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.

Strategy Review & Positioning

Anchor's All Cap Value strategy was in line with the Russell 1000 Value and outperformed the Russell 3000 Value 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.[iv] 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.[v] 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.[vi] 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[vii] 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] Factset financial data and analytics; summary   http://www.lamar.com/
[v] Factset financial data and analytics; summary   https://www.bp.com/en_us/bp-us.html?gclid=EAIaIQobChMI-PWVncvc3wIVUMDICh1xgwysEAAYASAAEgIx6fD_BwE
[vi] http://investors.firstam.com/investors/investor-resources/faqs/default.aspx   Factset financial data and analytics; summary
[vii] https://www.huntsman.com/corporate/a/Home

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