

**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<sup>i</sup> 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<sup>ii</sup>. In fact, few stocks and few asset classes were unscathed through December 20<sup>th</sup>, with 93% of global asset classes registering a negative total return (in USD terms)<sup>iii</sup>. 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 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<sup>iv</sup> 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.<sup>v</sup> Huntsman is a diversified global chemical company<sup>vi</sup> 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.

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<sup>i</sup> Factset financial data and analytics; Research systems

<sup>ii</sup> Compustat, FactSet financial data and analytics, I/B/E/S, and Goldman Sachs Global Investment Research

<sup>iii</sup> Deutsche Bank, Bloomberg Finance LP, GFD

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

<sup>v</sup> <https://www.hexcel.com/>

<sup>vi</sup> <https://www.huntsman.com/corporate/a/Home>

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

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