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Overview

In the end, 2023 turned out to be a mirror image of 2022 resulting in the net return of the S&P 500 being essentially flat over the two years. During the fourth quarter of 2023 there was a massive rally in both the equity and fixed income markets with inflation and interest rates coming down.[i] The markets seem optimistic that inflation is under control and that business and individuals can weather through the current higher priced environment we find ourselves in. For the time being, structural changes in the labor market have kept employment relatively steady. This coupled with a rising real wage has contributed towards the allowance of continued consumer spending. That said, the willingness to spend has been somewhat surprising given reports about how stretched the consumer is with the higher prices and tighter lending standards.

While we entered and remained very cautious in 2023, many expected a potential recession was on the horizon, it has not materialized. In fact, we have seen a rolling wave of in and out of favor sectors and industries performing well and some that have not. Many companies have been trying to figure out the new normal as it relates to supply chains, pricing/inflation, consumer demand and spending, interest rates, labor dynamics and covid spending. 2024 may the year we start to see a more normalized earnings picture.

Our focus at Anchor Capital remains on risk and downside protection at both the security and portfolio levels. We have difficulty investing in highly speculative or unprofitable companies even if they look attractive from a valuation perspective. Our goal is to find what we consider to be high quality companies trading at a discount to intrinsic value that can grow but also protect in down markets.

In down markets we have done well in executing on the goal of downside protection. It is turning points in the markets where speculative and unprofitable companies significantly outperform where we lag. In November, the markets rebounded higher on news that inflation was relatively contained and had decreased from previous highs. The Federal Reserve not only stopped raising interest rates they indicated that there is the possibility for up to four interest rate cuts in 2024.

While the overall market valuation is trending higher than average there are pockets that are attractive. The interest sensitive sectors of the market like bond proxies, utilities, and REITs, have been hard hit by higher interest rates. With interest rates coming down we are looking and beginning to see a good entry point and more attractive valuations for these sectors. Health Care has also been a laggard this year as numbers have normalized post pandemic and biotech funding pulled back. As a result, we see health care improving and think the space could provide interesting opportunities. The financial sectors, in particular banks, also dealt with high interest rates, funding costs and bank failures, but it appears to be behind them for the time being and seeing upside from here.[ii]

Mega-Cap tech stocks, and more specifically the Magnificent Seven stocks of the S&P 500 (Apple, Alphabet, Meta , Microsoft , Amazon , Nvidia and Tesla) drove performance in 2023.[iii] We believe that current valuations for these stocks are high relative to their growth profile and that significant outperformance from here will be more difficult to achieve.[iv] As we mentioned above, several value sectors have opportunities to recover and outperform in 2024 giving value room to shine.

U.S. Equity Markets

All U.S. equity markets outperformed for the quarter.[v] The markets had a healthy pull back between August 1st and October 31st before rebounding strongly in November and December.[vi] The markets appear to be celebrating that the economy is avoiding a recession and that we will likely see a soft landing. The sectors that outperformed were technology, REITs, and financials.[vii] After consistently raising rates since early 2022, the Federal Reserve has paused and signaled rate cuts could be coming. This pause and any potential cuts sets up to benefit and support those interest rate sensitive sectors impacted most by rising rates. On the flip side, the underperforming sectors were energy, consumer staples and health care.[viii] There continues to be normalization post pandemic, especially in the health care sector where many stocks were outsized beneficiaries of the pandemic.

U.S. Fixed Income

In the span of four months, the yield on the 10-year Treasury bond has moved from 4.09% on August 31st to 5% on October 19th and back down to 3.95% at year end.[ix] A 200 basis points move in interest rates in such a condensed timeframe is significant. The shift down in interest rates has created strength in bonds markets. The iShares Core U.S. Aggregate Bond ("AGG") ended positive for the year[x] with all U.S. bond segments performing well. High yield and leveraged loans performed the best.[xi] Any Fed interest rate cuts in 2024 would benefit bond performance.

Inflation

Inflation levels, as represented by the Consumer Price Index (CPI), remain above the Federal Reserve's targeted 2% annualized level.[xii] The November CPI reading was 3.1% annualized, which was a step down from the prior month. The Personal Consumption Expenditures (PCE) Price Index, a different way of measuring inflation, continues to show high services inflation and a decline in goods inflation.[xiii] Components of inflation like energy prices, food prices and rent are coming down while hourly wages have been increasing and are now outpacing inflation.[xiv] Inflation has is approaching more normalized levels after coming off 50-year highs (2022).

Interest rates/Fed/Economy

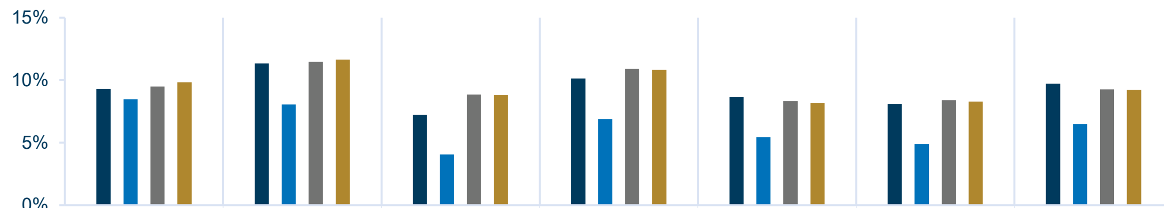
In one of the fastest rate hiking cycles in history, the Federal Reserve increased interest rates eleven times from March 2022 through July 2023. The Fed has kept the Federal Funds targeted interest rate between 5.25 and 5.5%.[xv] In December, the Fed indicated that it was done raising interest rates and could potentially cut rates up to four times in 2024.[xvi] We believe that the economy will have to weaken significantly before the Fed starts cutting interest rates given that inflation is still above its targeted 2% level. However, the Fed is also dealing with a massive interest expense on the balance sheet and cutting interest rates would help to relieve that. The U.S. economy has remained resilient despite some soft economic data. Overall, we saw job opening levels and wages soften, bank lending tighten since the Silicon Valley Bank collapse, credit card and auto delinquencies increase, and manufacturing weaken. Consumers are spending savings. This coupled with the return of student loan payments will most likely put pressure on discretionary spending. Some economists are forecasting more economic weakness, but it may not be enough to tip into a full-blown recession.

Performance Overview

The Anchor All Cap Value Portfolio returned 9.28% (gross of fees) and 8.47% (net of fees) during the quarter, underperforming the Russell 1000 Value Index, which returned 9.50%.

On a relative basis, the Portfolio benefitted the most from security selection in the Industrials, Real Estate and Energy sectors. Security selection in Financials and Telecommunications as well an underweight allocation to Consumer Staples were the greatest detractors from relative performance.[xvii]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor All Cap Value (Gross)	9.28%	11.35%	7.23%	10.14%	8.64%	8.10%	9.73%
Anchor All Cap Value (Net)	8.47%	8.06%	4.06%	6.88%	5.43%	4.90%	6.48%
Russell 1000 Value	9.50%	11.46%	8.86%	10.91%	8.32%	8.40%	9.27%
Russell 3000 Value	9.83%	11.66%	8.81%	10.84%	8.16%	8.28%	9.25%

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

Quarterly Attribution Highlights[xix]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Industrials	Energy
Financials	Telecommunications
Technology	Basic Materials

Security - Top 5 Contributors	Avg. Weight %	Contribution %
JPMorgan Chase & Co. (JPM)	3.03%	0.54%
Salesforce, Inc. (CRM)	1.69%	0.48%
QUALCOMM Incorporated (QCOM)	1.53%	0.45%
PNC Financial Services Group, Inc. (PNC)	1.27%	0.40%
Boeing Company (BA)	1.15%	0.39%

Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Chevron Corporation (CVX)	3.05%	-0.43%
Corteva Inc (CTVA)	1.24%	-0.10%
NextEra Energy, Inc. (NEE)	0.03%	-0.09%
Franco-Nevada Corporation (FNV)	0.45%	-0.08%
Air Products and Chemicals, Inc. (APD)	1.04%	-0.03%

Quarterly Transactions

Purchased	Sold
Goldman Sachs Group Inc (GS)	Franco-Nevada Corp (FNV)
Ferguson PLC (FERG)	Walt Disney Co (DIS)
Mid-America Apartment Communities Inc (MAA)	

Purchases

Goldman Sachs Group Inc (GS) is in the process of exiting retail banking which was an ill-conceived strategic initiative. The firm does not have the DNA to cater to the mass market transactional banking and savings segment. Management is refocusing on its core IB and capital market competencies which are unparallel on the global scale. We anticipate a pickup in capital market activities in 2024 following a two-year period of very low levels. At a minimum, it is reasonable to expect higher debt issuance and return of IPOs. The position was initiated at close to 1 x price to the tangible book value, a valuation level that historically corresponded with share price throughs. At purchases, shares DY was over 3%.

Ferguson PLC (FERG) is a $37B distributor of plumbing supplies, water heaters, pipes, valves and fittings, kitchen and bathroom fixtures, appliances, HVAC units, fire sprinkler systems, and others supplies. The company just completed a decade long restructuring of its business, exiting lower return international businesses and focusing entirely on North America. Its markets, estimated at over $350B in total, are highly fragmented and over 75% of FERG's revenues come from markets where they are the #1 or #2 player. The company targets the trade customer and wins on relationships, breadth of products, product availability, branch density, technology, and superior service. It has consistently gained market share over the years, outgrowing its markets by 300-400bps organically each year. It also has a long runway to acquire smaller independent players at accretive valuations. On average, we believe the company can grow sales 7-12% per year and EPS in the low-to mid-teens. Ferguson is still relatively unknown by many U.S. investors as it was re-listed from the London Stock Exchange to the New York Stock Exchange just last year. This allowed us to pay what we believe will prove to be an attractive price for a company with a long runway for growth that pays a healthy dividend and has a strong balance sheet.

Mid-America Apartment Communities Inc (MAA) is a leading multifamily apartment REIT. Its portfolio is well diversified in terms of submarkets and property types across the sunbelt region, which is experiencing strong population growth from migration. The stock has sold off significantly due to higher rates and recession fears. We believe these near-term headwinds are more than priced into the stock at these levels and that the company will continue to outperform and deliver shareholder value over the long-term.

Sale

Franco-Nevada Corp (FNV) is a high-quality gold royalty and gold stream company. The company's largest asset is Corbe Panama copper mine which accounts for over 25% of the company's NAV. The operator of the mine is First Quantum with whom FNV has a gold stream agreement. The government of Panama made an expected decision to renegotiate the contract with First Quantum. The development culminated in a national referendum to terminate the agreement. When that news hit the wires, we made a prompt decision to exit the position as risks became too high, helping us avoid the further downside in shares.

Walt Disney Co (DIS) is a global media and entertainment company. It has two separate divisions: Media, which includes cable, broadcasting, and direct-to-consumer; and Parks and Entertainment which includes the parks, consumer goods, studios, and cruise lines. The legacy media business is declining, and the direct-to-streaming is growing but unprofitable. The company is struggling with growth and high costs. While the CEO, Bob Iger, has implemented a big cost cutting program we don't think it's enough for the company to grow. There are too many moving pieces, and the stock was best exited.

Anchor's Positioning

We were defensively positioned for most of 2023 with concerns over how higher interest rates and inflation would affect the economy. As a result, the cash levels of Anchor portfolios increased. The higher levels of cash contributed to relative performance in October when the markets sold off, but subsequently detracted in November and December when the market rallied.

Despite the market volatility we have been active in seeking new stock opportunities to add to the portfolios. We found more attractive entry points for regional banks, REITs, and capital markets, which helped bring up our financials exposure. We trimmed or exited out of positions with higher valuations and those that met our price targets.

Our cash levels came down a little bit nearing year-end. We believe we are positioned well to capture upside from the areas of the market that have underperformed most recently. We remain excited about the existing portfolio holdings as we return to a more normalized environment post-pandemic.

Outlook

We believe our discipline in managing risk and looking for attractive stock opportunities will help performance in 2024. While macro forecasting is not our forte, we consider how different variables may affect companies and different parts of the markets. With interest rates potentially a little lower and growth relatively stable that should support small and mid-cap stocks from valuation and opportunity. We continue to look for businesses that meet our value criteria that can participate on the upside, while protecting better on the down.

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[i] FactSet Financial Data & Analytics
[ii] FactSet Financial Data & Analytics
[iii] Ibid.
[iv] Ibid.
[v] Ibid.
[vi] Ibid.
[vii] Ibid.
[viii]Ibid.
[ix] Ibid.
[x] Ibid.
[xi] Ibid.
[xii] https://www.wsj.com/economy/central-banking/how-hard-should-the-fed-squeeze-to-reach-2-inflation-77dbf56f
[xiii] https://www.cnbc.com/2023/11/30/pce-inflation-report-october-2023-.html
[xiv] https://www.youtube.com/watch?v=WtFzaol6yx8, Charlie Bilello, 12/15/2023
[xv] https://www.usatoday.com/story/money/personalfinance/2023/07/26/july-fed-rate-hike-economic-effect/70463169007/
[xvi] https://www.usatoday.com/story/money/personalfinance/2023/07/26/july-fed-rate-hike-economic-effect/70463169007/
[xvii] FactSet financial data & analytics; attribution
[xviii] eVestment Analytics, see model disclosures below.
[xix] FactSet financial data & analytics; attribution

All Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor Managed Accounts All Cap Value (ACV) 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 Account All Cap 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 stocks.

MODEL DISCLOSURES: The model is hypothetical. 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 All 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 1000 Value Index (R1000V) 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 Russell 3000 Value Index (R3000V) 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.