

### Equity Outlook/Review

We believe that the U.S. economy is strong, as indicated by accelerating GDP, company earnings growth and unemployment well below 4%.<sup>i</sup> In addition, after several years of little real wage gains, even those workers at the lower end of the pay scale are finally beginning to see wage increases.<sup>ii</sup> Interest rates across the yield curve increased over the course of the quarter, and the yield curve steepened,<sup>iii</sup> which in our opinion are both signs of a strong and healthy economy. We believe higher interest rates in the U.S. have resulted in a stronger dollar, which has created currency and economic turmoil in several emerging market economies, but so far, this has not slowed the U.S. economy. Tariffs though are a concern and we continue to speak with our companies about their impact as they are implemented. As the Federal Reserve continues to normalize short-term interest rates, we believe that the environment for value investing should improve. Higher rates may begin to impact at least two categories of companies: high growth and low quality, especially those with leverage. Recently, high growth valuations have benefitted from expected earnings being discounted at artificially low interest rates set by the Fed. As rates increase, we would expect growth company valuations to moderate. We believe low quality companies could see their share prices suffer as the cost of debt rises and that competitively weak companies often are unable to pass along inflation in the form of higher prices. We feel that Anchor portfolios are well positioned for the ongoing change in market leadership from growth to high quality value.

### Managed Accounts Model Performance<sup>iv</sup>

*Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.*

Strategy Performance	3Q18	YTD	10 Year Annualized
Anchor REITs (Pure Gross)	1.21%	7.22%	9.96%
Anchor REITs (Net)	0.45%	4.83%	6.71%
FTSE NAREIT ALL REITs	0.69%	1.80%	8.06%

### Top/Bottom Portfolio Contributors<sup>v</sup>

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Lamar Advertising Company Class A	3.52%	15.22%	0.49%
Sabra Health Care REIT, Inc.	5.17%	8.49%	0.42%
Omega Healthcare Investors, Inc.	4.00%	8.09%	0.31%
Sun Communities, Inc.	4.98%	4.48%	0.22%
CoreCivic, Inc.	5.44%	3.64%	0.19%
<i>5 Lowest</i>			
National Storage Affiliates Trust	4.43%	-16.58%	-0.79%
Weyerhaeuser Company	2.51%	-10.62%	-0.27%
Highwoods Properties, Inc.	4.02%	-5.97%	-0.24%
Brandywine Realty Trust	2.41%	-5.89%	-0.14%
Weingarten Realty Investors	2.87%	-2.16%	-0.06%

### Strategy Review & Positioning

Anchor's REIT strategy outperformed the FTSE NAREIT ALL REITs Index in the third quarter. Lamar Advertising Company (LMAR) was the largest contributor to performance in the third quarter, followed by Sabra Health Care REIT Inc. (SBRA), Omega Healthcare Investors Inc. (OHI), Sun Communities Inc. (SUI), and CoreCivic Inc. (CXW). The largest detractors included National Storage Affiliates Trust (NSA), Weyerhaeuser Company (WY), Highwoods Properties Inc. (HIW), Brandywine Realty Trust (BDN), and Weingarten Realty Investors (WRI).

American Campus Communities Inc. (ACC) was added to the portfolio during the third quarter. Additionally, we exited Public Storage (PSA). American Campus Communities was added to the REIT portfolio as a replacement for Educational Realty Trust, which was purchased during the quarter by private equity investors. American Campus Communities like Educational Realty Trust develops and manages student

housing for colleges and universities. American Campus Communities controls 202 facilities containing over 130,000 beds. CEO, William Bayless, a founder of the company, since the mid-80s has been involved in providing an economic alternative for universities while at the same time generating attractive cash flow driven returns to investors. In addition to dividend growth supported by same store results, future cash flow should benefit from over \$1 billion in new development.<sup>vi</sup>

Despite favorable real estate fundamentals supported by GDP and job growth, REIT industry returns in 2018 have been volatile which we feel has been caused by the fear of higher interest rates. The Federal Reserve has raised short-term interest rates by over 75 bp since the first of the year. According to NAREIT statistics, on a share price basis REITs declined 7.7% in the first quarter, recovered 7.1% in the second quarter and declined .06% in the third quarter.<sup>vii</sup>

We believe REITs will continue to be impacted by macro-economic and capital market forces. REIT valuations have historically been determined by individual property cash flows, growth, and interest rates. With the economic recovery in its ninth year and the Fed signaling higher interest rates, real estate values of many sectors are at the upper end of historical ranges. Anchor, manages risk by maintaining value disciplines and by investing in REITs that are service and business intensive. It is our opinion that for the more service oriented REITs, growing cash flows and dividends is much more a function of the ability to execute a service business. This being as opposed to the market forces of supply and demand that determine rents and occupancy and thus the cash flow and value of a particular building and the REIT that owns it. Anchor's examples of operating REITs would include those providing document storage, timber harvesting, owning and operating private prisons, providing advertising on public billboards and other display, convention and destination hotels, developing and owning student housing and leasing land to smaller retailers and operating businesses.

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<sup>i</sup> <https://www.bls.gov/>

<sup>ii</sup> Ibid.

<sup>iii</sup> FactSet financial data and analytics; Market data, sourced from Tullett Prebon Information Services

<sup>iv</sup> StyleAdvisor. Gross of fee returns are presented Pure Gross and are calculated before management fees, custodial fees and transaction costs.

<sup>v</sup> FactSet financial data and analytics; Attribution reporting

<sup>vi</sup> <http://ir.americancampus.com/>

<sup>vii</sup> FactSet financial data and analytics; FTSE NAREIT all REITs

#### ***REIT Model Disclosures***

**MODEL DESCRIPTION:** The anchor managed accounts REIT model was created on 09/30/2016. The model returns do not reflect actual trading. Anchor Capital's managed accounts division created this model for purposes of presenting performance results which approximate those of the managed account REIT sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of real estate investment trusts.

**MODEL DISCLOSURES:** The results prior to 12/31/2016 presented herein represent those of the Anchor Capital Institutional and Private Client Investment Management Division. The results from 9/30/2001 through 9/30/2016 for the Institutional and Private Client Investment Management REITs strategy were published in the product presentation. The model transaction history does not reflect all portfolio transaction activity for accounts in the sponsor programs. Model transactions correspond with trading activity generated in the course of investment for substantially all accounts in the sponsor REIT program. Model transactions and holdings do not reflect individual portfolio activity for new account investments, or account activity and holdings in various individual portfolios subject to tax considerations or individual client discretion. Model performance may differ materially from individual client portfolio results.

**CALCULATION OF RATES OF RETURN:** All securities in the model are valued at last sale price, as provided by independent pricing services. The portfolio valuation is reflected on a trade date basis. Model investment returns include the reinvestment of dividends and other earnings. Effective 1/1/2010, dividends (excluding income on money market securities) are credited on an accrual basis. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Monthly results are linked to determine annual returns. Individual client portfolio results may vary from the results presented for the model because of different investment objectives, tax status and other considerations. Returns of individual client accounts will be reduced by advisor fees and other expenses which might be incurred to provide investment management, custody, administrative, actuarial, accounting or other services to the client. The Russell Indices exclude fees. The Managed Accounts REIT model returns are calculated on a pure gross of fee basis, before the deduction of Anchor Capital management and sponsor wrap fees. For all periods presented, the net of fee returns are calculated by compounding the monthly net returns to calculate the quarterly, YTD and annual returns. The numbers may be slightly different from net returns published in other Anchor Capital materials created outside of Style Advisor prior to 6/30/2017, which were calculated by simply subtracting 3% from the annual gross return. Additional information regarding policies for calculating and reporting model returns is available upon request.

**BENCHMARK DESCRIPTION:** Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of the Adviser. In addition, the Adviser's recommendations may differ significantly from the securities that comprise the indices. The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space across the US economy. The index series provides investors with exposure to all investment and property sectors. In addition, the more narrowly focused

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property sector and sub-sector indexes provide the facility to concentrate commercial real estate exposure in more selected markets. The FTSE NAREIT All REITs Index is a market capitalization-weighted index that includes all tax-qualified real estate investment trusts (REITs) that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List. The FTSE NAREIT All REITs Index is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria. All benchmark returns include the reinvestment of income.

The performance results presented herein represent those of the Anchor Capital Institutional and Private Client Investment Management Division REIT Strategy. The Managed Accounts strategy will be managed in tandem with the Institutional and Private Client Investment Management Division strategy.

For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800.

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