ANCHOR
CAPITAL ADVISORS LLC

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Is the Rotation to Value Real?

The Growth/Value Relationship Over Time

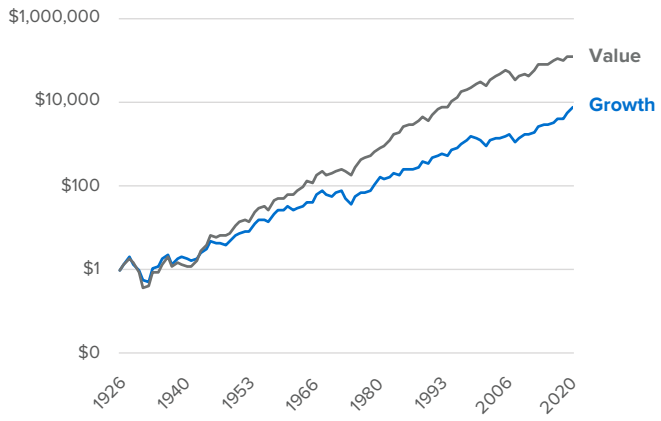
United States history is punctuated by watershed economic events that are, for better or worse, defining periods in history with far-reaching economic impacts. Periods of deep economic crisis, as well as eras of dramatic prosperity, have long shaped our nation.

Value investing has long held a structural advantage over growth investing over multiple market cycles.

During the 94 calendar years since 1927, value has outperformed growth approximately 60% of the time, or in 56 of the 94 years.[1] This 94 year period includes economic events that have impacted the markets direction including, the Great Depression in the early 30's, the Post WW2 Expansion in the 50's & 60's, the Oil Crisis of the early 70's, the Tech Bubble in the late 90's and most recently the Great Financial Crisis.

While these significant market events have caused growth and value to oscillate year-to-year, over long(er) periods of time, value investments have consistently provided greater returns.

Growth of $1: 1927 through 2020[2]



[1]Kenneth R. French - Data Library: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html

[2]Source: http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/index.html

The information used in this presentation is based on a hypothetical account created by the source. The returns presented are exclusive of fees and are gross returns. The underlying historical market data is provided by the Center for Research in Security Prices (CRSP). Famma/French construct a vast library of research portfolios based on this data, six of which are "6 Portfolios formed on Size and Book to Market." Price, dividend, shares, and volume data are historically adjusted for split events to make data directly comparable at different times during the history of a security.

The performance results are based upon a hypothetical model and may have inherent limitations. Hypothetical performance does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risks associated with actual market conditions. There are numerous other factors related to the markets in general, or to the implementation of any specific trading strategy, which cannot be fully accounted for, and all of which can adversely affect actual trading results.

No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. The hypothetical results do not represent actual recommendations or trading by Anchor and should not be considered as indicative of the skills of the investment adviser. During the period shown, the Adviser was not managing client accounts according to the strategy depicted.

Growth Cycle: 2007 to Present

The current growth cycle, led by transformative advancements in mainstream technology, has dominated the investment landscape since 2007. It followed the sustained value investing cycle from 2000 through 2007 that helped stabilize a financial market in turmoil after the Dot.com bubble burst in early 2000. Six companies - Amazon, Apple, Google Alphabet, Facebook, Netflix, and Microsoft – are the primary catalysts for the current cycle and, as of 12/31/20, represent 23% of the S&P 500 index.[3] The following tables demonstrate just how impactful these six companies have been during this era.

Current Cycle Catalysts[4]

Annualized Performance as of 12/31/20

	S&P 500	S&P 500 adjusted[5]	Impact
1 Year	18.40%	10.45%	**7.95%**
3 Years	14.18%	10.04%	**4.14%**
5 Years	15.22%	12.17%	**3.05%**
10 Years	13.88%	11.94%	**1.94%**
Since '07	9.47%	7.93%	**1.54%**

Source: FactSet financial data and analytics

Cumulative Return: 2007 through 2020

Name	Return
S&P 500	**256%**
Amazon	8,154%
Apple	4,977%
Netflix (added Dec. 2010)	2,054%
Microsoft	910%
Alphabet	660%
Facebook (added Dec. 2013)	400%

Market Rotation: The Shift to Value

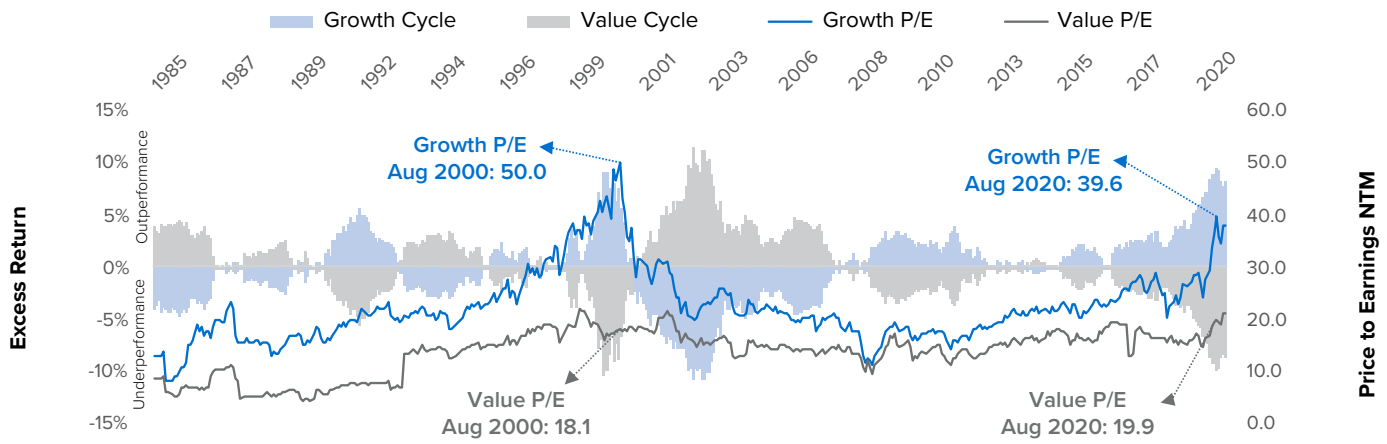
Many investors question the relevance of value investing during sustained growth cycles. History indicates that market leadership regularly shifts between growth and value. Since 1986, the average change in market leadership between growth and value, based on 36 month rolling returns, occurred every 15 months. The current growth cycle is now in its 48th month, starting in January of 2017.

We at Anchor believe the market rotation from Growth to Value is underway:

- **Extreme Valuation Gap:** The current valuation gap between growth and value stocks has not been this extreme since the tech bubble of the late 1990s, when significant value outperformance followed in the subsequent years after growth stock valuations peaked in August 2000. In the current cycle, we feel this valuation disparity peaked in August 2020.
- **Covid Stimulus, Vaccine Rollout, and the Biden Agenda:** As the pandemic recovery accelerates, along with the rollout of the Biden Administration's economic agenda, we believe it will lead to a growing economy, strong stock market, and higher interest rates. Higher rates tend to support value investing. Growth stocks are unlikely to be able to sustain their lofty valuations -which have been fueled by historically low interest rates.

Value vs. Growth: Broad Market Analysis[6]

36 Month Rolling Windows Ending December 31, 2020



Source: eVestment Analytics

In our opinion these factors indicate that we are in the early stages of a value recovery. As such, we caution investors against underweighting value investments in their portfolios. Market movements over the last five years have likely caused a natural overweight to growth and an underweight to value. Are your current portfolio weights in line with your long term investment policy? We feel it is more important than ever to consider a strategic exposure to value.

At Anchor, we use our fundamental value investing approach, to deploy our time-tested process of building risk-controlled portfolios designed to outperform their benchmarks over full market cycles. We are proud of our heritage, confident with our current positioning and look forward to participating in a sustained resurgence for value investing.

[3] FactSet financial data and analytics
[4] FactSet financial data and analytics
[5] S&P 500 return excluding Amazon, Apple, Google, Facebook, Netflix, and Microsoft
[6] eVestment Analytics

The Russell 3000® Growth Index is a market capitalization-weighted index based on the Russell 3000 index. The Russell 3000 Growth Index includes companies that display signs of above-average growth. The index is used to provide a gauge of the performance of growth stocks in the United States. 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.

The S&P 500® is widely regarded as the best single gauge of large cap U.S. equities. There is over USD 4.83 trillion benchmarked to the index, with index assets comprising approximately USD 1.1 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

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