

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 activityⁱ. There are areas of concern that have arisen, however, and we will be watching them for cues to increase our level of cautionⁱⁱ. 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 Germanyⁱⁱⁱ. 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.

Strategy Review & Positioning

Anchor's All Cap Value strategy outperformed the Russell 1000 Value and the Russell 3000 Value Indices in the first quarter. The top three factors that contributed to performance were security selection in Producer Durables, a sector overweight in Producer Durables, and security selection in Financial Services. The largest detractors from performance were security selection in Energy, a sector underweight in Energy, and a sector overweight in Health Care.

PayPal Holdings (PYPL) was the largest contributor to performance in the first quarter, followed by Baxter International Inc. (BAX), Booz Allen Hamilton Holding Corporation Class A (BAH), BWX Technologies (BWXT), and Analog Devices, Inc. (ADI). The largest detractors included Biogen Inc. (BIIB), Amdocs Limited (DOX), Pfizer Inc. (PFE), Berkshire Hathaway Inc. Class B (BRK.B), and SunTrust Banks, Inc. (STI).

Four names were added to the portfolio during the first quarter: TE Connectivity (TE), Amdocs (DOX), SunTrust Banks, Inc. (STI) and CDK Global (CDK). We exited four names during the quarter: Wells Fargo & Co. (WFC), Welltower Inc. (WELL), Sabra Healthcare (SBRA) and United Parcel Service (UPS).

We used strength to sell names where we thought their ability to raise dividends was impaired and reinvested the proceeds into better valuations and outlooks. Our pool of investable name continues to grow. Notable purchases in the quarter include TE Connectivity (TEL), a global leader in connectivity and sensor solutions for the transportation, industrial and communication sectors. In our opinion, TE Connectivity continues to outpace the broader market as connector and sensor content per vehicle or device increases.

We believe that Amdocs (DOX) has a niche in providing software and service solutions to the communications and media markets. In our estimation, the company has no debt, generates good amounts of cash, and is dedicated to growing the dividend. From our read, we were able to buy the stock at the cheapest valuation it has traded at in five years. Our timing in purchasing SunTrust (STI) was fortuitous, as the company received a takeover bid from BB&T Bank soon after our purchase. We own BB&T, and we believe the two banks together makes for a more solid investment. CDK Global is the market leader in providing integrated information technology to the automotive retail industry^{iv}. We believe the technology edge that CDK provides is a competitive advantage to its customer base, and the opportunity for CDK to add new products and take market share is only increasing. A.O. Smith is a global manufacturer of residential and commercial water heating equipment and purification products^v. We believe that the market is not assigning a fair value to the business considering the company's dominant share in water heaters, growth trends in China and India, water and air purification opportunity, and the management's disciplined capital allocation.

¹ U.S. Department of Commerce; <https://www.usa.gov/federal-agencies/u-s-department-of-commerce>

² FactSet financial data and analytics; Business Description

³ U.S. Federal Reserve; <https://www.federalreserve.gov/>

⁴ <https://www.cdkglobal.com/us>

⁵ <https://www.aosmith.com/>

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

The views expressed are those of Anchor Capital Advisors, LLC ("Anchor") as of the date written and are subject to change at any time. Anchor does not undertake any obligation to update the information contained herein as of any future date, nor does it have liability for decisions based on this information. Certain information (including any forward-looking statements and economic and market information) has been obtained from sources we deem reliable, but is not guaranteed by Anchor, nor is it a complete summary of available data. The information is for educational purposes only and should not be considered investment advice or a recommendation of any particular strategy or investment product. These opinions are not intended to be a forecast of future events or a guarantee of future results. No part of this document may be reproduced in any form, or referred to in any other publication, without express written permission of Anchor. Past performance is not guarantee of future results. Inherent in any investment is the possibility of loss. The benchmark returns include in reinvestment of income. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Quarterly 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. A complete list of each security that contributed to performance is available upon request.