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Overview

During the quarter the U.S. markets continued an upward trend that began last November when the Federal Reserve indicated that it would start cutting the Fed Funds rate in 2024.[i] This accommodative policy has, in part, helped drive global growth and in turn propelled markets to new highs. We now see cash coming off the sidelines into equities and the newly launched Bitcoin ETFs.[ii]

In our opinion, two themes impacting the markets are the push into artificial intelligence (AI), and accelerated computing. We believe we are in the first inning of the AI transformation that will support higher growth rates in the semiconductor industry. Nvidia, the leader in the space has seen exponential growth over the last few years as a result. On their recent earnings call Nvidia made the following comments about AI.[iii]

"The computer industry is making two simultaneous platform shifts at the same time. The trillion-dollar installed base of data centers is transitioning from general purpose to accelerated computing. Every data center will be accelerated so the world can keep up with the computing demand, with increasing throughput, while managing costs and energy."

Accelerated computing in turn enables the second transition to "a whole new computing paradigm, generative AI, where software can learn, understand and generate any information from human language…".

"These two trends will drive a doubling of the world's data infrastructure installed based in the next five years and will represent an annual market opportunity in the hundreds of billions."

In its simplest form, AI takes large amounts of data or language and processes it quickly. It can be used in a variety of fields including medicine, financial services, customer service, and warehouse automation to improve the productivity of decision making and action. To support AI, a new and expensive infrastructure needs to be established. Everything from computers, semiconductors, servers, storage, data centers, electricity and supporting equipment, plus the know-how in areas of consulting and other engineering fields will increasingly be needed. The total addressable market for AI is conservatively estimated to be approximately $2.1 trillion.[iv] As the pie gets bigger there will be increased opportunities for many different companies to participate. While Nvidia has the head start in the core processing of AI, there are several ways for others to meaningfully participate.

Another action of note we are watching is the improvement in the Purchasing Manager's Index (PMI). In 2022 due to supply chain constraints many manufacturers over produced and many companies over bought to make sure that inventory was on-hand and available. Subsequently, a severe de-stocking happened, and manufacturing activity slowed down. Starting late last year manufacturing started to pick up to meet the need of companies restocking inventory. As a result, we are seeing increased demand for oil, copper, and other commodities as inputs into the manufacturing process. Lastly, infrastructure spending has ramped up supported by government subsidized programs.

U.S. Equity Markets

The U.S. equity markets were positive for the first quarter.[v] Large cap stocks continued to outperform in the first quarter outpacing both mid and small cap stocks.[vi] The chart of the S&P 500 has gone parabolic in the last two years driven by the run up in mega cap technology stocks. Almost the entire return of the S&P 500 has been generated by the top 10 stocks in the benchmark. As a result, the valuation of the top 10 stocks is nearly at a record level, while the remaining benchmark holdings have valuations that are relatively tame. In fact, the Financial Times reported that US small cap stocks have suffered their worst run of performance relative to large cap in more than 20 years, highlighting the degree to which investors have chased mega cap technology stocks.[vii] Small cap stocks have lagged large cap stocks for the majority of the time since 2016. For the most part small cap has traded at a multiple close to the S&P 500, however it is now trading at a near-record discount. This is reminiscent of what was seen in 1999 and 2000 - after which small cap stocks had strong performance for a decade.

Growth outperformed value for the quarter with communication services and technology leading the way. Large investment into and around AI has been driving some traditional growth sectors. Energy and financials, both value sectors, were also top performers for the quarter. Oil prices moved from $71/barrel in December 2023 to over $81/barrel in March.[viii] Longer dated bond interest rates increased and the financial sectors benefitted. That same interest rate move impacted the bond proxy sectors such as Utilities and REITs, which were the worst performing sectors for the quarter.

U.S. Fixed Income

The U.S. fixed income market had mixed performance over the quarter. Longer dated interest rates have been fluctuating. In general interest rates have trended higher since the beginning of the year with the 10-year Treasury yield settling around 4.2%, up from 3.9% in December 2023.[ix] The S&P U.S. Aggregate Bond Index is down year-to-date 1.63% with longer dated Treasury bonds down more than 5%.[x] There are parts of the bond market that are positive given the higher coupons, such as leveraged loans and high yield. If credit quality holds up, these bonds should perform well.

In previous commentaries we mentioned concern over the debt maturity wall coming due. Given the amount of capital available, many companies have been refinancing their debt at a rapid pace to extend maturities and avoid any near-term issues.[xi] While higher interest rates may be a problem for these companies at some point, they have been able to avoid major catastrophe and any big blow ups for now.

Inflation / Interest Rates/Fed Reserve / U.S. Economy

Many have been monitoring closely when the Federal Reserve will decide to cut interest rates. At the last Federal Reserve meeting, the committee kept the Fed Funds rate unchanged at the 5.25% to 5.50% range. However, Chairman Powell indicated that the committee is still targeting three 25 basis point interest rate cuts in 2024.[xii] The driving force behind the Fed's actions has been the combination of a resilient economy and sticky inflation. The latest inflation numbers for February show the Consumer Price Index (CPI) increased by 3.2% and Personal Consumption Expenditures (PCE), which is a different way of measuring inflation, increased by 2.8%.[xiii] Both wages and rents continue to increase. These inflation levels are above the 2% level targeted by the Fed.[xiv] The Fed is in an interesting position - they worry about cutting interest rates too soon and having inflation increase again while simultaneously worrying about cutting too late and pushing the economy into a recession. We believe that the Fed will be forced to cut interest rates to support the lower-end consumer. The lower-end consumer tends to borrow the most and whom higher interest rates are having the largest impact. Also, the government has a record level of debt and interest costs have ballooned as interest rates have remained higher.

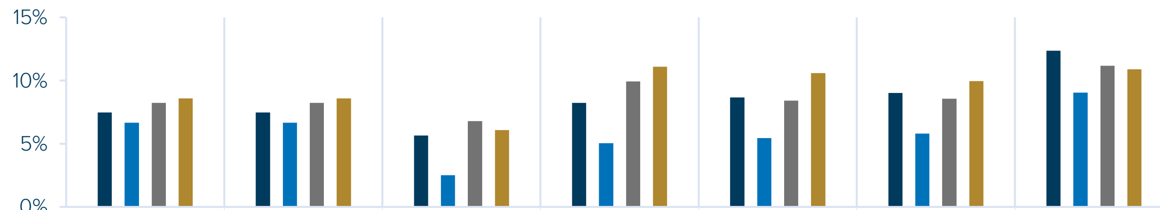
The U.S. economy has been holding up reasonably well. Fourth quarter GDP grew at 3.2%[xv], unemployment remained low at 3.9%[xvi], retail sales remain positive[xvii] and the Purchasing Managers Index (PMI)[xviii], which measures manufacturing activity, is now in expansion mode. We are also hearing from retailers on earnings calls that the lower-end consumer is focused on essential goods like groceries and health care and not spending on discretionary items.

Housing data remains soft, and inventory remains low. New and existing home sales continue to be lower than average because of higher mortgage rates and the unwillingness of sellers to move.[xix] New York Times reported that there is a shortage of approximately 4 million homes in the U.S.[xx]

Performance Overview

The Anchor Mid Cap Value Portfolio returned 7.48% (gross of fees) and 6.66% (net of fees) during the quarter, underperforming the Russell Mid Cap Value Index, which returned 8.23%. On a relative basis, the Portfolio benefited the most from security selection in Industrials, Consumer Staples and Health Care. Security selection in Financials, Technology and Utilities were the greatest detractors from relative performance.[xxi] [xxii]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor Mid Cap Value (Gross)	7.48%	7.48%	5.64%	8.23%	8.67%	9.02%	12.37%
Anchor Mid Cap Value (Net)	6.66%	6.66%	2.51%	5.03%	5.45%	5.79%	9.05%
Russell Mid Cap Value	8.23%	8.23%	6.80%	9.94%	8.41%	8.57%	11.18%
Russell Mid Cap	8.60%	8.60%	6.07%	11.10%	10.58%	9.95%	10.89%

Models are hypothetical. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.

Quarterly Attribution Highlights[xxiii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Industrials	Real Estate
Consumer Staples	Utilities
Financials	Basic Materials

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Diamondback Energy, Inc. (FANG)	2.37%	0.67%	Americold Realty Trust, Inc. (COLD)	1.13%	-0.23%
Vontier Corp (VNT)	2.27%	0.67%	Xcel Energy Inc. (XEL)	1.21%	-0.17%
W. R. Berkley Corporation (WRB)	2.69%	0.63%	Royal Gold, Inc. (RGLD)	1.21%	-0.13%
BWX Technologies, Inc. (BWXT)	1.75%	0.53%	First American Financial Corp. (FAF)	1.98%	-0.12%
McKesson Corporation (MCK)	3.33%	0.52%	Crown Castle Inc. (CCI)	1.46%	-0.12%

Quarterly Transactions

Purchased	Sold
Genuine Parts Co (GPC)	Waters Corp (WAT)
Globus Medical Inc (GMED)	Royal Gold Inc (RGLD)
TD Synnex Corp (SNX)	Entergy Corp (ETR)
Fidelity National Information Servcs Inc (FIS)	
CRH PLC (CRH)	
Advance Auto Parts, Inc. (AAP)	
Chord Energy Corp (CHRD)	
Corpay Inc (CPAY)	

Purchases

Genuine Parts Co (GPC) was down 20% in 2023 and derated from a 17.9x 10-year average NTM P/E to 14.0x due to underperformance in the US auto business (NAPA). GPC assigned a new President who is addressing the internal issues and expects to return to industry growth in 2024. With new leadership and the introduction of ROIC as a compensation metric, we believe NAPA should be able to deliver on its goals. GPC's international auto and global industrial businesses continue to perform well and take share. At a high level, GPC is a 7-8% earnings grower over the long-term with a 2.7% dividend yield and has opportunity for multiple rerating, which should support low-to-mid teens annual returns for investors.

Globus Medical Inc (GMED) is a highly innovative leader in the medical spine device space with HSD sales growth over the last decade. GMED's stock sold off more than 30% following the announcement that Globus would acquire spine peer Nuvasive. Like Globus, Nuvasive has a culture of innovation as well with strong sales growth but was terribly mismanaged from a cost perspective. Management sees an opportunity to capture significant cost and revenue synergies from the deal, and we agree. As former owners of GMED, we know the management team well and are confident in their ability to execute on their targets. We expect there to be integration bumps along the way and therefore decided to start with a 1% position with a plan to add should the stock come in further.

TD Synnex Corp (SNX) is the largest IT distributor in North America and Europe, and top 5 in Asia and Latin America. The company distributes technology products to thousands of value-added resellers. SNX has a goal to grow over 5% a year and grow net income over 10% per year. The company plans to have a 2% medium term dividend yield. The company generates strong free cash flow with over 50% of EBITDA converting, and greater free cash flows in recessions or when sales are down. As the PC cycle is bottoming, SNX should benefit as sales pick up. Further the company will benefit off continued growth in cloud, data, security, software, and services. on average, we believe the company can grow earnings per share over the long run at mid to high single digits. We believe it is a clear take-out candidate as their competitors are almost all owned by private equity. Further, Tech Data which merged into SNX received offers from Apollo and Berkshire Hathaway in the past. We believe the company has a long runway to grow thanks to secular tailwinds of IT spending. Further the valuation is below what private equity has paid for businesses in the space and one of the lowest valuations of any tech business. We believe the shares should re-rate over time to a slightly higher multiple with strong earnings growth as well.

CRH PLC (CRH) is the largest construction materials, building products, and infrastructure services company in North America & Europe. Over the last decade, the company has completed a complete portfolio restructuring, shifting its business mix to the U.S., and becoming a fully integrated building solutions provider. We believe CRH is well positioned to benefit from of a golden age of construction in the U.S. due to tailwinds from infrastructure bills as well as onshoring/mega projects. Additionally, the company is very return focused and expects to have ~$35 billion of incremental capital to deploy at attractive rates over the next five years. Given its size, the company is still relatively unknown by many U.S. investors, which allowed us to purchase shares at a wide valuation discount to peers. The company moved its primary listing to the NYSE last September and has transitioned to U.S. GAAP accounting and financial reporting standards. These steps will allow CRH to get added to U.S. indices, which should increase U.S. investor awareness of the company and ultimately lead to a narrowing of the valuation gap between itself and peers as the investment community comes to appreciate its business quality and positive outlook.

Advance Auto Parts, Inc. (AAP) is the third largest auto parts aftermarket retailer in the US by revenue after AutoZone and O'Reilly. The company operates over 5,000 stores. The company's stock started to fall deeply in May 2023 falling nearly 60% due to past management execution issues on the supply chain, in store experience, and lack of parts. Further the company had large amounts of debt which caused them to nearly trip their covenants. Recently they have brought in new high-quality management. The new CEO comes from Home Depot having run HD Supply. The new CFO was head of transformation at Lowe's. New management started with announcing the sale of a large asset in Worldpac as well as their Canadian business CarQuest. All in they will de-lever and potentially have no net debt post the sales. The company also has announced clear steps to fix the distribution issues and focus on in store performance. The shares trade at a depressed valuation relative to normalized earnings. We believe that as the company goes back to the earnings profile it had pre the issues, the stock should re-rate significantly based on its past multiple range. Further the underlying business is countercyclical, defensive, and has a long growth runway with the right management, which we believe there currently is. Lastly, activists have come in and brought 3 new board members with auto part retailing experience or distribution experience, which is exactly what was needed on the board. We believe long term the business should see strong earnings growth as earnings go back to historic levels. With earnings at those levels, and the multiple it received in the past, there is strong upside to shares from here from a value framework.

Chord Energy Corp (CHRD) is the largest exploration and hydraulic fracturing company in the Williston Basin. Management has a favorable return of capital program balancing leverage, buybacks and dividends. The current dividend yield is 5.5% and with less than 0.5x leverage, Chord is committed to returning 75%+ of FCF to shareholders. Chord recently announced strong Q4 earnings, guided for 2024 in line with expectations, and announced the acquisition of Enerplus (ERF). The deal is expected to be highly accretive on all metrics with $150M+ synergies in 2025 and beyond. This deal makes Chord the largest operator in the region, and it'll still have just 12% share providing more opportunity for accretive acquisitions. Leverage will remain low post deal at 0.2x.

Corpay Inc (CPAY) is a corporate payments business helping customers better manage vehicle-related expenses, travel expenses, and payables. Corpay has leading positions in fast growing niche markets with wide moats, resulting in 50%+ EBITDA margins, mid-teens ROIC and 90% FCF conversion. Over the medium term, Corpay expects to deliver 9-11% organic revenue growth and 16-19% EPS growth. The founder and CEO owns $635M (3% of shares outstanding) and has a long track record of creating value for shareholders.

Sales

Waters Corp (WAT) is a leading global manufacturer of liquid chromatography, mass spectrometry, and thermal analysis instruments for pharma, biotech, academics, and the government. They play in rational spaces where the top 3 to 4 players control the space. The company has a strong service component which allows it to have high 50s gross margins and high 20s operating margins. The company has a return on invested capital in the mid-teens with far above market return on assets. With that said, the company has run up and sells at a full valuation. We thus decided to sell based on the full valuation.

Royal Gold Inc (RGLD) Price/NAV of RGLD reached ~ 2.5x, a level which historically put a cap on the share price appreciation potential. After meeting with the company management, we concluded that the project pipeline was unlikely to result in a material NAV uplift. DY of less than 1.5%, which below the market, is not attractive enough to hold shares. Additionally, RGLD's persistent underperformance against gold, the commodity, has been disappointing.

Entergy Corp (ETR) provides electric and natural gas services in Arkansas, Mississippi, Texas and Louisiana. We believe that climate change and higher regulatory standards are making it harder for utilities to deliver adequate risk adjusted returns. Historically, utilities provided stable risk adjusted returns as states promised fixed returns for infrastructure investment. However, in recent years, regulators in some states have made this trade off less attractive to investors. Climate change has added risk as well in regions exposed to natural disasters, including hurricanes and wildfires. The Texas wildfires have prompted us to take a closer look at our utility exposures. Entergy was approaching our price targets and with greater exposure to weather related risks in the south (hurricanes), we didn't feel that the expected return adequately covered the risk we were taking at these levels.

Anchor's Positioning

Since the beginning of the year, Anchor has been finding a number of interesting investment ideas. In our search for value, we are looking for companies that might be out of favor, underappreciated or undiscovered by the market. We have been able to find these stocks across several different sectors.

We have also been reinforcing some positions that we believe have the ability upside potential while reducing or selling stocks where the valuation has become stretched. We brought cash down in portfolios during the quarter to take advantage of these new opportunities, which has helped in an environment where the market and most areas have performed well. However, we have been mindful to keep our portfolio risk down, so that we protect better.

Outlook

We are encouraged about the new stocks that we have added to the portfolios and believe that the economy is relatively stable. Markets have run a lot since the beginning of the year, particular in AI related stocks. With valuations above historical averages we could see a pull back, which is why remain more defensively positioned.

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[i] https://www.reuters.com/markets/us/fed-policymakers-stick-three-rate-cut-view-24-barely-2024-03-20/
[ii] https://www.wsj.com/finance/investing/the-8-8-trillion-cash-pile-that-has-stock-market-bulls-salivating-0a1b4a8c
[iii] https://www.alphaspread.com/security/nasdaq/nvda/earnings-calls/q4-2024
[iv] https://investors.delltechnologies.com/investorpresentation
[v] FactSet Data & Analytics, Charting
[vi] Ibid
[vii] https://www.ft.com/content/e0029cb2-df39-41bd-b17b-808503b240c3
[viii] FactSet Data & Analytics, Charting
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[x] Ibid.
[xi] https://www.axios.com/2024/03/26/corporate-bonds-interest-rates
[xii] https://www.forbes.com/advisor/investing/fomc-meeting-federal-reserve/
[xiii] Ibid.
[xiv] Ibid.
[xv] https://www.usnews.com/news/economy/articles/2024-02-28/fourth-quarter-gdp-revised-slightly-downward
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[xx] https://www.nytimes.com/2024/03/27/briefing/affordable-housing-crisis.html
[xxi] FactSet financial data & analytics; attribution
[xxii] eVestment Analytics, see model disclosures below.
[xxiii] FactSet financial data & analytics; Attribution

Mid Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Mid Cap Value (MCV) model was created on 12/31/05. The model returns do not reflect actual trading. Anchor Capital's Managed Accounts Division created this model for purposes of presenting performance results which approximate those of the Managed Accounts Mid Cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of mid cap stocks.

MODEL DISCLOSURES: The model is hypothetical. The model transaction history does not reflect all portfolio transaction activity for accounts in the sponsor program. Model transactions correspond with trading activity generated in the course of investment for substantially all accounts in the sponsor Mid Cap program. Model transactions and holdings do not reflect individual portfolio activity for new account investments, or account activity and holdings in various individual portfolios subject to tax considerations or individual client discretion. Model performance may differ materially from individual client portfolio results.

CALCULATION OF RATES OF RETURN: All securities in the model are valued at last sale price, as provided by independent pricing services. The portfolio valuation is reflected on a trade date basis. Model investment returns include the reinvestment of dividends and other earnings. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Monthly model 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. The Russell Indices exclude fees. The Managed Accounts All Cap Value model returns are calculated on a pure gross of fee basis, before the deduction of Anchor Capital management and sponsor wrap fees. For all periods presented, the net of fee returns are presented after debiting the gross or pure gross of fee results by 3%, which represents the highest known annual wrap fee charged by any of the sponsors of the Separately Managed Account program that Anchor participates in. Effective 12/2019 through 12/2020, the net returns presented were calculated using eVestment. These monthly net returns were compounded to calculate the quarterly, YTD and annual returns. The numbers may be slightly different from net returns published prior to 6/30/2017, which were calculated by simply subtracting 3% from the annual gross return. Effective 3/2021, the net returns presented are calculated by subtracting the 3% highest known annual wrap fee among sponsors, compounded monthly. Additional information regarding policies for calculating and reporting model returns is available upon request.

BENCHMARK DESCRIPTION: Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indices may be materially different from the performance of the Adviser. In addition, the Advisor's recommendations may differ significantly from the securities that comprise the indices. The Russell Midcap Value Index measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set. The benchmark returns include the reinvestment of income.

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In order to enhance current and prospective investor understanding of our process, approach and views, this letter includes detailed discussions regarding selected positions in our Strategy portfolios. In doing so, we hope this transparency enhances your understanding of our views on the investment opportunities we see in the marketplace and why we have positioned the Strategy portfolios the way we have. With such information available to you, we believe current and prospective investors are better informed and equipped to understand and/or challenge our views and approach to determine whether an investment in a Strategy is consistent with the mandate of each individual investor.