

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 Small Cap Value strategy underperformed the Russell 2000 Value Index in the first quarter. The top three factors that contributed to performance were security selection in Utilities, security selection in Technology, and a sector underweight in Financial Services. The largest detractors from performance were security selection in Consumer Discretionary, security selection in Financial Services, and a sector overweight in Producer Durables.

SkyWest Inc. (SKYW) was the largest contributor to performance in the first quarter, followed by Woodward, Inc. (WWD), Rogers Corporation (ROG), Perficient, Inc. (PRFT), and UFP Technologies, Inc. (UFPT). The largest detractors from performance were Healthcare Services Group, Inc. (HCSG), AAR CORP. (AIR), Casa Systems, Inc. (CASA), Columbia Banking System, Inc. (COLB) and Helen of Troy Limited (HELE).

Four names were added to the portfolio during the first quarter: BWX Technologies Inc. (BWXT), Rogers Corporation (ROG), PDC Energy, Inc. (PDCE), and Magnolia Oil & Gas Corp (MGY). Additionally, we exited five names during the quarter: Nutrisystem Inc. (NTRI), Alaska Air Group Inc. (ALK), Hub Group (HUBG), Esterline Technologies, and Casa Systems Inc. (CASA).

BWX Technologies Inc. supplies nuclear components and products^{iv}. We purchased it following a decline in the price after a weaker than expected near term guide. Long term expectations remained intact. We believe that the business model provides stable, visible revenue and earnings and used the pullback to buy a high quality business. Rogers Corporation engages in the design and development of engineered materials and components for a wide variety of industries^v. We believe that the market is not fully valuing the company given its dominant market share, the benefits of the 5G roll out, and the secular growth trends in its core segments. PDC Energy, Inc. is an E&P operating in Colorado and in Texas^{vi}. We believe PDCE offers visible growth within cash flow, a strong balance sheet, and an attractive valuation. Similarly Magnolia Oil & Gas is an E&P with operations in Texas^{vii}. We believe it offers a strong balance sheet, a cash flow and returns-focused strategy, a quality management team, and reasonable production growth that the market should reward.

Small cap stocks rebounded in the first quarter following declines in the previous quarter. Although we believe the US economy to be healthy and valuations reasonable, we are closely monitoring signs for earnings weakness and revisions going forward. We expect market volatility to continue and are prepared to invest 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 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; Research systems
 - vi FactSet financial data and analytics; Research systems
 - vii FactSet financial data and analytics; Research systems

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

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