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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.

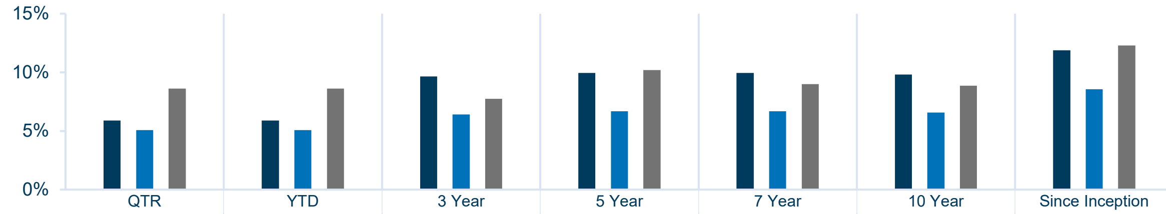
The U.S. economy has been holding up reasonably well. Fourth quarter GDP grew at 3.2%[xv], unemployment remained low at 3.9%[xvi], retail sales remain positive[xvii] and the Purchasing Managers Index (PMI)[xviii], which measures manufacturing activity, is now in expansion mode. We are also hearing from 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 Capital Dividend Income Value Portfolio returned 5.89% (gross of fees) and 5.06% (net of fees) during the quarter, underperforming the Russell 3000 Value Index, which returned 8.62%. On a relative basis, the Portfolio benefitted the most from security selection in the Energy and Health Care sectors as well as an underweight allocation to the Health Care sector. Security selection in Financials and Industrials as well as an overweight allocation to the Real Estate sector were the greatest detractors to relative performance.[xxi]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor Dividend Income Value (Gross)	5.89%	5.89%	9.66%	9.94%	9.94%	9.82%	11.88%
Anchor Dividend Income Value (Net)	5.06%	5.06%	6.42%	6.69%	6.69%	6.57%	8.57%
Russell 3000 Value	8.62%	8.62%	7.74%	10.18%	8.98%	8.86%	12.28%

Models are hypothetical. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss. Effective 6/30/2023 the benchmark presented for all periods since inception has been changed from the Russell 1000 Value, which reflects the large-cap value segment, to the Russell 3000 Value, which provides a barometer of the broad value market.

Quarterly Attribution Highlights[xxiii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Financials	Real Estate
Industrials	Utilities
Energy	Telecommunications

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Marathon Petroleum Corp. (MPC)	2.78%	0.90%	Air Products and Chemicals, Inc. (APD)	1.85%	-0.25%
Progressive Corporation (PGR)	2.24%	0.63%	First American Financial Corp. (FAF)	2.74%	-0.16%
Hubbell Incorporated (HUBB)	2.135	0.54%	Crown Castle Inc. (CCI)	2.02%	-0.15%
JPMorgan Chase & Co. (JPM)	2.97%	0.53%	American Tower Corporation (AMT)	1.44%	-0.14%
AbbVie, Inc. (ABBV)	2.71%	0.48%	National Storage Affiliates Trust (NSA)	2.05%	-0.12%

Quarterly Transactions

Purchased	Sold
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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/
[xvii] https://tradingeconomics.com/united-states/retail-sales
[xviii] https://www.pmi.spglobal.com/Public/Home/PressRelease/4b4d1eb122e34625ad17114f644f2a15
[xix] https://tradingeconomics.com/united-states/new-home-sales; https://www.bankrate.com/real-estate/existing-home-sales/
[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. Effective 6/30/2023 the benchmark presented for all periods since inception has been changed from the Russell 1000 Value, which reflects the large-cap value segment, to the Russell 3000 Value, which provides a barometer of the broad value market.
[xxiii] FactSet financial data & analytics; Attribution

Dividend Income Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Dividend Income Value (DIV) model was created on 09/30/2016. 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 Account Dividend Income Value sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of all cap value, dividend paying stocks. As of 4/1/19 Select Dividend Value was renamed to Dividend Income Value to better reflect the objectives of the strategy.

MODEL DISCLOSURES: The model is hypothetical. The results prior to 12/31/2016 presented herein represent those of the Anchor Capital Institutional and Private Client Investment Management Division. The results from 10/01/2011 through 9/30/2016 for the Institutional and Private Client Investment Management Dividend Income Value strategy were published in the product presentation. The model transaction history does not reflect all portfolio transaction activity for accounts in the sponsor programs. Model transactions correspond with trading activity generated in the course of investment for substantially all accounts in the sponsor Dividend Income Value 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: Effective 6/30/2023 the benchmark presented for all periods since inception has been changed from the Russell 1000 Value, which reflects the large-cap value segment, to the Russell 3000 Value, which provides a barometer of the broad value market. 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 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell 3000 Value Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad value market. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. All 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.