

### Equity Outlook/Review

The first quarter was a strong one for equities in the US, with major indices rebounding and recouping much of the declines suffered in December. We do not believe that the severity of the declines in December were driven by fundamentals, but rather by technical factors, including quantitative trading and also tax loss selling by investors. The economy in the US remains fundamentally healthy, with low unemployment and generally robust levels of GDP growth and business activity<sup>i</sup>. There are areas of concern that have arisen, however, and we will be watching them for cues to increase our level of caution<sup>ii</sup>. These factors include a partially inverted yield curve in the US (often an early harbinger of recession), and sharp slowdowns in the economies of China and Germany<sup>iii</sup>. While the US economy remains relatively strong in our opinion, the Fed has taken note of slowing in other economies and has paused rate hikes for the time being. We believe that this policy is supportive of equities for the near future.

### 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	1Q19	YTD	10 Year Annualized
Anchor REITs (Pure Gross)	15.27	15.27	15.93
Anchor REITs (Net)	14.41	14.41	12.50
FTSE NAREIT ALL REITs	16.70	16.70	18.23

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

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
OUTFRONT Media Inc.	4.66	31.22	1.34
STORE Capital Corporation	5.57	19.50	1.05
American Campus Communities, Inc.	5.42	16.10	0.88
STAG Industrial, Inc.	3.90	20.69	0.78
Highwoods Properties, Inc.	3.59	22.14	0.77
<i>5 Lowest</i>			
Omega Healthcare Investors, Inc.	1.32	3.78	0.12
Life Storage, Inc.	3.42	5.75	0.20
RLJ Lodging Trust	2.85	9.13	0.29
Alexandria Real Estate Equities, Inc.	1.48	24.54	0.34
Monmouth Real Estate Investment Corporation	4.20	7.61	0.35

### Strategy Review & Positioning

Anchor's REIT strategy generated returns of 15.3% (Gross of Fees) and 14.4% (Net of Fees) in the first quarter of 2019<sup>vi</sup>. These were modestly behind the 16.7% return generated by the FTSE NAREIT ALL REITs benchmark in the first quarter<sup>vii</sup>. The largest contributors to performance in the quarter included OUTFRONT Media Inc., (OUT), STORE Capital Corporation (STOR), American Campus Communities, Inc. (ACC), STAG Industrial, Inc. (STAG) and Highwoods Properties, Inc. (HIW).

Although generating positive returns in Q1, Omega Healthcare Investors, Inc. (OHI) was the largest detractor relative to benchmark performance in the first quarter, followed by Life Storage, Inc. (LSI), RLJ Lodging Trust (RLJ), Alexandria Real Estate Equities, Inc. (ARE) and Monmouth Real Estate Investment Corp. (MNR)<sup>viii</sup>.

During the quarter, investments in Skilled Nursing Home REITs, Omega Healthcare and Sabra Health Care were eliminated. Continued delays to the improvement in Skilled Nursing Home fundamentals and potential risk to maintaining high dividend payouts were the primary reasons. Portions of the proceeds from these sales were used to increase investment in several existing holdings including, American Campus Communities (student housing), Outfront Media (outdoor advertising), Ryman Hospitality (resort/convention hotels) and Store Capital (single tenant real estate)<sup>ix</sup>.

No new investments were added during the quarter in part a function of our analysis that valuations, based on multiples of cash flow are discounting higher than attainable levels of growth. Price increases in the quarter resulted in the average REIT yield declining to 3.72% (FTSE NAREIT All REITs)<sup>x</sup> from 4.8% at the start of the year. Despite this decline the spread between REIT yields and ten year treasuries<sup>xi</sup>, an often used benchmark, ended the quarter at 131 basis points above the thirty year average of 113<sup>xii</sup>.

Anchor concludes that the economy and job growth should remain positive, albeit at a slower rate than most recent history. Under this positive macro backdrop, cash flow and dividend growth should continue to support REIT investment returns. REITs with a market capitalization of \$1.1 trillion control over 20% of U.S. income producing real estate and most REITs continue to be disciplined real estate operators and allocators of capital<sup>xiii</sup>. Real Estate as the result of the 2018 inclusion in the several of the major S&P and Russell Indexes, we conclude is benefitting from increased investor demand for REITs<sup>xiv</sup>.

Anchor, a value based, research driven investment firm, continues to seek to identify REITs selling at discounts to the private market value of its real estate and or operations. Anchor REIT portfolios are characterized by lower Price to Funds from Operations (P/FFO), lower Enterprise Value to Cash Flow (EV/EBITDA less maintenance Cap Ex) and higher yields than the broad REIT industry averages<sup>xv</sup>.

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<sup>i</sup> U.S. Department of Commerce; <https://www.usa.gov/federal-agencies/u-s-department-of-commerce>

<sup>ii</sup> FactSet financial data and analytics; Business Description

<sup>iii</sup> U.S. Federal Reserve; <https://www.federalreserve.gov/>

<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 analytics; Attribution Reporting

<sup>vii</sup> <https://www.reit.com/data-research>

<sup>viii</sup> FactSet financial data and analytics; Attribution Reporting

<sup>ix</sup> FactSet financial data and analytics; Attribution Reporting

<sup>x</sup> <https://www.reit.com/data-research>

<sup>xi</sup> <https://www.reit.com/data-research/reit-market-data/reitwatch-nareits-monthly-industry-data-update>

<sup>xii</sup> <https://www.reit.com/data-research/reit-market-data/reitwatch-nareits-monthly-industry-data-update>

<sup>xiii</sup> <https://www.reit.com/data-research/reit-market-data/reitwatch-nareits-monthly-industry-data-update>

<sup>xiv</sup> <https://www.reit.com/data-research/reit-market-data/reitwatch-nareits-monthly-industry-data-update>

<sup>xv</sup> FactSet financial data and analytics; source file reporting

#### *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

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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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