Miller/Howard INVESTMENTS

Positioning for the Future with Utilities

www.mhinvest.com/blog

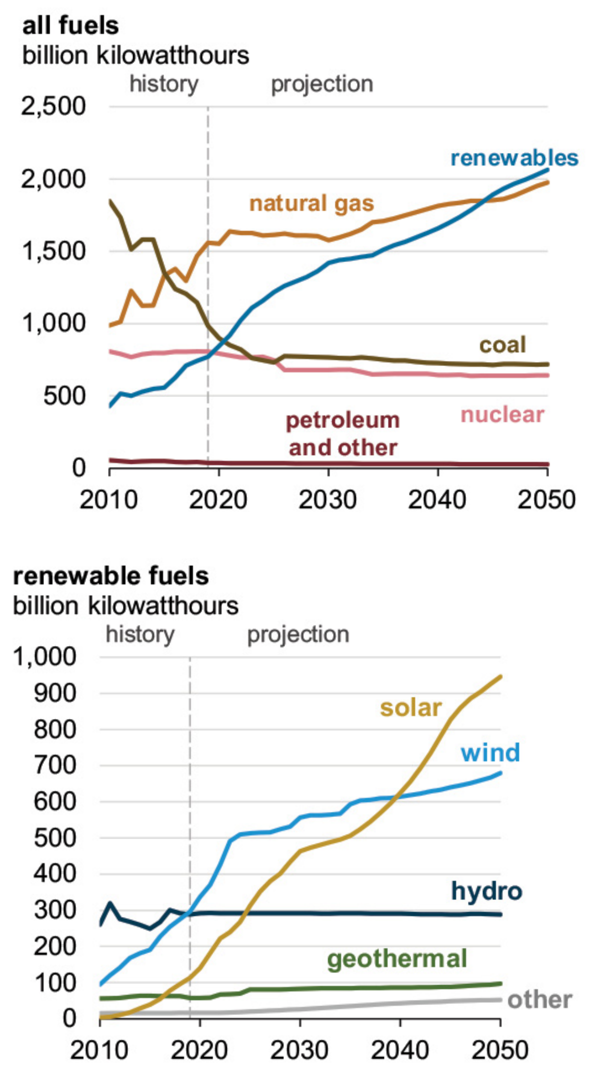
Monday, June 15, 2020

@mh_investments Miller/Howard Investments

Summary:

- We expect the growth of renewable energy to be a multi-year tailwind for utilities companies.
- The EIA estimates that nearly 75% of US power generation will be from the combination of cleaner-burning natural gas and renewable power sources by 2050.
- Utilities are deploying capital on natural gas and renewables projects to position for the future.
- This growth trajectory—away from coal towards renewables and natural gas power generation—is reinforced by public opinion and regulatory support.

Electricity Generation from Renewables Expected Growth



Source: US Energy Information Administration (EIA), *Monthly Energy Review,* May 26, 2020

We expect the growth of renewable energy to be a multi-year tailwind for utilities companies.

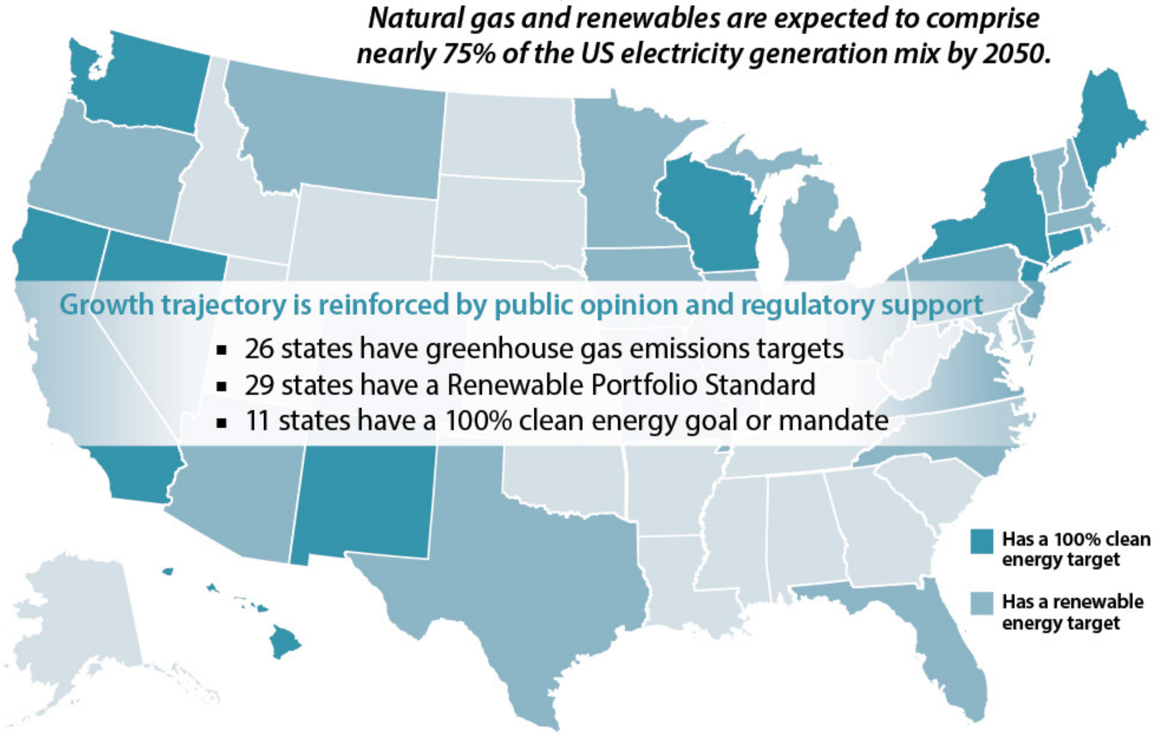
In its Annual Energy Outlook 2020, the US Energy Information Administration (EIA) said it expected electricity generation from renewables to surpass coal in the coming years, and it estimated that nearly 75% of US power generation will be from the combination of cleaner-burning natural gas and renewable power sources by 2050.[1] In fact, the EIA reported that we already saw renewables surpass coal in May 2020.[2]

The coal to natural gas and renewables switch is still in the early innings, and we see a significant growth opportunity for utilities in renewables, in particular.

Notably, the growth trajectory is reinforced by public opinion and regulatory support:

- 26 states have green house gas emissions targets—and 65% of the US population resides in these states
- 29 states have adopted the Renewable Portfolio Standard
- 11 states have a 100% clean energy goal or mandate—these are long-term targets, typically ranging from 2040-2050

Continued on next page.



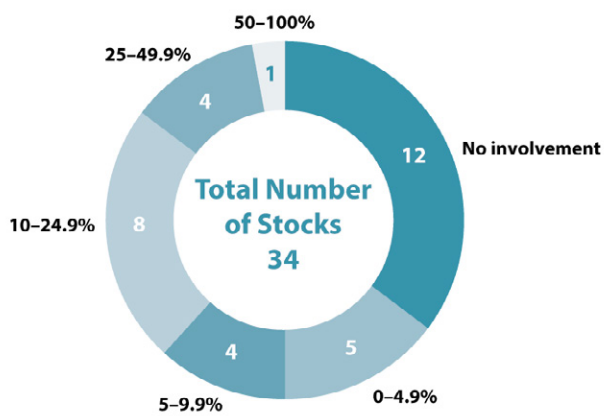
Source: UCLA Luskin Center for Innovation; Center for Climate and Energy Solutions; Miller/Howard Research & Analysis, 2019

While commitment levels and timetables vary, we think, in aggregate, these initiatives will provide a tailwind for the utilities space.

Clearly, this transition will require significant capital deployment from utilities companies. Utilities do have to balance capital deployment plans against the impact on consumer bills, but utilities have also stated that they have huge backlogs of potential projects. As a reminder, in the utility model, rate-base growth puts upward pressure on consumer costs, but we believe these prospects for growth put certain utilities in an enviable position today.

We believe the Miller/Howard Utilities Plus portfolio is poised to capture this opportunity. According to Sustainalytics, 85% of the companies in the portfolio have less than 25% involvement in coal power generation, so we do not have significant concerns about stranded assets as coal plants are retired. Meanwhile, we see the companies in our portfolio focusing their capital deployment on natural gas and renewables projects to position for the future.

Miller/Howard Utilities Plus Holdings: Thermal Coal Power Generation— Level of Involvement



Based on Utilities Plus holdings as of May 11, 2020 and last-reported Sustainalytics data for coal power generation.
Source: Sustainalytics; Miller/Howard Research & Analysis

1. US Energy Information Administration (EIA), *Annual Energy Outlook,* January 30, 2020
2. EIA, *Monthly Energy Review,* May 28, 2020

Bryan Spratt, CFA
Portfolio Manager/ Research Analyst
Miller/Howard Investments

Adam Fackler, CFA
Portfolio Manager/ Research Analyst
Miller/Howard Investments

DISCLOSURE

Miller/Howard Investments is an employee-owned equity management firm with three decades of experience managing dividend-focused portfolios for institutions and individuals nationally. We emphasize high-quality stocks with high current dividend yield and strong dividend growth. Our portfolio management team has more than 175 years of collective experience in companies that pay and grow dividends. We offer environmental, social, and governance (ESG) portfolio options to our clients. Miller/Howard Investments, Inc., is a registered investment advisor focusing on multi-cap, core equity management and dividend strategies.

MILLER/HOWARD INVESTMENTS | 10 DIXON AVE WOODSTOCK NY 12498 | (845)679-9166 | MHINVEST.COM