

Outlook/Review

The fourth quarter saw increased volatility in many markets, especially in December, leaving many asset classes and major indexes down for the year, including the S&P 500 and Dow Jones Industrial Index. In last quarter's commentary we stated that, "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." We believe that this prediction began to play out in the fourth quarter. Higher interest rates and a continued flattening of the yield curveⁱ coupled with quantitative tightening, have caused some of the more highly valued growth and concept stocks to decline, and has led to the largest decline in relative valuation of cyclicals vs. the S&P 500 multiple since at least 1980ⁱⁱ. In fact, few stocks and few asset classes were unscathed through December 20th, with 93% of global asset classes registering a negative total return (in USD terms)ⁱⁱⁱ. The good news is that valuations of many companies are beginning to appear quite attractive to us; for a value investor, the current environment is very exciting. We believe that after several challenging years for active managers, the environment has become more rewarding for active managers and especially for value investors. Anchor's investment process was designed to weather the sort of turbulence that we saw in the fourth quarter, and to take advantage of volatility, thus we remain optimistic about the year ahead.

Managed Accounts Model Performance^{iv}

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

Strategy Performance	4Q18	YTD	10 Year Annualized
Anchor All Cap Value (Pure Gross)	-11.07%	-3.16%	10.46%
Anchor All Cap Value (Net)	-11.74%	-6.03%	7.19%
Russell 1000 Value	-11.72%	-8.27%	11.18%
Russell 3000 Value	-12.24	-8.58%	11.12%

Top/Bottom Portfolio Contributors^v

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Federated Investors, Inc. Class B	1.20%	11.26%	0.14%
Procter & Gamble Company	1.21%	11.43%	0.11%
Welltower, Inc.	1.52%	9.28%	0.11%
Verizon Communications Inc.	1.84%	6.45%	0.09%
Lamar Advertising Company Class A	0.14%	3.19%	0.05%
<i>5 Lowest</i>			
BWX Technologies, Inc.	2.29%	-38.65%	-1.03%
Conduent, Inc.	1.45%	-52.80%	-1.00%
DXC Technology Co.	1.56%	-43.43%	-0.92%
NuVasive, Inc.	2.14%	-30.18%	-0.73%
Apple Inc.	2.03%	-29.88%	-0.66%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Utilities	3.56%	2.38%	0.04%
Materials & Processing	1.67%	-16.99%	-0.26%
Consumer Discretionary	9.02%	-4.30%	-0.38%
<i>3 Lowest</i>			
Producer Durables	10.42%	-25.25%	-2.84%
Technology	8.63%	-22.28%	-2.18%
Health Care	17.81%	-11.25%	-2.00%

Strategy Review & Positioning

Anchor's All Cap Value strategy outperformed the Russell 1000 Value and the Russell 3000 Value Indices in the fourth quarter. The top three factors that contributed to performance were security selection in Financial

Services and Consumer Discretionary, as well as an underweighting in Energy. The largest detractors to performance included security selection in Health Care, Producer Durables, and Technology.

Federated Investors, Inc. Class B (FII) was the largest contributor to performance in the fourth quarter, followed by Procter & Gamble Company (PG), Welltower, Inc. (WELL), Verizon Communications Inc. (VZ), and Lamar Advertising Company Class A (LAMR). The largest detractors included BWX Technologies, Inc. (BWXT), Conduent, Inc. (CNDT), DXC Technology Co. (DXC), NuVasive, Inc. (NUVA), and Apple Inc. (AAPL).

Six names were added to the portfolio during the fourth quarter, BP p.l.c. Sponsored ADR (BP), Pioneer Natural Resources Company (PXD), Lamar Advertising Company Class A (LAMR), Hexcel Corporation (HXL), Huntsman Inc. (HUN), and First American Financial Corporation (FAF). We exited six names during the quarter, Apache Corporation (APA), Hewlett Packard Enterprise Co. (HPE), Hain Celestial Group, Inc. (HAIN), Hartford Financial Services Group, Inc. (HIG), JD.com (JD), and DXC Technology Co. (DXC).

Our goal in the weakness of the fourth quarter was to upgrade the portfolio. We sold low dividend payers and took advantage of weakness to buy some companies with higher yields. Some names of note: Lamar Advertising (LAMR) is a REIT with a current yield of about 5.4%. Lamar has been around since 1902 and is the largest publically traded billboard advertising company. A focus on local markets gives Lamar steady pricing and less advertiser churn.^{vi} British Petroleum (BP) is a global oil/gas company with a very strong focus on supporting their dividend. BP is able to flex their capital spending as oil and gas prices fluctuate, and maintain a solid balance sheet. With a yield over 6%, we are happy owning this name.^{vii} First American Financial (FAF) yields about 3.7% at the current price. FAF is a leader in the Title insurance industry where they enjoy high barriers to entry and a double digit ROE.^{viii} What we like most about the company is that FAF generates stable cash flows and is dedicated to growing its dividend. Huntsman (HUN) is a diversified global chemical company^{ix} whose shares are out of favor due to what we believe are fears of a global manufacturing slowdown. We do not believe the current valuation reflects the fact that the company's mix of businesses and balance sheet have improved since previous economic slowdowns. The company is focused on free cash flow, increasing their dividend, and buying back stock.

ⁱ Factset financial data and analytics; Research systems

ⁱⁱ Compustat, FactSet financial data and analytics, I/B/E/S, and Goldman Sachs Global Investment Research

ⁱⁱⁱ Deutsche Bank, Bloomberg Finance LP, GFD

^{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} Factset financial data and analytics; summary <http://www.lamar.com/>

^{vii} Factset financial data and analytics; summary https://www.bp.com/en_us/bp-us.html?gclid=EAlaIqobChMI-PWVncvc3wlVUMDICh1xgwysEAAYASAAEgIxBwE

^{viii} <http://investors.firstam.com/investors/investor-resources/faqs/default.aspx> Factset financial data and analytics; summary

^{ix} <https://www.huntsman.com/corporate/a/Home>

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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