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HIGH YIELD DIVIDEND NEWSLETTER

EARNINGS GROWTH IS LOOKING UP

But Interest Rates Remain Key Driver to Valuations

Stocks staged their first quarterly loss in two years during the first-quarter of 2018, and while it is unfortunate, it is hardly surprising. Those that have been reading this publication have been aware of the many risks facing the broader equity markets, and how those risks can influence equity prices. As of March 29, the forward price-to-earnings ratio for S&P 500 companies sits at 16.1, in-line with its 5-year average, but still above the 10-year average of 14.3. Downside risks are still prevalent.

> AS WE GEAR UP FOR THE SECOND QUARTER OF 2018, WE'RE EXCITED ABOUT WHAT IT MIGHT BRING. INVESTORS WILL START TO GET A FEEL FOR HOW EARNINGS ARE PERFORMING AS A RESULT OF THE NEW TAX BILL, AND WE'RE EXPECTING A NICE PACE OF BOTTOM-LINE EXPANSION FOR S&P 500 PARTICIPANTS.

Throughout much of the month of March, investors have been concerned about the rise of protectionism with respect to White House policy, and despite the age-old wisdom that tariffs damage global trade, the Trump administration appears to be pushing forward with steel and aluminum tariffs, though the latest iteration excludes more countries than originally thought. US economic policy has also taken direct aim at China, levying tariffs on goods with value approaching $50 billion. China has retaliated in kind on $3 billion of American goods.

INDISCRIMINATE SELLING

"The triggers behind the selling during these past two months have been many, starting with the collapse in a volatility ETF (the "low vol" trade), concerns about the rising 10-year Treasury yield, announcements of tariffs and worries over trade wars, and then the tech selloff, which resulted in concerns over increased data regulation following Facebook's "data leak" and the Cambridge Analytica scandal. The icing on the cake, however, may have been Trump's comments about Amazon's anti-competitive nature and its burden on the US Postal Service, a view that sent shares of the online retailer tumbling…Very few companies have been spared from the indiscriminate selling during the past few months, and unfortunately, the high yield space can never be completely immune to broad market activity."

We don't expect any immediate and material impact on US gross domestic product from the first round of this "trade war," but we do think it opens the world up to more troubling activities. All it would take, for example, is for the Chinese state-run government to put a halt to key suppliers within the country to dent US production and manufacturing. The Trump administration seems to be playing with fire, but others may argue that such an approach may be needed to address what many believe are unfair trade practices by China, including "currency manipulation" and intellectual property theft.

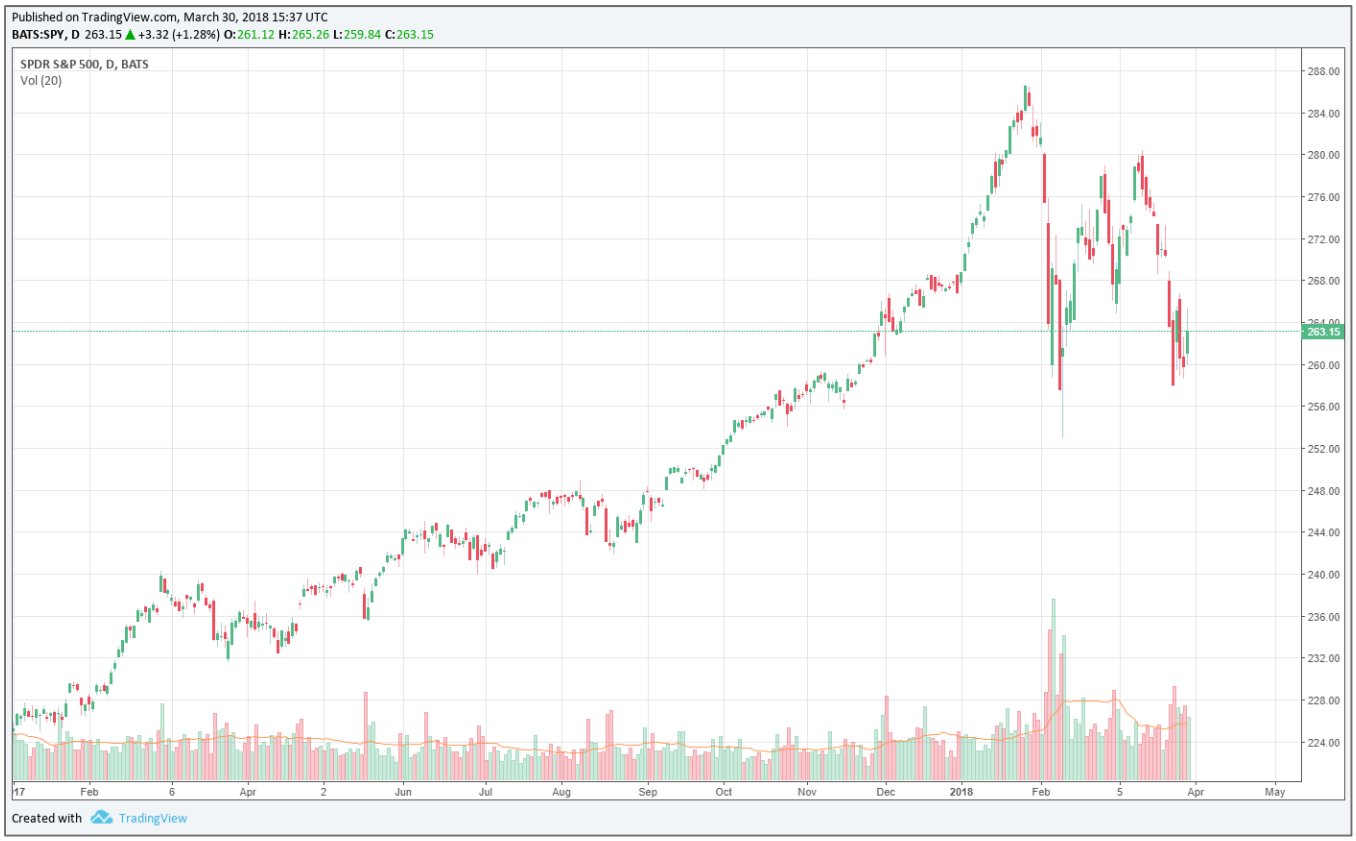


Image shown: The performance of an ETF tracking the S&P 500 (SPY) since the beginning of 2017.

The reality, however, is that stock markets have been, and continue to be, resilient throughout the course of history. Two world wars, a Great Depression, an oil embargo, the S&L crisis, 9/11, the Great Recession, and yet the market has come roaring back each and every time. During this now 9-year bull market, stocks have nearly quadrupled, compounding at an 18%+ annual rate from the March 2009 bottom through the end of 2017. This performance followed a period where stocks were halved in a little over a year, but I think you get the point. Stocks have been resilient, and it is because of their resiliency that many believe the future will always be brighter than today, reasonable or not. Past is not prologue, however.

It may go without saying that some caution should always be warranted. According to data from First Trust, the average bull market runs about 9 years and generates a cumulative return of ~480%. Though there could still be more upside with respect to the percentage advance in today's bull-market run, if averages of the past are any guide, the yearly duration already matches the length of what one might expect from the average bull market throughout history. Maybe that doesn't mean much, as history only rhymes and doesn't repeat exactly, but averages are still worth considering, if only to get a better understanding of what has happened in the past. After all, if one believes stocks always bounce back from bear markets, then by default one must inevitably believe in bear markets, too.

I think what many may be worried about today is not so much the idea that global trade can suffer as a result of the White House's more stringent approach to China,

but rather the idea that bear markets, when they do come, are very painful and often very short. According to data from First Trust, the average bear market lasts just 1.4 years but inflicts a cumulative loss of greater than 40% of wealth. Can you imagine having 40% of your wealth wiped out over a period of less than two years? To a large degree, bear markets are more like crashes, while bull markets take a long time to generate wealth. I think the short duration of bear markets is why many rush for the exits to get ahead of what could be the worst to come. Ironically, as they do, they often cause the very crash that they are looking to avoid. The stock market is weird like that.

As we've outlined many times already in this publication, we're taking a long-term approach with respect to the simulated High Yield Dividend Newsletter portfolio. High interest rates mean more ideas for yield seekers, but they also mean that for some high yield considerations, their value/price may come under pressure. Not only do rising rates impact intrinsic value calculations across the board, but they also can induce many to jump to government bonds, or other lower risk assets, causing a sell-off on certain high-yielding assets. We're not expecting much with respect to capital appreciation in the simulated High Yield Dividend Newsletter portfolio in coming years. This is a long-term publication focused on high yield, and that's where we're putting our greatest focus.

During this ultra-low interest rate environment of the past several years, investors may have gotten used to the idea of "yield support," too, or the idea that a stock will find a foundation if its yield gets low enough. As interest rates rise, the threshold for that foundation increases, however, meaning the foundational price may become lower than before. As the trade-off between high-yielding assets and the 10-year Treasury yield intensifies, yield-based valuation approaches may come into question, as rising interest rates may nullify the relevancy. We believe, for example, that dividend yields may impact stock pricing, or rather buying and selling behavior of stocks, more in an environment of 0-3% risk-free rates than one in an environment of 7%-10% risk free rates.

We continue to stress that one of the most important considerations to learn is the idea that dividend is a symptom of a company's free cash flow generation and intrinsic valuation. The dividend is not a driver of free cash flow generation, and therefore by extension, the dividend itself (and dividend policy) is independent of a company's intrinsic value. Quite simply, the dividend payment does not directly impact the calculation of future enterprise free cash flows (FCFF). You know this, I know, but I think it is worth repeating. After all, all one must reason through is how stocks that don't pay a dividend have any intrinsic value at all if the dividend is the driver of value estimation (obviously it is not).

Our criticism of the dividend discount model is considerable. We highly doubt, for example, that value estimates of Apple in the 1980s prior to its dividend cut and dividend reinstatement could reasonably be based on Apple's dividend policy in 2018, and we highly doubt that value estimates of Berkshire Hathaway in the 1970s could be based on the conglomerate's speculated dividend policy in the coming decades (Berkshire doesn't currently pay a dividend). We write "highly doubt," but we're probably much more confident than that. Investors may use the dividend discount model because it is easier, but it falls short of more intensive valuation approaches such as enterprise free cash flow valuation. Even multiple analyses can result in systematic pitfalls.

In each edition of the High Yield Dividend Newsletter, we've been hammering home the topic that high yield is a unique strategy independent of dividend growth or capital appreciation strategies. For starters, there is a direct offsetting dynamic to capital appreciation when a dividend or distribution is paid. In this publication, we're looking for stocks that pay out a large percentage of their market capitalization in the form of a dividend or distribution ("high yield"). This may translate into identifying stocks that have a great combination of high yield, lower-than-average risk to the payout, and some capital appreciation potential, but high yield will always equal high risk (not only to the payout but also to capital). In simplistic terms, the dividend or distribution

is not incremental to total return, but rather a portion of total return. This is important to understand.

As we gear up for the second quarter of 2018, we're excited about what it might bring. Investors will start to get a feel for how earnings are performing as a result of the new tax bill, and we're expecting a nice pace of bottom-line expansion for S&P 500 participants. This doesn't necessarily mean that stocks will advance during the period, but we'd much rather be in a period of earnings expansion than in one of contraction. Though bottom line growth is expected this year and next, the bigger driver behind valuations in coming years will be interest rates, in our view. Interest rates impact the present value function of intrinsic value, and higher interest rates generally result in higher discount rates (holding credit spreads constant), and therefore, lower valuations.

The next few months will be critical, too, as we evaluate the technical damage of the equity markets following the pullback that began in early February. The triggers behind the selling during these past two months have been many, starting with the collapse in a volatility ETF (the "low vol" trade), concerns about the rising 10-year Treasury yield, announcements of tariffs and worries over trade wars, and then the tech selloff, which resulted in concerns over increased data regulation following Facebook's (FB) "data leak" and the Cambridge Analytica scandal.

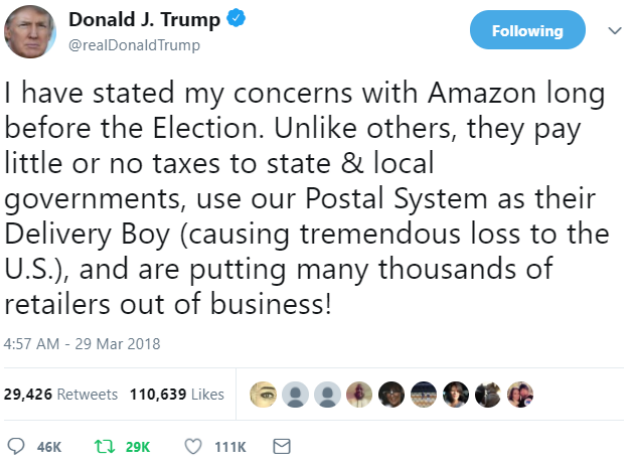


Image Source: Donald's Trump's Twitter account

The icing on the cake, however, may have been Trump's comments about Amazon's (AMZN) anti-competitive nature and its burden on the US Postal Service, a view that sent shares of the online retailer tumbling. Based on what we've been hearing, it seems the President prefers regulation of Amazon, even over regulation of Facebook and other social media outlets. Very few companies have been spared from the indiscriminate selling during the past few months, and unfortunately, the high yield space can never be completely immune to broad market activity.

We continue to watch market technicals closely, and that means the performance of ideas in the simulated High Yield Dividend Newsletter, too. Many of the ideas have upped their payouts as you'll read in this edition, and we also explain why we've selected two master limited partnerships (MLP), despite our concerning long-term view on the space. First, however, a reminder about three key dynamics of the dividend payment is warranted from a video President of Investment Research Brian Nelson posted on the website a couple years ago. The wisdom of it is still valid today.

Transcript from "Dividends, Dividends, Dividends," originally published September 2014

We believe the following transcript is a must-read for any dividend investor, and it has been reproduced in this publication for the benefit of new readers to the High Yield Dividend Newsletter.

This is Brian Nelson from Valuentum Securities. I wanted to share with you three insights on dividends that I don't think are talked about enough in today's dividend growth investing handbook.

The first is the idea that the dividend is a symptom of a company's strength so the key driver behind a firm's valuation is its free cash flows, and the dividend is a symptom of the company being able to continue to generate those free cash flows and to pay a portion of those cash flows to shareholders. So -- it's important to remember as investors that the driver behind a business' valuation is its free cash flows, and the dividend is a symptom those cash flows.

The second point I wanted to highlight is the idea that a higher yield isn't always better. In many cases, a higher yield is a greater reflection of a company's risk regarding

the sustainability of the payout than anything else. For stocks that pay out a large portion of their earnings and free cash flows as dividends, these are essentially income vehicles, fixed-income vehicles in some cases, and many times their equity prices, their stock prices, reflect that particular fixed-income nature.

If we think about it in terms these higher-yielding dividend (paying) companies, those that (yield) 9-10% or above, they're in many cases, they're priced similar to higher-yielding debt, where for a debt instrument the spread over the Treasury would have to be wider -- debt investors would demand a higher yield on a debt instrument in order to hold that debt security due to the risk of default.

It is similar with respect to dividend growth investing in high-yielding companies where for a stock investor to hold a particular stock that is somewhat risky with respect the payout, they demand a higher yield, and that's why you see companies with higher yields have a greater likelihood of cutting those dividends because the market is assessing the risk regarding the payout and demanding a higher yield (lower stock price) in order to take on that particular risk.

The third point that I think is worth highlighting is the origination of the dividend, and that could come from three particular sources. The first is free cash flows -- this is cash flow from operations, which is driven in part by net income (earnings), and then of course the working capital changes that lead into cash flow from operations, less capital expenditures, both growth and maintenance "capex" to propel future cash flow from operations and earnings. Cash flow from operations less capital expenditures is going to be free cash flows, that which a business has left over after investing into its business to continue that earnings trajectory. So that's one source where cash can come from the company in terms of the paying a dividend.

The other source is net cash on the balance sheet. For example, a company that may have a cash or earnings shortfall in any given period could go to its balance sheet to pull cash from the balance sheet to pay shareholders the dividend. This is why we pay very close attention to the balance sheet because it is a very important source of dividend strength and growth potential. Then finally, more or less as it relates to companies that pay out a large portion up their particular earnings and cash flow as dividends.

A company's ability to access the capital markets -- debt and equity markets -- is vital to the continuation of paying out a particular dividend (distribution). If, for example, a high-yielding company that is dependent on the capital markets, if that access to capital is shut off, they are at a greater likelihood of cutting their particular dividends -- and you'll see this within our (dividend) methodology framework for business structures such as REITs and master limited partnerships (MLPs).

So, these particular dynamics in terms of the origination of the dividend -- free cash flow, the net balance sheet, access to the debt and capital markets -- roll into the Dividend Cushion ratio. This ratio helps us assess the safety of a particular dividend, and the higher the ratio above 1, the "safer" the company's dividend assuming that it does have access to capital markets.

Part I: Nearly 60 Distribution Cuts Later, We Maintain Our View on the Hazards of the MLP Business Model – published March 15, 2018.

Valuentum has been highlighting the inherent risks associated with the master limited partnership (MLP) structure for some time now, but we are not alone in acknowledging the limited sustainability of such structures. Internal simplification transactions may only become more common moving forward as management teams seek to optimize the structure of their entities. Readers should continue to cast a skeptical eye on this business model.

Quite possibly, Valuentum made the "call of the century" when it outlined its warning on MLPs in June 2015, embedded in its Kinder Morgan (KMI) "call," and more explicitly in September 2015, "Why the MLP Business Model May Be a Goner." There was a rebuttal to our take "MLPs for the Long Run," that tried to poke holes in our independent, authentic thesis. At the time, we were very surprised, but we appreciate varying opinions on the matter, as that's what makes a market. When debate and discussion happen, investors win!

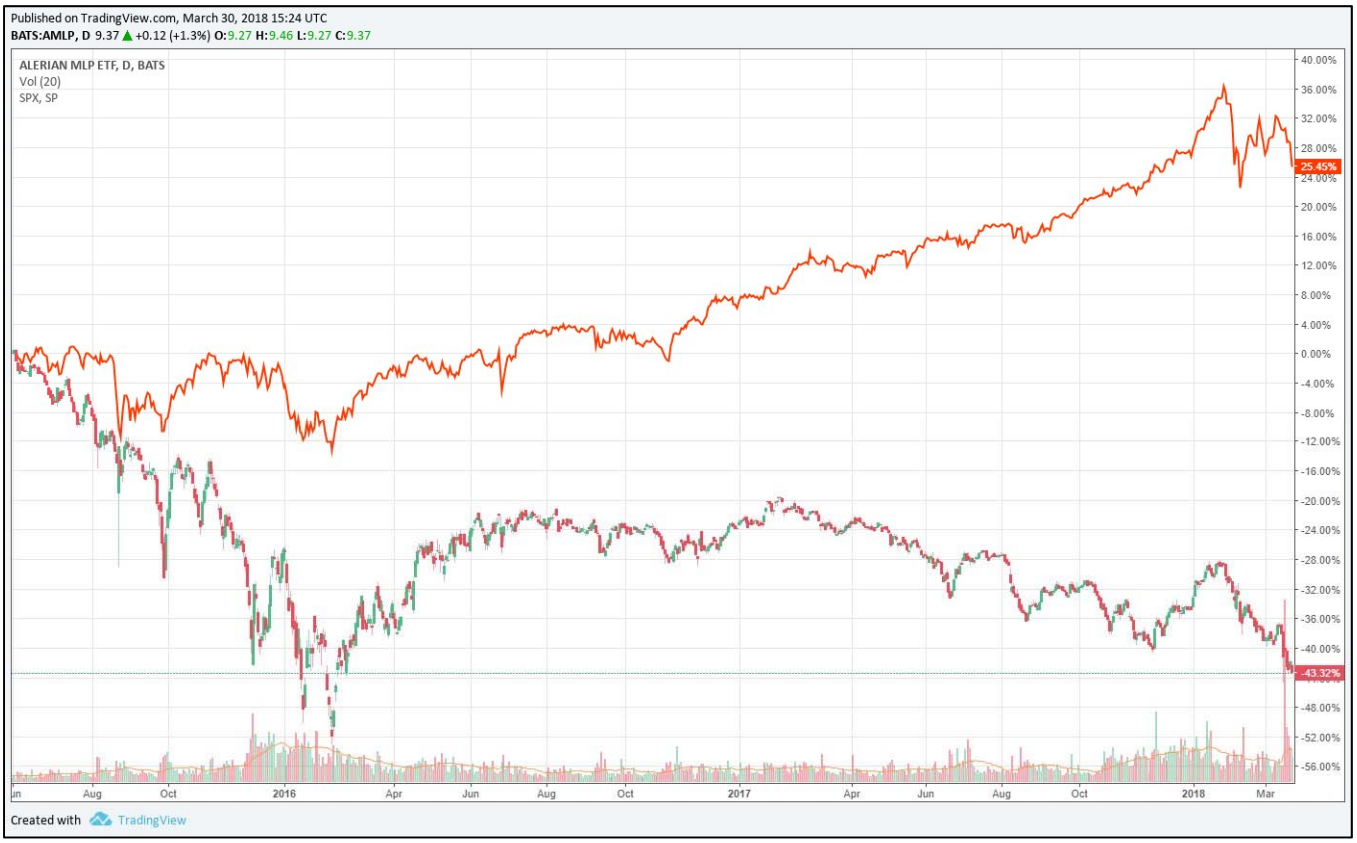
Let's fast-forward to today. The firm that had issued a rebuttal to our opinion in 2015 noted that, "in fact, more MLPs cut distributions (21) in 2015 than in any other year in the sector's history (March 2016)." Further that same firm noted in a subsequent October 2017 piece that "companies in the Alerian MLP Index have reduced distributions 56 times, including 45 explicit cuts and 11 stealth cuts over the last 3 years." The very crux of our thesis in mid-2015 had been that MLPs were being "incorrectly" valued on the basis of a distribution yield. Here's what the firm that had rebutted our thesis in 2015 is now saying, from that same 2017 piece:

> Investors in the U.S. midstream energy sector should be aware of the number and level of dividend cuts announced by MLPs and understand that distribution yield may not be as effective a valuation metric as it once was (sources of quotes: CBRE Clarion Securities).

Certainly, it has been a wild ride for investors in MLPs during the past few years, and we think our "warning" on the space in mid-2015 saved throngs of investors from multiple income disappointments. There have been dozens of instances of companies "cutting" their distributions in the Alerian MLP index since our call in mid-2015, and I don't think we could have done a better job getting out there, helping investors get ahead of what we thought was to come. Our assessment that MLPs were being "valued" incorrectly on a structural basis, a collapsing crude oil price environment at the time, and tightening credit market conditions with deteriorating credit quality in the customer base were but three of many colliding criteria that led to our major concerns.

Today, we maintain our view that the sustainability of the MLP structure (AMLP) may be in jeopardy over the long haul, as in our view, the primary reason why we think the MLP model had existed in the first place--to capture a "yield valuation" mispricing in the market to raise funds--has effectively gone away. It had been our contention that prior to the collapse of the MLP space

Image shown: Since the middle of 2015, the price of the Alerian MLP ETF (AMLP) has fallen by more than 40%, while an ETF tracking the S&P 500 (SPY) has increased by more than 25%.



in mid-2015, MLPs acted as a vehicle to take advantage of favorable capital-funding conditions, where MLPs would sport prices and issue equity on the basis of market "yield valuation" approaches. The issuer could float (create) an MLP and the market would end up pricing MLP units on the basis of their "yield," instead of on organically generated free cash flows, which include growth capital spending. Since most MLP distributions approximate an MLP's measure of distributable cash flow, the energy complex effectively had been using the MLP business model to raise external capital within the corporate umbrella at a lofty price on the basis of the market's "yield valuation," instead of on the basis of internally-generated free cash flow.

A systematic mispricing had occurred in an environment of ultra-low interest rates during 2015, and when the energy complex faced a massive threat given the collapse in crude oil prices, many owners of midstream MLPs realized that midstream equities were not immune to the troubles of their customers, as even fixed and seemingly iron-clad contracts could be broken during the chapter 11 process. Even some of the stronger oil and gas producers, for example, were facing tough times, and even while many midstream MLPs had a small percentage of direct exposure to energy prices, through their customers, the exposure was quite large. Unless the market goes back to valuing MLPs on the basis of "yield," we doubt the MLP business model will catch much favor again, and we continue to expect it will not last over the long haul.

For starters, many MLPs do not generate sufficiently positive free cash flow, as measured by cash flow from operations less all capital expenditures (both maintenance and growth) in any given year, but most continue to pay lofty and growing distributions to unitholders, with "safety" represented by the industry-specific coverage measures using distributable cash flow, which ignores the growth capital spending that helps to drive net income, the core component of distributable cash flow. When it comes to the concept of distributable cash flow, there remains an imbalance, see: "MLP Speak: A Critique of Distributable Cash Flow." We think the market may have wised up on how to "value" MLPs, and we continue to see instances where MLPs are being consolidated or folded up.

In July 2016, for example, Plains All American (PAA) represented one of many instances, as the limited partner issued new common units in exchange for the incentive distribution rights of its general partner, "Plains All American to Undergo Simplification Transaction." The simplification also resulted in a reset of the distribution, which was necessary for the limited partner to arrive at more optimal levels for its cost of capital and distribution coverage moving forward.

The Energy Transfer family (ETE/ETP) announced a simplification transaction in late 2016, too, that resulted in an implicit distribution cut and consolidation of its ownership structure, but its IDRs were maintained. At the time we said, "We view this simplification transaction as a short term alleviation of what will eventually turn out to be long-term pressures." Energy Transfer management appears to agree with our opinion that additional measures will need to be taken to secure the long-term health of its businesses as it has noted multiple times in recent presentations to investors that it "Will evaluate optimal structure for the family, but do not expect any internal restructuring transaction to occur before late 2019."

In early 2017, Williams Cos (WMB) underwent a simplification that resulted in the general partner (Williams Cos) waiving its IDRs in limited partner Williams Partners (WPZ) and exchanging its general partner economic interest for new issued common units of the limited partner as it sought to lower it cost of equity capital, "MLPs: Williams' Double Equity Raise." However, the issuance of new equity from Williams Partners resulted in the need for a reduction in its quarterly distribution. Even with the elimination of IDRs, many MLPs find it necessary to reset their distributions to achieve the stated goals of the simplifications.

More recently, shareholders in beleaguered master limited partnership StoneMor (STON) have begun to push for the entity to reconsider its structure as an MLP

and convert into a C Corp. The movement officially began with Axar Capital Management, which owns a 17.5% stake in StoneMor. According to a recent SEC filing dated March 9, (The Reporting Persons refers to Axar) "The Reporting Persons believe that the recent reductions of corporate tax rates effective for 2018 make the conversion of the Issuer into a C corporation more attractive than under prior tax rates. The Reporting Persons also believe that a conversion of the Issuer into a Subchapter C corporation, together with addressing the Issuer's incentive distribution rights, would result in a more liquid market for the Issuer's equity securities, improving the Issuer's opportunities for capital raising, senior management recruitment and other strategic transactions."

While this may only be the latest example of the MLP business model fading away, it is yet another data point on the continuance of the "investor-led" push against the hazards of the MLP business model, further explained in July 2016, "Distributing Truth on MLPs." Regardless, we expect the typical MLP structure to come under increasing levels of scrutiny, particularly as ongoing income disappointments for retail investors continue to pile up. We maintain our view that the long-term sustainability of many distribution growth trajectories within the space should be met with increasing levels of skepticism, and we are reiterating our opinion that the MLP business model may not survive over the long haul as "yield-valuation" pricing effectively goes away.

Part II: Then Why Do We Include a Couple MLPs in the Simulated Newsletter Portfolio?

Last month, we highlighted the Tallgrass Energy family's ongoing evaluation of an ownership restructuring transaction, and it has already completed its review process. Tallgrass Energy GP (TEGP) will acquire Tallgrass Energy Partners (TEP) in a taxable stock-for-unit transaction that will result in Tallgrass Energy Partners unitholders receiving two Tallgrass Energy GP shares for each unit owned. Tallgrass Energy GP will change its name to Tallgrass Energy LP, trade under the symbol TGE, and be taxed as a corporation. As a result of Tallgrass Energy GP's material deferred tax asset, the to-be-formed entity does not expect to pay federal income taxes for at least ten years.

As with the vast majority of MLP-GP roll-ups we've witnessed in recent years, the move is aimed at eliminating the general partner's incentive distribution rights. However, what sets this simplification transaction apart from many recent similar transactions is the sustainment of the quarterly distribution to Tallgrass Energy Partners common unitholders, which is in part a result of the non-dilutive effect of the transaction as it requires no additional outside financing. Concurrent with the deal announcement, Tallgrass Energy Partners' first quarter 2018 distribution per unit was raised to $0.4875, and Tallgrass Energy GP's first quarter 2018 dividend per share was raised to $0.975, or exactly twice the rate of the limited partner. The transaction is expected to close in the second quarter of 2018.

Assuming the deal closes in the second quarter of 2018, and we see no reason why this should not be achievable at this point, Tallgrass Energy management estimates that current Tallgrass Energy Partners unitholders will realize distribution growth of ~5%-8% in 2018, and the consolidated corporation will have a coverage ratio greater than 1.2x. Prior to the transaction, the limited partner was projecting 7%-10% distribution growth for 2018, and it reported a 1.28x distribution coverage ratio in the fourth quarter of 2017. However, this transaction is not geared towards the realization of near-term income growth for investors. The reduced cost of capital resulting from the restructuring should enhance the to-be-formed entity's competitiveness in executing growth projects and future M&A transactions to fuel long-term income generation.

All things considered, we tend to agree with Tallgrass management's rationale for the simplification transaction. Enhanced long-term growth prospects and more streamlined corporate governance are clear positives, and the elimination of incentive distribution rights more clearly aligns management's interests with those of the common shareholder, something that is often overlooked in the evaluation of the typical MLP structure. That the transaction will not result in an

implicit distribution reduction for current unitholders is icing on the cake as Tallgrass Energy Partners' current double-digit yield may offers an attractive level of income for investors.

Also worth noting is that upon completion of the transaction, both MLPs in the High Yield Newsletter simulated portfolio, Tallgrass and Magellan Midstream Partners (MMP), do not have incentive distribution rights in their ownership structure. Not only do both of these MLPs offer investors potentially compelling income generation, but such a characteristic allows them to compete effectively with larger rivals for incremental capital to be used to fund future growth projects.

Though both have considerable risks because they are still MLPs, we think Tallgrass and Magellan are relatively better positioned than peers to continue delivering high levels of income to investors. It's important to note that these entities, however, are not immune to broader market malaise, pressure across the energy complex due to volatile energy resource pricing, or the rising interest rate environment that impacts their respective intrinsic values.

DIGITAL REALTY RAISES QUARTERLY DIVIDEND, REALTY INCOME HIKES MONTHLY PAYOUT

Dividend Payout Expansion Continues

Digital Realty (DLR), a leading global provider of data center, colocation, and interconnection solutions, is working on building an impressive dividend growth track record, as it has raised its dividend each year since its initial public offering in 2004. The most recent increase was a solid 8.6% jump to $1.01 per share per quarter, and the move is a reflection of the REIT's expectations of continued growth in its cash flow, according to Andrew Power, CFO of Digital Realty.

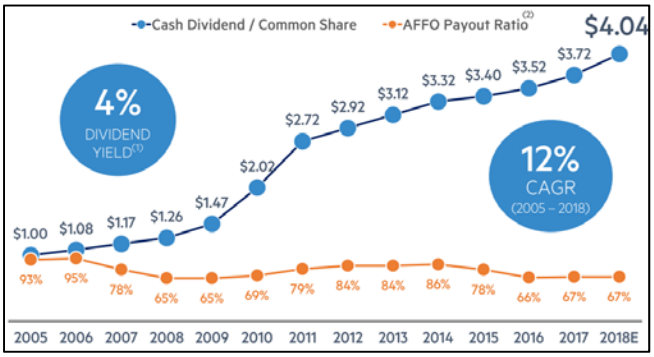


Image source: Digital Realty

Since 2005, Digital Realty's funds from operations (FFO) has expanded to $4.16 per share in 2017 from $1.37 per share in 2005, good for a compound annual growth rate of ~9%. Management expects core FFO per share to come in a range of $6.45-$6.60 in 2018, which represents ~5%-7.5% growth over 2017 levels of $6.14.

While such FFO growth is certainly welcome, concerns have already begun to crop up that data centers may face obsolescence risk sooner than many had previously expected.

Digital Realty, however, is confident in its demand outlook, as the next generation of demand drivers are only beginning to ramp up, and the ongoing shift to hybrid IT architecture (a mix of public cloud, private colocation, and owned data centers) continues to present opportunity. As seen in the image below, Digital Realty is expecting significant expansion in addressable markets in the areas of Artificial Intelligence, the Internet of Things, Autonomous Vehicles, and Virtual/Augmented Reality, all of which require significant computing power and produce tremendous amounts of data. The projected acceleration in demand is likely to lead to higher growth in FFO, ultimately driving higher dividend growth as Digital Realty continues to build a dividend track record of growing magnitude.

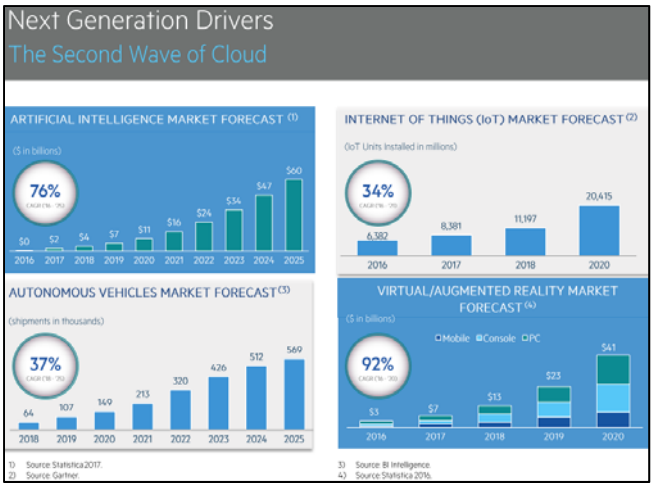


Image source: Digital Realty

Speaking of impressive dividend track records, Realty Income (O) also recently raised its dividend, this time raising its monthly payout to $0.2195 per share from previous levels of $0.219. Prior to the most recent increase, Realty Income had delivered 95 dividend increases since 1994, including 81 consecutive quarterly increases at a compound annual growth rate of ~4.7%, and over its history it has paid more than 570 consecutive monthly dividends for 49 years.

- Brian Nelson, CFA President, Investment Research

- Kris Rosemann Head of Data, Associate Investment Analyst

Disclosure: Brian Nelson and Kris Rosemann do not own any shares of any securities mentioned in this newsletter. Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.

SCREEN OF THE MONTH – REITS WITHIN OUR COVERAGE UNIVERSE

We continue to be excited about the launch of the simulated High Yield Dividend Newsletter portfolio, the inaugural edition released January, 1, 2018. This is now fourth edition of the newsletter! We've learned a lot in recent months about what works and what doesn't work for our members. Thank you for the feedback.

Many of our members continue to prefer the list-versus-weighting perspective across our simulated newsletter portfolios. It may also be true that a lot of new members won't feel like they have missed out on anything under a list-versus-weighting format, too, which has been a concern when brand new members see a simulated portfolio that has been around for half decade or longer.

Though we may calculate simulated performance of the High Yield Dividend Newsletter periodically, we don't think it is necessary to do so on a monthly basis. It also runs counter to our long-term perspective, and not having to do the monthly calculations will help free up our analyst resources, so we can even deliver more top quality within each newsletter edition.

The list-and-weighting format facilitates a level of consistency across our newsletter products, and we may consider migrating the simulated High Yield Dividend Newsletter portfolio to a range-of-percentage-weightings, too, as we have with respect to both the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio.

The simulated High Yield Dividend Newsletter portfolio is presented in similar fashion as that of the first edition. If you have any questions, comments, or concerns, please be sure to let us know at info@valuentum.com.

Idea	Symbol	Weighting	Est Annual Div's/Share ($)	Est Div Yield
CORE				
Global X SuperDividend ETF	SDIV	5.0%	1.46	7.05%
Global X SuperIncome Preferred ETF	SPFF	10.0%	0.89	7.47%
iShares International Select Dividend ETF	IDV	5.0%	1.51	4.56%
iShares MSCI Australia ETF	EWA	5.0%	1.03	4.67%
iShares U.S. Preferred Stock ETF	PFF	5.0%	2.08	5.55%
PowerShares Senior Loan Portfolio	BKLN	5.0%	0.82	3.53%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	3.81	5.70%
EQUITY				
AmeriGas Partners	APU	5.0%	3.80	9.51%
BP PLC	BP	5.0%	2.40	5.92%
Digital Realty Trust	DLR	5.0%	4.04	3.83%
Enterprise Products Partners	EPD	5.0%	1.70	6.94%
Government Properties Income Trust	GOV	5.0%	1.72	12.59%
Landmark Infrastructure Partners	LMRK	5.0%	1.47	8.83%
Magellan Midstream Partners	MMP	5.0%	3.68	6.31%
Omega Healthcare Investors	OHI	5.0%	2.64	9.76%
Public Storage	PSA	5.0%	8.00	3.99%
Realty Income Corporation	O	5.0%	2.63	5.08%
Senior Housing Properties	SNH	5.0%	1.56	9.96%
Tallgrass Energy Partners	TEP	5.0%	3.86	10.19%
		100.0%		**6.95%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 3/29/2018.

Company Name	Symbol	Est. Div Yield	Div Cushion*	Div Growth	Div Safety	Div Track Record	VBI	Fair Value Estimate	Price / Fair Value	Economic Castle
DDR	DDR	9.9%	0.4	VERY POOR	VERY POOR	RISKY	4	$9.00	0.78	Neutral
Omega Healthcare	OHI	9.6%	1.3	EXCELLENT	GOOD	HEALTHY	3	$35.00	0.75	Attractive
Spirit Realty	SRC	8.4%	-	-	-	HEALTHY	6	$8.00	0.94	Neutral
Tanger Factory	SKT	6.3%	0.6	POOR	POOR	HEALTHY	3	$24.00	0.93	Attractive
Kimco Realty	KIM	5.8%	1.0	VERY POOR	POOR	RISKY	4	$19.00	0.74	Neutral
WP Carey	WPC	5.7%	0.5	VERY POOR	POOR	HEALTHY	6	$66.00	0.92	Attractive
HCP	HCP	5.6%	0.8	VERY POOR	POOR	RISKY	3	$27.00	0.84	Attractive
Welltower	HCN	5.1%	1.3	GOOD	GOOD	HEALTHY	3	$60.00	0.89	Neutral
Retail Properties of America	RPAI	5.0%	1.4	EXCELLENT	GOOD	HEALTHY	6	$12.00	0.95	Neutral
LTC Properties	LTC	4.9%	0.8	VERY POOR	POOR	HEALTHY	3	$49.00	0.75	Attractive
Ventas	VTR	4.8%	1.6	GOOD	GOOD	HEALTHY	3	$56.00	0.88	Neutral
Macerich	MAC	4.6%	-0.2	VERY POOR	VERY POOR	RISKY	6	$55.00	1.01	Neutral
Realty Income Corp	O	4.6%	1.1	EXCELLENT	GOOD	HEALTHY	3	$57.00	0.88	Neutral
Simon Property	SPG	4.6%	1.0	POOR	GOOD	RISKY	6	$172.00	0.87	Attractive
Taubman	TCO	4.2%	0.1	VERY POOR	VERY POOR	HEALTHY	6	$64.00	0.87	Neutral
GGP	GGP	3.7%	0.3	POOR	VERY POOR	RISKY	6	$22.00	0.91	Attractive
Healthcare Realty Trust	HR	3.6%	1.5	POOR	GOOD	RISKY	4	$26.00	1.04	Neutral
Universal Health Realty	UHT	3.6%	1.4	GOOD	GOOD	HEALTHY	1	$55.00	1.06	Neutral
CorSite Realty	COR	3.4%	0.8	GOOD	GOOD	HEALTHY	4	$86.00	1.16	Neutral
SL Green	SLG	3.2%	-0.8	VERY POOR	VERY POOR	RISKY	6	$83.00	1.14	Neutral
Digital Realty Trust	DLR	3.1%	1.8	EXCELLENT	GOOD	HEALTHY	3	$98.00	1.05	Neutral
Regency	REG	3.1%	0.6	VERY POOR	POOR	RISKY	6	$66.00	0.87	Neutral
Federal Realty	FRT	3.0%	1.3	EXCELLENT	GOOD	HEALTHY	6	$111.00	1.02	Neutral
CyrusOne	CONE	2.8%	-0.3	POOR	POOR	HEALTHY	3	$52.00	0.96	Neutral

*Represents adjusted Dividend Cushion ratio. Please check individual dividend reports for unadjusted Dividend Cushion ratio.

Note: The Dividend Cushion ratio and qualitative assessments in the table above may change following the date of this publication. Please be sure to access the website at www.valuentum.com for more information. Please also note that Valuentum publishes both an adjusted Dividend Cushion ratio and an unadjusted Dividend Cushion ratio. Many of the equities included in this table have substantial equity-price and dividend-payment risk.

SCREEN OF THE MONTH – ISHARES INTERNATIONAL SELECT DIVIDEND ETF (IDV) TOP HOLDINGS

Name	Ticker	Weight (%)	Sector	Country	Dividend Yield[1]
ASTRAZENECA PLC	AZN	4.9	Health Care	United Kingdom	4.2%
MACQUARIE GROUP LTD DEF	MQG	3.7	Financials	Australia	4.7%
COMMONWEALTH BANK OF AUSTRALIA	CBA	3.2	Financials	Australia	8.2%
ROYAL DUTCH SHELL PLC CLASS A	RDSA	2.9	Energy	United Kingdom	6.4%
VTECH HOLDINGS LTD	303	2.3	Information Technology	Hong Kong	5.4%
SSE PLC	SSE	2.1	Utilities	United Kingdom	7.6%
AZIMUT HOLDING S.P.A.	AZM	2.0	Financials	Italy	5.6%
CANADIAN IMPERIAL BANK OF COMMERCE	CM	1.9	Financials	Canada	4.4%
CASINO GUICHARD PERRACHON SA	CO	1.9	Consumer Staples	France	8.1%
GLAXOSMITHKLINE PLC	GSK	1.8	Health Care	United Kingdom	6.3%
ENI	ENI	1.8	Energy	Italy	5.7%
SALMAR ASA	SALM	1.8	Consumer Staples	Norway	4.1%
TOTAL SA	FP	1.8	Energy	France	5.4%
WESFARMERS LTD	WES	1.8	Consumer Staples	Australia	7.0%
GALLIFORD TRY PLC	GFRD	1.7	Industrials	United Kingdom	9.5%
SWEDBANK	SWED A	1.6	Financials	Sweden	6.5%
JM	JM	1.6	Consumer Discretionary	Sweden	6.0%
SWISSCOM AG	SCMN	1.5	Telecommunications	Switzerland	4.6%
NATIONAL AUSTRALIA BANK LTD	NAB	1.5	Financials	Australia	9.8%
GAS NATURAL SA	GAS	1.4	Utilities	Spain	5.3%

1) Dividend yield is in terms of home currency

DIVIDEND REPORT PAGE 2 – PUBLIC STORAGE (PSA)

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 27-Mar-2018 | Data as of 16-Mar-2018

Public Storage PSA FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$130.00 - $216.00	HEALTHY	GOOD / 1.4	EXCELLENT	4.04%

Assessment of Company Dividend Strategy

Key Strengths

Investors have come to love Public Storage, with the REIT trading at a very lofty multiple of its expected funds from operations. Revenue has been fantastic at Public Storage, and operating income has performed even better, the latter advancing to $1.4+ billion in 2017 from ~$750 million in 2011; cash distributions per share have doubled over the same time. It has paid a quarterly dividend in each of the past 18+ years, and we love its A-rated corporate credit quality. Public Storage's dominance in major metro areas is a key competitive advantage in our view, especially given concentration/density benefits, and its brand is a key recognizable asset. Operating cash flow has averaged nearly $1.9 billion during the past three years (2015-2017).

Potential Weaknesses

We have had no qualms with Public Storage's operating performance, as same store revenue and property NOI continue to grow nicely in its US self-storage operations. Oversupply is expected to provide headwinds to pricing in the near term. Growth outside the US may not be as easy, as self-storage tends to be a smaller market in Europe, which it targets through its Shurgard brand. We're somewhat disappointed that the firm will become more active in the corporate debt markets, as we tend to be relatively debt-averse when it comes to income holdings. The REIT remains capital-market dependent, and this could come back to haunt investors during weak times of credit availability. Dividend obligations are not minor at ~$1.6 billion per annum.

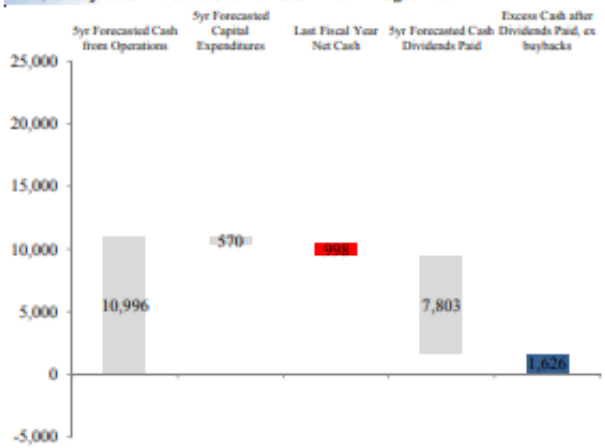
Graphical Relationship, Earnings and Dividends (per share)

The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Public Storage's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is greater than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

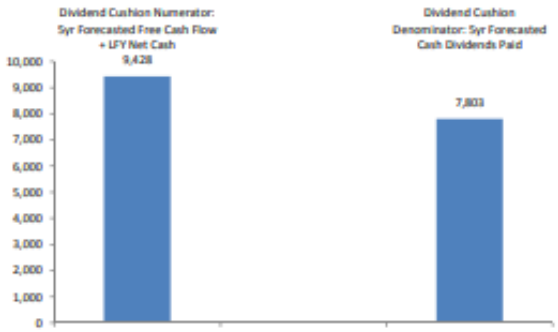


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Public Storage's numerator is larger than its denominator suggesting strong dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



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DIVIDEND REPORT PAGE 2 – KIMCO REALTY (KIM)

Kimco Realty KIM FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Neutral	$14.00 - $24.00	RISKY	POOR / 1	VERY POOR	5.84%

Assessment of Company Dividend Strategy

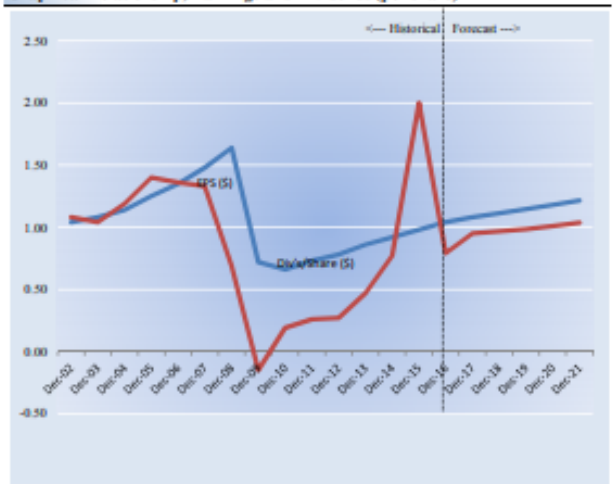
Key Strengths

Kimco Realty boasts a diverse portfolio of ~8,800 leases with ~4,100 tenants, and its lease maturities are well staggered with limited annual rollover. Over the next decade the firm expects ~8% of its gross leasable area (GLA) to rollover annually. Its credit is rated investment grade, and 4 of its top 5 tenants are rated investment grade by Moody's. As of the end of 2016, no tenant accounted for more than 3.4% of total annual base rent. Management has grown the dividend at an 8% CAGR from 2010-2016, and AFFO averaged just over $615 million from 2015-2016, which was sufficient in covering annual run-rate cash dividend obligations of nearly $475 million. Kimco's dividend cut in 2009 speaks to its capital market dependence, however.

Potential Weaknesses

Real estate investment trusts pay out 90% of annual taxable income and therefore are unable to meaningfully reinvest internally-generated funds, resulting in external capital-market dependence. The weak internal cash-flow retention of most REITs translates into poor raw, unadjusted Dividend Cushion ratios, which could become severe during the depths of the real estate cycle. Even though a REIT's operating cash flow may be robust, the lack of cash accumulation on the balance sheet and the massive debt needed to purchase/develop new properties can become restrictive. The adjusted Dividend Cushion ratio, accounts for expectations of continued access to the capital markets, which while "normal," cannot be guaranteed in times of tight credit.

Graphical Relationship, Earnings and Dividends (per share)

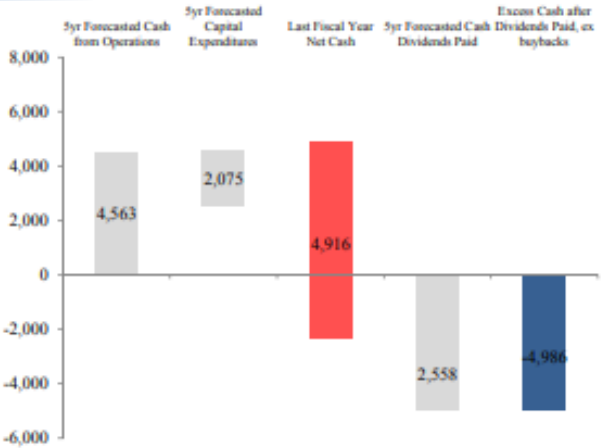


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Kimco Realty's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is less than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

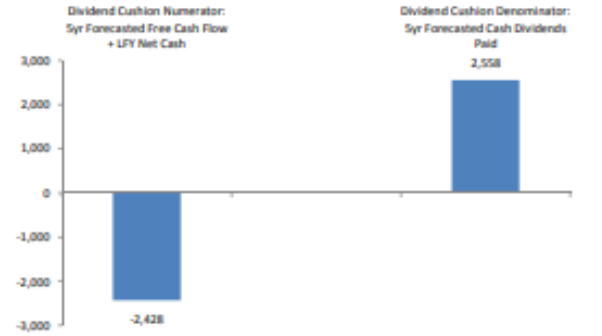


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

The Dividend Cushion Ratio Deconstruction, shown in the image to the right, reveals the numerator and denominator of the Dividend Cushion ratio. At the core, the larger the numerator, or the healthier a company's balance sheet and future free cash flow generation, relative to the denominator, or a company's cash dividend obligations, the more durable the dividend. In the context of the Dividend Cushion ratio, Kimco Realty's numerator is smaller than its denominator suggesting weak dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



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DIVIDEND REPORT PAGE 2 – WELLTOWER (HCN)

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 9-Dec-2017 | Data as of 1-Dec-2017

Welltower HCN FAIRLY VALUED

Buying Index™ 3 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Neutral	$48.00 - $72.00	HEALTHY	GOOD / 1.3	GOOD	5.12%

Assessment of Company Dividend Strategy

Key Strengths

Welltower benefits from a portfolio full of relatively new assets with low capex needs in markets with high barriers to entry. The firm maintains investment grade credit ratings, and it has delivered over 180 consecutive quarterly dividends. Funds from operations averaged nearly $1.4 billion from 2014-2016, slightly above annual run-rate cash dividend obligations of just under $1.3 billion, and the metric has been sufficient in covering dividend obligations in each individual year in the period. It expects to continue to benefit from attractive demographic tailwinds as the 75+ age group continues to outgrow the general population (nearly two-thirds of its portfolio is senior housing).

Potential Weaknesses

Real estate investment trusts pay out 90% of annual taxable income and therefore are unable to meaningfully reinvest internally-generated funds, resulting in external capital-market dependence. The weak internal cash-flow retention of most REITs translates into poor raw, unadjusted Dividend Cushion ratios, which could become severe during the depths of the real estate cycle. Even though a REIT's operating cash flow may be robust, the lack of cash accumulation on the balance sheet and the massive debt needed to purchase/develop new properties can become restrictive. The adjusted Dividend Cushion ratio, accounts for expectations of continued access to the capital markets, which while "normal," cannot be guaranteed in times of tight credit.

Graphical Relationship, Earnings and Dividends (per share)

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Dividend Cushion Cash Flow Bridge Evaluation

The Dividend Cushion Cash Flow Bridge, shown in the image to the right, illustrates the components of the Dividend Cushion ratio and highlights in detail the many drivers behind it. Welltower's Dividend Cushion Cash Flow Bridge reveals that the sum of the company's 5-year cumulative free cash flow generation, as measured by cash flow from operations less all capital spending, plus its net cash/debt position on the balance sheet, as of the last fiscal year, is less than the sum of the next 5 years of expected cash dividends paid. Because the Dividend Cushion ratio is forward-looking and captures the trajectory of the company's free cash flow generation and dividend growth, it reveals whether there will be a cash surplus or a cash shortfall at the end of the 5-year period, taking into consideration the leverage on the balance sheet, a key source of risk. On a fundamental basis, we believe companies that have a strong net cash position on the balance sheet and are generating a significant amount of free cash flow are better able to pay and grow their dividend over time. Firms that are buried under a mountain of debt and do not sufficiently cover their dividend with free cash flow are more at risk of a dividend cut or a suspension of growth, all else equal, in our opinion. Generally speaking, the greater the 'blue bar' to the right is in the positive, the more durable a company's dividend, and the greater the 'blue bar' to the right is in the negative, the less durable a company's dividend.

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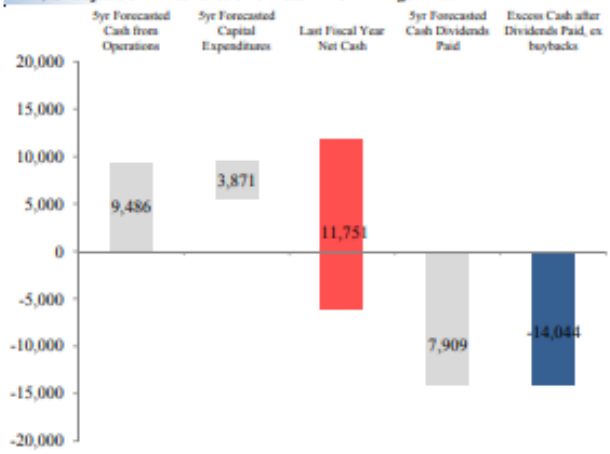

Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

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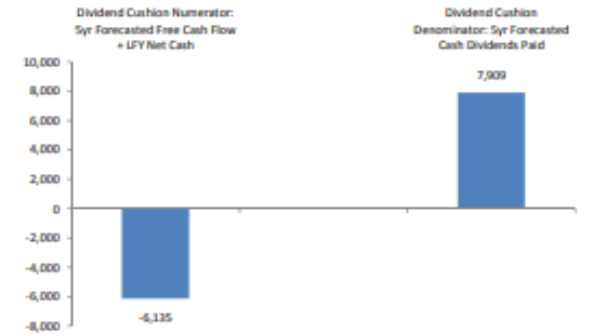
Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



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VALUENTUM

DEFINITIONS

ValueCreation. This is a proprietary Valuentum measure. ValueCreation indicates the firm's historical track record in creating economic value for shareholders, taking the average difference between ROIC (without goodwill) and the firm's estimated WACC during the past three years. The firm's performance is measured along the scale of EXCELLENT, GOOD, POOR, and VERY POOR. Those firms with EXCELLENT ratings have a demonstrated track record of creating economic value, while those that register a VERY POOR mark have been destroying economic value.

ValueRisk. This is a proprietary Valuentum measure. ValueRisk indicates the historical volatility of key valuation drivers, including revenue, gross margin, earnings before interest, and enterprise free cash flow. The standard deviation of each measure is calculated and scaled against last year's measure to arrive at a percentage deviation for each item. These percentage deviations are weighted equally to arrive at the corresponding fair value range for each stock, measured in percentage terms. The firm's performance is measured along the scale of LOW, MEDIUM, HIGH, and VERY HIGH. The ValueRisk™ rating for each firm also determines the fundamental beta of each firm along the following scale: LOW (0.85), MEDIUM (1), HIGH (1.15), VERY HIGH (1.3).

ValueTrend. This is a proprietary Valuentum measure. ValueTrend indicates the trajectory of the firm's return on invested capital (ROIC). Firms that earned an ROIC last year that was greater than the 3-year average of the measure earn a POSITIVE rating. Firms that earned an ROIC last year that was less than the 3-year average of the measure earn a NEGATIVE rating.

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