

### Outlook/Review

The first quarter was a strong one for equities in the US, with major indices rebounding and recouping much of the declines suffered in December. We do not believe that the severity of the declines in December were driven by fundamentals, but rather by technical factors, including quantitative trading and also tax loss selling by investors. The economy in the US remains fundamentally healthy, with low unemployment and generally robust levels of GDP growth and business activity<sup>i</sup>. There are areas of concern that have arisen, however, and we will be watching them for cues to increase our level of caution<sup>ii</sup>. These factors include a partially inverted yield curve in the US (often an early harbinger of recession), and sharp slowdowns in the economies of China and Germany<sup>iii</sup>. While the US economy remains relatively strong in our opinion, the Fed has taken note of slowing in other economies and has paused rate hikes for the time being. We believe that this policy is supportive of equities for the near future.

### Managed Accounts Model Performance<sup>iv</sup>

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

| Strategy Performance                    | 1Q19  | YTD   | 10 Year Annualized |
|---|-------|-------|--------------------|
| Anchor Small-Mid Cap Value (Pure Gross) | 12.16 | 12.16 | 16.00              |
| Anchor Small-Mid Cap Value (Net)        | 11.32 | 11.32 | 12.57              |
| Russell 2500 Value                      | 13.12 | 13.12 | 15.03              |
| Russell 2500                            | 15.82 | 15.82 | 16.23              |

### Top/Bottom Portfolio Contributors<sup>v</sup>

| Security Contribution           | Average Weight | Total Return | Contribution to Return |
|---------------------------------|----------------|--------------|------------------------|
| <i>5 Highest</i>                |                |              |                        |
| Woodward, Inc.                  | 2.37           | 27.95        | 0.61                   |
| Ubiquiti Networks, Inc.         | 1.34           | 50.88        | 0.57                   |
| Rogers Corporation              | 1.35           | 37.73        | 0.53                   |
| DENTSPLY SIRONA, Inc.           | 1.76           | 33.51        | 0.52                   |
| UFP Technologies, Inc.          | 2.20           | 24.50        | 0.51                   |
| <i>5 Lowest</i>                 |                |              |                        |
| Healthcare Services Group, Inc. | 1.81           | -17.49       | -0.29                  |
| AAR CORP.                       | 1.79           | -12.76       | -0.23                  |
| Casa Systems, Inc.              | 0.54           | -11.04       | -0.19                  |
| Helen of Troy Limited           | 1.29           | -11.60       | -0.17                  |
| Gentherm Incorporated           | 1.27           | -7.80        | -0.08                  |

| Sector Contribution    | Average Weight | Total Return | Contribution to Return |
|------------------------|----------------|--------------|------------------------|
| <i>3 Highest</i>       |                |              |                        |
| Producer Durables      | 26.90          | 11.53        | 3.12                   |
| Technology             | 13.64          | 24.77        | 3.11                   |
| Financial Services     | 19.76          | 8.43         | 1.80                   |
| <i>3 Lowest</i>        |                |              |                        |
| Consumer Staples       | 1.95           | 11.77        | 0.22                   |
| Consumer Discretionary | 12.27          | 0.84         | 0.47                   |
| Energy                 | 4.00           | 23.22        | 0.59                   |

### Strategy Review & Positioning

Anchor's Small-Mid Cap Value strategy underperformed the Russell 2500 Value Index in the fourth quarter. The top three factors that contributed to performance were security selection in Technology, security selection in Utilities and security selection in Materials and Processing. The largest detractors to performance included security selection in Consumer Discretionary, security selection in Producer Durables and security selection in Financial Services.

Woodward, Inc. (WWD) was the largest contributor to performance in the fourth quarter, followed by Ubiquiti Networks, Inc. (UBNT), Rogers Corporation (ROG), DENTSPLY SIRONA, Inc. (XRAY) and UFP Technologies, Inc. (UFPT). The largest detractors included Healthcare Services Group, Inc. (HCSG), AAR Corp. (AIR), Casa Systems, Inc. (CASA), Helen of Troy Limited (HELE) and Gentherm Incorporated (THRM).

Five names were added to the portfolio during the fourth quarter, Huntsman Inc. (HUN), Booz Allen Hamilton (BAH), Rogers Corporation (ROG), PDC Energy, Inc. (PDCE), and Magnolia Oil & Gas Corp (MGY). Additionally, we exited five names during the quarter, Nutrisystem Inc. (NTRI), Alaska Air Group Inc. (ALK), Esterline Technologies, Casa Systems Inc. (CASA), and Cinemark Holdings (CNK).

Booz Allen Hamilton engages in management and technology consulting services by offering analytics, digital solutions, engineering, and cyber expertise<sup>vi</sup>. We believe it has sales and margin expansion potential and offers a relatively defensive business model. Huntsman Corporation manufactures chemicals for a diverse group of industries<sup>vii</sup>. We believe it has been moving away from a commodity chemicals business to a specialty chemicals business and expect it to grow revenue faster than GDP. Rogers Corporation engages in the design and development of engineered materials and components for a wide variety of industries<sup>viii</sup>. We believe that the market is not fully valuing the company given its dominant market share, the benefits of the 5G roll out, and the secular growth trends in its core segments. PDC Energy, Inc. is an E&P operating in Colorado and in Texas<sup>ix</sup>. We believe PDCE offers visible growth within cash flow, a strong balance sheet, and an attractive valuation. Similarly Magnolia Oil & Gas is an E&P with operations in Texas<sup>x</sup>. We believe it offers a strong balance sheet, a cash flow and returns-focused strategy, a quality management team, and reasonable production growth that the market should reward.

Smaller cap stocks rebounded in the first quarter following declines in the previous quarter. Although we believe the US economy to be healthy and valuations reasonable, we are closely monitoring signs for earnings weakness and revisions going forward. We expect market volatility to continue and are prepared to invest should the opportunity arise. As usual, high credit quality, self-funding, sustainable business models, and valuation remain of utmost importance.

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<sup>i</sup> U.S. Department of Commerce; <https://www.usa.gov/federal-agencies/u-s-department-of-commerce>

<sup>ii</sup> FactSet financial data and analytics; Business Description

<sup>iii</sup> U.S. Federal Reserve; <https://www.federalreserve.gov/>

<sup>iv</sup> StyleAdvisor. Gross of fee returns are presented Pure Gross and are calculated before management fees, custodial fees and transaction costs.

<sup>v</sup> Factset financial data and analytics; Attribution reporting

<sup>v</sup> FactSet financial data and analytics; Research systems

<sup>vi</sup> FactSet financial data and analytics; Research systems

<sup>vii</sup> FactSet financial data and analytics; Research systems

<sup>viii</sup> FactSet financial data and analytics; Research systems

<sup>ix</sup> FactSet financial data and analytics; Research systems

<sup>x</sup> FactSet financial data and analytics; Research systems

#### *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

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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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