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Equity Outlook/Review

The U.S. equity markets continued to rally into the second quarter as companies reported better than expected earnings. S&P 500 companies reported first quarter earnings growth of 1.6% versus expectations for negative earnings growth.ⁱ In late April, it was announced that U.S. and China trade talks had stalled and President Trump was implementing a 25% tariff on \$250 billion of imported goods.ⁱⁱ President Trump also banned U.S. companies from supplying communication equipment to the Chinese company, Huawei.ⁱⁱⁱ As a result, U.S. equity markets declined 6% in May.^{iv} Meanwhile, the 10 Year Treasury Bond rallied with its yield dropping by 0.50% to 2.0%.^v With slowing global economic growth the Federal Reserve has indicated that it may cut interest rates by year end.^{vi} With an expected interest rate cut, the U.S. equity markets have rallied back in June, ending the quarter about where they started.^{vii} While forecasters are expecting slower growth in the U.S. and globally, the economic conditions remain fairly stable with employment continuing to be strong and consumer confidence remaining high.^{viii}

Strategy Review & Positioning

Anchor's REIT strategy outperformed the FTSE NAREIT ALL REITs Index in the second quarter. OUTFRONT Media Inc. (OUT) was the largest contributor to performance, followed by CoreCivic (CXW), Mid-America Apartment Communities, Inc. (MAA), Prologis, Inc. (PLD), and Sun Communities, Inc. (SUI). The largest detractors from performance were Highwoods Properties, Inc. (HIW), Iron Mountain, Inc. (IRM), Brandywine Realty Trust (BDN), Weingarten Realty Investors (WRI), and Realty Income Corporation (O).

During the quarter, Anchor raised portfolio exposures to self-storage, hospitality, industrial and timber REITs. Positions in self-storage REITs, National Storage Affiliates (NSA), and Life Storage (LSI) were increased as also were allocations to Ryman Hospitality (RHP), Stag Industrial (STAG) and timber REIT, Weyerhaeuser (WY).

In the second quarter, investments in Realty Income (O) and Alexandria Real Estate Equities (ARE) were exited. In addition to the sale of Realty Income, exposure to traditional bricks and mortar retail was reduced further as allocation to STORE Capital Corp (STOR) was lowered. The sale of Alexander Real Estate Equities (ARE), premier developer of medical office and research space, after several years of very positive returns, was based on Anchor's assessment that Alexandria's fundamentals were at risk to a decline in medical research dollars and that its valuation was at a significant premium to the Net Asset Value of its real estate. The partial sale of Sun Communities (SUI), was based on Anchor's assessment that although Sun's fundamentals remain very attractive on a relative basis, its valuation is full.

No new investments were added during the quarter but Anchor continues to focus its research on REITs whose growth is driven more by the business conducted in its facilities than the level of interest rates. Examples would include, out-of-home advertising, private prisons, hospitals, assisted living, hospitals, communications' infrastructure and data storage.

Anchor observes that, consistent with a slowing economy and the introduction of competing new supply, there are types of real estate experiencing a deceleration of rent and occupancy growth. In addition, the impact of interest rates on the private market valuation of real estate could result in greater REIT share price volatility as the outlook for the economy and or interest rates change. We attempt to mitigate these risks by investing in REITs selling at discounts to private market values and those whose growth is less sensitive to the macro economy. Despite potential concerns, Our analysis continues to project growth for overall REIT profitability and dividends. REIT's yield 4.1% as of June 30 and continue to provide almost 200 basis points

higher income than the S&P 500 Index. In addition, investor demand for REITs should continue to benefit from the establishment of real estate as its own industry sector in most major broad equity Indexes and ETFs.

As, a value based, research driven investment firm, in addition to analysis of market fundamentals, we are increasingly focused on the quality of an individual REIT's management and its history of 1) operational excellence and 2) generating above industry returns on each of its investments.

ⁱ https://www.trpropresearch.com/pdf/SP500_Earnings_Scorecard.pdf/

ⁱⁱ <https://www.china-briefing.com/news/the-us-china-trade-war-a-timeline/>

ⁱⁱⁱ Ibid.

^{iv} FactSet financial data and analytics; Charting

^v Ibid.

^{vi} <https://www.nytimes.com/2019/06/21/business/economy/fed-trump-interest-rates.html>

^{vii} FactSet financial data and analytics; Charting

^{viii} <https://www.schwab.com/resource-center/insights/content/sector-views>

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

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