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 Founders Value strategy outperformed the Russell 2500 Value Index in the first quarter. The top three factors that contributed to performance were security selection in Technology, an overweighting in Producer Durables and an underweighting in Financial Services. The top three detractors from performance were security selection in Consumer Staples, Materials & Processing and Consumer Discretionary.

Ubiquiti Networks, Inc. (UBNT) was the largest contributor to performance in the first quarter, followed by Momo Inc Sponsored ADR Class A (MOMO), EPAM Systems, Inc. (EPAM), YY, Inc. Sponsored ADR Class A (YY) and Construction Partners, Inc. Class A (ROAD). The largest detractors included Casa Systems, Inc. (CASA), National Beverage Corp (FIZZ), Chase Corporation (CCF), NV5 Global Inc (NVEE) and Secoo Holdings Limited Sponsored ADR Class A (SECO).

We exited two names this quarter, Markel (MKL) and Casa Systems Inc (Casa).

Anchor's Founders Value strategy was incepted January 1 of 2017 to offer investors what we consider to be a highly concentrated, high active share[iv] strategy, which invests in small and mid-sized capitalization founder-led businesses, with meaningful inside ownership. We believe that by combining these attributes, we maximize the likelihood of better than benchmark returns over time, while minimizing risks. The strategy currently owns 16 stocks in target position sizes ranging from 5% to 10%. The strategy invests in companies from all over the world, as long as the shares are listed in the U.S. The goal of the strategy is to own companies for multi-year periods, encouraging a compounding effect through sustained growth and low portfolio turnover. Due to the concentrated nature of the portfolio, short-term volatility can be higher than in less concentrated strategies, however, due to the less financially levered nature of many of the holdings, we expect the risk of permanent loss to be low.

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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] Active share: Active Share is a measure of the percentage of stock holdings in a manager's portfolio that differs from the benchmark index. The researchers conclude managers with high Active Share outperform their benchmark indexes and Active Share significantly predicts fund performance.

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