

Do 60/40 Portfolios Still Make Sense?

SEPTEMBER 30, 2020

RETIREES AND THOSE SAVING FOR RETIREMENT

have long relied on a mix of stocks and bonds to manage their nest eggs. Usually, the starting point for discussion is 60% stocks/40% bonds, but investors are typically advised to dial up or down their bond allocation based on their individual level of risk aversion.

Walter Morgan is credited with developing the concept of mixing stocks and bonds for long-term investors. He launched his Industrial Power and Securities Company, effectively a mutual fund, in 1928. It was a good time to launch a conservative fund. The fund still suffered a significant decline during the worst of the Great Depression, but it ultimately provided investors with strong returns for decades. Morgan dropped his fund's original name in 1935 in favor of "Wellington." (Yes, that one.) Decades later, academic Harry Markowitz won the Nobel Prize in Economics for developing Morgan's original insights into what is known as Modern Portfolio Theory. Today, many financial advisors rely on desktop asset allocation tools based on rules that can be traced back to the ideas of Morgan and Markowitz.

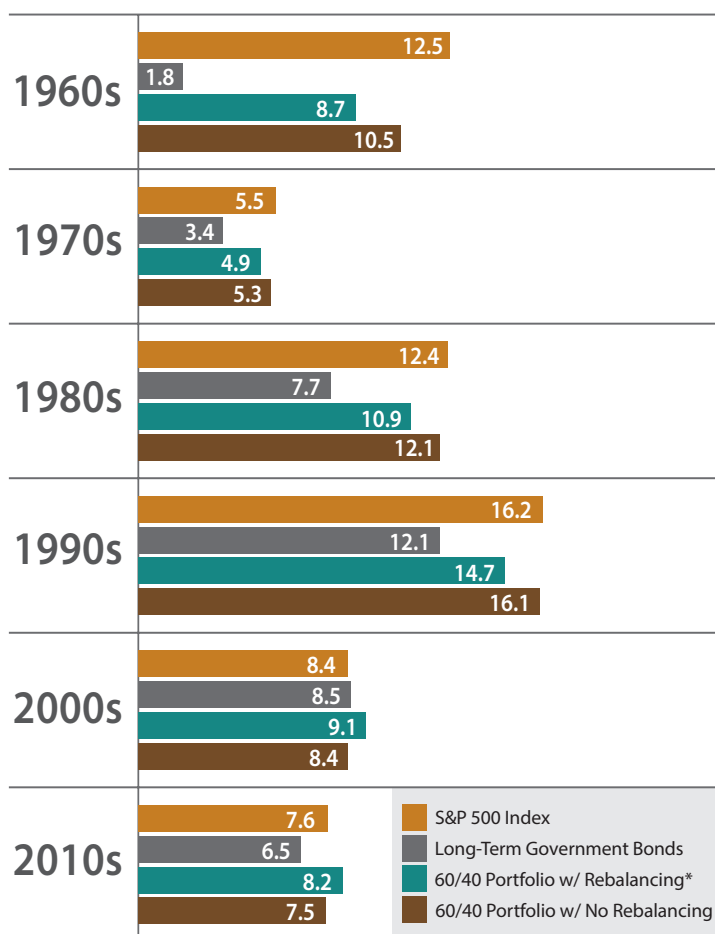
Are 60/40 Portfolios Still Relevant Today?

Despite its illustrious lineage, it is not clear that a 60/40 portfolio remains good advice for long-term investors. The main problem with 60/40 investing is that bonds virtually always underperform equities when holding periods are sufficiently long. The rolling returns for the S&P 500 Index, government bonds, and two versions of the 60/40 strategy—using 10-year holding periods averaged by decade—show that equities outperformed government bonds in all recent decades, with the slight exception of the 2000s (see chart). In general, investors who are willing to accept the volatility of equities do better over long holding periods.

One frequent argument is that 60/40 portfolios benefit from rebalancing. The idea is simple: Trim the asset class that has outperformed recently and buy what has underperformed. Consider the rolling average returns for two 60% S&P 500/40% government bonds portfolios, one with and one without annual rebalancing. The results for the

Bonds Have Typically Underperformed Equities Over Long Holding Periods

Rolling 10 Year Total Returns, Averaged by Decade (%)

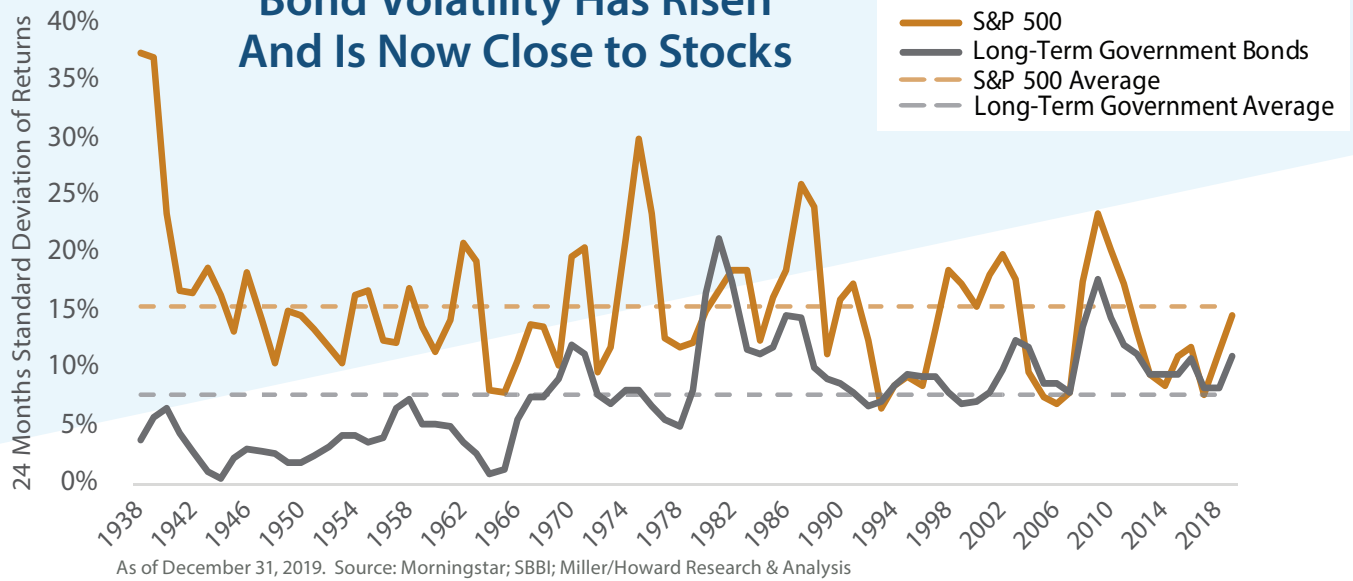


Source: SBBI; Fama/French; Morningstar; Miller/Howard Research & Analysis.

*Rebalanced annually; 60% S&P 500/40% Long-Term Government Bonds.

portfolio with rebalancing versus the one without flip flop, depending on the decade. For the 1960s through the 1990s, rebalancing hurt returns, on average, as investors sold equities to buy bonds, diluting the compounding effect of the better asset class. In the last two decades, rebalancing has added marginally to returns as buying on the dip worked in recent seesawing markets. Over the long-term, the evidence for improving returns through rebalancing is mixed at best.

Bond Volatility Has Risen And Is Now Close to Stocks

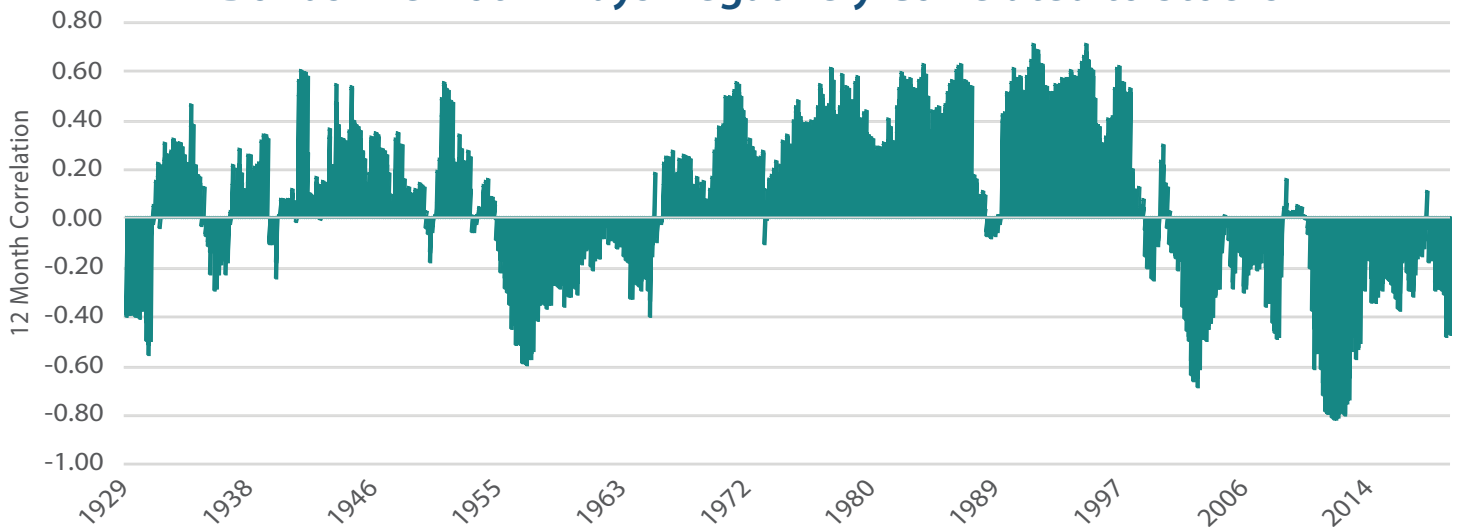


Rethinking “Bonds for Risk Control”

Focusing solely on returns sidesteps one of the main arguments for 60/40 portfolios – risk control. In Walter Morgan’s day, bond returns were much less volatile than stocks (see chart above). Over the decades since, bond volatility has risen and is now close to stocks. The ballast that bonds provided to Morgan’s portfolios is no longer available.

The other risk-based argument for allocating a portion of your portfolio to fixed income is a negative correlation between stocks and bonds. The idea is that bonds will do well when stocks lag and vice versa, smoothing portfolio returns. The rolling correlation of returns between stocks and bonds has shifted over time (see chart below). Again, conditions were ideal when Walter Morgan launched his fund, but the negative correlation has come and gone multiple times since then. Recently, the correlation has been negative once again, but it is unclear how well bonds would perform given an extended swoon in the stock market. For bonds to do well, interest rates must drop, and rates are already quite low.

Bonds Are Not Always Negatively Correlated to Stocks



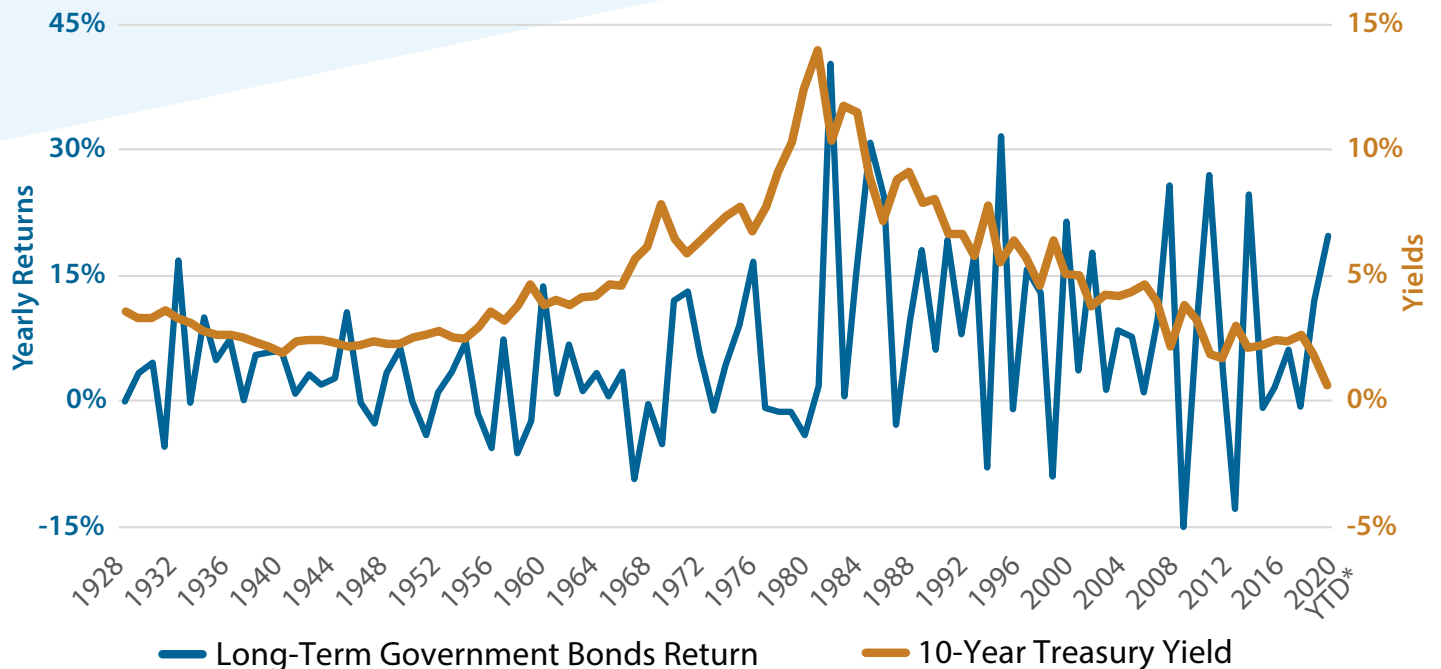
■ Large Cap Stocks/Government Bonds

As of June 30, 2020.

Source: SBBI; Fama/French; Morningstar; Miller/Howard Research & Analysis. Twelve month rolling correlations based on total returns.

Bonds Have Historically Done Well as Rates Drop

Yearly Returns and Yields for Long-Term Government Bonds (%)



* As of September 30, 2020.

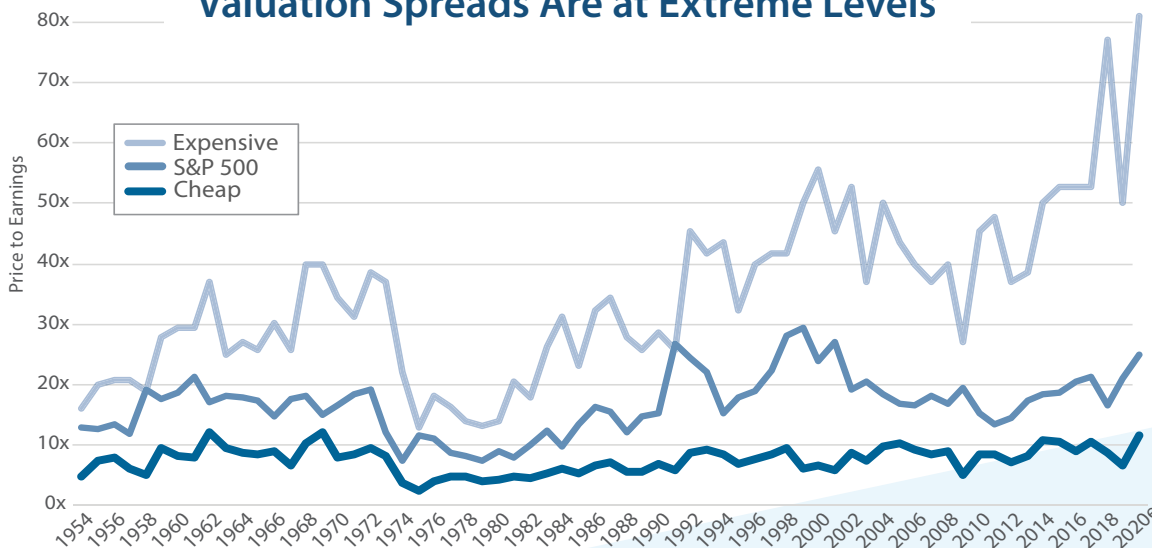
Source: SBBi; Morningstar; Bloomberg; Irrational Exuberance by Robert Shiller; Miller/Howard Research & Analysis.

Bonds perform well when interest rates drop.

Some of the best years for bond returns were in the 1980s, as the Fed tamed inflation—allowing inflation expectations to come out of long-term interest rates (see chart above). Bond performance has been good this year, as the 10-year has dropped from an already-low 1.9% to under 0.7% in response to policy moves from the Fed. With 10-year rates nearing zero and post-COVID-19 inflation a possibility, the case for bond investing with this starting point appears weak.

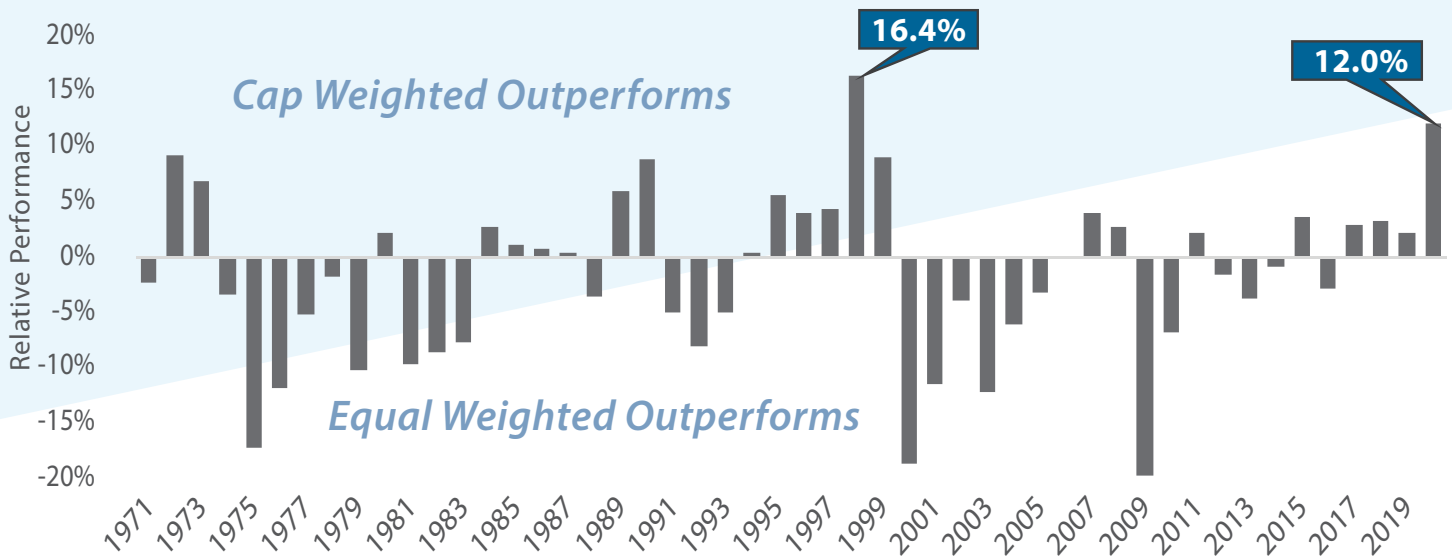
So, why not go “all in” on the S&P 500 Index? Two issues should give investors pause. First, valuation appears stretched—the trailing price to earnings ratio (P/E) of the S&P 500 is high relative to history (see chart below). This might be understandable if all P/E ratios had drifted up as interest rates came down, but what has happened is quite different. Valuation of the most expensive quintile of stocks has continued to rally while P/E ratios for the cheapest stocks have been range-bound. In every era, some companies are thought to have longer growth runways, but the market’s optimism has reached unprecedented levels for the most expensive stocks.

Valuation Spreads Are at Extreme Levels



Source: Ken French Data Library; Bloomberg; Miller/Howard Research & Analysis. The historic series is derived from the Ken French Data Library, and it is the marketing cap weighted inverted trailing earnings yield for the most expensive and cheapest quintile of stocks out of the largest 1200 US stocks. The 2020e data points on the chart for Expensive and Cheap are derived from a screen of the largest 1200 stocks by market cap divided into quintiles by earnings yield. The estimate is the median estimated P/E derived from the resulting valuation data (as of 8/30/2020).

Unusual Outperformance for the Cap-Weighted Index Cap-Weighted Index Versus Equal-Weighted Index Performance



Data as of August 31, 2020. Source: Morningstar; Miller/Howard Research & Analysis.
Based on the total returns of the S&P 500 Index and the S&P 500 Equal-Weighted Index.

In addition to valuation, the growing concentration within the S&P 500 should also concern investors. Last quarter, we discussed how the Super Six (Microsoft, Apple, Amazon, Google, Facebook and Netflix) have driven results for the entire S&P 500. The Super Six now make up 23% of the S&P 500, up from ~17% at the beginning of the year. Year-to-date, the Super Six have returned 45%, while the rest of the S&P 500 constituents are down by an average of -2.3%.

Weighting by market capitalization has been important to the returns of the S&P 500 (see chart above). In other eras, outperformance of small and mid-capitalization companies propelled the equal-weighted version of the S&P 500 to higher returns. In recent years, the largest cap companies have been the big winners, resulting in their increasing fraction of the index. The same phenomenon was observed in the New Economy Bubble era, only to reverse as small cap and value stocks recovered.

Are Dividend Stocks Part of the Solution?

Given the headwinds for both bonds and the broad equity market, is there a role for dividend stocks in a diversified portfolio? The first question should always be, "Is it a good asset class?" We define high-dividend stocks as those with yields in deciles 7-9 when dividend payers are sorted from highest to lowest, and the riskier highest-yielding stocks in decile 10 are not included. Looking again at rolling 10-year returns averaged by decade, high-dividend stocks outperformed the S&P 500 in every decade (see upper chart on page 5). For investors wedded to the 60/40 construct, we also show that 60% S&P 500/40% high-dividend stock portfolios also outperformed the S&P 500 in every decade shown.

"High-dividend yield stocks are attractively-priced relative to the broad equity market, and today's wide discount is exceeded only by the spread in the New Economy Bubble era."

- Greg Powell, Miller/Howard Investments Deputy CIO

This May Be a Good Entry Point for Dividend Stocks

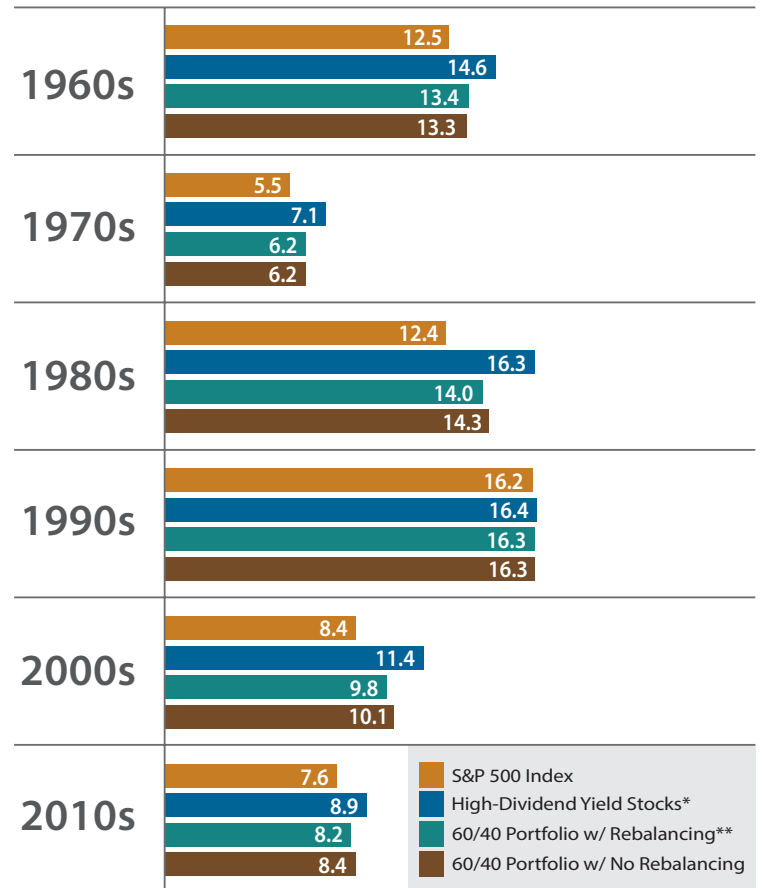
High-dividend yield stocks are attractively-priced relative to the broad equity market, and today's wide discount is exceeded only by the spread in the New Economy Bubble era (see below). The current valuation gap reflects extraordinary optimism for megacap growth stocks versus near-term worries regarding the more mature, economically-sensitive companies that tend to pay dividends. The level of optimism towards growth stocks can wax and wane in unpredictable cycles. Near-term worries on the economy are easier to understand, being largely driven by the impact of COVID-19. We view successful trial results for a COVID-19 vaccine as the most likely catalyst to dispel the gloom.

High-dividend stocks are yielding double the S&P 500, a wide spread relative to most of history (see below). What's more, investors must currently pay a high price for absolute yield safety. Looking at history, government bonds almost always yield more than stocks—which makes sense because stocks have the potential to grow dividends over time.

Today's low levels of both interest rates and the S&P 500 dividend yield create an opportunity for high-yield equity portfolio managers to generate substantially higher income for years to come. The challenge for managers is to avoid dividend cuts during this difficult period and find companies that will be able to grow their dividends over time.

Allocating to Dividend Stocks Can Drive Better Portfolio Outcomes

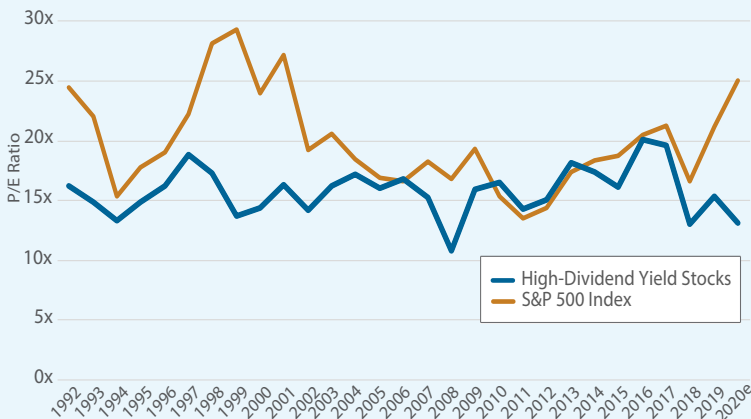
Rolling 10 Year Total Returns, Averaged by Decade (%)



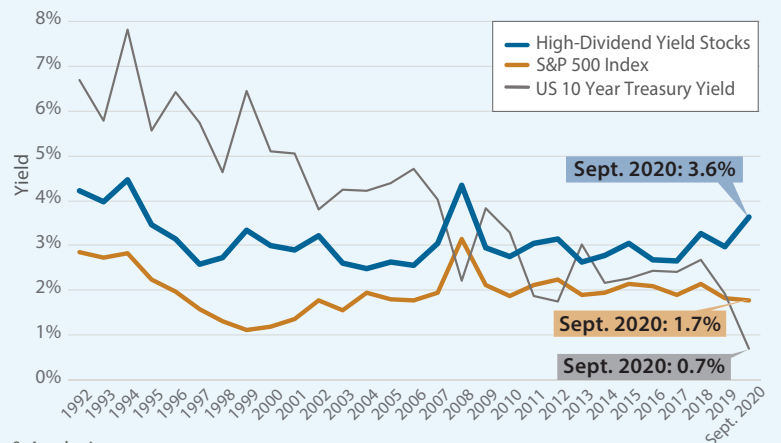
Source: SBB; Fama/French; Morningstar; Miller/Howard Research & Analysis.
 *Miller/Howard defines high-dividend yielding stocks as deciles 7, 8, and 9.
 Dividend-paying stocks are sorted from highest to lowest dividend yield, with decile 10 being the highest 10% and decile 1 being the lowest 10%.
 **Rebalanced annually; 60% S&P 500/40% Long-Term Government Bonds.

High-Dividend Yield Stocks are Trading at a Valuation Discount While Offering a Significant Yield Advantage Relative to History

Valuations



Yields

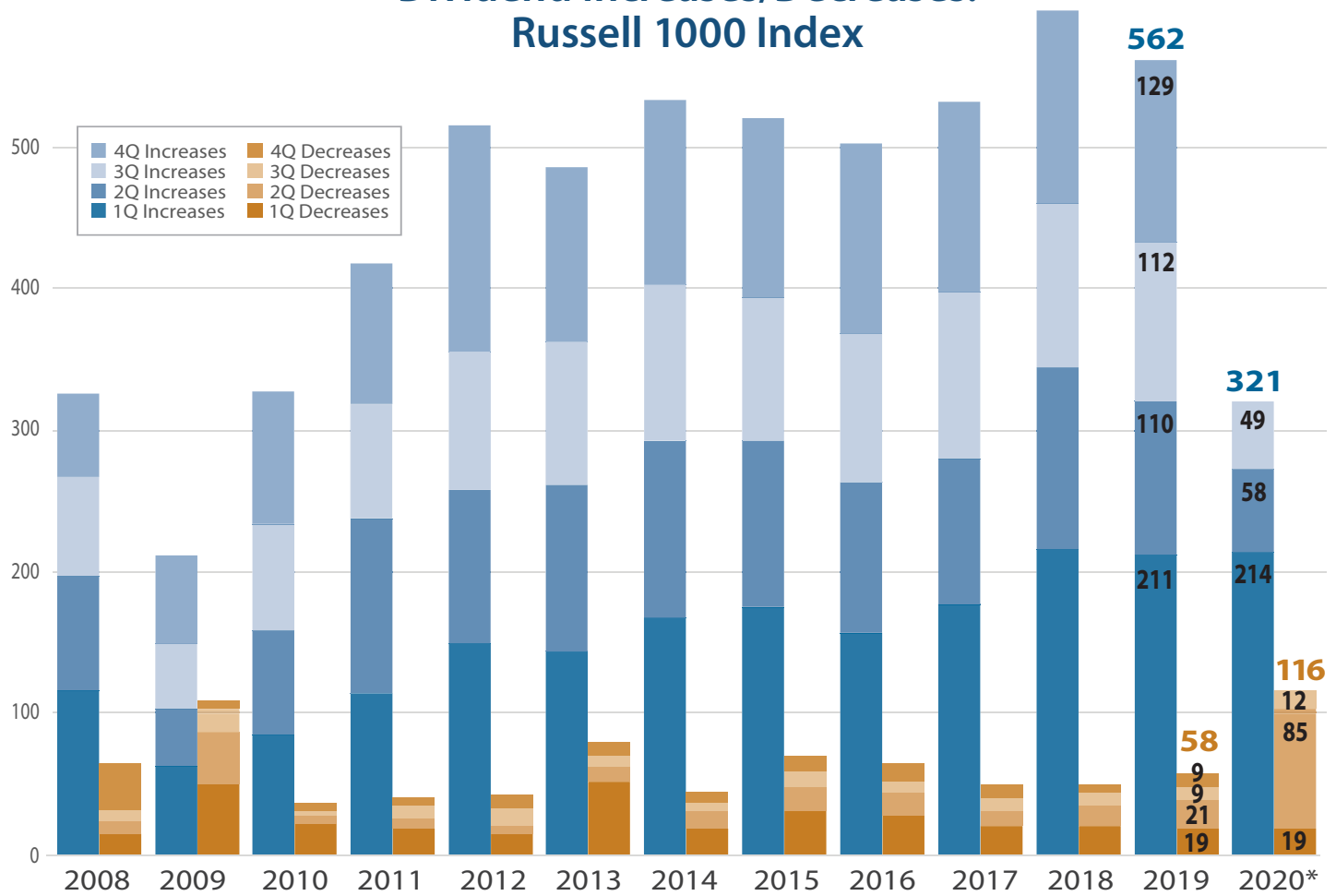


Data as of September 30, 2020. Source: Bloomberg; Miller/Howard Research & Analysis
 High-Dividend Yield Stocks consists of Decile 7, 8, and 9 of a universe of US dividend paying common stocks with a market capitalization equal to or greater than \$1 billion.

Income-Equity Strategies

Quarterly Report 3Q 2020

Dividend Increases/Decreases: Russell 1000 Index



*As of September 30, 2020. Source: Bloomberg; Miller/Howard Investments.

THE BROAD EQUITY MARKET CONTINUED ITS recovery from the COVID-induced panic bottom, but at a much more moderate pace than we witnessed last quarter. Large sectors of the economy have found ways to cope with the difficulties imposed by COVID-19, but the situation remains challenged for the heavily-battered industries such as hotels, travel, restaurants, and energy. Overall, economic statistics such as employment are improving, but are still well-short of pre-COVID levels. Amid the uncertainty, equity returns remained tilted in favor of growth stocks—although the difference between value and growth returns narrowed substantially in the third quarter.

Against this backdrop, it is easy to understand why companies have been cautious with dividend increases. The chart above shows both dividend increases and reductions for the Russell 1000 Index by quarter since 2008. The good news is that the sharp increase in dividend declines during

the second quarter largely subsided in the third quarter. Corporate management teams continued to be cautious regarding dividend hikes, with increases running at less than half of the typical Q3 pace of past years.

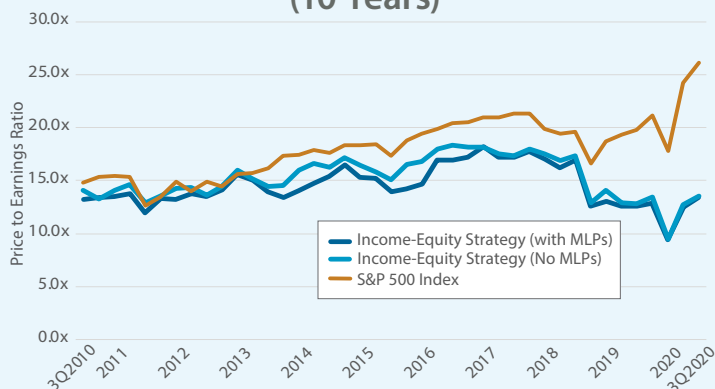
Miller/Howard's Income-Equity Strategies outperformed both the major dividend and value indices, but trailed the broad market during the quarter. Income-Equity and Income-Equity (no MLPs) yielded 4.2% and 4.1%, respectively, at the end of the quarter. Both versions are well-diversified across sectors, with dividend-paying technology stocks as our highest sector allocation.

Our focus remains unchanged: Finding companies that both pay a good dividend and can grow the dividend over time. Even with the headwinds created by COVID-19, the Income-Equity Strategy has had 14 dividend increases this year (13 in the no MLPs version). We believe that these dividend increases result from our search for companies that have good prospects for cash flow growth.

Continued on page 7

Income-Equity Strategies: Trading at a Valuation Discount While Offering a Significant Yield Advantage

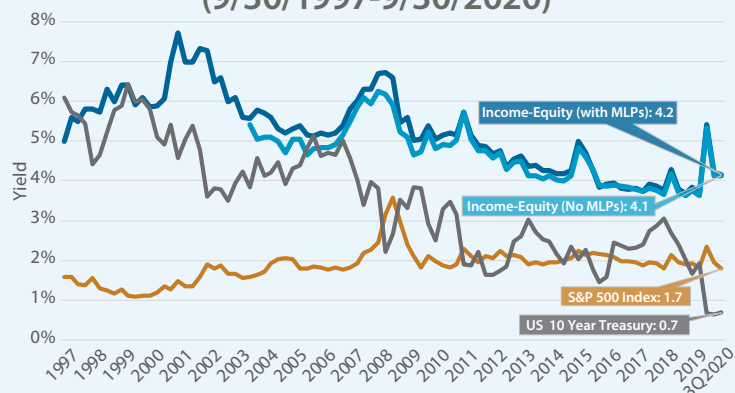
Price to Earnings Ratio (P/E)
(10 Years)



As of September 30, 2020

Source: Bloomberg; and Miller/Howard Research & Analysis.

Yields Over Time
(9/30/1997-9/30/2020)



Portfolio Highlights

- Dividend Increases.** Our Income-Equity Strategies had two dividend increases this quarter, **Texas Instruments (TXN)** and **Verizon Communications (VZ)**. TXN increased its dividend by 13% and marks 17 consecutive years of dividend increases.
- Sales.** We sold **LyondellBasell Industries (LYB)** on concerns that the downturn may strain its ability to maintain the current dividend. We exited **Coca-Cola European Partners (CCEP)** when it announced it would pay just one dividend this year. We sold **Eaton (ETN)** after a period of relative outperformance.
- Buys.** We initiated five new positions. We added two REITs, **Life Storage (LSI)** and **STAG Industrial (STAG)**. LSI should benefit from the strong housing market, and STAG, which primarily owns warehouse properties, should benefit from the shift to e-commerce. We initiated positions in **Genuine Parts (GPC)**, an automotive replacement parts business, and **Ancor (AMCR)**, a high-yielding packaging company with exposure to consumer staple end markets. We also added **Portland General Electric (POR)**, which despite the impacts of recent West Coast fires, we still see as a utility with visible earnings and dividend growth.

Looking Ahead

The global pandemic continues to create a high degree of uncertainty for the equity market. Large-cap growth stocks have benefited because investors view their prospects as less sensitive to gyrations of COVID-19 statistics. Dividend stocks normally represent a “bird in the hand” choice, but investors are questioning whether dividends will actually get paid given the challenges created by the virus.

While we continue to believe that our holdings have strong enough businesses and balance sheets to continue paying dividends, the real catalyst for change would be the development of a successful vaccine. Several companies have trials underway, and we expect the market will react strongly to positive clinical results. Sentiment towards dividend stocks should improve, as uncertainty regarding the economy subsides.

MLP Strategy

Quarterly Report 3Q 2020

Portfolio Highlights

- Distributions increases.** Year-to-Date 11 of our 15 holdings announced dividend increases. The average increase was 6.2% year-over-year.
- Portfolio holdings:** We sold **ONEOK (OKE)** as Bakken exposure requires higher oil prices to incentivize drilling activity. Volume pressures and leverage could put OKE's dividend at risk. We used these funds to increase our position in **Plains All American (PAA)** as it provides exposure to the Permian, which is the lowest-cost crude basin in the US. While contract renegotiations will be a headwind for Plains, they are surmountable in light of the new distribution level.

THE MIDSTREAM SECTOR EXPERIENCED MUCH LESS VOLATILITY during the quarter, as commodity prices stabilized, earnings were better than anticipated, and distribution cuts were largely absent.

Whenever there have been times of high volatility for the entire energy complex, the midstream business model is called into question. Add in the growing market share of renewables, and investors may have doubts about investing in midstream companies.

What we continue to see is that the yield generated by high quality midstream companies is attractive, both on an absolute and a relative basis. Another consideration that seems to be ignored, is that midstream assets will be around for decades. We are often asked, what happens if electric vehicles continue to take market share from gasoline powered cars? While this may not be optimal for the companies that transport and store gasoline, it is a positive development for those companies that transport and store natural gas. At the end of the day, those electric vehicles will need to be charged from utilities that are largely powered by natural gas.

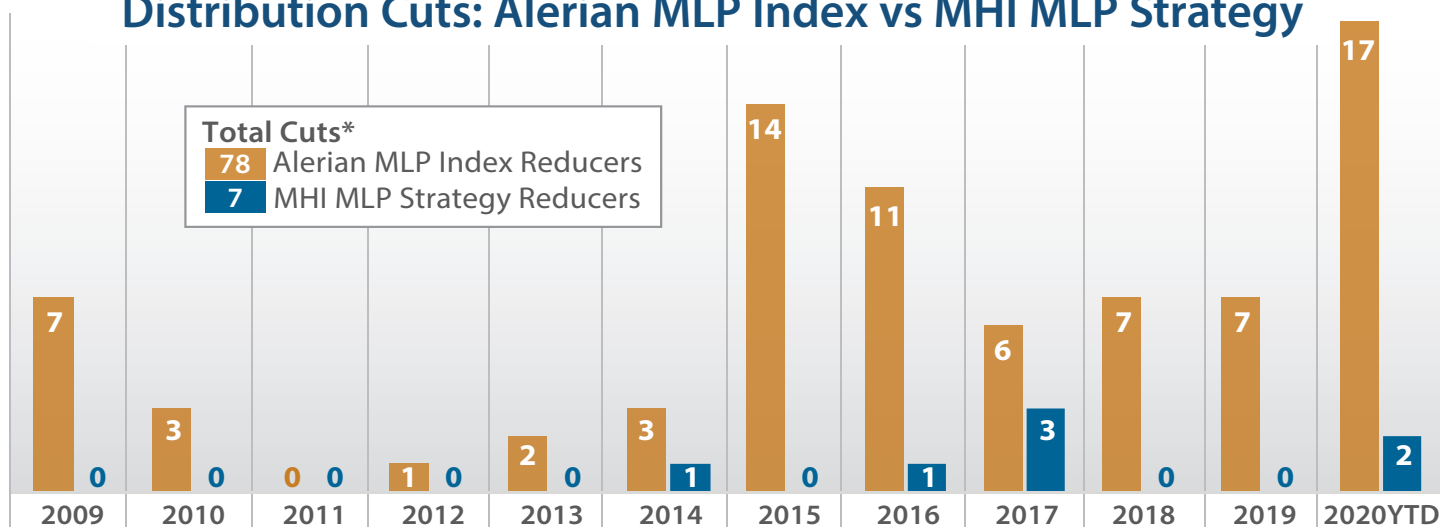
Another consideration is that it will likely be many years, and more likely decades, before commercial airplanes will be fueled from renewable sources. While jet fuel is a smaller piece of the equation, airlines will continue to depend on traditional fuel transported by the midstream industry.

Lastly, the regulatory environment has become tougher and the future may continue to be difficult. That makes building new pipelines challenging, but it also makes the assets in the ground more valuable. The industry continues to balance supply and demand and some pipelines may no longer be fully utilized, but the majority of pipelines will continue to be needed for decades.

Looking Ahead

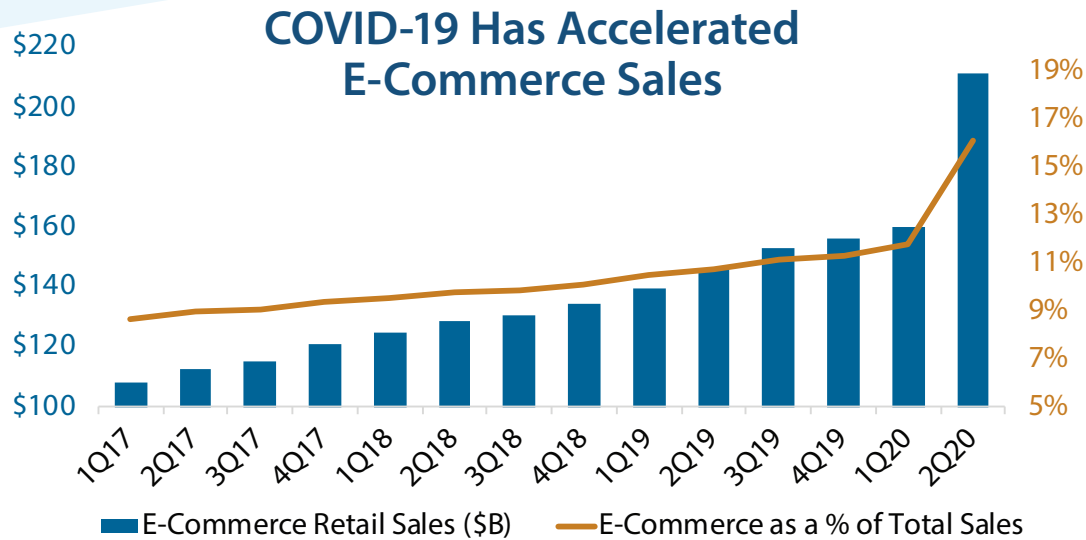
The energy industry, on the whole, still faces challenges. However, we continue to invest in high quality companies, as we always have. These are the companies that we believe are best positioned to withstand difficult energy environments, such as the current one. As can be seen on the chart, our strategy has had far fewer distribution cuts than the index. We believe the most financially-sound companies will be able to continue to generate income for investors, regardless of the challenges faced by the industry.

Distribution Cuts: Alerian MLP Index vs MHI MLP Strategy



Infrastructure

Quarterly Report 3Q 2020



THE US ECONOMY CONTINUED ON THE ROAD TOWARD normalization as more businesses and schools reopened their doors. During the third quarter, the market maintained the broad-based strength exhibited last quarter as the S&P500 gained 8.9% with 10 of 11 sectors posting positive returns.

Among the four major sectors within the strategy, industrials was the clear leader, significantly outpacing the broader market. **FedEx (FDX)** and **United Parcel Service (UPS)** led the group as the pandemic accelerated e-commerce growth. Utilities were second overall, although the dispersion of returns within the sector remained high. Communication services followed as tower companies trailed after strong relative returns in the first half of 2020. Energy was a laggard in the quarter and the only sector with negative returns in the S&P. After furiously rallying off the bottom in the second quarter, investors seemingly pumped the brakes as oil prices stabilized around \$40 per barrel, a level that is still too low to incentivize additional development activity.

Looking Ahead

Transportation and logistics companies have been gaining traction as e-commerce sales spike to all-time highs, rail volumes stabilize, the trucking market tightens, and West Coast ports find themselves flush with imports. We expect this momentum to continue on the back of accelerating e-commerce, inventory restocking, reduced air cargo capacity, the resumption of manufacturing activity, and the upcoming holiday shopping season. Despite being temporarily obscured by the pandemic, we also believe that the United States-Mexico-Canada Agreement (USMCA), the revamped North American trade agreement, provides increased visibility and additional growth opportunities for the sector.

While we tend to highlight the stable cash flows generated by essential service providers, the recent success of transportation and logistics companies is a reminder that investing in infrastructure doesn't confine investors to old-world companies. Infrastructure can also position investors to benefit from evolving shifts in behavior and technology.

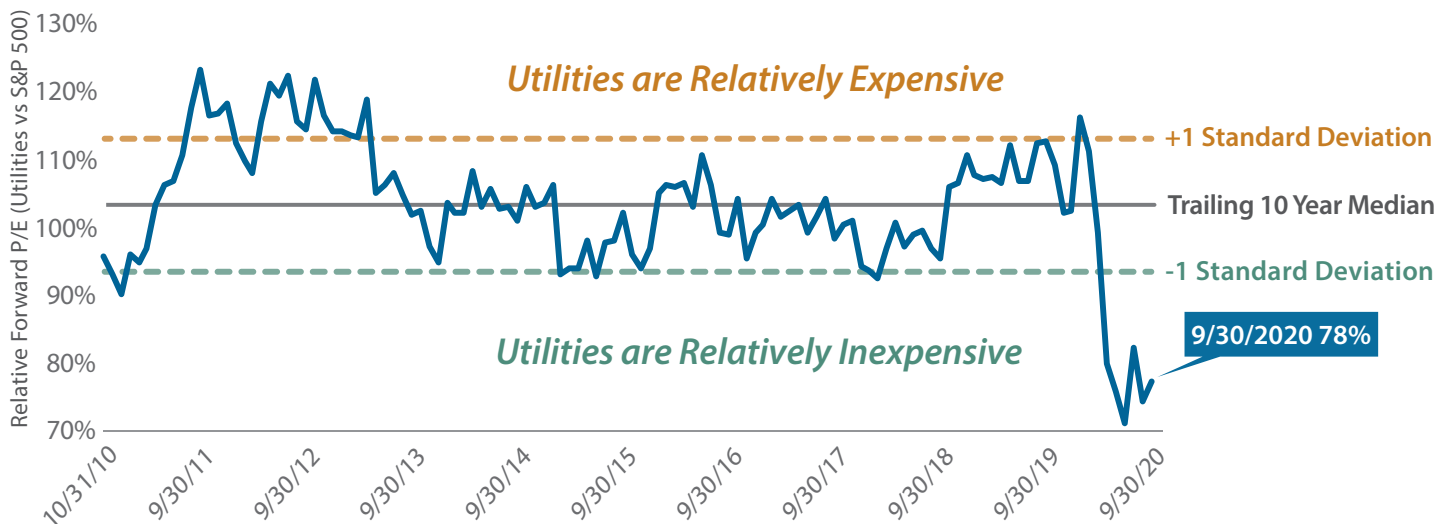
Portfolio Highlights

- **Increased utilities:** For the second quarter in a row, we used relative weakness in certain utilities to add to our positions. We added to **Entergy (ETR)** and **Sempra Energy (SRE)** on the expectation that they will re-rate as investors become more familiar with their streamlined asset bases. SRE also authorized a new share buyback program. We initiated positions in **Southwest Gas (SWX)** and **Portland General Electric (POR)**, which have been unfairly penalized for their infrastructure services and wildfire fears, respectively.
- **Added trucking exposure:** We established a position in **Schneider National (SNDR)** with the expectation that it will benefit from a tightening truck market. SNDR is generating strong free cash flow and has no net debt. With approximately \$2.50 per share in cash, there are expectations for returning some to shareholders by increasing the dividend or even a special dividend.
- **Tactical allocations:** We increased our positions in **Crown Castle (CCI)** and **American Tower (AMT)** on recent weakness. We had trimmed the positions last quarter, after a period of relative strength.

Utilities Plus

Quarterly Report 3Q 2020

Utilities Sector Average Forward P/E as a % of S&P 500 Index Forward P/E



Data as of September 30, 2020 Source: Bloomberg; Eikon; Miller/Howard Research & Analysis. Based on an average forward P/E of the utilities within the S&P 500.

DESPITE SOLID EXECUTION AND RESULTS, UTILITIES sat largely on the sidelines as the broader market marched higher. As if 2020 hasn't been strange enough, a couple of unusual hiccups—an investigation into government bribery at a former First Energy (FE)* subsidiary in Ohio, a large trading loss at **Portland General Electric (POR)**, as well as increasing chatter about inflation, likely contributed to torpid trading.

During the quarter, a “green” trade drove upside. Within the portfolio, the top five performers all possess renewable growth as a material component of their story. On the flip side, gas distribution companies languished and are now at a discount relative to electric utilities, after trading at premiums in recent years. At a higher level, large caps continued to outperform small- and mid-cap names, as they have for over a year now, creating the largest valuation gap between big and small in recent memory.

Looking Ahead

Utility valuations are more attractive today than they have been in years. Utilities' forward P/E declined from ~20.8x in late-2019 to ~18.8x today. However, when comparing forward

P/E to the broader market, the shift is even more startling. After trading at a 16% premium multiple to the S&P 500 Index as recently as early March, utilities now trade at a -26% discount. Given the sector's solid fundamentals, and stretched valuations elsewhere, we think the valuation dislocation in utilities offers investors an attractive risk/reward proposition.

In addition to more attractive valuations, the erosion of small and mid-caps' historical premium to large caps and a significant dispersion among valuations, sets the table for increased consolidation activity in a fragmented sector. At quarter end, the Wall Street Journal reported that **NextEra Energy (NEE)** approached **Duke Energy (DUK)** with the largest proposed takeover in utility industry history. While DUK has initially rebutted the blockbuster deal, the offer reinforces the notion that market conditions are ripe for consolidation, and we will continue to monitor things closely. M&A would likely galvanize investor interest, providing a catalyst for the sector. In this strategy, we've long favored small- and mid-cap companies, particularly due to their appealing growth trajectories but also on their merits as acquisition targets for larger companies willing to pay a premium for complementary assets.

Portfolio Highlights

- **New additions:** We initiated positions in **Southwest Gas (SWX)** and **Vistra Corp. (VST)**. We expect the resolution of multiple rate cases to drive a re-rating of SWX shares and expect VST to benefit from its integrated business model and substantial free cash flow generation.
- **Increased conviction:** We increased our position in **Entergy Corp. (ETR)** and remain confident in their high rate based growth and prospects for a re-rating of the business. After underperforming on trading losses and wildfire worries, we increased our existing position in **Portland General Electric (POR)**, as we believe the long-term outlook remains intact.
- **Tactical allocations:** We trimmed our position in **PPL Corp. (PPL)** after a period of relative strength. We had added to the position last quarter on weakness.

Drill Bit to Burner Tip®

Quarterly Report 3Q 2020

OIL PRICES GENERALLY TREADED WATER DURING the quarter, hovering near levels that deliver neither prosperity nor significant pain for most American shale companies. A biding stasis extended to US oil production volumes, which stabilized after wells that were shut during the depths of this past spring's downturn returned to service. A decline in oil-associated natural gas production, combined with abnormally strong summer electricity demand, caused natural gas prices to briefly spike 45%, boosting shares of related niche gas producers and pipelines. Our exposure to the natural gas value chain partially mitigated the broader weakness among energy stocks that, once again, declined sharply. Refiners were particularly hard hit as sluggish demand for diesel and jet fuel upset a typically fine supply/demand balance for refined products. More encouragingly this quarter, most of our E&Ps formally articulated aggressive dividend-focused capital return strategies that depart from the prior decade, when drilling activity was tied to prices.

Looking Ahead

As the pandemic grinds on, investors remain skeptical of energy. The largest OPEC+ production cuts in decades have thus far failed to normalize oil prices as work-from-home policies, recession, and fear of flying weigh on consumption.

Yet, as we look further, there are reasons for optimism: OPEC+ countries need higher oil prices for survival, shale producers are deeply committed to more cash return and less drilling, and perhaps most importantly, a post-COVID world should leave us more spaced out and loath for crowded-but-energy-efficient public transportation. History, however, may provide the most salient data point. Within the cyclical energy industry, the best times to invest persistently coincide with the bottoming of the rig count, which was likely reached in August, down over -70% from 2018 levels. So while things remain uncertain, as Templeton said, "Bull markets are born on pessimism, grown on skepticism, mature on optimism, and die on euphoria."

Historically Good Time to Buy Energy When Rig Count Bottoms

Date Rig Count Bottomed	Trough-to-Peak Total Return of S&P 500 Energy Sector	# of Weeks of the Bull Market
3/1/1996	75.7%	113
8/6/1999	17.8%	93
9/13/2002	302.8%	296
6/5/2009	104.7%	293
5/27/2016	21.5%	103
8/14/2020	?	?

Source: Bloomberg; Miller/Howard Research & Analysis.

Portfolio Highlights

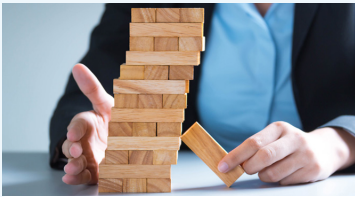
- **Yield Surprise.** We were pleased to recently review the ongoing progression of dividends in this strategy. Despite the fierce headwinds in the energy sector over the past 8 years, including dozens of industry dividend cuts and bankruptcies, the portfolio's dividend yield, as of quarter-end, in the Drill Bit to Burner Tip® Strategy with K-1s was 5.9% and without K-1s was 5.7%.
- **Portfolio Positioning.** We were quieter this quarter following several active periods. Trades this quarter had the effect of slightly increasing Upstream oil E&P producer weight while reducing Midstream pipelines. The portfolio remains tilted towards quality balance sheets, low cost leadership, and reduced volumetric exposure, even with ongoing industry uncertainty.

Miller/Howard Investments Inc. is an independent, research-driven investment boutique with nearly three decades of experience managing portfolios for major institutions, mutual funds, 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. Our objectives are to generate total returns in line with the broad equity market and provide a high and rising stream of income with the lower volatility that an investor might seek from bonds or other income alternatives. 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 shareholder advocacy efforts include environmental, social, and governance (ESG) research and/or screening, direct engagement with companies, filing shareholder resolutions, proxy voting, coalition building, and public policy involvement.

See More Insight from Our Investment Team on Our Website

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Expensive Clicks vs Cheap Dividends

Just a handful of “stay-at-home winners” now comprise nearly 25% of the S&P 500. What does this situation mean for dividend investors, given that none of these price leaders are reliable sources of high current income?



Proxy Voting: An Investor's Right and Responsibility

Investors have an opportunity to provide opinions and oversight to companies they hold, and we believe that strong corporate governance requires sensitivity to the views of shareholders.



Midstream Energy: Metrics & Earnings Summary 2Q2020

In this quarter's Midstream Energy Metrics video, Portfolio Manager John Cusick, CFA, summarizes the key themes and findings for the midstream sector.



Utilities for Unfixed Income

The spread between the utilities sector dividend yield versus 10-year Treasury yield remains in the 99th percentile relative to the past 25 years. Why do we view today's environment as a unique valuation opportunity in utilities?

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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.

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.

High-Dividend Yield Stocks consists of Decile 7, 8, and 9 of a universe of US dividend paying common stocks with a market capitalization equal to or greater than \$1 billion.

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.

Notification to Clients: Contact your Advisor with any material changes to your financial profile that would impact your appropriateness for investment.



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. Value investing historically has done best coming out of a recession, so the historically low valuations should set the Income-Equity Strategies up for a strong recovery, in our view.
- The near-term picture is cloudy for projected dividend growth. However, we believe the portfolios are well-positioned to weather this downturn and poised to return to dividend growth when economic conditions improve.

Income-Equity Strategy (with MLPs)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	3Q2020
Income-Equity Yield	5.1	5.1	4.8	4.4	4.2	4.7	4.0	3.7	4.3	3.7	4.2
S&P 500 Yield	1.9	2.1	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.7
Ratio	2.7x	2.4x	2.1x	2.3x	2.1x	2.2x	1.9x	2.0x	2.0x	2.0x	2.4x
Income-Equity Projected Dividend Growth*	6.2	6.8	7.5	7.5	7.5	5.8	5.0	6.3	7.8	7.3	5.4
S&P 500 Projected Dividend Growth**	5.8	5.9	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	2.6
Ratio	1.1x	1.1x	1.5x	1.3x	1.6x	1.4x	1.2x	1.5x	1.5x	1.7x	2.1x
Income-Equity Dividend Coverage Ratio	1.3x	1.4x	1.5x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.1x
Income-Equity Net Debt/EBITDA***	2.2x	2.4x	2.5x	2.6x	4.2x	2.8x	2.0x	1.9x	1.4x	1.9x	2.0x
Income-Equity P/E Ratio Trailing	13.4	13.3	14.1	13.4	16.4	14.2	17.2	17.7	12.6	12.8	13.4
S&P 500 P/E Trailing	15.4	13.4	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	26.1
Premium/Discount	-13%	-1%	-2%	-23%	-10%	-24%	-16%	-18%	-23%	-41%	-49%

Income-Equity Strategy (No MLPs)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	3Q2020
Income-Equity (No MLPs) Yield	4.9	5.0	4.7	4.1	4.0	4.6	3.9	3.7	4.2	3.6	4.1
S&P 500 Yield	1.9	2.1	2.2	1.9	2.0	2.2	2.1	1.9	2.2	1.9	1.7
Ratio	2.6x	2.4x	2.1x	2.2x	2.1x	2.1x	1.9x	2.0x	2.0x	2.0x	2.4x
Income-Equity (No MLPs) Projected Dividend Growth*	6.3	7.0	7.6	8.2	7.7	5.9	5.0	6.4	7.9	7.5	5.5
S&P 500 Projected Dividend Growth**	5.8	5.9	5.1	5.9	4.7	4.2	4.0	4.2	5.2	4.2	2.6
Ratio	1.1x	1.2x	1.5x	1.4x	1.6x	1.4x	1.2x	1.5x	1.5x	1.8x	2.1x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.6x	1.4x	1.4x	1.3x	1.3x	1.3x	1.3x	1.5x	1.9x	2.3x	2.0x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.1x	2.4x	2.5x	2.7x	2.6x	2.6x	2.2x	2.1x	1.4x	1.9x	2.0x
Income-Equity (No MLPs) P/E Ratio Trailing	13.2	13.5	14.5	14.6	17.2	16.5	18.2	18.0	12.9	13.5	13.5
S&P 500 P/E Trailing	15.4	13.4	14.4	17.4	18.4	18.8	20.5	21.7	16.5	21.6	26.1
Premium/Discount	-14%	0%	1%	-16%	-6%	-12%	-12%	-17%	-22%	-38%	-48%

Source: Bloomberg; S&P 500; Miller/Howard Research & Analysis. The data above is based on representative accounts in our Income-Equity Strategies both with and without MLPs and is subject to change.

* 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 is 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 12.