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# Palos Weekly Commentary

Issue No. 2 | JANUARY 10 2019

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# Palos Funds

*By Charles Marleau, CIM*
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## Investing in Senior Living

We often hear about real estate investments such as single-family homes, apartment complexes, and industrial, retail and commercial buildings. What we don't hear as much about are retirement homes and long-term care facilities. Yet, with our aging population, they are a vital part of the real estate market. In the 2016 Census, it was found that for the first time in recorded history, Canadians over the age of 65 outnumbered those aged 15 and under. Additionally, according to the Conference Board of Canada, Canada will need to nearly double its long-term care beds by 2035 to meet the growing demand.

Already, in October 2017, 34,000 people were waiting for a bed in the province of Ontario alone. Long-term care facilities also provide a net benefit to the economy as the cost per day in 2017 in a long-term home was just about $142, while the cost of similar care in a hospital was about $949. As a result, the provincial governments have been increasing their funding for these beds. In late 2017 for example, the government of Ontario announced that it would be funding 30,000 more long-term care beds over the next decade, with 5,000 of those in the next four years.

We believe this is a theme that our funds need to have exposure to. One company that we like in the industry is Sienna Senior Living (TSX: SIA). Sienna owns and operates retirement homes (43% of net operating income (NOI)) and long-term care facilities (57% of NOI) in BC and Ontario. SIA has made 15 high quality acquisitions over the past two years while continuing to grow its OFFO/share, NOI margin and decreasing leverage and costs as a function of its NOI. Sienna plans on continuing these acquisitions to reach a 50/50 split between long-term care and retirement residences.

Here are a few reasons why we like SIA:

1) Management has shown their ability to execute on their growth strategy while improving its balance sheet and profitability.
2) It is continuing to grow and looking for more M&A opportunities.
3) It has a high dividend yield of 5.60%.
4) Long-term care assets are defensive and receive government funding and a cut would be perceived negatively by the public.
5) It trades at an approximate 10% discount to its net asset value and is near the bottom of its 5-year historical range.

| Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) [1] | FundServ | NAVPS | YTD Returns |
|---|---|---|---|
| Palos Income Fund L.P. | PAL100 | $8.21 | 3.95% |
| Palos Equity Income Fund - RRSP | PAL101 | $5.54 | 3.55% |
| Palos Merchant Fund L.P. (Mar 31, 2018) [2] | PAL500 | $1.83 | 7.25% |
| Palos WP Growth Fund - RRSP | PAL210 | $7.36 | 4.11% |
| S&P TSX Composite (Total Return with dividends reinvested) | | | 3.43% |
| S&P 500 (Total Return with dividends reinvested) | | | 3.18% |
| S&P TSX Venture (Total Return with dividends reinvested) | | | 7.34% |
| **Chart 2: Market Data [1]** | | | **Value** |
| US Government 10-Year | | | 2.71% |
| Canadian Government 10-Year | | | 1.98% |
| Crude Oil Spot | | | US $52.36 |
| Gold Spot | | | US $1,292.00 |
| US Gov't10-Year/Moody BAA Corp. Spread | | | 239 bps |
| USD/CAD Exchange Rate Spot | | | US $0.7570 |

[1] *Period ending Jan 9, 2019. Data extracted from Bloomberg*

[2] *Fund is priced annually*

# Palos Funds cont.

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# Disclaimer:

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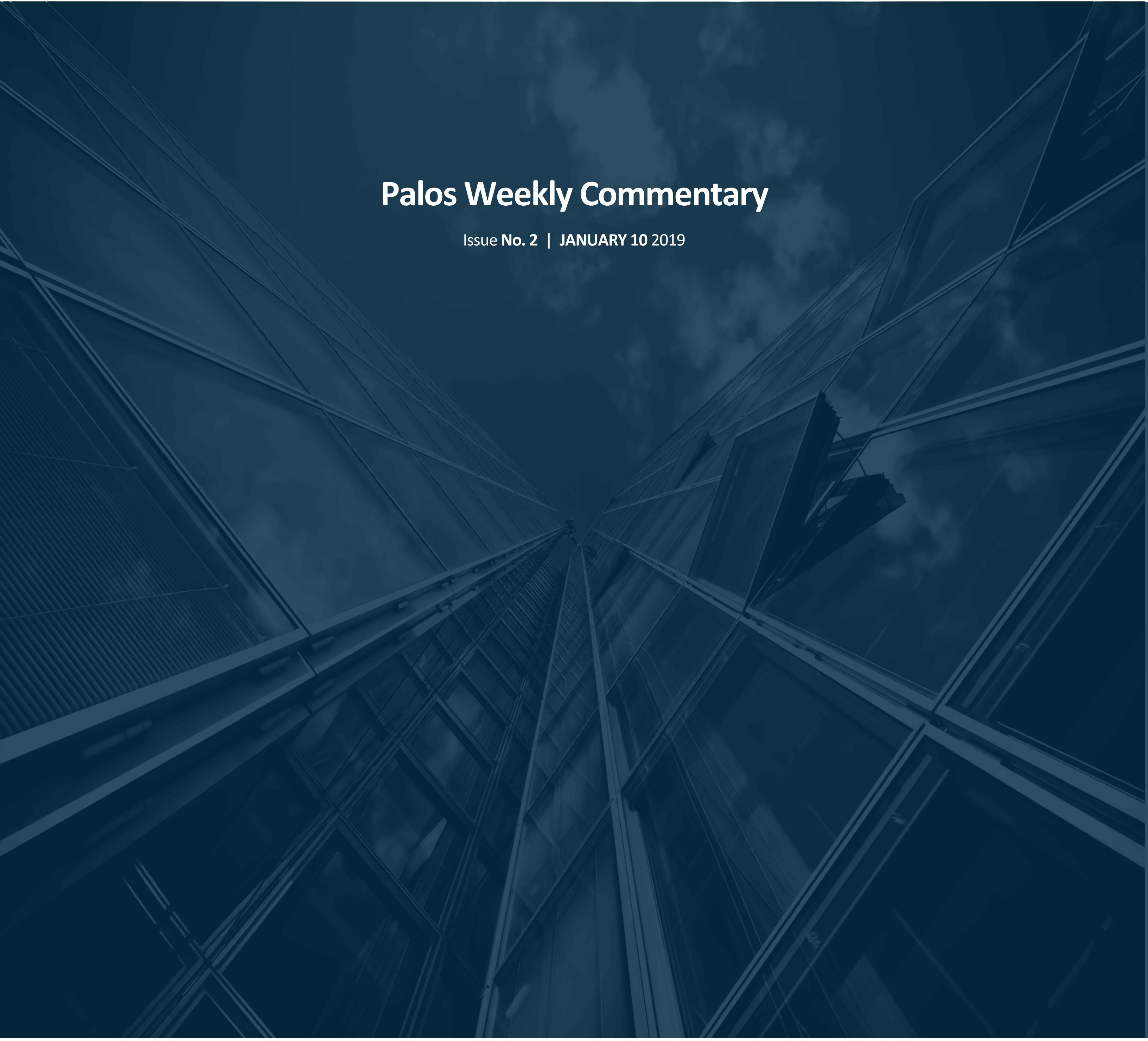

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