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HIGH YIELD DIVIDEND NEWSLETTER

UPDATE ON HIGH-YIELDING PHILIP MORRIS

Latest Changes to High Yield Dividend Newsletter
Removed: EWA – April 27 Added: SPYD – April 27

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"THE YIELD ON 10-YEAR US TREASURY IS ON THE RISE AS THE FEDERAL RESERVE IS GETTING CLOSER TO TAPERING ITS QUANTITATIVE EASING ('QE') PROGRAM, WHICH INVOLVES MONTHLY PURCHASES OF $80 BILLION IN US TREASURIES AND $40 BILLION IN MORTGAGE-BACKED SECURITIES ('MBS'). LOOKING AHEAD, THE IDEAS INCLUDED THE HIGH YIELD DIVIDEND NEWSLETTER PORTFOLIO ARE WELL-POSITIONED TO NAVIGATE THE CHANGING MONETARY POLICY LANDSCAPE, IN OUR VIEW."

– CALLUM TURCAN

Image Shown: *Shares of Philip Morris International Inc have performed quite well over the past year.*

By Callum Turcan

One of our favorite high-yielding plays is Philip Morris International Inc (PM) ---**5.3% yield**---the tobacco giant behind the Marlboro cigarette brand (excluding the US market) and the incredibly popular IQOS product, a heated tobacco unit ('HTU') offering. **Shares of PM are included as in idea in the High Yield Dividend Newsletter portfolio.** The top end of our fair value estimate range sits at $119 per share of Philip Morris, indicating there is ample room for shares of PM to run higher still.

While Philip Morris and its partner Altria Group Inc (MO) recently received a legal setback in the US as it concerns its IQOS product (which Altria Group sells in the US via a marketing arrangement with Philip Morris), we want to stress here that most of the upside from IQOS comes from international markets. In short, a subsidiary of British American Tobacco PLC (BTI) won a favorable ruling from the U.S. International Trade Commission, which Philip Morris intends to appeal.

Financial Update

When Philip Morris gave a presentation at a consumer staples event hosted by Barclays PLC (BCS) in September 2021, management reiterated the tobacco giant's reported and non-GAAP adjusted diluted EPS guidance for 2021. Philip Morris expects its organic (excluding foreign currency movements) adjusted diluted EPS will grow by 12%-14% in 2021 over 2020 levels.

Within the press release published in conjunction with its recent investor presentation, **management noted that the firm is now targeting for growth in the upper end of that range.**

2021: EPS Guidance
($/share)

	Full-Year		
	2021 Forecast	2020	Organic Growth
Reported Diluted EPS	$5.76 - $5.86	$5.16	
- Saudi Arabia customs assessments	0.14	–	
- Asset impairment and exit costs	0.07	0.08	
- Fair value adjustment for equity security investments		0.04	
- Tax items		(0.06)	
- Brazil indirect tax credit		(0.05)	
Adjusted Diluted EPS	$5.97 - $6.07	$5.17	
- Currency	(0.18)		
Adjusted Diluted EPS, excluding currency	$5.79 - $5.89	$5.17	12% - 14%

Image Shown: *Philip Morris is guiding for double-digit annual adjusted EPS growth this year.* ***Image Source:*** *Philip Morris – September 2021 IR Presentation*

Please note that Philip Morris is expecting to hit its EPS target even though the ongoing semiconductor shortage is weighing negatively on its ability to keep up brisk demand for its HTU offerings. The company noted that it now expects its HTU shipment volumes to fall towards the lower end of its 95-100 billion unit range for 2021, though that is still up sharply from ~76 billion units in 2020 and ~60 billion units in 2019. In August 2021, Philip Morris launched IQOS ILUMA product in Japan and initial demand has been quite strong according to the firm. Philip Morris is navigating exogenous headwinds rather well, in our view.

In September 2021, Philip Morris raised its quarterly dividend by just over 4% sequentially to $1.25 per share, bringing its annualized payout going forward up to $5.00 per share.

The company's strong performance of late has apparently given management the confidence to continue growing Philip Morris' already generous payout, which we appreciate. In our July 2021 article *Philip Morris' Transformation Continues* we covered its financials, recent guidance updates, and business strategy in great detail.

Acquisition Update

In August 2021, Phillip Morris announced that it was acquiring a respiratory drug development company, OtiTopic, though financial terms were not disclosed beyond Philip Morris noting the deal would not materially impact its adjusted diluted EPS in 2021. OtiTopic has "a late-stage inhalable acetylsalicylic acid ('ASA') treatment for acute myocardial infarction. If approved, the treatment can address the significant unmet medical need of the over 83 million people, in the U.S. alone, at intermediate to high risk for myocardial infarction" according to the press release announcing the deal. Here is some additional information from that press release (emphasis added):

> Following the completion of clinical trials and pending approvals by the U.S. Food and Drug Administration ('FDA'), PMI can leverage its expertise and the capabilities of other companies in the Beyond Nicotine portfolio to bring ASPRIHALE to market.
>
> **ASPRIHALE—a patented, dry powder inhalation of ASA delivered through a unique self-administered aerosol—is expected to move from clinical trials to filing with FDA for approval in 2022.** Early clinical trials have shown that the product system catalyzed peak plasma concentration and the desired pharmacodynamic effect, i.e., inhibition of platelet aggregation in two minutes compared with 20 minutes for coated chewable aspirin. **This speed is unprecedented and has significant potential implications for improving the survival of patients at risk of heart attacks…**
>
> PMI's Beyond Nicotine vision is part of a larger transformation that puts health, science, technology, and sustainability at the heart of PMI's future, delivering products and solutions that aim to improve people's lives and deliver a net positive impact on society. Building on the company's investment and expertise in aerosol chemistry and physics, device technology, clinical research, and best-in-class preclinical safety and inhalation models, **PMI is developing a pipeline focused on inhaled therapeutics for medical and wellness applications.**

On September 15, Philip Morris announced it had completed the acquisition of Fertin Pharma which operated a sizable contract development and

manufacturing organization ('CDMO') across Canada, Denmark, and India. In 2020, Fertin Pharma generated a bit under $0.2 billion in net revenues. Fertin Pharma's business "specializ[es] in the research, development and production of gums, pouches, liquefiable tablets, and other solid oral systems for the delivery of active ingredients, including nicotine, where it is a leading producer of Nicotine Replacement Therapy ('NRT') solutions" though the goal is to expand its operations into health and wellness offerings. This deal, which had an enterprise value of ~$0.8 billion, is expected to have a minimal impact on Philip Morris' adjusted diluted EPS in 2021.

Philip Morris announced on September 16 that its offer for Vectura Group had become unconditional after it had acquired or received valid acceptances for just under 75% of Vectura Group's shares, above the threshold required to move forward with the deal as planned. On September 21, Philip Morris published an 8-K SEC filing noting that this figure was now above 75% of Ventura Group's shares and that should Philip Morris and its subsidiary "acquire or receive acceptances under the extended offer period of 90 per cent or more of the outstanding shares of Vectura" the company "will exercise its rights under U.K. law to acquire the remaining shares of Vectura on a compulsory basis on the same terms as the offer, which is 165 pence per share of Vectura."

Now Philip Morris is moving towards delisting Vectura Group from the London Stock Exchange and making it a private subsidiary. It appears the deal is on its way towards being completed relatively soon after facing some headwinds from health groups and contending with a bidding war against Carlyle Group Inc (CG). Phillip Morris' deal for Vectura Group has an enterprise value of GBP£1.1 billion, or approximately USD$1.5 billion as of this writing based on current exchange rates.

Just like its other two deals, Philip Morris does not expect its pending Vectura Group acquisition to have a material impact on its adjusted diluted EPS performance in 2021. Vectura Group "is a provider of innovative inhaled drug delivery solutions that enable partners to bring their medicines to patients. The company has 13 key inhaled products and 11 non-inhaled products marketed by major global pharmaceutical partners" and in 2020, the firm generated ~$0.25 billion in net revenue according to a recent press release. Furthermore, Vectura Group has "a diverse portfolio of partnerships for drugs in clinical development" that Philip Morris can help progress towards commercialization. These deals are part of Philip Morris' plan to generate at least $1.0 billion in revenues from products not directly associated with nicotine by 2025 (its 'Beyond Nicotine' strategy).

Bigger picture, Philip Morris' management team under its CEO Jacek Olczak, who took the top job this past May, recognizes that the company needs to adapt to stay relevant in the long run. On a global basis, the cigarette business is in terminal decline as consumers continue to shift away from tobacco (resulting in declining annual sales volumes). However, the tremendous pricing power of Marlboro and other cigarette brands combined with the relatively inelastic demand curve for these addictive products enables a company like Philip Morris to maintain and even grow its cash flows in the face of such headwinds.

Eventually, that strategy will hit a wall which is why Philip Morris is looking towards the future. Pharmaceutical products are a core focus, as are "selfcare wellness products, including over-the-counter solutions and supplements for better living in areas such as sleep, energy, calm, and focus" according to a recent press release though that is a tad vague. In our view, the company's plans will likely become better defined in the coming quarters as it integrates its recent and pending acquisitions into its broader operations.

Concluding Thoughts

We are huge fans of Philip Morris and appreciate its pivot towards pharmaceuticals and other products. **Investors are steadily warming up to the name as its core cigarette and other tobacco products business continues to churn out gobs of free cash flow while management's initiatives are improving the company's growth outlook over the long haul.** We are keeping a close eye on Philip Morris' strategic pivot.

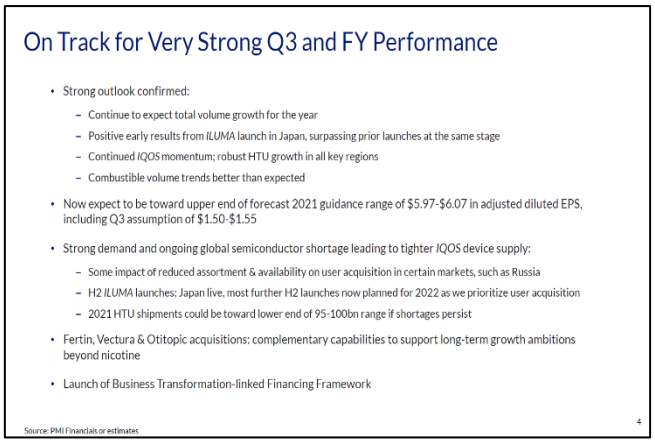


Image Shown: *Philip Morris is guiding for double-digit annual adjusted EPS growth this year.* ***Image Source:*** *Philip Morris – September 2021 IR Presentation*

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

Update on High-Yielding AT&T

Image Source: *AT&T Inc – Second Quarter of 2021 IR Earnings Presentation*

By Callum Turcan

The communications and media giant AT&T Inc (T)---**7.7% yield**---is pivoting back to its roots, a strategy that we think will pay off handsomely in the long run, though there have been plenty of rough bumps along the way. **Management has finally found a strategy that AT&T can stick with.** We include AT&T as an idea in the High Yield Dividend Newsletter portfolio (please note that the company will rightsize its dividend in the coming quarters, resulting in a yield adjustment lower).

Warner Bros. Discovery

AT&T's WarnerMedia segment is joining forces with Discovery Inc (DISCA) that will see shareholders of AT&T own 71% of the new company's equity once the deal closes. This move was announced in May 2021 and is still expected to be completed in the middle of next year. AT&T's HBO Max video streaming service will be a core part of that new entity's operations (along with its traditional HBO offering provided as an add-on through pay-TV services) as will Discovery's new video streaming service, Discovery+ (which launched in January 2021).

The new company will be known as Warner Bros. Discovery and will have significant scale in the media, entertainment, and video streaming services industries. Additionally, AT&T expects Warner Bros. Discovery will be able to generate at least $3.0 billion in annualized cost synergies by 2023, which in turn will be utilized to support massive investments in original content geared towards its direct-to-consumer ('DTC') operations.

Even after taking into account expected volatility in subscriber figures due to HBO leaving Amazon Inc's (AMZN) channels service in September 2021, AT&T forecasts that HBO/HBO Max will exit 2021 with 70-73 million paid subscribers worldwide (excluding free trial figures). **Launching HBO Max into new markets represents a core way AT&T expects to grow the video streaming service's paid subscriber base.**

During the recent Communacopia Conference hosted by Goldman Sachs Group Inc (GS), AT&T's CEO John Stankey had some interesting commentary regarding past mistakes involving the rollout of HBO Max, which launched back in May 2020, and how the firm can correct those mistakes before the planned separation. In summary, AT&T initially thought of HBO Max as a complementary service to its domestic wireless packages that could help AT&T reduce customer churn and boost the total revenue potential of each customer. However, as time progressed and AT&T's strategic vision changed, it became clear that a lot of the growth opportunities sitting in front of HBO Max were overseas.

AT&T's CEO noted that part of the reasoning behind the pending WarnerMedia-Discovery merger was to ensure that nothing was getting in the way of HBO Max's global growth story. Put another way, it seemed Mr. Stankey was implying that as a part of a communications giant, HBO Max was not able to live up to its full potential. This does represent a complete 180-degree pivot from AT&T's previous strategy, and please note that this comes on the heels of AT&T recently completing the partial divestment of its DIRECTV and other US pay-TV operations by spinning off that entity (though it retains a 70% equity stake in the venture). AT&T previously spent lavishly acquiring DIRECTV in 2015 and Time Warner in 2018 (which owned WarnerMedia at the time).

Within a recent press release, AT&T noted that HBO Max would expand into six additional European countries in October 2021 after getting launched in 39 Latin American territories in June 2021. Furthermore, the goal is to launch the video streaming service in at least 14 additional European territories in 2022 to keep the momentum going on this front. As it concerns HBO Max's near-term growth trajectory, management expects "subscriber growth in the second half of 2021 to primarily come from outside the United States" due in part to HBO Max leaving Amazon's channels service and in part due to the service aggressively expanding its reach overseas.

During the recent IR conference, AT&T's CEO noted that the goal was to boost the subscriber base of HBO Max as a standalone service to 120-150 million by 2025. For reference, HBO/HBO Max had 67.5 million paid subscribers at the end of the second quarter of 2021 (including 47 million paid domestic

subscribers). Stankey recently noted that the rollout of the HBO Max service in Latin American had gone quite well so far.

AT&T intends to use the merger of its WarnerMedia unit with Discovery to trim its total debt load, aided by its recent divestment activities, something that we already covered in detail through our July 2021 article *High-Yielding AT&T Remains Free Cash Flow Cow* which we included in the August 2021 edition of the High Yield Dividend Newsletter. The communications giant had $179.8 billion in total debt (inclusive of short-term debt) on the books at the end of June 2021 end of June 2021, modestly offset by $11.9 billion in cash and cash equivalents on hand. Its stellar free cash flow generating abilities and ample liquidity levels combined with its pending spinoff and divestment activities should enable AT&T to stay on top of that burden going forward.

5G Wireless, Fiber, and Dividend Considerations

Another key part of AT&T's reasoning behind separating its media operations from its communication operations is so the company can focus more on building out its 5G wireless infrastructure and fiber optic internet service provider ('ISP') business, both of which are relatively capital-intensive operations. In order to grow the appeal and ultimately the paid subscriber base of its video streaming services, AT&T is investing heavily in original content for HBO Max and likewise, Discovery is investing heavily in original content for Discovery+, something that will likely continue once the merger closes. However, managing the investment needs of both sides of its business was a difficult task for AT&T when also taking its large dividend obligations into account.

Once the merger of WarnerMedia and Discovery has been completed, AT&T has communicated to investors that its payout would be rightsized. Management noted back in May 2021 that AT&T would pay out around $8.0-$9.0 billion in annual dividends post-merger, compared to $15.0 billion in 2021. That is partly due to the loss of cash flows relating to WarnerMedia, and partly due to the need to free up cash flow to invest in its core communication businesses which have been growing at a brisk pace of late. In 2023, AT&T aims to generate $20.0 billion or more in free cash flow post-merger (keeping its various divestments of late in mind as well).

During the first and second quarters of 2021 combined, AT&T's 'Mobility' business added 2.0 million net postpaid customers including 1.4 million net postpaid phone customers. Its prepaid phone business added 0.4 million net customers during this period. Pivoting to AT&T's 'Consumer Wireline' business, this segment added 0.5 million net fiber internet customers during the first and second quarters of 2021.

As it concerns AT&T's wireless business, utilizing aggressive handset promotions has been key, including promotions involving the new iPhone 13 from Apple Inc (AAPL). **The entire wireless industry in the US has been leaning heavily on handset promotion of late, and AT&T has been no exception.**

During AT&T's latest IR presentation, Stankey noted that in the past, the company had been less aggressively using handset promotions to win over wireless customers so the firm's pivot towards more generous promotions represents AT&T converging towards industry norms (in the view of AT&T).

Stankey also noted that AT&T was utilizing some of its recent cost savings to cover the cost of these promotions while maintaining the firm's margins. For reference, AT&T is targeting $6.0 billion in annualized cost savings by 2023 (a plan announced back in 2020 that involves meaningful headcount reductions), roughly $2.0 billion of which has been realized so far, and Stankey reiterated this guidance during the firm's recent IR presentation.

To maintain the customer growth trajectory of its Mobility business going forward, management aims to continue offering generous handset promotions in the medium-term while also considering how to optimize AT&T's advertising and brand building efforts. In particularly, AT&T's CEO wants to position the brand to be more appealing to younger demographics.

Stankey stressed that having the best service is one key way to differentiate the company's 5G wireless offerings from the rest of the industry, though that is easier said than done given the immense amount of capital companies like Verizon Communications Inc (VZ) and T-Mobile US Inc (TMUS) are also pouring into the space. However, AT&T's CEO did note that the recent strategic agreement with DISH Network Corp (DISH) that will enable DISH to utilize AT&T's domestic wireless infrastructure as it seeks to build up its own 5G wireless network in the US speaks favorably towards AT&T's efforts on this front (while also creating a new source of revenue for the firm).

AT&T has been bulking up its C-band spectrum portfolio and by the end of 2023, the firm aims to cover 200 million people in the US with its 5G C-band network. For reference, C-band spectrum and the

related 5G wireless infrastructure is what would ultimately enable such services to offer significant performance improvements over 4G wireless services. To do so, **AT&T intends to spend $22.0-$24.0 billion on capital expenditures per year in 2022-2024**, compared to the $20.4 billion it spent on average per year in 2018-2019 before the coronavirus ('COVID-19') pandemic hit.

Pivoting to AT&T's fiber business, the company's goal is to expand its footprint to cover 30 million customer locations by the end of 2025, up from roughly ~15 million as of the middle of 2021. Combined with a rising penetration rate (greater number of households in its coverage region utilizing its fiber internet services), that should result in powerful growth in its customer base on this front in the coming years. For reference, AT&T's fiber internet business had a penetration rate of 31% and 4.3 million customers in the second quarter of 2020. By the second quarter of 2021, its penetration rate had risen to 36% while its customer base had grown to 5.4 million, with ample room for upside (the firm's coverage area also grew during this period).

Looking ahead, the goal is to drive the penetration rate of AT&T's fiber internet service up to around 40% and over the long haul, management aims for AT&T's fiber internet business to have penetration levels near 50% in regions where AT&T Fiber (the brand name of its fiber optic ISP business) is well-established. **As AT&T builds up its scale in this space, the cost of adding a new customer to its operations should shift meaningfully lower, aided by the increased effectiveness of its promotion and advertisement programs and existing infrastructure in the ground.**

Supply Chain and Labor Hurdles

However, **supply chain and labor hurdles have modestly slowed down its growth efforts on this front.** During AT&T's recent IR presentation, a Goldman Sachs analyst noted that AT&T had recently communicated to investors the firm would expand the reach of its fiber footprint to moderately less households than previously expected this year (~2.5 million versus ~3 million previously). AT&T's CEO responded by noting that the firm was facing headwinds securing fiber optic cable from its manufacturing partners as its partners had to deal with labor hurdles resulting from COVID-19 and the related quarantine measures. **Please note that AT&T's management team noted that these headwinds largely represented a 90-day delay to its growth ambitions on this front, and that over the past month, deliveries have tracked with its expectations.**

Looking ahead, AT&T plans to aggressively speed up the annual growth rate of the number of households capable of utilizing its AT&T Fiber services. Specifically, AT&T's CEO noted that "we have cast this in a way where getting this kind of an engine ramped up to go from building 3 million to 4 million to 5 million homes passed" during the recent IR presentation.

AT&T's CEO also commented that "my goal is I feel very comfortable, we have places we can go to build 30 million homes right now on an owned and operated basis. They have very attractive returns in the mid- to upper teens" as it concerns the firm's AT&T Fiber business. Furthermore, if the bipartisan infrastructure bill currently waiting for approval in the US House of Representatives gets signed into law, Stankey noted that AT&T would be able to embark on a more aggressive service network expansion program.

Another supply chain headwind AT&T has faced from the COVID-19 pandemic concerns the generators that act as a backup power source for its cell sites. While Stankey noted that each generator costs around $15,000, the shortage of resins and the related parts (in particular, a part worth about $0.25 in this instance) were delaying efforts to rollout those generators. In our view, AT&T will be able to adeptly navigate these headwinds going forward while maintaining its growth trajectory.

Concluding Thoughts

Keeping in mind that AT&T intends to rightsize its dividend, we continue to view its income generation potential quite favorably. The company's stock price has faced significant headwinds over the past couple of years due to AT&T's strategic pivots, though it now appears the company has found a lane it can stick in.

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

HIGH YIELD SPOTLIGHT

CoreSite Realty is a Top-Notch Data Center REIT

Our **High Yield Spotlight for October 2021** is CoreSite Realty Corp (COR)---**3.7% yield**---a data center real estate investment trust ('REIT') with operations across eight major markets in North America. The cash flow growth outlook for data center REITs is incredibly promising and underpinned by surging data demand growth with room for ample upside here with an eye towards the Internet of Things ('IoT') trend, proliferation of cloud computing, the nascent autonomous self-driving industry, and more.

CoreSite Realty has roughly 25 operational data centers spread out across the US. That includes facilities in California (Silicon Valley and Los Angeles) and the Eastern US along with hubs in Denver and Chicago. Over the coming years, CoreSite Realty could always expand into new geographical markets such as those in Texas, Washington state, and Oregon. Additionally, **CoreSite Realty has ample room to expand in its existing markets, which forms the backbone of its current growth strategy.** CoreSite has over 1,375 customers that are primarily represented by major enterprises, network operators, cloud computing service providers, and providers of supporting services.

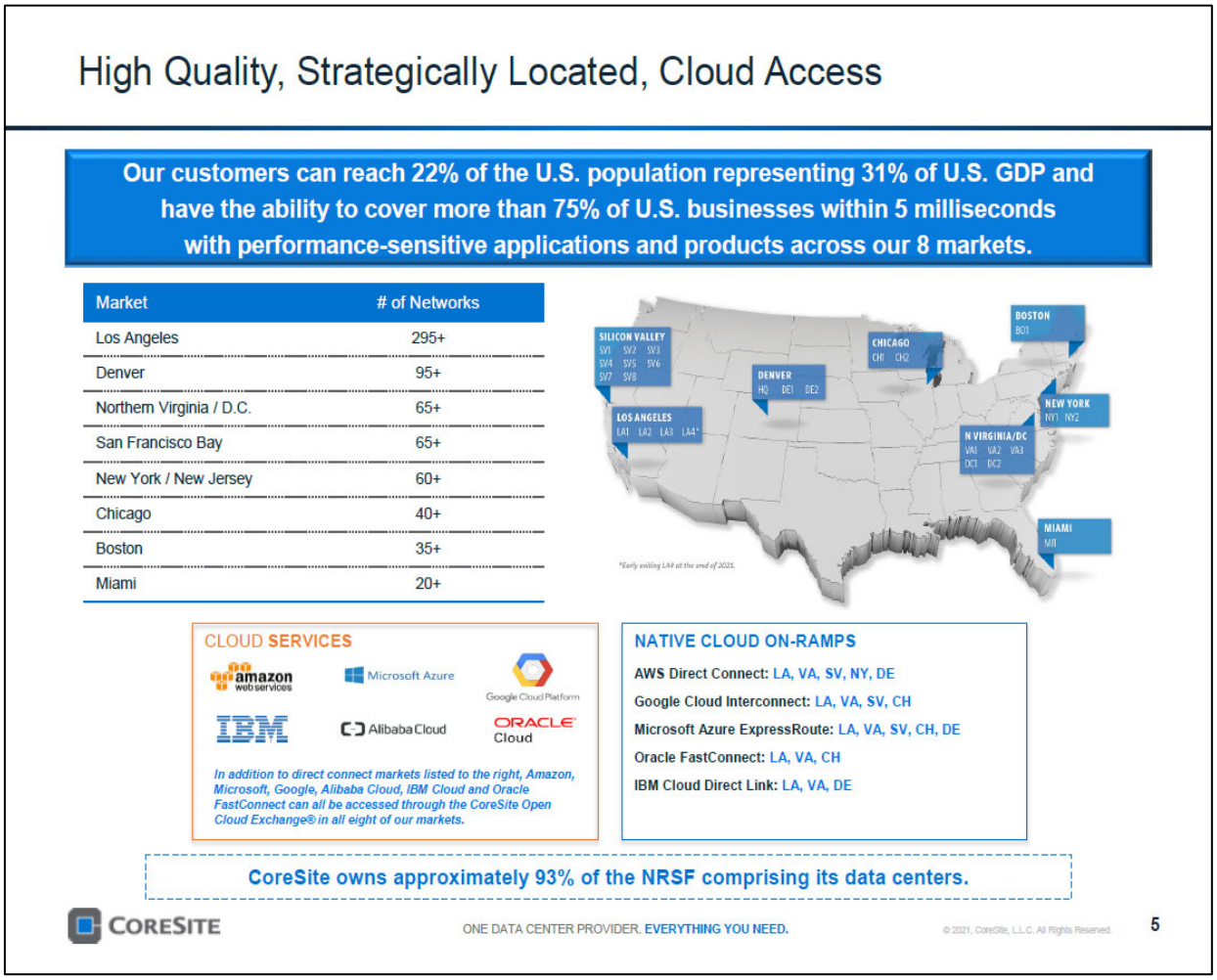


Image Source: *CoreSite Realty – August 2021 IR Presentation*

The company is targeting growth across the board at its existing markets as you can see in the upcoming graphic down below. CoreSite Realty's property portfolio includes some office and light-industrial holdings as well, though most of its business is geared towards data center facilities.

Our Portfolio

As of June 30, 2021, our property portfolio included 25 operating data center facilities, office and light-industrial space and multiple potential development projects that collectively comprise over 4.6 million net rentable square feet ("NRSF"), of which over 2.7 million NRSF is existing data center space. The approximately 1.5 million NRSF of development projects includes space available for development and construction of new data center facilities. We expect that this development potential plus any incremental investment into existing or new markets will enable us to accommodate existing and future customer demand and position us to continue to increase our operating cash flows.

The following table provides an overview of our property portfolio as of June 30, 2021:

	Data Center Operating Portfolio[1]								
		Stabilized		Pre-Stabilized [2]		Total			
Market	Annualized Rent ($000)[3]	Total NRSF	Percent Occupied[4]	Total NRSF	Percent Occupied[4]	NRSF	Percent Occupied[4]	Total Development NRSF [5]	Total Portfolio NRSF
San Francisco Bay	$ 108,309	940,309	86.3 %	—	— %	940,309	86.3 %	240,000	1,180,309
Los Angeles[6]	95,437	581,181	92.5	50,376	78.2	631,557	91.4	119,128	750,685
Northern Virginia[7]	62,018	567,269	84.9	—	—	567,269	84.9	809,742	1,377,011
New York	24,266	168,267	88.3	34,589	28.6	202,856	78.2	81,799	284,655
Chicago	16,723	178,407	84.3	54,798	1.4	233,205	64.8	112,368	345,573
Boston	15,121	122,730	85.3	19,961	9.3	142,691	74.6	110,985	253,676
Denver	5,977	34,924	83.7	—	—	34,924	83.7	—	34,924
Miami	1,799	30,176	82.8	—	—	30,176	82.8	13,154	43,330
Total Data Center Facilities	**$ 329,650**	**2,623,263**	**87.3 %**	**159,724**	**32.5 %**	**2,782,987**	**84.1 %**	**1,487,176**	**4,270,163**
Office and Light-Industrial[8]	9,391	418,110	84.5	—	—	418,110	84.5	(49,799)	368,311
Total Portfolio	**$ 339,041**	**3,041,373**	**86.9 %**	**159,724**	**32.5 %**	**3,201,097**	**84.2 %**	**1,437,377**	**4,638,474**

Image Source: *CoreSite Realty – 10-Q SEC filing covering the second quarter of 2021*

At the end of June 2021, CoreSite Realty had ~2.8 million net rentable square feet ('NRSF') currently housing data centers that are either in the "stabilized" or "pre-stabilized" categories. Please note that stabilized means the facility has been operating for some time, and thus has a more normalized occupancy level, while pre-stabilized facilities are data centers that only recently came online and are in the process of ramping up their occupancy rates. The REIT also had ~1.5 million NRSF of data center facilities under development that will eventually become operational. During CoreSite's second quarter of 2021 earnings call, management had this to say regarding the REIT's portfolio development strategy and outlook (emphasis added):

> *"Turning to our property development.* ***The LA3 Phase 2 construction project remains on track for Q4 2021 delivery****, and we completed a pre-lease for a scale deployment this quarter to an existing customer.* ***We also achieved a lease percentage of 89% at LA3 Phase 1****, reflecting the strength of our position in the Los Angeles market and solid sales activity.*
>
> *In addition, we placed a new 4-megawatt computer room at NY2 under development with an estimated Q1 2022 delivery date.* ***We continue to see strong demand in the New York market, particularly in the financial services industry. The new Boston chiller plant project has been completed. We expect the chiller to provide a positive return on investment through improved power efficiency and utilization.*** *As you know from our 2020 sustainability report, energy efficiency is a key focus for CoreSite.* *[Continued on next page]*

[Continued from previous page] And finally, we received zoning approval from the Santa Clara City Council for our SV9 development, an important entitlement, and we continue to work through the remaining pre-construction activities to bring SV9 to a shovel ready state." --- Paul Szurek, President and CEO of CoreSite Realty

We appreciate that beyond growing its data center footprint, CoreSite is also seeking out ways to improve the operational efficiency of these facilities, seen through its recent chiller plant project in Boston.

On a same-store basis, CoreSite Realty's occupancy rate has been trending in the right direction over the past several quarters. Looking at its data center operations, its same-store occupancy rate grew by 83.5% at the end of 2019 to 86.5% at the end of June 2021. Pivoting to its office and light-industrial facilities, its same-store occupancy rate grew from 83.2% at the end of 2019 to 86.3% at the end of June 2021. This strong performance underpins CoreSite's promising growth outlook, as the company has proven that it can successfully bring new data centers online and secure demand for those facilities in a timely manner. Strength at its non-data center business is a welcome sign as well.

	Same-Store Property Portfolio						
		Data Center		Office and Light-Industrial		Total	
Market	Annualized Rent ($000)	Total NRSF	Percent Occupied	Total NRSF	Percent Occupied	NRSF	Percent Occupied
San Francisco Bay	$ 106,050	888,108	85.9 %	233,095	91.2 %	1,121,203	87.0 %
Los Angeles	90,133	581,182	92.5	11,790	71.6	592,972	92.1
Northern Virginia	64,087	567,269	84.9	122,011	86.3	689,280	85.2
New York	23,421	168,266	88.3	20,944	63.2	189,210	85.6
Chicago	16,610	178,408	84.3	4,946	37.2	183,354	83.0
Boston	15,342	142,691	74.6	19,495	52.1	162,186	71.9
Denver	5,977	34,924	83.7	—	—	34,924	83.7
Miami	1,814	30,176	82.8	1,934	37.2	32,110	80.0
Total Facilities at June 30, 2021[1]	**$ 323,434**	**2,591,024**	**86.5 %**	**414,215**	**85.0 %**	**3,005,239**	**86.3 %**
Total Facilities at December 31, 2020	**$ 314,709**		**84.8 %**		**80.2 %**		**84.1 %**
Total Facilities at December 31, 2019	**$ 295,753**		**83.5 %**		**80.9 %**		**83.2 %**

(1) The percent occupied for data center space, office and light-industrial space, and total space would have been 87.3%, 85.2% and 87.0%, respectively, if all leases signed in the current and prior periods had commenced.

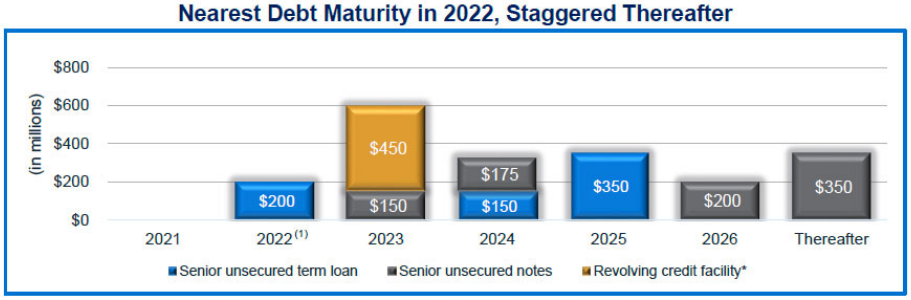
Image Source: *CoreSite Realty – 10-Q SEC filing covering the second quarter of 2021*

Like all REITs, CoreSite Realty is a capital-market dependent entity and needs to constantly tap debt and equity markets to cover its debt refinancing needs, growth ambitions, and payout obligations. At the end of June 2021, CoreSite Realty had a total debt load of ~$1.75 billion offset by a negligible cash position on hand. CoreSite Realty's historical free cash flow performance has been volatile, generating negligible positive free cash flows in 2018 and 2020, and negative free cash flow in 2019. **The company needs to tap capital markets due to its large net debt load and inconsistent free cash flow generating abilities.**

Please note that CoreSite Realty is great generator of net operating cash flow, which averaged just over $0.25 billion per year from 2018-2020. We view CoreSite Realty's debt burden as manageable given its stable cash flow profile, improving operational and financial performance seen in recent quarters, recent guidance boost which we will cover later in this article, and its well-staggered debt maturity as you can see in the upcoming graphic at the top of the next page.

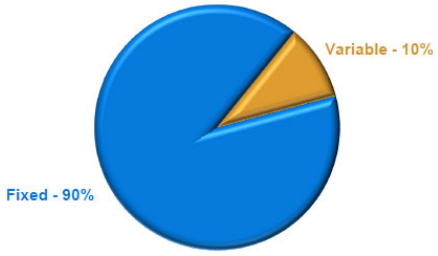
Financial Strength – a Competitive Advantage

Nearest Debt Maturity in 2022, Staggered Thereafter



(1) We anticipate addressing our 2022 Term Loan maturities during the second half of 2021. Timing, pricing, and the type of debt is dependent on market conditions.
*Amount presented above includes undrawn revolver capacity. Additionally, the credit facility contains a one-time extension option, which would extend the maturity date to 2024.

Debt Composition at 6/30/2021



Liquidity

($000s)	June 30, 2021
Revolving credit facility availability	$450,000
Borrowings outstanding	(182,500)
Outstanding letters of credit	(6,053)
Current availability	**$261,447**
Cash	2,866
Current liquidity	**$264,313**

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Image Source: *CoreSite Realty – August 2021 IR Presentation*

CoreSite Realty has a revolving credit line with $0.45 billion in borrowing capacity that matures in November 2023, with over $0.25 billion in remaining borrowing capacity at the end of June 2021. The REIT's net debt to adjusted EBITDA ratio stood at ~5.0x at the end of the second quarter of 2021. In our view, CoreSite Realty should retain solid access to capital markets at attractive rates going forward. Its financials are rock-solid, for a REIT, and shares of COR have been trending higher year-to-date as of this writing.

When CoreSite Realty reported its second quarter of 2021 earnings report, the REIT raised its full-year guidance for 2021 across the board. The REIT raised its revenue guidance while reducing its expected G&A spend, resulting in its forecasted non-GAAP adjusted EBITDA and forecasted non-GAAP funds from operations ('FFO') per share shifting higher. **Stronger forecasted cash rental renewal rates than previously expected played a key role in boosting its revenue growth expectations.**

2021 Updated Guidance

	Updated Guidance	Previous Guidance
Total operating revenues	$645 - $653 million	$642 - $652 million
General and administrative expenses	$46.5 - $50.5 million	$47 - $51 million
Adjusted EBITDA	$340 - $348 million	$336 - $346 million
Net income attributable to common diluted shares	$1.99 - $2.07	$1.81 - $1.91
FFO per common diluted share and OP unit, diluted – as adjusted	$5.52 -$5.60	$5.42 - $5.52
Cash rent growth on data center renewals	2% - 4%	0% - 2%

The increase of $0.09 per share, or 1.6%, at the midpoint of FFO per share, as adjusted, is largely driven by an increase in operating revenues, improved adjusted EBITDA margins, and to a lesser extent, by lower than anticipated interest expense. CoreSite's full 2021 guidance can be found in the Company's second quarter 2021 Supplemental Earnings Information on page 21.

Image Source: *CoreSite Realty – Second Quarter of 2021 Earnings Press Release*

While FFO is an imperfect metric, it is useful for gauging a REIT's ability to continue making good on its dividend obligations in the near term and the potential for payout growth going forward. CoreSite Realty boosted its dividend from $1.23 per share in the first quarter of this year to $1.27 per share in the second quarter, a move made possible by its improving financial and operational performance of late, and how that speaks favorably towards the REIT's outlook. During the first half of 2021, CoreSite Realty's adjusted FFO per share grew by 7% year-over-year and its adjusted EBITDA grew by 8% year-over-year, aided by 7% year-over-year growth in its operating revenues.

At its new payout level and using its estimated FFO per share performance for 2021 as a benchmark, CoreSite Realty is targeting a dividend payout around ~91% at the midpoint of guidance (annualized dividend payout of $5.08 per share under its current quarterly dividend level divided by its estimated FFO per share for 2021 at the midpoint of guidance, which is $5.56 per share). While at the higher end of things, CoreSite Realty's business is on the rebound and that payout ratio should shift lower over the coming quarters.

During CoreSite Realty's second quarter earnings call, management noted that "our strongest markets for new and expansion leases in terms of annualized GAAP rents signed were Los Angeles, New York, and Northern Virginia, which combined represented 75% of our annualized GAAP rent signed during the quarter." The REIT has various expansion projects underway in these markets to build on this momentum. Strength in these markets has been key to enabling CoreSite Realty grow its cash rental renewal rates well above its previous guidance range.

There are some downside risks to be aware of here as it concerns CoreSite Realty's ability to keep making good on its payout obligations going forward. For starters, CoreSite Realty's free cash flows are lumpy at best, weighed down by its sizable growth-related capital expenditures. Combined with its large net debt load, CoreSite Realty is always at risk of running into major headwinds if capital markets were to freeze up. This is a common dynamic in the REIT industry, though we caution that potential exogenous headwinds and the macroeconomic backdrop needs to be constantly monitored when looking at heavily indebted entities.

With that in mind, CoreSite Realty's outlook is quite bright. During the REIT's second quarter of 2021 earnings call management closed out their prepared remarks by noting that (emphasis added):

> *"In closing, as we move into the second half of 2021, we will continue to focus on our goal to lease-up our available capacity to achieve a portfolio occupancy percentage in the high 80s. As [CoreSite's Chief Revenue Officer] said,* ***we increased occupancy 220 basis points since the beginning of the year. We expect the increase in occupancy to create better revenue growth flow through and incremental margin expansion, ultimately resulting in incremental value for our shareholders.***
>
> *The incremental NOI resulting from ongoing lease-up highlights the value creation of our development and the implicit value of our currently available and buildable capacity. We remain focused on thoughtfully balancing future capacity development with customer opportunities.* ***Our balance sheet remains strong. We have plenty of liquidity and we believe we are well positioned to drive long-term value creation."*** *--- Jeff Finnin, CFO of CoreSite Realty*

CoreSite Realty operates in an attractive industry supported by secular growth tailwinds. Its recent guidance boost lends credence to the notion that CoreSite Realty's near term outlook is improving and getting brighter by the quarter, and we view its development pipeline and the strength of its cash renewal rates seen of late quite favorably. **The company is firing on all-cylinders, and we like CoreSite Realty as our High Yield Spotlight for October 2021.**

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

Our Two Favorite Midstream MLPs: EPD and MMP

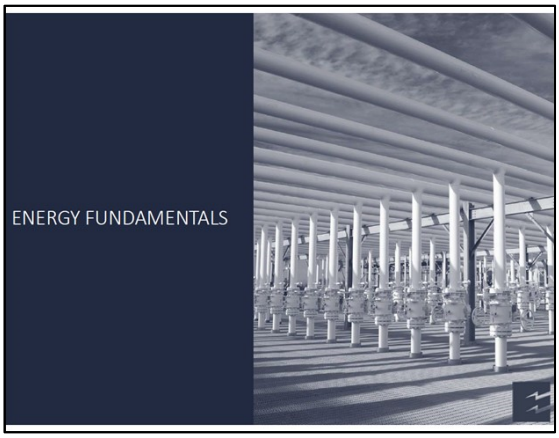

Image Source: *Enterprise Products Partners L.P. – August 2021 IR Presentation*

In our High Yield Dividend Newsletter portfolio, we include Enterprise Products Partners L.P. (EPD)---**8.3% yield**---and Magellan Midstream Partners L.P. (MMP) ---**9.0% yield**---as ideas with modest "weightings" as these are our two favorite midstream master limited partnerships ('MLPs'). **The global economy is steadily recovering from the worst of the coronavirus ('COVID-19') pandemic, though variants of the virus remain a concern.** Enterprise Products and Magellan Midstream are well-positioned to capitalize on this recovery while continuing to make good on their "generous" payout obligations.

Enterprise Products

When Enterprise Products reported its second quarter 2021 earnings in late-July 2021, **the midstream MLP showcased the positive impact the ongoing recovery in global refined petroleum product demand and oil & gas development activities in North America are having on its financial performance.** For instance, its 'NGL [natural gas liquid], crude oil, refined products & petrochemical pipeline volumes' were up 3% year-over-year, its 'natural gas pipeline volumes' were up 9% year-over-year, and its 'propylene plant production volumes' were up 57% year-over-year in the second quarter.

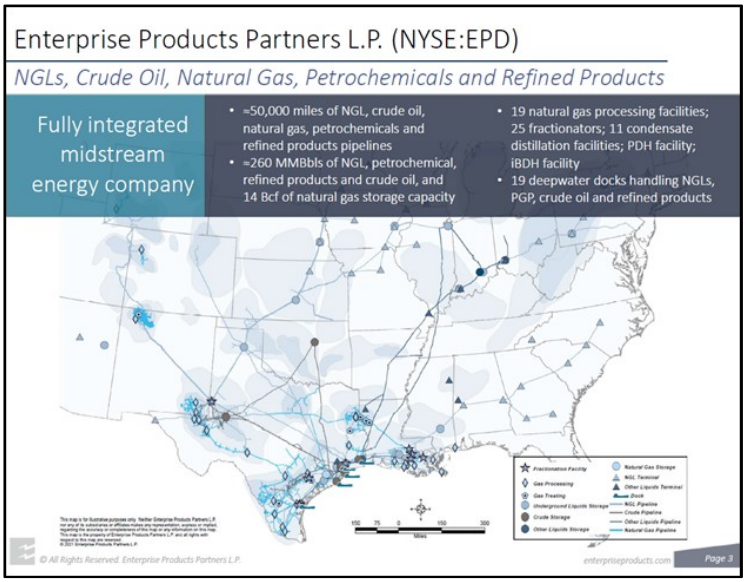

Image Shown: *Enterprise Products' expansive midstream asset base covers a lot of ground in the energy infrastructure space.* ***Image Source:*** *Enterprise Products – August 2021 IR Presentation*

In recent quarters, Enterprise Products has started placing a much greater emphasis on free cash flow instead of the industry-specific "distributable cash flow" metric which does not fully capture the capital expenditure requirements of the firm in question. Distributable cash flow, or DCF, is a poor way to gauge a company's ability to keep making good on its payout obligations.

Enterprise Products now prominently showcases its free cash flow performance in its earnings press releases, which we really appreciate. During the first hald of 2021**, Enterprise Products generated $2.7 billion in free cash flow** (up from $1.2 billion during the same period last year) while spending $2.0 billion covering its payout obligations and a negligible amount buying back its common units.

At the end of June 2021, Enterprise Products had a net debt load of $2.81 billion (inclusive of short-term debt, exclusive of restricted cash). **As part of its business model, Enterprise Products needs to retain constant access to capital markets to refinance its debt load, make good on its payout obligations, and to fund its growth endeavors.** That appears to be the case as Enterprise Products' operating subsidiary, Enterprise Products Operating ('EPO'), was able to issue $1.0 billion in senior notes due 2053 with a fixed interest rate of 3.3% that were sold at just under par in September 2021. According to the press release, these funds will be used to retire some of its debt, for general corporate purposes, and to cover its growth endeavors.

We appreciate Enterprise Products' apparent ability to tap debt markets at attractive rates, a process aided by its investment grade credit rating (Baa1/BBB+/BBB+). **Over the past 20+ consecutive years, Enterprise Products has grown its annual distribution.**

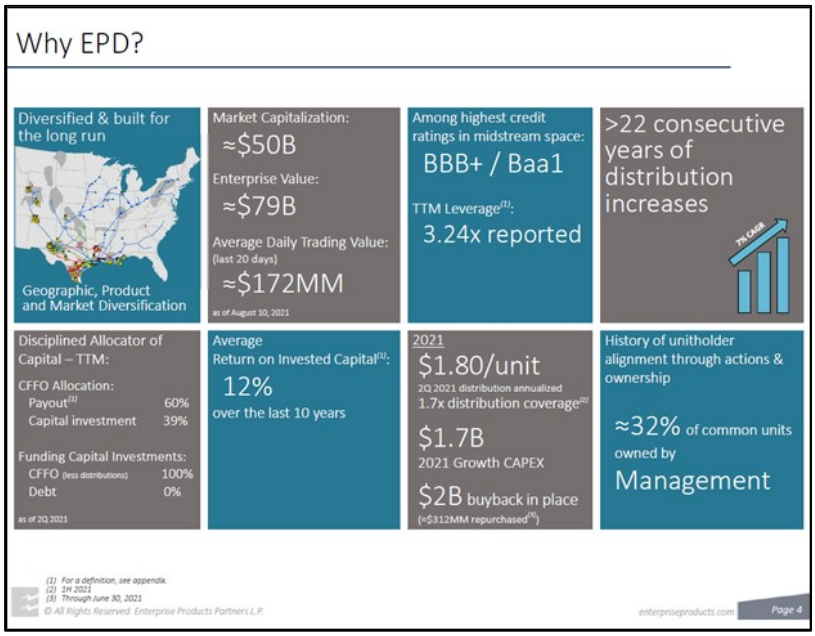

Image Shown: *An overview of Enterprise Products' financial metrics and equity ownership.* ***Image Source:*** *Enterprise Products – August 2021 IR Presentation*

Enterprise Products and Chevron Corporation (CVX) announced in September 2021 that they were joining forces to evaluate potential carbon capture and storage opportunities in the US. Growing pressures from governments, activists, and investors are compelling oil & gas firms to do more in the realm of green energy. The duo noted that "the initial phase of the study in which they will evaluate specific business opportunities to last about six months" in the press release announcing the venture.

While such projects are unlikely to generate meaningful revenues in the near term, in our view, Enterprise Products and Chevron are positioning themselves for the possibility that such endeavors will be encouraged by government policy over the coming years. Enterprise Products and Chevron are looking at opportunities in the US Midcontinent and Gulf Coast region, an area where both firms have sizable oil & gas operations.

Magellan Midstream

Magellan Midstream is also experiencing a powerful rebound in its financial performance as the global economy steadily recovers from the worst of the COVID-19 pandemic. After a series of divestments (including large portions of its marine terminal business that was sold off through multiple deals along with all of its inland independent terminal assets) in recent years, **Magellan Midstream now generates the bulk of its cash flows from refined petroleum product pipelines** and related assets (namely terminals that were not divested). The company notes that over 70% of its operating margin during the first half of 2021 came from its 'Refined Products' business operating segment and just under 30% came from its 'Crude Oil' segment.

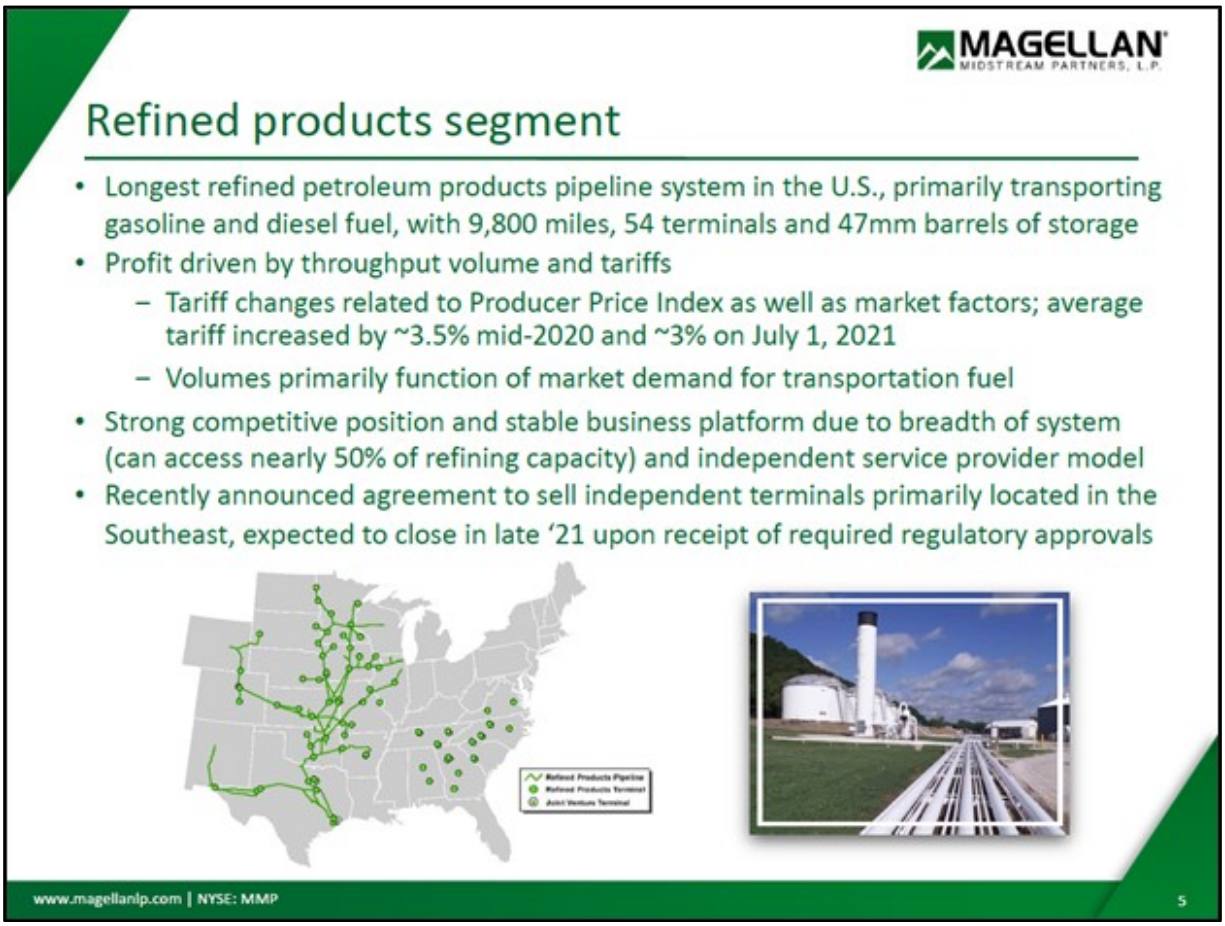

Image Shown: *Magellan Midstream owns and operates an expansive network of refined petroleum product pipelines in the US, keeping in mind it is in the process of divesting a large portion of its terminals business.* ***Image Source:*** *Magellan Midstream – September 2021 IR Presentation*

During the first half of 2021, **Magellan Midstream generated just over $0.5 billion in free cash flow** (up from $0.3 billion during the same period in 2020) while spending a tad under $0.5 billion covering its payout obligations along with a bit under $0.1 billion repurchasing its common units. At the end of June 2021, Magellan Midstream had $4.7 billion in net debt (exclusive of restricted cash) with no short-term debt on the books. Magellan Midstream's debt maturity schedule at the end of June 2021 was well-staggered, with its next tranche of bonds not maturing until 2025. **As with Enterprise Products, Magellan Midstream needs to retain constant access to capital markets.**

The midstream MLP's investment grade credit rating (Baa1/BBB+) and manageable leverage ratio should enable Magellan Midstream to continue tapping debt markets at attractive rates going forward. Its $1.0 billion revolving credit line that matures in May 2024 provides the firm with access to liquidity to meet its immediate funding needs, and its efforts here are supported by its $1.0 billion commercial paper program.

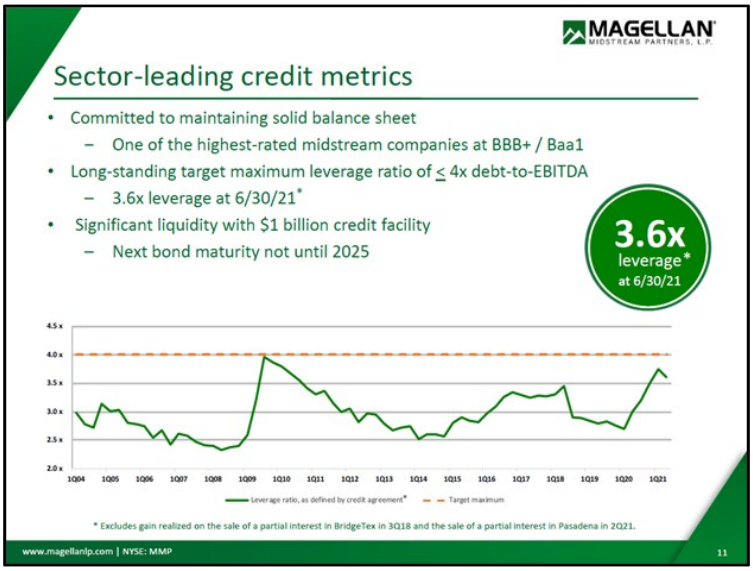

Image Source: *Magellan Midstream – September 2021 IR Presentation*

As noted previously, most of Magellan Midstream's business is now primarily geared towards providing transportation services. Over 85% of the company's operating margin comes from fee-based activities, providing for an incredibly stable cash flow profile. **Recent tariff increases seen across its refined petroleum product pipeline operations support Magellan Midstream's growth outlook.**

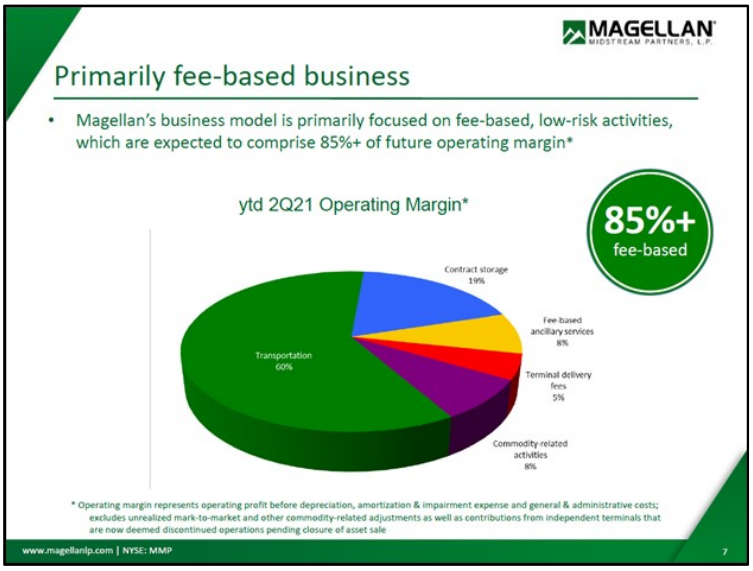

Image Shown: *Magellan Midstream's pivot towards providing transportation services along its vast pipeline networks has significantly improved its cash flow profile.* ***Image Source:*** *Magellan Midstream – September 2021 IR Presentation*

Concluding Thoughts

We continue to like Enterprise Products and Magellan Midstream in our High Yield Dividend Newsletter portfolio to gain exposure to the recovering global energy complex. Both companies, for midstream MLPs, have rock-sold financials and we expect both firms will continue making good on their generous payout obligations going forward.

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

Kohl's and Macy's Bounce Back But Long Term Remains Ominous

Image Source: *Kohl's Corporation – Second Quarter of Fiscal 2021 IR Earnings Presentation*

By Callum Turcan

In this article, we cover the recent earnings reports of two US department stores as the domestic economy steadily emerges from the worst of the coronavirus ('COVID-19') pandemic, keeping headwinds from the "delta" variant in mind. The department store business model continues to lose share from e-commerce and specialty retailers. Amazon (AMZN) is also considering opening large physical retail operations that would largely resemble department stores, starting with locations in California and Ohio. The long term remains ominous for department-store retail, in our view.

Kohl's

On August 19, Kohl's Corporation (KSS)---**2.1% yield**---reported second quarter earnings for fiscal 2021 (period ended July 31, 2021) that easily beat consensus top- and bottom-line estimates. **The company's GAAP revenues surged higher by 31% year-over-year and its GAAP operating income almost rose five-fold year-over-year last fiscal quarter, signs that Kohl's turnaround strategy is starting to take shape.** Kohl's boosted its share buyback target up to $500-$700 million for fiscal 2021 in conjunction with its earnings update, versus $200-$300 million previously.

During the firm's latest earnings call, management noted that sales of Kohl's 'active' offerings grew by more than 40% year-over-year and represented 24% of its sales in the fiscal second quarter. **The firm's digital sales represented roughly a quarter of its total sales last fiscal quarter according to recent management commentary, though that was down from fiscal year-ago levels as the retailer's customers returned to its physical store locations.**

Management recently noted that digital sales at Kohl's were up 35% last fiscal quarter versus levels seen during the same period in fiscal 2019. Roughly 40% of digital sales at Kohl's were fulfilled through its stores last fiscal quarter according to recent management commentary, including "ship from store and customer pickup" fulfillment options.

Kohl's is leaning heavily on strategic partnerships and the launch of new private label brands to remain relevant going forward. For instance, in October 2020, Kohl's announced the launch of a new private label athleisure wear brand, FLX, which became available online and in certain stores in March 2021 (according to the press release). Additionally, Kohl's announced a long-term strategic partnership with Sephora in December 2020 to add "Sephora at Kohl's" stations in at least 850 Kohl's locations by 2023. These stations are going to be located near the front of the store and the first 200 locations are set to open in the fall of 2021. For reference, Sephora is owned by the French firm LVMH Moët Hennessy Louis Vuitton (LVMUY).

Furthermore, Kohl's raised its full fiscal year guidance in conjunction with its latest earnings report. Now the firm aims to post annual net sales growth in the "low-twenties percentage range compared to the previous expectation of mid-to-high teens percentage range increase," an operating margin "in the range of 7.4% to 7.6% compared to the previous expectation of 5.7% to 6.1%," and non-GAAP adjusted EPS growth in "the range of $5.80 to $6.10, excluding any non-recurring charges, compared to the previous expectation of $3.80 to $4.20" in fiscal 2021 in light of its strong performance during the first half of this fiscal year.

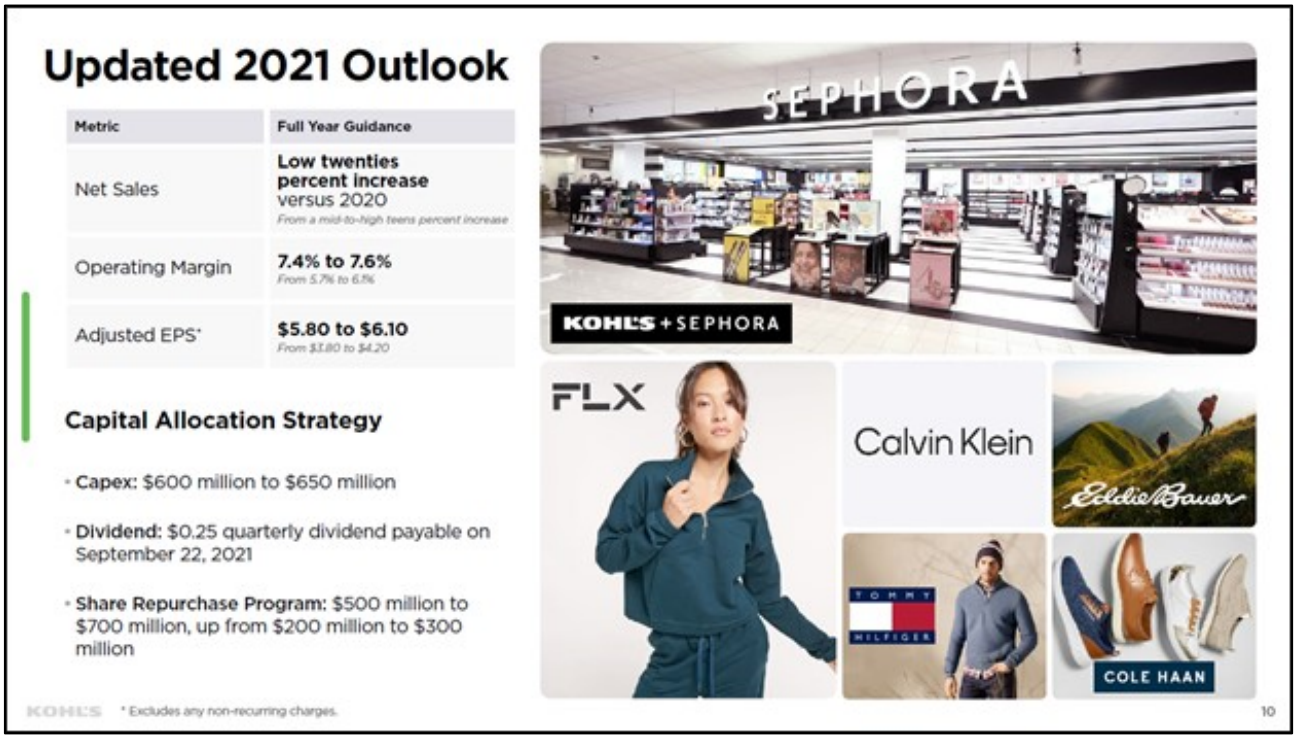

Image Shown: *A look at the updated guidance Kohl's put out for fiscal 2021 in conjunction with its latest earnings report.* ***Image Source:*** *Kohl's – Second Quarter of Fiscal 2021 IR Earnings Presentation*

Management aims to push **Kohl's operating margin up to 7%-8% by fiscal 2023, though it appears the firm will achieve that goal this fiscal year.** Kohl's reported a great earnings report, in our view. While shares of Kohl's initially moved upwards in the wake of its latest earnings report, the firm's shares have been contending with some serious selling pressure of late. Growing concerns over supply chain hurdles, inflationary headwinds, and other factors are at play here, in our view.

Macy's

On August 19, Macy's Inc (M)---**2.7% yield**---reported second quarter earnings for fiscal 2021 (period ended July 31, 2021) that smashed past consensus top- and bottom-line estimates. **Additionally, Macy's raised its full fiscal year guidance for fiscal 2021 while reinstating its quarterly dividend program at $0.15 per share and initiating a $0.5 billion share buyback program in conjunction with its earnings update.** Management noted that Macy's had "successfully reengaged core customers and attracted new, younger customers with new brands and categories" within its earnings press release.

In the fiscal second quarter, Macy's reported that its comparable sales at owned stores on an owned basis were up over 61% year-over-year and that comparable sales at its licensed stores were up over 62% year-over-year. That enabled the retailer to grow its GAAP revenues by almost 59% year-over-year while its GAAP operating income flipped to a profit of $0.6 billion last fiscal quarter versus a loss of $0.6 billion during the same period in fiscal 2020. **Macy's noted that its digital sales fell by 6% year-over-year last fiscal quarter but were up 45% from the same period in fiscal 2019 as customers returned to its physical stores.** The upcoming graphic down below highlights its updated guidance for fiscal 2021.

Revised Full-Year 2021 Guidance
The company is raising its full-year 2021 guidance.

	Revised Guidance 2021	Prior Guidance 2021
Net sales	$23.55B - $23.95B	$21.73B - $22.23B
Adjusted diluted earnings per share	$3.41 - $3.75	$1.71 - $2.12
Adjusted EBITDA as a percent of sales	11% - 11.5%	9% - 9.5%

Image Shown: *Macy's has really hit it out of the park recently as its business continues to rebound strongly from the worst of the COVID-19 pandemic.* ***Image Source:*** *Macy's – Second Quarter of Fiscal 2021 Earnings Press Release*

Shares of Macy's initially rocketed higher in the wake of its latest earnings report as investors cheered the earnings beat, guidance boost, share buyback program, and the resumption of its quarterly dividend program. More recently, shares of Macy's have faced significant selling pressure. We were pleased with what we saw in the company's latest earnings update, but it may not alter a challenging long-term picture. Supply chain hurdles remain a major concern as ports and distribution hubs across the US are backed up, while inflationary pressures including rising labor expenses will act as a major headwind for the retailer's future margins, which it could attempt to mitigate by holding the line on its pricing activities.

Macy's reported that the average customer spending levels of those participating in its loyalty programs has been shifting higher of late (up 15% last fiscal quarter versus levels seen during the same period in fiscal 2019, and up on a sequential basis as well) and that its digital channels have been doing a solid job bringing in new customers. Selling products at full price and reducing its promotional and discounting activity could help Macy's offset inflationary headwinds, at least to a degree.

Concluding Thoughts

We were pleased with the performance of both Kohl's and Macy's and view their latest earnings reports as a sign that the US economy is steadily recovering from the worst of the COVID-19 pandemic. Variants of the pandemic will create significant near term headwinds, though we remain optimistic that the domestic economy will continue to recover over the coming quarters. Long term, we have little interest in department-store retail. Recent selling pressure seen at shares of both Kohl's and Macy's highlights the difficult nature of the department-store retail space.

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

Booming Natural Gas Prices Great News for Chevron and ExxonMobil

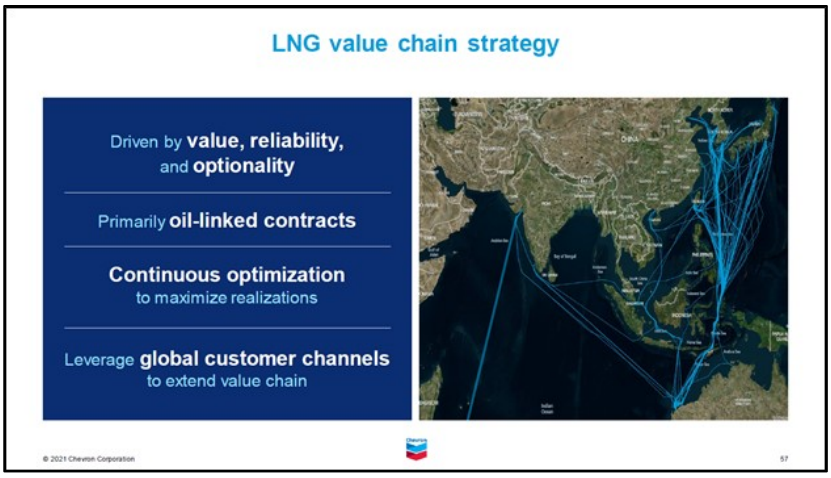

Image Shown: *Chevron Corporation – August 2021 IR Presentation*

By Callum Turcan

Natural gas prices in the US measured by the Henry Hub benchmark (UNG) based in Erath, Louisiana, have surged higher over the past several months. This is partially due to the slowdown in domestic oil & gas development activity that occurred back in 2020 in the wake of the coronavirus ('COVID-19') pandemic and low crude oil prices. Though crude oil prices, measured by the domestic WTI (USO) and international Brent (BNO) benchmarks, have since recovered, that has not resulted in domestic drilling activity returning to levels seen in 2019, though development activity has recovered somewhat. Henry Hub futures are trading north of $5 per million British thermal units ('MMBtu') through February 2022 as of this writing, dropping just below $5 per MMBtu for March 2022 deliveries.

LNG Considerations

Additionally, US liquified natural gas ('LNG') exports have come in quite strong of late after several major LNG exporting facilities have come online in recent years. The US Energy Information Administration ('EIA') notes that US LNG exports hit record highs during the first half of 2021, with room to continue surging higher. Elevated prices for natural gas (and thus LNG) in Western Europe, East Asia, and other key markets are playing a big role here.

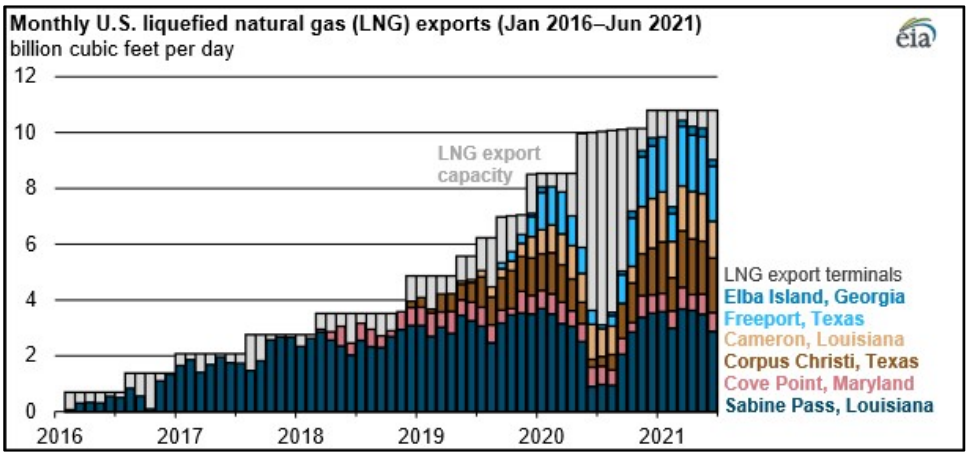

Image Shown: *US LNG exports hit record highs during the first half of 2021 with room to run as elevated natural gas prices in Asia and Europe support LNG export facilities running at or near full capacity going forward.* ***Image Source:*** *US EIA - Website*

Natural gas prices are at record levels in Europe, as of September 2021, according to a recent analysis by the Dutch banking giant ING Group NV (ING). The company noted that natural gas inventories in the region are trending well below their historical averages due to unplanned downtime in Norway and Russia, and a cold winter season that delayed the start of injection season, among other factors. *Reuters* noted that Asian spot prices for LNG hit seasonal records recently in a September 2021 article, citing the relatively high prices seen for LNG deliveries to Northeast Asia for October and November of this year. This is largely due to energy-hungry Asian economies competing with energy-hungry European economies for LNG supplies as both regions seek to build up their natural gas stockpiles.

Chevron and ExxonMobil

Note that what makes this dynamic particularly important is that the financial performance of major natural gas producers and LNG exporters stands to gain immensely from this powerful near-term tailwind. Chevron Corporation (CVX)---**5.3% yield**---and ExxonMobil Corporation (XOM)---**5.9% yield**---are two prime examples of firms that will benefit here.

Chevron owns a large economic stake in the Angola LNG export facility, the massive Gorgon LNG export facility in Australia, the enormous Wheatstone LNG export facility in Australia, and the North West Shelf LNG venture in Australia, along with sizable upstream operations in both countries that produce substantial amounts of natural gas from the ground. The company's LNG export operations are enormous.

Furthermore, Chevron is a major domestic natural gas producer (in 2020, Chevron produced ~1.6 billion net cubic feet of natural gas per day in the US along with ~0.1 billion net cubic feet per day in Canada on average) and has various other LNG and natural gas operations across the globe (such as a major presence in the LNG shipping business and related trading activities). **Chevron is well-positioned to capitalize on surging domestic and international natural gas and LNG prices.**

ExxonMobil owns a sizable economic interest in the Gorgon LNG export facility (alongside Chevron), the PNG LNG export facility in Papua New Guinea, and various LNG export facilities in Qatar via joint ventures, along with major upstream operations that supply natural gas to those operations. The company also has various other LNG and natural gas operations across the globe (such as a meaningful economic stake in the South Hook LNG regasification terminal in the UK) along with sizable upstream natural gas business in the US (in 2020, ExxonMobil produced ~2.7 billion net cubic feet of natural gas per day in the US and ~0.3 billion cubic feet in 'Canada/Other Americas' per day on average).

Looking ahead, ExxonMobil is converting the Golden Pass facility in Texas (which it owns a large economic interest in), currently set up to import LNG, into a major LNG export terminal alongside its partner Qatar Petroleum. The development is expected to be operational by 2024. **ExxonMobil is well-positioned to capitalize on booming natural gas and LNG prices as well.**

Concluding Thoughts

In our view, the tailwind provided by the recovering global energy complex (i.e., higher crude oil and refined petroleum product prices) from the worst of the COVID-19 pandemic along with the tailwind provided by booming natural gas prices witnessed of late should result in the cash flows of both Chevron and ExxonMobil surging meaningfully higher in the near term compared to their performance in 2020. **The recovery in their financials will provide both firms with the opportunity to clean up their balance sheets while continuing to make good on their dividend obligations going forward.** Chevron and ExxonMobil are our two favorite integrated energy majors.

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

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Disclosure: *Unless otherwise noted, Brian Nelson and Callum Turcan 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%	3.19%
SPDR Portfolio S&P 500 High Dividend ETF	SPYD	5.0%	5.18%
ProShares High Yield—Interest Rate Hedged	HYHG	5.0%	4.70%
iShares International Select Dividend ETF	IDV	5.0%	5.64%
iShares U.S. Preferred Stock ETF	PFF	5.0%	4.48%
Global X SuperDividend ETF	SDIV	5.0%	7.49%
Global X SuperIncome Preferred ETF	SPFF	10.0%	5.67%
Vanguard Consumer Staples ETF	VDC	5.0%	2.56%
Vanguard Real Estate ETF	VNQ	10.0%	3.19%
Utilities Select Sector SPDR	XLU	5.0%	3.13%
EQUITY			
AT&T	T	5.0%	7.70%
Crown Castle	CCI	5.0%	3.07%
CyrusOne Inc.	CONE	5.0%	2.69%
CubeSmart	CUBE	5.0%	2.81%
Digital Realty Trust	DLR	5.0%	3.21%
Philip Morris	PM	5.0%	5.27%
Public Storage	PSA	5.0%	2.69%
Enterprise Products Partners	EPD	2.5%	8.32%
Magellan Midstream Partners	MMP	2.5%	9.02%
Cash*	-	0.0%	0.00%
		100.0%	**4.51%**

This is not a real money portfolio. Inception 1/1/2018. Data as of 10/1/2021. Est. Forward Div. Yield information retrieved from SeekingAlpha, YF.

** Reflects federal funds target rate range*

Valuentum's Stock Dividend Research | Visit us at www.valuentum.com | Ratings as of 22-Mar-2021 | Data as of 22-Mar-2021

Public Storage PSA FAIRLY VALUED

Buying Index™ 6 Value Rating

Economic Castle	Stock Fair Value Range	Dividend Track Record	Dividend Safety / Cushion™	Div Growth Potential	Dividend Yield
Attractive	$191.00 - $319.00	HEALTHY	GOOD / 1.6	GOOD	3.39%

Assessment of Company Dividend Strategy

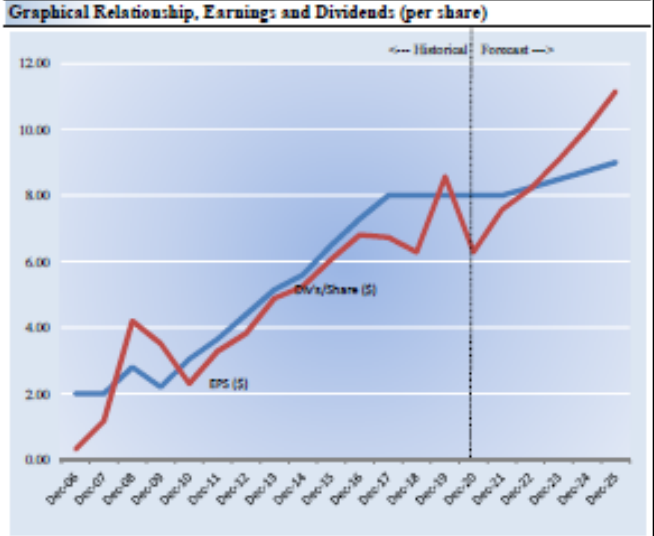
Key Strengths

Public Storage's ability to generate free cash flows is impressive. In 2020, Public Storage generated ~$1.7 billion in free cash flow and spent ~$1.6 billion covering its payout obligations. The REIT's 'A-rated' investment grade credit rating and the well-staggered nature of its debt maturity schedule provides it with some financial flexibility, though Public Storage has a sizable net debt load. The long-term outlook for the self-storage property space is favorable and supported by rising housing prices in minor and major metropolitan markets combined with the desire for households to find affordable ways to maximize their living space.

Potential Weaknesses

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

Graphical Relationship, Earnings and Dividends (per share)

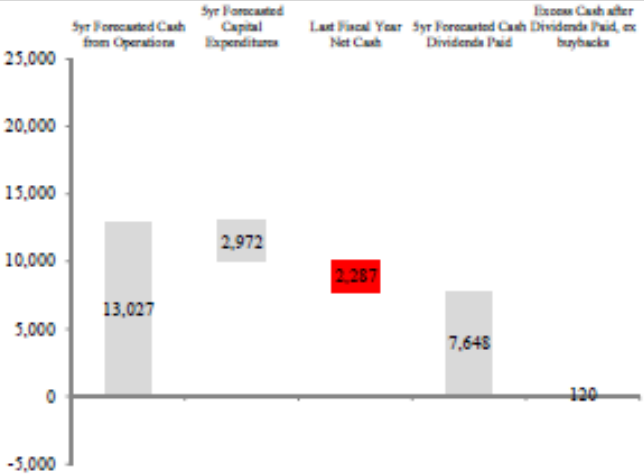


The graph above shows the relationship between a firm's earnings per share and its dividends per share.

Dividend Cushion Cash Flow Bridge Evaluation

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

Raw, Unadjusted Dividend Cushion Cash Flow Bridge - Raw

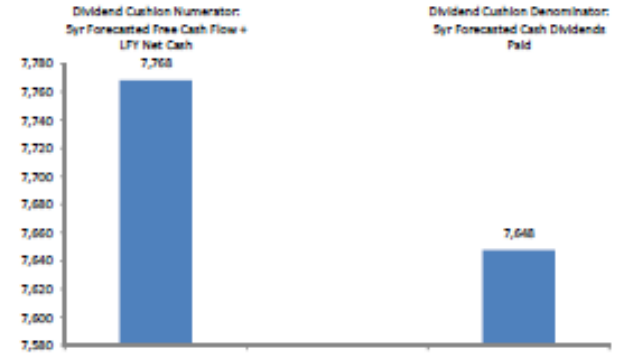


Source: Company Filings, Valuentum Projections

Dividend Cushion Ratio Evaluation

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

Raw, Unadjusted Dividend Cushion Ratio Deconstruction - Raw



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.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, QQQ, DIA, VOT, and IWM. Brian Nelson's household owns shares in HON, DIS, HAS.*

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