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[i] 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[ii]. In fact, few stocks and few asset classes were unscathed through December 20th, with 93% of global asset classes registering a negative total return (in USD terms)[iii]. 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.

Strategy Review & Positioning

Anchor's Select Dividend strategy outperformed the Russell 1000 Value Index in the fourth quarter. The top three factors that contributed to performance were security selection in Consumer Staples, and Energy, as well as an underweighting in Energy. The largest detractors to performance include an underweighting in Health Care and Utilities as well as an overweighting in Producer Durables.

Federated Investors, Inc. Class B (FII) was the largest contributor to performance in the fourth quarter, followed by Welltower, Inc. (WELL), Omnicom Group Inc (OMC), Verizon Communications Inc. (VZ), and Entergy Corporation (ETR). The largest detractors included Sabra Health Care REIT, Inc. (SBRA), Occidental Petroleum Corporation (OXY), CoreCivic, Inc. (CXW), Hasbro, Inc. (HAS), Leidos Holdings, Inc., (LDOS)

Four names were added to the portfolio during the fourth quarter, National Storage Affiliates Trust (NSA), Lamar Advertising Company Class A (LAMR), OUTFRONT Media Inc. (OUT), and Huntsman Corporation (HUN). We exited five names during the quarter, AT&T Inc. (T), Verizon Communications Inc. (VZ), Invesco Ltd. (IVZ), Norfolk Southern Corporation (NSC), and Omnicom Group Inc (OMC).

National Storage Affiliates, Lamar and Outfront are all REITs whose yields were attractive, in our opinion, at the time of purchase. National Storage is an extra-storage space rental company, which we believe has an interesting and unique model for acquiring new locations that should enable it to grow for many years. Both Lamar and Outfront are billboard and advertising REITs,[iv] and in our opinion are stocks that are out of favor due to what we believe are general fears about economic slowing. Huntsman is a diversified global chemical company[v] whose shares are out of favor due to fears of a global manufacturing slowdown. We do not believe the current valuation reflects the fact that the company's mix of businesses and balance sheet have improved since previous economic slowdowns. The model cash for the select dividend portfolio was 5.5% at the end of the quarter.

The Select Dividend strategy is managed to be as fully invested as possible at all times. Also, to be low turnover and as tax efficient as possible. The yield on the model portfolio is approximately 3.8%, which is a premium to the benchmark and to 10 year treasuries.[vi] 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 3.8%, 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. We believe that select dividend behaved defensively in the fourth quarter. Please see the opinion piece titled The Defensive Characteristics of Dividend Investing, available on Anchor's website, for more information on this topic.[vii]

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[i] Factset financial data and analytics; Research systems
[ii] Compustat, FactSet financial data and analytics, I/B/E/S, and Goldman Sachs Global Investment Research
[iii] Deutsche Bank, Bloomberg Finance LP, GFD
[iv] http://www.lamar.com/ / https://www.outfrontmedia.com/
[v] https://www.huntsman.com/corporate/a/Home
[vi] www.Federalreserve.gov
[vii] https://anchorcapital.com/defensive-characteristics-dividend-investing-2/

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

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