

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 Dividend Income Value strategy slightly underperformed the Russell 1000 Value Index in the first quarter. The top three factors that contributed to performance were security selection in Financial Services, security selection in Technology, and a sector underweight in Utilities. The largest detractors from performance were security selection in Health Care, security selection in Energy, and security selection in Consumer Staples.

Cisco Systems, Inc. (CSCO) was the largest contributor to performance in the first quarter, followed by OUTFRONT Media Inc. (OUT), STORE Capital Corporation (STOR), Analog Devices, Inc. (ADI), and SunTrust Banks, Inc. (STI). The largest detractors from performance were Regions Financial Corporation (RF), Pfizer Inc. (PFE), RPM International Inc. (RPM), Medtronic plc (MDT), and Watsco, Inc. (WSO).

Four names were added to the portfolio during the first quarter: Hubbell Inc. Class B. (HUBB), A.O. Smith (AOS), Regions Financial (RF), and Watsco (WSO). Additionally, we exited four names during the quarter: Welltower Inc. (WELL), Suntrust Banks Inc. (STI), Boeing Co. (BA), and Sabra Health Care (SBRA).

Hubbell, Inc. engages in the design, manufacturing, and sale of electrical and electronic products for a broad range of industries^{iv}. We believe that the market is not assigning a fair value to the business considering the company's end markets growth, strong acquisition history, free cash flow generation, and above market dividend. AO Smith manufactures residential and commercial water heating equipment and air 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. Regions Financial is a full service bank based in Birmingham, AL that has strong market share in the Southeast Region^{vi}. We like the strong credit quality, the above average dividend yield, and the attractive valuation. Watsco engaged in the distribution of air conditioning, heating, and refrigeration equipment^{vii}. We like the founding family management team, the company's history of strong execution, the long growth runway, and the high dividend yield.^{viii}

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

ⁱⁱ FactSet financial data and analytics; Business Description

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

^{iv} Factset financial data and analytics; business description

^v Factset financial data and analytics; business description

^{vi} Factset financial data and analytics; business description

^{vii} Factset financial data and analytics; business description

^{viii} Factset financial data and analytics; business description

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

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As of 4/1/19 Select Dividend Value was renamed to Dividend Income Value to better reflect the objectives of the strategy