

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 Small-Mid Cap Value (Pure Gross)	-13.57%	-7.79%	13.09%
Anchor Small-Mid Cap Value (Net)	-14.22%	-10.51%	9.74%
Russell 2500 Value	-17.12%	-12.36%	11.62%
Russell 2500	-18.49%	-10.00%	13.15%

Top/Bottom Portfolio Contributors^v

Security Contribution	Average Weight	Total Return	Contribution to Return
<i>5 Highest</i>			
Esterline Technologies Corporation	2.88%	33.53%	0.67%
Imperva, Inc.	0.17%	19.03%	0.21%
Nutrisystem, Inc.	1.10%	19.23%	0.20%
Willis Towers Watson Public Limited Company	1.02%	11.42%	0.15%
Tech Data Corporation	0.75%	5.83%	0.09%
<i>5 Lowest</i>			
Cavco Industries, Inc.	3.33%	-48.47%	-2.01%
Conduent, Inc.	1.67%	-52.80%	-1.13%
NuVasive, Inc.	2.31%	-30.18%	-0.78%
Barnes Group Inc.	2.21%	-24.30%	-0.58%
SkyWest, Inc	2.28%	-24.33%	-0.57%

Sector Contribution	Average Weight	Total Return	Contribution to Return
<i>3 Highest</i>			
Utilities	4.69%	2.77%	0.03%
Consumer Staples	2.40%	-10.60%	-0.24%
Health Care	3.80%	-19.69%	-0.79%
<i>3 Lowest</i>			
Producer Durables	26.62%	-15.19%	-4.03%
Consumer Discretionary	16.25%	-17.86%	-2.92%
Financial Services	19.95%	-9.10%	-1.84%

Strategy Review & Positioning

Anchor's Small-Mid Cap Value strategy outperformed the Russell 2500 Value Index in the fourth quarter. The top three factors that contributed to outperformance were security selection in Producer Durables, and

Financial Services, as well as an underweighting in Energy. The largest detractors to performance included an underweighting in Utilities and Financial Services, as well as an overweighting in Producer durables.

Esterline Technologies Corporation (ESL) was the largest contributor to performance in the fourth quarter, followed by Imperva, Inc. (IMPV), Nutrisystem, Inc. (NTRI), Willis Towers Watson Public Limited Company (WLTW), and Tech Data Corporation (TECD). The largest detractors included Cavco Industries, Inc. (CVCO), Conduent, Inc. (CNDT), NuVasive, Inc. (NUVA), Barnes Group Inc. (B), and SkyWest, Inc (SKYW).

Eight names were added to the portfolio during the fourth quarter, Carbonite, Inc. (CARB), National Storage Affiliates Trust (NSA), ICF International, Inc. (ICFI), NV5 Global Inc (NVEE), BWX Technologies, Inc. (BWX), Torchmark Corporation (TMK), Hexcel Corporation (HXL), and Construction Partners, Inc. Class A (ROAD). We exited six names during the quarter Imperva, Inc. (IMPV), Tech Data Corporation (TECD), Hain Celestial Group, Inc. (HAIN), Willis Towers Watson Public Limited Company (WLTW), Hub Group, Inc. Class A (HUBG), and Invesco Ltd. (IVZ).

In the fourth quarter, we witnessed a significant turn in the market from the beginning of the year, and this resulted in the worse returning year for smaller cap companies since 2008.^{vi} However, the market pullback and volatility during the quarter allowed us to purchase a number of companies, which we had been monitoring for more attractive entry points. Additionally, we were pleased to see three take-outs of portfolio companies during the quarter: Esterline Technologies, Imperva, Inc., and Nutrisystem, Inc.

Following strong earnings growth in 2018, we are closely monitoring signs for earnings weakness going forward. We expect volatility to continue and 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.

ⁱ FactSet financial data and analytics; Research systems

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

^m Deutsche Bank, Bloomberg Finance LP, GFD

ⁿ 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} Steven G. DeSanctis, CFA, "JEF's SMID-Cap Performance Scorecard: Painting 2018 with Nothing but Red", Jefferies Research, January 1, 2019.

Small-Mid Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Small-Mid Cap Value (SMID) model was created on 09/30/16. 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-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 small-mid cap value stocks.

MODEL DISCLOSURES: The results prior to 12/31/2016 presented herein represent those of the Anchor Capital Institutional and Private Client Investment Management Division. The results from 12/31/03 through 9/30/2016 for the Institutional and Private Client Investment Management Small-Mid Cap strategy were published in the product presentation. 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-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 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 2500 Value Index excludes fees. The Managed Accounts Small-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: 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 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2500 Value Index is constructed to provide a comprehensive and unbiased barometer of the small to mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set and that the represented companies continue to reflect value characteristics. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe, commonly referred to as "SMID" cap. The Russell 2500 is a subset of the Russell 3000® Index. It includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2500 Index is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.

The performance results presented herein represent those of the Anchor Capital Institutional and Private Client Investment Management Division Small-Mid Cap Value Strategy. The Managed Accounts strategy will be managed in tandem with the Institutional and Private Client Investment Management Division strategy.

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

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