

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-Mid Cap Value strategy underperformed the Russell 2500 Value Index in the first quarter. The top three factors that contributed to performance were security selection in Technology, a sector overweight in Technology, and a sector overweight in Producer Durables. The largest detractors from performance were security selection in Consumer Discretionary, security selection in Producer Durables, and security selection in Financial Services.

Woodward, Inc. (WWD) was the largest contributor to performance in the first quarter, followed by Rogers Corporation (ROG), UFP Technologies, Inc. (UFPT), Ubiquiti Networks, Inc. (UBNT), and DENTSPLY SIRONA, Inc. (XRAY). The largest detractors from performance were Healthcare Services Group, Inc. (HCSG), AAR Corp. (AIR), Helen of Troy Limited (HELE), Casa Systems, Inc. (CASA), and Gentherm Incorporated (THRM).

Five names were added to the portfolio during the first quarter: Huntsman Inc. (HUN), Booz Allen Hamilton (BAH), 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), Esterline Technologies, Casa Systems Inc. (CASA), and Cinemark Holdings (CNK).

Booz Allen Hamilton engages in management and technology consulting services by offering analytics, digital solutions, engineering, and cyber expertise^{iv}. We believe it has sales and margin expansion potential and offers a relatively defensive business model. Huntsman Corporation manufactures chemicals for a diverse group of industries^v. We believe it has been moving away from a commodity chemicals business to a specialty chemicals business and expect it to grow revenue faster than GDP. Rogers Corporation engages in the design and development of engineered materials and components for a wide variety of industries^{vi}. 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^{vii}. 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^{viii}. 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.

Smaller 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.

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; Research systems

^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.

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.