

**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	5 Year Annualized
Anchor Select Dividend (Pure Gross)	5.41%	7.20%	11.41%
Anchor Select Dividend (Net)	4.62%	4.81%	8.11%
Russell 1000 Value	5.70%	3.92%	10.72%

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

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Abbott Laboratories	2.69%	20.82%	0.52%
Leidos Holdings, Inc.	2.57%	17.75%	0.42%
Pfizer Inc.	2.00%	22.51%	0.41%
Microsoft Corporation	2.61%	16.43%	0.40%
Cinemark Holdings, Inc.	2.51%	15.58%	0.37%
<i>5 Lowest</i>			
Invesco Ltd.	1.60%	-12.79%	-0.24%
Franklin Resources, Inc.	1.58%	-4.41%	-0.17%
Omnicom Group Inc	1.36%	-10.05%	-0.16%
Janus Henderson Group PLC	0.81%	-10.53%	-0.09%
Western Union Company	1.54%	-5.30%	-0.09%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Health Care	10.88%	14.28%	1.47%
Producer Durables	8.93%	12.33%	1.03%
Technology	8.91%	11.83%	1.01%
<i>3 Lowest</i>			
Energy	6.76%	0.20%	-0.02%
Financial Services	31.17%	0.47%	0.12%
Utilities	5.61%	4.27%	0.25%

## Strategy Review & Positioning

Anchor's Select Dividend strategy underperformed the Russell 1000 Value Index in the third quarter. The top three factors that contributed to underperformance were security selection in Financial Services, an underweighting in Health Care, and an overweighting in Materials & Processing. The largest contributors to performance include security selection in Technology, Consumer Discretionary, and Materials & Processing.

Abbott Laboratories (ABT) was the largest contributor to performance in the third quarter, followed by Leidos Holdings Inc. (LDOS), Pfizer Inc. (PFE), Microsoft Corporation (MSFT), and Cinemark Holdings Inc. (CNK). The largest detractors included Invesco Ltd (IVZ), Franklin Resources, Inc. (BEN), Omnicom Group Inc (OMC), Janus Henderson Group (JHG), and Western Union Company (WU).

First Hawaiian Inc. (FHB) was added to the portfolio during the third quarter and we exited one name, Janus Henderson Group (JHG).

First Hawaiian (FHB) is one of the leading banks in Hawaii and the surrounding islands. The shares offer an almost 3.5% dividend yield after the company has increased its dividend steadily in the past few years, while the shares have failed to appreciate.<sup>vi</sup> We believe that Hawaii is a healthy, growing banking market and that it is somewhat insulated from competition, as we have witnessed mainland banks attempting to gain a foothold there over the years, only to retreat. In our opinion, First Hawaiian has strong financial metrics with a sustained high return on equity and limited bad loans, even in difficult economic environments. The model cash at the end of the quarter was 4.5%.

The Select Dividend strategy is managed to be as fully invested as possible at all times. Also, to have low turnover and be as tax efficient as possible. The yield on the model portfolio is approximately 3.3%, which is a premium to the benchmark and to 10 year treasuries.<sup>vii</sup> In our opinion, Select Dividend meets the needs of investors who require income from their portfolio with lower beta. With a current yield of about 3.3%, Select Dividend comes close to meeting retirees' requirement to take 4% required minimum distributions from retirement accounts, while minimizing invasion of principal.

Anchor Select Dividend seeks three types of dividend payers: 1) companies with high and sustainable dividend yields, 2) companies that are growing their dividends rapidly, and 3) companies that change their dividend strategy to adopt a more dividend-oriented capital allocation philosophy, which is something that we track continually. We also believe that investors in Select Dividend benefit from Anchor's expertise investing in smaller companies. As an "all-cap" strategy, Select Dividend has a large opportunity set, investing in companies whose market capitalizations are as low as a few billion dollars. We believe that smaller companies often have more of an opportunity to grow significantly, which we hope helps to bolster returns over time.

It is Anchor's belief that one of the additional benefits of a dividend oriented portfolio is capital preservation. Please see the opinion piece titled *The Defensive Characteristics of Dividend Investing*, available on Anchor's website, for more information on this topic.<sup>viii</sup>

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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> FactSet financial data and research; Deutsche Bank Research report dated 8/6/18

<sup>vii</sup> Federalreserve.gov

<sup>viii</sup> <https://anchorcapital.com/defensive-characteristics-dividend-investing-2/>

### **Select Dividend Model Disclosures**

MODEL DESCRIPTION: The Anchor Managed Accounts Select Dividend (SD) 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

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Managed Account Select Dividend sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of all cap value, dividend paying stocks.

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 10/01/2011 through 9/30/2016 for the Institutional and Private Client Investment Management Select Dividend 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 Select Dividend 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 model 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 Select Dividend 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 presented after debiting the gross or pure gross of fee results by 3%, which represents the highest known annual wrap fee charged by any of the sponsors of the Separately Managed Account program that Anchor participates in. 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 Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Value Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad value market. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. 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 Select Dividend 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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