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 activity[i]. There are areas of concern that have arisen, however, and we will be watching them for cues to increase our level of caution[ii]. 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 Germany[iii]. 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 Mid Cap Value strategy outperformed the Russell Mid Cap Value Index in the first quarter. The top three factors that contributed to performance were security selection in Technology, security selection in Producer Durables, and a sector underweight in Utilities. The largest detractors from performance were security selection in Financial Services, security selection in Consumer Discretionary, and a sector underweight in Energy.

Ubiquiti Networks, Inc. (UBNT) was the largest contributor to performance in the first quarter, followed by EPAM Systems, Inc. (EPAM), Ulta Beauty Inc. (ULTA), Woodward Inc. (WWD) and Booz Allen Hamilton Holding Corporation Class A (BAH). The largest detractors from performance were Helen of Troy Limited (HELE), Amdocs Limited (DOX), Markel Corporation (MKL), Alleghany Corporation (Y), and First Hawaiian, Inc. (FHB).

Four names were added to the portfolio during the first quarter: Hubbell Inc. Class B. (HUBB), A.O. Smith (AOS), First Hawaiian Inc. (FHB), and PDC Energy (PDCE). Additionally, we exited three names during the quarter: Welltower Inc. (WELL), National Fuel Gas Co. (NFG), 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. First Hawaiian, Inc. is a full service bank headquartered in Hawaii, ranked number #1 in deposit share with 37% market share in the state.[v] We like the company's market share leadership, the moat of local banks on the island, the history of industry leading metrics on credit, and the above average dividend yield. AO Smith manufactures residential and commercial water heating equipment and air purification products[vi].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. PDC Energy, Inc. is an exploration and production company with operations in the Wattenberg Field in Colorado and the Delaware Basin in Texas[vii]. We believe PDC Energy as it offers visible growth, a good balance sheet, and a relatively attractive valuation.

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[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; Company Description

[vi]FactSet financial data and analytics; Business Description

[vii]FactSet financial data and analytics; Business Description

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