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HIGH YIELD DIVIDEND NEWSLETTER

HIGH YIELD DIVIDEND STRATEGY FACING PRESSURE

Rising Interest Rates Have Put a Damper on the Prices of High Yield Equities

Stocks have been on a wild ride these past few months, as investors have mulled over the net impact of tax reform and rising interest rates. Earnings growth at S&P 500 companies is coming in at approximately 20% during the first quarter of 2018 thanks in part to the tremendous tax savings from recent reforms, but the 10-year benchmark interest rate that is used in almost everything from equity valuation to setting bond pricing, surpassed the 3% mark during the month of April. It's not so much the number that matters, as it is the direction of interest rates. Beyond the current year, for example, earnings growth may not be fast enough to outpace the negative valuation impact from a rising interest rate environment, and this poses a key threat to the markets.

> ROUGHLY 74% (14/19) OF THE IDEAS THAT WE HAVE HIGHLIGHTED IN THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO HAVE OUTPERFORMED THE BLENDED BENCHMARK THUS FAR, AND BP (BP) HAS BEEN THE STAR PERFORMER WITH A 5%+ ADVANCE THUS FAR IN 2018.

According to FactSet's numbers, it seems the broader markets are starting to get more fairly valued from being very frothy even just a couple months ago, however. The forward 12-month P/E ratio for the S&P 500 stands at 16.3, which is only slightly higher than the 5-year average of 16.1, but still meaningfully higher than the 10-year average of 14.3. As interest rates normalize (move higher), we would expect that stock prices may

THE THREAT OF RISING INTEREST RATES

"The environment of 2018 and 2019 will not be like that of 2017 or 2016 or 2015, or the many years prior where the Fed was accommodative. Borrowing costs are moving higher for companies, and the trade-off to fixed income from high-yield equities is a real risk to any high yield dividend strategy. We've seen what just a one percentage point move in the 10-year Treasury has done to the space since the start of the year. Can you imagine just how tumultuous performance could get if the 10-year Treasury really does start accelerating to the upside? Not only might high yield dividend investors bail to lower-risk government paper (certificates of deposit), but the credit health of the US may come under question, with inflationary tactics the only legitimate way to ease what has become a $21 trillion national debt burden."

come to reflect lower multiples (the interest rate is a key determinant within the multiple itself), and we could envision a scenario where forward multiples could even drop below that of 14 times, for the average S&P 500 company, especially as we look beyond 2019 and into another election year. If it weren't for the political catalyst of tax reform, earnings growth would not be this good, so political risk of an unwinding of new reforms under a possible new Democratic administration in coming years (should Trump not be re-elected) will now be weighing on investors' minds.

Image shown: Pressures on high-yielding dividend paying stocks have been prevalent thus far in 2018, as the performance of three representative ETFs reveal (XLP, VNQ, AMLP).

When we set out to deliver the High Yield Dividend Newsletter publication, we knew we were up against a very difficult rising interest rate environment. However, things haven't been performing that poorly when presented in the proper context. The benchmark that we use is a blend between three traditional dividend-paying and higher-yielding sectors, namely real estate investment trusts (REITs), master limited partnerships (MLPs), and as a proxy for corporates, the consumer staples sector (XLP), equally weighted. Since the beginning of this year, this blended ETF benchmark has fallen considerably, meaning the simulated High Yield Dividend Newsletter portfolio is holding up quite well given the pressure the strategy has been under. Based on information from TradingView, an equal-weighted combination of those three proxy ETFs reveals an average decline of ~9.1% from the beginning of the year for a representative high yield equity strategy.

Roughly 74% (14/19) of the ideas that we have highlighted in the High Yield Dividend Newsletter portfolio have outperformed the blended benchmark thus far, and BP (BP) has been the star performer with a 5%+ advance thus far in 2018. A handful of other ideas have effectively held the line so far in 2018 (roughly flat performance), while more still declined at a lesser pace than that of the blended ETF benchmark. This may be no consolation for those looking for capital gains, but capital gains are not what a high yield strategy pursues. The worst performers thus far were also ones that came with the greatest risk and offered the highest yields. Without a portfolio backdrop and considerable diversification, we wouldn't have come close to considering the addition of those weakest performers. Within a portfolio, each idea cannot be evaluated in isolation, but only in the context of how it fits into--and its contribution to--a diversified portfolio.

Image shown: 14 of the 19 ideas highlighted in the simulated High Yield Dividend Newsletter portfolio are outperforming the blended high yield ETF benchmark return (~9%). The lines represent the performance of newsletter portfolio ideas since the beginning of 2018, while the candlestick chart shows the consumer staples ETF (XLP), one of three constituents of the blended high yield benchmark, which itself has fallen more than 10%.

What we're trying to say is that it is not appropriate to look at the market's performance, as in using the S&P 500 as a proxy (SPY) when one is pursuing a high yield strategy. If one is looking to beat the market's return in a portfolio setting, then Valuentum's simulated Best Ideas Newsletter portfolio, which strives to identify long-term capital-appreciation ideas, may be more your cup of tea, but even outperformance there cannot be guaranteed of course. In some cases, given the nature of how a dividend payment impacts the share price of the equity, high yield continues to be synonymous with high

risk, but rising interest rates haven't made the strategy extinct. Not only are a significant percentage of newsletter portfolio ideas outperforming their blended ETF benchmark, but no entity has cut its dividend/distribution just yet, and we'd like to keep it that way. We're also not jumping to any conclusions about anything after just four short months into this new newsletter. You shouldn't be either.

The environment of 2018 and 2019 will not be like that of 2017 or 2016 or 2015, or the many years prior where the Fed was accommodative. Borrowing costs are moving higher for companies, and the trade-off to fixed income from high-yield equities is a real risk to any high yield dividend strategy. We've seen what just a one percentage-point move higher in the 10-year Treasury has done to the high-yield space since the start of the year. Can you imagine just how tumultuous performance could get if the 10-year Treasury really does start accelerating to the upside? Not only might high yield dividend investors bail to lower-risk government paper (certificates of deposit), but the credit health of the US may come under question, with inflationary tactics the only legitimate way to ease what has become a $21 trillion national debt burden.

As we have stated from the very beginning of this publication, we're taking the long road with this newsletter. We're not going to sacrifice the long view for near-term gains, and we're not going to let the stock market influence how we think about the high yield arena. They are two different animals. High yield is not low risk; high yield is high risk, and while the core of the simulated High Yield Dividend Newsletter portfolio is doing much better than its blended benchmark, there are going to be a couple ideas within the simulated newsletter portfolio that will add additional yield, but also additional risk. The equity prices of these companies will be highly volatile, and this should be expected.

We understand that many may be looking for stable performance and a nice 5%-6% yield, but you can't dictate those parameters in the stock market, nor can you tell the stock market what it is going to do. The fixed income market may be a better place to look for that combination, but even still, prices on fixed instruments may face pressure as prevailing rates rise, if bonds have to be sold before maturity. Rising interest rates are waging a war against the high-yield strategy, but we're fighting back and holding the line. Those seeking income may not have too many other places to look, but we always have to remind readers. The stock market has advanced considerably since the March 2009 panic bottom, and the duration of this upswing is roughly that of the average bull market. Things will be choppy from here on out, and you should expect that.

Parting Ways with Senior Housing Properties and Government Properties Income

We added a couple high-risk, high-yielding ideas to the simulated High Yield Dividend Newsletter portfolio, and the choices haven't paid off. We're taking the opportunity to cut the losses and look elsewhere.

Senior Housing Properties Trust (SNH) and Government Properties Income Trust (GOV) have both had a rough go of it thus far in 2018, and we're taking the chance to remove the ideas from the simulated High Yield Dividend Newsletter portfolio. We will continue to keep readers updated as we scour the market for additional opportunities in the high yield space, but at least a portion of the poor share price performance of the two REITs can be attributed to rising interest rates, which improve the risk-reward profile of fixed income and less-risky investment vehicles relative to equities, ultimately lowering demand for higher-yielding equities as interest rates rise.

Senior Housing Properties Trust continues to face pressure as a result of problems in its senior living portfolio. The skilled nursing environment is full of obstacles, and though Senior Housing's direct exposure to skilled nursing facilities is limited to ~3% of its portfolio, its senior living portfolio faces similar challenges. The REIT owns a ~9% stake in Five Star, operator of its managed senior living portfolio and its largest tenant at more than 31% of 2017 total annualized rental income, and Five Star has not been consistently profitable since it went public in 2001. As of the end of 2017, Five Star's occupancy rate of 82.6%

was below Senior Housing's Senior Living portfolio total of 84.1%, and the ongoing trend for seniors to delay moving to senior communities as long as possible may continue to partially offset the demographic shifts in the US population.

Senior Housing is of the opinion that Five Star will be able to turn its fortunes around by transitioning to an electronic medical records platform and via its rehab-to-home program. The latter issue is much more material in our opinion as it is a key driver in the recent rent coverage declines at Senior Housing, as the program struggles to maintain performance in its transition. Rehab to home is aimed at providing shorter reallocation stays for patients as they attempt to get back to normal life at home. Same store cash net operating income in Senior Housing's managed senior living portfolio fell nearly 5% in 2017 as a 1.2% increase in average monthly rates was offset by a 110 basis-point decline in occupancy.

We're not convinced Senior Housing's senior living portfolio will be able to right the ship in the near term, and as shares continue to fall and its yield climbs despite a stagnant payout, we're jumping ship on this idea. Management has not provided guidance for 2018, but we're anticipating normalized FFO to continue falling (was $1.88 per share in 2016 and $1.58 per share in 2017 compared to annual dividends of $1.56 per share). This idea has gotten a touch too risky for our taste.

Government Properties Income Trust has also faced steady selling pressure since the start of 2018 due to a confluence of factors, and we're not sticking around despite management stating that it doesn't anticipate its dividend rate changing even as its coverage metrics weaken. The company's occupancy rates faced meaningful pressure in the fourth quarter of 2017 following its acquisition of First Potomac Realty, on which we may have been too optimistic before combined results were released.

Occupancy of the REIT's total rentable square feet at the end of 2017 was 94.2%, down from 95% one quarter earlier and 95.1% a year earlier. In the fourth quarter of 2017, the first quarter of consolidated operations, normalized funds from operations came in at $0.50 per share, down from $0.58 in the year ago period. The quarterly dividend has been stuck at $0.43 per share for some time now.

In addition to the weakened internal operating metrics, Government Properties' balance sheet leaves a lot to be desired. At the end of 2017, its total debt-to-annualized adjusted EBITDA was a lofty 7.6x, which is higher than its target range of 6.5x-7.0x, a high range in itself. Property dispositions are expected to bring this debt load down, but aggressive asset sales introduces concerns over capital recycling risks, which may be exacerbated given recent occupancy trends (occupancy in properties owned since October 1, 2016, was down 40 basis points in 2017). The company also holds a high level of variable debt ($1.1 billion, or roughly half its debt load), which makes it increasingly sensitive to rising interest rates beyond the typical inverse relationship of demand for REITs and interest rates.

We're not happy about the performance of these ideas, but they should only be viewed in the context of a diversified portfolio. These ideas alone may not make much sense, but in the context of a diversified portfolio targeting high dividend yields, we thought the risk-reward trade-off may have been appealing. We see no reason to leave these ideas on the table any longer, however. We'll look to add to the "Core" component of the simulated High Yield Dividend Newsletter portfolio with two new ideas in the coming months.

High Yield Earnings Roundup

Digital Realty Raises Core FFO Guidance

Simulated newsletter portfolio idea Digital Realty (DLR) continues to benefit from the secular trends driving data center demand. The Cisco Global Cloud Index estimates that the number of hyperscale data centers will almost double, hyperscale data centers will make up over half of all data center servers, and hyperscale data center traffic will quadruple by 2021. North American data center construction continues at a solid rate, but the new supply is being rapidly absorbed by the market. Management estimates that the North American data

center space is roughly at equilibrium with a national vacancy rate of 10%.

In the first quarter of 2018, revenue at Digital Realty leapt 35% on a year-over-year basis, and core funds from operations per share advanced 7% from the year-ago period to $1.63. Rental rates on renewals in the first quarter were 3.9% higher than the comparable period of 2017 on a cash basis, and management noted growing local origination in key growth markets around the world as reason for optimism related to lease renewals and new bookings. The REIT held more than $9.1 billion in total debt at the end of the first quarter, good for a net debt-to-adjusted EBITDA ratio of 5.3x, and its fixed charge coverage was a healthy 4.3x.

In early March, Digital Realty approved a 9% dividend increase, and 2018 marks the thirteenth straight year in which it has raised the payout, each year since its IPO in 2004. The company does not expect to have to tap the outside capital markets for development capital in 2018, instead funding its $1 billion development budget for the year with cash flow from operations and proceeds from asset sales. Shares yield ~3.75% as of this writing.

Enterprise Product Partners Delivers Record First Quarter Results

Enterprise Product Partners (EPD) delivered record operating results in the first quarter of 2018, ultimately leading to record financial results, in terms of volume per day thanks to strong domestic and international demand. Adjusted EBITDA rose more than 19% on a year-over-year basis in the quarter to nearly $1.7 billion, and net income per unit advanced to $0.41 from $0.36 in the comparable period of 2017.

Enterprise's distributable cash flow grew 23% and hit a first quarter record of just under $1.4 billion, which was good enough for 1.5 times coverage of its $0.4275 per unit distribution for the quarter. This quarterly distribution represents a 3% increase over the first quarter 2017 distribution and is the 55th consecutive quarterly increase and the 64th increase since Enterprise's IPO in 1998. As of the end of the quarter, the company's total debt-to-EBITDA (trailing twelve months) was ~4.35x.

While Enterprise's financial leverage leaves a bit to be desired, and its minor free cash flow generation of $99 million would not be tolerated by a non-MLP dividend idea, we like management's expectations for not having to issue additional equity in 2018 to fund growth projects other than its distribution reinvestment and employee unit purchase programs. The MLP expects to spend $3.2-$3.4 billion in growth capital in 2018 on top of sustaining capital expenditures of $66 million, and cash flow from operations came in at just over $1.2 billion in the seasonally strong first quarter (just over $4.9 billion annualized). It has liquidity of $5 billion as of the end of the quarter. Units yield ~6.5% as of this writing.

Public Storage Continues to Battle A Tough Operating Environment

An oversaturated self-storage environment has pressured Public Storage's (PSA) historical pricing power and impacted its move-in rate, but the leader in the highly-fragmented space appears to be navigating the situation well. Move-ins fell roughly 2% in the first quarter of 2018, but move-outs were down by ~3%. Same-store weighted average occupancy fell nearly one percentage point from the year-ago period to 92.3%, but contract rent was up 2.7% in the period.

Same-store net operating income advanced 1.7% on a year-over year basis as operating cost growth of 3.3% outpaced revenue growth of 2.1% due to higher property manager payroll, and gross margin contracted by 40 basis points. Core FFO per share advanced 4.6% from the year-ago period to $2.48, and the company's $2.00 per share quarterly dividend remained unchanged. We expect the REIT to return to dividend growth as its market rationalizes, but this may not take place in the near term.

In its first quarter conference call, management noted a slowing of revenue deceleration thanks to its existing tenant base remaining stable. Though the company is entering a period in which it expects to drive its top-line with more existing tenant rent increases, it continues to struggle with move-ins. Lower move-outs and a return to price increases in its existing tenant base bode well

for Public Storage, but not until it is able to deliver on move-ins will its business truly be back to full strength. Shares yield nearly 4% as of this writing.

PROLOGIS (PLD): A MAJOR PLAYER IN THE INDUSTRIAL WAREHOUSE BUSINESS

This Quality REIT Is For Your Radar

	2017	2016	2015	2014	2013
Operating Data:					
Total revenues	$ 2,618	$ 2,533	$ 2,197	$ 1,761	$ 1,750
Gains on dispositions of investments in real estate and revaluation of equity investments upon acquisition of a controlling interest, net	$ 1,183	$ 757	$ 759	$ 726	$ 715
Consolidated net earnings	$ 1,761	$ 1,293	$ 926	$ 739	$ 230
Net earnings per share attributable to common stockholders and unitholders – Basic (1)	$ 3.10	$ 2.29	$ 1.66	$ 1.25	$ 0.65
Net earnings per share attributable to common stockholders and unitholders – Diluted (1)	$ 3.06	$ 2.27	$ 1.64	$ 1.24	$ 0.64
Dividends per common share and distributions per common unit	$ 1.76	$ 1.68	$ 1.52	$ 1.32	$ 1.12
Consolidated Balance Sheet Data:					
Total assets	$ 29,481	$ 30,250	$ 31,395	$ 25,775	$ 24,534
Total debt	$ 9,413	$ 10,608	$ 11,627	$ 9,337	$ 8,973
FFO (2):					
Reconciliation of net earnings to FFO:					
Net earnings attributable to common stockholders	$ 1,642	$ 1,203	$ 863	$ 622	$ 315
Total NAREIT defined adjustments	101	534	461	299	504
Total our defined adjustments	52	(35)	(15)	(33)	36
FFO, as modified by Prologis (2)	**$ 1,795**	**$ 1,702**	**$ 1,309**	**$ 888**	**$ 855**
Total core defined adjustments	(244)	(302)	(128)	65	(42)
Core FFO (2)	**$ 1,551**	**$ 1,400**	**$ 1,181**	**$ 953**	**$ 813**

Image Source: Prologis, 2017 10-K

Income-seeking investors have a fond hankering for the predictable dividends spun off from the real estate investment trusts. Let's discuss the business case for Prologis, an investment-grade, credit-quality REIT that is tied to the proliferation of e-commerce through its logistics properties.

By Alexander J. Poulos

Prologis (PLD)—3%+ dividend yield—helps goods move around the world. The company is a well-established industrial logistics REIT that traces its origins back to 1983, a lengthy corporate lifespan that considers numerous credit and market cycles. It first began operating as a fully-integrated real estate company in 1997, and as with most REITs, Prologis generates cash flow via rents and driving high occupancy rates of its facilities. Though the REIT operates on a global scale, nearly 70% of its FFO (funds from operations) are still generated in the US, and the REIT continues to work to further diversify its network of properties with a heavy emphasis on international expansion.

Prologis' portfolio targets "logistics" real estate in the busiest consumption markets around the globe (near major airports, seaports, rail hubs and highways). Logistics facilities are typically used for bulk distribution, but many are used for storage, packaging and even assembly and consumer-product manufacturing. The REIT's niche strategy remains in high demand due to the changing retail landscape. For starters, the move towards more e-commerce versus near-exclusive dominance of brick-and-mortar retailers decades ago is a tailwind as participants seek supply chain modernization, including modern logistics facilities.

Furthermore, the company estimates that e-fulfillment requires as much as ~3x the logistics space used by brick-and-mortar retailers (shipping parcels versus pallets, high inventory turns, etc.), a huge opportunity for Prologis as e-commerce continues to proliferate. Customers choose to work with Prologis to gain a more efficient supply chain, and this means more customers and lower costs for them. It's a win-win.

The trends are showing up in the numbers, too. Since 2013, revenue at Prologis has advanced to $2.6 billion from $1.75 billion, while net earnings have increased to $3.06 per share from $0.64 per share over the same time period, the latter a near five-fold advance. Dividends paid per share have steadily marched higher over this time, and its payout ratio remains quite manageable, both on a consolidated earnings and core FFO basis. We like that total debt has come down since the peak in 2015, as credit quality remains paramount for any REIT's ability to sustain a dividend for an extended period of time. At the end of 2017, Prologis' credit ratings were A3 from Moody's and A- from S&P, firmly in investment-grade territory.

The future at Prologis may be brighter than ever. Retailers today necessitate a network of warehouses to serve as the critical backbone for a true omnichannel shopping experience. The effects of the shift towards the omnichannel are already evident even in the large densely populated city centers. Prologis has positioned itself to take advantage of the changing landscape of retail, with Amazon (AMZN), for example, serving as its largest customer (less than 5% of total revenue come from Amazon), speaking both to growth potential but also to a highly diversified customer base. As of the end of 2017, on an owned/managed basis, the REIT had ~5,000 customers occupying ~630 million square feet of logistics properties.

Though Prologis has a great many customers, we believe the REIT's efforts to increase international diversification make a lot of sense and will allow the company to withstand an economic downturn in better shape, though we are in no means implying it will be impervious to the vagaries of the business cycle. The high degree of market volatility witnessed in the US markets thus far in 2018 can probably be best perceived as late-cycle behavior, particularly with the Fed now tightening to fend off inflation—a natural by-product of near-uninterrupted growth coming off the depths of the economic collapse in 2008.

The Hallmarks of a REIT

The REIT sector can generally be neatly broken down into various subsectors such as mall REITs which specialize in shopping malls, apartment REITs which specialize in housing units, data center REITs which specialize in the unique needs of data center warehouses, and office center REITs that specialize in office buildings such as some of the iconic buildings found in major city centers. The above list is only representative of the diverse nature of the industry and is by no means collectively exhaustive.

In our view, the main attraction of the REIT sector is the often-generous dividend that is distributed to trust holders. The mechanisms of a REIT are unique. Unlike an equity that often pays a dividend, a REIT will pass through 90% of its FFO directly back to shareholders. A "dividend" received from a REIT is not subject to the more lenient "qualified dividend rate"—a potentially negative development for income-seeking investors.

> *Qualified Dividends*
>
> *Qualified dividends are the ordinary dividends subject to the same 0%, 15%, or 20% maximum tax rate that applies to net capital gain. They should be shown in box 1b of the Form 1099-DIV you receive.*
>
> *The maximum rate of tax on qualified dividends is:*
>
> - *0% on any amount that otherwise would be taxed at a 10% or 15% rate.*
> - *15% on any amount that otherwise would be taxed at rates greater than 15% but less than 39.6%.*
> - *20% on any amount that otherwise would be taxed at a 39.6% rate.*
>
> *Quote Source: IRS Publication 550*

In essence, a holder of a REIT will be levied a tax equal to the recipient's ordinary tax rate on the income generated from the REIT as the REIT itself escapes taxation as it is a true pass-through entity. With income the primary reason for investing in such vehicles, we suggest calculating your own after-tax dividend or seeking out a personal financial advisor, accountant, or

other professional that can help illustrate the after-tax ramifications of such an investment.

As it relates to the investment merits of a REIT, there is also one big concern that comes with paying out a hefty dividend, however: capital-market dependency. In Prologis' 2017 10-K, for example, the REIT clearly says it "may not be able to fund all future capital needs, including acquisition and development activities, from cash retained from operations and may have to rely on third-party sources of capital…(its) ability to access debt and equity capital on favorable terms or at all depends on a number of factors, including general market conditions," of which are often out of the REIT's control. For most REITs, capital-market dependency risk is often overlooked near cycle peaks, but it becomes undeniable during cycle troughs as easy credit dries up.

Prologis' Dividend Strength

Superior Earnings and Dividend Growth

Core FFO* per share CAGR	1-Year	3-Year	5-Year
PLD (excluding promotes)	10%	13%	9%
Other Logistics REITs[1]	7%	5%	5%
Blue Chips[2]	5%	7%	7%
REIT Average[3]	4%	6%	7%
S&P 500 Average[4]	11%	4%	5%

Dividend CAGR	1-Year	3-Year	5-Year
PLD	5%	10%	9%
Other Logistics REITs[1]	0%	3%	3%
Blue Chips[2]	8%	10%	11%
REIT Average[3]	4%	6%	7%
S&P 500 Average[4]	4%	9%	12%

Prologis has the best Core FFO* CAGR's for the three and five-year time periods

Prologis has the top Dividend CAGR for the three-year time period

Over the three-year time period, Prologis reduced leverage by 700 bps and achieved a A3/A- rating[5]

Image Source: Prologis (March 2018)

Prologis has put up some fantastic FFO growth during the past 3-5 years, besting the average of other logistics REITs and even the broader REIT average and other blue-chip stocks. Its dividend growth has been roughly on par with that of blue-chip names, but the pace of payout expansion is considerably better than the average of its logistics REIT peers. Prologis has achieved all of this while reducing leverage, too, to get those very nice investment-grade marks by the credit agencies. Looking to 2018 and 2019, the company is targeting core FFO growth in the range of 7%-8%, and we think these ranges are achievable.

Though times are good, a longer-term view of Prologis' dividend history underscores its direct correlation with the economy and its capital-market dependency risk. During the Financial Crisis, for example, Prologis had to cut its payout considerably, and the REIT didn't resume dividend expansion until 2014. As with most of the real estate property markets, logistics REITs are cyclical, too, and FFO performance is not immune to broader economic conditions that may be completely out of their control. It is worth noting that the current annual dividend run-rate ($1.92 per share) still remains below the $2 per share dividend rate it paid in 2007 prior to the Financial Crisis.

For as long as the current economic expansion continues, Prologis remains well positioned to benefit from the e-commerce trend, which will aid in boosting FFO and the health of its dividend. We like that it is guarding its credit-quality well (avoiding debt), as it pursues all-stock transactions, namely the latest with DCT Industrial (DCT). We expect Prologis' dividend to exceed the highs seen in 2007 before the current cycle draws to a close, and the REIT's payout may be much more resilient going forward, as it likely won't encounter an environment anywhere near as dire as that of the Financial Crisis--conditions that led to its dividend cut—ever again, or at least not anytime soon. Shares yield just north of 3% at the time of this writing. Prologis is one for the radar.

- Brian Nelson, CFA President, Investment Research

- Kris Rosemann Head of Data, Associate Investment Analyst

- Alexander J. Poulos, Independent Contributor

Disclosure: Brian Nelson and Kris Rosemann do not own any shares of any securities mentioned in this newsletter. Alexander J. Poulos is long Amazon (AMZN). Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

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 content 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	7.49%
iShares International Select Dividend ETF	IDV	5.0%	1.51	4.43%
iShares MSCI Australia ETF	EWA	5.0%	1.03	4.64%
iShares U.S. Preferred Stock ETF	PFF	5.0%	2.08	5.61%
PowerShares Senior Loan Portfolio	BKLN	5.0%	0.82	3.56%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	3.81	5.64%
EQUITY				
AmeriGas Partners	APU	5.0%	3.80	8.88%
BP PLC	BP	5.0%	2.40	5.38%
Digital Realty Trust	DLR	5.0%	4.04	3.82%
Enterprise Products Partners	EPD	5.0%	1.71	6.37%
Landmark Infrastructure Partners	LMRK	5.0%	1.47	9.97%
Magellan Midstream Partners	MMP	5.0%	3.75	5.70%
Omega Healthcare Investors	OHI	5.0%	2.64	10.16%
Public Storage	PSA	5.0%	8.00	3.96%
Realty Income Corporation	O	5.0%	2.63	5.21%
Tallgrass Energy Partners	TEP	5.0%	3.90	9.46%
		90.0%		**5.74%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 4/30/2018.

SCREEN OF THE MONTH – HIGH-YIELDING EQUITIES WITHIN OUR COVERAGE UNIVERSE

Company Name	Symbol	Industry	Dividend Yield	Div Growth	Div Safety	Div Cushion	Div Track Record	Leverage
Stonemor	STON	Personal Services	19.2%	VERY POOR	POOR	-0.6	RISKY	HIGH
Frontline	FRO	Shipping	13.7%	NMF	NMF	NMF	RISKY	HIGH
NuStar	NS	Oil & Gas Pipelines	12.6%	VERY POOR	POOR	0.8	HEALTHY	HIGH
Alliance Resource Partners	ARLP	Industrial Minerals	11.6%	POOR	GOOD	1.6	RISKY	LOW
Centurylink	CTL	Telecom Services - diversified	11.4%	VERY POOR	VERY POOR	-2.7	RISKY	HIGH
Energy Transfer Partners	ETP	Oil & Gas Pipelines	10.9%	VERY POOR	VERY POOR	1.8	HEALTHY	HIGH
DDR	DDR	REIT - Retail	10.2%	VERY POOR	VERY POOR	0.3	RISKY	HIGH
Omega Healthcare	OHI	REIT - Healthcare	9.8%	VERY POOR	POOR	1.0	HEALTHY	HIGH
AmeriGas Partners	APU	Utilities	9.3%	NMF	NMF	NMF	HEALTHY	NMF
Spirit Realty	SRC	REIT - Retail	8.9%	NMF	NMF	NMF	HEALTHY	HIGH
Buckeye Partners	BPL	Oil & Gas Pipelines	8.9%	GOOD	GOOD	1.3	HEALTHY	HIGH
Vector Group	VGR	Tobacco	8.0%	VERY POOR	VERY POOR	0.1	HEALTHY	HIGH
Holly Energy	HEP	Oil & Gas Pipelines	8.0%	VERY POOR	POOR	1.2	HEALTHY	HIGH
Kimco Realty	KIM	REIT - Retail	7.8%	VERY POOR	POOR	0.7	RISKY	HIGH
CoreCivic	CXW	Management Services	7.7%	VERY POOR	POOR	0.9	RISKY	HIGH
DCP Midstream	DCP	Oil & Gas Pipelines	7.3%	GOOD	GOOD	2.2	HEALTHY	HIGH
Seaspan	SSW	Shipping	7.1%	NMF	NMF	NMF	RISKY	HIGH
GlaxoSmithKline	GSK	Pharmaceuticals - Big	7.0%	POOR	POOR	0.7	HEALTHY	MEDIUM
Western Gas	WES	Oil & Gas Pipelines	6.8%	VERY POOR	VERY POOR	0.5	HEALTHY	HIGH
Spectra Energy Partners	SEP	Oil & Gas Pipelines	6.7%	EXCELLENT	GOOD	1.7	HEALTHY	HIGH
SCANA	SCG	Utilities	6.6%	NMF	NMF	NMF	HEALTHY	NMF
Iron Mountain	IRM	Commercial Services	6.6%	VERY POOR	VERY POOR	0.5	HEALTHY	HIGH
WP Carey	WPC	REIT - Retail	6.5%	VERY POOR	POOR	0.6	HEALTHY	HIGH

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 – POWERSHARES SENIOR LOAN PORTFOLIO ETF (BLKN) TOP HOLDINGS

Issuer	Weighting (%)	Credit Rating	Coupon Rate
CenturyLink, Inc.	2.00%	BBB-/Ba3	4.63%
Charter Communications Operating	1.97%	BBB-/BA1	3.88%
BURGER KING	1.94%	BB-/NR	4.55%
CHANGE HEALTHCARE	1.82%	B+/BA3	4.63%
Avolon TLB Borrower 1	1.81%	BBB-/Ba1	4.15%
Grifols Worldwide	1.76%	BB/BA2	3.99%
Level 3 Financing Inc	1.70%	BBB-/BA1	4.15%
Western Digital	1.67%	BBB-/Baa2	3.40%
Dell International LLC	1.64%	BBB-/Baa3	3.88%
RPI Finance Trust	1.61%	BBB-/Baa3	4.30%
Dell International LLC	1.53%	BBB-/BAA3	3.63%
Scientific Games	1.53%	B+/Ba3	4.74%
Caesars Resort Collection	1.46%	BB/Ba3	4.63%
Sprint Communications Inc	1.44%	BB-/BA2	4.44%
Almonde Inc	1.29%	B-/B2	5.48%
Transdigm F TL	1.29%	B+/Ba2	5.05%
Hilton Worldwide Finance, LLC	1.26%	BBB-/Baa3	3.65%
Petsmart Inc.	1.26%	CCC+/B1	4.89%
Virgin Media Investment Holdings Limited	1.24%	NR/NR	4.40%
Prime Security Services	1.24%	BB-/Ba3	4.63%
Clear Channel Communications, Inc.	1.22%	NR/CAA2	8.08%
Endo	1.21%	BB/Ba2	6.19%
VALEANT PHARMA FRN	1.21%	BB-/Ba3	5.39%
DaVita HealthCare Partners Inc.	1.20%	BBB-/Baa3	4.63%
First Data	1.19%	BB/Ba3	4.15%
ASURION	1.16%	B+/Ba3	4.63%
MPH ACQUISITION HOLDINGS LLC	1.12%	B+/B1	5.05%
Hub International Limited	1.11%	B/B2	0.00%
Pharmaceutical Product Dev	1.10%	B/Ba3	4.80%
Albertson's	1.08%	BB-/Ba2	4.63%

DIVIDEND REPORT PAGE 2 – REALTY INCOME (O)

Realty Income Corp O FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Neutral	$45.00 - $67.00	HEALTHY	GOOD / 0.6	GOOD	5.05%

Assessment of Company Dividend Strategy

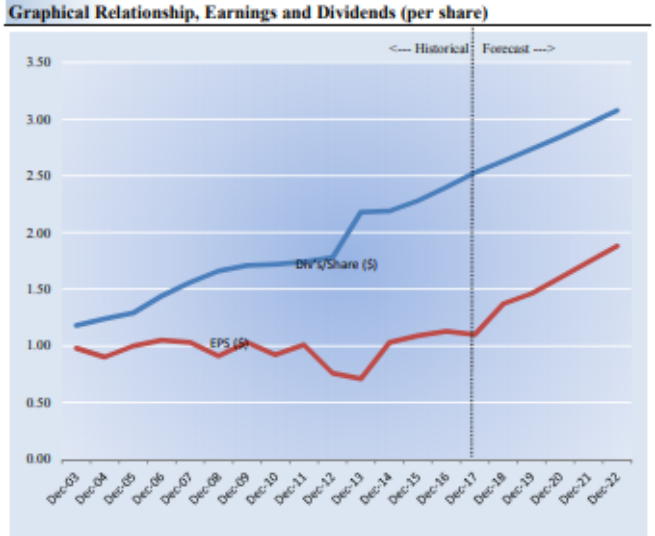
Key Strengths

Realty Income is known as "The Monthly Dividend Company" thanks to its impressive track record of monthly dividend payments. The firm has increased its cumulative quarterly payout for more than 80 consecutive quarters and has paid more than 560 consecutive monthly dividends. The REIT's consistent fundamentals are the basis of its ongoing dividend strength; its occupancy rate has never fallen below 96%. Portfolio diversification helps maintain such occupancy levels as no one state accounts for more than 10% of total rent, and tenants in a given industry do not account more than 13% of total rent. AFFO averaged just over $720 million from 2015-2017, easily higher than annual run-rate cash dividend obligations of nearly $690 million.

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)

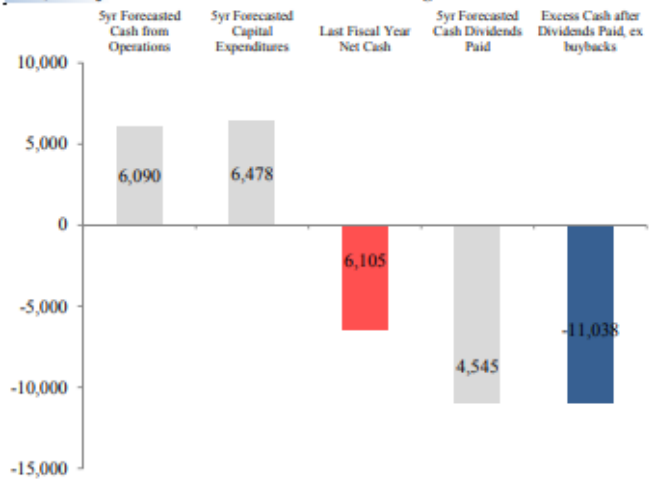


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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. Realty Income Corp'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

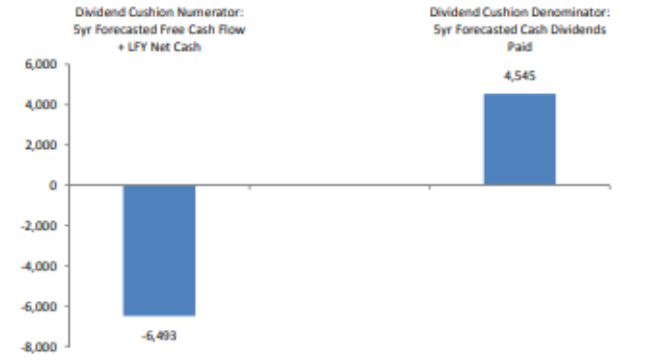


Source: Company Filings, Valuentum Projections

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, Realty Income Corp'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 – DIGITAL REALTY TRUST (DLR)

Digital Realty Trust DLR 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	$74.00 - $118.00	HEALTHY	GOOD / 0.6	EXCELLENT	3.87%

Assessment of Company Dividend Strategy

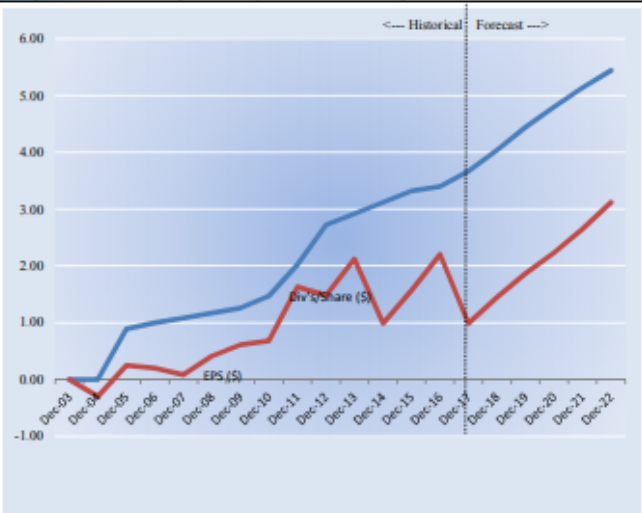
Key Strengths

Digital Realty Trust has rewarded its investors with a steady and growing dividend over the past decade or so as its dividend has grown at a ~12% CAGR since 2005. The firm is levered to long-term secular demand drivers via the use of its leased datacenters in the proliferation of the Internet, video, cloud, and mobile, and it holds investment grade credit ratings (Baa2/BBB/BBB). Its dividend policy stipulates that the company will pay out a minimum of 100% of taxable income via dividends and maintain a payout ratio of less than 90% of AFFO. FFO averaged more than $855 million from 2015-2017, well in excess of annual run-rate cash common and preferred dividend obligations of just over $715 million.

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. Digital Realty Trust'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.

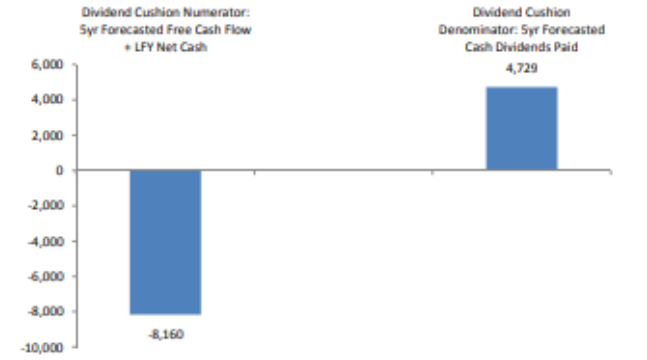
Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

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, Digital Realty Trust'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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VALUENTUM

DIVIDEND REPORT PAGE 2 – OMEGA HEALTHCARE (OHI)

Omega Healthcare OHI FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$23.00 - $39.00	HEALTHY	POOR / 1	VERY POOR	9.76%

Assessment of Company Dividend Strategy

Key Strengths

Omega Healthcare is the largest skilled nursing facility focused REIT with nearly 975 operating facilities in its portfolio as of December 31, 2017. The company is currently slightly above its target leverage range of a debt-to-adjusted EBITDA ratio of 4x-5x, and it continues to aim for a target dividend payout ratio of less than 85% of adjusted funds from operations or less than 90% of adjusted funds available for distribution. The first quarter of 2018 marked the 22nd consecutive quarter of quarterly dividend increases, but it is expected to mark the end of the streak. Adjusted funds from operations averaged ~$520 million annually from 2015-2017, slightly in excess of yearly run-rate cash dividend obligations of ~$503 million.

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. Omega Healthcare'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

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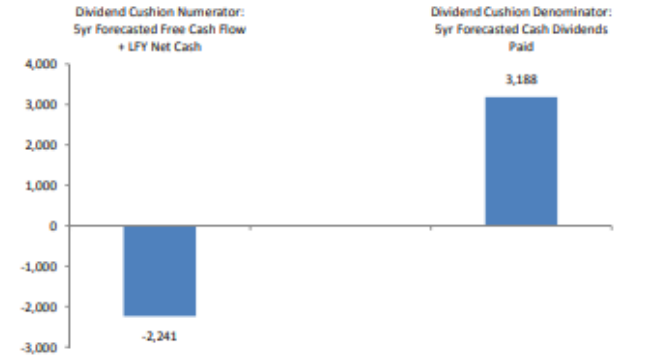

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DEFINITIONS

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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