

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 Small-Cap Value (Pure Gross)	3.77%	8.10%	11.85%
Anchor Small-Cap Value (Net)	2.99%	5.69%	8.54%
Russell 2000 Value	1.60%	7.14%	9.52%
Russell 2000	3.58%	11.51%	11.11%

Top/Bottom Portfolio Contributors^v

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Cavco Industries, Inc.	4.96%	21.84%	0.98%
NuVasive, Inc.	2.28%	36.19%	0.69%
Helen of Troy Limited	1.78%	32.96%	0.49%
Barnes Group Inc.	2.52%	20.88%	0.47%
Gibraltar Industries, Inc.	2.26%	21.60%	0.43%
<i>5 Lowest</i>			
Hooker Furniture Corporation	2.52%	-27.68%	-0.71%
Benchmark Electronics, Inc.	1.78%	-19.22%	-0.38%
First of Long Island Corporation	1.67%	-11.96%	-0.22%
Tech Data Corporation	1.65%	-12.85%	-0.20%
Veeco Instruments Inc.	0.60%	-18.25%	-0.16%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Producer Durables	31.41%	6.20%	1.89%
Consumer Discretionary	15.38%	7.91%	1.23%
Health Care	2.28%	36.19%	0.69%
<i>3 Lowest</i>			
Technology	12.69%	-3.99%	-0.43%
Financial Services	19.35%	-1.88%	-0.32%
Consumer Staples	0.90%	-12.39%	-0.11%

Strategy Review & Positioning

Anchor's Small Cap Value strategy outperformed the Russell 2000 Value Index in the third quarter. The top three factors that contributed to outperformance were security selection in Consumer Discretionary and Health Care, as well as an overweighting in Producer Durables. The largest detractors to performance included security selection in Financial Services and Technology, as well as an underweighting in Utilities.

Cavco Industries Inc. (CVCO) was the largest contributor to performance in the third quarter, followed by NuVasive, Inc. (NUVA), Helen of Troy Limited (HELE), Barnes Group Inc (B), and Gibraltar Industries Inc. (ROCK). The largest detractors included Hooker Furniture Corporation (HOFT), Benchmark Electronics Inc. (BHE), First Long Island Corporation (FLIC), Tech Data Corporation (TECD), and Veeco Instruments Inc. (VECO).

Three names were added to the portfolio during the third quarter, Casa Systems Inc. (CASA), LogMeln Inc (LOGM), and NorthWestern Corp (NEW). We exited four names during the quarter, PH Glatfelter Co (GLT), Veeco Instruments Inc (VECO), Wabtec Corp Com (WAB), and Benchmark Electric (BHE).

We continue to believe that the set up for small cap stocks is positive due to earnings and sales growth. However, we are closely monitoring how the tariffs, among other items, would affect our holdings. Despite returning positive in the third quarter, small cap value stocks lagged small growth stocks. This has been a consistent trend, but we believe the case for small value remains compelling.

We continue to research new companies, developing a list of stocks we would buy at more attractive valuations, while also deepening our understanding of current holdings. We are prepared to invest in new companies or add to current holdings should the opportunity arise. As usual, high credit quality, self-funding, sustainable business models, and valuation remain of utmost importance.

¹ <https://www.bls.gov/>

² Ibid

³ FactSet financial data and analytics; Market data, sourced from Tullett Prebon Information Services

⁴ StyleAdvisor. Gross of fee returns are presented Pure Gross and are calculated before management fees, custodial fees and transaction costs.

⁵ FactSet financial data and analytics; Attribution reporting

Small Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Small Cap Value (SCV) 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 Small Cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of small cap value 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 Small 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 2000 Value Index excludes fees. The Managed Accounts Small 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: 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 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of

the true small-cap opportunity set and that the represented companies continue to reflect value characteristics. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-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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