# Will Megacaps Outperform Forever?

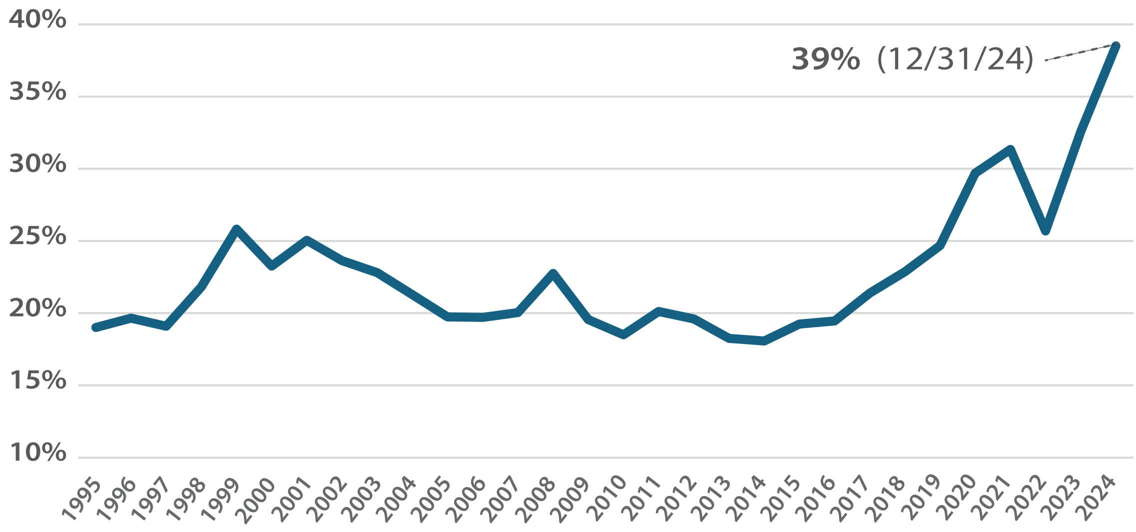
**JUNE 30, 2025**

**OVER THE PAST 10 YEARS, INVESTORS HAVE** witnessed unprecedented outperformance from companies with the largest market capitalizations ("megacaps"). The biggest have become even bigger, while the vast majority of companies in the S&P 500 Index have underperformed. By weight, the top 10 megacap companies accounted for 18% of the S&P 500 at the end of 2014, growing to a record 39% at the end of last year. We have seen a slight easing of the trend this year, with the top 10 megacap companies representing 37% of the S&P 500 at the end of the second quarter of 2025. It's unclear whether investors have finally cooled on the megacaps or if this is just a short-term reversal. We remain confident that market performance will eventually broaden, particularly given the extreme valuation spread—the trailing price/earnings (P/E) multiple for the top 10 market cap companies at the beginning of the year was 29.3x versus 24.4x for the S&P 500 as of quarter-end.

The performance skew towards the largest companies has made it difficult for the total returns of high-yield dividend stocks to keep up with broad market averages. Over the past 75 years, high-yield dividend stocks have had an average annual return of 12.8% versus 11.5% for the S&P 500, but the story has been different over the past 10 years. Logically, it would be possible to find high-yield dividend stocks among the megacaps, but the reality is that recent P/E ratios are too lofty for almost all of the top 10 megacaps to pay a high, well-covered dividend. Looking at these companies at the end of 2024, none of them had a dividend yield above 1%.

## Market Concentration at Record Level

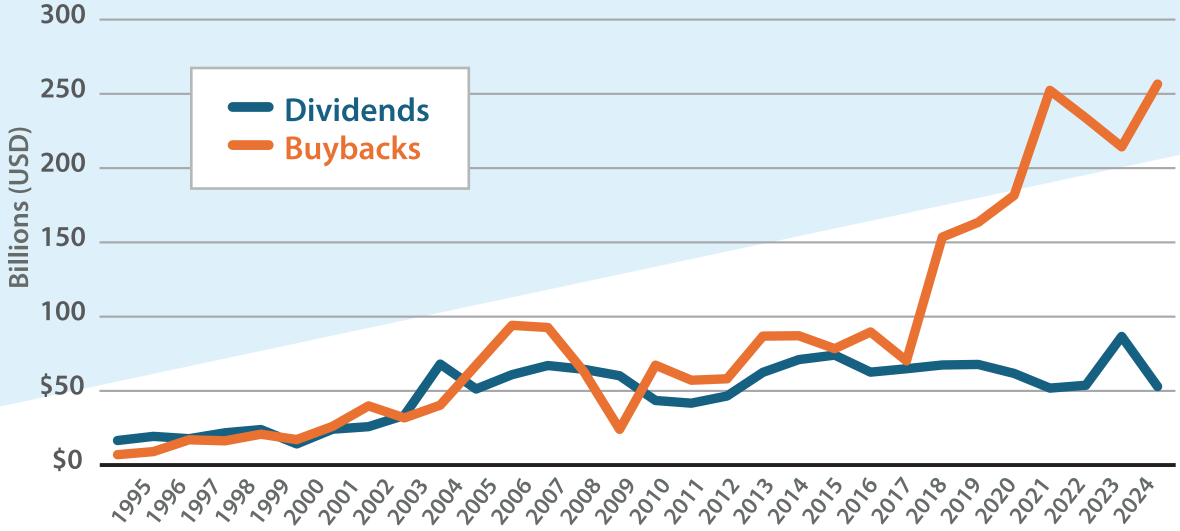
### Top 10 as a Percent of the S&P 500 Index




As of December 31, 2024. Sources: Bloomberg; Miller/Howard Research & Analysis. Note: We ran two screens for members of the S&P 500 Index by calendar year end date. Members were ranked by market capitalization where 1 was the highest. The first screen was limited to the top 10 by market cap. The second screen was all other members. The total market cap of each selection period was used to calculate top ten percent totals. Stocks with multiple classes were combined so as to include their market capitalization once in the total sum.

# Buybacks, Not Dividends, Have Propelled Megacaps

## Dividends vs. Buybacks: S&P 500 Top 10 by Market Cap




As of December 31, 2024. Sources: LSEG; Bloomberg.

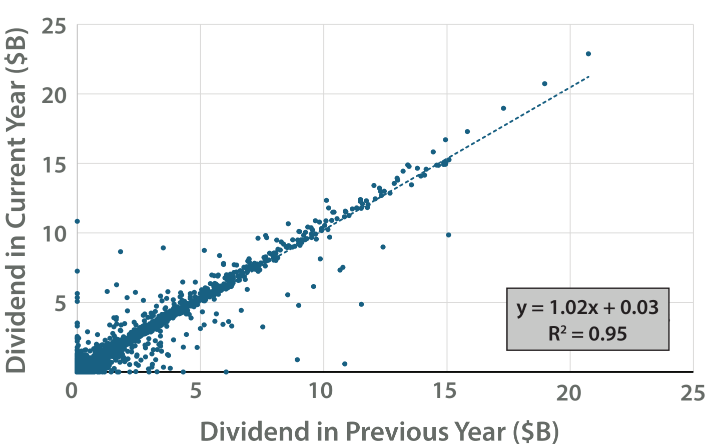
## *Megacaps: Big Buybacks, Small Dividends*

The outperformance of megacaps has been driven, at least in part, by their massive stock buybacks in recent years. Buybacks at the top 10 market cap companies used to be fairly close to dividends and in line with the overall market. Changes in corporate tax rates prompted an increase in buybacks for the overall market in 2018, but unlike the rest of the S&P 500, the megacaps have kept their foot on the buyback accelerator. As we have discussed in our past quarterly reports, both buybacks and dividends can help boost total equity returns. As investors ponder the uncertain environment, a key question is: What is more likely to grow going forward, dividends or buybacks? The question is critical because the market-leading megacaps are devoting big dollars to buybacks and relatively small sums to dividends.

Every company has its own story, so we structured our analysis on a *same-company* basis, looking at the growth in dollars spent on dividends and buybacks for every company in the S&P 500 over the past 30 years (roughly 15,000 observations). Over these tumultuous 30 years, companies *raised* their dividends by over 2% on average. Perhaps more impressively, trailing

## Dividends Typically Grow

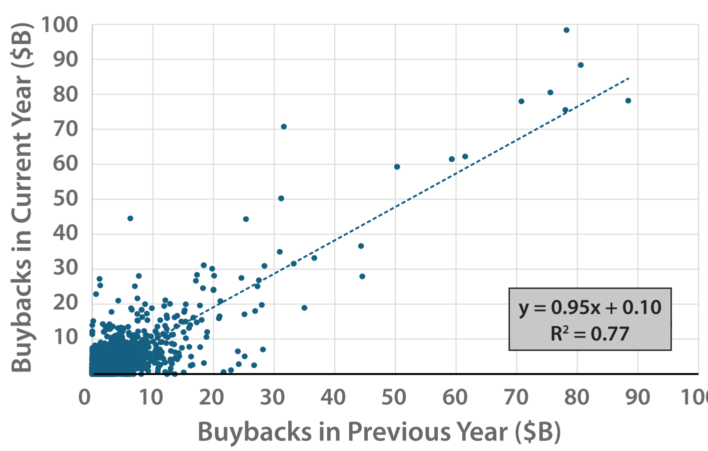
### 30 Years of Observation




As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Dividends are in aggregate.

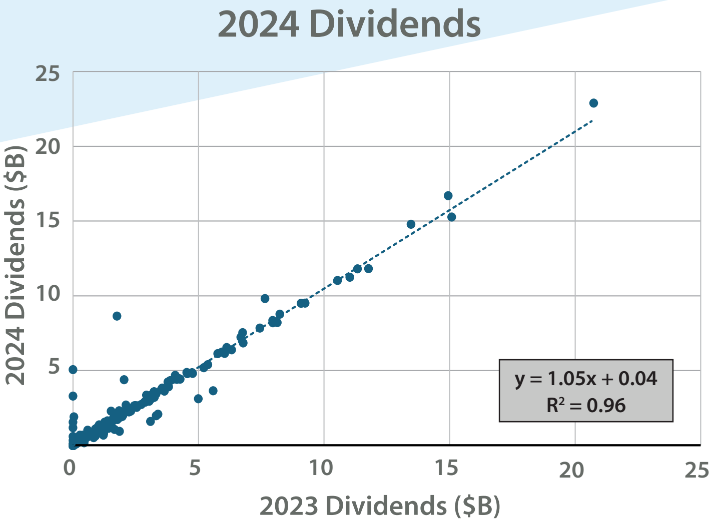
## Buybacks Typically Shrink

### 30 Years of Observation

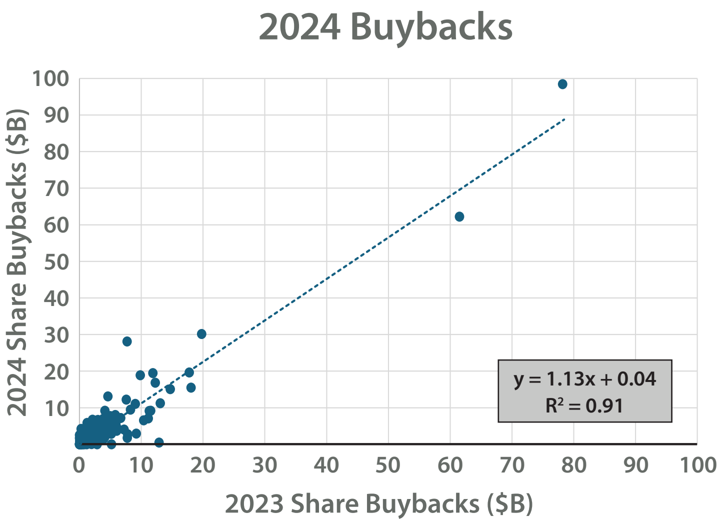



As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of each calendar year-end, beginning 12/31/1994. Buybacks are in aggregate. The buyback universe excludes members with net positive stock issuance.

## Solid Dividend and Buyback Growth in 2024




As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of 12/31/2023. Dividends are in aggregate.




As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of 12/31/2023. Buybacks are in aggregate. The buyback universe excludes members with net positive stock issuance.

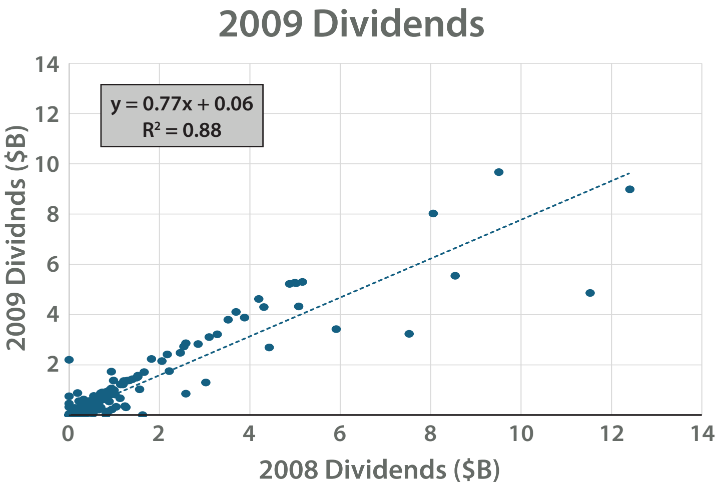
dividends were highly predictive of the next year's dividend with roughly 95% of the variance explained. In contrast, same-company buybacks *dropped* by 5% on average over the same period with much less of the variance explained. In other words, when considering a stock investment, knowing the trailing dividends can be much more informative than knowing the buyback history.

### *Dividend vs. Buyback Growth in Good Times and Bad*

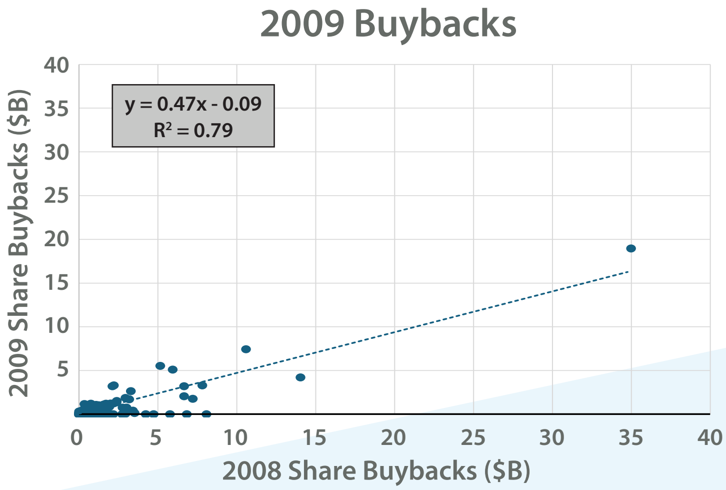
Pooling data across 30 years gives us a good estimate of the average same-company growth of dividends versus buybacks, but it masks just how different the growth rates can be in good versus bad years. Last year was a better-than-average year for both dividend and buyback growth. On average, companies raised the dollars devoted to dividends and buybacks by 5% and 13%, respectively.

In contrast, same-company dividends fell by 23% in 2009. The chart shows that many companies raised their dividends in 2009, but there were some huge reductions that pulled average growth down. Same-company buybacks fell by 53% in 2009—evidence that management teams are more likely to cut buybacks than dividends in challenging times.

## Global Financial Crisis Hit Dividend and Buyback Growth in 2009



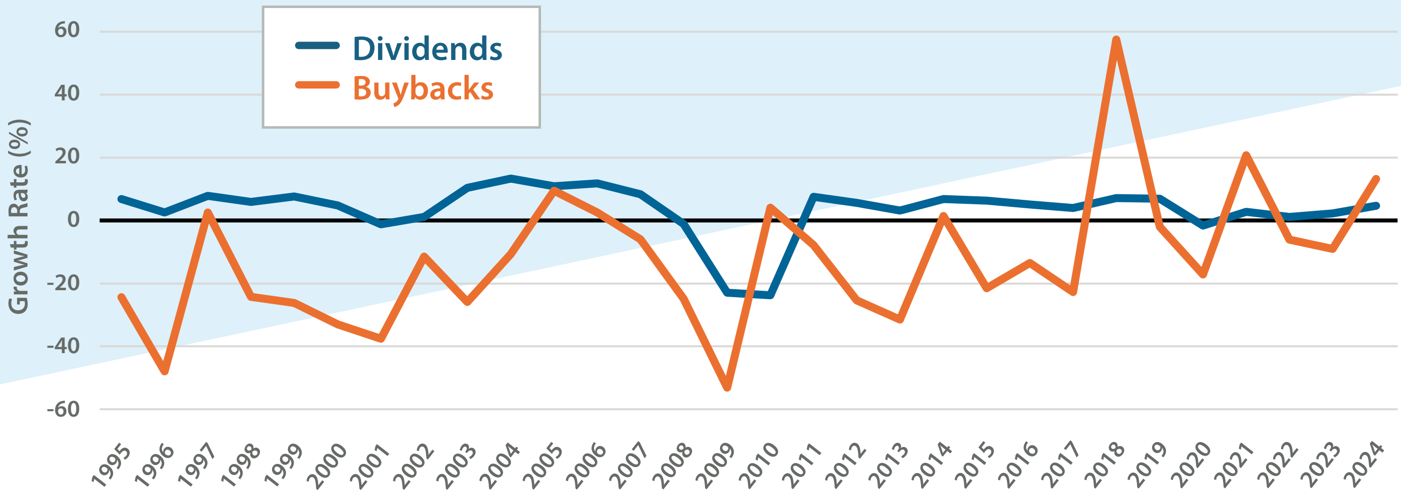

As of December 31, 2009. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of 12/31/2008. Dividends are in aggregate.




As of December 31, 2009. Sources: LSEG; Miller/Howard Research & Analysis. Based on the S&P 500 Index constituents as of 12/31/2008. Buybacks are in aggregate. The buyback universe excludes members with net positive stock issuance.

## Dividend Growth Tends To Be Steadier Than Buybacks

Average Same-Company Growth




As of December 31, 2024. Sources: LSEG; Miller/Howard Research & Analysis. Based on S&P 500 Index constituents as of each calendar year-end beginning 12/31/1994. Growth is calculated based on the slope of the linear regression line of year-over-year comparisons of constituent dividends and buybacks. The slope has been converted reflect a growth metric.

Over the past 30 years, same-company growth rates for dividends have varied in a predictable manner, with growth going negative in 2001 following the Tech Bubble burst, in 2008-10 concurrent with the Global Financial Crisis (GFC), and in 2020 during the pandemic. For the other 25 years, same-company dividend growth was positive. Dividend growth fluctuated, but it was reasonably stable (other than during the GFC period).

In contrast, same-company buybacks not only shrank in most years, but they also gyrated tremendously. Some of the peaks and valleys are easily explainable, but many are head-scratchers. For example, same-company buybacks dropped by 31% in 2013, despite a growing economy and a booming stock market. In that same year, same-company dividends grew by 3%. Our overall conclusion is that buybacks are not terribly predictable.

At Miller/Howard, we have long argued that dividends are a clear signal that:

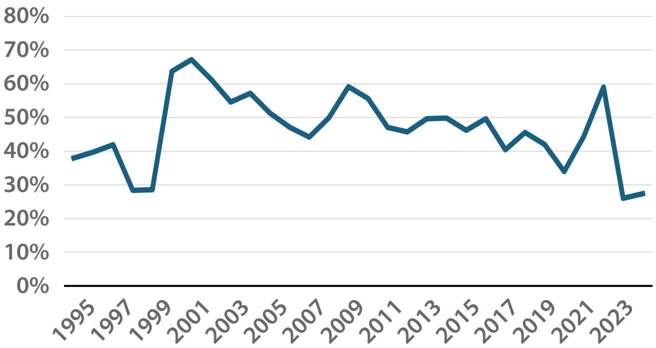
- **The company is run for the benefit of shareholders.** Public companies are run by executives who are strangers to the average investor and must earn investors' trust. A dividend is a commitment by management to run the firm quarter-after-quarter with shareholder cash return as a priority.
- **Management has confidence in the future profitability of their company.** While management statements should be treated with appropriate skepticism, executives know more about their business than shareholders do. By committing to a regular dividend, management is using more than just words to signal that they expect their business to be resilient, even in a changing environment.

The outlook for the economy continues to be highly uncertain. Corporate earnings were ahead of expectations in the first quarter of 2025, leading to a rebound in equity values. Yet tariffs remain both high and uncertain, and the full impact may not hit until the second half of 2025. Adding to uncertainty is the prospect for continued military conflict in the Middle East. In our view, this is not the time to chase expensive, megacap stocks, particularly given their reliance on buybacks.

Total returns for stocks can be decomposed into three parts: dividends, earnings growth, and price/earnings multiple expansion (see Miller/Howard's 1Q 2021 Quarterly Report). The total returns, *for high-yield dividend stocks,* are skewed more towards dividend income than the broad market. Our view is that tilting towards dividends allows investors to benefit both from a lower-volatility source of returns as well as the strong tendency for dividends to rise over time.

## Tough Environment for Stockpickers

### S&P 500 Index: Percent of Members That Outperformed by Calendar Year




As of December 31, 2024. Sources: Bloomberg; LSEG; Morningstar Direct. Calendar years 2024-2010 based on Bloomberg calculated SPY ETF attributions; 2009 and earlier are based on S&P 500 holdings at the end of the prior year end and the total return the following calendar year.

**DECADES AGO, AN ACADEMIC ECONOMIST,** Burton Malkiel, asserted that choosing stocks randomly had just as good of a chance of beating the broad market as professional stock-pickers. Portfolio managers with track records of beating benchmarks disagreed, but then came the real twist of the knife—in 2013, David Harding, a famous quant researcher, pointed out that stocks chosen at random had a better than 50/50 chance of beating the market. The reason given was that value stocks and small caps generally outperform over time.

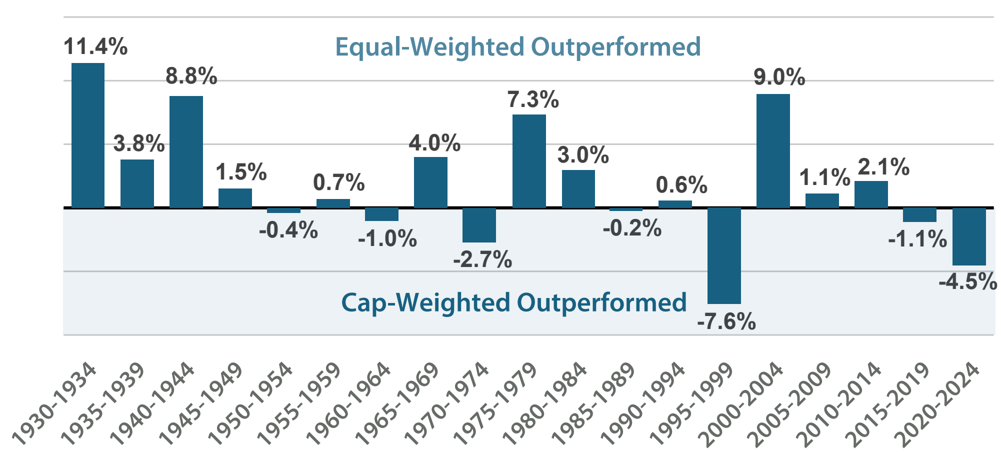
Anyone who began following the stock market in the last 10 years will find that statement puzzling given that large, expensive stocks have decisively outperformed the S&P 500 Index in the most recent decade. The easiest way to illustrate the disconnect between recent outperformance by larger cap stocks versus smaller cap is to compare returns of capitalization-weighted stocks with equal-weighted stocks—same stocks, different weights. When performance tilts towards the larger caps, the cap-weighted index outperforms, as it has in the past 10 years. However, looking at 5-year periods, the equal-weighted group typically outperforms—meaning that the norm has been the largest capitalization stocks underperforming in most historical periods going back to 1930.

The recent run in large cap stocks has meant that most stocks have underperformed the S&P 500. In both 2023 and 2024, less than 30% of stocks beat the cap-weighted index, hardly a good environment for stockpicking.

As Stein's Law states, "If it cannot go on forever, it will stop." In our view, this applies to the ongoing outperformance of the megacaps. We believe that the performance bias towards large cap stocks will subside or even swing back to the historical norm of smaller cap stocks outperforming. High valuations and low dividend yields make the current crop of megacaps unappealing to dividend investors. Once total returns broaden, we would expect dividend-focused portfolios to perform well against the S&P 500.

## Smaller Cap Stocks Tend to Outperform

### 5-Year Annualized Return Difference: Equal minus Market Cap Weighted




As of December 31, 2024. Sources: Empirical Research Partners; Miller/Howard Research & Analysis. Based on the largest 750 US stocks by market cap, sorted annually.

# Income-Equity

QUARTERLY REPORT 2Q 2025

**INVESTORS SHOULD BALANCE STAYING ON TOP** of current events while not reacting to every headline, twist & turn, or zig & zag. While most news—particularly market news—*feels* critical in real-time, much of it proves ephemeral, or its true meaning shifts in ways that only become clear with time.

As dividend investors, we take comfort in fundamental stock analysis. We believe in a high-quality, "all-weather" portfolio of companies that can be more resilient, offer a better margin of safety, and provide a narrower range of outcomes than the broad market. Riding out the market's daily volatility can be less stressful with a portfolio skewed towards businesses with the *ability* and *willingness* to pay and grow dividends.

The brokerage statements of investors in our Income-Equity portfolios will show a modest, almost quiet gain this quarter. Of course, what actually transpired resembled no such thing: The second quarter was among the most volatile in recent memory, featuring a more than 10% correction, followed by a nearly 25% rally for the S&P 500 Index.

What drove the volatility? A trio of "wars"—a shocking trade war that was quickly placed on pause, a 12-day shooting war in the Middle East, and a legislative battle in Congress over a massive spending bill.

Last quarter, we noted that trade is one of the few current news items that *truly* matters for markets. On what was dubbed "Liberation Day," the administration unveiled sweeping policies that would have raised import tax burdens to century-high levels and effectively embargoed Chinese goods. After the worst week for the stock market since the 2020 pandemic crash, the administration later issued a series of tariff exemptions, rate reductions, and deferrals.

## Looking Ahead

Have we passed the worst, or is more volatility on the horizon? We won't pretend to know, and anyone who claims to know is either lying or lucky. So, in moments like these, we return to what we do know and what we can control: the quality, valuation, and dividend safety of our portfolios.

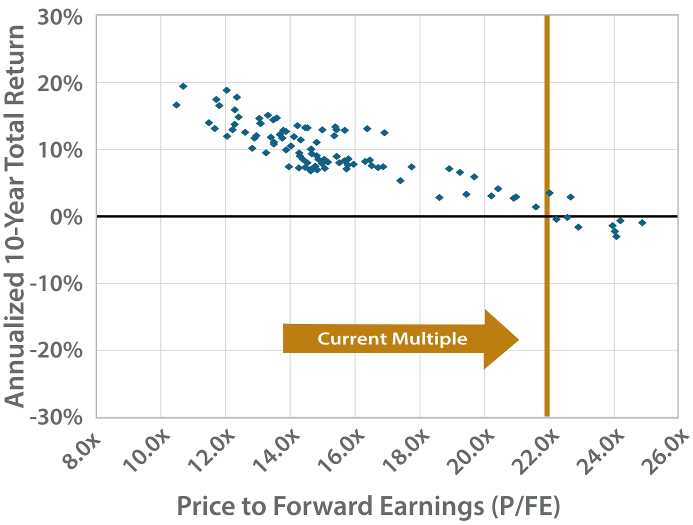
As the S&P 500 rebounded to all-time highs—now trading at a historically expensive 22x forward P/E—we analyzed 10-year S&P 500 returns based on starting valuations over time. While trying to predict short-term returns based on valuation is a fool's errand, there is a consistent and strong *negative* correlation between high starting valuations and poor long-term returns. By this measure, the market is expensive.

Will AI-fueled euphoria justify these valuation levels? We don't know. But we do expect that AI-driven productivity gains will eventually benefit established industries like banking, pharmaceutical research, utilities, advertising, and business services—dividend-rich industries that comprise the backbone of our portfolios. Unlike the S&P 500 where AI optimism may be "priced in," Wall Street consensus forecasts are not embedding dramatic margin expansion or growth acceleration among these "old" industries—at least not yet.

Meanwhile, our portfolios trade at among the steepest valuation *discounts* relative to the S&P 500 in at least 12 years. That's a strong signal, and it encourages us to discount the daily news drama—real or manufactured—and take comfort in the longer-term opportunity ahead.

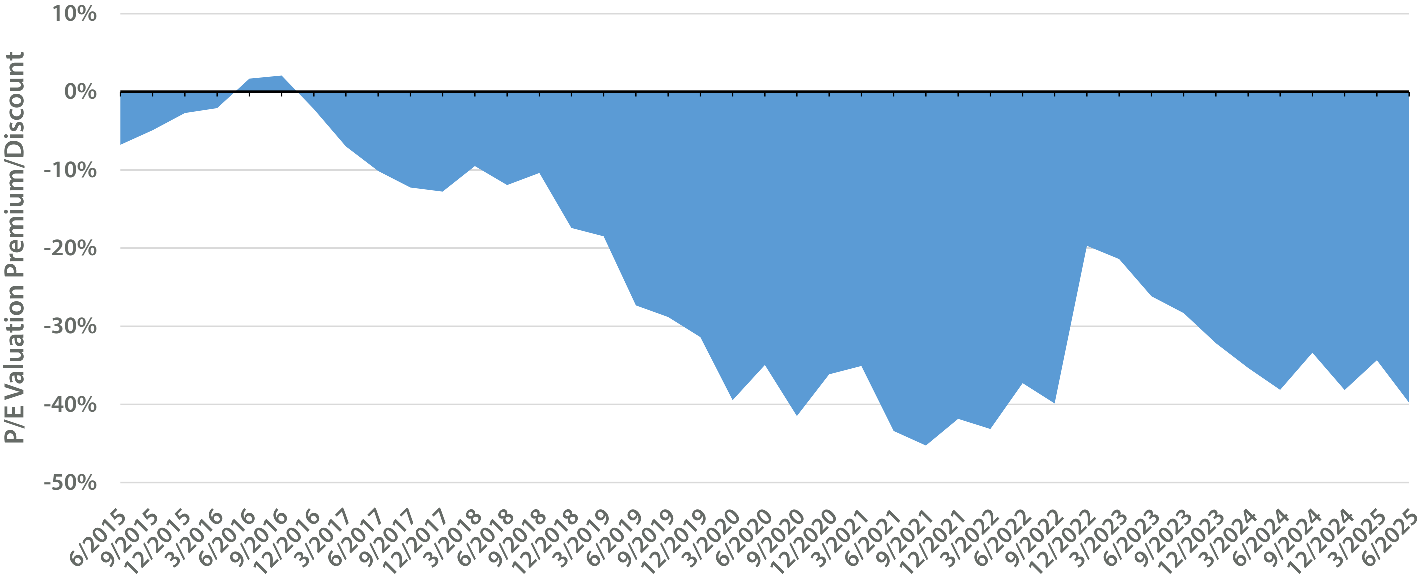
## Higher Starting Valuations Meant Lower Subsequent Returns

### S&P 500 Index Valuations versus Subsequent 10-Year Returns




As of June 30, 2025. Sources: Bloomberg; Morningstar Direct; Miller/Howard Research & Analysis.

## Income-Equity (No MLPs) Trades at a Significant Discount to S&P 500 Index




As of March 31, 2025. Sources: LSEG; Bloomberg; Miller/Howard Research & Analysis.
Based on the trailing 12 month price-to-earnings (P/E) ratio for a representative account.

### *Portfolio Highlights*

- **Performance and income:** In the second quarter, our Income-Equity portfolios lagged both the Russell 1000 Value and the S&P 500 Indices. As of June 30, Income-Equity yielded 3.8% while the no-MLP version yielded 3.6%, and we project dividend growth of 5.3% and 5.2% in each version, respectively.

- **Dividend increases:** Income-Equity (no MLPs) had four dividend increases in the quarter, including **Johnson & Johnson (JNJ), Phillips 66 (PSX), Paychex (PAYX),** and **Medtronic (MDT).** Income-Equity had three increases (excluding Phillips 66, which is not held in this version).

- **Exited positions:** We exited our position in **Robert Half International (RHI).** When we purchased RHI, we acknowledged a slowing labor market, but we were later disappointed in management's failure to reduce variable costs as they had in prior cycles. As a result, dividend coverage grew too tight for our taste. We also exited our position in **Merck (MRK).** The pharmaceutical maker hasn't yet generated the sufficient pipeline required to replace Keytruda, which loses patent protection in 2028 and accounts for half of revenue.

- **New buys:** We initiated a position in **TC Energy (TRP),** a Canada-based, natural gas focused midstream energy C-corp. TRP's earnings are highly regulated and therefore lower volatility than industry peers, and the company has significant data center related growth potential. We also bought **Eastman Chemical (EMN),** which has transformed into a high-margin specialty chemical manufacturer from its early days as a commodity chemical producer for Kodak films. Unlike many chemical companies, China-exposure is insignificant and valuation on projected earnings remains reasonable.

# MLP & Midstream Energy Income

**QUARTERLY REPORT 2Q 2025**

**RECESSION FEARS. OPEC+ PRODUCTION INCREASES. COMMODITY PRICE VOLATILITY. TARIFFS IMPACTING EXPORTS. WARS.** Not an easy macro environment for midstream during the quarter, and as a result, the sector lagged the overall market. The good news? Midstream continues to outperform the broad market for the year.

During the most recent earnings season, midstream experienced its first real headwinds since 2020. Overall, earnings were okay, with a few misses, but more importantly, 2025 outlooks were almost all reiterated. We emphasize that this is neither 2014/2015 (cratering crude prices) nor 2020 (pandemic). Stronger balance sheets and higher free cash flow yields support a stronger, well-positioned sector, even in times of volatility.

Only one company raised its capex budget (for good reason, in our opinion—on an abundance of data center deals), and several management teams pointed out the flexibility to defer their projects into the future if necessary. Importantly, most companies have buyback programs and ample balance sheet strength to become more active if stock prices weaken.

While the news headlines may not seem encouraging, digging deeper tells a different story. The tailwinds for midstream—natural gas exports, electrification trends, and data center builds—are not slowing down, in our view.

## Looking Ahead

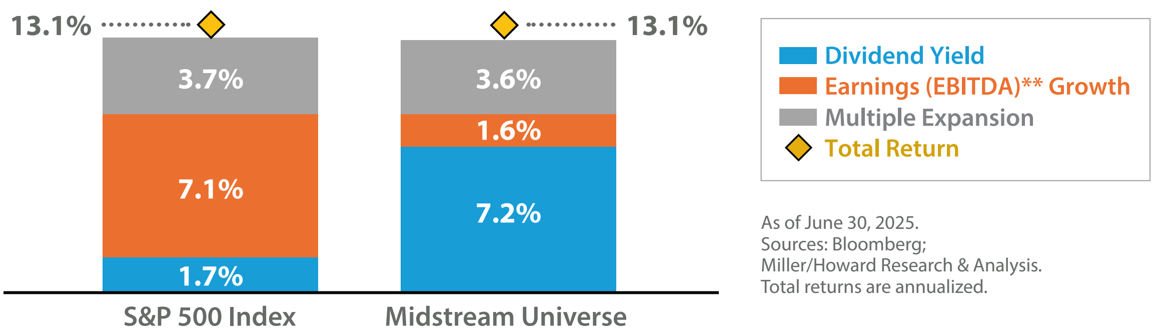
Times of market uncertainty highlight another benefit of dividend investing. Between 2015 and 2024, midstream energy offered comparable total returns to the S&P 500 Index. However, looking at the decomposition of returns, the mix of return factors for midstream stocks has been substantially different—as expected, dividend yield is a much larger component of returns. As we showed in our 2Q 2025 Quarterly Report, dividend payments tend to continue and to rise over time, making dividend yield a more reliable source of returns over the long term. What's more, our philosophy of investing in high quality midstream energy companies seeks to avoid dividend cutters to provide clients with reliable high and rising income.

### *Portfolio Highlights*

- **Dividend increases:** This quarter 4 of our 16 holdings announced dividend increases. The average increase was 12% year-over-year.
- **Sales:** We sold our position in **Oneok (OKE)** on volume growth concerns. We trimmed **Targa Resources (TRGP)** after a very strong multi-year run and **Plains GP Holdings (PAGP)** to further pivot to natural gas from crude.
- **Buys:** We initiated a position in **Kinder Morgan (KMI)** as EBITDA should grow due to demand from data centers and natural gas exports. We increased our position in **Enbridge (ENB)** as it generates stable cash flows. We increased our weight in **Williams (WMB),** as it offers what we believe to be one of the best midstream EBITDA growth profiles. We also increased **Genesis Energy (GEL),** as we see its free cash flow hitting an inflection point in 2025.

## Dividend Yield is the Largest Component of Midstream Energy Returns

### 10-Year Total Return Decomposition




As of June 30, 2025.
Sources: Bloomberg;
Miller/Howard Research & Analysis.
Total returns are annualized.

# Infrastructure

**QUARTERLY REPORT 2Q 2025**

**THE QUARTER GOT OFF TO AN INAUSPICIOUS** start as market volatility spiked to the highest level since early 2020 (as measured by the VIX index) in the wake of the White House tariff announcements. The market rallied as tariff fears abated and was able to maintain its upward momentum despite geopolitical tensions. Infrastructure performance remained relatively even-keeled amid the volatility but was ultimately unable to keep up with the broad market that was led by highly concentrated megacap growth names. Infrastructure remains ahead of the broad market year-to-date due to its historic outperformance in the first quarter of 2025.

Within our portfolio, top performers included positions with international or foreign currency exposure, as the US dollar, US bonds, and US equities (outside of megacap growth stocks) underperformed amid concerns of declining American exceptionalism. Positions with data center exposure also outperformed on renewed confidence in demand expectations. Oil-linked midstream energy lagged the portfolio in the face of tariff and OPEC+ headwinds. While conflict in the Middle East temporarily pushed oil higher in June, investors largely looked through the geopolitical risks.

## Looking Ahead

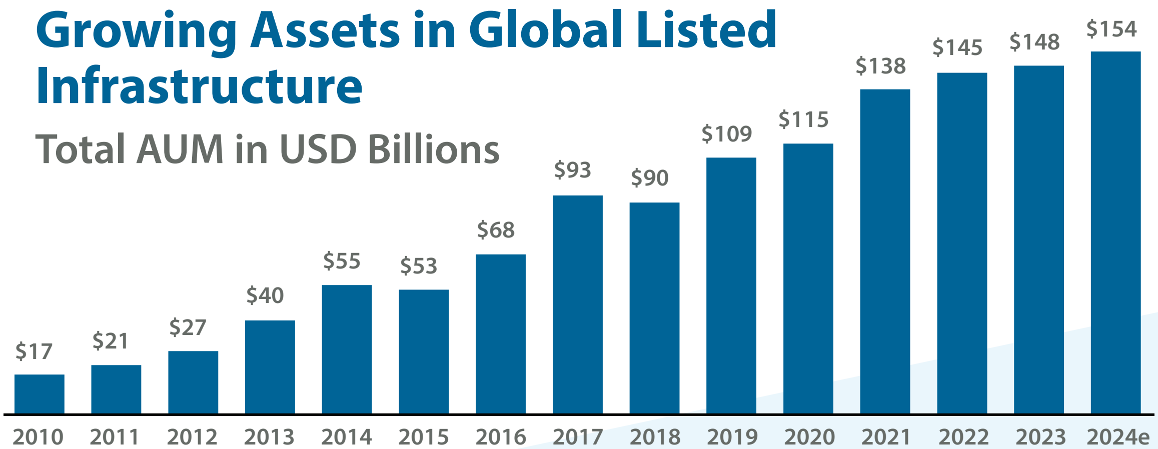
Infrastructure has become a well-established allocation within investor portfolios due to the sector's ability to provide strong risk-adjusted returns (a topic we discussed in our 1Q 2025 Infrastructure Quarterly Report), inflation protection, and limited overlap with traditional equity indices. While private investment still dominates assets under management (AUM), publicly-listed investment has become an increasingly important category for infrastructure allocation. Over the last 15 years, the AUM in global listed infrastructure funds has grown ninefold. For many investors, the daily liquidity and pricing of publicly-listed infrastructure provides a standalone investment solution or compliment to private offerings. The ability to access funds and increased transparency becomes even more attractive in times of uncertainty, in our view. After first recognizing the opportunity in listed infrastructure nearly 35 years ago, Miller/Howard remains just as confident in its investment thesis today.

### *Portfolio Highlights*

- **Dividend increases:** This quarter, 3 of our 35 holdings announced dividend increases with an average increase of 14%.
- **New position:** We initiated a position in **Xcel Energy (XEL)** and expect the company to benefit from top-tier growth and a track record of execution.
- **One man's trash:** We added to our position in **Waste Connections (WCN)** and continue to expect the company to benefit from a differentiated strategy focused on exclusive and secondary markets.
- **Exiting position:** We exited **AES Corp. (AES)** with the expectation that IRA uncertainty, tariffs, and recession risks would create continued headwinds for the name.
- **Leaning into natural gas:** We trimmed our positions in **Targa Resources (TRGP)** and **Oneok (OKE)** as part of a continued effort to reduce our oil beta. We added to positions in **TC Energy (TRP)** and **Kinder Morgan (KMI),** which we expect to benefit from rising natural gas demand driven by data centers and natural gas exports.

## Growing Assets in Global Listed Infrastructure

### Total AUM in USD Billions




As of December 31, 2024.
Sources: eVestment; GLIO.

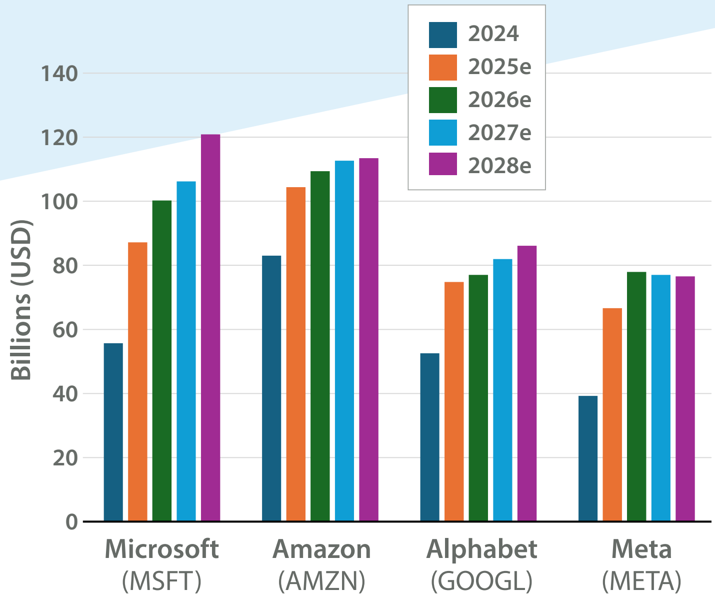
# Utilities Plus

**QUARTERLY REPORT 2Q 2025**

**THE BROAD MARKET STUMBLED OUT OF THE GATE** this quarter, as the White House tariff announcements resulted in the largest single-day losses since early-2020 across major indices. As tariff fears abated, the market rallied through quarter end. Utilities lived up to their reputation, recording positive performance amid the volatility for the sixth time in the last seven quarters. Utilities then failed to keep pace with the broad market as sector performance plateaued in the risk-on environment. However, utilities remain ahead of the broad market year-to-date on strong first quarter outperformance and lower volatility in the second quarter.

Within the group, large caps generally outperformed small caps. Sector returns were buoyed by massive outperformance among independent power producers (IPPs) which led the group on renewed confidence in demand expectations. California utilities lagged the group on continued concerns around the ultimate impact of the devastating wildfires (including the impact on the California Wildfire Fund).

## Megacap Tech: Forecasting Higher Capital Expenditures




As of June 30, 2025. Sources: Bloomberg; Miller/Howard Research & Analysis. Capital expenditures are defined as expenses to acquire, upgrade, or maintain physical assets, including assets acquired under capital leases. Based on consensus forecasts.

***MSFT, AMZN, GOOG, and META were not held.**

## Looking Ahead

In January, an announcement that DeepSeek created a more efficient AI model threw cold water on the excitement around rising electricity demand driven by data center and AI trends. However, hyperscalers' capital plans and additional deal announcements have revitalized demand growth expectations.

Hyperscalers reiterated or increased 2025 capex budgets, calming fears that efficiencies would impact development plans. Analysts now expect a massive capital spend of nearly $1.5 trillion through 2028 by Microsoft, Amazon, Alphabet, and Meta* alone (albeit at decelerating growth rates; none of these names are held). Additionally, Meta and Amazon both announced deals with IPPs at a premium to current energy prices which helped quiet concerns around the FERC ruling on colocation.

Overall, data center and AI proliferation is expected to push US electricity consumption to record highs this year. Longer term, the outlook is just as bright. US utilities have publicly committed to supplying 64 gigawatts (GW) of new data center capacity, equal to a 12% increase in current US electricity generation. Capacity additions could prove to be even higher. Wood McKenzie is now tracking 134 GW of proposed data centers across the US and Deloitte expects US data center power capacity to rise fivefold by 2035 (from 33 GW to 176 GW).

While we remain on the lookout for improving efficiencies that would temper data center power demand, current expectations for significant growth appear well founded. We continue to believe that rising electricity demand will only bolster utilities' growth and their ability to provide investors with high and rising income.

### *Portfolio Highlights*

- **Dividend Increases:** This quarter, 3 of our 31 holdings announced dividend increases with an average increase of 5.3%.
- **Focus on quality:** We increased our positions in **Ameren (AEE)** and **Xcel Energy (XEL).** We expect the companies to benefit from above-average growth and balance sheet strength.

# North American Energy (without K-1s)

**QUARTERLY REPORT 2Q 2025**

**WHAT THE MARKET GIVETH, IT TAKETH AWAY.** Following 15% outperformance to start 2025, energy lagged the S&P 500 Index by 19% this quarter. Our portfolio outperformed its benchmark, the S&P 1500 Energy Index, but nonetheless declined.

Two factors drove the reversal, in our view. First, crude oil prices dropped 9%, mainly due to geopolitical events. Saudi Arabia surprisingly pushed OPEC+ to aggressively increase production despite anemic global demand, triggering an initial selloff. The market soon steadied, however, on the correct view that this action may have had an ulterior motive related to Iran. On June 10th, Israel initiated a two-week military campaign to degrade Iran's nuclear capabilities. Given Iran's proximity to the Strait of Hormuz, through which one-third of the world's oil transits, an Iran war has long been considered the single biggest energy market risk. Despite the conflict, the strait stayed open and oil prices stabilized. The second factor driving weakness was the opposite dynamic of the first quarter. Mighty tech stocks once again rebounded, pulling funds from mere mortal corners of the market, including energy.

### *Portfolio Highlights*

- **Energy and income:** The portfolio currently offers an indicated yield of 3.0% that we project is well supported down to approximately $45/bbl oil, combined with a significantly larger variable return of capital commitment at higher commodity prices.
- **Along the energy value chain:** In recent quarters, we've added steadily to natural gas exploration and production (E&P) holdings, including **Gulfport Energy (GPOR), Antero Resources (AR),** and **Range Resources (RRC).** These companies continue to benefit from growing long-term natural gas demand bullishness. Last quarter, we added refiner **Marathon Petroleum (MPC)** back to the portfolio, on attractive valuation, steadying crack spreads, and its 49% stake in high-quality MLP, MPLX LP (not held).

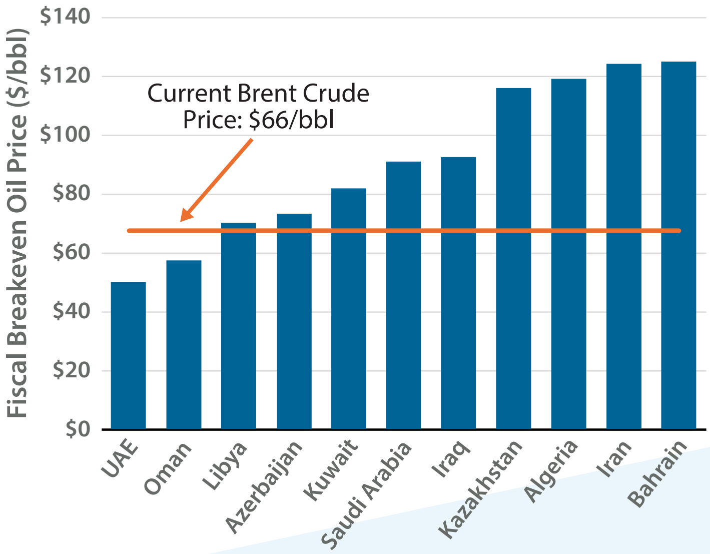
## Looking Ahead

The marginal supply cost of crude oil and the identity of the marginal producer are central to energy investing, but they remain widely debated. Common estimates suggest that the Permian Basin breaks even at around $45/bbl oil prices, while oil from the Persian Gulf may cost as little as $10/bbl. But is shale oil more expensive? We don't think so. The key issue is that Permian cost estimates often include the overhead of running an oil corporation, whereas the Persian Gulf figures do not.

Consider Saudi Aramco, the world's largest oil producer. What does it cost to maintain a state-owned business like Aramco? Is it just employee wages, engineering studies, and office space, or does it also include the enormous cost of sustaining political stability in a monarchy where oil revenues are the backbone of the state?

The concept of "Fiscal Breakeven Oil Price" considers the price needed to balance the budgets of 11 countries. These countries combined produce 40% of the world's oil—and each offers substantial subsidies to its citizens and imposes little or no taxes. At current price levels, nine of these 11 countries run large deficits—an unsustainable situation that we believe will ultimately be addressed through significantly higher oil prices over time.

## Many Oil-Producing Countries Require a Higher Crude Price




As of June 30, 2025. Sources: Miller/Howard Research & Analysis; IMF 2025 Projections. "Fiscal breakeven oil price" is the estimated Brent crude price (in US dollars) needed to balance the budget of each oil-producing country listed.

# Yield, Growth, Strength, Stability

- Our Income-Equity portfolios each offer a high dividend yield that is nearly 3.0x 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.
- We believe the portfolios are well-positioned for dividend growth throughout the full market cycle.

## Income-Equity (with MLPs)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2Q2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Income-Equity Yield | 4.7 | 4.0 | 3.7 | 4.3 | 3.7 | 3.6 | 3.3 | 3.6 | 3.7 | 3.6 | 3.8 |
| S&P 500 Yield | 2.2 | 2.1 | 1.9 | 2.2 | 1.9 | 1.5 | 1.5 | 1.8 | 1.5 | 1.3 | 1.3 |
| Ratio | 2.2x | 1.9x | 2.0x | 2.0x | 2.0x | 2.3x | 2.2x | 2.0x | 2.4x | 2.7x | 3.0x |
| Income-Equity Projected Dividend Growth* | 5.8 | 5.0 | 6.3 | 7.8 | 7.3 | 5.1 | 6.0 | 6.1 | 5.5 | 5.5 | 5.3 |
| S&P 500 Projected Dividend Growth** | 4.2 | 4.0 | 4.2 | 5.2 | 4.2 | 3.3 | 5.9 | 4.8 | 4.5 | 5.3 | 5.3 |
| Ratio | 1.4x | 1.2x | 1.5x | 1.5x | 1.7x | 1.5x | 1.0x | 1.3x | 1.2x | 1.0x | 1.0x |
| Income-Equity Dividend Coverage Ratio | 1.3x | 1.3x | 1.5x | 1.9x | 2.3x | 2.1x | 2.0x | 2.7x | 2.1x | 2.1x | 2.1x |
| Income-Equity Net Debt/EBITDA*** | 2.8x | 2.0x | 1.9x | 1.4x | 1.9x | 1.9x | 1.2x | 2.0x | 1.8x | 2.2x | 2.6x |
| Income-Equity P/E Ratio Trailing | 14.2 | 17.2 | 17.7 | 12.6 | 12.8 | 16.7 | 14.0 | 13.6 | 14.5 | 15.2 | 14.0 |
| S&P 500 P/E Trailing | 18.8 | 20.5 | 21.7 | 16.5 | 21.6 | 27.6 | 24.1 | 18.6 | 21.9 | 24.7 | 24.4 |
| Premium/Discount | -24% | -16% | -18% | -23% | -41% | -40% | -42% | -27% | -34% | -38% | -43% |

## Income-Equity (No MLPs)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2Q2025 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Income-Equity (No MLPs) Yield | 4.6 | 3.9 | 3.7 | 4.2 | 3.6 | 3.5 | 3.2 | 3.5 | 3.4 | 3.4 | 3.6 |
| S&P 500 Yield | 2.2 | 2.1 | 1.9 | 2.2 | 1.9 | 1.5 | 1.5 | 1.8 | 1.5 | 1.3 | 1.3 |
| Ratio | 2.1x | 1.9x | 2.0x | 2.0x | 2.0x | 2.3x | 2.1x | 2.0x | 2.2x | 2.6x | 2.8x |
| Income-Equity (No MLPs) Projected Dividend Growth* | 5.9 | 5.0 | 6.4 | 7.9 | 7.5 | 5.2 | 6.0 | 6.0 | 5.6 | 5.3 | 5.2 |
| S&P 500 Projected Dividend Growth** | 4.2 | 4.0 | 4.2 | 5.2 | 4.2 | 3.3 | 5.9 | 4.8 | 4.5 | 5.3 | 5.3 |
| Ratio | 1.4x | 1.2x | 1.5x | 1.5x | 1.8x | 1.5x | 1.0x | 1.3x | 1.2x | 1.0x | 1.0x |
| Income-Equity (No MLPs) Dividend Coverage Ratio | 1.3x | 1.3x | 1.5x | 1.9x | 2.3x | 2.1x | 2.0x | 2.8x | 2.3x | 2.3x | 2.2x |
| Income-Equity (No MLPs) Net Debt/EBITDA*** | 2.6x | 2.2x | 2.1x | 1.4x | 1.9x | 1.9x | 1.2x | 1.8x | 1.6x | 2.1x | 2.6x |
| Income-Equity (No MLPs) P/E Ratio Trailing | 16.5 | 18.2 | 18.0 | 12.9 | 13.5 | 16.8 | 14.0 | 13.8 | 14.6 | 15.3 | 14.7 |
| S&P 500 P/E Trailing | 18.8 | 20.5 | 21.7 | 16.5 | 21.6 | 27.6 | 24.1 | 18.6 | 21.9 | 24.7 | 24.4 |
| Premium/Discount | -12% | -12% | -17% | -22% | -38% | -39% | -42% | -26% | -33% | -38% | -40% |

As of June 30, 2025. Sources: Bloomberg; S&P; Miller/Howard Research & Analysis. The data above are based on representative accounts in our Income-Equity portfolios both with and without MLPs and are subject to change. Median P/E ratio trailing is published for our Income-Equity portfolios.

* 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 are 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 last page.

## Bank Dividend Increases Following Stress Tests

**ON JUNE 27TH, THE FEDERAL RESERVE RELEASED** the results of its 2025 Dodd-Frank Act stress tests. All 22 participating banks passed and delivered strong results, with the drawdown in the aggregate capital ratio the lowest in 5 years. As a result, the Fed maintained or reduced the minimum regulatory capital requirements, including the Stress Capital Buffer (SCB) and Common Equity Tier 1 (CET1) ratios, for all participating banks. The favorable results largely reflect banks' stronger fundamentals and less stringent test scenarios compared to last year due to the baseline performance of the economy.

### Strong Dividend and Buyback Announcements

Of the 22 participating banks, 11 raised their dividend and the average increase was 11%. Two banks also announced buyback programs. Supported by strong capital buffers, all banks within our Income-Equity portfolios that participated in the stress tests announced notable dividend increases.

### Banks not subject to the stress tests held in our Income-Equity Portfolios

Two Income-Equity bank holdings do not participate in the stress tests. One holding is an investment bank, and another falls below the Fed's asset threshold. Historically, both announce their dividend actions in January of each year.

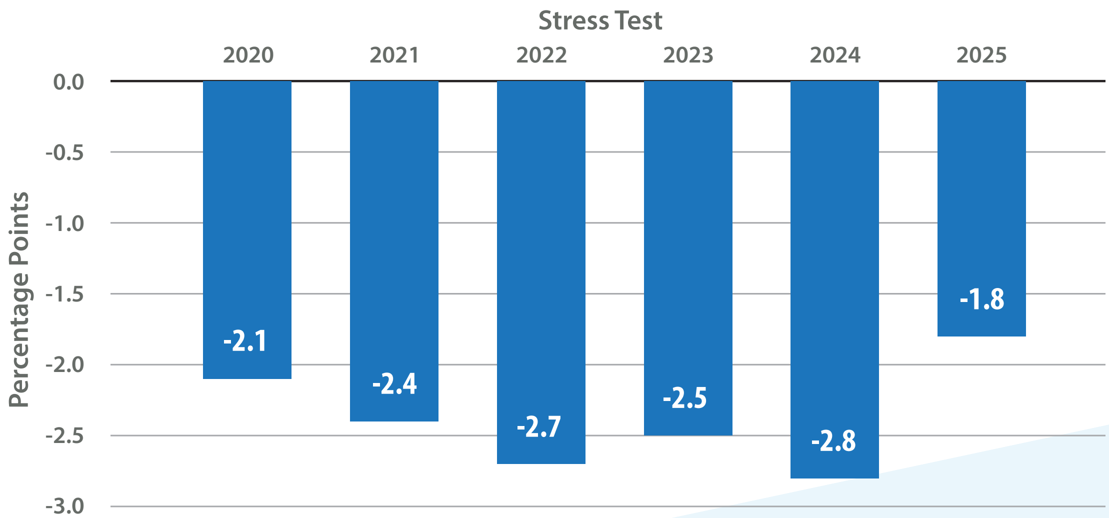
### Regulatory Tailwinds Ahead

We view the Fed's anticipated move toward lower capital requirements and less onerous regulation as highly positive. Potential future regulatory relief that we are monitoring include:

- Modifications to the stress capital buffer calculation to lower volatility and increase transparency
- Deemphasizing the supplemental leverage ratio (SLR) as a regulatory constraint
- Rewriting Basel 3 Endgame regulations

Collectively, we believe these changes should allow banks to optimize capital, improve profitability, and increase return of capital to shareholders through dividends and buybacks.

### Aggregate Maximum Decline in Stressed Common Equity Tier 1 (CET1) Capital Ratio, Severely Adverse Scenario




As of June 27, 2025. Source: The Federal Reserve. Each bar represents the aggregate maximum common equity tier 1 (CET1) capital ratio decline of the banks in each exercise. The common equity tier 1 capital ratio is the primary metric the Fed uses to judge bank capital adequacy.

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**DEFINITIONS: Inflation** is the year-over-year change of the Consumer Price Index for All Urban Consumers (CPI Index). **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. **EBITDA** = earnings before interest, taxes, depreciation, and amortization. **Free cash flow** is cash flow from operations minus capital spending. It's the cash flow available: to return to shareholders through dividends or buybacks; for M&A; to save as cash on the balance sheet; or to pay down debt. **MLP** = Master Limited Partnership. **S&P 500 Index®** widely regarded as the best single gauge of large-cap US equities and serves as the foundation for a wide range of investment products. The Index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. **Russell 1000 Index®** measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000 Index® and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 Index® represents approximately 92% of market capitalization of the US market. **Russell 1000 Value Index** offers investors access to the broad value segment of US equity value universe and is constructed to provide a comprehensive and unbiased barometer of the broad value market.

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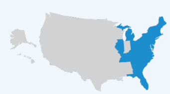


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