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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.

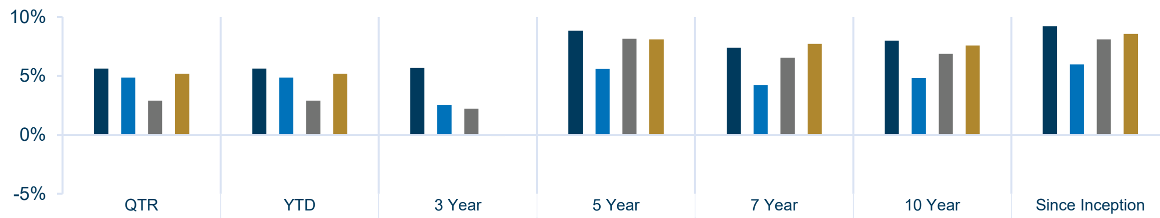
The U.S. economy has been holding up reasonably well. Fourth quarter GDP grew at 3.2%[xv], unemployment remained low at 3.9%[xvi], retail sales remain positive[xvii] and the Purchasing Managers Index (PMI)[xviii], which measures manufacturing activity, is now in expansion mode. We are also hearing from 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 Small Cap Value Portfolio returned 5.63% (gross of fees) and 4.87% (net of fees) during the quarter, outperforming the Russell 2000 Value Index, which returned 2.90%. On a relative basis, the Portfolio benefitted the most from security selection in the Consumer Discretionary and Health Care sectors as well as an overweight allocation to the Industrials sector. Security selection in Industrials as well as an underweight allocation to Health Care and Energy sectors were the greatest detractors from relative performance.[xxi]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor Small Cap Value (Gross)	5.63%	5.63%	5.68%	8.83%	7.39%	7.99%	9.22%
Anchor Small Cap Value (Net)	4.87%	4.87%	2.56%	5.61%	4.22%	4.80%	5.99%
Russell 2000 Value	2.90%	2.90%	2.22%	8.17%	6.55%	6.87%	8.11%
						3%	8.56%

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

Quarterly Attribution Highlights[xxii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Industrials	Financials
Consumer Discretionary	Real Estate
Health Care	Utilities

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
UFP Technologies, Inc. (UFPT)	2.66%	1.12%	Douglas Dynamics, Inc. (PLOW)	2.74%	-0.56%
Vontier Corp (VNT)	3.20%	0.97%	First of Long Island Corp. (FLIC)	2.85%	-0.50%
SkyWest, Inc (SKYW)	2.54%	0.78%	Winmark Corporation (WINA)	1.90%	-0.31%
Magnolia Oil & Gas Corp. (MGY)	3.53%	0.77%	Perficient, Inc. (PRFT)	2.57%	-0.31%
Boot Barn Holdings, Inc. (BOOT)	2.53%	0.60%	Community Bank System, Inc. (CBU)	2.49%	-0.24%

Quarterly Transactions

Purchased	Sold
Universal Logistics Holdings Inc (ULH)	NV5 Global Inc (NVEE)
Aviat Networks Inc (AVNW)	McGrath RentCorp (MRGC)
Advance Auto Parts, Inc. (AAP)	Progress Software Corp (PRGS)

Purchases

Universal Logistics Holdings, Inc. (ULH) provides Contract Logistics (Value-Added Services and Dedicated trucking), Intermodal, Trucking (dry van and flatbed), and Brokerage services. Contract Logistics is ~50% of revenue and ~65-70% of earnings. In that segment, ULH provides Value-Added services (60% of the Contract logistics segment) in which it is embedded in the operations of customer facilities or located close to customer sites to optimize component resupply and fulfillment, as well as being directly integrated into the production processes of customers such as doing subassembly. The other 40% of that segment is Dedicated Trucking which has 85% overlap to Value-Added customers. ~40% of the segment is Auto OEMs, but ULH also works with retailers such as Walmart (WMT) and Sam's Club. We believe Contract Logistics is the company's highest margin business but has faced a lot of the issues over the past few years due to parts shortages, plant shutdowns, and a UAW strike. Intermodal is 22% of revenue and 20% of earnings. In Intermodal, ULH offers short haul or medium-haul delivery of rail and ocean steamship containers between railheads or ports and customer facilities. Trucking is 20% of revenue and 10% of earnings. 70% is flatbed, mostly transporting steel related products, and 30% is dry van transporting consumer goods. Finally, Brokerage is 8% of revenue and 2% of earnings.

In our opinion the stock currently trades at discount for a couple of reasons. First, following two large acquisitions, ULH embarked on a multi-year transformation of margin improvement that was hidden by freight cycle weakness, supply chain issues, and Covid. We believe the other reason the company trades at a discount is it is majority owned by the founding family and the stock lacks liquidity.

We believe margin levels have stabilized today, are structurally better than the past, and are led by Contract Logistics and Intermodal. For example, full year 2023 margins were higher than historical levels even with overall revenue declining 17.5% and the trucking industry operating in a recessionary environment. We believe the Contract Logistics business, while somewhat cyclical, operates under long term contracts and is more consistent than the company's other transactional businesses (intermodal, trucking, and brokerage) and the market is not fully valuing the strength of ULH's Contract Logistics business. We believe the transactional businesses have been operating in recessionary environments and should improve over time as supply/demand dynamics normalize. Upon improvement, margins have leverage to improve in our opinion.

Aviat Networks Inc (AVNW) is a leading pure play wireless microwave equipment, software, and service provider. The company's products include wireless transport products used for rural broadband and connectivity. They play in a rational market and benefit as Huawei is forced to exit some markets. The industry grows 2% to 4% per year and Aviat slightly outperforms. They made a very strong acquisition of a smaller player which should be highly accretive. They paid an incredibly low multiple and have gained scale through the acquisition. Further they have strong synergies in back office, R&D, and SG&A. We believe the company should be able to increase its EBITDA margins strongly as they continue to find efficiencies and with the acquisition that was made. Further the company sells at a large discount to peers and is a take-out candidate for a number of larger telecommunication companies. Lastly, the CEO has led the company to strong top and bottom-line growth. He should be able to continue to lead this by growing faster than the market and through this acquisition. Further with margin expansion they should be able to grow earnings and EBITDA at 8% to 10% plus. With shares selling far below peers it should have an opportunity to re-rate closer to telecom peers.

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.

Sales

NV5 Global Inc (NVEE) is a leading provider of professional and technical engineering services to public and private sector clients. The company offers quality assurance, surveying, mapping, permit planning, program management, geospatial services, and compliance certifications. About 70% of the business comes from the public sector. The CEO Dickerson Wright built a similar business and sold it in 2002. The company has grown strongly through organic growth and acquisitions at 5x to 8x EBITDA. There is a long runway of acquisitions at their size goals as there are 144,000 engineering firms in the US. The company was fully valued which led to our decision to sell.

McGrath RentCorp (MRGC) owns and leases modular buildings and storage units. On January 29, 2024, MGRC announced that it agreed to be acquired by WillScot Mobile Mini (WSC) in a cash and stock deal for $3.8 billion. We sold due to the acquisition.

Progress Software Corp (PRGS) is a company that produces software in a variety of different verticals. It has strong gross margins, operating margins, and retention rates. The company grows organically at low single digits but grows double digits with acquisitions. The company had a recent data breach. We believe this issue will remain a problem for them for some time and we believe there were better places to allocate capital considering.

Anchor's Positioning

Since the beginning of the year, Anchor has been finding 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.

[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
[ix] FactSet Data & Analytics, Charting
[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
[xvi] https://www.forbes.com/advisor/investing/fomc-meeting-federal-reserve/
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[xviii] https://www.pmi.spglobal.com/Public/Home/PressRelease/4b4d1eb122e34625ad17114f644f2a15
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[xx] https://www.nytimes.com/2024/03/27/briefing/affordable-housing-crisis.html
[xxi] FactSet financial data & analytics; attribution
[xxii] FactSet financial data & analytics; Attribution

Small Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Small Cap Value (SCV) model was created on 7/1/02. 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 Small Cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of small cap value 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 Small 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 Adviser's recommendations may differ significantly from the securities that comprise the indices. The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The benchmark returns include the reinvestment of income.

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