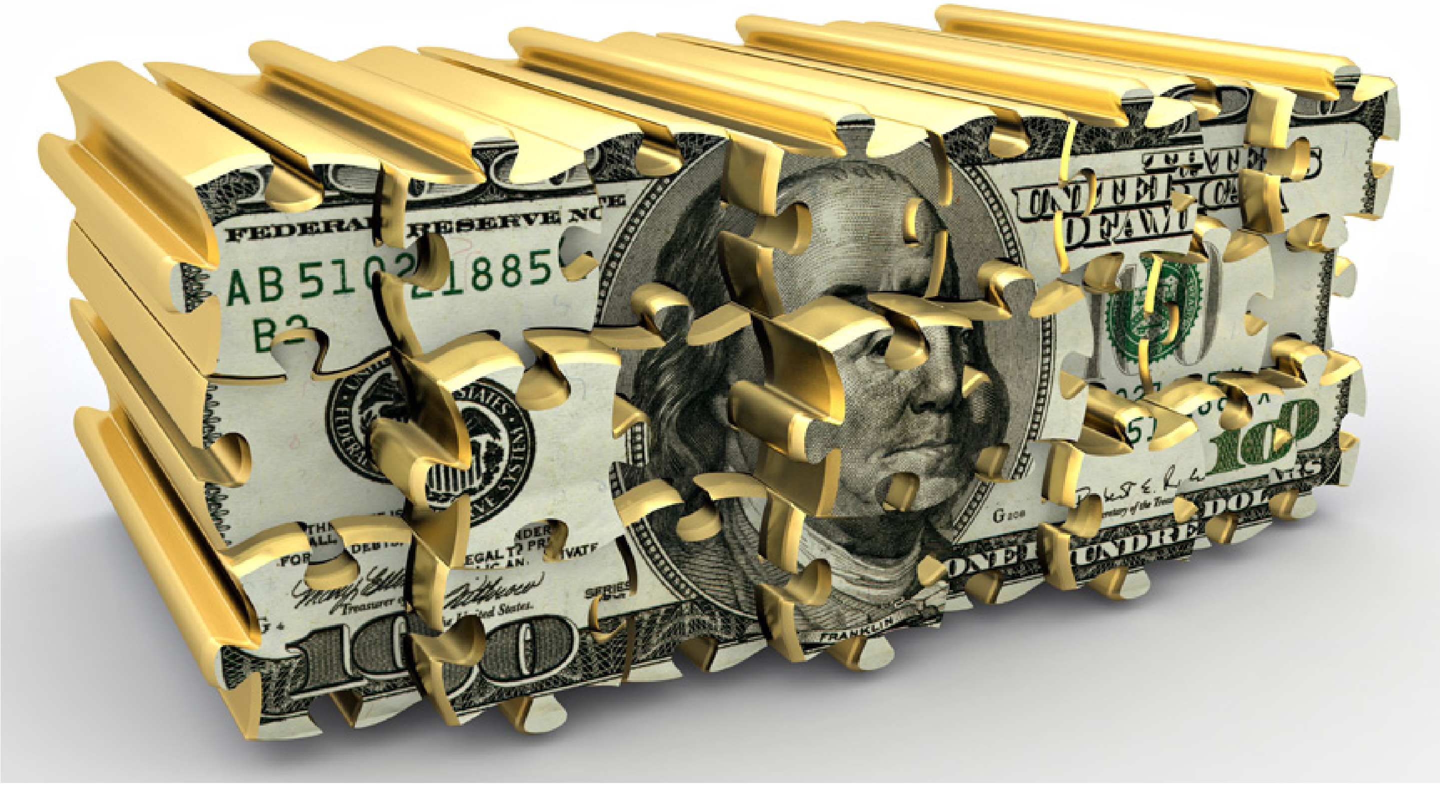

Dividends Still Drive The Market

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The closed-end fund Miller/Howard High Income-Equity Fund (ticker HIE) is focused on dividend growth and offers significantly greater returns than comparable ETF's.

Dividend Growth To Come, But Momentum Is Slowing

Investing in closed end funds can be complicated, there are many factors involved, it is no wonder that ETF's have been eclipsing them in popularity. However, the thing to remember is that with complexity comes enhanced returns for savvy investors. Closed end funds often, if not always, provide significantly better cash flow than comparable ETF's and, when coupled with successful management, can result in returns far beyond the benchmarks from which they are derived.

The Miller/Howard High Income Equity Fund is one such CEF. At first glance you may think that the fund is too new, too unproven, to be a serious candidate for new investment but what you don't see in the charts is the 20+ years of dividend, dividend growth and energy investing experience that goes into its methodology. Miller/Howard Investments is a boutique investment company specializing in these types of strategies with over 2 decades of experience. They manage several funds and indexes in which investors can participate, and HIE is an aggregate strategy focusing on MLP's, REITs and other high yield equities. Its main objective is

to seek high current income from stable companies with a secondary objective of capital appreciation.

The folks at Miller/Howard are well aware of the potential in stocks that produce high dividend distributions and pay them on a regular basis. They seek out the most undervalued companies in this category, those with solid balance sheets and prospects for growth, and then focus on the ones with the brightest outlook for dividend increases. The combination often results in explosive movements in the underlying asset, all while generating current income. The benefit to investors is obvious, cash flow and capital appreciation.

HIE Relative To Some Benchmarks

At this point I'm sure readers are pointing out the drastic decline in share prices and NAV over the past 11 months but let's put it in perspective. Since inception the fund has lost nearly 40% of share value while the broad market has lost only about 7.2% (as of September 30th). This is concerning at first glance but considering HIE's make up, largely consisting of energy stocks, MLP's and other high yielding equities the decline is unwarranted. Using the ETF's AMLP (Alerion MLP Index ETF) and SDY (S&P Dividend ETF) the decline seen HIE is at least performing in line with the market.

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Since November 24th, 2014, HIE inception date, the SDY lost over 10.5% and paid a meager dividend that yields 2.5% at today's prices. It also presents no discount to NAV, neither does the AMLP. The AMLP pays a better yield, near 8.5% at today's prices, but lost significantly more value during the time in question, over 38%. The SDY does have the benefit of low expenses, expense ratio is only 0.35%, but the dividend comparison makes choosing between it and HIE a no-brainer in my opinion. The AMLP carries slightly higher expenses, 0.85%, but also presents no discount to NAV and roughly 1.5% less yield in today's market. HIE's expense ratio is closer to 1.8%, but comes with 10% yield, and a 6 month average discount to NAV near 6.95%.

On a NAV basis the fund has declined by only 30% in the same time frame, revealing the benefits of this actively managed fund relative to the component high yield markets. There is something else to take note of in light of recent events. The market correction and decline in HIE share prices is producing a deeper discount to NAV than normal. At the end of September discount to NAV was near 13% at and at an all-time low, providing an opportunity that some investors did not pass up on. Since then share prices have recovered from their low and returned back to last reported NAV levels.

Of course, the broad market has recovered since the end of September as well. The SDY is up 5%, the broad market SPX is up 5.5%, the Vanguard REIT ETF is up 6%, the AMLP a little better at 11.5% but none as much as the HIE's 15%. And in that same time HIE's NAV has also increased, at last look Morningstar was reporting $14.95. This is a 7.7% increase since the end of September and still presents a better than 7% discount. Assuming that the broad market and dividends continue to recover into the near and short term we can expect NAV to continue to rise, and for HIE to rise along with it, possibly presenting additional opportunities for deep discounts.

Dividend Growth To Continue In 2016

Although dividend growth is expected to slow into 2016 it is still robust. According to FactSet, dividend payments reached $105 billion among S&P 500 companies in the 2nd quarter of 2015, totaling $399.3 billion on a TTM basis. This is a 10 year high for both figures, the 9th quarter of increase and record highs representing an 11.3% gain on a year over year basis.

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Consumer discretionary and the financial sector lead in growth with YOY increases of 21.3% and 17.3% respectively. Both sectors are represented in the HIE although Consumer Discretionary is small at only 3.8%, I expect this may change at next report. Financials represent a much larger portion of the portfolio, 14.3%, and have been increased by 2.4% over the past quarter.

The fear, or I should say the cautionary factor, is that dividend growth is expected to slow in 2016, down to only 7.6%. Of the 10 S&P sectors, 8 are expected to show declines, led again by consumer discretionary and the financials. Of course, those two sectors are also still expected to lead the market with dividend growth next year, 8.6% and 9.7%. The energy sector is largely expected to see dividends remain stable if not increase. What this means for investors is the need to be focused when choosing which payers to invest in, and that is where HIE really shines. Fund managers scour the market and only invest in those companies with the best prospects for dividend growth. As a point of reference, FactSet says payers that increase their payments outperform the broad market by 43%.

As a long term investor in HIE there are two concerns. The first is NAV, the second is yield. The combination of the two providing your return. Current yield is $1.39 and has been paid monthly since inception. A key point to note is that this fund is one of the only equity closed-end funds with a 10-year term which allows investors to recoup full NAV at termination. Based on the 10 year lifespan of the fund an initial investor could assume a return of $13.90 in dividend distributions, as well as NAV at fund's termination. Initial investors, paying $20 per share, could expect a total return of $14.93 + $13.90, assuming NAV and yield remains constant, for a total return of $28.85 or 44.2% for their 10 year investment. New buyers, at today's prices, might expect to receive $12.51 in distributions + $14.93, for a total return of $27.44, or nearly 98%.