Miller/Howard INVESTMENTS

MAY 9, 2018

An Open Letter to MLP Management Teams from Miller/Howard Investments, Inc.

WE BELIEVE MLP MANAGEMENT TEAMS NEED TO ADDRESS THE FOLLOWING THREE ISSUES to become better aligned with investors, and to transition the sector from a good investment opportunity—based on solid long-life assets with an essential economic need—to a very good investment opportunity.

1. Eliminate incentive distribution rights (IDRs)

As long-term investors in MLPs for 20 years, we call on all MLPs to eliminate IDRs now. Not when they become an impossible burden (they're a burden from the get-go), not when management's "review" is completed, not when they start to seriously impact growth projects, but now. We believe year-end 2018 is an achievable goal that would simplify the structures of MLPs and help investors better understand their investment.

When we analyze MLPs to understand recent distribution cuts, we look first to balance sheets. Leverage is often fingered as the culprit. But would leverage have ever gotten to where it is if not for IDRs and the general partners' "take"? We estimate that between 2015 and 2017, for the more than 40 midstream MLPs we analyzed, over $12 billion was paid in IDRs, representing almost 8% of total debt outstanding at the MLPs paying those IDRs. In addition, the IDRs paid represent 20% of total distributable cash flow generated during that period. The $12 billion paid in IDRs could have been used to pay down debt, contribute to higher coverage ratios, fund organic growth projects, and pay higher distributions to limited partners. Instead, the IDRs were used to enrich the general partners.

Capital is not unlimited. You have alienated many potential and former investors with your inaction on IDRs. Many of you have voiced displeasure with your "high" yields, stating it's difficult to raise equity to fund capital projects. The markets have been telling you something, but you've not listened. Compared to investors in utilities, a similar business, MLP investors require more than twice the yield to invest capital in your businesses. As one of your partners, we implore you to take action.

2. Increase disclosures about operations

Under the guise of "competition," MLPs demonstrate a general lack of disclosures. We get it: contracts are expiring and you don't want to disclose new rates, contract terms, and volume commitments. That's understandable. But the lack of data you provide is inexcusable. We can't come up with a valid reason why you don't, at minimum, provide the percent of contracts expiring each year. We recently heard at an investor meeting that we should expect one of the company's contracts to be renewed at "significantly" lower rates. Not surprisingly, we saw a considerable range of opinions on what the definition of "significant" was. You need to disclose and quantify data or investors will continue to believe you're hiding operational issues.

3. Address shareholders' environmental concerns

The face of investors is changing. Younger investors are asking questions that may be different from those of previous generations. Importantly, these new investors are much more concerned about environmental matters. Each year, we ask many of you to disclose information on emissions, leak detection and repair systems, and other environmental metrics. To date, the responses have been disappointing. We understand the business you operate in: the transportation and storage of hydrocarbons. We're on your side. But there needs to be more transparency around environmental issues. We're not looking to point fingers. Rather, we believe having more information will help investors be comfortable with their investments.

We hope you take this letter in the spirit with which it was written. At Miller/Howard Investments, we have always been, and continue to be, big believers in the economic role of midstream companies. But times change. You need to evolve. You need to eliminate IDRs. You need better disclosure. You need to elevate safety and environmental concerns. Be aware of who your future investors are and what they want. Investors want to be partners in the long-term value of hydrocarbon transportation and processing. The days of financial engineering and over-leveraging these great and stable assets are over. It's time for MLP management teams to chart a new course.

~ Miller/Howard Investments Portfolio Team

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Disclosure

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Past performance does not guarantee future results.

Risk Factors to Consider When Investing in Master Limited Partnerships (MLPs)

- Cash distributions are not guaranteed and may fluctuate with the MLP's operating or business performance.
- MLPs typically have a General Partner that maintains an aggregate 2% General Partner interest. Unit holders will have limited voting rights and do not own an interest in, vote with, or control the General Partner. The General Partner often cannot be removed without its own consent, and the General Partner has conflicts of interest and limited fiduciary responsibilities, which may permit it to favor its own interests to the detriment of unit holders.
- The MLP may issue additional common units, diluting existing unit holders' interests.
- Unit holders may be required to pay taxes on income from the MLP even if they do not receive cash distributions.
- The IRS could reclassify the MLP as a taxable entity, which could reduce the cash available for distribution to unit holders.
- If at any time the GP owns 85% or more of the issued and outstanding limited partner interests, the GP will have the right to purchase all of the limited partnership interests not held by the GP at a price that may be undesirable.

Tax Considerations of MLPs

The tax treatment for investors in MLPs is different than that of an investment in stock, including (a) the investor's share of the MLP's income, deductions and expenses are reported on Schedule K-1, not Form 1099, **(b) because of the possibility of unrelated business taxable income, charitable remainder trusts should not invest in this strategy, and other non-taxable investors (such as ERISA and IRA accounts) should carefully consider whether to invest in this strategy,** (c) investors may have to file income tax returns in states in which the MLP's do business and (d) MLP tax information is sent directly from the partnership, which generally has until April 15th to provide this information. You should discuss these and any other tax implications with your tax advisor.

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