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 Founders Value strategy was approximately in line with the Russell 2500 Value Index in the fourth quarter. The largest detractors to performance included security selection in Consumer Staples and Technology as well as an underweighting in Financial Services. The top three factors that contributed to performance were security selection in Consumer Discretionary as well as an overweighting in Consumer Staples and Technology.

Dorman Products, Inc. (DORM) was the largest contributor to performance in the fourth quarter, followed by Construction Partners, Inc. Class A (ROAD), SPDR S&P 500 ETF Trust (SPY), Ebix, Inc. (EBIX), and Ubiquiti Networks, Inc. (UBNT). The largest detractors included National Beverage Corp. (FIZZ), Momo Inc Sponsored ADR Class A (MOMO), Opera Ltd. Sponsored ADR (OPRA), YY, Inc. Sponsored ADR Class A (YY), and Secoo Holding Limited Sponsored ADR Class A (SECO).

Three names were added in the fourth quarter, NV5 Global Inc (NVEE), Ebix, Inc. (EBIX) and Construction Partners, Inc. Class A (ROAD) and one name, Fairfax Financial Holdings Limited (FRFHF) was sold.

NV5 Global Inc is an acquisitive construction engineering firm that provides project management and permitting services to commercial builders.[iv] Ebix, Inc. is a well-established financial processing business serving both insurance clients in the U.S. as well as transaction processing clients in India.[v] Construction Partners, Inc. recently went public and the share price declined,[vi] but we believe the reasons for the decline are not warranted, as we believe the company is less cyclical than it is believed to be. We see significant medium to long-term growth for all three of these names, and believe current valuations are attractive.

Anchor's Founders Value strategy was incepted January 1 of 2017 to offer investors what we consider to be a highly concentrated, high active share[vii] strategy, which invests in small and mid-sized capitalization founder-led businesses, with meaningful inside ownership. We believe that by combining these attributes, we maximize the likelihood of better than benchmark returns over time, while minimizing risks. The strategy currently owns 16 stocks in target position sizes ranging from 5% to 10%. The strategy invests in companies from all over the world, as long as the shares are listed in the U.S. The goal of the strategy is to own companies for multi-year periods, encouraging a compounding effect through sustained growth and low portfolio turnover. Due to the concentrated nature of the portfolio, short-term volatility can be higher than in less concentrated strategies, however, due to the less financially levered nature of many of the holdings, we expect the risk of permanent loss to be low.

---

[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] https://www.nv5.com/
[v] https://www.ebix.com/
[vi] Factset financial data and analytics; research systems
[vii] Active share: Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. The researchers conclude managers with high Active Share outperform their benchmark indexes and Active Share significantly predicts fund performance.

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