

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 Mid Cap Value (Pure Gross)	6.31%	10.45%	10.66%
Anchor Mid Cap Value (Net)	5.51%	7.99%	7.38%
Russell Mid Cap Value	3.30%	3.13%	11.29%
Russell Mid Cap	5.00%	7.46%	12.31%

Top/Bottom Portfolio Contributors^v

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
NuVasive, Inc.	2.83%	36.19%	0.88%
Conduent, Inc.	2.38%	23.94%	0.52%
Broadridge Financial Solutions, Inc.	3.40%	15.05%	0.48%
Hasbro, Inc.	2.61%	14.60%	0.36%
Ubiquiti Networks, Inc.	1.99%	17.02%	0.32%
<i>5 Lowest</i>			
DENTSPLY SIRONA, Inc.	1.26%	-13.58%	-0.18%
Omnicom Group Inc	0.30%	-10.48%	-0.14%
Invesco Ltd.	0.94%	-12.79%	-0.13%
Hain Celestial Group, Inc.	1.22%	-8.99%	-0.11%
Pioneer Natural Resources Company	1.06%	-7.87%	-0.09%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Health Care	11.28%	14.22%	1.54%
Consumer Discretionary	14.27%	10.35%	1.47%
Producer Durables	10.90%	10.82%	1.15%
<i>3 Lowest</i>			
Energy	4.63%	-0.80%	-0.13%
Materials & Processing	0.93%	6.49%	0.06%
Utilities	4.95%	2.19%	0.12%

Strategy Review & Positioning

Anchor's Mid Cap Value strategy outperformed the Russell Mid Cap Value Index in the third quarter. The top three factors that contributed to outperformance were security selection in Consumer Discretionary, Financial Services, and Consumer Staples. The largest detractors to performance included security selection in Technology, Energy, and Producer Durables.

NuVasive (NUVA) was the largest contributor to performance in the third quarter, followed by Conduent Inc. (CNDT), Broadridge Financial Solutions Inc. (BR), Hasbro Inc. (HAS), and Ubiquiti Networks Inc. (UBNT). The largest detractors included DENTSPLY SIRONA Inc. (XRAY), Omnicom Group Inc (OMC), Invesco Ltd. (IVZ), Hain Celestial Group Inc. (HAIN), and Pioneer Natural Resources Company (PXD).

CDK Global Inc. (CDK) was added to the portfolio during the third quarter. Additionally, we exited two names during the quarter, Omnicom Group Inc (OMC) and Haemonetics Corp (HAE).

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.

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/>

Managed Accounts Model Disclosures

MODEL DESCRIPTION: The Anchor managed accounts mid cap value (mcv) 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 accounts mid cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of mid cap stocks.

MODEL DISCLOSURES: The model transaction history does not reflect all portfolio transaction activity for accounts in the sponsor program. Model transactions correspond with trading activity generated in the course of investment for substantially all accounts in the sponsor mid 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 income. 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. Quarterly 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 Mid Cap Indices exclude fees. The Managed Accounts Mid Cap Value 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: The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set. The 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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