Valuentum Securities, Inc. **6/1/2019** Edition 2, Volume 6

HIGH YIELD DIVIDEND NEWSLETTER

Walking Through Our High Yield Dividend Newsletter Portfolio Ideas

Prior changes to simulated High Yield Dividend Newsletter
Added: 10% in Vanguard Real Estate ETF (VNQ)
Removed: Huge winner in Realty Income (O)
Watching: AT&T (T), Australia ETF (EWA) Iron Mountain (IRM), Schlumberger (SLB)

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> ***"…WORRIES OVER US-CHINA TRADE NEGOTIATIONS (AND NOW TARIFFS ON MEXICO) CONTINUE TO SPOOK THE MARKETS, BUT TO A VERY LARGE DEGREE, MANY OF THE IDEAS IN THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO ARE INSULATED…" – BRIAN NELSON, CFA***

A version of this article was released to High Yield Dividend Newsletter members on May 9.

It may be difficult for some to stay focused on high-yield dividend investing when there's so much noise out there. For starters, worries over US-China trade negotiations (and now tariffs on Mexico) continue to spook the markets, but to a very large degree, many of the ideas in the High Yield Dividend Newsletter portfolio are insulated, perhaps save for the iShares MSCI Australia ETF (EWA), BP (BP) and Schlumberger (SLB), but these are perhaps only indirectly exposed to trade tremors.

We fully expect the high-yield space to be volatile heading into the back half of 2019, but we also expect a tailwind from the Fed's more dovish stance on monetary policy. A more dovish Fed is a very good thing for high-yield dividend equities, as it helps support their equity prices and make the tradeoff to fixed income vehicles less of a threat. This, in turn, helps support their credit quality and keeps the capital markets open to them to help grow their payouts.

We think 2019 will be a good year for high-yield dividend payers, relatively speaking, and it may come down to the lack of yield alternatives. While investors can capture certificates of deposits of about 3% with duration of 2 to 3 years, we don't see those rates going higher anytime soon. To hit the sweet spot of 5%-6% or more, high-yield dividend equities remain an alternative, and because of this, the group may stay in vogue for some time yet.

If the Fed ever turns up the gears on monetary policy, however, we'd start to grow more cautious. After all, why would investors want to own a capital-market dependent, risky equity that yields 5%-6% when they can get that type of yield on a government-backed certificate of deposit (should that ever happen). The growth in the payouts for high yield dividend equities can never be guaranteed. With that said, let's walk through an update of key portfolio holdings in the High Yield Dividend Newsletter. We think the portfolio is well positioned for the long haul.

Alerian MLP ETF (AMLP): This ETF that tracks the performance of a basket of master limited partnerships (MLP) offers an 8% distribution yield, but we continue to caution investors. We're not too excited about the MLP business model, and the tax implications frankly are messy. We include this idea as a diversified play on the group, but it far from our favorite. Its 8% distribution yield pushes the overall portfolio yield higher. Enterprise Products Partners (EPD), also a holding in this portfolio, Energy Transfer (ET), Magellan Midstream (MMP), also a holding in this portfolio, and Plains All American (PAA) are the top weightings in this ETF.

Global X SuperDividend ETF (SDIV): The Global X SuperDividend ETF "invests in 100 of the highest dividend yielding equity securities in the world." For those that are seeking dividend yield, this ETF has the highest yields out there in diversified fashion. However, it would be silly, in our view, to hold this by itself, and its very existence shows why you shouldn't just be focusing on yield. It's simple to find stocks with high yields. *The goal is to sort the good ones from the bad.* When it comes to a high-yield dividend portfolio, however, it's hard not to include this vehicle as it fits the theme so well. The ETF makes distributions on a monthly basis, and its 12-month dividend yield is 9.3%. Its top 10 holdings are shown below.

TOP 10 HOLDINGS (%) — *Holdings Subject to Change*

Uniti Group Inc	1.21%	CapitaLand Retail China Trust	1.09%
Bpost SA	1.20%	Washington Prime Group Inc	1.08%
Agile Group Holdings Ltd	1.16%	Sabra Health Care REIT Inc	1.08%
PT Indo Tambangraya Megah Tbk	1.10%	Consolidated Communications	1.08%
PLA Administradora Industrial	1.10%	Air New Zealand Ltd	1.08%

Image Source: Global X, as of 3/31/2019

Global X SuperIncome Preferred ETF (SPFF): This ETF "invests in 50 of the highest yielding preferred stocks in North America." It doesn't have the global coverage of the SDIV, but we don't view that as a drawback, per se. North America offers a broad swath of companies to choose from, and we like the added protection the underlying preferred securities bring in being further up the capital structure than common equity. The 12-month dividend yield for this ETF is about 7%, so not too shabby by any stretch, especially for diversified preferred yield play. Financials are a large part of the ETF (about 80%), but we're okay with that. We don't have much direct exposure to the financials sector in the portfolio. Nearly 70% of the ETF has issues rated BB- or higher, with nearly 30% investment-grade.

TOP 10 HOLDINGS (%) — *Holdings Subject to Change*

GMAC Capital Trust	5.66%	Vereit Inc	3.58%
HSBC Holdings PLC	4.95%	ING Groep NV	3.45%
Sempra Energy	4.39%	AEGON NV	3.45%
U.S. Bancorp	3.99%	Wells Fargo & Co	3.12%
Deutsche Bank Capital Trust	3.61%	Capital One Financial Co	2.96%

Image Source: Global X, as of 3/31/2019

iShares International Select Dividend ETF (IDV): We make up for some of the lack of diversified international preferred exposure from the SPFF with more international common dividend stocks, as in this ETF. The distribution yield of this ETF at 4.4% (as of March 2019) isn't as high as some of the other ideas in the newsletter portfolio, but it allows us to gain exposure to some of the most interesting international dividend plays in diversified fashion. Its top 5 holdings are British American Tobacco (UK), Commonwealth Bank of Australia (Australia), Azimut Holdings (Italy), Royal Dutch Shell (UK), Nordea Bank (Sweden), and Aareal Bank (Germany). We like the geographic diversification that this ETF provides.

iShares MSCI Australia ETF (EWA): Continuing the theme of geographic diversification, one of the highest-yielding country ETFs is this one. The iShares MSCI Austrailia ETF may be the holding in this newsletter portfolio that is most exposed to a slowdown in China, and while recent measures of GDP haven't been great for Australia, we think the ETF fits well in the context of the High Yield Dividend Newsletter portfolio. With a mid-single-digit dividend yield, it's hard to pass up this kind of country exposure. Top holdings include Commonwealth Bank of Australia, BHP Group, Westpac Banking, CSL, and Australia and New Zealand Banking. Woolworths, Wesfarmers, and Macquarie Group are also in the top 10.

iShares U.S. Preferred Stock ETF (PFF): We like staying up on the capital structure, and this ETF gives us the preferred exposure we're looking for with a nice distribution yield (6.4%) and 30-Day SEC Yield (5.3%) to boot. The iShares U.S. Preferred Stock ETF targets U.S preferred stocks, and while the financials sector is heavily represented in the ETF, preferred issues from Becton Dickinson, Sempra Energy, and Nextera Energy are in the top 10 exposures. The biggest banks are represented in the top 10, too, including Citigroup, Wells Fargo, Bank of America, and JP Morgan.

PowerShares Senior Loan Portfolio (BKLN): The High Yield Dividend Newsletter portfolio is highly diversified across geography, sector and capital structure, so taking on a little added risk might be okay with this ETF. This is a leveraged loan ETF, meaning most of the issues held by this ETF are of the speculative variety when it comes to quality (only 21% are rated investment grade by S&P). Some of the top fixed-income holdings in this ETF include issues from Burger King, CenturyLink, Charter Communications, Caesars Resort, and Dell. Its distribution yield and 30-Day SEC Yield and are both roughly 4.7%.

ProShares High Yield-Interest Rate Hedged (HYHG): Though this High Yield Dividend Newsletter portfolio targets high-yield dividends, we like what this ETF has to offer. The ProShares High Yield--Interest Rate Hedge ETF seeks to provide the return potential of a "diversified portfolio of high-yield corporate bonds." Interestingly, this ETF "targets zero interest rate risk by including a built-in hedge against rising rates that uses short positions in US Treasury futures." Said another way, this ETF works to mitigate any negative impact of rising rates. We continue to like this attribute, despite a more dovish tone by the Fed. Its distribution yield (6.9%) and SEC 30-Day yield (6.4%) are quite nice.

Vanguard Real Estate ETF (VNQ): We recently replaced one of our favorite REITs, Realty Income (O), with a more diversified and very low-cost REIT ETF. This Vanguard variety gives the newsletter portfolio access to the performance of a broad swath of REITs, and the ETF in particular focuses more on specialized REITs. For example, American Tower, Crown Castle, Equinix, and AvalonBay Communities are in its top 10 holdings. Retail REITs and residential REITs account for about 14% of the ETF each, while health care REITs account for about 10%. Vanguard lists the ETF's current unadjusted effective yield at about 3.2%.

AT&T (T): AT&T is yielding 6.7% at the time of this writing. Though we don't like its massive net debt position, we think the market may be being a bit too punitive on shares. The company's first-quarter results, released April 24, showed adjusted earnings per share nudging up modestly, and cash flow from operations advancing 24%. AT&T pulled in $5.9 billion in free cash flow during the period (up from $2.8 billion in last year's quarter). The company knows its back is against the wall, and it is working aggressively on deleveraging and selectively disposing of assets. We like AT&T, but only in this diversified portfolio. Its yield spells high risk, with a Dividend Cushion ratio of -0.4 (negative 0.4).

BP (BP): BP is one of the companies that may be impacted by continued trade spats between the US and China, conditions that may put pressure on global economic growth which may then impact the demand for energy resources. Headlining the company's first-quarter report, released April 30, was "resilient earnings and cash flow, continued strategy progress," and we generally agree. Operating cash flow, excluding Gulf of Mexico oil spill payments, came in at $5.9 billion, and BP announced a dividend of 10.25 cents per share, 2.5% higher than last year's period. As is often the case with high-yield companies, we're paying close attention to their debt loads. Net debt stood at $45.1 billion at the end of March, compared with $39.3 billion a year ago. Shares yield 6% as of this writing.

Digital Realty Trust (DLR): Digital Realty's first-quarter 2019 results came in better-than-expected when it reported April 25. First-quarter core funds from operations (FFO) per share handily beat consensus forecasts, and the data center REIT reiterated its core FFO outlook in the range of $6.60-$6.70. Shares have sold off following the report, as of this writing, but we think it may have more to do with expectations regarding broader interest rates than anything fundamental. We still like shares of this REIT. They yield about 3.7%, as of this writing.

Enterprise Products Partners (EPD): This MLP is sitting just a bit off of 52-week highs, prior to the recent market sell-off, and the MLP pays a very nice 6.3% distribution yield. We also like how Enterprise Products is working to improve financial metric transparency even emphasizing free cash flow. Valuentum has been working hard to encourage MLPs to adopt more transparent financial reporting. Read more about this: *Enterprise's shift on cash flow reflects 'metamorphosis of US pipeline firms:* https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/49828013

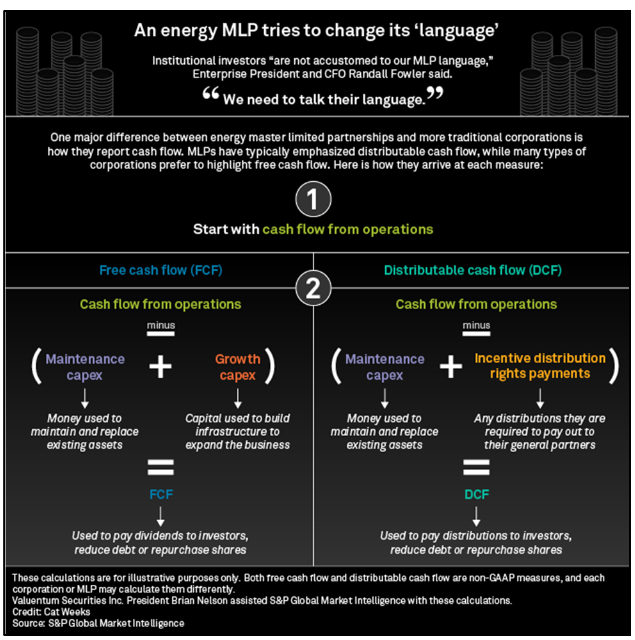

Image Source: S&P Global (Valuentum assisted in the calculations).

Iron Mountain (IRM): In an environment of ultra-low interest rates, as we still are in, high yield equals high risk, and Iron Mountain is no exception. The storage and information management services REIT posted challenging first-quarter numbers April 25 that may have assuaged some of the concerns regarding volume, but the quarter was saddled with what management described as temporary "higher labor costs in (its) North American businesses in March." The executive team believes it is a one-time issue and reiterated its outlook for full-year financial performance but make no mistake about it: This near-8% yielder is not for the faint of heart. The REIT is among the most shorted stocks on the market, too, and even sell-side brokerage outfits are casting a shadow on the firm, with a downgrade April 26. We didn't like the company's first-quarter EBITDA number of $324.5 million versus the $355+ million consensus (and $343 million from last year's quarter), but we're not overreacting.

Magellan Midstream Partners (MMP): Magellan hasn't yet migrated to the prominent reporting of operating cash flow and free cash flow, as with Enterprise Products Partners, but we hope that it will. In any case, the MLP's measure of distributable cash flow hit a record $318 million during the first quarter of 2019, results released May 1, compared to $258.9 million for the first quarter of 2018. Magellan noted strength in its "core, fee-based transportation and terminals activities." It's hard for us not to like the fundamental momentum in its business, and the executive team indicated that its "outlook for the remainder of 2019 has strengthened." The MLP is committed to raise its annual cash distributions by 5% in 2019. Units yield 6.6% at the time of this writing.

Public Storage (PSA): We didn't see anything in Public Storage's first-quarter report, released May 1, that would cause any concern relative to our income thesis. Funds from operations (FFO) came in at $2.52 per share during the period, a nice 6.3% increase relative to last year's mark (core FFO advanced 2%). The company's FFO remains far in excess of its regular quarterly common dividend of $2 per share at the moment, and its debt load remains very manageable. What we like most about Public Storage is that the company is free cash flow positive on a traditional basis, registering more than $2.06 billion in operating cash flow and just $140 million in capital expenditures during fiscal 2018. Very few REITs have this traditional free-cash-flow strength. It yields 3.4% at the time of this writing.

Schlumberger (SLB): Schlumberger has encountered selling pressure since battling back to the mid-$40s and has since dropped back down to the mid-$30s. We still like the company, but again, only in the context of a diversified portfolio and only as it relates to corporate exposure to high yield. During its first-quarter report, released April 18, worldwide revenue increased modestly on a year-over-year basis, but pre-tax operating income faced pressure. Cash flow from operations came in at $326 million, down from $568 million in the year-ago period, and free cash flow fell further into negative territory. Free cash flow did not cover dividends during the period, and Schlumberger holds $14.4 billion in net debt. We may swap out the company for another idea in the event its share price worsens, impeding capital-market access. Shares yield 5.8%.

Tallgrass Energy L.P. (TGE): Tallgrass Energy is a rather high-yielding entity, and its 9% distribution yield is quite attractive. The company's share price had been bumping up against new highs in early April, but the recent market sell-off has not helped. We didn't see anything it its first-quarter 2019 report that would be cause for concern, with Tallgrass recording a dividend coverage ratio of 1.35x. We may look to rid the newsletter portfolio of Tallgrass given our heavy exposure to MLPs, and we have a number of ideas that may take its place. Please be sure to pay attention to the 'Spotlight' section of each new edition of the High Yield Dividend Newsletter.

National Grid Offers a Nice Yield but Foreign Currency and Geopolitical Risks are Quite Severe

By Callum Turcan

National Grid plc (NGG) -- 6.2% yield -- is a utility with operations in the United Kingdom and the United States. Its business is represented by an electricity transmission and natural gas transmission business in the UK, after National Grid sold a majority stake in its natural gas distribution business to a large consortium in a deal that valued the business at GBP$13.8 billion when including debt. National Grid intends on divesting the rest of its stake in the business (25% equity stake), known as Cadent Gas, by the middle of calendar year 2019 for GBP$1.2 billion in cash.

Its American business is represented by an electric transmission and distribution operations, and a gas distribution operation. For reference, National Grid's fiscal year ends in March and the firm's latest fiscal year (which just ended) is referred to by management as FY2018/2019 (we will refer to its last fiscal year as FY2018, meaning the year ended March 31, 2019, for simplification purposes).

One thing we really like about National Grid is its ability to earn a nice ROE, which came in at 11.8% in FY2018. Its UK electric transmission business really stands out as that earned a ROE of 13.7% in FY2018 versus 9.5% for its UK gas transmission business and 8.8% for its regulated US business. **The firm's investment grade credit rating (Baa1/BBB+/BBB+) indicates National Grid continues to retain easy access to capital markets.**

First, let's cover the difference between the natural gas distribution business and the transmission business. Distribution networks receive gas from transmission networks and distribute that gas to end consumers, while transmission systems receive gas from import terminals and production facilities and carry that gas across (generally speaking) substantial distances to distribution networks. National Grid saw the gas distribution business in the UK as a slow-growth industry and wanted to pivot towards higher growth opportunities.

Note that while natural gas consumption in America is steadily rising due to extremely low domestic prices, and there is room for upside, that isn't likely going to be the case in the UK. Domestic production is in terminal decline, as is production from other traditional sources of supply in the region like the Netherlands (where its major offshore Groningen gas field is set to be forced offline by 2030, or earlier, due to earthquakes), Norway, and other nations. Natural gas prices are usually three times as expensive in Northwest Europe as they are in America, making it far less competitive as a source of fuel for heating and cooking purposes (and less competitive for power generation as well).

Part of National Grid's pivot involves investing more in America, aided by its recent purchase of Geronimo Energy for $100 million in a deal set to close this June. There is a chance for milestone payments as well. Geronimo Energy is a developer of renewable energy projects and National Grid is moving forward with a $125 million deal to take a 51% stake in a joint-venture with Washington State Investment Board involving a 378MW solar and wind project, which was being developed by Geronimo Energy. That deal is also expected to close by June 2019.

National Grid notes that Geronimo Energy has developed over 2.2GW of renewable energy projects backed by PPAs (power purchase agreement) **with its eyes on a series of projects that could bring over 6.0GW of green power generation online.** Specifically, onshore wind, offshore wind, and solar. Keep in mind those projects are at various stages of development.

To further enhance its profitability, National Grid is targeting USD$30 million in cost savings at its American division in FY2019 and USD$50 million in savings by FY2020. In the UK, National Grid is targeting GBP$50 million in cost savings in FY2019 and GBP$100 million in savings by FY2020. These savings are expected to be realized through lower operating expenses due to scale, as **National Grid's remaining divisions are expected to realize asset base growth of 5 – 7% in the medium-term**, and due to efficiency savings such as focusing on expectational grid reliability (as has been the case in the past) and keeping labor expenses contained.

National Grid has filed a USD$650 million request with the New York Public Service Commission to install 1.7 million smart meters and 640,000 gas modules in the Niagara Mohawk region, with the goal being to roll out this project starting in calendar year 2021 and completing the endeavor by calendar year 2024.

Interconnector projects in the UK and across Europe are going to be material, which is one reason why Brexit is very important to National Grid, as electric transmission networks across national borders need tariff-free access otherwise they may not make economic sense to pursue. Three interconnector projects are currently under construction connecting the UK with Norway, Denmark, and France, and several other interconnection projects are already operational.

As stated previously, the utility is also investing heavily in renewable energy projects backed by PPAs in both the UK and America. These endeavors are expected to drive significant asset base growth at National Grid over the coming years. The cash proceeds from the sale of National Grid's remaining Cadent equity stake will help fund part of this strategy, but note that like all utilities, National Grid expects to tap capital markets to cover its growth spend. Management expects National Grid will spend GBP$5.0 billion on capital expenditures in FY2019 and FY2020.

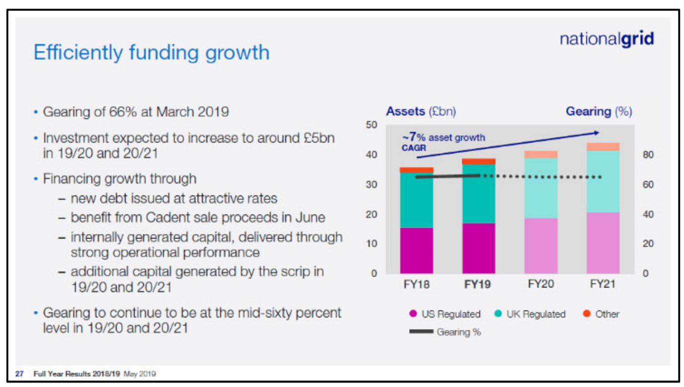

Image Source: National Grid – IR Presentation

Major Risks to be Aware of

We feel a strong need to highlight the major risks facing National Grid, which is primarily why a utility with an investment grade credit rating from all three major credit rating agencies yields 6.2% as of this writing. For starters, it's heavily exposed to foreign currency risks. From the end of FY2017 to the end of FY2018, National Grid's net debt load rose by GBP$1.5 billion due to "adverse movement in exchange rates" and another GBP$2.0 billion due to "underlying increase," resulting in its net debt load growing to GBP$26.5 billion according to management commentary.

These foreign currency headwinds are exacerbated by the ongoing Brexit turmoil and there is no clarity on how this process will play out now that UK Prime Minister Theresa May is stepping down as leader by early-June. There are many possible contenders for the next leader of both the Tory party and likely the UK assuming the same Tory-DUP collation remains in power, unless another general election is held. National Grid's latest annual report, which was for FY2017, had this to say on these issues;

> "In 2017/18, National Grid was involved in discussions with the UK Government on energy issues related to Brexit, in particular the importance of remaining within the European Internal Energy Market (IEM) after March 2019 [note the official Brexit date has since been delayed until October 31, 2019]. Currently, the UK and the EU share 4GW of electricity through interconnectors, including 1GW of electricity interconnection with Ireland. We believe ensuring access to European energy markets remains tariff-free post-Brexit is in the best interests of energy users in the UK and throughout Europe."

That brings us to the next problem facing National Grid, and that is the chance that its core UK operations are nationalized. MP Jeremy Corbyn, the leader of the Labour party, helped craft a platform for the 2017 general election that included nationalizing the UK's energy infrastructure. He continues to support nationalization of the UK's energy grid, with the idea being that a Labour-led government would offer investors government bonds in return for these assets.

Members should note this includes the possibly that these assets would be purchased at a discount to the relevant firm's share price or what can be ascertained as fair value for these businesses. It all depends on how the legislation pans out and how it impacts certain companies, but the discounts would apparently be justified by these companies not contributing enough to pension plans and due to some companies receiving subsidies, at least in the eyes of Labour's firebrand leader. Here is another excerpt from National Grid's FY2017 annual report;

> "As a result of the Labour Party manifesto for the 2017 general election, we have given serious consideration to the prospect of renationalisation of National Grid should the Labour Party win the next UK general election. The Board believes that since privatisation in 1990, National Grid has created and driven value for customers, society and investors in many ways, including:
>
> [1] Over the past decade alone, we have invested over £13 billion into required network modernisation in England and Wales, and we plan to continue to invest more than a billion pounds every year. [2] According to Ofgem, the cost of transporting electricity through Britain's energy network has fallen by 17% relative to the retail price index since the mid 1990s. [3] Our own research shows that since privatisation National Grid has created at least £12 billion of benefits for consumers, exceeding the benefits created for shareholders by more than 65%."

These downside risks are hard to quantify due to the **inherent problems facing long-term political and regulatory forecasting. In most circumstances, this kind of analysis is backward looking and isn't particularly useful as the calculus for the chance of asset nationalization is based on past political events and not the actual chance a future event might happen.**

In other words, an analyst trying to engage in such activities might say politician X from party Y supported legislation or political action Z in the past, so there is so and so chance of event A happening in the future and so and so chance of event B happening in the future. With that information, such an analyst may proceed to gauge the value of a firm's equity or the chance of a dividend cut (in the event of asset nationalization legislation passing UK's Parliament, in this case, and getting signed into law). However, this doesn't involve any discounted free cash flow forecasting, it is simply trying to draw conclusions where they can't be drawn.

Concluding Thoughts

There is a lot to like about National Grid's nice yield, growth prospects, ROE, and strong investment grade credit ratings. However, its political and regulatory risks, on both a domestic (potential nationalization due to a Labour-led government coming into power) and international basis (Brexit turmoil and the impact that could have on tariffs, trade relations, and the British pound), **pose an existential threat to its operations.** If those problems were to be resolved, which are far outside the control of National Grid, we would be a lot more interested in the name but until that's the case, this is a high-yielding stock that we are simply monitoring.

Disclosure: *The author of this piece, Callum Turcan, does not own any of the securities mentioned above.*

High Yield Dividend Spotlight on Next Page >>

High Yield Spotlight: Extra Space Storage Inc (EXR) is a Quality High Yielding Self-Storage Play with a Nice Growth Story but Watch its Debt Load

Founded in 2004 to own, operate, and develop self-storage properties in America, Extra Space Storage Inc (EXR) and its 3.4% yield makes this an interesting REIT to keep on your radar. The REIT is self-managed and estimates it either owns or manages 7.4% of the US self-storage market share as measured by square feet. Its competitors include Public Storage (PSA), which we very much like, along with CubeSmart (CUBE) and Amerco (UHAL). While there is room for upside via consolidation, the long-term growth story that is American demand for self-storage offerings provides Extra Space a powerful tailwind in the coming years.

> *"**Our core FFO for the quarter was $1.16 per share, exceeding the high end of our guidance by $0.02.** The beat was primarily due to stronger-than-expected same-store property performance and lower-than-anticipated G&A and income tax expenses. We continue to see solid performance in the majority of our markets. Revenue growth was primarily driven by achieved street rate growth. Discounts were also down as a percentage of revenue in Q1, providing a modest tailwind that we don't necessarily expect in future quarters. Our same-store revenue growth includes a change in pool benefit of 30 basis points in the quarter and we anticipate that it will provide a benefit of 15 to 20 basis points for the full year." – Scott Stubbs, CFO of Extra Space Storage, during the REIT's first quarter 2019 conference call*

Guidance Raised, Dividend Grows, Downside Risks

Extra Space recently increased its dividend by almost 5% to $0.90 per share on a quarterly basis, or $3.60 on an annualized basis. Management expects the firm to post $4.76 – 4.85 in core FFO this year, guidance that was revised upwards from Extra Space's forecast put forth during its fourth quarter 2018 earnings cycle. Firms that raise guidance are signaling to the market that they are extremely confident in their ability to meet expectations, which we like, and that indicates Extra Space's fundamentals are built on solid ground. Keep in mind the REIT beat its own guidance during the first quarter of 2019.

Based on its latest quarterly dividend and its core FFO expectations for 2019E, Extra Space is targeting a payout ratio of roughly 75% at the midpoint, which is very strong. Having a payout ratio below 80% provides for significantly better dividend coverage that supports its payout growth story and gives Extra Space a buffer should adverse effects negatively impact its financials.

Be aware that **Extra Space does have its problems, namely a large net debt load** that's comprised of $4.1 billion in net notes payable, $0.6 billion in net exchangeable senior notes, $0.3 billion in revolver credit line debt, and $0.1 billion in lease operating liabilities at the end of March 2019. That was offset by only a negligible amount of cash and cash equivalents, which stood at less than $0.1 billion at the end of Extra Space's first quarter 2019. A large net debt balance of roughly $5.1 billion is concerning. Moody's Corporation (MCO) gives Extra Space an investment grade credit rating for its unsecured debt of A2 with a stable outlook, which provides some level of support as it appears Extra Space is expected to retain access to capital markets at attractive rates.

Extra Space Storage Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2019 (Unaudited)	December 31, 2018
Assets:		
Real estate assets, net	$ 7,688,617	$ 7,491,831
Real estate assets - operating lease right of use assets	94,198	—
Investments in unconsolidated real estate ventures	161,029	125,326
Cash and cash equivalents	38,988	57,496
Restricted cash	7,840	15,194
Other assets, net	141,842	158,131
Total assets	$ 8,132,514	$ 7,847,978
Liabilities, Noncontrolling Interests and Equity:		
Notes payable, net	$ 4,101,958	$ 4,137,213
Exchangeable senior notes, net	564,136	562,374
Notes payable to trusts	—	30,928
Revolving lines of credit	335,000	81,000
Operating lease liabilities	103,578	—
Cash distributions in unconsolidated real estate ventures	44,570	45,197
Accounts payable and accrued expenses	99,302	101,461
Other liabilities	110,158	104,383
Total liabilities	5,358,702	5,062,556

Image Shown: Extra Space carries a large net debt load on its balance sheet. Image Source: Extra Space – IR Presentation

On the other hand, Extra Space (unlike most REITs) is very free cash flow positive (see Exhibit I at the end of this piece). While the REIT business model is built around continuously tapping capital markets to fund growth, Extra Space (and some other storage-oriented firms) is different. Growth comes from higher storage fees, better utilization rates, and cost control measures, as well as acquiring new storage properties. In 2018, Extra Space generated almost $0.7 billion in net operating cash flow while spending less than $0.1 billion on capital expenditures (as defined as 'development and redevelopment of real estate assets' and 'purchase of equipment and fixtures' within Extra Space's investing uses of cash). That provides a level of protection, as does Extra Space's investment grade credit rating. Extra Space exited the first quarter of 2019 with a net debt to EBITDA ratio of 6.0x (provided by the company) when using an annualized measure of EBITDA based on its quarterly performance.

REITs generally carry high debt loads, which is why it is imperative to retain access to capital markets and access to liquidity. Extra Space had $0.8 billion in total revolver capacity (which was partially drawn) at the end of March 2019, supplemented by an at-the-market equity issuance program. In the recent past, Extra Space has preferred to use debt and free cash flow instead of equity to fund its growth ambitions.

Promising Growth Story

The REIT continues to expand its own physical footprint and its property management services division with management noting that (from Extra Space's first quarter 2019 conference call):

> *"In the quarter, we invested $270 million in acquisitions. We continue to have success acquiring properties through off market transactions. For example, and as we mentioned last quarter, we bought a joint venture partner's interest in 12 properties in Los Angeles and the Bay Area for $192 million.* ***We continue to explore other opportunities to enhance shareholder returns through mutually beneficial partnerships. We also continue to see significant growth in our third-party management platform.*** *In the quarter, we added 46 stores, while only 2 stores left the platform both due to property sale. Additions to our third-party platform continue to be a mix of newly constructed and existing properties, bringing high-quality stores into our system as well as additional income. Between our third-party program and our JV stores, we have 805 managed stores with* ***a strong remaining pipeline for the year.****"*

With a very diverse geographic footprint, Extra Space can cater to growing demand for self-storage with ease. California and Texas are home to roughly a quarter of Extra Space's properties (owned or managed). The REIT had 1,696 properties as of its latest earnings report with 53% of those wholly-owned, 13% owned in part through joint-ventures, and 34% of those properties are just managed by Extra Space. Below is a look at the steady growth in Extra Space's asset base over the years.

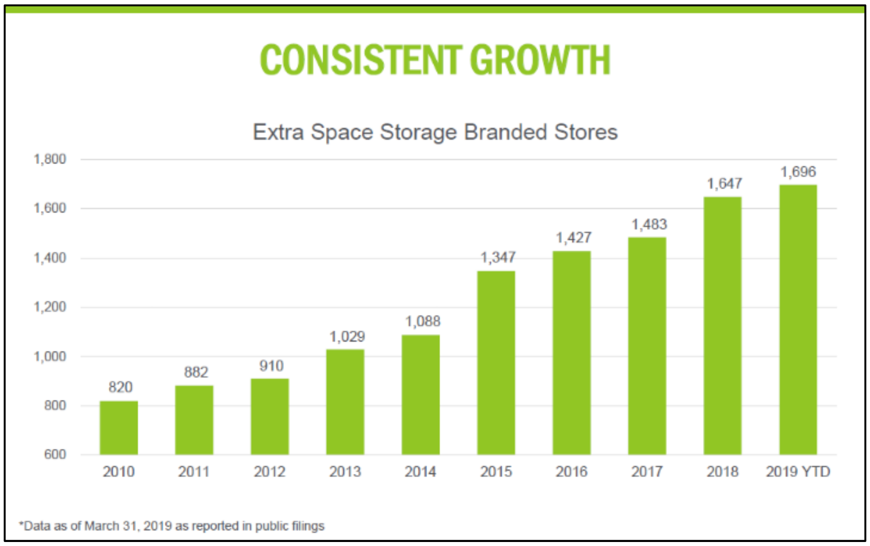

Image Shown: Extra Space has more than doubled its branded store count since 2010. Image Source: Extra Space – IR Presentation

We expect Extra Space's growth trajectory will continue as a greater portion of Americans use public storage options, particularly those in growing metropolitan areas where the REITs potential customers are likely to have limited storage capacity at their primarily residence. Big homes with garages aren't cheap in these regions, and the supply of such locations is extremely limited in many instances. Multi-family housing developments are becoming increasingly common, which speaks well to Extra Space's growth story.

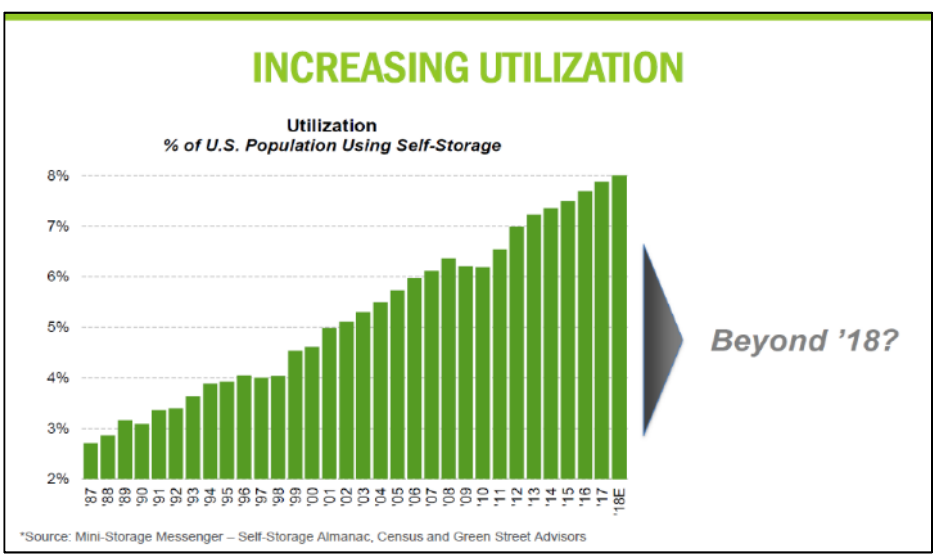

Image Shown: Extra Space notes that Americans are increasingly taking to public storage options with a much greater portion of the population now using these facilities versus utilization rates back in the late-1980s. Image Source: Extra Space – IR Presentation

In 2017, Extra Space generated $4.38 in core FFO per share, climbing to $4.67 per share by 2018. This year, management is guiding for ~$4.81 in core FFO per share at the midpoint of guidance. We appreciate the consistent nature of Extra Space's core FFO growth as that helps ensure its business model remains sound. It's worth noting that on a diluted basis, Extra Space's share count dropped in 2018 versus 2017 levels as the firm repurchased exchangeable notes (while also issuing out a modest number of shares). More broadly, it appears that Extra Space doesn't intend to lean heavily on equity issuance to fund its growth story, and instead prefers to tap debt markets as its cost of debt is quite low. According to its first quarter 2019 financial supplemental, Extra Space's weighted-average cost of debt was just 3.5% with a weighted-average maturity of 4.7 years.

Acquisition Activity

One thing that needs to be monitored is Extra Space's acquisitive behavior and how that impacts its relative net debt levels going forward. The company is built for growth as management aggressively acquires properties, renovates and expands those properties, and re-launches those sites under the Extra Space brand. So far, management has proven that this REIT can continuously integrate new locations into its operations and earn a decent return on those investments, supporting its investment thesis. Integration risks are always a concern, but as the American market is primed for expansion, these new offerings tend to find plenty of demand. Extra Space's same-store occupancy rate stood at 91.6% during the first quarter of 2019, while its same-store revenue rose by 4.2% year-over-year and its same-store net operating income climbed by 4.8%. Earning more from its existing asset base while adding new properties to its operations compounds nicely.

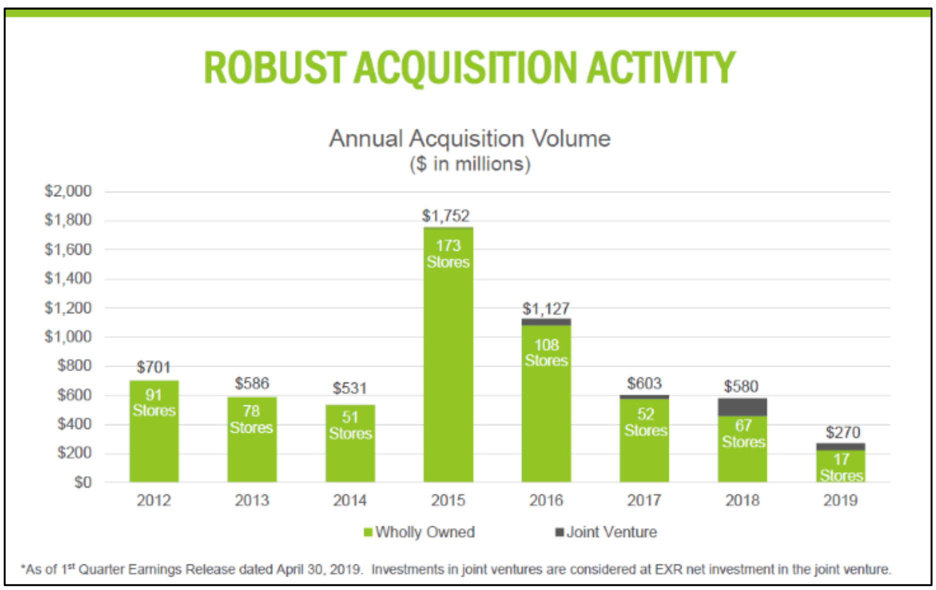

Image Shown: Extra Space has been steadily buying up new properties since 2012. New properties create new investment opportunities via renovation, upgrades, and capacity expansions. Image Source: Extra Space – IR Presentation

Concluding Thoughts

Extra Space operates in a market primed for explosive growth over the coming years. While its net debt load is a concern, **Extra Space's consistent financial performance, strong investment grade credit rating, free cash flow generation, guidance beat and raise, and relatively low payout ratio provides for good dividend coverage**, as long as it retains access to capital markets. Boosting revenue and ultimately net operating income at its existing stores highlights Extra Space's ability to pass along any potential cost increases to its customers with relative ease while not losing a material amount of business.

Exhibit I – Extra Space Storage's free cash flow generation defined as net operating cash flow less 'development and redevelopment of real estate assets' and 'purchase of equipment and fixtures'

Extra Space Storage Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)

	For the Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income	$ 447,080	$ 514,222	$ 397,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	209,050	193,296	182,560
Amortization of deferred financing costs	14,286	12,289	12,922
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	4,687	5,103	4,900
Non-cash interest expense related to amortization of premium on notes payable	—	—	(872)
Compensation expense related to stock-based awards	11,176	9,561	8,045
Gain on sale of real estate assets and purchase of joint venture partners' interests	—	—	(69,199)
Gain on real estate transactions, earnout on prior acquisitions and impairment of real estate	(30,807)	(112,789)	(8,465)
Distributions from unconsolidated real estate ventures in excess of earnings	6,867	4,567	3,534
Changes in operating assets and liabilities:			
Other assets	(1,664)	(12,728)	(1,614)
Accounts payable and accrued expenses	2,736	(10,515)	10,075
Other liabilities	14,384	(5,631)	208
Net cash provided by operating activities	677,795	597,375	539,263
Cash flows from investing activities:			
Acquisition of real estate assets	(426,388)	(653,185)	(1,086,523)
Development and redevelopment of real estate assets	(80,677)	(31,746)	(23,279)
Proceeds from sale of real estate assets, investments in real estate ventures and other assets	52,458	312,165	60,813
Investment in unconsolidated real estate ventures	(65,500)	(17,944)	(28,241)
Return of investment in unconsolidated real estate ventures	49,130	581	16,953
Issuance of notes receivable	(13,850)	—	(26,429)
Principal payments received from notes receivable	25,226	44,869	42,785
Purchase of equipment and fixtures	(4,297)	(7,819)	(4,968)
Net cash used in investing activities	(463,898)	(353,079)	(1,048,889)
Cash flows from financing activities:			
Proceeds from the sale of common stock, net of offering costs	90,231	—	123,424
Proceeds from notes payable and revolving lines of credit	1,413,030	1,325,623	1,900,357
Principal payments on notes payable and revolving lines of credit	(1,109,854)	(1,088,679)	(1,122,442)
Principal payments on notes payable to trusts	(88,662)	—	—
Deferred financing costs	(12,302)	(6,967)	(17,486)
Repurchase of exchangeable senior notes	(80,270)	(19,916)	(22,195)
Net proceeds from exercise of stock options	1,169	1,266	1,444
Proceeds from termination of interest rate cap	—	—	1,650
Payment of earnout from prior acquisition	—	—	(4,600)
Redemption of Operating Partnership units held by noncontrolling interests	(2,558)	(2,510)	(506)
Contributions from noncontrolling interests	122	201	—
Dividends paid on common stock	(424,907)	(393,040)	(367,818)
Distributions to noncontrolling interests	(33,250)	(31,972)	(30,997)
Net cash (used in) provided by financing activities	(247,251)	(215,994)	460,831
Net increase (decrease) in cash, cash equivalents, and restricted cash	(13,354)	28,302	(48,795)
Cash, cash equivalents, and restricted cash, beginning of the period	86,044	57,742	106,537
Cash, cash equivalents, and restricted cash end of the period	$ 72,690	$ 86,044	$ 57,742

Image Source: Extra Space – 2018 10-K

Disclosure: *The author of this piece, Callum Turcan, does not own any of the securities mentioned above.*

Big Six Banks as a Yield Play?

By Matthew Warren

Over the years, banks have often been considered dividend plays by the market. Admittedly, this notion rightly came under a lot of skepticism and scrutiny as earnings and then dividends came under enormous pressure during the Global Financial Crisis (GFC.) That said, the banking landscape has changed dramatically since then. While several thousand banks exited the scene via failure or acquisition, it remains a highly competitive landscape and one where only the most competitively advantaged banks can earn above the cost of capital (on average) through the economic cycle. Banking is also generally not a rapid growth industry, especially in the United States and other developed economies.

In fact, when you come across a rapidly growing bank, you really need to analyze it with gusto to make sure it is not the kind of rapid growth that leads to a shoddy loan book and some form of spectacular bust. There are very few examples of sustainable rapid bank growth in the world.

One we would point out is HDFC Bank in India. The reason for its outsized growth is a rapidly growing banking system on the back of a rapidly growing economy. Not only that, but HDFC is one of the best run private banks, which have been steadily stealing market share from public banks for quite some time. It is this unique combination of factors that have allowed for sustainable, rapid, and profitable growth over recent decades. This is the type of unique exception that only proves the rule.

A more typical example to prove the rule would be a rapidly growing US bank in the run up to the GFC, such as New Century Financial. New Century turned out to be an ironic and ultimately sad name for this enterprise, which rapidly grew by doling out subprime home loans against the backdrop of a rapidly inflating housing bubble. Wall Street provided the funds in the form of short- and long- term debt and Wall Street bought up the loans to package into Residential Mortgage Backed Securities (RMBS) and ultimately Collateralized Debt Obligations (CDOs,) only to sell onto unsuspecting investors who were fooled by the AAA ratings placed on much of the paper by the rating agency duopoly at the time. New Century's stock took off like a moonshot, before ultimately going bust when home prices slowed down and then reversed. Loan losses mounted and the flow of subprime loan sales to Wall Street was completely shut off. The bank was stuck with all the loans in its warehouse, losses mounted, funding dried up, and the bank went bust.

The above examples are the extremes. One of the best banking opportunities in the world in HDFC Bank and one of the worst run banks in the history of global banking in New Century Financial. **Most US banks sit squarely in the middle of those two extremes with revenue growth approximating real GDP growth and returns on capital somewhere near the cost of capital.**

So, let's take a look at the Big Six US Banks and see if we can identify a high yielding opportunity for today's investor. Here are the banks I'm referring to and their forward dividend yields:

		Share Price	Forward Dividend	Yield
JP Morgan	JPM	$ 107.06	$ 3.20	3.0%
Bank of America	BAC	$ 27.16	$ 0.60	2.2%
Wells Fargo	WFC	$ 45.05	$ 1.80	4.0%
Citigroup	C	$ 63.61	$ 1.80	2.8%
Morgan Stanley	MS	$ 41.83	$ 1.20	2.9%
Goldman Sachs	GS	$ 187.37	$ 3.40	1.8%

Image Source: Yahoo Finance

The first thing you will notice is that most of these dividend yields are not among the highest on the stock exchange. There are a couple reasons for this. **First off, banks must retain some of their earnings in order to fund loan and asset growth.** With a healthy banking franchise that is maintaining market share, customers generally demand to borrow more money each year, rhyming and resembling the growth in the overall economy.

Business and corporate customers need to fund growth in things like plant and equipment and working capital in order to serve their own growing customers' demands. Consumers are financing more and more expensive homes and autos each year and they tend to take out additional credit card debt along with growing earnings. When a bank's loans (and overall assets) grow, they need to be funded with additional deposits, borrowings, and retained earnings.

Aside from funding loan and asset growth by retaining a portion of earnings, the other reason why many banks are only paying out a small portion of earnings is that they (and importantly their regulators) have learned lessons after being burnt by the GFC.

Instead of paying out most or all of earnings as dividends, banks are required by regulators to hold dramatically more capital against their assets as compared to the past. They also have chosen to aggressively employ share buybacks, which can be reduced during tough times without the same signaling effect that comes from slashing or stopping dividend payments. **This caution of dividends being extremely well covered by earnings can be seen in the below graphic.**

		2018 EPS	2018 DPS	Div Coverage
JP Morgan	JPM	$ 9.00	$ 2.72	331%
Bank of America	BAC	$ 2.64	$ 0.54	489%
Wells Fargo	WFC	$ 4.28	$ 1.64	261%
Citigroup	C	$ 6.68	$ 1.54	434%
Morgan Stanley	MS	$ 4.73	$ 1.10	430%
Goldman Sachs	GS	$ 25.27	$ 3.15	802%

Image Source: Banks' Annual 10K Reports

As you can see, even the most aggressive dividend payor in Wells Fargo is covering its dividends with earnings by 261%! Wells is also buying back shares on top of its 4% yield. Even if earnings were cut in half due to a horrible recession, Wells could still cover its dividend payment with earnings.

Now of course this becomes a theoretical discussion, because in that type of dire scenario, Wells management and/or its regulators might feel the pressure to cut the dividend and retain even more earnings to protect against the bogey man. Afterall, the GFC proved that its hard to know how bad things can get before bottoming out, and Congress would not be tripping over itself to come to the rescue with TARP 2.0, injecting capital into the country's largest banks all over again.

Aside from earnings coverage of the dividend, let's see how profitable the banks are? Are they healthy enough to pay stable or growing dividends into the future? Let's look at the following graphic to check in on the banks Return on Equity (ROE.)

		2018 ROE
JP Morgan	JPM	13.00%
Bank of America	BAC	11.04%
Wells Fargo	WFC	11.53%
Citigroup	C	9.40%
Morgan Stanley	MS	11.80%
Goldman Sachs	GS	13.30%

Image Source: Banks' Annual 10K Reports

Given a decade to recover from the GFC and several years of a benign economic backdrop, the Big 6 banks are almost all earning ROEs at or above the cost of equity capital--which would be in the neighborhood of 10%. As mentioned previously, credit costs could mount substantially, denting earnings, and the current dividend payouts would remain well covered.

Do these banks benefit from a healthy base of deposits to fund their loans and other assets? Let's check in on the banks' loan to deposit (L/D) ratios and deposits as a percent of total liabilities in the below graphic.

		2018 Loans	2018 Deposits	L/D Ratio	2018 Liabilities	Deposits/Total Liabilities
JP Morgan	JPM	$ 971,109	$ 1,470,666	66%	$ 2,366,017	62%
Bank of America	BAC	$ 937,294	$ 1,381,476	68%	$ 2,089,182	66%
Wells Fargo	WFC	$ 953,110	$ 1,286,170	74%	$ 1,698,817	76%
Citigroup	C	$ 671,881	$ 1,013,170	66%	$ 1,721,163	59%
Morgan Stanley	MS	$ 115,579	$ 187,820	62%	$ 773,285	24%
Goldman Sachs	GS	$ 73,912	$ 158,257	47%	$ 841,611	19%

Image Source: Banks' Annual 10K Reports

Above we can see that all 6 banks' loan books are more than funded with deposits. These are healthy ratios. You can also see how much of the banks' total liabilities are comprised of deposits. Here you start to see the separation between what I'll call "real banks" like JP Morgan, Bank of America, Wells Fargo, and Citigroup versus the Investment Banks of Morgan Stanley and Goldman Sachs. The latter two, while technically designated "bank holding companies" since being converted during the GFC, hold a lot of things on their balance sheets that are neither loans nor deposits.

This comes from their outsized securities businesses compared to their nascent old school traditional banking (deposits and loans) businesses. **I would argue the first 4 "real banks" would be a much more reliable source of dividends**, especially if the capital markets (even temporarily) go to hell in a hand basket. **Morgan and Goldman are simply MUCH MORE reliant on capital market levels, trading activity, and new equity and debt issuance than are the "real banks," where these volatile sources of earnings are a more balanced piece of the overall pie.** Now, let's take a look at the banks' capital levels and a proxy for liquidity below.

		Common Tier 1 Ratio	Tangible common equity ratio	HQLA/Assets
JP Morgan	JPM	12.0%	7.0%	20.2%
Bank of America	BAC	11.6%	7.6%	18.9%
Wells Fargo	WFC	11.7%	7.7%	19.4%
Citigroup	C	11.9%	7.9%	17.6%
Morgan Stanley	MS	16.9%	7.4%	22.8%
Goldman Sachs	GS	12.0%	7.5%	17.2%

Image Source: Banks' Annual 10K reports

As you can see above, all six banks are **SUBSTANTIALLY** better capitalized than they were going into the GFC. This is due to the regulatory response that has taken place since. Regulators stepped up the amount of common equity that is required to be held against (risky) assets held on the balance sheet. I simply do not have concerns about capital at this stage, especially when matched with the earnings power that was described above. Both act as a life preserver when the storms of worsening credit rise. You can also see above that High Quality Liquid Assets make up very substantial portions of the balance sheet at all 6 banks, meaning that if funding were to temporarily dry up in a horrendous situation, these banks could fund drawdowns in liabilities from sketched out stakeholders by drawing down liquid assets.

So, it is my judgment that the "real bank" dividends are safe in all but the most extreme economic situations, but can they grow? Let's take a look at the growth of several key metrics over the past five years to help guide us.

		2014 Net Revenue	2018 Net Revenue	5 Yr Rev CAGR	2014 EPS	2018 EPS	5 Yr EPS CAGR	2014 Div	2018 Div	5 Yr Div CAGR
JP Morgan	JPM	$ 95,994	$ 109,029	2.6%	$ 5.29	$ 9.00	11.2%	$ 1.58	$ 2.72	11.5%
Bank of America	BAC	$ 85,894	$ 91,247	1.2%	$ 0.43	$ 2.64	43.8%	$ 0.12	$ 0.54	35.1%
Wells Fargo	WFC	$ 84,347	$ 86,408	0.5%	$ 4.10	$ 4.28	0.9%	$ 1.35	$ 1.64	4.0%
Citigroup	C	$ 78,176	$ 72,854	-1.4%	$ 2.20	$ 6.68	24.9%	$ 0.04	$ 1.54	107.5%
Morgan Stanley	MS	$ 34,275	$ 40,107	3.2%	$ 1.60	$ 4.73	24.2%	$ 0.35	$ 1.10	25.7%
Goldman Sachs	GS	$ 34,649	$ 36,616	1.1%	$ 17.07	$ 25.27	8.2%	$ 2.25	$ 3.15	7.0%

Image Source: Banks' Annual 10K Reports

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Goldman Sachs	GS	$ 34,649	$ 36,616	1.1%	$ 17.07	$ 25.27	8.2%	$ 2.25	$ 3.15	7.0%

Image Source: Banks' Annual 10K Reports

The picture that emerges from the above numbers is a bit mixed. Revenue growth has been quite slow, with only JP Morgan and Morgan Stanley growing ahead of the low bar of inflation. All of these banks have running off GFC-related "non-core" loans to some extent in the past decade. Earnings growth was more rapid for all but Wells and Goldman Sachs, though in some cases this is because of the low bar set back in 2014 when some of these banks were still taking large credit (and lawsuit) hits leftover from the GFC. Considering the "real banks," **Bank of America's 3.2% deposit growth and JP Morgan's 5.1% loan growth stand out as signs of underlying health in their franchises.**

So, what does all of this mean to the investor looking for high and/or growing dividends? **Wells Fargo stands out with highest yield at 4%, a number that is up there with some of the higher paying and yet safe dividends out there on the stock exchange. I think it merits serious attention for those constructing high dividend portfolios.** While Wells Fargo has faced a litany of problems of late, with fake accounts being the most egregious of its offenses, and a temporary halt on asset growth as the result of a regulatory decree. Wells is taking dramatic action to get back on sides with regulators including the CEO recently standing down.

They are investing heavily in people and systems to face down its operational problems and I am confident that the decree will ultimately be lifted before too much more time passes. In the meantime, Wells can simply run down less important assets like treasury and mortgage-backed securities (MBS) in order to keep funding its customers loan growth, preventing further damage to its existing client franchise. **I think Wells is the ticket for those looking to ad a bank to a high yield portfolio.**

For those looking more closely at dividend growth over the long term, I would consider JP Morgan or Bank of America, which I would argue are the two best positioned large banks in the country at this juncture. I am confident that these two banks (and Wells Fargo) will continue to take market share from the thousands and thousands of smaller banks in this country for many decades to come. Given the regulatory crack-down post GFC, these banks haven't looked like such a safe bet in decades. While economic and market stress could dent earnings during a recession, these three banks are strong enough to bounce back and continue taking market share into the foreseeable future.

Disclosure: *Brian Nelson, Callum Turcan, and Matthew Warren do not own any shares of any securities mentioned in their authored articles. Please contact info@valuentum.com for more information regarding Valuentum's editorial policies.*

Value Trap Wins Awards!

***East Coast friends:* Brian will be available for a book signing at Headline Books booth 957 from 3-5pm at the American Library Association Conference at the Walter E. Washington Convention Center in Washington DC June 22 (more details to follow). Value Trap has been named a Next-Generation Indie Award Winner!**

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We can't begin to tell you how excited we are about the high yield space during 2019. We think we did pretty good during 2018 given the uncertainty regarding Fed policy, but as you've noticed since the December 2018 bottom in the market, high yield dividend equities have come roaring back!

We think this is the beginning of what could be a nice run in the space given a more "dovish" stance by Fed policy. We also think the High Yield Dividend Newsletter portfolio positions us fairly well for whatever the market may throw at us. We're pretty well-diversified, and we've started to identify some pretty good individual equity ideas of late.

The high yield dividend equity arena trades a lot like junk bonds, meaning that interest rates play a key role in how equities will perform. As interest rates fall, high yield stays in vogue, but as interest rates rise, many look elsewhere. This impacts pricing greatly.

We know there's a lot of competition in this area, but we're laser focused on identifying high yielding stocks that have sustainable yields, and if the income stream becomes threatened, we won't hesitate to say goodbye to a name. The simulated High Yield Dividend Newsletter portfolio is presented each month in similar fashion (list and weightings) 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 Div Yield
CORE			
Alerian MLP ETF	AMLP	5.0%	8.06%
Global X SuperDividend ETF	SDIV	5.0%	9.07%
Global X SuperIncome Preferred ETF	SPFF	10.0%	6.90%
iShares International Select Dividend ETF	IDV	5.0%	5.53%
iShares MSCI Australia ETF	EWA	5.0%	5.42%
iShares U.S. Preferred Stock ETF	PFF	5.0%	5.91%
PowerShares Senior Loan Portfolio	BKLN	5.0%	4.63%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	6.14%
Vanguard Real Estate ETF	VNQ	10.0%	3.96%
EQUITY			
AT&T	T	5.0%	6.59%
BP PLC	BP	5.0%	5.63%
Digital Realty Trust	DLR	5.0%	3.67%
Enterprise Products Partners	EPD	5.0%	6.11%
Iron Mountain	IRM	5.0%	7.52%
Magellan Midstream Partners	MMP	5.0%	6.48%
Public Storage	PSA	5.0%	3.62%
Schlumberger	SLB	5.0%	4.69%
Tallgrass Energy LP	TGE	5.0%	8.02%
		100.0%	**5.94%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 6/1/2019. Est. Div. Yield retrieved from YahooFinance.

SCREEN OF THE MONTH – THE FINANCIALLY-HEALTHIEST DIVIDEND PAYERS YIELDING OVER 2%

The following is a list of stocks that have the highest multiplicative combination of their dividend yield and Dividend Cushion ratio, per our estimates. We exclude the business models of master limited partnerships and real estate investment trusts in this screen and focus exclusively on corporates. We also make a few other tweaks with respect to business model risk considerations.

Income investors have a lot to choose from, and this screen is one of our favorites -- it focuses on identifying the financially-healthiest dividend-payers with yields over 2%. We've overlaid the screen with an Economic Castle assessment to consider business-model risk, too!

Note: *The 'Multiple' in this list considers a company's dividend yield and Dividend Cushion ratio as a multiplicative combination. Though it is a robust and largely objective measure, there could be exogenous or secular dynamics that could impact the business, where a dividend may not be as strong as the financials indicate. This screen was included in the June edition of the Dividend Growth Newsletter.*

Company Name	Symbol	Div Cushion	Economic Castle	Multiplie
GameStop	GME	1.8	Attractive	31.29
General Motors	GM	3.4	Attractive	14.90
Chico's FAS	CHS	2.3	Attractive	13.74
Honda	HMC	3.7	Neutral	12.98
Gilead Sciences	GILD	3.1	Very Attractive	12.17
Fluor	FLR	4.1	Attractive	11.79
Chicago Rivet	CVR	3.9	Neutral	11.78
Guess	GES	3.9	Attractive	10.48
Automatic Data Processing	ADP	5.0	Very Attractive	10.36
Abercrombie & Fitch	ANF	3.3	Attractive	10.17
Cooper Tire & Rubber	CTB	8.1	Neutral	9.96
Methode Electronics	MEI	6.0	Attractive	9.75
Hewlett-Packard	HPQ	3.1	Attractive	9.74
Bristol-Myers Squibb	BMY	2.7	Very Attractive	9.29
Western Union	WU	2.1	Neutral	9.22
American Eagle	AEO	3.5	Attractive	9.19
Gap	GPS	2.3	Attractive	8.46
Caterpillar	CAT	2.8	Very Attractive	8.41
Gentex	GNTX	4.4	Attractive	8.37
Total	TOT	1.6	Neutral	8.27
Huntsman	HUN	3.0	Attractive	8.25
Ralph Lauren	RL	4.3	Attractive	8.19
Omnicom	OMC	2.3	Unattractive	8.01
Dick's Sporting	DKS	2.6	Attractive	7.96
Cummins	CMI	2.6	Attractive	7.94
Tapestry	TPR	1.9	Attractive	7.93
Foot Locker	FL	3.3	Attractive	7.74
QUALCOMM	QCOM	2.1	Very Attractive	7.71
Apple	AAPL	5.5	Very Attractive	7.69
H&R Block	HRB	2.1	Very Attractive	7.67
Archer-Daniels-Midland	ADM	2.3	Attractive	7.66
Walgreens Boots Alliance	WBA	2.3	Attractive	7.64
AVX Corp	AVX	2.9	Attractive	7.50
Manpower	MAN	3.1	Attractive	7.47
Lear Corp	LEA	4.1	Attractive	7.45
Newmont Mining	NEM	4.1	Neutral	7.40
Amgen	AMGN	2.4	Very Attractive	7.37
Ethan Allen	ETH	1.8	Unattractive	7.31
Rio Tinto	RIO	1.6	Neutral	7.19
Cisco	CSCO	2.8	Very Attractive	7.17
MKS Instruments	MKSI	8.9	Attractive	7.15
Taiwan Semiconductor	TSM	2.0	Attractive	7.14
McKesson	MCK	5.9	Very Attractive	7.07
Southwest	LUV	5.6	Attractive	7.02
Applied Materials	AMAT	3.6	Very Attractive	7.01
Cardinal Health	CAH	1.7	Attractive	6.95
Oracle	ORCL	4.5	Very Attractive	6.93
Novartis	NVS	2.3	Attractive	6.93
AmerisourceBergen	ABC	3.5	Very Attractive	6.92
Paychex	PAYX	2.4	Very Attractive	6.92

Note: The 'Multiple' in this list considers a company's dividend yield and Dividend Cushion ratio as a multiplicative combination. Though it is a robust and largely objective measure, there could be exogenous or secular dynamics that could impact the business, where a dividend may not be as strong as the financials indicate.

For example, **GameStop (GME)** is dealing with a secular shift toward digital gaming, while **Abercrombie & Fitch (ANF) and Guess (GES)** are navigating changing consumer preferences as millennials seek 'experiences' not 'things' (e.g. fashion). The Dividend Cushion is only one factor that we use in assessing the overall health of a company's dividend.

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 26-Mar-2019 | Data as of 18-Mar-2019

Verizon VZ 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	$46.00 - $68.00	HEALTHY	VERY POOR / 0	VERY POOR	4.03%

Assessment of Company Dividend Strategy

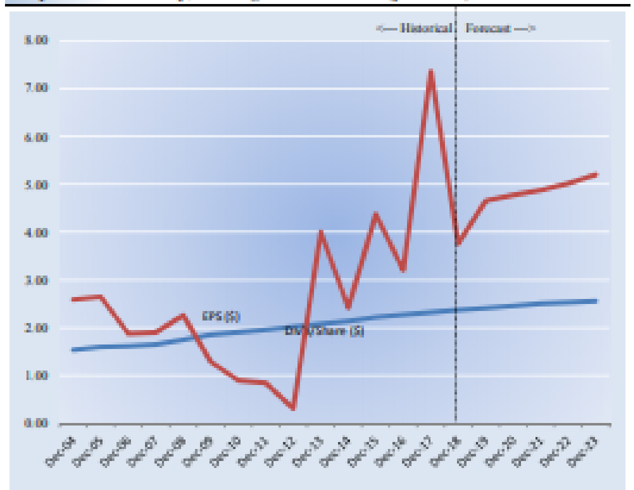
Key Strengths

Verizon is one of the most well-known telecommunications companies in our coverage universe, arguably delivering the fastest mobile network in the industry. The company has paid a dividend every year since 1984 and has increased its dividend-per-share payout for the past 10+ consecutive years. Verizon recently acquired the remaining portion of Verizon Wireless from Vodafone, a move we like from an operational standpoint. Although the company increased its leverage significantly in the process, it is still a very strong generator of free cash flow. As with many companies in the telecommunications industry, capital expenditures are sizeable, but the magnitude of free cash flow continues to be robust.

Potential Weaknesses

The acquisition of the remaining portion of Verizon Wireless it does not already own has significantly expanded Verizon's balance sheet, with over $113 billion in total debt at the end of 2018. Recently, S&P revised its rating outlook of Verizon to BBB+ from A-, but management claims it is on track to returning its credit rating profile to that of pre-Vodafone deal levels in 2019. Management has prioritized paying down its immense debt load, and a net debt-to-adjusted EBITDA mark of ~2.3x isn't terrible (as of year-end 2018). Verizon may be an outstanding free cash flow generator but debt service costs, capital investments, and dividend obligations are not minimal by any stretch of the imagination.

Graphical Relationship, Earnings and Dividends (per share)

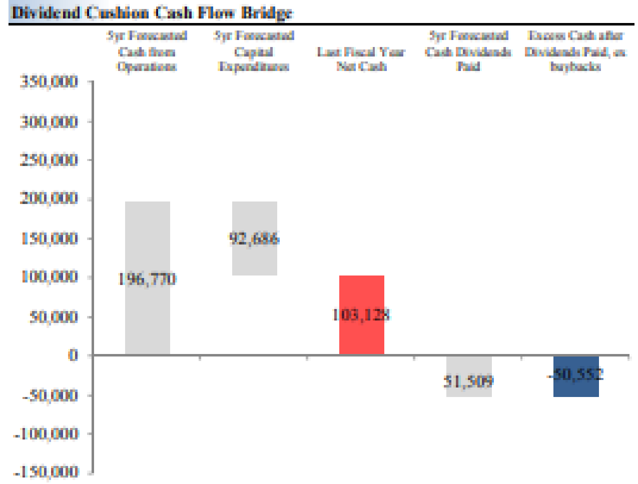


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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. Verizon'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.

Dividend Cushion Cash Flow Bridge

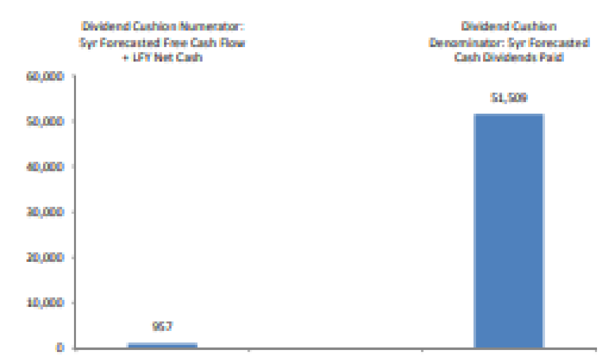


Source: Company Filings, Valuentum Projections

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, Verizon'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.

Dividend Cushion Ratio Deconstruction



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.