



James Murray
Portfolio Manager



Steve Block
Portfolio Manager

FIRST QUARTER 2018

Equity Income Commentary

Market Summary

The Russell 2000 Value Index fell 2.7% in the first quarter of 2018. Interest rates on the 10-year Treasury Note rose 40 basis points to 2.8%, which worried investors about rising cost of capital. The Real Estate and Utilities sectors were weak performers, falling 7% and 6% respectively as their higher dividend paying members competed with bonds for investors seeking income. Despite 7% higher oil prices, Energy stocks fell 11%. Health Care finished higher by 5% driven by the continued momentum in biotechnology stocks where new medical devices are extending lives and treatments for cancer are showing promise. Financials posted a modest gain thanks to banks and consumer lending companies whose profit margins benefit from rising interest rates. Modest declines were also seen in Consumer Discretionary, Industrials, Technology, and Materials.

Preferred Securities

The 10-year US Treasury Note yielded 2.4% at the beginning of the year but a strong economy is resulting in slightly higher inflation and the interest rate rose to 2.8% at the end of March. A 0.4%

increase in rate may not seem much, but prices of bonds and preferred securities move in opposite directions, and as such bonds and preferred securities had slight declines.

Real Estate Investment Trusts

Continuing from a challenging 2017, securitized commercial real estate has had a tough start to 2018. The securitized commercial real estate market, as measured by the NAREIT All Equity REIT Index (the "Index" or the "Benchmark"), posted a negative total return in the first quarter of -6.7%. The quarter ended, however, with March providing a boost of +3.7%. The negative performance was driven in large part by rapid selloff in January and February as investors panicked about rising interest rates. It also did not help that the year-end earnings reports were delivered with somewhat disappointing 2018 guidance as management teams often prefer to under promise early in the year. Despite the struggles of overall REIT stock prices, most REITs we assessed reported solid operating fundamentals and strong balance sheets, and continue to operate with low leverage. On the positive side, economic growth should eventually

lead to increased tenant demand, and new supply remains in check given higher construction costs..

Performance Summary

For the first quarter of 2018, the Portfolio underperformed relative to the comparable corporate bond index, the Citigroup Corporate 3-7 Year BBB Bond Total Return Index (the "Citi Index") and outperformed the S&P Preferred Stock Index (the "Preferred Index", together with the Citi Index, the "Indices"). The indices posted quarterly performances of -1.3% for the Citi Index, and -0.6% for the Preferred Index. The Portfolio's performance was impacted during the quarter by the REIT portion of the Portfolio (~50% of the Portfolio) and a few select positions that dragged returns lower, while the Preferreds (~30%) and general equities portion of the Portfolio (<20%) had less impact on the Portfolio's return for the period.

Contributors

With its above-average exposure to the San Francisco market, Chesapeake Lodging Trust (CHSP, +4.1%) outperformed peers given the expected outperformance of the San Francisco market with limited new supply and easy comparables with the complete closure of the Moscone Center for renovation during April to September. Las Vegas Sands (LVS, +3.5%) was relatively strong out of the gates in 2018, as several analysts reported that it was not time to take profits on select gaming stocks, which boosted the stock price. SL Green Preferred I (SLG.I, +3.2%) also performed well as shareholders apparently favored the continued stock buyback program of the company's common stock and strong cash flow.

Detractors

Colony NorthStar (CLNS, -47.3%) sold off on an extremely poor fourth quarter earnings report and the announced 59% reduction to its annual dividend. We sold the position after we lost faith in management's ability to grow shareholder value. Another large detractor was Preferred Apartment Communities (APTs, -28.5%) as the stock sold off since outperforming peers in 2017, despite management stating that it expects to grow the

dividend 10% above the prior year level. Fundamentals are solid for the Apartment REIT, and we believe the stock is oversold. Despite its best efforts during a company strategic review, Whitestone REIT (WSR, -26.7%) underperformed when the management reported the company will stay the course and attempt to lower leverage, improve general and administrative expense to revenue range. WSR reported disappointing fourth quarter 2017 earnings as well as full-year 2018 guidance, and the stock was downgraded by one of the few sell side brokers covering the company.

Portfolio Positioning

The Portfolio has been limited in its exposure to securities being called during the past few quarters, but during the first quarter four positions were called. With the majority of companies having already redeemed the more expensive, higher coupon issues in favor of lower coupon ones in prior periods, there is less opportunity to reduce issuers' costs of preferred securities. As such, we have taken the opportunity to invest in higher paying REIT and non-REIT equities, and the Portfolio's exposure to preferred securities has drifted below its historical low end of the range. The Portfolio remains invested in high yield common equities, with an average annual yield of 8.5% at quarter end. It also maintains an allocation to preferred securities offering stable dividends with an average annual yield of 7.4%. The bulk of the Portfolio has transitioned to investment in REIT common equities, with an average annual yield at the end of the quarter of 8.2%.

Best regards,



JAMES MURRAY, CFA



STEVE BLOCK, CFA



WWW.PHOCASFINANCIAL.COM

980 Atlantic Avenue, Suite 106, Alameda, CA 94501

510-523-5800 | info@phocasfinancial.com

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Our current disclosure statement is set forth in Part 2 of our Form ADV and is available for your review upon request.