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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.

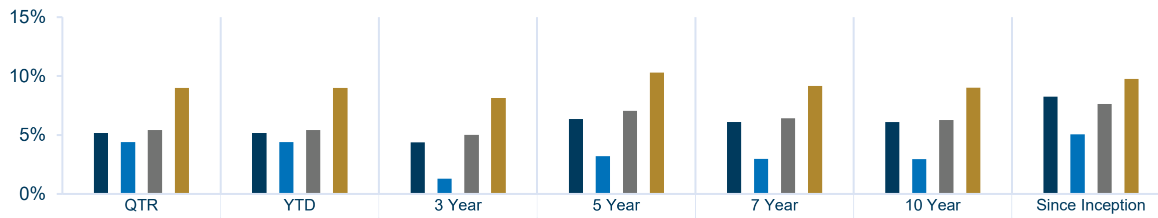
The U.S. economy has been holding up reasonably well. Fourth quarter GDP grew at 3.2%[xv], unemployment remained low at 3.9%[xvi], retail sales remain positive[xvii] and the Purchasing Managers Index (PMI)[xviii], which measures manufacturing activity, is now in expansion mode. We are also hearing from 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 Balanced Value Portfolio returned 5.19% (gross of fees) and 4.40% (net of fees) during the quarter, underperforming the 60/30/10 Index, which returned 5.44%. On a relative basis, the equity portion of the Portfolio benefitted the most from security selection in the Health Care and Consumer Discretionary sectors as well as an overweight allocation to Industrials. Security selection in Utilities and Basic Materials as well as an underweighting in Consumer Discretionary 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 Balanced Value (Gross)	5.19%	5.19%	4.38%	6.35%	6.12%	6.09%	8.26%
Anchor Balanced Value (Net)	4.40%	4.40%	1.29%	3.20%	2.98%	2.96%	5.06%
60/30/10 (R1000V/BCIGC/CG90TBIll)	5.44%	5.44%	5.01%	7.06%	6.41%	6.26%	7.63%
Russell 1000 Value	8.99%	8.99%	8.11%	10.31%	9.16%	9.01%	9.77%

Models are hypothetical. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss. The benchmark is a static blend of 60% Russell 1000 Value Index; 30% Barclays Capital U.S. Government/Credit Intermediate Bond Index; 10% Citigroup 90-Day Treasury Bill Index (60/30/10).

Quarterly Attribution Highlights – Equity Portion of Portfolio[xxii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Financials	Basic Materials
Industrials	Telecommunications
Health Care	Utilities

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Progressive Corporation (PGR)	1.38%	0.38%	Boeing Company (BA)	0.43%	-0.20%
JPMorgan Chase & Co. (JPM)	1.69%	0.30%	Air Products and Chemicals, Inc. (APD)	0.85%	-0.11%
Diamondback Energy, Inc. (FANG)	1.00%	0.28%	American Tower Corporation (AMT)	0.75%	-0.07%
W. R. Berkley Corporation (WRB)	1.13%	0.26%	UnitedHealth Group Inc. (UNH)	0.96%	-0.06%
Parker-Hannifin Corporation (PH)	1.16%	0.24%	IDACORP, Inc. (IDA)	0.75%	-0.04%

Quarterly Transactions

Purchased	Sold
Fidelity National Information Servcs Inc (FIS)	Apple Inc (AAPL)
CRH PLC (CRH)	Boeing Co (BA)
CNH Industrial NV (CNHI)	Alexandria Real Estate Equities Inc (ARE)
Advance Auto Parts, Inc. (AAP)	
Applied Materials, Inc. (AMAT)	

Purchases

Fidelity National Information Servcs Inc (FIS) offers a wide range of financial products and services to merchants, banks, and financial service companies. The stock was down over 60% in the last 3 years following its $43B mega-merger with WorldPay, a merchant acquirer. However, the company has since sold 55% of its stake in Worldpay, which will it to de-lever its balance sheet and re-focus on its two high quality business segments. The RemainCo will be led by a new management team and Worldpay is bringing back its old CEO who created enormous value during his time there before selling it in 2019. Both businesses in the FIS RemainCo are leaders in their respective industries with longstanding incumbency. They provide mission critical software with 3-5 year contracts and hefty termination fees. The products are extremely sticky given the time, cost, and effort it would take to rip them out. Nearly 80% of combined revenue is recurring and is expected to grow 3-5% per year from pricing, banks and financial institutions modernizing, the cross-selling of additional features, and client & transaction growth. We purchased the stock at depressed valuation and should re-rate closer to peers and its historical valuation pre-Worldpay.

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.

CNH Industrial NV (CNHI) is the second largest global agriculture equipment manufacturer with commercial presence in 170 countries. The company operates in an attractive oligopolistic market. It is in the middle of deep transformation led by a well-regarded new management team and a thoughtful large investor (Exor). They have been executing a multi-year plan to simply the business by spinning off its trucking business to make it a pure play ag and construction equipment business, moving to a single listing on the NYSE, increasing investment in tech including precision ag, and improving margins. The Ag downcycle is still early but we believe much of this is priced into CNH's stock at under 8x P/E and peers trading much higher. Additionally, a 3.3% dividend yield is attractive and at all-time high levels.

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.

Applied Materials, Inc. (AMAT) The semiconductor devices industry will reach at least $1 trillion by 2030, a CAGR 7% driven by digitalization of everything trend, exponential growth in data, and the intention of governments to achieve semiconductor manufacturing self-sufficiency. This will require mid-to-high-single digit growth of all types of semiconductor devices – leading logic, memory, and trailing edge. AMAT a major beneficiary of this trend. It is differentiated among SME peers by its highest degree of diversification catering towards leading edge, memory, and trailing edge node semiconductors. AMAT management has shown a strong ability to capitalize on technology inflections to drive incremental revenue streams. AMAT's several breakthrough technologies such as "Gate-All-Around" transistors, advanced packaging of GPU and memory, eBeam defect detection, and backside power, are essential for the next generation of semiconductor fabrication Given the large installed base AMAT tools, the company's services component has become a stable non-cyclical revenue contributor (~22% of total). The current semiconductor cycle is expected to be extended to 2025. This should provide further cyclical upside to shares, in addition to secular growth.

Sales

Apple Inc (AAPL) shares traded at the NTM PE of 29x, ~15-20% above price target and exit multiple of 25x. In FY2024, AAPL is expected to grow revenues less than 2% as product growth, including iPhones, is expected to decline 2% while services are expected to grow 10%. Apple faces negative demand dynamics in China which account for ~20% of sales. We saw no compelling reasons to continue holding the stock's negative risk/reward profile.

Boeing Co (BA) is global aerospace manufacturer. Boeing has a back log of 4,000 planes and sees a long runway for growth. Due to year of quality control issues, a plane in January 2024 lost a panel on a plane midflight, which caused depressurization of the plane and the need for an emergency landing. The 737 Max have been grounded and all planes need to be recertified. These delays further deliveries of planes and affects earnings and cash flows. We decided to sell the position after holding for multiple years given that it will take a few more years until the issues are fixed.

Alexandria Real Estate Equities Inc (ARE) is the leading owner, operator, and developer of life science real estate in the U.S. The company faces several near-term headwinds including subdued tenant demand due to the tough funding environment for smaller life science companies and an oversupplied market. We sold our shares as we saw better uses of the capital over the coming years.

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] FactSet financial data & analytics; attribution

Balanced Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts Balanced (Bal) 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 Balanced sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of equity and fixed income securities.

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 Balanced 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 benchmark is a static blend of 60% Russell 1000 Value Index; 30% Barclays Capital U.S. Government/Credit Intermediate Bond Index; 10% Citigroup 90-Day Treasury Bill Index. The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The Barclays Capital U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. Securities have $250 million or more of outstanding face value and must be fixed rate and non-convertible. The Citigroup 90-Day Treasury Bill Index measures the average return of the last three-month U.S. Treasury Bill issues. U.S. Treasury Bills are short-term securities issued by the U.S. government with maturities of up to one year. They are backed by the faith and credit of the U.S. government who guarantees full payment of principal and interest at maturity. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. 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.