Fixed Income Quarterly; Q3 2023

"There are two ways to conquer and enslave a country…. One is by the sword. The other is by debt."
-John Adams

The Markets:

The Fed followed through with another 25 bps Fed Funds hike in July and are contemplating one last one in November in an attempt to further beat down domestic demand through increased rates and hawkish talk. During September's meeting, the Fed discussed pushing any rates cut out further into the second half of 2024. The higher-for-longer Fed/fear speak is starting to take a toll on fixed-income markets and spilling over into equities. Though the NASDAQ, S&P, and DOW all lost during Q3, down -3.93%, -3.25%, and -2.08%, they're all still positive at +27%, +13%, and +2.7% for the year.

As investors wait through all this uncertainty, market volatility has continued to increase. I expect equity markets to trade sideways until we have more clarity in rates or see CPI, CPE, and job numbers show more deceleration, but inflation is a bit more recalcitrant than the Fed hoped. The FOMC is still concerned about inflation numbers because CPI and PCE aren't coming down fast enough for the Fed's comfort, and CPI MOM numbers actually increased in September, due mostly to the OPEC production cuts which pushed energy prices back up for a 0.6 reading vs the prior months 0.2 reading. The one import number the Fed has been able to bring down is GDP annualized QOQ numbers from 2.4% in July to 2.1% for August and September, estimates are 1.5% for Q4. The unemployment rate stands at a healthy 3.8% and average hourly earnings are still high at 4.3%, though slowly decreasing from 2022's Q1 high of 6%. Many economic models suggest that for overall inflation to fall to the Fed's 2% target wage growth will need to fall back down to 2.5%-3.0%.

Philips Curve

We also need to keep in mind the base effect helped the inflation numbers during the first half of 2023 since the first half of 2022 had high levels, but the monthly inflation numbers for the second half of 2022 were fairly moderate, so just a small monthly increase now could look bad going forward. All else equal, we're not going to see inflation numbers back below 3% by the end of this December…. short of a large economic shock.

The first half of 2023 looked pretty good for both equities and fixed income, but markets were expecting to have weaker inflation and labor market numbers and those expectations were not fully realized, hence the sell-off in both markets. Other material contributing factors were the US Treasury boosting quarterly bond sales for the first time in 2.5 years after Congress kicked the debt ceiling down the road. The US Treasury estimated they needed $1 Trillion, (yes, Trillion) for the third quarter of 2023 on July 31. Given this additional information, the Fitch rating agency downgraded US Debt from AAA to AA+ on August 1. Japan and China have also been liquidating a portion of their US Treasury holdings and this has led to about a -4.7% loss in the 10-year, on-the-run, (newest issue), US Treasury for Q3. These factors, and the Fed's continuation of letting Treasury and Agency bond holdings roll off the balance sheet without replacing have made for a rough bond market the past two months.

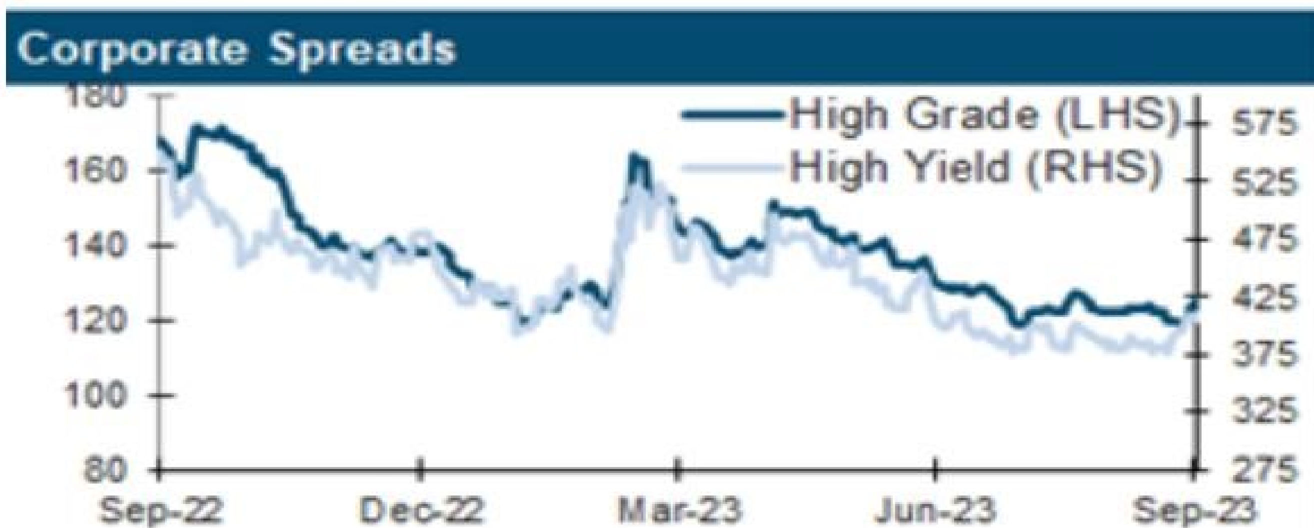
US Economic Data	Q2-2023	Q3-2023	Change
Real GDP (YoY % Chg.)	2.4%	-	-
Inflation (CPI YoY % Chg.)	4.0%	3.7%	-0.3%
Unemployment Rate	3.7%	3.8%	0.1%
US Default Rate	2.2%	2.6%	0.4%
Trade Weighted $	$ 119.9	$ 122.8	$ 2.9
Oil Price	$ 70.6	$ 89.4	$ 18.7

Bond World:

As noted in the previous paragraph, the fixed income market struggled during Q3 pushing the Bloomberg Bond Aggregate down -3.23% into negative territory to -1.2% YTD. Our main income model, *Core Plus*, was up slightly for the quarter at +0.2%, leaving us +6.5% YTD, on average. The Bloomberg graph below illustrates the movement in the US Treasury curve from 1-month T-Bills out to 30-year bonds. The orange line was the Treasury curve at the end of Q2 and the green shows the upward movement in longer-term rates, referred to as a Bear Steepener, with long-term rates increasing at a faster pace than short-term rates. Given the $1 Trillion Q3 UST supply, ratings downgrade by Fitch to AA+ from AAA and Japan/China have become net liquidators of US Treasury debt has all helped to push up the Treasury curve.

Obviously, this is very frustrating because hard work goes into finding good corporate credits that can have their credit spreads tighten versus their Treasury maturity benchmark, but when government fiscal policy becomes so negligent that the traditional global purchasers of US Debt become fatigued and push rates higher is more than irritating for advisors and end clients. The saving grace, cash flow and maturity dates for our corporate bond and we'll collect the income until maturity at par.

As you can see from the chart below corporate spreads have been tightening since March's Regional Bank scare with IG-rated bonds at +120 over UST yields and HY-rated bonds at +425 over the Treasury curve; however, the high-yield bonds we mostly purchase are rated BB which are +255 over Treasuries. B and CCC HY spreads are why the HY curve's average spread is +425.



Curve Analysis (2s30s)	Bear Steepening		
Change in 2 yr yields	15 bp	Quarterly Fed Action	
Change in 5 yr yields	45 bp	Fed Tightened 1 Time	
Change in 10 yr yields	73 bp		
Change in 30 yr yields	84 bp		
Investment Grade Analysis	**Spreads Tightened**		
	Q2-2023	Q3-2023	Change
IG Yield	5.6%	6.1%	49 bp
IG OAS	130 bp	124 bp	-6 bp
IG Spread % Treasury	33%	27%	(6%)
IG Spread % Corp Yield	23%	20%	(3%)
IG Yield % Treasury Yield	140%	132%	(8%)
IG Sector OAS Levels	**Q2-2023**	**Q3-2023**	**Change**
IG Financials	143 bp	137 bp	-6 bp
IG Industrials	122 bp	115 bp	-7 bp
IG Utilities	143 bp	129 bp	-14 bp
High Yield Analysis	**Spreads Tightened**		
	Q2-2023	Q3-2023	Change
HY Yield	8.6%	8.9%	33 bp
HY OAS	405 bp	403 bp	-2 bp
HY Spread % Treasury	97%	87%	(10.0%)
HY Spread % Corp Yield	47%	45%	(2.0%)
HY Yield % Treasury Yield	207%	194%	(13.2%)
Average $ Price	$ 88.7	$ 87.8	$ (0.9)

Q3 Trades:

Hilton Worldwide- HLT 4.875% 4/01/27's (Ba2/BB+) @ $96.25/ 6.05%

Hilton Worldwide Holdings is a holding company, which, through subs, provides hospitality services through the management of hotels, resorts, and timeshare properties globally. Currently, HLT resides in 125 countries with 7,165 properties and 1.13 million rooms. Their brands include Waldorf Astoria, Canopy, Signia, Garden Inn, Hampton, Tru by Hilton, Embassy Suites, Homewood, and Grand Vacations timeshares. With 152 million Hilton Honors members about 80% of total revenue comes from the US. About 30% of revenues come from management and franchise segments with 775 managed hotels and 6,255 that are franchised.

Catalyst:

HLT has put together several impressive quarters, given the pent-up demand for leisure and business travel post-pandemic. Q2 '23 net revenue of $2.7 billion is a 19% improvement YOY and the third quarter in a row that revenues have exceeded pre-pandemic levels. Q2 also ushered in $811mm EBITDA, which was the highest quarterly EBITDA in the company's history. Management has also

brought down gross and net leverage from 3.5x and 3.3x to 3.4x and 2.9x. The guidance for 2023 has increased and management noted that bookings for 2024 have grown 30% YOY and this makes one of the largest quarterly bookings in history. They expect some softening in the economy and have baked that into their numbers.

Risk & Outlook:

Unlike other sectors, the lodging sector has, over the years, moved to an asset-light model to cut down on expensive carry. This allows firms in the sector to gather more properties and get paid for their true niche, managing, and franchising their names/services vs. carry expensive properties on the books. This stated, Hilton and many competitors, (Marriott and Choice Hotels) have been running negative quarterly equity on the books for several years, even before COVID-19. Much of the negative equity is attributed to shareholder rewards. Despite the negative shareholder equity, HLT's leverage remains healthy for a BB-rated lodging credit with gross and net leverage at 3x and 2.7x as of Q2 '23. With stronger EBITDA and FCF vs. Hyatt (Baa3/BBB-) and Marriott (Baa2/BBB). Hyatt is also moving to an asset-light structure.

Recommendation:

Given that hoteliers are moving to an asset-light structure, this can produce several years of negative equity, if they are giving the cash flows to shareholders through buybacks or dividends. Most sector analysts believe that strong cash flow hoteliers, like HLT, can manage their balance sheets properly. Management could also stop these shareholder-friendly policies if there were another COVID-19-like scenario. Hilton was able to cut its negative equity balance from $1.6b during Q1 '21 to $800mm by Q4 '21 just by recovering FCF during the year. Given the increasingly improved outlook for travel adding HLT back into our bond line-up with a 6% yield and a very modest duration of under 4 years should work well.

HLT US Equity

Financial Metrics	Q2 '23	Q1 '23	2022	2021	2020
Adj Revenues	$ 2,660	$ 2,293	$ 8,773	$ 5,788	$ 4,307
% chg	55.3%	-73.9%	51.6%	34.4%	84.7%
Adj EBITDA	$ 722	$ 578	$ 2,419	$ 1,455	$ 766
% chg	-49.4%	-76.1%	66%	89.9%	-0.4%
Capex	$ 30	$ 44	$ 39	$ 35	$ 46
% chg	-87%	13%	11%	-24%	-84%
Interest Exp	$ 111	$ 116	$ 415	$ 397	$ 429
Net Leverage (ND/EBITDA)	3.58x	3.65x	3.58x	6.31x	200.2x
CFO	$ 464	$330	$1,681	$109	$708
FCF	$ 434	$286	$1,642	$74	$662
Cash & Equ	$ 806	$901	$1,209	$1,427	$3,218
Equity Price	$ 148.72	RQ005			
Market Cap $B	$ 38,905	RR902			
BV Equity	$ (1,098)	RR007			
Gross Debt $B	$ 9,691	RR251			
LTM FCF $mm	$ 1,845	RR843			
FCF Yield (LTM)	4.6%	F0514			
P/CF	20.54	RR908			
P/E (LTM)	28.47	RR900			
Dividend Yield	0.4%	DV012			
Payout Ratio	9.9%	RR049			

Near-Term Debt
$500mm due 2025, $2.5B loans due 2026, $600mm due 2027
$500mm due 2028 and $800mm due 2029, climbs to $1.5B due 2032
Key Transactios, Material Changes
Blackstone purchased Hilton back in 2007, but recently, Holton has not made any purchase or had any mergers. Management is working to delever the balance sheet and balance sharholder rewards.

Ratio Analysis	HLT	vs Comps
Current Ratio	0.75x	0.86x
Quick Ratio	0.64x	0.55x
Debt/Mkt Cap	26.1%	25.6%
T.Assets/T.Equity	-10.75	-17.32
Debt/ Assets	62.56%	52.74%
Debt/ Capital	117.47%	100.04%
Debt/ Equity	-	1379.00%
N.Debt/ EBITDA-Capex	3.63x	3.64x
EBIT/ Int Exp	6.17x	5.85x
Net Debt/ Adj. EBITDA	3.48x	3.22x
FCF/ Debt	0.19x	0.16x
Asset Coverage	0.14x	0.67x
Gross Margin (LTM)	88.8%	56.6%
Operating Margin (LTM)	25.3%	19.6%
Profit Margin (LTM)	15.5%	12.2%

Cheniere Energy Partners- CQP 4.5% 10/01/29 @ $91.75/ 6.15%

Cheniere Energy Partners, a subsidiary of Cheniere Energy, is a provider of clean liquefied natural gas, (LNG). They offer services such as developing, operating, and constructing natural gas liquefaction and regasification facilities, as well as pipelines and LNG terminals. The company serves energy, utilities, and other trading companies worldwide. CQP owns the natural gas liquefaction and export facility located at Sabine Pass, Louisiana (the "Sabine Pass LNG Terminal") with six operational Trains. In addition to natural gas liquefaction facilities at the Sabine Pass LNG Terminal (the "Liquefaction Project"), the Sabine Pass LNG Terminal also has operational regasification facilities and a pipeline that interconnects the Sabine Pass LNG Terminal with a number of large interstate and intrastate pipelines.

Catalyst:

CQP's long-term customer arrangements form the foundation of our business and provide us with significant, stable, long-term cash flows. The firm contracts its anticipated production capacity under SPAs, in which their customers are generally required to pay a fixed fee with respect to the contracted volumes irrespective of their election to cancel or suspend deliveries of LNG cargoes, and under IPM agreements, in which the gas producer sells natural gas to CQP on a global LNG index price, less a fixed liquefaction fee, shipping, and other costs. Through CQP's SPAs and IPM agreements, they have contracted approximately 85% of the total production capacity from the Liquefaction Project with approximately 15 years of weighted average remaining life as of December 31, 2022. They believe that continued global demand for natural gas and LNG will provide a foundation for additional growth for their business model in the future.

Cheniere completed their $38b LNG export terminal buildout with SP6 online in Q1'22 and reached their $4B debt reduction target two years early. Though shareholders' returns are being ramped up, management has also reduced its run-rate leverage target to less than 4x from 4.5-5x and says they'll allocate 50% of excess cash flow towards continued debt reduction to maintain their recently acquired Investment Grade status and better metrics across their capital structure. Over the next 4.5 years, management expects to generate about $20 billion of cash flow, leaving $10 billion of excess for debt reduction which currently stands at $15.5 billion. S&P along with Fitch already upgraded CQP debt to IG from BB+, Moody's could follow suit in 2024.

Risk & Outlook:

The LNG market in 2022 saw unprecedented price volatility across all-natural gas and LNG benchmarks. Gas market fundamentals across the globe were tight and exacerbated by the Russia / Ukraine war risks, and later by the drastic reduction in Russian natural gas flows to the European Union ("EU"). Concerns over low natural gas and LNG inventories and low additional LNG supply availability early in the year were intensified by the war dynamics in Europe and by further constraints on natural gas and LNG supplies caused by the outage at the Freeport LNG facility in June and the explosion on the Nord Stream 1 and Nord Stream 2 pipelines in September. Several EU policy initiatives were passed to ensure underground gas storage in the region was filled before winter. Europe had to compete for LNG cargoes resulting in unprecedented price spikes. These conditions were worsened by high coal prices, low nuclear generation output, and low hydro levels in Europe, which limited optionality for power generators and deepened the energy crisis in Europe. These uncertainties cause material volatility in

the energy markets and have hurt CQP's hedging contracts in the past, such as a $1.1 billion loss in market-to-market accounting on derivatives indexed to international LNG prices. However, the first half of 2023 has been better with regard to derivate contracts, per the company: Substantially all derivative gains (losses) are attributable to the recognition at fair value of our long-term Integrated Production Marketing ("IPM") agreement with Tourmaline Oil Marketing Corp. ("Tourmaline"), a natural gas supply contract with pricing indexed to the Platts Japan Korea Marker ("JKM"). Our IPM agreement is structured to provide stable margins on purchases of natural gas and sales of LNG over the life of the agreement and has a fixed fee component, similar to that of LNG sold under our long-term, fixed fee LNG sale and purchase agreement ("SPA"). However, the long-term duration and international price basis of our IPM agreement make it particularly susceptible to fluctuations in fair market value from period to period. In addition, accounting requirements prescribe recognition of this long-term gas supply agreement at fair value but do not currently permit fair value recognition of the associated sale of LNG, resulting in a mismatch of accounting recognition for the purchase of natural gas and the sale of LNG. As a result of the continued moderation of international gas price volatility and declines in international forward commodity curves during the three and six months ended June 30, 2023, we recognized approximately $187 million and $1.2 billion of non-cash favorable changes in fair value attributable to the Tourmaline IPM agreement.

Recommendation:

The Russian invasion of Ukraine in early 2022 upended the LNG market as imports from Russia to the EU, Europe purchased massive amounts of LNG to replace the lost supply. This drove spot prices higher and squeezed volumes and increased volatility. While this could limit Asian LNG demand long term, Europe demand should continue to be strong, though not as high as in 2022. Japan and Korea have been big purchasers of LNG and while both countries plan to increase wind and solar power, this will not come close to meeting energy demands and nuclear energy generation has very long lead times: 5 to 8 years to buildout. The IEEFA anticipates that weak supply growth and robust demand should keep global LNG prices elevated for many years. Given CQP's spread of +170 vs. the average Midstream of spread +150 bps and management's actions to move into and sustain investment grade we are going to add an initial position in Cheniere Energy Partners above a 6% yield for a 6-year bond.

CQP US Equity					
Financial Metrics	Q2 '23	Q1 '23	2022	2021	2020
Adj Revenues	$ 1,933	$ 2,917	$ 17,206	$ 9,434	$ 6,167
% chg	-33.7%	-12.3%	82.4%	53.0%	-9.8%
Adj EBITDA	$ 985	$ 2,296	$ 4,027	$ 3,136	$ 2,693
% chg	-57.1%	345.8%	28%	16.5%	4.2%
Capex	$ 60	$ 89	$ 451	$ 648	$ 972
% chg	-33%	2%	-30%	-33%	-27%
Interest Exp	$ 207	$ 208	$ 870	$ 831	$ 909
Net Leverage (ND/EBITDA)					
CFO	$ 691	$847	$4,149	$2,291	$1,751
FCF	$ 451	-$755	-$3,676	-$1,976	-$1,434
Cash & Equ	$ 1,834	$834	$904	$876	$1,210

Equity Price	$ 53.99	RQ005
Market Cap $B	$ 26,123	RR902
BV Equity	$ (2,131)	RR007
Gross Debt $B	$ 16,306	RR251
LTM FCF $mm	$ 3,740	RR843
FCF Yield (LTM)	N/A	F0514
P/CF	6.37	RR908
P/E (LTM)	7.69	RR900
Dividend Yield	7.6%	DV012
Payout Ratio	82.3%	RR049

Near-Term Debt

Only $400mm due in 2024, then $3.5billion during 2025, $1.5 billion for 2026, $2.8 billion for 2027 $2.99 billion for 2028 and $2.78 billion 2029

Key Transactios, Material Changes

While there is no material M&A with CQP, they have completed the Train 6 liquefaction with total production capacity of 30mm tonnes per annum of LNG at the Sabine Pass terminal in Cameron Parish, Louisiana.

Ratio Analysis	CQP	vs Comps
Current Ratio	0.95x	1.13x
Quick Ratio	0.69x	0.80x
Debt/Mkt Cap	67.0%	73.8%
T.Assets/T.Equity	n/a	0.47x
Debt/ Assets	89.44%	59.90%
Debt/ Capital	106.36%	68.10%
Debt/ Equity	n/a	177.60%
N.Debt/ EBITDA-Capex	2.74x	7.47x
EBIT/ Int Exp	n/a	2.65x
Net Debt/ Adj. EBITDA	2.58x	4.3x
FCF/ Debt	0.21x	0.14x
Asset Coverage	1.06x	1.40x
Gross Margin (LTM)	48.8%	36.1%
Operating Margin (LTM)	42.3%	22.7%
Profit Margin (LTM)	32.2%	15.4%

CareTrust REIT-CTRE @ 5.61% yield

CareTrust REIT is a self-administered REIT that owns and acquires/ leases Senior Healthcare properties. The REIT was spun off from senior care operator, Ensign Group in mid-2014 and they own 216 skilled nursing, assisted, and independent living facilities. Most of CTRE's properties are located in the western US, with 70% segregated into SNF (skilled nursing facilities). CTRE operates as a long-term triple-net-lease REIT with annual rent escalations with caps; 1%-5% max.

Risk & Catalysts:

Ensign leases or provides a guaranty for a significant portion of our properties. As of December 31, 2022, properties leased to Ensign represented $66.2 million, or 35%, of total annualized contractual rental income, and properties leased to Pennant under the Pennant Master Lease for which Ensign provides a guaranty (the "Pennant Guaranty") represented $7.1 million, or 4%, of total annualized contractual rental income. Ensign's inability or unwillingness to meet its lease obligations or its obligations pursuant to the Pennant Guaranty could materially adversely affect our business, financial position, or results of operations. In addition, Ensign's inability to satisfy its other lease obligations including payment of insurance, taxes, and utilities, could materially and adversely affect the condition of the properties leased to Ensign as well as Ensign's business, financial position, and results of operations. However, Ensign Group has a healthy 3.26x EBITDAR coverage and 4.1x EBITDARM coverage.

CTRE risk in the business is similar to other REITs in this space, but 95% of its revenue comes directly from rents. Increased costs from COVID-19, labor, refinancing of debts, tenant operational risk of not being able to pay rent in full or a timely manner, and lower occupancy rates are issues to consider.

During the year ended December 31, 2022, CTRE recognized $94.0 million of impairment of real estate related to 10 skilled nursing/transitional care facilities that have either sold or are under contract to sell. During the year ended December 31, 2022, CTRE recognized $98.0 million in loss from their unconsolidated joint ventures compared to $192.1 million of loss for the year ended December 31, 2021. The $94.0 million net decrease in the loss is related to a $95.4 million decrease in loss from the Enlivant joint venture, partially offset by $1.4 million of net loss, including $3.6 million of depreciation expense and $0.3 million of transaction costs, from 15 senior housing communities acquired by two joint ventures entered into during the year ended December 31, 2022.

One plus for Care Trust REIT is a healthier balance sheet than most of the Healthcare REITs. CTRE ended Q2 with net debt/ normalized EBITDA of 3.8x vs. 10x for comps. Management has set a target range of 4-5x, so there is room for additional acquisitions, but given cap rates net acquisitions might not grow too much given the market. Management states liquidity is strong with $12mm cash, $290mm available under the revolver, and $207mm in future ATM proceeds with equity increases. This liquidity reserve is sufficient to cover more than half of the current debt outstanding, though no debt comes due until 2026, and that's only $200mm. This gives management flexibility to get through the next two years for rates to come down and no real refi-risk until 2028.

Looking through the Healthcare sector, most names continue to have material headwinds with weak tenants and given that cap rates have not moved while WACC has greatly increased or soon will for many REITs it doesn't look like many deals will get done at favorable levels. CTRE's 5.6% dividend, which is lower than the sector's average, looks to be more stable with a much less chance of being cut unlike OHI, SBRA, or MPW, and a fairly conservative 76% payout ratio.

	Year Ended December 31,		
	2022	2021	2020
Net (loss) income	$ (77,605)	$ (113,256)	$ 138,417
Depreciation and amortization of real estate assets	187,782	178,991	176,737
Depreciation, amortization and impairment of real estate assets related to unconsolidated joint ventures	22,095	26,129	26,949
Net loss (gain) on sales of real estate	12,011	(12,301)	(2,861)
Net (gain) loss on sales of real estate related to unconsolidated joint ventures	(220)	33	3,281
Impairment of real estate	94,042	9,499	4,003
Other-than-temporary impairment of unconsolidated joint ventures	57,778	164,126	—
FFO	295,883	253,221	346,526
Stock-based compensation expense	7,453	7,914	7,907
Non-cash rental and related revenues	2,183	25,823	(4,458)
Non-cash interest income	(2,285)	(1,988)	(2,351)
Non-cash interest expense	11,094	8,368	8,418
Non-cash portion of loss on extinguishment of debt	411	4,426	531
Provision for loan losses and other reserves	141	3,935	1,855
Deferred tax valuation allowance related to unconsolidated joint ventures	19,613	—	—
Other adjustments related to unconsolidated joint ventures	(5,155)	(5,051)	1,913
Other non-cash adjustments	2,474	492	825
AFFO	$ 331,812	$ 297,140	$ 361,166
FFO per diluted common share	$ 1.28	$ 1.15	$ 1.67
AFFO per diluted common share	$ 1.43	$ 1.35	$ 1.74
Weighted average number of common shares outstanding, diluted:			
FFO	231,851,542	220,102,563	207,252,830
AFFO	232,784,543	220,526,512	208,039,530

From the Q2 earnings call:

James Callister-CIO:

Q2 was an exciting and busy quarter for the acquisitions team at CareTrust. As Dave mentioned, during the quarter we closed eight transactions: seven acquisitions and one mortgage loan. Acquired 12 facilities and added six new operated relationships with a total investment amount for the quarter of approximately $200 million at an initial blended yield of 8.4% and we expect the stabilized yield on these assets after two years to be 9.5%, not including annual CPI-based rent escalators.

Of the 12 facilities we acquired during this quarter, seven are skilled nursing, four are assisted living in memory care, and one of them is a skilled nursing and assisted living campus. We also closed on a $26 million mortgage loan. Regarding the skilled nursing acquisitions market, pricing has continued to adjust as we have seen a further tightening of credit by lenders, who continue to increase borrowers' equity requirements and require additional recourse liability to borrowers and guarantors. There continue to be attractive opportunities to source and pursue skilled nursing acquisitions, particularly in those states where there have been favorable Medicaid rate increases. With respect to seniors' housing, we are still seeing a gap between seller and buyer pricing expectations. Much of the seniors housing deal flow coming across our desk involves increasing numbers of facilities in some stage of operational distress, as sellers face hikes and variable interest rate loans and/or maturity day risk.

The pipeline today sits at approximately $150 million as we continue to look for opportunities that can be accretive to our operators. We will continue to execute our acquisition strategy of disciplined growth with risk-adjusted returns consistent with how CareTrust has been built over the past nine years.

For the quarter, normalized FFO decreased by 2.8% over the prior year quarter to $34.6 million, and normalized FAD decreased by 3.6% to $36.1 million. On a per-share basis, normalized FFO decreased by $0.02 to $0.35 per share, and normalized FAD decreased by $0.03 to $0.36 per share. Rental income for the quarter was $47.7 million, compared to $46.2 million in Q1 – an increase of $1.5 million.

Recommendation:

Management has been careful with its balance sheet and has been growing its dividends and operating income and keeping a stable-to-growing FFO. After COVID-19, management made some changes to their personnel to grow the pipeline with healthy operators with off-market deals. That's paid off according to management with six new operators/ tenants that seem to have more financial flexibility than many of the larger Senior Housing/ Skilled Nursing operators. Management puts a lot of emphasis on getting the best operators even if that means lower growth, which during times of distress, such as pandemics and/or recessions, should help this REIT. During the pandemic, 2020/21, CTRE was up 22.6% vs. 4.88% for the Bloomberg Healthcare REIT Index. CTRE also has a lower AFFO payout ratio of 78%. Normally I would say that having a material amount of revenue coming from just one client/company would be a concern but given the last several years of operator/tenant struggles in the SNF and SHOP sectors, having a very healthy operator, like Ensign Group-ENSG, contributing a material amount of revenue as the largest tenant probably lowers risk for CTRE during difficult, but improving times for this REIT. While other healthcare REITs pay much higher dividends, in all likelihood many of those dividends will probably be cut during 2024, so we'll add this name to our REIT line-up.

CTRE US Equity					
CARETRUST REIT INC	DS002				
Health Care REITs	DX208				
	Q2 &Q1	2022	2021	2020	2019
FFO per share	$0.70	$1.49	$ 1.32	$ 1.38	$ 1.21
AFFO per share	$ 0.66	$ 1.40	$ 1.45	$ 1.40	$ 1.21
FFO payout	88%	85%	79.9%	71.3%	74.1%
Dividend	$ 0.56	$ 1.10	$ 1.06	$ 1.00	$ 0.90
# Properties	205				

	APLE		Comps
Price	$ 20.49	RQ005	
Div Yield	5.45%	DV012	6.90%
Mkt Cap in Billions	$ 2,045	RR902	$ 2.77
Shares out mm	$ 99.48	DS124	N/A
Net Debt mm	$ 706.32	RR208	$ 2.76
NOI mm	#N/A N/A	IS687	$ 506.0
NOI growth 1 yr	0.5%	RR551	3.9%
SSNOI growth	#N/A N/A	M0047	N/A
FFO mm	$ 295.8	CF233	$ 141.2
AFFO mm	$ 331.8	FO579	$ 316.0
FFO per share	$ 1.45	CF064	$ 1.56
AFFO per share	$ 1.49	CF203	$ 1.55
Implied CAP rate	6.1%	RR870	7.1%
FFO yield	6.4%	RR890	7.7%
FFO payout	85%	RR106	101.2%
FAD payout	nvalid Field	FO893	N/A
P/FFO	7.1%		18.5%
P/AFFO	7.3%		14.4%
Debt/ Capital	45.9%	RR045	50.5%
N Debt/ Adj EBITDA	4.9	F1178	7.7
FFO/ Total Debt	3.6%		2.8%

Outlook:

The US Treasury curve has been inverted for five quarters now. In the past month, we have seen a rapid spike in longer yields, a painful Bear Steepener! As I have spoken of in past letters, the yield curve usually steepens as the Fed starts to lower the Fed Funds rate, and bonds rally based on expectations of lower rates. However, this White House's current administration's political philosophy on debt and spending could render data from past recessions, which all investment professions utilize, useless or much less effective.

Perhaps Mr. Gaetz (R-FL) can find a speaker who will lead Congress to stop the current administration's path toward fiscal catastrophe. If the US and other developed countries continue down this path, then there really won't be too many places to hide in equities or fixed income. There are some pockets of real assets and commodities that might weather the storm, but there is a reason some advisors have been purchasing T-Bills, CDs, and money market securities this year. Given rates of 5.25% to 5.55% for what is "considered risk-free", (though nothing is truly risk-free), it's hard to ignore placing a large allocation to these securities for the time being and see which direction this government and the Fed are going to go from here. I don't make these comments lightly, as I too have end clients and have to walk them through the storm. There is no shame in changing directions to avoid the worst part of a storm, even if it means getting to your destination later than expected.

Sincerely,
Eric Lutton, CFA
Chief Investment Officer

Investment Advisory Services offered through Sound Income Strategies, LLC, an SEC Registered Investment Advisory Firm.