

### Equity Outlook/Review

The fourth quarter saw increased volatility in many markets, especially in December, leaving many asset classes and major indexes down for the year, including the S&P 500 and Dow Jones Industrial Index. In last quarter's commentary we stated that, "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." We believe that this prediction began to play out in the fourth quarter. Higher interest rates and a continued flattening of the yield curve<sup>i</sup> coupled with quantitative tightening, have caused some of the more highly valued growth and concept stocks to decline, and has led to the largest decline in relative valuation of cyclicals vs. the S&P 500 multiple since at least 1980<sup>ii</sup>. In fact, few stocks and few asset classes were unscathed through December 20<sup>th</sup>, with 93% of global asset classes registering a negative total return (in USD terms)<sup>iii</sup>. The good news is that valuations of many companies are beginning to appear quite attractive to us; for a value investor, the current environment is very exciting. We believe that after several challenging years for active managers, the environment has become more rewarding for active managers and especially for value investors. Anchor's investment process was designed to weather the sort of turbulence that we saw in the fourth quarter, and to take advantage of volatility, thus we remain optimistic about the year ahead.

### 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	4Q18	YTD	10 Year Annualized
Anchor REITs (Pure Gross)	-8.38%	-1.76%	11.92%
Anchor REITs (Net)	-9.07%	-4.67%	8.61%
FTSE NAREIT ALL REITs	-6.11%	-4.42%	12.37%

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

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Omega Healthcare Investors, Inc.	3.03%	9.39%	0.32%
Realty Income Corporation	2.79%	11.60%	0.27%
National Storage Affiliates Trust	4.29%	5.07%	0.17%
Welltower, Inc.	0.80%	7.46%	0.13%
STORE Capital Corporation	5.38%	3.05%	0.12%
<i>5 Lowest</i>			
CoreCivic, Inc.	5.12%	-26.72%	-1.52%
Sabra Health Care REIT, Inc.	4.78%	-27.09%	-1.40%
Monmouth Real Estate Investment Corporation Class A	4.37%	-24.99%	-1.19%
RLJ Lodging Trust	3.18%	-24.06%	-0.83%
Weyerhaeuser Company	1.91%	-31.40%	-0.67%

### Strategy Review & Positioning

Anchor's REIT strategy underperformed the FTSE NAREIT ALL REITs Index in the fourth quarter. The largest detractors to performance included CoreCivic, Inc. (CXW), Sabra Health Care REIT, Inc. (SBRA), Monmouth Real Estate Investment Corporation Class A (MNR), RLJ Lodging Trust (RLJ), and Weyerhaeuser Company (WY). Omega Healthcare Investors, Inc. (OHI) was the largest contributor to performance in the fourth quarter, followed by Realty Income Corporation (O), National Storage Affiliates Trust (NSA), Welltower, Inc. (WELL), and STORE Capital Corporation (STOR).

Anchor's REIT strategy declined 8.4% in the fourth quarter, behind the FTSE NAREIT ALL REITs Index. For all of 2018, Anchor's REIT strategy returned a negative 1.8%, favorable relative to the negative 4.4% for the FTSE NAREIT ALL REITs benchmark.

Anchor Capital's REIT fourth quarter returns were unfavorably impacted as negative returns ranging -20% to -31% from timber REIT, Weyerhaeuser, prison REIT, CoreCivic, health care REIT, Sabra Health Care, warehouse REIT, Monmouth and lodging REIT, RLJ Lodging more than offset positive contributions from health care REITs, Omega Health Care and Welltower, triple-net single-use retail REITs, Realty Income and Store Capital and self-storage REIT, National Storage Affiliates.<sup>vi</sup>

Outfront Media Inc. (OUT) was added to the portfolio during the fourth quarter. Welltower, Inc. (WELL) was sold out of our concern that the growing supply of assisted living facilities would continue to negatively impact individual facility rents and occupancies. Outfront Media is the second largest billboard and transit display advertiser. Outfront converted from a full tax paying corporation to a REIT in 2014. Outfront should grow earnings and dividends as analogue billboards are converted to digital. Its greater focus on transit displays should result in higher growth as transit displays are in a much earlier stage of conversion to digital. Anchor feels that Outfront should continue to capture an increasing share of the U.S. advertising market.

REIT share price volatility in 2018 and continued growth of REIT dividends supported by favorable real estate fundamentals has resulted in the average dividend yield for the FTSE NAREIT ALL REIT Index rising to 4.8% up from 4.3% at the start of the 2019.<sup>vii</sup> REIT dividend yields relative to the often used comparison of 10 Year Treasury yields widened to 211 basis points from 186 basis points. Over the last thirty years REITs yield on average 112 basis points above 10 year treasuries. As of 12/31/18 Anchor's REITs on average yielded 5.8% or 100 basis points greater than REIT averages.

Anchor has observed that REIT volatility is greatest during times of economic and interest rate uncertainty. However, the long-term positive investment characteristics of REITs remain very much in place. Namely, the disciplined deployment of capital into real estate related investments. Real Estate in 2018 became its own sector in the major indexes in recognition of the REITs trillion dollar market capitalization and its control of 20% of the U.S. commercial real estate. As a value based investment firm, Anchor applies its disciplined investment process to identify REITs selling at discounts to the private market value of its real estate or operations. Anchor REIT portfolios are characterized by lower Price to Funds From Operations (P/FFO), lower Enterprise Value to cash flow (EV/EBITDA)<sup>viii</sup> less maintenance capital spending and higher yields than the broader REIT averages.

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<sup>i</sup> Factset financial data and analytics; Research systems

<sup>ii</sup> Compustat, FactSet financial data and analytics, I/B/E/S, and Goldman Sachs Global Investment Research

<sup>iii</sup> Deutsche Bank, Bloomberg Finance LP, GFD

<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> Ibid.

<sup>vii</sup> Ibid.

<sup>viii</sup> Price to Funds From Operations (P/FFO): A funds from operations (FFO) multiple is the multiple of the FFO per share of a particular organization. This is calculated by dividing the price of the shares by the FFO per share. The FFO multiple is a very important concept in real estate investment trust (REIT) valuation. Enterprise Value to cash flow (EV/EBITDA): EV divided by EBITDA or earnings before interest, taxes, depreciation, and amortization. EV (the numerator) is the company's enterprise value (EV) and is calculated as follows: EV = market capitalization + preferred shares + minority interest + debt - total cash

#### ***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

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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 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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