

THE STRATEGIES

INCOME-EQUITY STRATEGY

A diversified dividend-growth strategy providing high current income, growth of income, and growth of underlying principal. Stocks are conservative, high quality, high yield, and are projected to have a rising stream of income.

RISING DIVIDEND PLUS

A portfolio of large- and mid-cap companies in which dividend growth is the key variable, focusing on companies with proven long-term success or special current opportunities.

BETTER THAN BONDS / UTILITIES

By focusing on opportunities in the broad, global utility industry, this portfolio participates in both the stability and the dynamic growth of the most important economic sector offering an appealing combination of growth and income with environmentally friendly companies.

DISTRIBUTION / MERGING UTILITIES

An opportunistic portfolio of primarily regulated local monopoly distribution utility companies with strategic and financial takeover appeal.

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In a 1995 study conducted by Tokish, Kocher, and Hawkins, 198 Olympic-level athletes were polled, and offered the following scenario. You are offered a banned substance with two guarantees: First, you will not be caught, and, second, by taking the substance you will win. Of the athletes asked if they would take the substance, only three said they would not. The poll went further, and asserted that the same substance would enable you to win every competition entered for the next five years, but then would kill you. More than half of those polled said they would still use it.

To us, that sounds like the banking, mortgage, and derivatives industries. Start with a juiced-up mortgage. Put it in a box with some good mortgages on top. Add thirty times leverage and let it foam. That's performance enhancement! The goal was to make incredible amounts of money. And how is that really any different from Barry Bonds, Roger Clemens, Sammy Sosa's accidentally corked bat, or Marion Jones's ersatz Olympic speed records. People tend to cheat to win. The consequences are narrowly confined when it is just a baseball or track record at stake, but in our current moment millions of the innocent or defrauded, whether homebuyer or businessperson, and, indeed, the simple taxpayer, are going to suffer because of a relatively few aggressors and their complicit if naïve mathematician apprentices. It brings to mind Tom Wolfe's description in his book, *Bonfire of the Vanities*, of bond traders as "young men braying for money." They got theirs, especially in the C-suite; everyone else wound up in a body cast.

It's no accident that the first response of the first responders has been to apply "stimulus" to the situation. That's how we all, in the larger world, have been living for the past 50 years or so, ever since we started cramming for exams with those little yellow heart-shaped pills in the sixties. It's no accident: Where we are financially is merely yet another replication of the steroid spirit of the broader culture. The link between the financial world and the larger social world is inevitable, since both are worlds made and run by human beings. Super-sizing has run amuck.

So no need to wonder that the "biggest" in financial history waited until the current steroid era to appear. Not that there haven't been manias and bubbles and crashes before, but the biggest stock market bubble is ours, as well as the biggest hedge-fund blow-up (by sober Nobel-prize economists, no less, their theories juiced up on 100-fold leverage), and the biggest corporate fraud (Enron), the biggest rise in home prices, and then the biggest debacle, the biggest conventional bombs ever dropped, the biggest rise in energy prices, not to mention the biggest buildings ever built, the biggest casinos, the biggest man-made islands. The biggest banking write-downs

“A financial culture obsessed with performance turned to the ultimate ‘enhancing’ drug—leverage—and it has left us standing in a pile of goo.”

and write-offs. The biggest freeze-up of the credit markets. Biggest, biggest, biggest, it’s a narcissistic fireworks display that lights up the sky.

A financial culture obsessed with performance turned to the ultimate “enhancing” drug—leverage—and it has left us standing in a pile of goo. One yearns for the good old days of saving, and interest, and down payments on houses, and credit standards for obtaining loans. But what is the remedy? Pumping of countless billions into the banking system and a “stimulus” payment to consumers. Perhaps the lesson hasn’t really been learned.

But perhaps we will find, once normal breathing has been restored in downtown Manhattan and in Washington, that some measure of prudence and sobriety has entered the mix. Just as equity investors learned in the aftermath of the tech bubble that valuation actually does matter, in the credit markets, too, eternal verities have once again made their presence known. Sub-prime is dead. Liar loans are dead. CDOs are gone from the scene. Wall Street firms are cutting payrolls in their credit and trading departments, because those employees just won’t have anything to do anymore.

It will take some time to work off, like any hangover. But the good news is that time-tested rules of lending and borrowing have been certified and re-asserted. The same mistakes won’t be made again—at least not for the next ten years or so. And one has to say that the previous system, before hyper leverage, before home-equity ATMs, before condo speculation as a replacement for day trading, before unregulated derivatives... worked pretty well. There was prosperity without collapse, and that can return.

Investors seem to have temporarily lost sight of the larger picture in the economy and its resilience in the face of wars, terrorism, dislocations from shifting global manufacturing patterns, or changes in

demographics. To be sure there is economic weakness now, but based on recent data such as employment numbers and ISM reports, matters are only getting modestly worse (we exempt housing and investment banking from that statement). Industrial businesses, especially those involved in export as well as in transportation and in agriculture—along with the micro-economies that those industries nourish—are doing quite well. In general, we haven’t seen companies missing earnings expectations (albeit reduced expectations) and, indeed, earnings have been generally better than last year. And years of high profit margins have enriched the coffers of American corporations to record levels, meaning business has a vastly *reduced* need for financing at the operational level. Judging by surveys of both consumers and economists, the world is at the edge of a high cliff (CFOs are not sanguine but also not panicked), but in the absence of extrinsic factors like terrorism we see the current slowdown as more normally cyclical than extraordinary. Perhaps if you work in a money center bank you can be forgiven for thinking otherwise.

This environment of both statistical and anecdotal negativity has historically been a reasonably favorable environment in which to buy stocks. Many would prefer to await good news before making new commitments, but we would point out that by the time the recession of 1990–91 was over—a time of economic turbulence and real estate malaise about as similar to our own as any we can think of—the broad market averages were already at new highs. We don’t pretend that history will repeat (and we will refrain from uttering the recently popular “but it rhymes”), but we will remind ourselves and anyone who will listen that according to the Fed model, stocks are notably undervalued. And according to any dividend discount model we’ve seen, the same is true. Interest rates are not in the way. Refinancing is not

SELECTED INDICES

	1 st Qtr08	1 Yr
S&P 500	(9.4)%	(5.1)%
Equity Inc	(7.6)%	(6.1)%
Util Fund	(10.0)%	0.4%
R3UTIL	(11.3)%	(9.3)%
Long Bond	4.0%	13.0%
R1000	(9.5)%	(5.5)%

S&P 500 = Standard & Poor’s Index
 Equity Inc = Avg Equity Income Fund (Lipper)
 Util Fund = Avg Utility Fund (Morning Star)
 LB Long = Lehman Long Treasury
 R3UTIL = Russell 3000 Utilities
 R1000 = Russell 1000

needed except in residential real estate and on Wall Street. A global middle class larger than any before seen is arising to buy products and services. And global competition associated with that doesn't have to be a bad thing: We remember how depressed Americans were when the Japanese used their cheap currency and leap-frogged technology and factories to steal a huge chunk of the domestic auto market. That prompted a near-revolution in U.S. management practices, resulting, with the aid of a wave of progress in computerization, in the highest domestic productivity growth ever. Now, we would point out, the *dollar* is the cheap currency; it is to our global advantage.

On a more prosaic level, our proprietary options sentiment indicator, which had been bumping along at near neutral or neutral-plus for some time, finally took a nascent turn positive at the end of the quarter. We'd need to see more persistence to call it outright bullish, but the potential has improved, and it has been a rather good intermediate-term indicator (though terrible at things like predicting a freeze in the credit markets). Technically we see bottoming patterns across a large array of hitherto weak sectors, and a somewhat imperfect bottoming pattern in the broad market (upside volume is lacking in magnitude). We suggested last quarter that large-cap financials would have a relief rally after reporting initial financials, and that has occurred. We have no way of knowing whether or how much more bad news there may be, but we're skeptical of sustained strength here; where are the replacement revenues for large banks and investment banks going to come from? Still, even if the heavily weighted financials don't contribute as they have recently, and thereby dull the performance of the indices, there are plenty of opportunities for investors who can look at the present moment from the vantage point of a year or three or five in the future.

Is that merely the same old sleepy long-term mantra? Some things are as simple as they appear.

GIPS Performance Disclosure

Miller/Howard Investments Inc. is an SEC registered investment advisor specializing in multi-cap, core equity management and dividend strategies. The annual investment management fee for the net composite is an assumed fee of 3%, charged quarterly, which includes wrap program fees. Other than brokerage commissions, this fee may also include portfolio monitoring, consulting services, custodial services, and investment management fees. Actual investment advisory fees incurred by clients may vary. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

Miller/Howard Investments Inc. claims compliance with the Global Investment Performance Standards (GIPS®). The firm is currently undergoing a firm-wide verification being conducted by Ashland Partners & Company LLP. To receive a complete list and description of Miller/Howard Investments' composites and/or a presentation that adheres to the GIPS standards, contact Marilyn Marecek at 845-679-9166, or write Miller/Howard Investments, PO Box 549, Woodstock, NY 12498, or marilyn@mhinvest.com.

"Is that merely the same old sleepy long-term mantra? Some things are as simple as they appear."

Income-Equity Strategy Composite Performance—GIPS composite disclosure shown in US dollars

Preliminary	Income-Equity Strategy Composite Includes MLPs		Russell 1000
	Gross	Net	
Period to Date (3 mo's to 3/31/08)	(6.1)%	(6.8)%	(9.5)%
1 Year (ending 3/31/08)	(8.8)%	(11.5)%	(5.5)%
3 Years per annum (ending 3/31/08)	7.1%	3.9%	6.2%
5 Years per annum (ending 3/31/08)	12.8%	9.5%	11.9%
7 Years per annum (ending 13/31/08)	5.6%	2.5%	4.2%
10 Years per annum (ending 3/31/08)	5.5%	2.4%	3.8%

The Income-Equity Strategy Composite focuses on multi-cap, high-quality, high-yield dividend-growth investments across the broad market, including American Depositary Receipts. The Russell 1000 Index offers investors access to the extensive large-cap segment of the US equity universe representing approximately 92% of the US market. NOTE: Net return assumes a 3% annual advisory fee that includes additional wrap program fees. See full disclosure above.

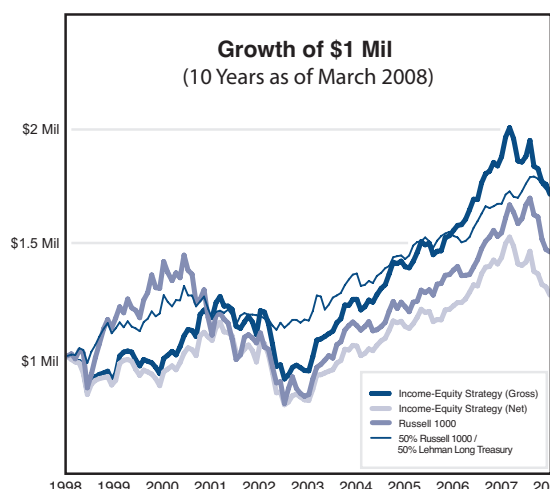
“Yes, job creation has ground to a halt, and yes, the needle has moved below zero from ‘slowdown’ to something worse; nevertheless, many companies, ours included, are doing perfectly well as revenue and cash-flow generators.”

By the end of last quarter we noted that we’d begun to detect signs of normalcy within the equity markets, in the sense that a traditional constituency for dividend stocks had returned, and traditional downside volatility substantially less than the market was our expectation. That crystal ball was more of a moon: half light—yes, our stocks displayed substantially less downside volatility than the market—and half dark—no, there was no return to normalcy in the market. Indeed, stocks became increasingly volatile (the highest in five years), and bizarre events such as the freezing up of the auction-rate bond market and the instant evaporation of Bear Stearns showed just how novel and very non-normal the environment had become. This period of financial turmoil remains an anomaly, as we pointed out last quarter (and what a horrid fate will befall us if it is not!), but anomalous or no, financial stresses continue to control the decision processes of the players in the financial markets.

Yet the basic underlying revenue streams we see in our companies are hardly tarnished. In a way, this is the major dissonance of the current historical economic moment. Yes, job creation has ground to a halt, and yes, the needle has moved below zero from “slowdown” to something worse; nevertheless, many companies, ours included, are doing perfectly well as revenue and cash-flow generators. The equity markets really need to have the credit markets settle down, and we’re pleased that Paulson and Bernanke have strapped on their battle gear. Many players in the financial markets have only scorn for government and government interventions. We would suggest that the current fix we’re in reflects nothing so much as an inadequate level of rules, restrictions, and enforcement. Laissez-faire has had its turn, and from it, this is what we’ve got.

PORTFOLIO HIGHLIGHTS

We were not active this quarter. There were no stocks whose fundamentals warranted a change (though there were plenty whose price



The above data is shown as supplemental information and complements the performance disclosure located on page 3.

declined), and we did not find new candidates whose credentials were sufficiently improved and were sufficiently immune to ambush from the financial markets to bump any stocks off our list. Good values are definitely being created in many sectors, but there was little impetus to make changes. Too, the intra-day volatility became so extreme that extra return risk had arisen, a risk we saw no good reason to undertake.

Our two metals stocks helped the portfolio. Steel manufacturer Nucor rose about 15% after beating earnings expectations by about 5% and suggesting 2008 earnings might reach a record. Though steel demand in this country is far from being at its highest levels, the weak dollar has knocked foreign competition out of the box. So, in effect, the dollar’s decline has resulted in significant growth in market share for the company, enough to overcome what would otherwise be “ebb tide” conditions. On the last day of 2007 we bought Teck Cominco. We were interested in its diverse mining and resource operations built on a base as a copper provider. We thought the strong Canadian dollar and persistent strong metals prices (which are in part caused by a weak U.S. dollar) coupled with continuing consolidation in the global mining industries would at least provide support for the company in troubled economic times. The stock had been soft because investors believed the company would “have” to buy all of Fording,

PRELIMINARY RETURNS

Quarter Composite

MHI Income-Equity Gross	(6.1)%
* MHI Income-Equity Net	(6.8)%
50/50 R1000 & Long Treas	(2.9)%
Russell 1000	(9.5)%

5-Year Annualized Composite

MHI Income-Equity Gross	12.8%
* MHI Income-Equity Net	9.5%
50/50 R1000 & Long Treas	9.2%
Russell 1000	11.9%

10-Year Annualized Composite

MHI Income-Equity Gross	5.5%
* MHI Income-Equity Net	2.4%
50/50 R1000 & Long Treas	6.1%
Russell 1000	3.8%

*Net return assumes a 3% annual advisory fee that includes wrap program fees. See the performance disclosure on page 3.

a Canadian metallurgical coal miner that had declared itself up for sale and of whose shares Teck held some 20% already. During the quarter it turned out there was a worldwide shortage of metallurgical coal, Fording soared, and Teck rose both on the back of its now more precious asset and renewed interest in it as an acquisition candidate subsequent to the failure of Rio de Vale's offer for Xstrata. When you try to follow the machinations of a global consolidation trend it does sound like a Hollywood gossip column at times, but eventually they all seem to get married.

The quarter held a nice lesson: Well-managed individual companies can swim upstream against negative industry conditions. Retail is in a shambles both fundamentally and in terms of stock prices, as the consumer has finally slowed down some. But VF Corp has found the right formula for its jeans and sports/casual wear, beating earnings expectations while revenues also powered ahead by 22%. Banks are of course sunk in a miasma, but U.S. Bancorp, a longtime holding of ours, actually managed a solid gain for the quarter, a reward for its avoidance of all the ultimately self-defeating games played on Wall Street. Semiconductors were down 12% for the quarter as a group, but Microchip Technologies—one of the few tech stocks with a substantial yield—beat expectations on a rising book-to-bill ratio and subsequently raised guidance, an important positive touchstone. Kinder Morgan Energy Partners rose on enthusiasm for its new Rockies Express pipeline, which will finally permit Rocky Mountain gas to move eastward, even though the MLP group was soft on unfounded (we believe) fears that the companies may have trouble on the financing front (all the evidence since last summer points otherwise).

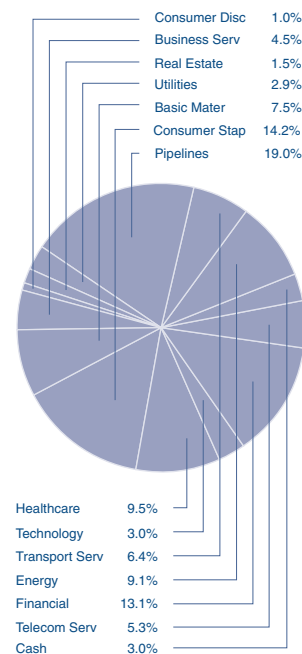
We also got a nice boost in the portfolio from leading gainer Hugoton Royalty Trust, a security that had been a laggard for several quarters as natural gas prices were nowhere near as strong as oil. The majority of our consumer non-durable names, such as Johnson and Johnson, Abbott Labs, Colgate Palmolive, McCormick, General Mills, and

the like hovered above and below zero, which in this quarter was a fine showing.

Only a few stocks were notably worse than the broad market averages, but they had a significant degrading effect on overall performance. The general theme was this: Many well-managed businesses rely on temporary short-term financing in their business models; however, the problems of large lenders have made them reluctant to provide this short-term financing. Companies such as Aircastle have become collateral victims of a credit crunch (one of its lenders was Bear Stearns) whose dimensions we don't believe anyone could have really foreseen, since this one and a few others in specialty finance are in fact good credits with solid collateral backing. Aircastle elected to cut its dividend to preserve capital while it seeks long-term financing to replace a good portion of its revolving credit (which is the normal process for its business). This dividend cut goes against our portfolio policy, but given the extreme circumstances not of their making we are giving the company a grace period to see if they can get back on the financing track. It's a pity, because their underlying business of leasing airplanes is doing very well. (We have written at greater length on AYR, and our research report is available on request.) Similar concerns apply to a few other low weight stocks in our portfolio.

LOOKING AHEAD

We'll continue to closely monitor those companies relying on external funding going forward, and the overall credit and funding flow more broadly. We might have to stand aside in some situations, though the vast majority of our stocks are unaffected and continue to deliver fine results that in addition don't appear to be affected by economic slowing. The portfolio currently yields over 6.3%, and we continue to expect solid income growth this year despite a setback or two in some of the situations noted above.



FUNDAMENTAL CHARACTERISTICS

Yield	6.3%
Proj Dividend Growth	9.4%
Payout Ratio	58.4%
Market Cap	\$34 Bil
Price/Book	2.9
P/E Ratio	13.7
S&P Rating	BBB+
Beta*	.6
R-Squared*	51.3%
Standard Deviation	11.6%

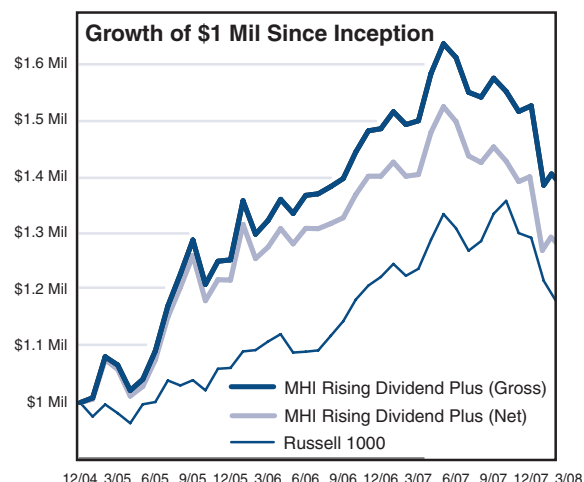
*Relative to S&P 500, 3/31/98 - 3/31/08 (Weighted Averages)
Sector pie chart is taken from a representative account. Information is supplemental to the performance disclosure on page 3.

“—with one or two exceptions fundamentals proved very robust and we think this group may be poised for leadership once the overall pressure in the environment recedes.”

Performance was very market-like this quarter—there were few places immune from a broad market decline that created the market’s worst quarterly performance in five years. Considering the environment, our better stocks were definitely outstanding, but the minority of stocks that underperformed dragged down returns overall. However, it was no quarter to adopt a negative view of our holdings—with one or two exceptions fundamentals proved very robust and we think this group may be poised for leadership once the overall pressure in the environment recedes.

PORTFOLIO HIGHLIGHTS

We added IBM during the quarter as a consequence of its large earnings upside surprise, upward guidance, \$15 billion newly announced stock buyback program, overall terrific fourth quarter, and its broad mix of corporate-level business spanning nearly every country in the globe. It’s almost astonishing that a company of this size can generate revenue growth of 10% (15% in its strong Asian area), and that it is “on sale” at 13 times this year’s earnings. Also in the general technology area we added Applied Materials. The company reported an upside earnings surprise, though its basic overall business is only mediocre. However, the company has a majority global share of semiconductor manufacturing equipment, and as new cycles of product enter the semiconductor market we think the overall industry background will sport a healthier tone. More interesting, though, is that the company has made a major entrance into the thin-film solar photovoltaic market, the area we believe will show the largest growth in solar over the next few years and more. We always want to buy companies with solid businesses that are dominant in their field and also have a “growth kicker” that is not being reflected in the market price. We don’t think



The above data is shown as supplemental information and complements the performance disclosure located on page 7.

PRELIMINARY RETURNS*

Quarter Composite

Rising Dividend Plus Gross	(10.0)%
Rising Dividend Plus Net	(10.7)%
Russell 1000	(9.5)%
S&P 500	(9.4)%

1-Year Annualized Composite

Rising Dividend Plus Gross	(8.4)%
Rising Dividend Plus Net	(11.1)%
Russell 1000	(5.5)%
S&P 500	(5.1)%

3-Year Annualized Composite

Rising Dividend Plus Gross	9.0%
Rising Dividend Plus Net	5.8%
Russell 1000	6.2%
S&P 500	5.8%

*Net return assumes a 3% annual advisory fee that includes wrap program fees. See the performance disclosure on page 7.

even the basic business of Applied Materials is properly priced right now, so this one punches our ticket for several destinations.

We bought two stocks in the health care area that were somewhat caught in the market downdrafts after purchase, but that we believe are well-positioned to benefit from key trends in the sector and in the legislative backdrop so very important to it. Mylan Labs has been busy digesting its purchase of Merck AG (a European generic drug company, not related to U.S. based Merck), a purchase that has made it the largest generic drug competitor, along with our holding Teva Pharmaceutical. At a time when major pharma companies are struggling to find new compounds to replace their many drugs coming off patent, this is the Age of Aquarius for generic drug makers. The entire HMO system is dedicated to getting patients to use generics when possible, and one way or another the new administration is going to ensure that tens of millions more people will have access to these products. There are many villains in the health care story: Generic drug makers are one of the few heroes. Recognizing it is a competitive business and companies have to execute, we’re betting that MYL’s new scale will make it a stronger competitor, not a weaker one. Insiders showed a burst

of support for this proposition in March, with cluster buying of no less than eight insiders, plus numerous exercises of stock that were not then subsequently sold. The company has made a bold move, but we bought on the premise that the company will achieve, at a minimum, the \$300 million of efficiencies it has reiterated are in store over the next two years, which would bring an additional \$1 per share to earnings. We also added Cardinal Health—which provides the distribution mechanisms for health care products to reach their ultimate consumers. After our purchase a number of health care provider companies—the HMOs—took a nasty hit in the market on slowing revenues and shrinking margins, but these companies are not in the same business. The factors that impact a Cardinal, in addition to execution, are almost wholly involved with the ever-increasing need for health, no matter who is paying for it. Contracts with health care providers do matter, but with recent renewals this doesn't appear to be an issue in the visible future.

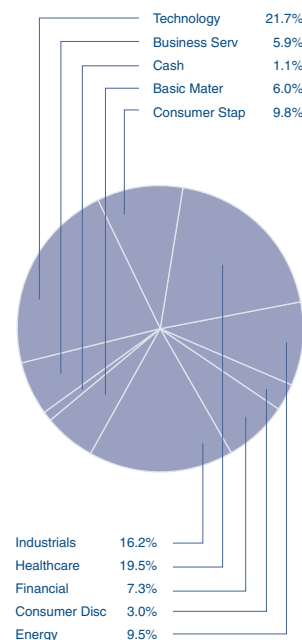
Rising Dividend Plus Composite Performance
GIPS composite disclosure shown in US dollars

Preliminary	Rising Dividend Plus		Russell 1000
	Gross	Net	
Period to Date (3 mo's - 3/31/08)	(10.0)%	(10.7)%	(9.5)%
1 Year (ending 3/31/08)	(8.4)%	(11.1)%	(5.5)%
3 Years per annum (ending 3/31/08)	9.0%	5.8%	6.2%

The Rising Dividend Plus Composite is a mid- and large-cap core strategy focusing on companies in which dividend growth is the key variable. The Russell 1000 Index offers investors access to the extensive large-cap segment of the US equity universe representing approximately 92% of the US market. NOTE: Net return assumes a 3% annual advisory fee that includes additional wrap program fees. See full disclosure on page 3.

We added Ambac as a “special situation” last quarter, which explains the enormous swelling under our right eye. We noted in the 4th quarter report that it was controversial, but we thought the risk-reward tradeoff was favorable. Bear in mind that we bought the stock after the ratings agencies had undertaken a specific review of the company and indicated that it was still rated triple-A (a key requirement for its business). We spent a large amount of time evaluating this situation, and we felt that even in a runoff situation (no new business, just collecting premiums and paying claims) the stock was worth at least \$30 per share, conceivably far more than that if dire predictions about write-downs proved panicky and excessive. And we still do! We believe the company is in de facto runoff—even though they claim the contrary—that the company has gotten the rawest of deals from incompetent ratings agencies and in the press, and that if we had a few extra billion we'd seriously consider taking on the whole project (even though we still feel the sting of its performance dragging our portfolio down from much better than the averages to merely average). We'll keep it for a while in hopes of finally seeing that our analysis was not totally off in outer space, and if nothing else as a reminder that no ratings agency and no CEO explanations can ever provide the “margin of safety” that every sane investor seeks.

Space limits us from discussing some rebalancing done at the end of the quarter, trimming some holdings and adding a few new names that shone bright on our systematic screens. We re-iterate, however, that we think this portfolio is well positioned to generate good returns when the world at large is less inimical. We think there are excellent prospects in both our natural gas issues and in the seasoned-growth characteristic that appears prominently in this list.



FUNDAMENTAL CHARACTERISTICS

Yield	1.7%
Proj Dividend Growth	14.2%
Payout Ratio	23.4%
Market Cap	\$46.9 Bil
Price/Book	3.4
P/E Ratio	16.3
S&P Rating	A-
Beta*	1.1
R-Squared*	48.2%
Standard Deviation	13.0%

(Weighted Averages)
Sector pie chart is taken from a representative account. Information is supplemental to the performance disclosure on page 7.

"They aren't 'cheap' historically, but prospects are fine and the froth has been skimmed away. A pricing revival might come this quarter, or maybe next..."

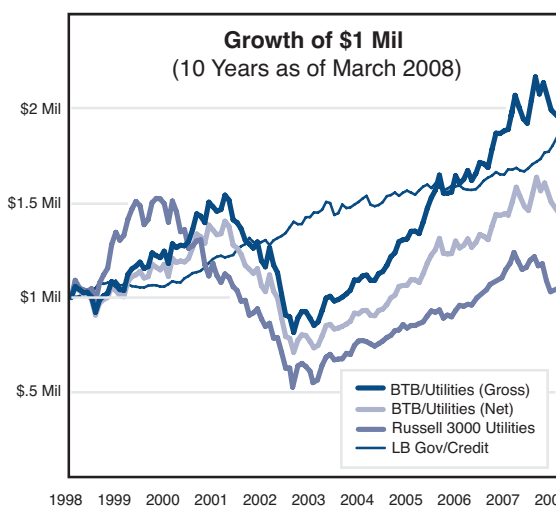
In what was perhaps an overly apt analogy last quarter, we suggested that “no swamp throbs forever without pause,” and this quarter utilities generally were, like the rest of the market, less throb and more swamp. The sector, including all segments (electric, gas, telecom, water, enablers) finally lost the immunity it had held in 2007 to the undertow of equity anxieties and joined the crowd in a pullback. In this case, however, the pullback was logical and reasonable in terms of prior stretched valuations and sterling performance—rather than being a result of adverse business conditions or the various malaises emanating from financials.

We’ve mumbled for some time about historically high valuations, particularly among the large-cap electrics (which we don’t use in our portfolio, but which generally set a tone for the sector). Though conditions truly are quite good for utilities, with ample opportunities for future projects involving infrastructure build-out, after a five-year run the equities had become somewhat overdone. We’ve been as creative as possible with this portfolio in an effort to avoid these valuation speedbumps, and we delivered returns in excess of benchmarks during this period of stress; but there were few places to hide.

PORTFOLIO HIGHLIGHTS

One would think that energy might have been one of those hiding spots, but the sector indices for both energy producers and energy service companies were both solidly down for the quarter, despite soaring oil prices. Oddly, natural gas stocks did provide some minor positive return, despite the fact that natural gas pricing notably lagged oil prices.

We did get double-digit gains from Goodrich Petroleum on the back of development of the “rich” new Haynesville Shale, and our other gas-related names such as Ultra Petroleum, Questar, Equitable Resources (investors appeared to favor the termination



The above data is shown as supplemental information and complements the performance disclosure located on page 9.

of its deal to acquire Dominion’s Western Pennsylvania and West Virginia distribution business) were among the handful of stocks across the market to post positive returns for the quarter.

Telecoms were mixed. A well-timed entry into the very cheap Brazilian phone company Tele Norte Leste (TNE) helped the portfolio with a 20+% gain, in part because the company appears to have succeeded in its efforts to buy Brasil Telecom, which we also own. The buzz around Brazilian telecommunication stocks generally, and the sense that consolidation is only halfway through the game, helped lift wireless operator Vivo up 9% as well. Leap Wireless, which we bought opportunistically last quarter, has been somewhat more volatile than the stocks we’re accustomed to owning, but it has worked well, adding another 5% to last quarter’s gains. PT Telekomunikiasi (from Indonesia) also continued positive, as did America Movil, though just barely. Enabler Corning, which has tentacles in high-speed communication, communication displays, and pollution control, was one of the few stocks of broader market interest that was able to sustain a gain in the quarter.

Still, not all phones were helpful, and many joined the telecom sector index, which was down a whopping 16% for the period.

PRELIMINARY RETURNS*

Quarter Composite

BTB/Util Gross	(8.8)%
BTB/Util Net	(9.5)%
Russell 3000 Utilities	(11.3)%
S&P Utilities	(9.9)%
LBGC	2.5%

1-Year Annualized Composite

BTB/Util Gross	3.8%
BTB/Util Net	0.8%
Russell 3000 Utilities	(9.3)%
S&P Utilities	(1.6)%
LBGC	8.4%

10-Year Annualized Composite

BTB/Util Gross	6.9%
BTB/Util Net	3.8%
Russell 3000 Utilities	0.6%
S&P Utilities	6.1%
LBGC	6.1%

*Net return assumes a 3% annual advisory fee that includes wrap program fees. See the performance disclosure on page 9.

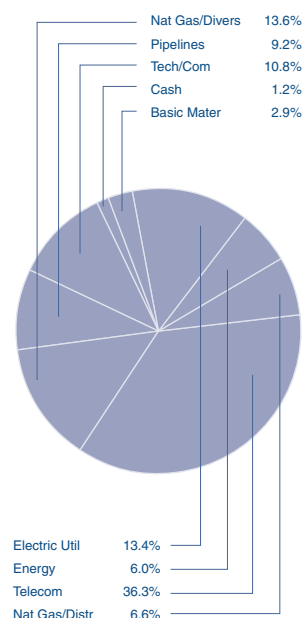
AT&T lost ground (down 9%) as investors feared the slowing economy would hurt revenues (even though the company averred otherwise). Verizon was even worse, though their wireless business continues to do well and the spinoff of their New England land-lines business to Fairport neared completion. China Mobile also saw profit-taking, but it's hard to complain since we are still up 4.5 times cost in about three years. We thought we'd bought NII Holdings (Sprint's Latin America business, offering some of the best growth and prospects in the world) at an amazingly good price, but the stock continued downward. The force behind the declines is purely based on skeptical sentiment, we think, and it is likely to bounce back quickly, if not become the object of an acquirer.

Our MLPs Kinder Morgan Energy Partners and Enterprise Products netted out to a negative return (KMP was actually up a little) in a generally weak MLP group that had completely resisted the market decline until March, at which point the group swooned. We believe that investors are fearful that these companies, which typically sell debt and equity to fund new projects (whose capacity is normally sold out or nearly so before construction), won't be able to finance their growth with the debt and equity markets in turmoil. Yet a number of companies have done just that since August and during the quarter, at rates which could only be considered favorable. Values are building even as stock prices are not, and that pressure is likely to result in strong upward moves as soon as investors find their fears disproved by the reality that there is no shortage of investment capital for the industry, even now.

A handful of our favorite distribution companies also declined along with the larger utilities, and here we think there is reason to get excited. Local regulated monopolies like Sierra Pacific, Northeast Utilities, Pepco, and NiSource are not likely to remain independent for long at current valuations.

LOOKING FORWARD

Enough correction? We think so. As we've said many times in recent years, companies face fairly green fields of opportunity in each segment or industry of the sector, both domestically and abroad. Stock pricing needs to calm down though, since these opportunity sets are long-term in horizon and don't "deliver" in one or two quarters—meanwhile there can be hiccups and setbacks, as reality often goes. Nevertheless, these are businesses whose services are essential to human life, and economic slowing, as we mentioned earlier, isn't that much of a drag. You have to turn on the lights, you have to make phone calls, you have to heat and cool your home. The only question is what are the right valuations for investors to own and buy the suppliers of these services. They aren't "cheap" historically, but prospects are fine and the froth has been skimmed away. A pricing revival might come this quarter, or maybe next—but the fundamental underpinnings remain. We're much more comfortable with valuations, and would consider any further weakness here a fortunate opportunity.



FUNDAMENTAL CHARACTERISTICS

Yield	2.5%
Proj Dividend Growth	6.7%
Payout Ratio	32.2%
Market Cap	\$36.5 Bil
Price/Book	3.0
P/E Ratio	16.6
S&P Rating	BBB+
Beta*	.6
R-Squared*	42.8%
Standard Deviation	14.2%

*Relative to S&P500, 3/31/98-3/31/08 (Weighted Averages)
Sector pie chart is taken from a representative account. Information is supplemental to the performance disclosure on page 9.

Better Than Bonds/Utilities Composite Performance
GIPS composite disclosure shown in US dollars

Preliminary	Better Than Bonds/Utilities Gross	Better Than Bonds/Utilities Net	Russell 3000 Utilities
Period to Date (3 mo's - 3/31/08)	(8.8)%	(9.5)%	(11.3)%
1 Year (ending 3/31/08)	3.8%	0.8%	(9.3)%
3 Years per annum (ending 3/31/08)	15.1%	11.9%	9.6%
5 Years per annum (ending 3/31/08)	18.8%	15.3%	14.5%
7 Years per annum (ending 3/31/08)	5.0%	1.9%	1.0%
10 Years per annum (ending 3/31/08)	6.9%	3.8%	0.6%

The Better Than Bonds/Utilities Composite focuses on opportunities in the broad utilities industry seeking to provide growth and income for total return investors. Russell 3000 Utilities index comprises over 200 utility stocks that are included in the Russell 3000 Index. NOTE: Net return assumes a 3% annual advisory fee that includes additional wrap program fees. See full disclosure on page 3.

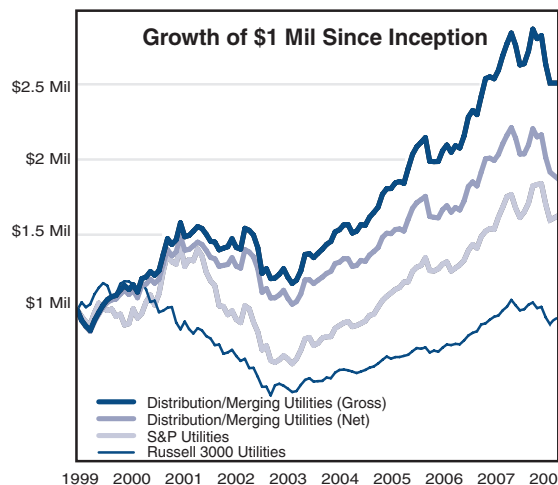
"We own stocks that are classic regulated local monopoly distribution companies with strategic and financial takeover appeal..."

Last quarter we suggested, as we often have, that the valuations of the large-cap electrics left little room for error, and that in the absence of deals the performance of the popular utility indices exert a substantial influence on the performance of this portfolio. There have been many occasions where our performance has diverged noticeably from the indices, but at a time of "universal" profit-taking, downdraft protection is hard to find. Our better performers were our less conventional utilities, but by definition we only hold a limited amount of those. Note that we perceive the quarter's returns as reflective of "profit-taking"—utilities beat most everything in 2007, so it's hardly a surprise they should finally give way to an overall negative market. And it's a testament to a kind of basic underlying strength that they did no worse than the broad market, which continued its troubles that have mainly ruled since July of 2007.

Some might suggest that the credit markets should be implicated as well, but in truth our companies aren't really in financing mode, and those that may need access to capital have found it is readily available. More remotely, but probably of greater relevance to our stocks, the contraction of the credit markets has an effect on both financial and corporate buyers of assets or whole companies. With transaction financing harder to find, it makes sense that the potential targets of transactions would lose, at least temporarily, and at least in the eyes of any deal speculators, some of their glamour.

PORTFOLIO HIGHLIGHTS

We worked at positioning the portfolio for its best opportunities mainly by shifting weights, though there were a few names added and a few let go. We increased our weighting in Northeast Utilities as the stock came back down to a juicy valuation. This company will double in size over the



1999 2000 2001 2002 2003 2004 2005 2006 2007 2008

The above data is shown as supplemental information and complements the performance disclosure located on page 11.

PRELIMINARY RETURNS*

Quarter Composite

Distribution Gross	(11.4)%
Distribution Net	(12.1)%
Russell 3000 Utilities	(11.3)%
S&P Utilities	(9.9)%
S&P 500	(9.4)%

1-Year Annualized Composite

Distribution Gross	(7.0)%
Distribution Net	(9.7)%
Russell 3000 Utilities	(9.3)%
S&P Utilities	(1.6)%
S&P 500	(5.1)%

7-Year Annualized Composite

Distribution Gross	7.3%
Distribution Net	4.2%
Russell 3000 Utilities	1.0%
S&P Utilities	3.2%
S&P 500	3.7%

*Net return assumes a 3% annual advisory fee. See the performance disclosure on page 11.

next five years or so from regulated capital construction projects that are already approved, and it sits as an island between other utilities already acquired.

We added to PNM Resources (Public Service of New Mexico) as the stock fell into a proverbial hole on poor corporate performance and an inimical set of recommendations by the regulatory staff, including rejection of a fuel price adjustment clause. This latter is somewhat ridiculous and actionable in court. There is no gainsaying the fact that PNM management has dropped the ball in a number of areas, but they've also had the bad luck to suffer from the poor results of a nuke plant in which they are a minority owner and not the operator. At .85 of book value in one of the faster growing regions of the U.S., we'll live with a less than stellar management and regulatory regime, since these assets might be worth twice that to a financial or neighborly acquirer.

We also added to our position in BCE, a previously announced deal. Many deals across many industries have been broken or re-written in the past year as times, to coin a phrase, have changed. Financing is the issue, and both buyers and their financing partners have been pulling back. But we believe the

deal to take BCE (formerly Bell Canada) will go through, because: The lead investor, the Ontario Teachers Pension Fund (50% interest) doesn't match the profile of the players in those changed deals; the Canadian Government is in favor of the deal; several lawsuit hurdles have been surmounted; the other parties to the deal assert they are going forward; the Bank of Montreal advisor to the deal stated publicly within recent days that he would be surprised if it didn't happen under the original terms; and it is a good deal that will, among other things, go a long way toward helping the Teacher's Fund meet its long-term actuarial assumptions in a way that few other investments can. We've done well in the past investing in takeover utilities after the announcement, when, for one reason or another, the price has opened up a large arbitrage opportunity (here nearly 20% total return). We don't think our skills and tools give us as much confidence in predicting the outcome as in many situations prior, but much of the risk has been drained out of the stock and we could envision ourselves buying BCE at current prices even if there were no deal on the horizon.

We bought Tele Norte Leste from Brazil to participate in the overall consolidation of telecom services that has been going on there, and it proved our best performer, with a nearly 20% return. Ironically, the company got a boost when it became the hunter rather than the hunted, and the market met its deal for Brasil Telecom with much enthusiasm. It's still cheap, however, and still a candidate for acquisition by one of the many global players who continue to eye Brazil greedily.

We sold Empire District in the belief that it would not be a merger candidate. We sold Westar as its regulatory environment had deteriorated far beyond the pale. The company can't even build a low-pollution coal plant in its district, and we hope the big winds on the Kansas prairie will eventually

somehow bail out the short-sighted decisions of its regulators. It's hard to imagine a buyer wanting to tangle with them, and here there is not even the deep deep discount of a PNM to tempt a buyer to the fray. We also sold the last small remnants of Sprint, a company remarkable for its value destruction, and Telecom Italia, which has entered a re-organization stage and is at present difficult to decipher.

LOOKING FORWARD

We own stocks that are classic regulated local monopoly distribution companies with strategic and financial takeover appeal; some have returned to price levels where 30–50% acquisition premiums are imaginable, a situation we haven't seen for a while. In the coming months we plan to increase weights in those stocks.

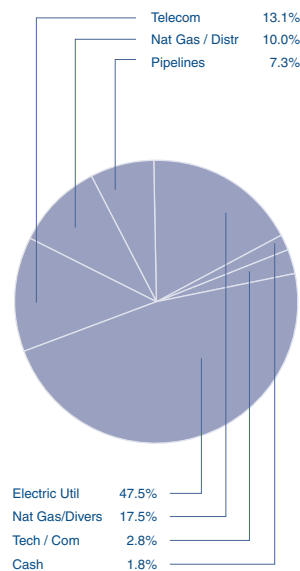
Annual ADV Update

If you would like a copy of our current ADV Part II, please contact Marilyn at:
 (845) 679-9166 or marilyn@mhinvest.com.
 The ADV will be mailed to you, free of charge.

Distribution/Merging Utilities Composite Performance
 GIPS composite disclosure shown in US dollars

Preliminary	Distribution/Merging Utilities		S&P Utility
	Gross	Net	
Period to Date (3 mo's - 3/31/08)	(11.4)%	(12.1)%	(9.9)%
1 Year (ending 3/31/08)	(7.0)%	(9.7)%	(1.6)%
3 Years per annum (ending 3/31/08)	10.5%	7.3%	13.0%
5 Years per annum (ending 3/31/08)	15.9%	12.5%	19.7%
7 Years per annum (ending 3/31/08)	7.3%	4.2%	3.2%

The Distribution/Merging Utilities Composite focuses on investments in public securities of undervalued small and mid-capitalization utility companies subject to acquisition. The S&P Utility Index is an unmanaged, market-value-weighted total return index of all utility stocks in the S&P 500. NOTE: Net return assumes a 3% annual advisory fee that includes additional wrap program fees. See full disclosure on page 3.



FUNDAMENTAL CHARACTERISTICS

Yield	3.3%
Proj Dividend Growth	6.3%
Payout Ratio	43.3%
Market Cap	\$9.8 Bil
Price/Book	2.2
P/E Ratio	17.4
S&P Rating	BBB+
Beta*	0.4
R-Squared*	18.9%
Standard Deviation	13.1%

*Relative to S&P 500, 1/31/99 – 3/31/08 (Weighted Averages)
 Sector pie chart is taken from a representative account. Information is supplemental to the performance disclosure on page 11.



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