

MPW: purchased to further diversify the real estate sector

By Juan Carlos Fernandez Wohler

Medical Properties Trust (MPW) was added to the CUSP Fund during the first quarter of 2023. MPW is a triple-net Real Estate Investment Trust (REIT) that invests in healthcare real estate. Its triple-net REIT nature gives lease payments stability and predictable growth in nearly any economic climate. From January 2022 until mid-March 2023, MPW's stock price declined by almost two-thirds because of macroeconomic headwinds putting pressure on some healthcare operators. Rising interest rates and high inflation environment also had a negative effect on MPW's stock price. Despite the pullback in price, MPW continued to deliver strong results during 2022.

Why do the CUSP managers believe there is a good investment opportunity in MPW? The answers are its underwriting model, its strong profitability and growth and an aging population and the corresponding increased need for healthcare services.

First, as one of the biggest healthcare real estate owners in the world, MPW benefits from its scale and expertise, which gives it a competitive edge over other healthcare REITs. Its expertise is reflected on its underwriting model. MPW invests in healthcare real estate, not the consolidated financial performance of its tenants. Its portfolio is carefully chosen so that the facilities are extremely important to the community they serve, and its leases are structured so that even if the operator changes, the facility remains operational. In 2022, MPW's largest tenant, Stewart, struggled to maintain profitability in some of its facilities. However, during the first quarter of 2023, it was announced that a new tenant would assume management of these facilities. This transaction provides evidence of the success of MPW's underwriting model, and the change aided MPW by decreasing its exposure to its largest tenant. In light of these events and MPW's history of successful underwriting, we believe that MPW has a bright future.

Second, MPW has a proven track record of strong profitability and growth over the years. This success can be attributed, in part, to MPW's robust acquisition activity, which has contributed significantly to both its top and bottom-line growth. Over the past five years, MPW has nearly doubled its revenue and normalized FFO. Despite the challenges with Stewart, MPW was able to sustain revenue growth and even improve its margins. Its sustained profitability and growth despite a challenging macroeconomic environment give us confidence in its financial stability and long-term growth prospects.

Third, MPW's real estate portfolio is diversified amongst several types of facilities offering different healthcare services. Its portfolio gives exposure to 10 different countries, all of which have an increasingly aging population. MPW's portfolio is positioned to make the most of this demographic shift, and we believe this makes MPW an attractive investment.

The CUSP managers believe MPW's future looks promising. Its proven history of successful underwriting, its financial stability and long-term growth prospects and its strategic position to meet the healthcare demand of an aging population lead us to believe that MPW is a good investment. The addition of MPW into the CUSP Fund helps diversify our holding in the Real

Estate sector, in which we currently have exposure to industrial, communications and entertainment REITs. Additionally, the team believed that the decline on price offered an attractive entry point with the potential for significant price appreciation and a high dividend yield.