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HIGH YIELD DIVIDEND NEWSLETTER

Making A Couple Newsletter Portfolio Changes: Adding VDC and Reducing SJB Weighting

Latest Changes to High Yield Dividend Newsletter
Weighting Changes: 5.0% Reduction in SJB (Reducing Weighting to 2.5%) – June 1
Added: 5.0% to VDC – June 1

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"WE ARE MAKING FURTHER ADJUSTMENTS TO OUR HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO DUE TO THE RECENT HISTORIC MOVES BY THE FEDERAL RESERVE IN THE US CORPORATE BOND MARKET."

– CALLUM TURCAN

Image Shown: *We are adding a 5.0% weighting in the Vanguard Consumer Staples ETF (VDC) to our High Yield Dividend Newsletter portfolio and reducing our weighting in the ProShares Short High Yield ETF (SJB) down to 2.5%.*

By Callum Turcan

Dear members,

We are making a couple changes to the High Yield Dividend Newsletter portfolio, **starting with reducing the 7.5% weighting in the ProShares Short High Yield ETF** (SJB) **to 2.5% (was 7.5%).** The ETF continues to act as a hedge against a severe widening in the spread of speculative grade (also referred to as non-investment grade or "junk") US corporate bond yields over comparable US Treasuries. Given rising exogenous headwinds to economic activity due to the ongoing coronavirus ('COVID-19') pandemic, we viewed it as prudent to add such a hedge on April 1, 2020.

For starters, many retailers have filed for bankruptcy in recent months including J. C. Penny (JCPNQ) and Neiman Marcus, and retailers that have managed to stay afloat for now, including Macy's (M) and Nordstrom (JWN), have had to issue new debt with hefty coupons. In the energy space, the pain from low raw energy resource prices has prompted widespread bankruptcies with many more likely on the way.

Now that the Fed has started to purchase both investment grade and junk corporate bonds through ETFs and individual companies (particularly "fallen angels" or firms that were rated as investment grade before the pandemic struck), we view it as prudent to scale back that hedge. While the risk for a high yield spread "blowout" remains very real, the Fed has intervened in a big way. In April, the Fed announced these major programs, and by May has embarked on these programs in earnest. Major fiscal stimulus and stability measures, including the Coronavirus Aid, Relief, and Economic Security Act ('CARES Act'), have further propped up distressed companies for the time being.

Here, we would like to stress that these moves to "prop up" overleveraged companies have **created significant moral hazard** in the US economy. **Capital markets are no longer assessing credits independent of a government backstop, as they should,** and outsize risk premiums (and the penalties for taking on too much leverage) won't necessarily materialize if the Fed is engaging in what can arguably be called "stealth bailouts" of zombie enterprises. While there are limits to what the Fed can do (which is why we still want to keep a modest hedge in the High Yield Dividend Newsletter portfolio), recent events make scaling back that hedge a logical move.

With the proceeds from reducing SJB, **we are adding a 5.0% weighting in the Vanguard Consumer Staples ETF** (VDC)---**3.0% yield**---as the pandemic has fundamentally altered consumer purchasing habits with an eye towards greater purchases of big brand names (particularly in the food and beverage categories) and greater consumption of cleaning, health, and personal hygiene products. Consumer staples firms offer investors a solid way to hedge against inflation risks as inflationary pressures are passed along to consumers via price increases in products with relatively inelastic demand curves (private label goods aside).

Rising revenues, generally speaking, faciliate meaningful margin expansion in the space due primarily to significant fixed costs shrinking as a percent of revenues.

Proctor & Gamble (PG), Coca-Cola (KO), PepsiCo (PEP), Walmart (WMT), Costco Wholesale (COST), High Yield Dividend Newsletter portfolio holding Philip Morris International (PM), Mondelez International (MDLZ), Altria Group (MO), Colgate-Palmolive (CL), and Kimberly-Clark (KMB) represent the ETF's ten largest holdings and almost 66% of the ETF's total holdings at the end of April 2020.

We like Vanguard Consumer Staples ETF as a quality income generator.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Public Storage Currently Has the Financial Strength to Support Its Payout

Image Source: *Public Storage – 2019 Annual Report*

By Callum Turcan

High Yield Dividend Newsletter portfolio holding Public Storage (PSA)---**4.0% yield**---reported its first quarter results for 2020 May 1. We continue to like Public Storage due to its sizable free cash flows, manageable debt maturity schedule, and geographical diversity. The self-storage real estate investment trust ('REIT') is one of the best operators in the space.

In the first quarter, Public Storage's core funds from operations ('FFO') per share grew by 2% year-over-year,

hitting $2.58 per share, while its occupancy rate (as measured by its rentable square feet) grew ~60 basis points year-over-year, reaching 93.1%. Public Storage was also able to push through marginal same-store rent increases, though rising operating costs (particularly property taxes, payroll expenses, and marketing expenses) chipped away at its margins last quarter.

Public Storage owns and operates self-storage facilities in the US and Western Europe, as one can see in the upcoming graphic down below. While Public Storage was contemplating moving into the Australian self-storage market, a process that included submitting a non-binding proposal to acquire all of National Storage REIT's equity in February 2020, Public Storage announced it was no longer pursuing that potential acquisition as of March 2020 given rising exogenous headwinds. We think this reversal is prudent given the need for Public Storage to maintain its financial position to ride out the storm.

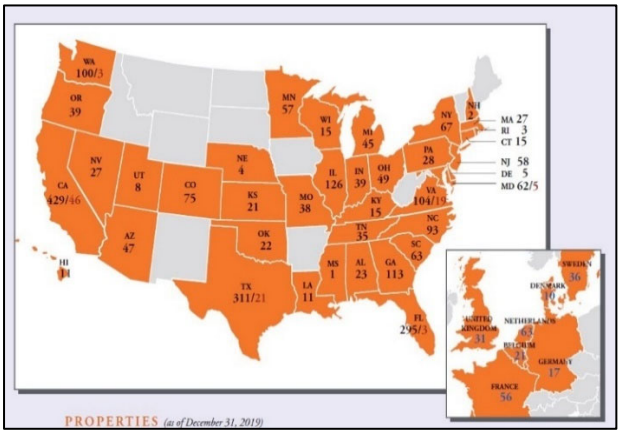


Image Shown: *An overview of Public Storage's asset base as of the end of 2019.* ***Image Source:*** *Public Storage – 2019 Annual Report*

Let's start by covering the headwinds Public Storage has been facing before digging into its financial strength.

First, Exogenous Headwinds

Going forward, management expects the ongoing coronavirus ('COVID-19') pandemic will depress Public Storage's occupancy rates and same-store rental income this year, while pressures from operating expenses will remain.

From April 1, 2020 to June 30, 2020, Public Storage has approved a temporary $3.00 per hour pay bump for its property manages given that self-storage units have been deemed an "essential" business and thus continue to operate during stay-at-home orders imposed in states across the US. Furthermore, management noted that bad debt expenses could exceed historical levels in the near-term in part due to surging unemployment rates across the country and in part due to the inability to auction off units that have been foreclosed on (which results in rental revenue recoveries).

Public Storage noted that existing customers may have their rental contracts "roll[ed] down" which means that the new rental rates will be lower than the previous rates, which is what occurred during the Great Financial Crisis ('GFC') and remains a possibly (though this dynamic hasn't played out in a material way yet according to managment).

Getting new occupants will be tough, given that stay-at-home orders still in effect will limit the movement of these potential occupants for Public Storage and the industry as a whole. The REIT has also temporarily suspended its tenant revenue rate increases. In all, Public Storage expects its financial performance will deteriorate in 2020 in the face of exogenous headwinds.

During the REIT's latest quarterly conference call, management noted that Public Storage was seeing "a decline in new move-in volumes," yet its existing tenants were "performing well at this point" and that "collections have been solid in April" which we appreciate.

The sky isn't falling, but the kind of organic growth Public Storage has been able to churn out over the past several years (i.e. rental increases and high occupancy rates) won't be possible in the short term. Public Storage has scaled back its capital investment expectations to conserve cash (and in light of delays in permitting and construction activity). Here's a key excerpt from Public Storage's first quarter earnings press release (emphasis added):

> *Since late March 2020, we have seen significant reductions in demand for self-storage space, and as a result, our move-in volumes, despite lower move-in rental rates, have also declined significantly, offset partially by lower move-out volumes* *[continued on next page]**.*

***The reduction in move-out volumes may be temporary or even reverse**, to the extent they are driven by short-term factors such as stay at home orders and delays in our auction process.*

We have also temporarily curtailed our existing tenant rate increase program. Because existing tenant rate increases have contributed the majority of our increase in rental income in recent years, curtailment of these increases will have a material adverse impact on our revenue growth.

These curtailments will impact our revenue subsequent to March 31, 2020. It is possible that the COVID Pandemic could change consumer behavior, either due to economic recession, uncertainty, or dislocation, as well as other factors, which could increase customer sensitivity and propensity to move-out in response to rate increases, either in the short or longer term.

Please note that the US self-storage industry was already facing some industry-level problems heading into 2020, largely that supply growth in many US markets had gotten ahead of the expected demand growth (a dynamic that was expected to reverse by the end of 2020 or 2021 before the pandemic came into play).

Considering that construction and renovation activity has slowed down to a crawl in most of the US due to the pandemic, that may help alleviate the oversupply problem over time when demand rebounds.

With all of this in mind, there's still plenty to like about the self-storage REIT.

Financial Update and Opportunities

In the first quarter of 2020, Public Storage generated $463 million in net operating cash flow and spent $105 million on capital expenditures, **allowing for $358 million in free cash flow.** While most REITs aren't free cash flow positive given their large capital expenditure budgets, many players in the self-storage space are. Public Storage's free cash flows didn't fully cover $402 million in 'distributions paid to preferred shareholders, common shareholders and restricted share unitholders' in the first quarter as the REIT remains capital market dependent.

By capital-market dependence risk, we are referring to Public Storage's need to retain continuous access to debt and equity markets at attractive rates to make good on its payout obligations and growth ambitions.

However, **having positive free cash flow makes retaining access to capital markets a much easier task.** Public Storage carries high quality investment grade credit ratings (A/A2) according to its 2019 Annual Report. In January 2020, Public Storage issued out €500 million (~$552 million US dollars) Euro denominated Senior Unsecured Notes with a 0.875% coupon that mature in January 2032, highlighting its ability to tap debt markets at attractive rates.

Public Storage ended March 2020 with $718 million in cash and cash equivalents on hand. Having a large cash pile on hand is another key differentiator between Public Storage and the rest of the REIT world (which generally does not retain a meaningful amount of cash on hand), and we appreciate its liquidity position.

The firm exited the first quarter of 2020 with $2.4 billion in total debt (inclusive of short-term debt), meaning it still carries a large net debt load. Public Storage's capital structure is heavily weighted towards equity as its debt-to-capital ratio stood at ~21% at the end of the first quarter (defined as its interest-bearing debt, 'senior unsecured notes' plus 'mortgage notes payable', divided by total capital). Management is confident in Public Storage's balance sheet strength (from the firm's latest quarterly conference call):

> *"[The] balance sheet is in great shape, as we've discussed on previous quarterly calls. And we're sitting right now with debt to EBITDA just to touch over 1 times, fixed charge coverage around 8 times, and over $700 million in cash on the balance sheet. So, we feel very good about our financial and liquidity position to take advantage of potential opportunity, should it arise." --- Tom Boyle, CFO of Public Storage*

Management thinks that the aforementioned self-storage oversupply problem in the US could represent an opportunity for Public Storage, particularly due to the REIT's ability to acquire financially distressed self-storage properties at advantageous prices (made possible through Public Storage's strong financial position).

Here's a lightly edited key excerpt from Public Storage's latest quarterly conference call (emphasis added):

> *"…A number of owners that have come into the sector, particularly over the last three or four years where we've seen an abundance of new supply coming into the market, particularly with owners and ownership structures that may not be well suited to deal with something like this [the ongoing pandemic]. There could be, again, a predictable fact, which would be more ability to capture assets, again, a price point that we think is very different and much more attractive than it's been over the last, say, three or four years.*
>
> *We're starting to hear, again, some rumblings around assets that I would say are underwater, where they've been funded through a certain level of debt.* ***And the valuations are below that value…***
>
> *…the ability for us to in particular, take advantage of an environment that could create that additional level of transaction activity,* ***the balance sheet is ready for it.*** *And it's ready in a meaningful way. So, we'll see how that plays through." --- Joseph Russel, CEO of Public Storage*

Bolt-on acquisitions could represent a good way to consolidate the self-storage space in the US and elsewhere without stressing Public Storage's financial position; however, larger deals need to contend with Public Storage's need to keep making good on its dividend obligations while also being in a financial position to refinance its debt load.

One key consideration is when Public Storage's debt comes due, as the REIT will need to refinance that burden given that all of its free cash flows (and then some) are going towards covering its dividend/distribution obligations. Considering its sizable cash position, undrawn $500 million revolving credit line that matures in April 2024 (Public Storage had a marginal amount of undrawn standby letters of credit posted against the credit facility at the end of the first quarter, which marginally reduces its borrowing capacity under the revolver), and apparent access to capital markets at attractive rates (with an eye towards its Euro denominated debt issuance in January 2020), **we view Public Storage's financial position as sound going forward.**

As one can see in the upcoming graphic down below, **Public Storage doesn't have any meaningful debt maturities until 2022,** and furthermore, its maturities for the remainder of 2020 and in 2021 are negligible.

Required Debt Repayments: As of March 31, 2020, the principal outstanding on our debt totaled approximately $2.5 billion, consisting of $26.8 million of secured debt, $926.3 million of Euro-denominated unsecured debt and $1.5 billion of U.S. Dollar denominated unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

Remainder of 2020	$	1,519
2021		1,865
2022		502,584
2023		19,219
2024		110,129
Thereafter		1,817,714
	$	2,453,030

The remaining maturities on our debt over at the next two years are nominal. Our debt is well-laddered, with material debt maturities at least 18 months apart, which moderates refinancing risk.

Image Shown: *Public Storage does not have any major debt maturities until 2022, as of the end of March 2020.* ***Image Source:*** *Public Storage – 10-Q filing covering the first quarter of 2020*

Concluding Thoughts

We continue to like Public Storage as an idea in our High Yield Dividend Newsletter portfolio, and additionally, we also like CubeSmart (CUBE) as an idea in that newsletter portfolio as well (see note that follows). **Public Storage's free cash flows, access to capital markets, and solid liquidity position should allow the self-storage REIT to emerge on the other side of the pandemic with its dividend intact.** Once the storm passes, the self-storage industry (particularly in the US) should be able to recover quickly given that demand for these offerings are supported by secular growth tailwinds.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

CubeSmart's Financial Flexibility Will Come in Handy

Image Source: *CubeSmart – March 2020 Investor Presentation*

By Callum Turcan

On May 7, High Yield Dividend Newsletter portfolio holding CubeSmart (CUBE)---**4.6% yield**---reported first-quarter 2020 earnings. The company pulled its full-year guidance for 2020 given the uncertainties caused by the ongoing coronavirus ('COVID-19') pandemic. We appreciate that the self-storage real estate investment trust ('REIT') **remained comfortably free cash flow positive last quarter**, which is one of the reasons why we like CubeSmart as a high yielding play in the REIT world.

Quarterly Update

As one can see in the upcoming graphic down below, one of the biggest operating expenses CubeSmart (and the self-storage REIT space at-large) faces is property taxes. Rising property values in major metropolitan areas in particular pushes up the assessed value of CubeSmart's various self-storage facilities and the related land, resulting in material growth in this line item. Rental rate increases represent the main way to compensate for this dynamic. Maintaining high occupancy rates is another key factor.

Same-Store Facility Results (477 stores)
(in thousands, except percentage and per square foot data)
(unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	Percent Change
REVENUES			
Rental income	$ 130,526	$ 127,778	2.2 %
Other property related income	12,923	13,288	(2.7)%
Total revenues	143,449	141,066	1.7 %
OPERATING EXPENSES			
Property taxes	17,019	15,817	7.6 %
Personnel expense	11,890	11,622	2.3 %
Advertising	2,168	1,789	21.2 %
Repair and maintenance	1,505	1,625	(7.4)%
Utilities	4,384	4,135	6.0 %
Property insurance	1,041	733	42.0 %
Other expenses	5,815	6,492	(10.4)%
Total operating expenses	43,822	42,213	3.8 %
Net operating income [1]	$ 99,627	$ 98,853	0.8 %

Image Shown: *On a same-store basis, CubeSmart's property taxes rose by almost 8% year-over-year during the first quarter of 2020.* ***Image Source:*** *CubeSmart – First Quarter of 2020 Earnings Press Release*

In the first quarter of this year, Cube-Smart was able to grow its same-store total revenues by almost 2% versus the same quarter the prior year, though a near 4% increase in its total operating expenses held down its same-store net operating income ('NOI') growth during this period. Going forward, the negative impact the ongoing coronavirus is having on rent collection will likely put a moderate amount of pressure on CubeSmart's financials in the short term.

Management noted this in CubeSmart's earnings press release (emphasis added):

> *Further, government stay-at-home orders have reduced rental volume as move-in and move-out activity declined in April compared to last year. At month end, same-store occupancy stood at 91.8%, down from 92.3% at the end of April 2019. Rent is due throughout the month on the anniversary date of a customer's move-in.*
>
> ***To date, 93% of April rents have been collected compared to last year, when approximately 98% of April rent was ultimately collected.*** *Due to the uncertainty of the impact of the COVID-19 pandemic, the Company is withdrawing its previously issued 2020 guidance.*

However, please note that as most of the rent due in April 2020 was collected and in light of fiscal stimulus measures in the US, **the sky is not falling**. CubeSmart's rental revenues and ultimately cash flow should hold up decently in the short-term and rebound in the medium-term as the US economy opens back up.

While CubeSmart's occupancy rate fell modestly year-over-year in April 2020, it was still well over 90% and additionally, from March 2020 to April 2020, CubeSmart's occupancy rate was broadly flat according to management. CubeSmart launched its contactless rental service SmartRental which was available nationwide as of late-April to adjust to the "new normal" created by the pandemic.

The REIT suspended rental rate increases in the interim (starting March 2020) to better allow for its customers to adjust to the pandemic, which will be reflected in its second and third quarter financials according to management (possibly beyond, though rental rate increases could resume if the US economy starts to recover by the end of this year).

CubeSmart continued to grow the business last quarter by acquiring a new property in Texas for $9 million (year-to-date through early-May 2020, CubeSmart had acquired three new properties for a total of $75 million according to its earnings press release). Additionally, CubeSmart acquired a 10% equity stake in the newly-

formed 191 IV CUBE Southeast LLC ('HVPSE') joint-venture last quarter.

That JV acquired 14 facilities last quarter (two in Florida, eight in Georgia, four in South Carolina), with CubeSmart investing a little under $6 million in the joint-venture as part of that acquisition strategy. Turning to CubeSmart's third-party management operation, the REIT added 66 new locations to its portfolio last quarter, bringing its total up to 707 third-party stores. **We really liked the growth momentum at CubeSmart's third-party management business last quarter.**

As it relates to CubeSmart's payout coverage, that remained solid last quarter on a funds from operations ('FFO') basis. While an imperfect non-GAAP metric, FFO provides a useful tool for investors to gauge the relative strength of a REIT's dividend coverage. In the first quarter of 2020, CubeSmart's FFO payout ratio (dividend per share divided by FFO per share) came in at 80.5%, up from 80.0% in the same period last year. On both an adjusted and non-adjusted basis, CubeSmart's FFO per share came in at $0.41 in the first quarter of 2020, up from $0.40 per share in the same quarter last year.

Balance Sheet Overview

CubeSmart remains capital market dependent to fund its growth ambitions (such as its capital expenditures and acquisitions of properties), cover its dividend obligations, and refinance its debt maturities which means that the REIT must retain constant access to equity and debt markets at attractive rates. The REIT has an at-the-market equity issuance program that can be used to raise incremental amounts of capital, though no equity was issued under the program during the first quarter of 2020.

Additionally, CubeSmart possesses a revolving credit facility that's due in June 2024 with $750 million in borrowing capacity. Given that CubeSmart's investment-grade credit rating stood at BBB/Baa2 at the end of March 2020, its interest rate on that revolver is 1.10% + LIBOR (inclusive of a facility fee of 0.15%).

At the end of March 2020, the REIT had ~$749 million in borrowing capacity under that revolver, with ~$1 million in letters of credit posted against the facility, providing CubeSmart with ample access to liquidity as needed.

As you can see in the upcoming graphic down below, CubeSmart had a material amount of debt outstanding and a modest amount of cash and cash equivalents on hand at the end of last quarter.

CUBESMART, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Storage properties	$ 4,716,549	$ 4,699,844
Less: Accumulated depreciation	(944,958)	(925,359)
Storage properties, net (including VIE assets of $100,143 and $92,612, respectively)	3,771,591	3,774,485
Cash and cash equivalents	35,719	54,857
Restricted cash	2,760	3,584
Loan procurement costs, net of amortization	3,834	4,059
Investment in real estate ventures, at equity	95,174	91,117
Other assets, net	93,684	101,443
Total assets	$ 4,002,762	$ 4,029,545
LIABILITIES AND CAPITAL		
Unsecured senior notes, net	$ 1,836,223	$ 1,835,725
Revolving credit facility	—	—
Mortgage loans and notes payable, net	95,263	96,040
Accounts payable, accrued expenses and other liabilities	136,310	137,880
Distributions payable	64,691	64,688
Deferred revenue	25,662	25,313
Security deposits	478	475
Total liabilities	2,158,627	2,160,121
Limited Partnership interests of third parties	53,845	62,088
Commitments and contingencies		
Capital		
Operating Partner	1,783,030	1,800,075
Accumulated other comprehensive loss	(709)	(729)
Total CubeSmart, L.P. capital	1,782,321	1,799,346
Noncontrolling interests in subsidiaries	7,969	7,990
Total capital	1,790,290	1,807,336
Total liabilities and capital	$ 4,002,762	$ 4,029,545

Image Shown: *Like virtually all REITs, CubeSmart had a meaningful net debt position at the end of the first quarter of 2020.* ***Image Source:*** *CubeSmart – 10-Q filing covering the first quarter of 2020*

CubeSmart's debt maturity schedule is staggered, which we appreciate. In the upcoming graphic down below, the REIT does not have any major senior notes maturing until July 2022 at the earliest.

The Company's unsecured senior notes are summarized as follows (collectively referred to as the "Senior Notes"):

Unsecured Senior Notes	March 31, 2020	December 31, 2019	Effective Interest Rate	Issuance Date	Maturity Date
	(in thousands)				
$250M 4.800% Guaranteed Notes due 2022	$ 250,000	$ 250,000	4.82 %	Jun-12	Jul-22
$300M 4.375% Guaranteed Notes due 2023 (1)	300,000	300,000	4.33 %	Various (1)	Dec-23
$300M 4.000% Guaranteed Notes due 2025 (2)	300,000	300,000	3.99 %	Various (2)	Nov-25
$300M 3.125% Guaranteed Notes due 2026	300,000	300,000	3.18 %	Aug-16	Sep-26
$350M 4.375% Guaranteed Notes due 2029	350,000	350,000	4.46 %	Jan-19	Feb-29
$350M 3.000% Guaranteed Notes due 2030	350,000	350,000	3.04 %	Oct-19	Feb-30
Principal balance outstanding	1,850,000	1,850,000			
Less: Discount on issuance of unsecured senior notes, net	(3,759)	(3,860)			
Less: Loan procurement costs, net	(10,018)	(10,415)			
Total unsecured senior notes, net	$ 1,836,223	$ 1,835,725			

Image Shown: *CubeSmart's debt maturity schedule is staggered, making refinancing activities a more manageable task.* ***Image Source:*** *CubeSmart – 10-Q filing covering the first quarter of 2020*

Pivoting to CubeSmart's mortgage loans and notes payable, the firm has a small amount of that debt maturing in November 2020 as you can see in the

upcoming graphic at the top of the next page. That burden should be easy to handle via its cash on hand, revolving credit line, and ATM equity issuance program.

The Company's mortgage loans and notes payable are summarized as follows:

Mortgage Loans and Notes Payable	Carrying Value as of: March 31, 2020	Carrying Value as of: December 31, 2019	Effective Interest Rate	Maturity Date
	(in thousands)			
YSI 26	$ 7,748	$ 7,805	4.56 %	Nov-20
YSI 57	2,720	2,740	4.61 %	Nov-20
YSI 55	21,419	21,547	4.85 %	Jun-21
YSI 24	23,822	24,042	4.64 %	Jun-21
YSI 65	2,300	2,313	3.85 %	Jun-23
YSI 66	30,437	30,588	3.51 %	Jun-23
YSI 68	5,415	5,459	3.78 %	May-24
Principal balance outstanding	93,861	94,494		
Plus: Unamortized fair value adjustment	1,657	1,833		
Less: Loan procurement costs, net	(255)	(287)		
Total mortgage loans and notes payable, net	$ 95,263	$ 96,040		

Image Shown: *CubeSmart has a modest amount of mortgage loans and notes payable maturing in the fourth quarter of this year.* ***Image Source:*** *CubeSmart – 10-Q filing covering the first quarter of 2020*

In the upcoming graphic down below, management highlights the size of the principal repayments of CubeSmart's mortgage loans and notes payable, which are modestly different than the carrying value of that debt. CubeSmart's $12 million in debt maturities this year could easily be refinanced with its revolving credit line, for example, as highlighted previously.

As of March 31, 2020 and December 31, 2019, the Company's mortgage loans payable were secured by certain of its self-storage properties with net book values of approximately $204.9 million and $206.3 million, respectively. The following table represents the future principal payment requirements on the outstanding mortgage loans and notes payable as of March 31, 2020 (in thousands):

2020	$ 12,158
2021	45,057
2022	923
2023	31,019
2024	4,704
2025 and thereafter	—
Total mortgage payments	93,861
Plus: Unamortized fair value adjustment	1,657
Less: Loan procurement costs, net	(255)
Total mortgage loans and notes payable, net	$ 95,263

Image Shown: *A look at CubeSmart's future principal repayments as it concerns its outstanding mortgage loans and notes payable at the end of March 2020.* ***Image Source:*** *CubeSmart – 10-Q filing covering the first quarter of 2020*

Pivoting to CubeSmart's cash flow statements, the self-storage REIT remained comfortably free cash flow positive last quarter. The firm generated $81 million in net operating cash flow and spent $22 million on items that we would classify as capital expenditures ('additions and improvements to storage properties' and 'development costs') as you can see in the upcoming graphic at the top right hand corner of this page. During this period, the REIT spent $65 million covering its payout obligations ('distributions paid to common shareholders' and 'distributions paid to noncontrolling interests in Operating Partnership').

CUBESMART AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating Activities		
Net income	$ 38,317	$ 35,786
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	41,592	39,066
Equity in losses (earnings) of real estate ventures	5	(261)
Equity compensation expense	1,871	1,619
Accretion of fair market value adjustment of debt	(176)	(179)
Changes in other operating accounts:		
Other assets	2,743	(3,212)
Accounts payable and accrued expenses	(3,743)	1,806
Other liabilities	340	833
Net cash provided by operating activities	$ 80,949	$ 75,458
Investing Activities		
Acquisitions of storage properties	(9,090)	(25,097)
Additions and improvements to storage properties	(11,923)	(6,153)
Development costs	(9,709)	(49,748)
Investment in real estate ventures	(5,877)	(107)
Cash distributed from real estate ventures	1,815	2,072
Net cash used in investing activities	$ (34,784)	$ (79,033)
Financing Activities		
Proceeds from:		
Unsecured senior notes	—	347,746
Revolving credit facility	5,127	279,020
Principal payments on:		
Revolving credit facility	(5,127)	(378,400)
Unsecured term loans	—	(200,000)
Mortgage loans and notes payable	(633)	(701)
Loan procurement costs	—	(2,634)
Settlement of hedge transactions	—	(807)
Acquisition of noncontrolling interest in subsidiary, net	—	(5,172)
Proceeds from issuance of common shares, net	(118)	24,580
Cash paid upon vesting of restricted shares	(631)	(353)
Exercise of stock options	—	1,049
Distributions paid to noncontrolling interests in subsidiaries	(59)	(66)
Distributions paid to common shareholders	(64,036)	(60,005)
Distributions paid to noncontrolling interests in Operating Partnership	(650)	(623)
Net cash (used in) provided by financing activities	$ (66,127)	$ 3,634
Change in cash, cash equivalents and restricted cash	(19,962)	59
Cash, cash equivalents and restricted cash at beginning of period	58,441	6,482
Cash, cash equivalents and restricted cash at end of period	$ 38,479	$ 6,541

Image Shown: *CubeSmart remained comfortably free cash flow positive last quarter, highlighting one of the key reasons we like the self-storage REIT space.* ***Image Source:*** *CubeSmart – 10-Q filing covering the first quarter of 2020*

Here's what management had to say about CubeSmart's financial position during the REIT's latest quarterly conference call:

> *"And then in the second main area focus is on balance sheet strength. That's an area that we can provide quite a bit more certainty and confidence. We are extremely well positioned to weather this storm. We have an unsecured credit facility with $750 million of capacity at the end of the quarter and we have very little debt maturing through the end of 2021, only 3% or $56 million of our debt is coming due through the end of next year.*
>
> *In addition, at quarter and our leverage levels remain conservative at 39% debt to gross assets. Our debt to EBITDA was 4.9 times and our fixed charge coverage ratio was 5.5 times. So as many companies are dealing with major issues in addressing upcoming maturities, running their operations and paying their dividends, we're focused on how to position ourselves to be nimble*

and opportunistic taking our strong balance sheet and using it to grow our company as we come out of this and the quarters ahead." --- Timothy Martin, CFO of CubeSmart

On May 12, CubeSmart declared a $0.33 per share quarterly dividend (flat compared to its prior per share payout) that's payable July 15 for shareholders of record on July 1.

Given near-term headwinds and considering its FFO payout ratio is almost at 81% (in our view, FFO payout ratios of 80% or below provides for a solid buffer should exogenous shocks, like COVID-19, materialize), **CubeSmart is unlikely to push through per-share payout increases until the US economy starts to recover. That said, given its sizable free cash flows, ample access to liquidity, and staggered debt maturity schedule, the REIT is well-positioned to keep making good on its dividend obligations during the pandemic.**

Concluding Thoughts

We continue to like CubeSmart in the High Yield Dividend Newsletter portfolio, alongside its self-storage peer Public Storage (PSA). CubeSmart possesses the financial flexibility to ride out the storm and continue making good on its dividend obligations. The REIT should be able to capitalize on the long-term upside the self-storage space in the US (and elsewhere) offers investors, as self-storage properties remain supported by secular growth tailwinds.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

[Please see next page for a summary of portfolio activity during 2019.]

Tracking the High Yield Dividend Newsletter	Price -- 12/31/2018 or at open*	Interim Dividends	Price -- 12/31/2019 or at close**
CORE			
Alerian MLP ETF (AMLP) -- *removed* November 18	8.73	0.78	7.83
Added 2.5pts of AT&T (T) -- November 18	*39.21*	-	39.08
Added 2.5pts of Philip Morris (PM) -- November 18	*84.57*	1.17	85.09
Global X SuperDividend ETF (SDIV)	17.10	1.54	17.69
Global X SuperIncome Preferred ETF (SPFF)	11.03	0.71	11.74
iShares International Select Dividend ETF (IDV)	28.71	1.73	33.57
iShares MSCI Australia ETF (EWA)	19.25	0.90	22.64
iShares U.S. Preferred Stock ETF (PFF)	34.23	2.00	37.59
Invesco Senior Loan Portfolio (BKLN)	21.78	1.11	22.82
ProShares High Yield -- Interest Rate Hedged (HYHG)	62.09	3.97	65.44
Utilities Select Sector SPDR (XLU) -- *added August 22*	*61.61*	0.99	64.62
Vanguard Real Estate ETF (VNQ) - *added April 1*	*85.91*	2.53	92.79
EQUITY			
AT&T (T)	28.54	2.04	39.08
BP PLC (BP)	37.92	2.46	37.74
CubeSmart (CUBE) -- *added August 22*	*35.13*	0.65	31.48
Digital Realty Trust (DLR)	106.55	4.32	119.74
Enterprise Products Partners (EPD)	24.59	1.76	28.16
Iron Mountain (IRM) -- *removed August 1*	32.41	1.22	29.97
Magellan Midstram Partners (MMP)	57.06	4.04	62.87
Omega Healthcare Investors (OHI) -- *removed March 1*	35.15	0.66	34.72
Philip Morris (PM) -- *added August 1*	*82.41*	2.34	85.09
Public Storage (PSA)	202.41	8.00	212.96
Schlumberger*, added January 18, removed August 1*	*43.00*	1.00	38.07
Realty Income Corporation (O) -- *removed April 1*	63.04	0.68	72.03
Tallgrass Energy LP (TGE) -- *removed August 1*	24.34	1.59	18.25

* As shown in the January 2019 edition of the High Yield Dividend Newsletter, or price at entry point

** Price as of December 31, 2019, or price at close

-- THE HIGH YIELD DIVIDEND SPOTLIGHT IS ON THE NEXT PAGE --

High Yield Spotlight: Taiwan Semiconductor Manufacturing Co. Ltd. (TSM) is Quite Interesting

Our **June 2020 High Yield Dividend Newsletter Spotlight** is Taiwan Semiconductor Manufacturing Company Limited (TSM)---**3.3% yield**---which is often abbreviated as 'TSMC'. The company is the world's largest pure play semiconductor foundry company. What that means is that TSMC manufactures semiconductors (or 'chips') from silicon wafers for third-party clients exclusively and does not design any of these chips itself. In other words, TSMC does not compete with its clients for the most part (though some of its clients also have semiconductor foundry operations), and that makes its offerings very compelling. TSMC estimates it owned a little over half of this market in 2019--please note that in industry jargon, a foundry is a semiconductor fabrication site that caters to third parties instead of internal operations.

For reference, TSMC reports its financial results in New Taiwan Dollars ('NT') and United States Dollars ('USD') and the firm pivoted to a quarterly payout from an annual payout in 2019. As TSMC pays out its dividend in NT terms, **please note foreign currency fluctuations are at play here.** Also, TSMC adheres to Taiwan-IFRS accounting rules. TSMC is listed on both the Taiwan Stock Exchange and the New York Stock Exchange through American Depositary Shares ('ADS'), and one ADS represents five common shares of TSMC.

Major R&D investments are needed to stay ahead in the semiconductor foundry arena. In 2019, TSMC invested ~8.5% of its revenues into R&D as it began the early stages of launching cutting edge five-nanometer chip technology offerings and progressed forward with its upcoming three-nm and two-nm offerings (which are still in the design phase). In 2019, 50% of TSMC's annual revenues came from chip offerings in the 16-nm or smaller category, up from 41% in 2018. Management views this as a major strength for TSMC as do we. The technology present at TSMC's foundries represent the cutting edge of semiconductor manufacturing capabilities.

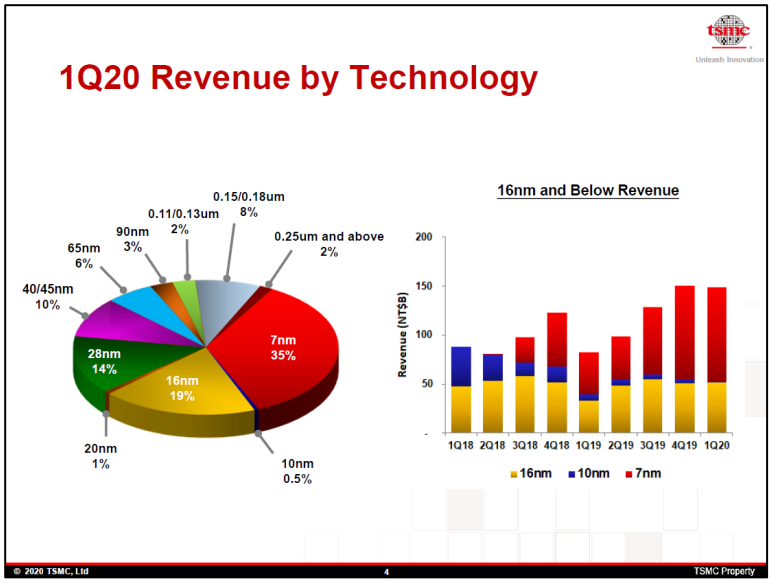


Image Shown: *A look at TSMC's revenue breakdown by chip technology type during the first quarter of 2020.* ***Image Source:*** *TSMC – First Quarter of 2020 Earnings IR Presentation*

At this point, we would like to stress that the X-nm chip technology refers to the smallest features that the facility (through the lithography process for these kinds of small chips) is capable of etching onto silicon wafers (TSMC generally uses silicon wafers that range from six-inch to 12-inch in diameter).

Before the ongoing coronavirus ('COVID-19') pandemic, TSMC had intended to ramp up its five-nm production capabilities (located in Taiwan at its 'Fab 15' site) to commercial volumes in 2020 after commencing "risk production" in March 2019. While COVID-19 may cause the production ramp up to be uneven, in the medium-term, TSMC should be able to meet demand from its numerous customers. During TSMC's first quarter of 2020 quarterly conference call, management noted that "5-nanometer technology moved from R&D stage to mass production during the first quarter;" please note Taiwan hasn't been hit as hard by the pandemic as some other developed nations. **There's reason to believe TSMC will be able to still ramp up its five-nm chip production capacity in a timely manner this year.**

Apple Inc (AAPL) is reportedly securing TSMC's five-nm production capacity in preparation for an "iPhone 12" launch according to *Apple Insider*. Expanding on that, the currently available iPhone XS uses A-12 chips that are manufactured through TSMC's seven-nm Fin Field-Effect Transistor ('FinFET') process.

At the end of March 2020, TSMC had a combined USD$18.6 billion in 'cash and cash equivalents' and 'investments in marketable financial instruments' on hand versus USD$5.0 billion in short-term debt ('short-term loans' plus 'current portion of bonds payable') and USD$1.5 billion in long-term debt (long-term 'bonds payable'). **We strongly appreciate TSMC's net cash position and that underpins a big reason why we like the company as a nice high yielding play.** Additionally, TSMC had USD$1.0 billion in 'long-term investments' on the books at the end of March 2020.

On a cash flow basis, TSMC generated USD$19.9 billion in net operating cash flow in 2019 while spending USD$14.9 billion on its capital expenditures. Please note TSMC spent heavily to begin bringing its five-nm fabrication plant up to full capacity last year, and that the firm intends on spending between USD$15.0 billion - USD$16.0 billion on capital expenditures this year in part to complete that process (along with major capital investments elsewhere).

While USD$5.0 billion in free cash flows didn't fully cover the USD$8.4 billion in cash dividend payouts to investors in 2019, TSMC's strong net cash position combined with its ongoing access to capital markets (both debt and equity markets) and sizable net operating cash flows still lends enormous amount of support to the strength of its payout coverage. We rate TSMC's Dividend Safety rating as "GOOD" with a Dividend Cushion ratio of 1.3 and that assumes its dividend per share growth rate comes in at double-digits annually each year over the next several years, with its balance sheet strength playing a key role. Furthermore, please note TSMC did not repurchase a meaningful amount of its stock in 2019.

On May 15, TSMC announced plans to build a semiconductor foundry in the United States "with the mutual understanding and commitment to support from the U.S. federal government and the State of Arizona" and construction activities are expected to commence in 2021. TSMC has yet to publicly announce where in Arizona the semiconductor foundry will be built. By 2024, TSMC hopes to begin production of five-nm chips at the facility. While commercial levels of production of three-nm chips will likely be occurring at this time (which is reportedly set to begin within the next couple of years), five-nm chips are still going to be in high demand as well. From 2021 to 2029, TSMC expects to incur approximately USD$12.0 billion in capital expenditures developing the fabrication site.

TSMC already has a foundry in Camas, Washington, through its wholly-owned WaferTech subsidiary. Founded back in 1996, WaferTech's manufacturing site is situated across 260 acres just half an hour outside of Portland, Oregon. This is considered an eight-inch fabrication site (the size of the silicon wafer, not the chips). According to TSMC's 2019 Annual Report, WaferTech represents just a small portion of the firm's total revenues, operating income, and net income. However, **we will stress that the subsidiary was decently profitable in 2019, which speaks favorably to TSMC's ability to generate a profit from US-based manufacturing facilities.**

8.1.6 Operational Highlights of TSMC Subsidiaries

Unit: NT$ thousands, except EPS (NT$) — as of 12/31/2019

Company	Capital Stock	Assets	Liabilities	Net Worth	Net Revenues	Income (Loss) from Operation	Net Income (Loss)	Basic Earnings (Loss) Per Share
TSMC North America	329,868	93,975,628	89,405,802	4,569,825	642,456,504	267,363	416,366	37.85
TSMC Europe B.V.	3,365	761,257	298,777	462,479	495,777	53,410	37,621	188,106.27
TSMC Japan Limited	82,530	211,952	69,332	142,620	231,708	9,358	3,254	542.33
TSMC Korea Limited	10,400	45,163	4,435	40,727	20,050	1,847	2,196	27.45
TSMC Development, Inc.	0.03	29,567,197	0	29,567,197	1,470,591	1,470,305	1,338,673	133,867,259.80
TSMC Partners, Ltd.	29,636,188	53,455,518	0	53,455,518	2,215,060	2,208,823	2,202,709	2.23
TSMC Global Ltd.	338,384,592	404,432,559	6,695,289	397,737,270	12,300,693	11,592,365	11,592,187	1,027,311.89
WaferTech, LLC	0	5,332,211	618,940	4,713,271	6,841,533	1,003,240	843,483	2.87
TSMC China Company Limited	19,380,554	60,103,992	2,745,525	57,358,467	16,218,476	3,255,953	4,037,216	NA
TSMC Nanjing Company Limited	28,627,434	49,441,326	28,032,476	21,408,850	18,312,861	1,340,599	1,289,672	NA
VisEra Technologies Company Ltd.	2,911,531	6,322,477	1,137,005	5,185,472	3,395,724	718,693	613,841	2.11
TSMC Technology, Inc.	0.03	1,316,214	645,676	670,538	2,444,373	116,339	100,661	10,066,067.10
TSMC Design Technology Canada Inc.	55,979	276,637	37,495	239,141	323,548	29,413	30,494	13.26
InveStar Semiconductor Development Fund, Inc.	14,663	0	0	0	0	10	10	0.02
InveStar Semiconductor Development Fund, Inc. (II) LDC.	0	0	0	0	0	0	0	0.00
VentureTech Alliance Fund II, L.P.	104,577	70,253	0	70,253	2,205	(2,899)	(3,409)	NA
VentureTech Alliance Fund III, L.P.	2,894,424	212,437	0	212,437	5,015	1,191	1,191	NA
Growth Fund Limited	75,083	124,648	0	124,648	0	(1,351)	(1,351)	NA

Image Shown: *TSMC's WaferTech subsidiary is a small part of its company-wide operations, though it was decently profitable last year. Key items are underlined in red in the above graphic.* ***Image Source:*** *TSMC – 2019 Annual Report with additions from the author*

Beyond manufacturing facilities, TSMC also has two designs facilities in the United States that are located in Austin, Texas, and San Jose, California. **More importantly, TSMC is getting ahead of the increased likelihood of rising geopolitical tensions between China and the United States by committing to expanding its production capabilities in the latter.** Furthermore, rising trade barriers in the Unites States (particularly for non-USMCA trade pact members, which covers the United States, Mexico, and Canada) has created a great impetus for certain firms to bolster their production capacity in the United States to remain economically competitive. In 2019, 60% of TSMC's net revenues came from customers whose headquarters were located in North America and 20% came from customers headquartered in China.

TSMC has one 12-inch 'GIGAFAB' site in Nanjing, China and one 8-inch fabrication site in Shanghai, China. Its remaining sites are located in Washington state (the one aforementioned 8-inch fabrication site) and Taiwan where TSMC has its corporate headquarters along with five 12-inch GIGAFAB sites, four 8-inch fabrication sites, one 6-inch fabrication site, and four backend fabrication sites.

As it relates to TSMC's business with China, the United States has imposed increasingly strict export controls as it relates to Huawei which the Trump Administration and various Western geopolitical analysts view as an extension of the Chinese state.

On May 15, 2020, the Bureau of Industry and Security ('BIS'), a division within the United States Department of Commerce, imposed even greater technology transfer and product controls on entities doing business with Huawei that are using United States Commerce Control List software and technology. That new rule extends software and technology transfer restrictions to foreign-based companies using software and technology on that list, and entities seeking to do business with Huawei that involve such software and technology must first obtain an export license from the United States government.

According to analysts cited by *Reuters*, Huawei represented 13% - 15% of TSMC's 2019 sales and *Reuters* also noted that Huawei was seeking to pivot some of its orders to Shanghai-based Semiconductor Manufacturing International Corporation (SMICY). However, Semiconductor Manufacturing International only just launched its 14-nm chip technology offering in late-2019 and is meaningfully behind TSMC on the semiconductor foundry technology curve.

Many companies have been successful in obtaining export licenses from the United States government in the past to do business with Huawei, and given the announcement of the new foundry project in Arizona, TSMC is likely well-positioned to receive at least some of the necessary export licenses (potentially justified by its need to generate revenues and raise funds to build the new foundry, or some similar line of thinking). That said, **we caution that TSMC has reportedly halted taking new orders from Huawei for the time being** according to *Nikkei Asian Review*. This situation represents the biggest risk to TSMC's operations and financial performance going forward, in our view.

Given that Apple has reportedly stepped in to secure most of TSMC's five-nm chip production capacity, that lends support to TSMC's medium- and long-term outlook. *Digitimes* reports that TSMC has received orders from Nvidia Corporation (NVDA) as it relates to Nvidia's next-gen 7-nm and 5-nm GPUs. While rising geopolitical tensions have pressured the share price of TSM in recent months, the firm is doing what it can to pivot towards other partners as the Huawei saga plays out.

In the near term, TSMC expects its financial performance will hold up relatively well during the ongoing COVID-19 pandemic, which we appreciate. Here's what management had to say during TSMC's latest quarterly conference call:

> *"Now let's turn to our second quarter guidance. Based on the current business outlook, we expect our second quarter revenue to be between USD 10.1 billion and USD 10.4 billion, which represent a 0.6% sequential decrease at the midpoint. Based on the exchange rate assumption of USD 1 to TWD 30, gross margin is expected to be between 50% and 52%, operating margin between 39% and 41%." --- Wendell Huang, Chief Financial Officer at TSMC*

For reference (on a Taiwan-IFRS basis), TSMC generated USD$10.3 billion in net revenue during the first quarter of 2020, realized a gross margin of ~51.8%, and an operating margin of ~41.4% (all of which exceeded management's guidance). On a sequential basis, TSMC is expecting its financial performance this quarter will be broadly on par with its first-quarter performance, which we really appreciate. As production of its 5-nm chips ramps up and the company receives greater clarity on how the Huawei situation will proceed, the market will get a much better idea of what kind of trajectory TSMC is heading on.

Statements of Comprehensive Income

Selected Items from Statements of Comprehensive Income

(In NT$ billions unless otherwise noted)	1Q20	1Q20 Guidance	4Q19	1Q19	1Q20 over 4Q19	1Q20 over 1Q19
Net Revenue (US$ billions)	10.31	10.2-10.3	10.39	7.10	-0.8%	+45.2%
Net Revenue	310.60		317.24	218.70	-2.1%	+42.0%
Gross Margin	**51.8%**	**48.5% - 50.5%**	**50.2%**	**41.3%**	**+1.6 ppts**	**+10.5 ppts**
Operating Expenses	(32.33)		(34.94)	(26.02)	-7.5%	+24.2%
Operating Margin	**41.4%**	**37.5% - 39.5%**	**39.2%**	**29.4%**	**+2.2 ppts**	**+12.0 ppts**
Non-Operating Items	3.63		4.54	3.91	-20.1%	-7.4%
Net Income to Shareholders of the Parent Company	116.99		116.04	61.39	+0.8%	+90.6%
Net Profit Margin	**37.7%**		**36.6%**	**28.1%**	**+1.1 ppts**	**+9.6 ppts**
EPS (NT Dollar)	4.51		4.47	2.37	+0.8%	+90.6%
ROE	28.4%		28.9%	14.4%	-0.5 ppt	+14.0 ppts
Shipment (Kpcs, 12"-equiv. Wafer)	2,925		2,823	2,205	+3.6%	+32.7%
Average Exchange Rate--USD/NTD	30.14	29.90	30.52	30.82	-1.3%	-2.2%

* Diluted weighted average outstanding shares were 25,930mn units in 1Q20.

** ROE figures are annualized based on average equity attributable to shareholders of the parent company.

© 2020 TSMC, Ltd 3 TSMC Property

Image Shown: *A look at TSMC's financial performance over the past two full quarters.* ***Image Source:*** *TSMC – First Quarter of 2020 Earnings IR Presentation*

In the meantime, TSMC took advantage of low interest rates by issuing a modest amount (~USD$0.8 billion) of bonds last quarter. Please note **TSMC carries top tier investment grade credit ratings (AA-/Aa3).** Here's some additional management commentary from TSMC's latest quarterly conference call (emphasis added):

> *"Now I will make some comments on our capital management and shareholder returns. The objectives of TSMC's capital management are to fund the capital -- the company's growth organically, generate good profitability, preserve financial flexibility and distribute a sustainable cash dividend to shareholders. With our solid financial performance, strong balance sheet and cash position and capacity to take on debt, we're able to aggressively invest in our future to enhance our technologies and capabilities.*
>
> ***This enables us to continue to outgrow the semiconductor industry even in an extreme macroeconomic environment like this year.*** *With our rigorous capital management, we remain committed to sustainable cash dividends on both an annual and quarterly basis. Meanwhile,* ***with the semiconductor industry's highest credit rating, we're able to bolster our cash balance by issuing corporate bonds at a low interest rate.****" --- TSMC's CFO*

We like the semiconductor foundry space as these operations represent an essential part of making the digital age possible, especially the types of cutting-edge facilities that TSMC owns and operates. The strength of TSMC's pristine balance sheet and its top tier investment-grade credit ratings supports its ability to keep making good on its dividend obligations while the firm continues to make serious investments in its asset base. TSMC's net operating cash flows are quite strong and have remained resilient so far during the early stages of the pandemic, which we appreciate.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

European Bank Earnings Roundup

<u>In alphabetical order by ticker: BNPQF/BNPZY, DB, LYG, SAN, UNCFF</u>

By Matthew Warren

BNP Paribas' Shares Could Have Upside Potential

BNP Paribas' shares are trading at a fraction of tangible book. If the bank can contain its cost of risk through this cycle and produce double-digit returns on tangible equity on the other side of this crisis, shareholders would do quite well in such a scenario. That said, we point out that Europe is overtraded when it comes to banking, which pressures earnings power at even the stronger banks like BNP Paribas. We're paying close attention to the key banking players in Europe to assess the likelihood of a global financial contagion that may accompany the global pandemic that has become COVID-19.

BNP Paribas SA (BNPQF, BNPZY) reported relatively better results than many large global bank peers, with revenues down only 2.3% and net income per group share down 33.2% during its first quarter, results released May 5. As one can see in the upcoming below graphic, operating expenses fell even more than revenues, helping the bottom line, and while the cost of risk (similar to provisions for loan losses under US GAAP reporting) was up 85.4%, this provision wasn't nearly as large as that of some of its other global peers.

Consolidated Group – 1Q20

Good level of results in line with the 2020 objectives excluding major impacts of the health crisis[1]

	1Q20	1Q19	1Q20 vs. 1Q19	Excluding major impacts of the health crisis[1]: 1Q20 vs. 1Q19	Excluding major impacts of the health crisis[1]: 1Q20
Revenues	**€10,888m**	**€11,144m**	**-2.3%**	+2.8%	€11,456m
Operating expenses	-€8,157m	-€8,449m	-3.5%		
Op expenses excl. taxes subject to IFRIC 21[2]			*-4.4%*		
Gross operating income	**€2,731m**	**€2,695m**	**+1.3%**		
Cost of risk	-€1,426m	- €769m	+85.4%	+20,2%	-€924m
Operating income	**€1,305m**	**€1,926m**	**-32.2%**		
Non operating items	€490m	€757m	-35.2%		
Pre-tax income	**€1,795m**	**€2,683m**	**-33.1%**		
Net income, Group share	**€1,282m**	**€1,918m**	**-33.2%**	+6.7%	€2,047m
Net income, Group share excl. exceptionals & taxes subject to IFRIC 21[2]	**€2,093m**	**€2,565m**	**-18.4%**	In line with the 2020 objectives	

Return on tangible equity (ROTE)[3]: **8.0%**

1. As defined on slide 6; 2. Booking in 1Q of almost the entire amount of taxes and contributions for the year based on the application of IFRIC 21 "Taxes" including contribution to the Single Resolution Fund; 3. Not revaluated

BNP PARIBAS The bank for a changing world First quarter 2020 results | 8

Image Source: *BNP Paribas 1Q2020 Earnings Presentation*

Given a reasonable 8% return on tangible equity for such a stressed period in the markets and the economy, BNP Paribas seems to be holding up well at this admittedly early stage in this large cycle. Is this view valid, however? A quick peek at the below graphic provides some evidence on BNP Paribas's behalf, though it would be nice to see the peer banks named (Peer1, Peer2, as shown in the image below). Non-lending revenues help lower this metric, so BNP Paribas' insurance and wealth management units, for example, help on this front, as compared to a more plain-vanilla deposit taker and lender.

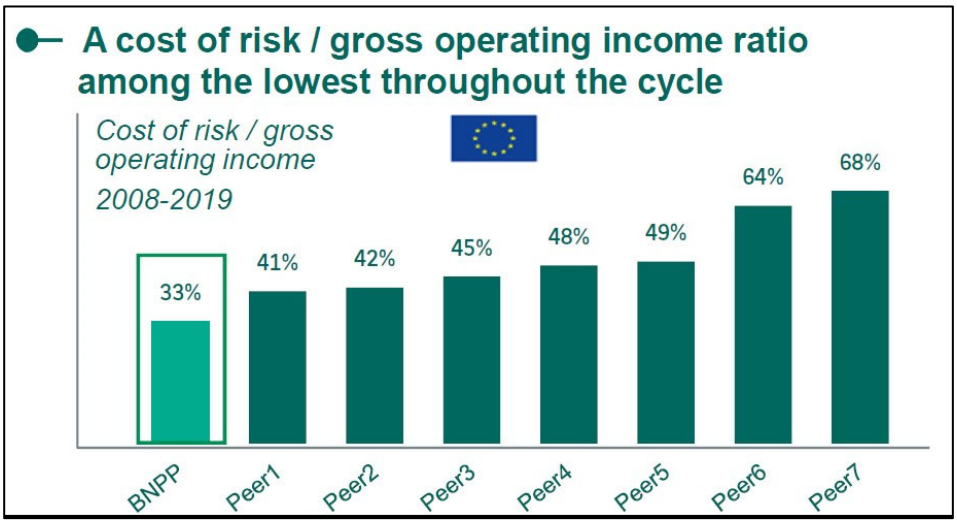


Image Source: *BNP Paribas 1Q2020 Earnings Presentation*

The bank remains well capitalized with a common equity Tier I ratio of 12%, and considering that all European banks (EUFN) are prohibited from paying dividends or buyback shares at this time, we expect this metric to remain strong if not get stronger, as long as the balance sheet does not grow at an outrageous pace or risk weightings spike too much more than they already have.

In another sign that BNP Paribas has acquitted itself quite well since the Great Financial Crisis, it has managed to grow its tangible book value per share by a 7.2% compound annual growth rate (CAGR) between 2008 and 2019, as one can see in the graphic below.

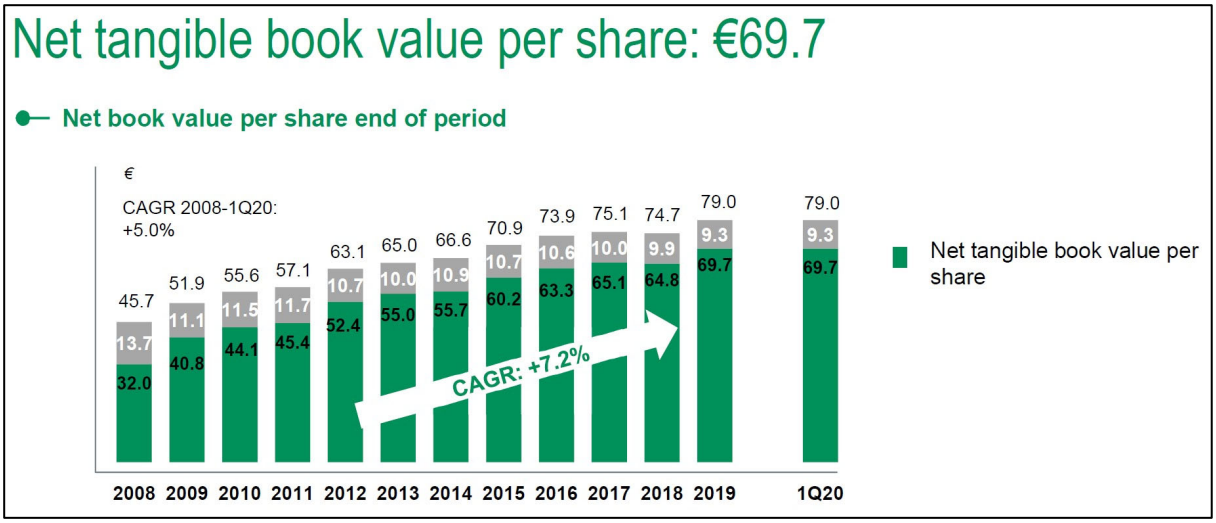


Image Source: *BNP Paribas 1Q2010 Earnings Presentation*

Given that the shares are trading at a fraction of tangible book, if BNP Paribas can contain its cost of risk through this cycle and produce double-digit returns on tangible equity on the other side of this crisis, shareholders would do quite well in such a scenario. We will be watching the losses closely as the cycle evolves. We would also point out that Europe is overtraded when it comes to banking, which pressures earnings power at even the stronger banks like this one. There is also the risk of sovereign spreads of peripheral countries blowing out again, which could cause serious problems such as counterparty risk.

Owning banks in Europe is not for the faint of heart.

Deutsche Bank Suffering from Lack of Earnings Power

On April 29, Deutsche Bank reported another measly quarter in a long string of them. While Deutsche Bank is well-capitalized with a Common Equity Tier I ratio of 12.8% and its Investment Banking segment grew earnings nicely this quarter during rapid client trading and bond origination activity as the markets melted down in March, it suffers from a lack of earnings power at this stage. We blame this on the bank itself, but also on the overcapacity in European banking in general, which pressures margins across the entire industry.

On April 29, Deutsche Bank (DB) reported another measly quarter in a long string of them, with revenue in the first period of 2020 flat at EUR 6.350 billion and profit of only EUR 66 million. As one can see in the graphic below, Deutsche has one of the worst cost/income ratios amongst all the big global banks at 89%, and is in the process of a multi-year cost-cutting exercise with nine quarters in a row of year over year cost reduction. Having put head count reduction on hold during the Covid-19 pandemic, this task will become harder, though management continues to promise delivery of non-comp cost reductions on things like travel & entertainment and real estate. While T&E is easy to reduce right now, we are skeptical about the longevity and sustainability of such cost reductions.

Q1 2020 Group financial highlights

In € m, unless stated otherwise

		Q1 2020	Change in % vs. Q1 2019	Change in % vs. Q4 2019
Revenues	Revenues	6,350	(0)	19
	of which: specific items(1)	76		
	Revenues ex specific items	6,275	(1)	18
Costs	Noninterest expenses	5,638	(5)	(12)
	of which: Adjusted costs ex. transformation charges(2)	5,452	(8)	7
	Cost/income ratio (%)(3)	89	(4) ppt	(31) ppt
Profitability	Profit (loss) before tax	206	(29)	n.m.
	Profit (loss)	66	(67)	n.m.
	RoTE (%)(4)	(0.3)	(1.1) ppt	12.3 ppt
Per share metrics	Diluted earnings per share (in €)	0.02	(75)	n.m.
	Tangible book value per share (in €)	23.27	(10)	(1)
Risk and Capital	Provision for credit losses (bps of loans)(5)	44	31 bps	21 bps
	CET1 ratio (%)	12.8	(90) bps	(79) bps
	Leverage ratio (%, fully loaded)	4.0	7 bps	(21) bps

(1) Specific items detailed on slide 33
(2) Transformation charges of € 84m in Q1 2020 and € 608m in Q4 2019
(3) Throughout this presentation cost/income ratio defined as total noninterest expenses as a percentage of total net revenues
(4) Tangible shareholders' equity Q1 2020: € 49.7bn, Q1 2019: € 54.2bn and Q4 2019: € 50.8bn
(5) Year-to-date provision for credit losses annualized as % of loans gross of allowances for loan losses (€ 459bn as of 31 Mar 2020)

Deutsche Bank Investor Relations | Q1 2020 results 29 April 2020 | 10

Image Source: *Deutsche Bank 1Q2020 Earnings Presentation*

In an effort to convey hope to its listless investor base, Deutsche Bank likes to present its revenue and profit for its "Core Bank" and "Capital Release Unit," which is basically the portion of the bank that management is trying to wind down. As one can see in the graphic below, this paints a better picture of underlying profitability, though only time will tell if the firm can successfully wind down the Capital Release Unit and get rid of the costs allocated to it.

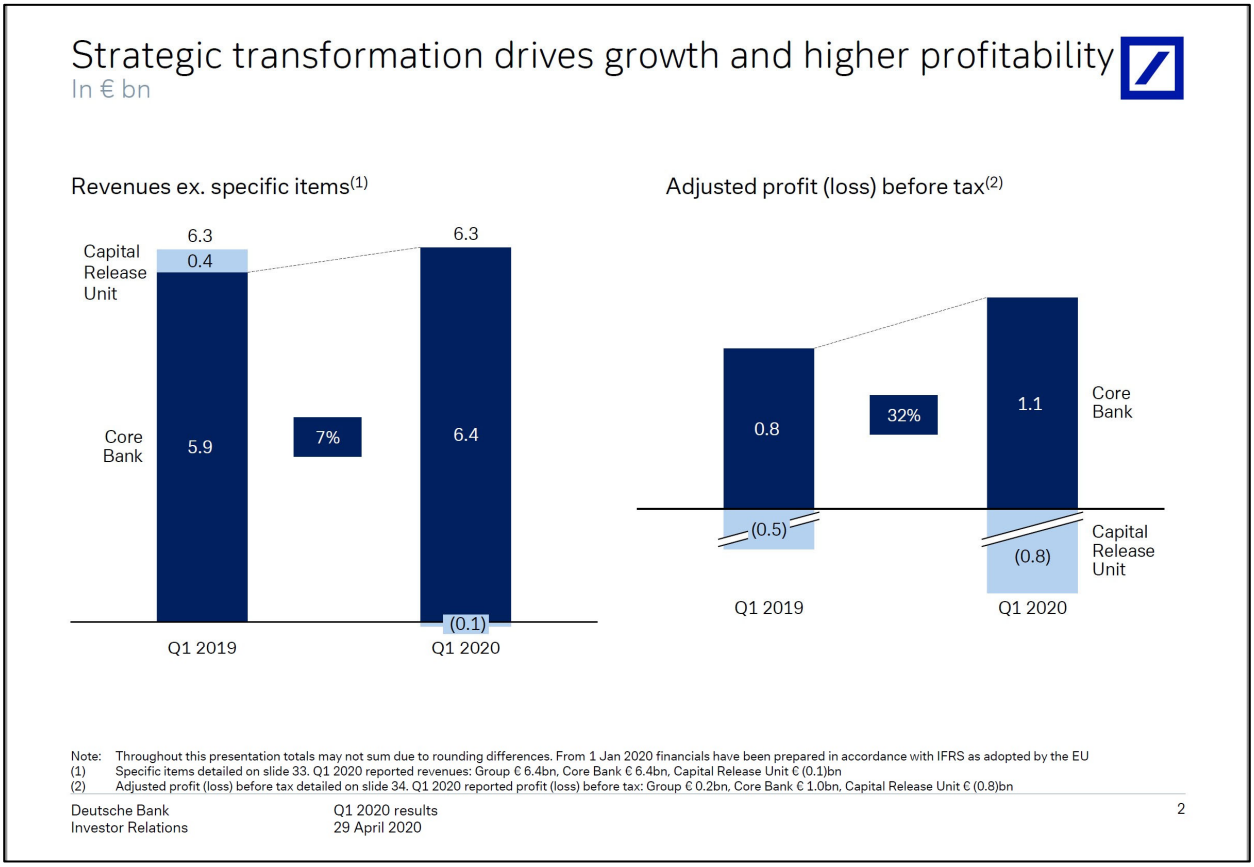


Image Source: *Deutsche Bank 1Q2020 Earnings Presentation*

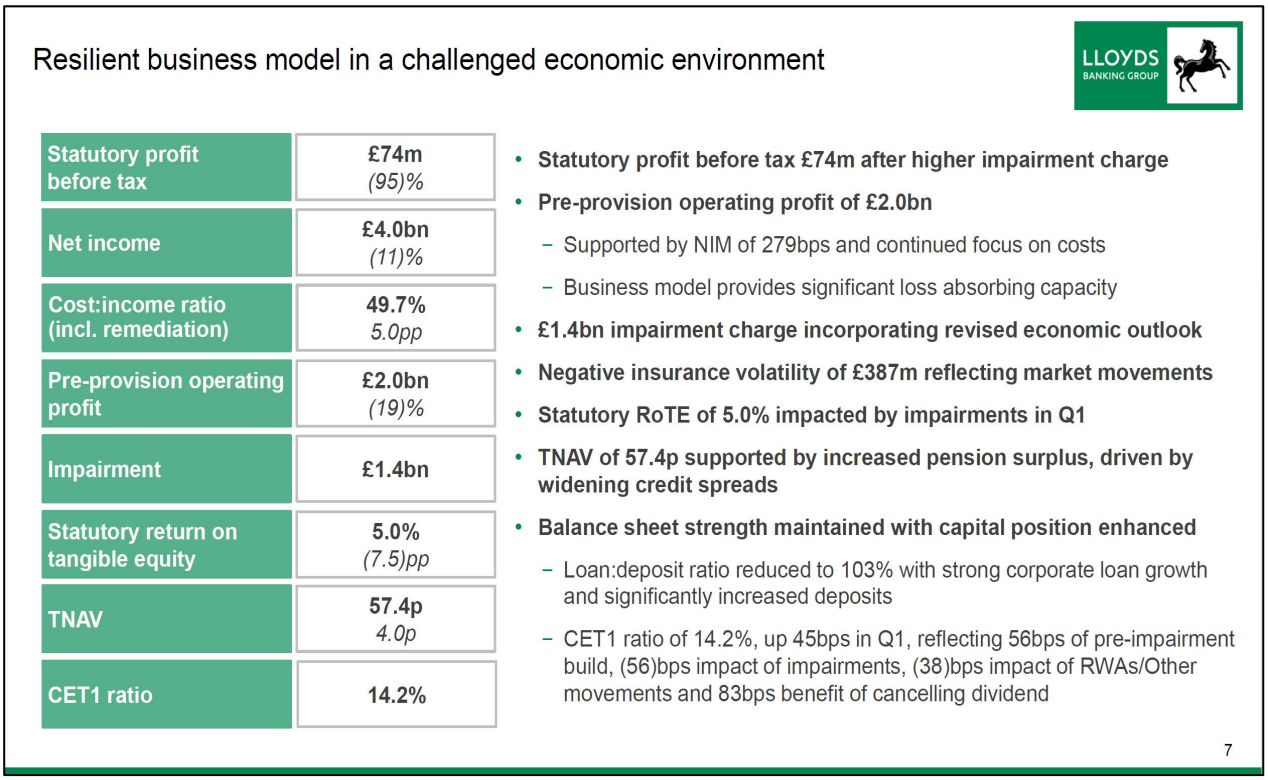
Though Deutsche Bank is well-capitalized with a Common Equity Tier I ratio of 12.8% and its Investment Banking segment grew earnings nicely this quarter during rapid client trading and bond origination activity as the markets melted down in March, it suffers from a lack of earnings power at this stage. We blame this on the bank itself, but also on the overcapacity in European banking in general, which pressures margins across the entire industry.

The other main risk with European banks (EUFN) is that periphery country bond spreads could blow out again and damage the banks that hold them. Because Germany (EWG) is relatively stronger, the risk for Deutsche Bank is more that its periphery banking peers become a big enough problem that it spills across the broader continent. This is a key risk that bears watching as we continue to navigate the pandemic-dented global economy.

Lloyds Banking Group Navigates Competitive Markets

The UK banking market is highly competitive with too many players, and we think this is the cause for the low returns on capital across the cycle. We're paying close attention to the key banking players in Europe, including Lloyds Banking Group, to assess the likelihood of a global financial contagion that may accompany the global pandemic that has become COVID-19.

Lloyd's Banking Group (LYG) posted a very difficult first quarter, results released April 30, with net income (IFRS equivalent of GAAP revenue) down 11% to GBP 4.0 billion and statutory profit before tax down 95% to GBP 74 million. One can see many of the highlights (or more realistically lowlights) in the graphic below.



Resilient business model in a challenged economic environment

LLOYDS BANKING GROUP

Statutory profit before tax	£74m (95)%
Net income	£4.0bn (11)%
Cost:income ratio (incl. remediation)	49.7% 5.0pp
Pre-provision operating profit	£2.0bn (19)%
Impairment	£1.4bn
Statutory return on tangible equity	5.0% (7.5)pp
TNAV	57.4p 4.0p
CET1 ratio	14.2%

- **Statutory profit before tax £74m after higher impairment charge**
- **Pre-provision operating profit of £2.0bn**
  - Supported by NIM of 279bps and continued focus on costs
  - Business model provides significant loss absorbing capacity
- **£1.4bn impairment charge incorporating revised economic outlook**
- **Negative insurance volatility of £387m reflecting market movements**
- **Statutory RoTE of 5.0% impacted by impairments in Q1**
- **TNAV of 57.4p supported by increased pension surplus, driven by widening credit spreads**
- **Balance sheet strength maintained with capital position enhanced**
  - Loan:deposit ratio reduced to 103% with strong corporate loan growth and significantly increased deposits
  - CET1 ratio of 14.2%, up 45bps in Q1, reflecting 56bps of pre-impairment build, (56)bps impact of impairments, (38)bps impact of RWAs/Other movements and 83bps benefit of cancelling dividend

7

Image Source: *Lloyds Banking Group 1Q2020 Earnings Presentation*

While revenues were pressured by lower interest rates hitting net interest margins and lower overall activity levels, the biggest impact on earnings in the quarter came from a GBP 1.4 billion impairment charge to build up reserves in light of the global COVID-19 pandemic and its desultory impact on the local economy. Payment holidays were rampant, though the bank management thinks it will be protected by the secured nature of most of its lending and low loan-to-value (LTV) ratios in the Consumer and Commercial portfolios alike.

The UK banking market (EUFN) is highly competitive with too many players, and we think this is the cause for the low returns on capital across the cycle. Following Brexit, we have fewer concerns about the continental banks running into trouble and then seeing that spread via counterparty risk to the likes of the UK banks, though it still bears watching. The risk going forward would be more of an economic contagion due to the trading relationships between Great Britain and the continent. Our focus will be focused more on the competitive dynamics between the local banks and foreign banks with presence there. Lloyds' remains very well capitalized with a common equity Tier 1 ratio of 14.2%.

Santander Remains Well-Capitalized

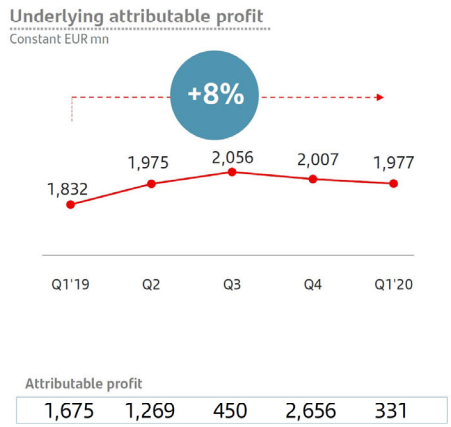
Europe is overbanked with too much capacity, which means little or no earnings power for many of the players involved, including Santander Europe. We're paying close attention to the key banking players in Europe to assess the likelihood of a global financial contagion that may accompany the global pandemic that has become COVID-19.

Banco Santander (SAN) reported tough first-quarter results April 28, with total income (the IFRS equivalent of GAAP revenue) down 2% and attributable profit down 82% to EUR 331 million. Profit before the provision build would have been up 1%, so clearly the expectations for upcoming bad debts are what really sunk the quarterly results, which one can see in the below graphic.

Q1'20 underlying results continued to grow, marginally affected by the crisis

EUR mn	Q1'20	% vs. Q1'19 Euros	% vs. Q1'19 Constant euros
Net interest income	8,487	-2	3
Net fee income	2,853	-3	3
Customer revenue	11,340	-2	3
Trading and other income	474	0	2
Total income	11,814	-2	3
Operating expenses	-5,577	-3	1
Net operating income	6,237	-1	5
Loan-loss provisions	-2,309	6	12
Other results	-372	-21	-17
Underlying PBT	3,556	-3	3
Underlying attributable profit	**1,977**	**1**	**8**
Net capital gains and provisions[1]	-1,646	—	—
Attributable profit	**331**	**-82**	**-80**

(1) In Q1'20: Provisions overlay EUR 1,600 mn related to COVID-19 and restructuring costs of EUR 46 mn. Details on slide 38 (appendix)



Santander | Note: Contribution to the SRF (net of tax) recorded in Q2'19 (EUR -162 mn). Contribution to the DGF in Spain (net of tax) in Q4'19 (EUR -160 mn) 9

Image Source: *Santander S.A. 1Q2020 Earnings Presentation*

Sticking with the "underlying attributable profit" described in the above graphic (excluding the large provision build), one can see in the below graphic that North and South America are driving underlying profit growth as well as return on tangible equity for the overall bank.

Resilient underlying performance supported by our geographic diversification...

Q1'20 (vs. Q1'19)	Loyal customers (mn)	Loans (EUR bn)	Customer funds (EUR bn)	Underlying profit (EUR mn)	RoTE (%)
Europe	9.9 +2%	653 +4%	644 0%	974 -16%	8% -167 bps
North America	3.6 +21%	132 +13%	120 +15%	522 +34%	15%[1] +172 bps
South America	7.8 +5%	118 +16%	148 +16%	928 +15%	21% +154 bps

Santander | Note: Changes in constant euros. Loans and advances to customers excluding reverse repos. Customer funds: customer deposits excluding repos + marketed mutual funds. Underlying RoTE (1) Adjusted for excess of capital in the US. Otherwise 10% 6

Image Source: *Santander S.A. 1Q2020 Earnings Presentation*

Europe (EUFN) is overbanked with too much capacity, which means little or no earnings power for many of the players involved, including Santander Europe. One can also see in the results the legacy of the Great Financial Crisis and Euro Crisis of the past decade, with a non-performing loan (NPL) ratio of 6.88% in Spain (EWP) and 3.19% for Europe (VGK) as a whole. We are very skeptical that it might be papering over European bad loans and rolling them over.

Importantly, the bank is well capitalized, though the common equity Tier I ratio dropped from 11.65% at the end of the year to 11.58% at the end of this quarter. The problem is if provisions climb from current levels and earnings go negative. Then, the bank would be faced with deteriorating capital levels (resulting from losses), which is a very difficult scenario under which to raise additional capital.

The other problem that could emerge for European banks would be if sovereign credit quality were once again called into question. Because banks are large owners of sovereign debt, this could be a real problem for periphery banks, in particular, but due to counterparty exposure, these risks can travel quickly between banks and across border. This is a key risk to watch and the sovereign spreads are the tell.

Unicredit Is Best Worth Avoiding

The combination of revenue pressure from lower rates, a difficult operating environment, weakening efficiency metrics, one-off losses, and arguable low provisions for credit losses make for an ugly picture emerging at Unicredit at this time. We're paying close attention to the key banking players in Europe to assess the likelihood of a global financial contagion that may accompany the global pandemic that has become COVID-19.

Unicredit (UNCFF) posted dismal first-quarter results May 6 that showed revenue falling 8.2% and negative "underlying net profit" of EUR 100 million from the same period last year. Stated net profit in the period was even worse at negative EUR 2.706 billion, including integration costs in Italy (EWI), a loss related to the Yapi transaction, and real estate disposal gains partially offsetting the former two negatives. As one can see in the graphic below, non-performing exposures remain uncomfortably high at 4.9% at quarter end, though down from extremely elevated levels just last year.

Resilient business model underpinned by very strong CET1 MDA buffer

Executive summary

	1Q19	4Q19	1Q20	%Δ vs 4Q19	%Δ vs 1Q19
Revenues, bn	4.8	4.9	4.4	-9.7%	-8.2%
Costs, bn	-2.5	-2.5	-2.5	-1.3%	-0.7%
CoR, bps	40	137	104 [1]	-33	+64
Gross NPE, bn	37.6	25.3	24.9	-1.5%	-33.7%
Gross NPE ratio, %	7.6	5.0	4.9	-0.2p.p.	-2.7p.p.
Underlying RoTE[2], %	9.3	10.8	-0.4	-11.2p.p.	-9.7p.p.
CET1 MDA buffer, bps	219	312	436	+124	+218
Tangible equity, EoP bn	49.1	53.0	51.2	-3.4%	4.3%
Underlying net profit[3], bn	1.1	1.4	-0.1	n.m.	n.m.

4

The end notes are an integral part of this Presentation. See pages 62-69 at the back of this presentation for information related to the financial metrics and defined terms in this presentation

Image Source: *Unicredit 1Q2020 Earnings Presentation*

With a cost of risk of 104 basis points (bps), as compared to 137 bps in the fourth quarter of last year, we remain very skeptical that the bank is taking appropriate provisions for loan losses, which we expect to mount in the period(s) ahead. Unlike many of its peers, it doesn't look like Unicredit is getting ahead of coming loan losses. Further, as one can see in the below graphic, despite reasonably good cost control efforts, the revenue pressure facing the bank has its cost/income ratio jumping substantially in the period, a clear worsening of efficiency.

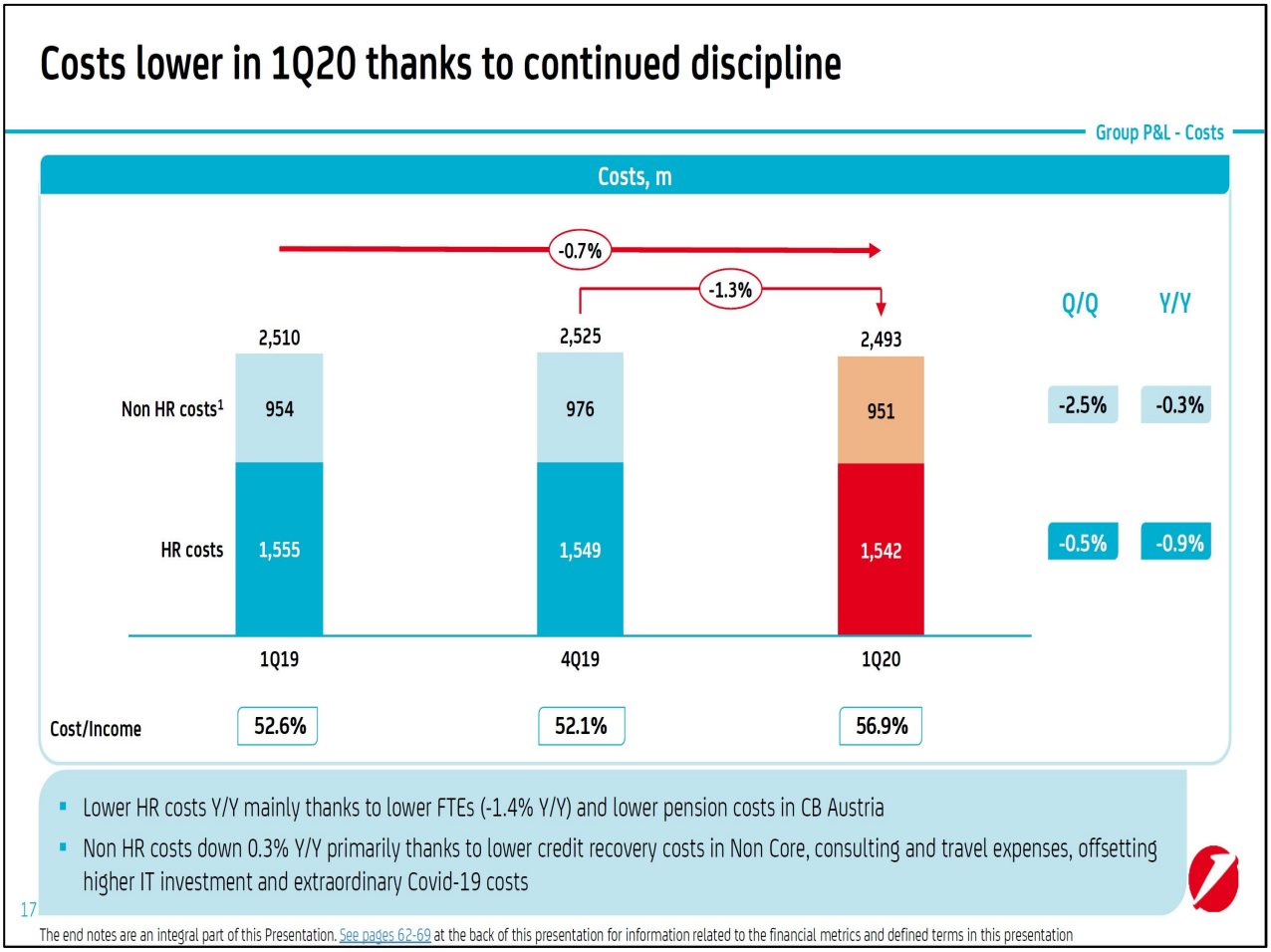


Image Source: *Unicredit 1Q2020 Earnings Presentation*

The combination of revenue pressure from lower rates, a difficult operating environment, weakening efficiency metrics, one-off losses, and arguable low provisions for credit losses make for an ugly picture emerging at Unicredit at this time. We would also point out that Unicredit is exposed to a possible worsening of sovereign risk given Italy's outlier high debt/GDP ratio and as well as the risk that spreads over comparable German (EWG) bonds may blow out again if periphery Euro countries and banks come under substantial question yet again. We would avoid this bank and are watching banks like this closely for potential mounting problems.

Disclosure: *Matthew Warren does not own shares in any of the securities mentioned above.*

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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.*

THE SIMULATED HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO

We think the High Yield Dividend Newsletter portfolio positions us fairly well for whatever the market may throw at us, whether it's COVID-19 or another calamity. The newsletter portfolio is pretty well-diversified, and we've started to identify some pretty good individual equity ideas of late. That said, **high yield investing is inherently risky.**

In many respects, 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'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 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			
PowerShares Senior Loan Portfolio	BKLN	5.0%	5.11%
iShares MSCI Australia ETF	EWA	5.0%	5.16%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	6.54%
iShares International Select Dividend ETF	IDV	5.0%	9.05%
iShares U.S. Preferred Stock ETF	PFF	5.0%	5.70%
Global X SuperDividend ETF	SDIV*	5.0%	8.46%
Global X SuperIncome Preferred ETF	SPFF	10.0%	6.49%
Vanguard Consumer Staples ETF ***NEW***	VDC	5.0%	2.57%
Vanguard Real Estate ETF	VNQ	10.0%	4.17%
Utilities Select Sector SPDR	XLU	5.0%	3.41%
EQUITY			
AT&T	T	7.5%	6.74%
BP PLC	BP	2.5%	10.89%
CubeSmart	CUBE	5.0%	4.64%
Digital Realty Trust	DLR	5.0%	3.12%
Enterprise Products Partners	EPD	2.5%	9.32%
Magellan Midstream Partners	MMP	2.5%	9.06%
Philip Morris	PM	7.5%	6.38%
Public Storage	PSA	5.0%	3.95%
ProShares Short High Yield	SJB	2.5%	1.01%
Cash**	-	0.0%	0.00%
		100.0%	**5.69%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 6/1/2020. Est. Div. Yield information retrieved from YahooFinance.

** SDIV yield calculated as annualizing its most recent distribution. Source: Global X, https://www.globalxetfs.com/funds/sdiv/ (retrieved 6/1/2020)*

*** Reflects federal funds target rate range*

DIVIDEND REPORT PAGE 2 – KIMBERLY-CLARK (KMB)

Kimberly-Clark KMB OVERVALUED 2.7%

Buying Index™ 7 **Value Rating** ✗

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$90.00 - $136.00	HEALTHY	GOOD / 1.2	GOOD	3.06%

Assessment of Company Dividend Strategy

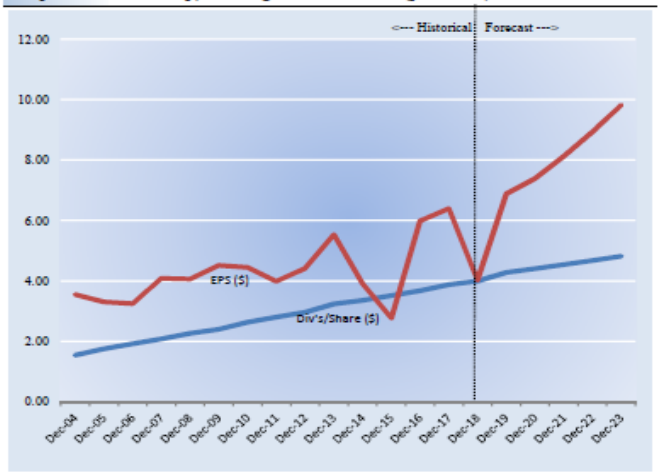
Key Strengths

Kimberly-Clark has both strong operating and dividend track records. Having been in business since 1928 and increasing its annual dividend payout for 45+ consecutive years, the latter lands it on the coveted list of Dividend Aristocrats. The firm expects its restructuring program to deliver $500-$550 million in annual pre-tax cost savings by the end of 2021. Kimberly-Clark is a solid free cash flow generator, having produced ~$2.2 billion in free cash flow, on average, during the past 3 years (2016-2018), covering annual run rate cash dividend obligations of $1.4 billion. Kimberly-Clark's brand strength (Kleenex, Kotex, Cotenelle, Huggies) is undeniable, and it hopes to use this strength to grow operating profit 3%-5% annually through 2022.

Potential Weaknesses

Kimberly-Clark's tremendous brand strength makes its business resilient, but slowing growth in the international population due to societal changes in countries such as China could pressure diaper sales, for example (which make up the majority of total sales). The firm is also subject to volatile currency exchange rates and commodity markets, which can pressure earnings at various points in the economic cycle. Organic performance has been solid of late, but competition in all of Kimberly Clark's markets is intense. We're not particularly fond of the company's net debt position (~$6.9 billion as of the end of 2018, inclusive of short term debt), but its free cash flow generating ability puts our minds at ease. We're expecting ongoing dividend increases.

Graphical Relationship, Earnings and Dividends (per share)

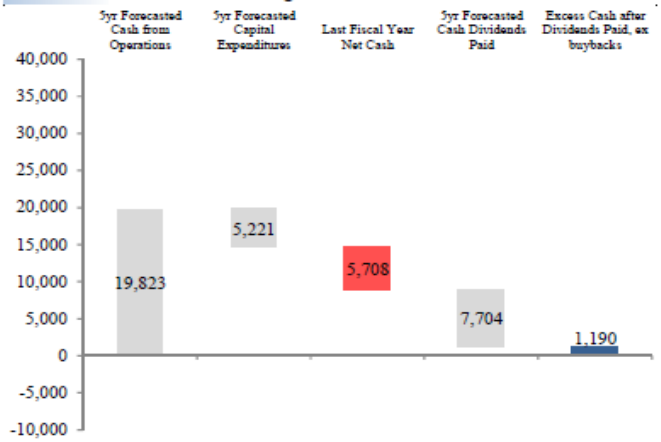


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

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

Dividend Cushion Cash Flow Bridge

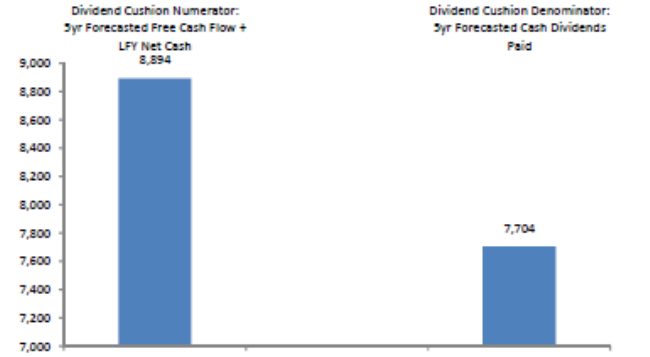


Source: Company Filings, Valuentum Projections

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, Kimberly-Clark's numerator is larger than its denominator suggesting strong dividend coverage in the future. The Dividend Cushion Ratio Deconstruction image puts sources of free cash in the context of financial obligations next to expected cash dividend payments over the next 5 years on a side-by-side comparison. Because the Dividend Cushion ratio and many of its components are forward-looking, our dividend evaluation may change upon subsequent updates as future forecasts are altered to reflect new information.

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.

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