

SHAREHOLDER ADVOCACY NEWS

Attending to Stakeholders Can Create Long-term Value for Investors

There are a couple of ways to think about “being invested” in a public company: directly through financial investments such as owning stock, or through exposure to the company’s operations and impacts.

The first type is as a shareholder, and the second is as a stakeholder. All shareholders are stakeholders, but stakeholders are not always shareholders. Stakeholders include people and groups who are affected in some way by the actions or outcomes of a company, such as employees, customers, suppliers, and communities.

Sustainable profitability is impacted by both groups. For example, without access to capital from shareholders, where would a company be? And would profit be sustainable without skilled workers, functional local infrastructure, a welcoming community, and a suitable market environment?

Miller/Howard Investments has long recognized that stakeholder relations play a significant role in a company’s profitability, for good or ill. We use analyses of a company’s financials as well as of its environmental, social, and governance (ESG) policies and practices to arrive at a more robust risk assessment and to make better informed investment decisions. Since 1991, our firm has offered ESG portfolios to both traditional and socially responsible investors.

STAKEHOLDERS
have financial and/or
non-financial interests
in a company’s
operations & impacts.

SHAREHOLDERS
have financial
interests in the
company.

Positive Stakeholder Relations Can...

Attract skilled workers; expedite permitting and approvals; facilitate reputational, commercial, and regulatory outcomes.

Negative Stakeholder Relations Can...

Limit quality hires; block resources, permits, and approvals; generate negative press; lead to costly litigation; create physical barriers to projects and goal completion.

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The Stakeholder-Dividend Connection

Recently, The Business Roundtable,¹ an organization comprising chief executive officers from some of the world's largest and most powerful companies, issued a statement recognizing that centering stakeholders can be a tool of value-creation for companies and shareholders (see page 3).

This statement reflects the goals of our Active Ownership and Shareholder Advocacy Program: long-term, sustainable profitability benefits from a more expansive view of what comprises opportunity, risk, and obligation.

We call it "Sustainable Income Opportunities™" here at Miller/Howard: High-quality companies that offer good governance, responsible management of human and natural capital, and strong stakeholder relationships are best situated to protect, pay, and grow dividends.

That's what we're proud to offer our clients and their families.

Conversations Around Sustainable Income: Risk & Opportunity

Q: Does considering stakeholders' needs mean the companies I'm investing in are distracted from making money?

A: On the contrary, by including an assessment of stakeholders and their interests, companies are better prepared to manage regulatory and reputational risk, complete projects on time, access capital under more favorable terms, recruit the best and most competitive talent, and generally seize on better governance practices for the ultimate benefit of the company's long-term value creation.

Q: My stakeholders are my family, and that's who I'm investing for. If all stakeholders are considered and shareholders are only one stakeholder group among many, does that mean investors are losing out?

A: That's not what we're hearing, nor is it what we've seen. In fact, many company CEOs support the recognition of stakeholders and see it as a means of long-term value creation. They are finding that shifting the focus to stakeholders is a different, and arguably better, way to support investor interests over both the long and short term.

Q: Will companies move away from opportunities that are good for their long-term success because they're focused on the current interests of stakeholders and not performance?

A: We believe companies will continue to look for ways to do business that not only support their ongoing profitability, but also improve stakeholder relations. Negative stakeholder relations can, among other things, jeopardize the social license to operate, cause costly project disruptions or delays, and impact the cost of capital as well as regulatory decisions. Improving stakeholder relations is just good business.

Q: Can I invest in a way that my kids will be proud of? (or, for advisors: How do I avoid assuming the presence or absence of certain values or expectations?)

A: Simply, it's about knowing that the conversation about values is possible, appropriate, and compatible with fiduciary duty. For example, our team looks at all sorts of risk when evaluating possible investment opportunities, including environmental, social, and governance factors. Knowing the totality of a company helps us make more informed investment decisions aligned with our clients' financial goals and values. Some clients want more information about how they can leverage ESG data into making investment decisions that support their personal values.



The Business Roundtable's New Approach to Stakeholders

In late summer 2019, the Business Roundtable (BRT) issued a "Statement on the Purpose of a Corporation."² The BRT has offered numerous comments on corporate purpose and governance over the past 40 years. This statement, however, defines a corporation's purpose beyond just serving shareholders, to that of promoting "an economy that serves all Americans."³



Statement on the Purpose of a Corporation — Business Roundtable

While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:

- Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
- Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
- Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.⁴

“America’s economic model, which is based on freedom, liberty and other enduring principles of our democracy, has raised standards of living for generations, while promoting competition, consumer choice and innovation. America’s businesses have been a critical engine to its success.

Yet we know that many Americans are struggling. Too often hard work is not rewarded, and not enough is being done for workers to adjust to the rapid pace of change in the economy. If companies fail to recognize that the success of our system is dependent on inclusive long-term growth, many will raise legitimate questions about the role of large employers in our society.

With these concerns in mind, Business Roundtable is modernizing its principles on the role of a corporation.”

—From the BRT’s press release for the 2019 Statement on the Purpose of a Corporation.

So why did the BRT and its membership decide it was appropriate to “modernize” its prior perspective? Jamie Dimon, Chairman and CEO of JP Morgan Chase and a director on the BRT board, explained it succinctly: “The American dream is alive, but fraying. Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term.”

Nearly 200 CEOs signed the statement, because they see that the long-term interests of their companies are bound together with the long-term interests of other stakeholders. Many of the companies represented have been, or currently are, in our portfolios, and they all hold sway individually in their respective sectors.

In our view, the CEOs are exactly right when they recognize the positive correlation between a stakeholder approach and a company’s long-term value creation, and how the modernized BRT perspective may offer a fundamental boon to the interests of shareholders and lead to a more sustainable, profitable future.

A Note on History and Present

Miller/Howard has proudly offered ESG products since the launch of our first strategy in 1991. We are members of a variety of leading domestic and international organizations, such as the Interfaith Center on Corporate Responsibility, Ceres, the Thirty Percent Coalition, and the United Nations' Principles for Responsible Investment. A more exhaustive list of our memberships and affiliations is available on our website.

A Note on Process

Miller/Howard incorporates active ownership standards across all of our portfolios, which means that all companies in our portfolios are subject to direct engagement with company management. To our **Sustainable Income Opportunity™** portfolios, the flagship Income-Equity suite of strategies, we also apply exclusion screens. Our Portfolio Management Team and ESG Team work together to understand the totality of each prospective investee company, combining robust financial analysis with our deep environmental, social, and governance profiles of company practices and policies. For us, a stakeholder focus is not new; we have always looked at stakeholder relations as sources of risk and opportunity, as well as indicators of how a company is positioned for responsible, long-term profitability.

In Case You Missed It

Miller/Howard provides timely and frequent commentary on its blog and social media channels, which you can find at www.mhinvest.com. Our recent posts include:

Blog: The *Financing Our Energy Future Act* would level the playing field by allowing renewable energy companies access to the MLP structure. We believe this would be good for innovation, diversification, and the market.

Insight: Our Portfolio Management Team provides an update on how ESG and the Midstream Energy sector intersect, and how our engagements have proven effective, in its most recent *MLP Metrics* piece.

Blog: We discuss the question of *How Can Miller/Howard Be an ESG Manager in the Energy Space?* (Spoiler alert: How can we not be?)

Read more about the Resolution and Engagement Process, and find our Shareholder Advocacy Newsletters, on our website.

www.mhinvest.com/esg

- 1 Business Roundtable. About Us, Business Roundtable. Website, accessed 6 December 2019.
- 2 Business Roundtable. Our Commitment, Business Roundtable. Website, accessed 6 December 2019.
- 3 Business Roundtable. Statement on the Purpose of a Corporation. Website, accessed 6 December 2019.
- 4 Business Roundtable. Our Commitment, Business Roundtable. Website, accessed 6 December 2019.

All investments carry a certain degree of risk, including possible loss of principal. It is important to note that there are risks inherent in any investment, and that there can be no assurance that any asset class will provide positive performance over any period of time. The information contained herein has been obtained from sources and data we believe to be reliable, but we make no guarantee as to its adequacy, accuracy, timeliness, or completeness. This article represents our current opinion, which is subject to change without notice. This is not a recommendation to buy, hold, or sell.



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