

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 Mid Cap Value (Pure Gross)	-11.85%	-2.64%	11.24%
Anchor Mid Cap Value (Net)	-12.51%	-5.52%	7.95%
Russell Mid Cap Value	-14.95%	-12.29%	13.03%
Russell Mid Cap	-15.37%	-9.06%	14.03%

Top/Bottom Portfolio Contributors^v

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Esterline Technologies Corporation	1.61%	33.53%	0.38%
Dorman Products, Inc.	1.03%	17.03%	0.18%
Welltower, Inc.	0.90%	9.28%	0.07%
Huntsman Corporation	0.11%	5.47%	0.06%
Entergy Corporation	1.02%	7.22%	0.05%
<i>5 Lowest</i>			
Conduent, Inc.	1.90%	-52.80%	-1.32%
NuVasive, Inc.	2.82%	-30.18%	-0.95%
BWX Technologies, Inc.	1.75%	-38.65%	-0.79%
Broadridge Financial Solutions, Inc.	2.39%	-26.69%	-0.73%
Hasbro, Inc.	2.54%	-22.18%	-0.57%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Utilities	5.26%	0.78%	-0.03%
Materials & Processing	1.45%	-1.21%	-0.05%
Consumer Staples	5.48%	-5.80%	-0.31%
<i>3 Lowest</i>			
Financial Services	28.35%	-13.26%	-3.78%
Producer Durables	11.04%	-19.76%	-2.26%
Health Care	10.67%	-17.60%	-1.95%

Strategy Review & Positioning

Anchor's Mid Cap Value strategy outperformed the Russell Mid Cap Value Index in the fourth quarter. The top three factors that contributed to outperformance were security selection in Technology, and Consumer

Discretionary, as well as an underweighting in Energy. The largest detractors to performance included security selection in Financial Services, Health Care, and an underweighting in Utilities.

Esterline Technologies Corporation (ESL) was the largest contributor to performance in the fourth quarter, followed by Dorman Products, Inc. (DORM), Welltower, Inc. (WELL), Huntsman Corporation (HUN), and Entergy Corporation (ETR). The largest detractors included Conduent, Inc. (CNDT), NuVasive, Inc. (NUVA), BWX Technologies, Inc. (BWXT), Broadridge Financial Solutions, Inc. (BR), and Hasbro, Inc. (HAS).

Three names were added to the portfolio during the fourth quarter, Torchmark Corporation (TMK), Hexcel Corporation (HXL), and Huntsman Corporation (HUN). Additionally, we exited three names during the quarter, Hain Celestial Group, Inc. (HAIN), Invesco Ltd. (IVZ), and Apache Corporation (APA).

Torchmark is a life insurance company with a long history of growing its tangible book value per share^{vi} and we believe that it has a competitive advantage selling its products to the middle class consumer in the U.S. In our opinion, the company has a long growth runway in front of it. Hexcel is manufacturer that supplies aerospace and other companies with high strength lightweight materials for a variety of mission critical uses such as airplane wings. We like the company's history of consistent growth and presence with large aircraft manufacturers.^{vii} Huntsman is a diversified global chemical company^{viii} 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.

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; Research systems

^{vii} <https://www.hexcel.com/>

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

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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