Income-Equity

QUARTERLY REPORT 2Q 2026

"Markets can remain irrational longer than you can remain solvent." – attributed to John Maynard Keynes

Lord Keynes may or may not have said this well-known quote, but it points out that while you could be absolutely correct about a market being overvalued, you could also go broke waiting for valuations to correct. Historical returns have been much higher when starting from low price-to-earnings (P/Es) ratios than starting at high P/Es, like those we are seeing now. Unfortunately, the timing isn't exact, so investors need to use more nuanced tactics.

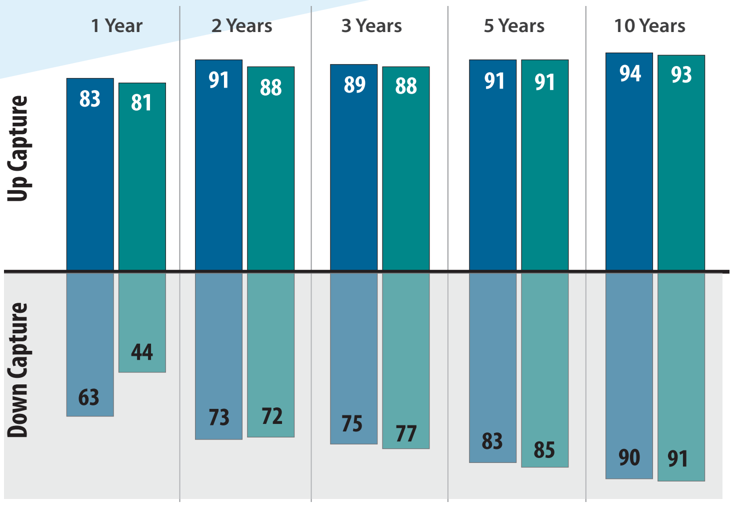
One investment approach to consider is the pursuit of high current income, growth of income, and financial strength in a portfolio that has a demonstrated ability to resist market declines without giving up much participation in up-moves by the market. This can offer investors upside participation with some downside cushion when the market returns to rationality.

Over the 12 months ending June 30, 2026, when the Russell 1000 Value Index's total returns were positive, our Income-Equity (No MLPs) portfolio rose about 81% as much as the index, but when the index was down, it only declined about 44% as much. Two-year and three-year numbers also show good results, with significant asymmetry: 88% upside capture against 72% downside capture in the 2-year period (and 88% upside vs 77% downside in 3-years). Five- and ten-year numbers show somewhat less upside/downside spread, but still show that our portfolio held its advantage.

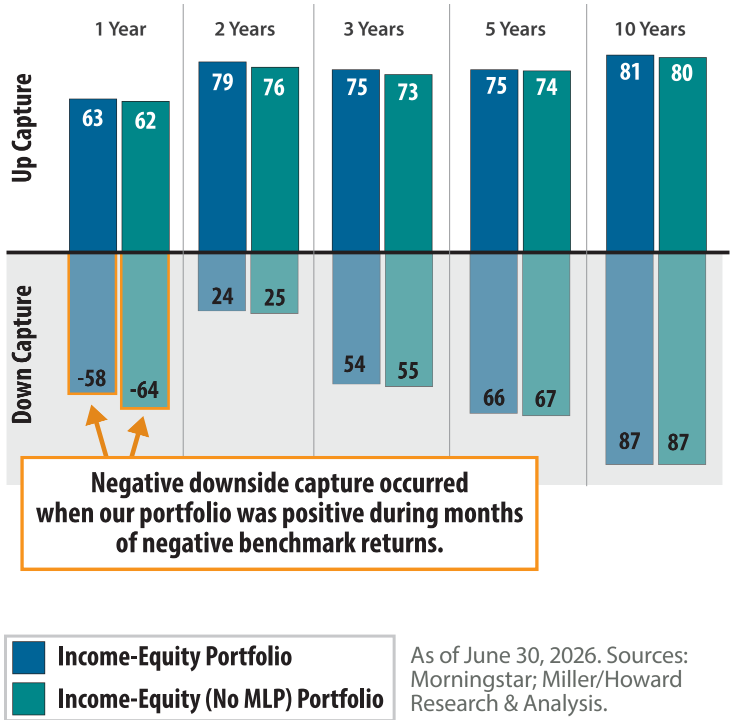
When compared to the S&P 500 Index, our Income-Equity portfolios outperformed during the trailing 1-year period. On the upside, our Income-Equity (No MLPs) portfolio rose about 62% as much as the index, but the outperformance came in down markets with a -64% down capture ratio (in other words, our portfolio posted positive absolute returns when the broad market was down).

Income-Equity Has Provided Favorable Up and Down Capture Ratios

(vs Russell 1000 Value Index)



(vs S&P 500 Index)



As of June 30, 2026. Sources: Morningstar; Miller/Howard Research & Analysis.

Upside (downside) capture ratios are the monthly return in months when the benchmark was positive (negative), divided by the benchmark return during that month.

The two-, three- and five-year periods also show a favorable spread. While our portfolios exhibited lower downside capture over a 10-year period, the upside capture wasn't quite strong enough to hold a positive spread. The favorable asymmetry seems to be another manifestation of the "accidental low P/E" that our portfolios have as a result of high dividend yields coupled with high dividend coverage.

Looking Ahead

Investors are expecting over +20% earnings per share gains for the S&P 500 in the second quarter of 2026 as compared to the same period one year ago, and 24% EPS growth for the index in calendar year 2026 over 2025. One major Wall Street firm's strategist estimates that about half of this gain is driven by AI companies. True, AI companies continue to see robust capital spending, but they have also benefitted from a controversial depreciation schedule and some one-time gains. The weighted average consensus for the next-12-month EPS growth for our Income-Equity portfolios are also a little more than +20%, but with much less controversy in our view. That level of growth, compared with +6% expected dividend growth over the next 12 months, should provide a large margin of safety to our portfolios' expected dividend growth.

Portfolio Highlights

- As investors' pendulum swung away from income stocks, our Income-Equity portfolios underperformed both the Russell 1000 Value and the S&P 500 Indices during the quarter. Our Income-Equity portfolio offers a 3.4% dividend yield, which we expect to grow at about +5.3% annualized over the next three to five years. Our No-MLP version yields 3.1% with an annualized expected three to five year grow rate of about +4.9%.
- **Dividend increases:** The second quarter is typically a light quarter for dividend increases, yet we had three increases, including **Paychex's (PAYX)** +10.2% increase. This number of increases is comparable to 2Q last year. Over the last three years, Income-Equity has grown its income at an annualized rate of +10.3%, while our No-MLP portfolio has grown at an annualized +7.1%.
- **Exited positions:** Most of our trades this quarter were trims and upweights, but early in the quarter, we did sell **Comcast (CMCSA)** because of its continuing loss of market share due to its older technology and higher prices and cost structure. Later in the quarter, we also sold **Bank of New York (BNY)** since its price appreciation had exceeded its dividend growth, raising the stock's valuation and lowering the stock's yield below our threshold.
- **New buys:** Likewise, we had two new buys this quarter. Mid-quarter, we purchased **Brixmor Property Group (BRX)**, a REIT that owns local neighborhood shopping centers. The favorable supply/demand dynamics in these smaller shopping centers (think grocery stores, quick-service restaurants, nail salons, etc.) are boosting occupancy and rents, and we expect, eventually, dividends. We also purchased **McDonald's (MCD)** because we forecast that its franchise-first business model should drive strong operating leverage and free-cash generation, leading to increased dividend growth.

Yield, Growth, Strength, Stability

- Our Income-Equity portfolios each offer a high dividend yield that is 2.8x to 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)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2Q2026
Income-Equity Yield	4.0	3.7	4.3	3.7	3.6	3.3	3.6	3.7	3.6	3.6	3.4
S&P 500 Yield	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3	1.2	1.1
Ratio	1.9x	2.0x	2.0x	2.0x	2.3x	2.2x	2.0x	2.4x	2.7x	3.1x	3.0x
Income-Equity Projected Dividend Growth*	5.0	6.3	7.8	7.3	5.1	6.0	6.1	5.5	5.5	5.0	5.3
S&P 500 Projected Dividend Growth**	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3	5.0	6.8
Ratio	1.2x	1.5x	1.5x	1.7x	1.5x	1.0x	1.3x	1.2x	1.0x	1.0x	0.8x
Income-Equity Dividend Coverage Ratio	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.7x	2.1x	2.1x	2.1x	1.9x
Income-Equity Net Debt/EBITDA***	2.0x	1.9x	1.4x	1.9x	1.9x	1.2x	2.0x	1.8x	2.2x	2.6x	2.8x
Income-Equity P/E Ratio Trailing	17.2	17.7	12.6	12.8	16.7	14.0	13.6	14.5	15.2	14.7	17.0
S&P 500 P/E Trailing	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7	25.4	25.5
Premium/Discount	-16%	-18%	-23%	-41%	-40%	-42%	-27%	-34%	-38%	-42%	-33%

Income-Equity (No MLPs)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2Q2026
Income-Equity (No MLPs) Yield	3.9	3.7	4.2	3.6	3.5	3.2	3.5	3.4	3.4	3.4	3.1
S&P 500 Yield	2.1	1.9	2.2	1.9	1.5	1.5	1.8	1.5	1.3	1.2	1.1
Ratio	1.9x	2.0x	2.0x	2.0x	2.3x	2.1x	2.0x	2.2x	2.6x	2.9x	2.8x
Income-Equity (No MLPs) Projected Dividend Growth*	5.0	6.4	7.9	7.5	5.2	6.0	6.0	5.6	5.3	4.8	4.9
S&P 500 Projected Dividend Growth**	4.0	4.2	5.2	4.2	3.3	5.9	4.8	4.5	5.3	5.0	6.8
Ratio	1.2x	1.5x	1.5x	1.8x	1.5x	1.0x	1.3x	1.2x	1.0x	0.9x	0.7x
Income-Equity (No MLPs) Dividend Coverage Ratio	1.3x	1.5x	1.9x	2.3x	2.1x	2.0x	2.8x	2.3x	2.3x	2.1x	2.0x
Income-Equity (No MLPs) Net Debt/EBITDA***	2.2x	2.1x	1.4x	1.9x	1.9x	1.2x	1.8x	1.6x	2.1x	2.5x	2.5x
Income-Equity (No MLPs) P/E Ratio Trailing	18.2	18.0	12.9	13.5	16.8	14.0	13.8	14.6	15.3	15.2	17.2
S&P 500 P/E Trailing	20.5	21.7	16.5	21.6	27.6	24.1	18.6	21.9	24.7	25.4	25.5
Premium/Discount	-12%	-17%	-22%	-38%	-39%	-42%	-26%	-33%	-38%	-40%	-33%

As of June 30, 2026. 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 are indicated; 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.

Income-Equity Leaders and Laggards

INCOME-EQUITY (with MLPs)

LEADERS ◊

State Street: Beat on EPS and revenue; net interest income (NII) and non-interest income were both above expectations. Strong deposit growth should allow the firm to pay down interest bearing debt. Good Comprehensive Capital Analysis and Review (CCAR) stress test results.

CISCO: Slight positive surprise on EPS and revenue with almost all of the outperformance coming from continued AI-related order strength. Fiscal year 2026 revenue guidance raised +33%.

Texas Instruments: Beat on top- and bottom-line results with strength in data center end markets; industrial and automobile markets appear to be recovering from their slump. The company is emerging from its three-year capex cycle.

Lamar Advertising: Reported good financial results, beating both management guidance and consensus expectations, driven by revenue growth and margin expansion.

East West Bancorp: Solid EPS beat on higher NII, driven by expanding net interest margin and fee income from their wealth management business. However, non-interest expense was also up.

LAGGARDS ◊

CME Group: Met EPS expectations but, despite record trading volumes, missed on revenue due to contract mix.

Canadian Natural Resources: Beat on EPS and sales. Shares came under pressure from the potential end of the war in Iran and the reopening of the Strait of Hormuz that would lower commodity prices.

The Gap: Beat on EPS, but missed slightly on sales; same store sales were disappointing, pointing to more work to do to achieve consistent growth.

Verizon Communications: EPS beat expectations, but revenue missed; net new post-paid phone subscriptions exceeded expectations; management raised guidance.

Nutrien: Shares came under pressure from the potential end of the war in Iran and the reopening of the Strait of Hormuz that would lower commodity prices.

◊ By contribution to return. To obtain our methodology for calculating the best- and worst-performing securities, as well as a list of the contribution to performance of each security listed, please call us at 845.679.9166. The holdings identified do not represent all of the securities purchased, sold, or recommended for advisory clients. This list is not a recommendation to buy, sell, or hold these securities.

INCOME-EQUITY (without MLPs)

LEADERS ◊

State Street: Beat on EPS and revenue; net interest income (NII) and non-interest income were both above expectations. Strong deposit growth should allow the firm to pay down interest bearing debt. Good Comprehensive Capital Analysis and Review (CCAR) stress test results.

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LAGGARDS ◊

ConocoPhillips: Beat on EPS and revenue; management raised capex guidance amid encouraging early drilling results in Alaska; global supply disruptions make it difficult to draw conclusions from the quarter. Shares came under pressure from the potential end of the war in Iran and the reopening of the Strait of Hormuz that would lower commodity prices.

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