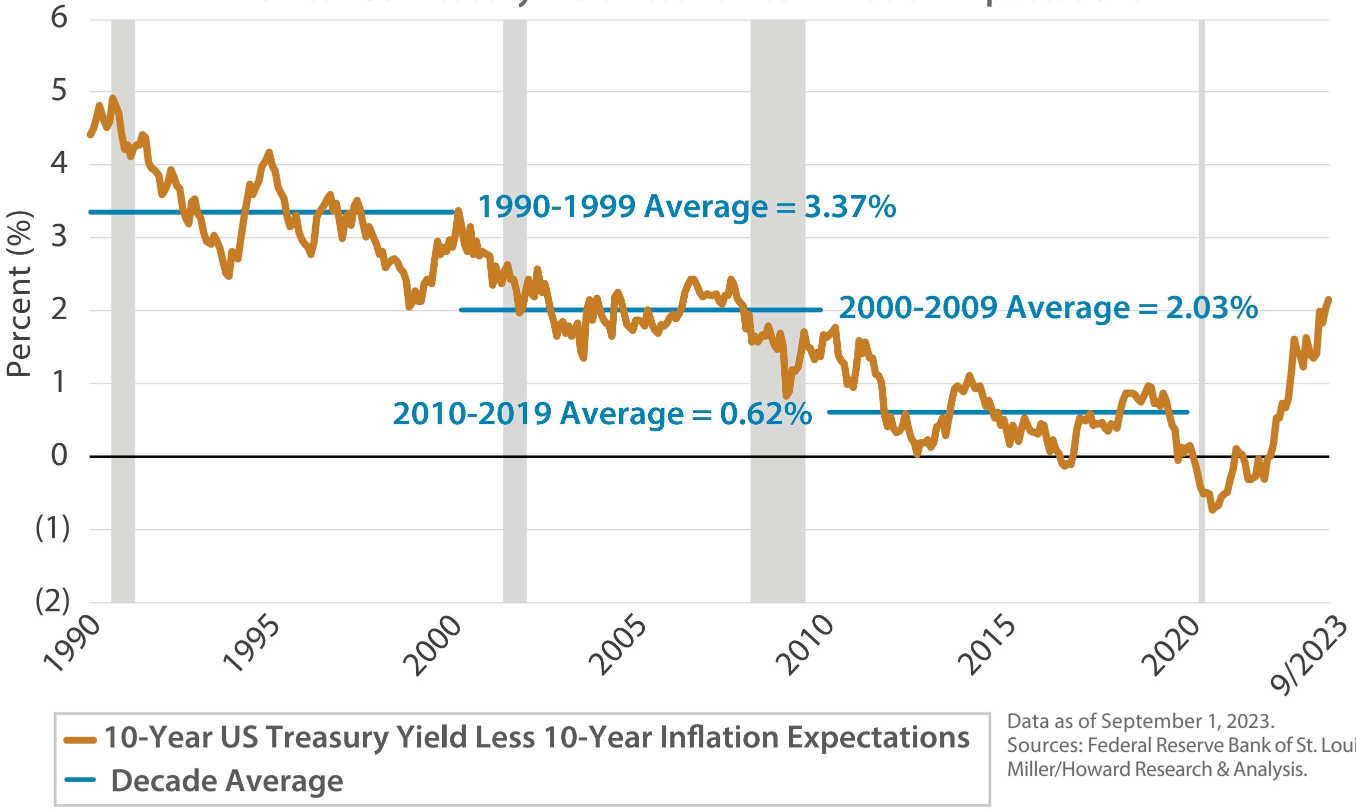
During the Great Financial Crisis, the Federal Reserve instituted the policy of quantitative easing—buying longer-dated bonds to drive down interest rates and stimulate the economy. Following the crisis, the Fed continued expanding its balance sheet, briefly pushing real rates negative in 2016. The pandemic prompted the Fed to accelerate its bond buying, doubling the size of the Fed balance sheet. This massive increase in demand for bonds sent bond prices up, resulting in negative real interest rates for roughly two years.

Since the first half of 2022, the Fed has been tightening policy, including allowing its swollen balance sheet to shrink. Real interest rates have moved back into positive territory, roughly matching the average for the 2000-2009 decade. It's tempting to say that real rates have "shot up," but really, they have just returned to a normal level.

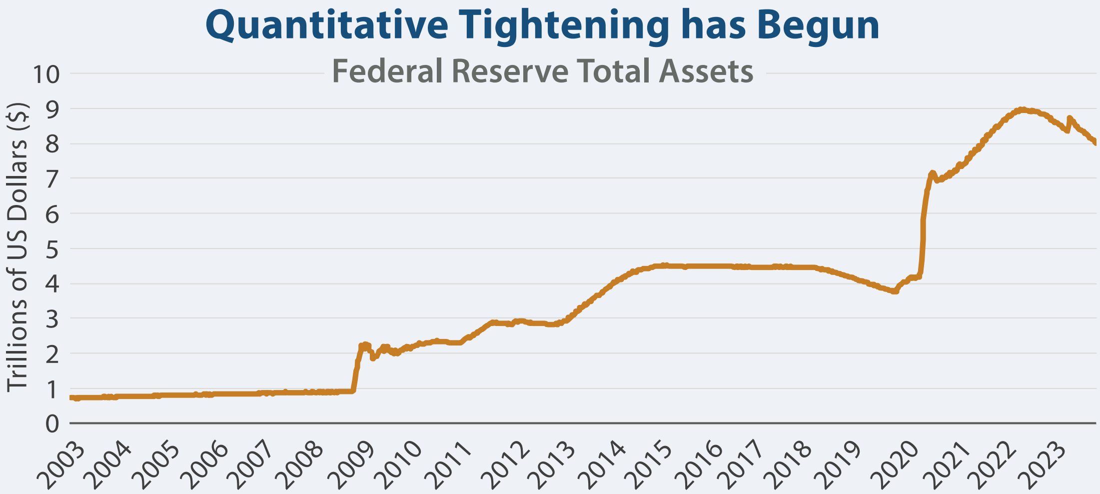
Why does this matter for income investors? Buying dividend stocks is a "bird in the hand" strategy, with a meaningful portion of the investment return coming from regular dividends. The current market favorites—large cap tech and interactive software companies—pay little or no dividends, with returns linked to forecasted increases in profitability far in the future. While real interest rates were near zero or worse, the market was not emphasizing the time value of money. Now that time is money once again, we expect the market to put more value on dependable dividend streams.

Real Interest Rates Have Returned to Normal Levels

10-Year US Treasury Yield Less 10-Year Inflation Expectations



Data as of September 1, 2023.
Sources: Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis.



Data as of September 1, 2023. Sources: Federal Reserve Bank of St. Louis; Miller/Howard Research & Analysis.

Looking Ahead

The broad market took a step back this quarter, seemingly recognizing that the Fed is unlikely to back off its inflation fight. In this down quarter, the Miller/Howard Income-Equity Strategy (No MLPs) provided downside protection, declining less than both the Russell 1000 Value and S&P 500 Indices (the version with MLPs performed approximately in-line with the value index and modestly ahead of the broad market).

Whether the Fed's higher interest rates will push us into a recession is still unknown, but we are clearly in a risky environment. Our Income-Equity Strategies remain focused on providing high and growing dividends from companies with strong balance sheets. In this uncertain economic environment, we are underweight cyclical sectors such as financials and industrials, and overweight the more defensive sectors including healthcare, technology, and utilities. We are also overweight energy and materials, sectors where we have found companies with well-covered dividends, good free cash flow, strong balance sheets, and attractive growth potential.

Currently, our Income-Equity Strategies yield 3.9% and 3.6%, respectively, for the with-MLP and no-MLP versions. Dividend increases within the portfolios are on track for another strong year, which we look forward to sharing in our year-end report.

See more about
Income-Equity Strategy
on page 15.

Portfolio Highlights

- **Dividend Increases:** During the third quarter, dividend increases were announced by **Conagra (CAG), Goldman Sachs (GS), Bank of New York Mellon (BK), Texas Instruments (TXN),** and **JP Morgan (JPM).** The with-MLP version had a sixth dividend increase from **Enterprise Products Partners (EPD).**
- **Exited Positions:** We sold **Walgreens (WBA)** early in the quarter, as it became clear that its expansion into healthcare services will crimp free cash flow, potentially threatening its ability to maintain and grow the dividend. We also sold **Genuine Parts (GPC)** to reinvest in higher-yielding stocks.
- **New Buys:** We initiated a position in **Paychex (PAYX),** a company with solid revenue and earnings growth, high returns on capital, more cash than debt, and a high dividend yield. We bought **Nutrien (NTR),** a fertilizer producer. In our view, the outlook for Nutrien is favorable given its cost advantage versus European producers and China's current policy of not exporting nitrogen fertilizer.

MLP Strategy

QUARTERLY REPORT 3Q 2023

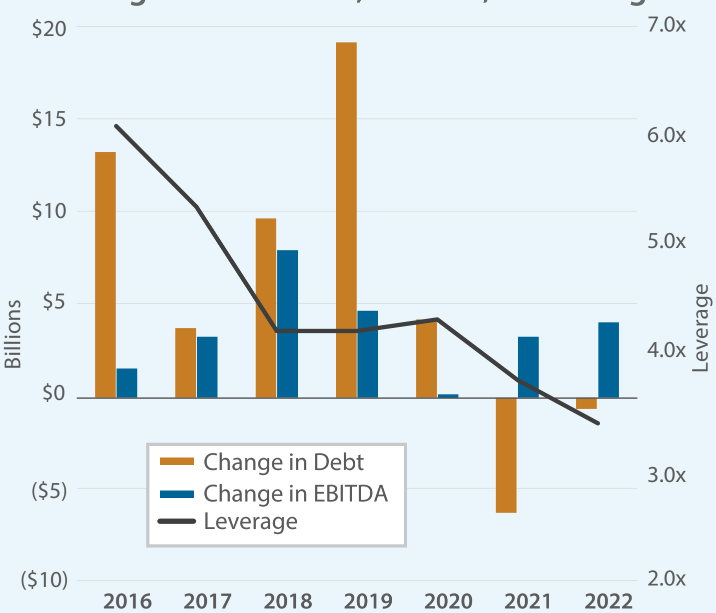
MIDSTREAM HAD A SOLID QUARTER, EASILY outperforming the broad market. Midstream business models continued to prove their resiliency—companies reported ever-stronger balance sheets, and free cash flow is being used to increase distributions and buy back units. A slightly weak earnings season did not rattle investors' confidence, given the sector's strong financial position.

As we continue to write about the evolution of the midstream sector, we have been primarily focused on free cash flow, growing distributions, and unit buybacks. However, another area that adds to the appealing nature of the midstream sector is stronger balance sheets.

We looked at debt, EBITDA, and leverage at the 10 largest MLPs since 2016. Debt increased from 2016 to 2020, but fell in 2021 and 2022. In fact, debt for these 10 MLPs declined by $6.3 billion in 2021—quite an achievement for an industry that had been known for being serial issuers of debt. Each year from 2016 through 2022, EBITDA increased, primarily from new projects becoming operational. Leverage fell significantly, coming in around 3.5x in 2022—44% lower than in 2016. (We note that 2016 and 2019 are impacted by acquisitions that resulted in higher debt and leverage, but without a full year of combined EBITDA.)

Lower Debt Leads to Stronger Companies

Change in MLP Debt, EBITDA, & Leverage



As of June 30, 2023.
Sources: Company Reports; Miller/Howard Research & Analysis.
Leverage is defined as total debt divided by EBITDA.

> ***Portfolio Highlights***
>
> - **Distribution Increases:** This quarter, 4 of our 16 holdings announced dividend increases.
> - **Exited Position: Magellan Midstream Partners (MMP)** was taken over in a merger, and we sold our position.
> - **New and Added Names:** As a result of the **MMP** takeover, we redeployed the proceeds into **Enterprise Products Partners (EPD), MPLX LP (MPLX), Antero Midstream (AM), Targa Resources (TRGP), Hess Midstream (HESM),** and **Sunoco LP (SUN),** which were all holdings in the strategy. We also initiated a position in **NuStar Energy LP (NS)**, which we believe should benefit from growth in the Permian Basin.

Management teams continue to aim for lower leverage, with **Enterprise Products Partners (EPD)** now having a 3.0x leverage ratio target. Earlier this year, EPD received the first A- credit rating in the midstream sector.

Lower debt levels are also prudent in a high-interest-rate environment, as companies may not need to refinance borrowings when they mature. Improved balance sheets have had a positive impact on the midstream sector and make for a better investment opportunity, in our opinion.

Looking Ahead

Merger and acquisitions (M&A) activity continues with ONEOK (OKE, not held) buying **Magellan Midstream Partners (MMP,** sold during the quarter), **Energy Transfer (ET)** buying **Crestwood Equity Partners (CEQP), Western Midstream Partners (WES)** buying privately-held Meritage Midstream, and Enbridge (ENB, not held) buying $14 billion of assets from a utility. As we have said before, we expect this trend to continue, as well-positioned midstream companies buy assets to integrate into their systems and enhance services to clients. Industry consolidation, in our view, should result in a core universe of strong midstream companies with diversified businesses.

Infrastructure

QUARTERLY REPORT 3Q 2023

AFTER HOLDING STEADY FOR THE FIRST HALF of 2023, the Infrastructure Strategy pulled back in the third quarter. Year-to-date, the Infrastructure Strategy has failed to keep pace with the broad market—due to lack of exposure to non-infrastructure companies in high-flying information technology and communication services names and more substantial exposure to lagging utilities (which had a strong 2022).

During the quarter, companies with lower leverage and/or higher free cash flow yields generally outperformed. From a macro standpoint, interest rate sensitivity continued to impact returns as cell towers and utilities (particularly those with renewable development exposure) trailed in the face of rising interest rates. Rising commodity prices didn't help the Fed's efforts to tame inflation, but did create a tailwind for our midstream positions. Energy led the portfolio, posting positive returns during the quarter.

Portfolio Highlights

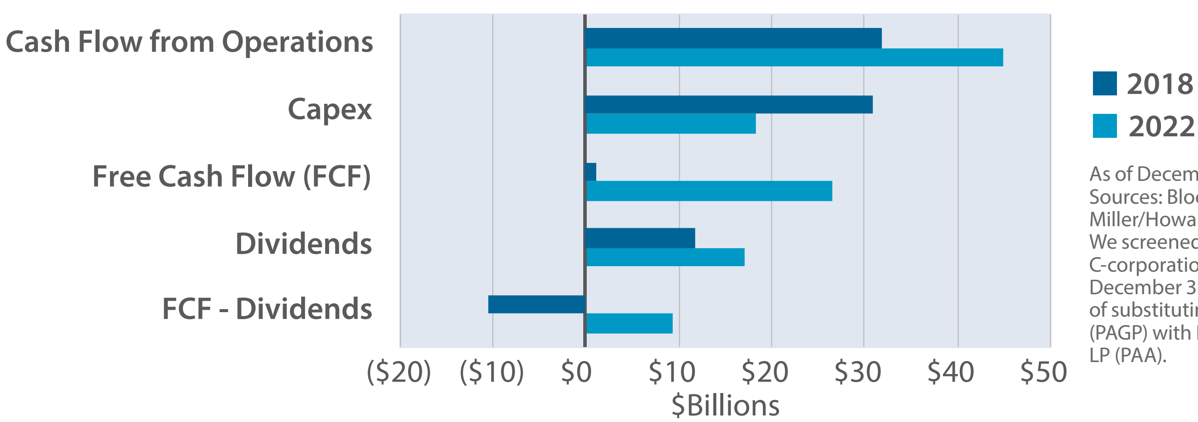
- **Dividend Increases:** This quarter 4 of our holdings raised their dividends by an average of 15% on a year-over-year basis.
- **New Position:** We initiated a position in **Constellation Energy Corp. (CEG)** and expect the company to benefit from legislation introduced in the Inflation Reduction Act that creates asymmetrical exposure to power prices and extends the life of its nuclear fleet.
- **Exited Holding:** We exited our position in **Forward Air (FWRD)** after it announced a transformational acquisition of Omni Logistics. The transaction is dilutive to EPS in the near term, increases leverage, and adds additional execution risks.
- **Reducing Risk Profile:** We trimmed our position in **Marathon Petroleum (MPC)** and increased our position in **Comcast (CMCSA)**. Thematically, these transactions were a continuation of our efforts to reduce portfolio beta.

Looking Ahead

Miller/Howard's Infrastructure Strategy focuses on essential service providers with high barriers to entry in an effort to provide more stable cash flows with less sensitivity to the business cycle. Within our portfolio, our midstream positions are typically the highest beta names. While we acknowledge that midstream has historically been more cyclical than the broad market, the sector has made excellent progress in making its business model more durable.

Over the last five years, cash flow from operations has increased by ~40%, while capex has declined by ~40%. This has resulted in a massive inflection in free cash flow. The significance of this inflection shouldn't be understated. It means dividends are far more secure, companies don't need to access capital markets, and cash is now available to pay down debt or repurchase shares. The result is a risk profile that has greatly improved from five years ago. Now more than ever, we believe that midstream companies are an important component in providing our clients with a compelling income solution.

Midstream's Inflection in Free Cash Flow



As of December 31, 2022.
Sources: Bloomberg;
Miller/Howard Research & Analysis.
We screened for the top 10 midstream C-corporations by market cap as of December 31, 2021 with the caveat of substituting Plains GP Holdings, LP (PAGP) with Plains All American Pipeline, LP (PAA).

Utilities Plus

QUARTERLY REPORT 3Q 2023

THE THIRD QUARTER FAILED TO BRING RELIEF for the utilities sector. The sector declined for the third consecutive quarter, marking the first time it's earned this dubious distinction since the Great Financial Crisis.

Interest rates continued to be the primary headwind for the sector. Utilities had a positive start to the quarter, rallying through late July, before interest rates marched higher. During the quarter, the yield on the 10-year rose approximately 80 basis points to 4.6%, a level last seen in 2007.

The sector was dealt an additional blow in August as Hawaiian Electric Industries (HE, not held) declined on the implications of the Lahaina Fire in Maui. The tragedy pressured other electric utilities as it highlighted the risk associated with operating in wildfire-prone areas.

Within the group, large-cap utilities generally outperformed mid- and small-cap utilities. Independent power producers were the clear leaders for the second straight quarter. Utilities with renewable development exposure lagged on concerns that a rising cost of capital would complicate financing and stress project economics.

Looking Ahead

At quarter end, the 4.0% yield on the Miller/Howard Utilities Plus Strategy was below the yield on the 10-year Treasury. Although the strategy's yield is starting at a discount, a bond's interest payment will never grow. In contrast, the income generated by our strategy grew at a 6.6% CAGR over the last ten years.

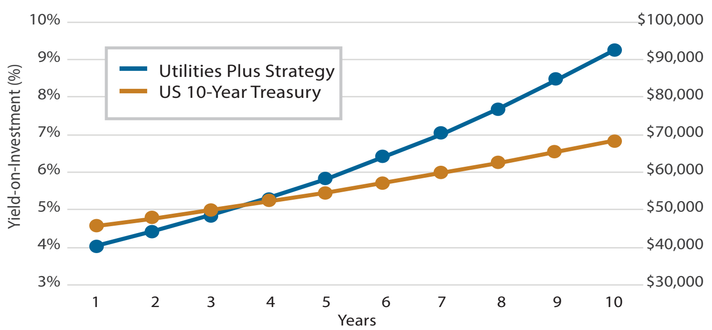
Calculating the yield on original investment (YOI) provides a way for investors to compare two different income streams with different growth rates, and incorporate reinvesting. Assuming a 4.0% yield and 5.7% average annual dividend growth (in line with the portfolio's Bloomberg 3-year forecast), the YOI of our portfolio would surpass that of the 10-year in the fourth year and be >240 basis points higher in year ten.

We acknowledge that utilities' relative appeal has been impacted by interest rates, but we believe that our Utilities Plus Strategy continues to provide an income solution for clients that is superior to bonds.

Portfolio Highlights

- **Dividend Increases:** This quarter, the holdings in our portfolio announced 4 dividend increases with an average increase of 9.9%.
- **Four in a Row:** We added to our position in **Southern Co. (SO)** for the fourth quarter in a row. With the first unit of the Vogtle nuclear plant now online, the company's risk profile continues to improve. We continue to think the name will re-rate to one of the premium names in the space.
- **Increased Holding:** We increased our position in **NextEra Energy Inc. (NEE)** after a period of underperformance. We expect **NEE** to benefit from its premium utility and industry-leading renewable development.
- **Trimmed Position:** We trimmed our position in **Vistra Corp. (VST)** after a period of outperformance. The company has benefited from power price volatility and the announced acquisition of Energy Harbor.

Dividends Received Over Time with Dividends Reinvested



Year 10	Yield on Original Investment	Dividend Value
Utilities Plus Strategy	9.26%	$92,622
US 10-Year Treasury	6.83%	$68,348

Sources: Bloomberg; Miller/Howard Research & Analysis. For Utilities Plus, we used the indicated yield of 4.03% and weighted projected dividend growth of 5.7% calculated as of September 29, 2023. For US 10-Year Treasury, we used the yield of 4.57% as of September 29, 2023, and it is assumed that interest received on the bond is reinvested at the original interest rate. This hypothetical example assumes a $1 million initial investment. There are no guarantee that an actual investment would yield the same results.

North American Energy

QUARTERLY REPORT 3Q 2023

DESPITE GLOBAL RECESSION FEARS AND higher interest rates, crude prices rocketed 29% higher during the quarter, propelled by deepening OPEC+ production cuts, US Strategic Petroleum Reserve release exhaustion, and steadfast shale driller capital discipline. Towards the end of the quarter, the US Energy Information Administration projected that, for the first time since 2015, US shale oil output would decline in October (from September levels). This is a rarity given the seasonal cadence of US drilling, and we view this as an initial reflection of the impact of a 20% decline in the US oil rig count since the November 2022 cyclical peak. While the industry remains robustly profitable at the $75/barrel WTI-average over this period, this price appears insufficient to incentivize higher production.

Elsewhere along the value chain, refiners continued to benefit from robust demand, tight industry capacity, and ongoing tight global liquefied natural gas (LNG) prices (which are a major cost input for Europe's competing refinery system).

Looking Ahead

Given another strong quarter, we continue to receive the question from investors, "Have we missed the energy rally?" Our answer remains firmly, "No". Indeed, the data continue to support the opposite. Energy equities have done well in recent years despite entrenched investor pessimism regarding near- and long-term industry earnings prospects that, in our view, is unfounded. To wit, we estimate the $20/barrel rise in oil prices since last quarter corresponds to an estimated 85% annualized increase in free cash flow per share for our portfolio's 11 oil producer holdings. Yet these stocks gained just 11% last quarter—hardly an endorsement of a new normal.

Stepping back, energy still trades at nearly a 6-turn P/E multiple discount to the S&P 500 Index, remaining cheaper relative to the broad market than at any time pre-pandemic.

Portfolio Highlights

- **Energy and Income:** The portfolio currently offers an indicated yield of 3.1% (which we calculate to be supported down to approximately $40/barrel oil) combined with a significantly larger variable return of capital commitment at higher commodity prices. This year, given managements' views on current stock valuations, companies are slightly favoring buybacks compared to special dividends.

- **New & Exited Holdings:** We initiated a position this quarter in **Pembina Pipeline (PBA),** which we expect will benefit from new pipeline egress in the West Canadian Sedimentary Basin. We sold distributor **MRC Global (MRC)** on concerns about deteriorating profit margins in its industry niche. We also exited **Magnolia Oil & Gas (MGY)** after they reported mixed well results for their Giddings growth asset.

Energy Trades at a Discount

Price-to-Earnings: S&P 500 Energy Minus S&P 500 Index

As of September 30, 2023.
Sources: Bloomberg; Miller Howard Research & Analysis.

Reversing the prevailing pessimism will entail climbing a wall of worry over the timeline of the energy transition. In our view, the industry's abundant free cash flow will continue, driving both dividend increases and capital appreciation.

Small Cap Dividend

QUARTERLY REPORT 3Q 2023

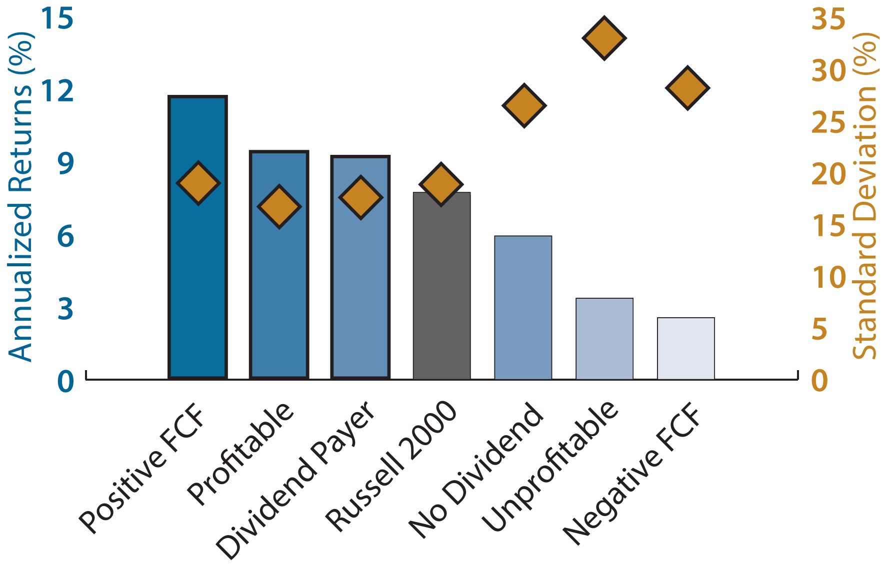
VOLATILITY CAN BE A RETURN killer. As an example: If a stock drops 50% in one year, it needs to rally 100% the next year just to break even. Never mind the headaches from these huge swings in share price; when compounded over the long term, excessive volatility can be a drag on total returns (see our 4Q 2022 Quarterly Report).

Volatility isn't a new concept for small-cap investors. Compared to large-caps, small-caps tend to be younger companies with a large portion of the universe being unprofitable, having negative free cash flow, or not paying a dividend. History has shown that these characteristics detract from returns and add risk.

In our view, long-term returns should be better with a diversified portfolio of companies that have already demonstrated their potential for success through factors that our process favors: dividend-paying stocks with strong earnings and healthy cash flow. Historically, these factors have offered returns above the Russell 2000 Index with meaningfully lower volatility.

Free Cash Flow, Dividend, and Profitability Factors Have Offered Better Return/Risk Ratios among Small-Cap Stocks

1997-2022



Return/ Risk Ratio	0.63	0.56	0.53	0.40	0.22	0.10	0.09

As of December 31, 2022. Sources: Bloomberg; Miller/Howard Research & Analysis. Hypothetical returns of a portfolio invested on December 31, 1996 and held to December 31, 2022. A prior version of this illustration included data from 12/31/1995 - 12/31/2022. This chart has been updated to display a 25-year history.
Stocks in the Russell 2000 Index were divided into six baskets (dividend-paying vs. non-paying, profitable vs. unprofitable, positive free cash flow vs. negative FCF) and rebalanced at month end. Dividend baskets are equal-weighted. Profitability and FCF baskets are market-cap-weighted. Profitable (unprofitable) is defined as positive (negative) trailing GAAP net income at quarter end. Free Cash Flow (FCF) is defined as cash from operations less capital expenditures (excludes real estate and financials). GAAP = Generally accepted accounting principles.

Looking Ahead

The equity market declined this quarter following last quarter's rally, with our Small Cap Dividend Strategy dropping less than the Russell 2000 Index. In times of turmoil, we would expect our natural tilt towards lower-volatility stocks to provide us with downside protection, as it did this quarter. Regardless of current market dynamics, our Small Cap Dividend Strategy remains focused on identifying small-cap companies with strong earnings, good free cash flow, and a commitment to a regular dividend—factors that have historically generated superior returns over long holding periods.

Portfolio Highlights

- **Dividend Increases:** Six holdings raised their dividend**—MDC Holdings (MDC), Boise Cascade (BCC), AdvanSix (ASIX), Tegna (TGNA), Greif (GEF),** and **InterDigital (IDCC).**
- **Special Dividends:** Holdings **Ethan Allen (ETD)** and **Chord Energy (CHRD)** declared special dividends.
- **Sales:** We exited **Carter's (CRI), Heidrick & Struggles (HSII), Kforce (KFRC), Insperity (NSP), Ironwood Pharma. (IRWD), Forward Air (FWRD), Louisiana-Pacific (LPX), Premier Inc. (PINC),** and **Progress Software (PRGS).**
- **Buys:** We initiated positions in **La-Z-Boy (LZB), Brink's (BCO), Forward Air (FWRD), Equitrans Midstream (ETRN), Franklin Electric (FELE), Inmode (INMD), California Resources (CRC), Quanex (NX), Orion (OEC), Hawkins (HWKN), Vontier (VNT),** and **CTS Corporation (CTS).**

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	3Q23
Income-Equity Yield	4.4	4.2	4.7	4.0	3.7	4.3	3.7	3.6	3.3	3.6	3.9
S&P 500 Yield	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.7
Ratio	2.3x	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.0x	2.3x
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	5.5
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	1.1x
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	2.2x
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	2.0x
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	14.0
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	19.5
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	3Q23
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	3.6
S&P 500 Yield	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.7
Ratio	2.2x	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.0x	2.1x
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	5.6
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	1.1x
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	2.4x
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	1.7x
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	14.0
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	19.5
Premium/Discount	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-39%	-42%	-26%	-28%

As of September 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.

2022-2023 ESG: Integration and Engagement Achievements

PARTNERSHIP ACTIVITY

- **Signed &/or submitted 30** investor statements or letters urging improved ESG action by regulators, sectors, and governments
- **Worked with 8** investor groups & NGOs

PROXY VOTING

Of 6,380 ballot items across 532 meetings, our research led us to vote contrary to management's recommendations 75% of the time.

RESOLUTION WITHDRAWN

Targa Resources committed to add additional disclosures regarding its direct methane measurement.◊

DIVESTMENT

Optional custom exclusions for clients (where feasible under custodian restrictions)

ENGAGEMENT

- 23 companies engaged on ENVIRONMENTAL issues
- 31 companies engaged on SOCIAL issues
- 11 companies engaged on GOVERNANCE issues

Active Owners–Always

A company's management of human, financial, and natural resources contains within it the seeds of possible wins or losses: We look for companies that manage resources well, offer transparency and accountability, and are positioned for long-term profitability so our clients can meet their financial goals over the short and long term.

◊ As part of a productive dialogue with Miller/Howard, Targa Resources committed to increasing their methane-related disclosures in its future ESG reports. Proxy Data for FY 2022 Engagement Data from 2Q22-2Q23. All securities listed were held in Miller/Howard strategies at the time of engagement. There is no assurance that the securities have remained or will remain in the portfolio.

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.

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

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