**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 Small Cap Value strategy outperformed the Russell 2000 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 security selection in Consumer Discretionary as well as an underweighting in Financial Services and Utilities.

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

Five 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), and Construction Partners, Inc. Class A (ROAD). We exited three names during the quarter, Tech Data Corporation (TECD), and Willis Towers Watson Public Limited Company (WLTW), and Imperva, Inc. (IMPV).

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 small cap companies since 2008.[iv] 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.

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