Outlook/Review

We believe that the U.S. economy is strong, as indicated by accelerating GDP, company earnings growth and unemployment well below 4%.[i] In addition, after several years of little real wage gains, even those workers at the lower end of the pay scale are finally beginning to see wage increases.[ii] Interest rates across the yield curve increased over the course of the quarter, and the yield curve steepened,[iii] which in our opinion are both signs of a strong and healthy economy. We believe higher interest rates in the U.S. have resulted in a stronger dollar, which has created currency and economic turmoil in several emerging market economies, but so far, this has not slowed the U.S. economy. Tariffs though are a concern and we continue to speak with our companies about their impact as they are implemented. 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. Recently, high growth valuations have benefitted from expected earnings being discounted at artificially low interest rates set by the Fed. As rates increase, we would expect growth company valuations to moderate. We believe low quality companies could see their share prices suffer as the cost of debt rises and that competitively weak companies often are unable to pass along inflation in the form of higher prices. We feel that Anchor portfolios are well positioned for the ongoing change in market leadership from growth to high quality value.

Managed Accounts Model Performance[iv]

Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.

Strategy Performance	3Q18	YTD	10 Year
			Annualized
Anchor All Cap Value (Pure Gross)	6.34%	8.90%	10.10%
Anchor All Cap Value (Net)	5.55%	6.47%	6.84%
Russell 1000 Value	5.70%	3.92%	9.79%
Russell 3000 Value	5.39%	4.17%	9.76%

Top/Bottom Portfolio Contributors[v]

Security Contribution	Average Weight	Total Return	Contribution to Return
5 Highest			
NuVasive, Inc.	2.14%	36.19%	0.67%
Apple Inc.	3.24%	22.38%	0.66%
Pfizer Inc.	1.98%	22.51%	0.41%
Conduent, Inc.	1.81%	23.94%	0.39%
Berkshire Hathaway Inc. Class B	2.60%	14.71%	0.36%
5 Lowest			
JD.com, Inc. Sponsored ADR Class A	1.15%	-33.02%	-0.45%
Hain Celestial Group, Inc.	0.89%	-8.99%	-0.08%
eBay Inc.	0.88%	-8.94%	-0.08%
Analog Devices, Inc.	1.91%	-3.14%	-0.06%
Wells Fargo & Company	1.41%	-4.50%	-0.05%

Sector Contribution	Average Weight	Total Return	Contribution to Return
3 Highest			
Health Care	17.21%	16.28%	2.67%
Technology	10.97%	13.30%	1.36%
Producer Durables	11.17%	9.90%	1.07%
3 Lowest			
Consumer Staples	6.55%	-3.55%	-0.22%
Energy	4.96%	-0.06%	-0.03%
Materials & Processing	1.68%	-1.91%	-0.03%

Strategy Review & Positioning

Anchor's All Cap Value strategy outperformed the Russell 1000 Value and the Russell 3000 Value Indices in the third quarter. The top three factors that contributed to outperformance were security selection in Technology and Consumer Discretionary, as well as an overweighting in Health Care. The largest detractors to performance included security selection in Consumer Staples, Financial Services, and Energy.

NuVasive (NUVA) was the largest contributor to performance in the third quarter, followed by Apple Inc. (AAPL), Pfizer Inc. (PFE), Conduent Inc. (CNDT), and Berkshire Hathaway Inc. (BRK.B). The largest detractors included JD.Com Inc. (JD), Hain Celestial Group, Inc. (HAIN), eBay Inc. (EBAY), Analog Devices Inc. (ADI) and Wells Fargo & Company (WFC).

Three names were added to the portfolio during the third quarter, Biogen Idec (BIIB), CDK Global Inc. (CDK), and First Hawaiian Inc. (FHB). We exited two names during the quarter, New York Cmnty Bancorp Inc. (NYCB) and Haemonetics Corp (HAE).

We think Biogen (BIIB) presents an interesting investment. In our opinion, the company has a solid line-up of patented drugs, especially their core Multiple Sclerosis franchise. We believe this core has stable, though very low, revenue growth, and by our calculations may throw off a sizeable amount of cash. Our thesis is that we are buying a strong biotech company at a price that does not discount any success with the drugs in their pipeline. In our opinion, Biogen is trading at a very low multiple because the market is not willing, at least not yet, to pay for a very promising pipeline of Alzheimer drugs.

We believe that CDK Global (CDK) is one of the leading software businesses for car dealerships in the U.S. and globally. The company's software enables dealers to manage inventory, promotions, financing and loaner vehicles, among other features. The company enjoys a loyal customer base with the average customer retention being 20 years. The company continues to grow with existing clients, as well as by buying small companies whose solutions it can add to its suite of offerings.[vi] We believe that CDK's operating margins will improve in the coming years, driven by tightly controlled expenses and moderate sales growth. We believe that a business with CDK's characteristics should be valued at least in line with market multiples, and not at its present discount.

First Hawaiian (FHB) is one of the leading banks in Hawaii and the surrounding islands. The shares offer an almost 3.5% dividend yield after the company has increased its dividend steadily in the past few years, while the shares have failed to appreciate.[vii] We believe that Hawaii is a healthy, growing banking market and that it is somewhat insulated from competition, as we have witnessed mainland banks attempting to gain a foothold there over the years, only to retreat. In our opinion, First Hawaiian has strong financial metrics with a sustained high return on equity and limited bad loans, even in difficult economic environments.

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[i] https://www.bls.gov/
[ii] Ibid
[iii] FactSet financial data and analytics; Market data, sourced from Tullett Prebon Information Services
[iv] StyleAdvisor. Gross of fee returns are presented Pure Gross and are calculated before management fees, custodial fees and transaction costs.
[v] FactSet financial data and analytics; Attribution reporting
[vi] http://investors.cdkglobal.com/
[vii] FactSet financial data and research; Deutsche Bank Research report dated 8/6/18

All Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts All Cap Value (ACV) model was created on 12/31/05. 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 All Cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of all cap value stocks.

MODEL DISCLOSURES: 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 All Cap 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 model 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 All Cap Value model 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 Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Value Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad value market. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. All benchmark returns include the reinvestment of income.

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

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