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 curve[i] 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 1980[ii]. 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 Balanced (Pure Gross)	-6.93%	-3.58%	7.52%
Anchor Balanced (Net)	-7.62%	-6.43%	4.34%
60/30/10 (R1000V/BCIGC/CG90TBIll)	-6.52%	-4.37%	7.81%
Russell 1000 Value	-11.72%	-8.27%	11.18%

Top/Bottom Portfolio Contributors[v]

Security Contribution	Average Weight	Total Return	Contribution to Return
5 Highest			
Procter & Gamble Company	1.22%	11.43%	0.12%
Vanguard Short-Term Corporate Bond ETF	16.62%	0.68%	0.12%
Welltower, Inc.	1.22%	9.28%	0.10%
Federated Investors, Inc. Class B	0.75%	11.26%	0.09%
Verizon Communications Inc.	1.40%	6.45%	0.08%
5 Lowest			
Conduent, Inc.	0.90%	-52.80%	-0.64%
BWX Technologies, Inc.	1.21%	-38.65%	-0.56%
NuVasive, Inc.	1.60%	-30.18%	-0.55%
DXC Technology Co.	0.83%	-45.86%	-0.53%
Occidental Petroleum Corporation	1.83%	-24.43%	-0.51%

Sector Contribution	Average Weight	Total Return	Contribution to Return
3 Highest			
Utilities	3.75%	3.40%	0.09%
Consumer Discretionary	4.07%	-3.59%	-0.14%
Materials & Processing	0.85%	-16.29%	-0.14%
3 Lowest			
Producer Durables	5.28%	-28.01%	-1.67%
Health Care	14.43%	-10.92%	-1.62%
Energy	4.95%	-22.20%	-1.17%

Strategy Review & Positioning

Anchor's Balanced strategy underperformed the 60/30/10 (R1000V/BCIGC/CG90TBIll) Blended Benchmark in the fourth quarter. The top three factors that detracted from outperformance were security selection in

Health Care, security selection in Producer Durables, and security selection in Technology. The largest contributors to performance included security selection in Financial Services, security selection in Consumer Discretionary, and a sector underweight in Energy.

Procter & Gamble Company (PG) was the largest contributor to performance in the fourth quarter, followed by Vanguard Short-Term Corporate Bond ETF (VCSH), Welltower, Inc. (WELL), Federated Investors, Inc. Class B (FII), and Verizon Communications Inc. (VZ). The largest detractors included Conduent, Inc. (CNDT), BWX Technologies, Inc. (BWXT), NuVasive, Inc. (NUVA), DXC Technology Co. (DXC), and Occidental Petroleum Corporation (OXY).

Six names were added to the portfolio during the fourth quarter, First Hawaiian, Inc. (FHB), iShares Short Treasury Bond ETF (SHV), BP p.l.c. Sponsored ADR (BP), Pioneer Natural Resources Company (PXD), First American Financial Corporation (FAF), and Lamar Advertising Company Class A (LAMR). Additionally, we exited six names during the quarter, JD.com, Inc. Sponsored ADR Class A (JD), Apache Corporation (APA), Hewlett Packard Enterprise Co. (HPE), Hain Celestial Group, Inc. (HAIN), Hartford Financial Services Group, Inc. (HIG), and DXC Technology Co (DXC).

We brought down our equity allocation slightly in the quarter. 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] Founded in 1858, First Hawaiian Bank (FHB) has weathered a few business cycles, and pays a current yield over 4%.[vii] British Petroleum (BP) is a global oil/gas company with a 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.[viii] 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.[ix] What we like most about the company is that FAF generates stable cash flows and is dedicated to growing its dividend.

We are not at all surprised that much of the yield curve is now inverted, but the speed in which parts of the curve inverted was, in our opinion, exceptional. Over the past year we have repeatedly questioned the dichotomy that we saw in the yield curve. Namely, we questioned the Federal Reserve's "dot-plot"[x] forecasts vs. the spread between short-term and long-term rates. Our view was that the Fed would stick to their plan as long as they could, but if the yield curve flattened and the Fed did not take the hint, we could have some problems. This uncertainty led us to position the portfolio very conservatively.

We were surprised by the speed of the flattening. In our view, the yield curve can flatten in two ways. The Fed can raise rates while the long-end remains stable or the bond market can flatten the yield curve on its own by rallying the long-end. It looks like, for the fourth quarter at least, the bond market was the winner. The ten-year Treasury yield moved down more than 50 basis points in the quarter. This got the job done. The 10-year Treasury began the quarter near 3.25% and as of 12/31/18 stood at 2.65%. The upper band of the target Fed Funds rate was raised to 2.5%. Which in our view, is not a healthy yield curve. The Treasury curve is now inverted from 1-year (2.60%) to the 7-year (2.54%), and still positive on a 1-yr vs. 10-year basis, but very thin.[xi] Given what we now know, our key takeaway is that the next Fed move is crucial. We believe the hiking cycle must be clearly defined. Rates matter, in our unabashed opinion, it just takes time for the effects to work their way into the economy.

Inflation readings continue to weaken, from our read, and many forward looking economic signals, Institute for Supply Management, (ISM) new orders for example, showed a steep drop in the December report. It is our belief that the Fed is too focused on the absolute level of short-term rates and not the reality that the longer-term growth potential of the U.S. economy is secularly lower. Therefore, in our opinion, the risk of out of control inflation is small. Furthermore, the unwinding of the Fed's balance sheet continues, and we believe the Fed is now at a "neutral rate". This tightening cycle paired with quantitative tightening has had global consequences, in our view. In our experience, it takes some time for higher rates to work their way through the global economy, and as the cost of capital rises, dislocations happen. We do not know when this will all work out, but prudence leads us to maintain our short-duration stance.

Including our cash position, the duration of the total bond portfolio is about 2 years, and the current yield on the bond portfolio is slightly over 3%.

As rates have moved up on the short-end, we conservatively positioned our portfolio, taking advantage of rising rates at the short end of the curve. We added the iShares Short Treasury Bond ETF early in the quarter. This is a short-term portfolio with a .41 year duration and a current yield of 2.3%.[xii]

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[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.fhb.com/en/wealth-management/
[viii] Factset financial data and analytics; summary https://www.bp.com/en_us/bp-us.html?gclid=EAIaIQobChMI-PWVncvc3wIVUMDICh1xgwysEAAYASAAEgIx6fD_BwE
[ix] http://investors.firstam.com/investors/investor-resources/faqs/default.aspx Factset financial data and analytics; summary
[x] The dot plot is published after each Fed meeting. It shows the projections of the 12 members of the Federal Open Market Committee (FOMC), the rate-setting body within the Fed. https://www.thebalance.com/what-is-the-fed-dot-plot-416891
[xi] Factset financial data and analytics: summary
[xii] https://www.ishares.com/us

Balanced Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Balanced (Bal) 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 Balanced sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of equity and fixed income securities.

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 Balanced 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 benchmark indices exclude fees. The Managed Accounts Balanced model returns are 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 benchmark is a static blend of: 60% Russell 1000 Value Index; 30% Barclays Capital U.S. Government/Credit Intermediate Bond Index; 10% Citigroup 90-Day Treasury Bill Index. 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, growing equities are included, and that the represented companies continue to reflect value characteristics. The Barclays Capital U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. Securities have $250 million or more of outstanding face value and must be fixed rate and non-convertible. The Citigroup 90-Day Treasury Bill Index measures the average return of the last three-month U.S. Treasury Bill issues. U.S. Treasury Bills are short-term securities issued by the U.S. government with maturities of up to one year. They are backed by the faith and credit of the U.S. government who guarantees full payment of principal and interest at maturity. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. All benchmark returns include the reinvestment of income.

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