ANCHOR CAPITAL ADVISORS LLC

Founders
Portfolio Commentary
As of June 30, 2021

The views expressed below are those of Anchor Capital Advisors, LLC ("Anchor") as of the stated date and are subject to change at any time. They are based on our proprietary research and general knowledge of said topic. The below content and applicable data are in support of our views on said topic. Please see additional disclosures at the end of this publication.

Market Review

As vaccination rates climb, more states fully reopen, and a sense of returning to normalcy is beginning to take hold, we continue to see the U.S. equity markets respond positively during the second quarter. After a sharp rebound in small cap stocks from last November, we saw the markets transition to large cap stocks with a tilt to growth during the quarter. The S&P 500 was +8.6%, followed by Russell Mid Cap at +7.5% and finally Russell 2000 at +4.3%.[i] Technology, Communication Services, and Real Estate led the second quarter after being laggards the prior six months.[ii] The value trend is in place and we expect to see continued leadership from the Energy, Financials, and Materials sectors. The cyclical rally appears to be slowing down as the recovery and markets are shifting from early to mid-cycle. In the mid-cycle stage, we expect that the markets will broaden, quality companies will be more desirable, and stock picking will come into focus. These attributes benefit Anchor's portfolios as we believe quality performs well over market cycles.

Financial results reported in April and May were strong as companies benefitted from the economy reopening, additional government stimulus, unemployment benefits, and pent up demand for goods and services.[iii] Many companies were able to reduce costs during the pandemic, which has helped drive strong earnings growth. However, on recent earnings calls, we have consistently heard about rising costs - including higher input to freight and labor costs. Management teams have warned that earnings may not be as robust going forward due to these increased costs. They have also indicated they are trying to pass these costs, where possible, through to the end consumer.[iv]

When the pandemic hit, companies - many of which employ just in time systems- automatically reduced inventories in anticipation of a slow rebound. A hurricane in Louisiana, a deep freeze in Texas and the Suez Canal jam compounded supply chain issues. As the economy has recovered very quickly there have been shortages of a number of goods and freight costs have soared. On top of that, additional stimulus and unemployment benefits appear to have had the unintended consequence of making it less attractive for people receiving those benefits to return to work. Thus, many retailers and restaurants are having to raise wages to attract workers. Many states are suspending the additional unemployment benefits and hopefully the labor situation will improve. We believe that the shortages will be rectified over the next several quarters.

All of these factors combined have translated into a rise in the rate of inflation not seen since August of 2008. In April and May, we saw consumer price index (CPI) 12-month percentage growth of 4.2%[v] and 5%[vi], respectively. For context, the Federal Reserve (Fed) has a dual mandate to keep full employment and stable prices – with a current inflation target that averages 2% over time.[vii] We suspect that the growth seen in more speculative activities has been fueled in part by liquidity provided by the government.

Performance Overview

The Anchor Capital Founders Portfolio underperformed the Russell 2500 index during the quarter.

On a relative basis, the Portfolio benefitted the most from security selection in the Technology and Industrials sectors as well as an underweight allocation to Utilities. Security selection in the Financials, Health Care, and Consumer Discretionary sectors were the greatest detractors from performance.

Quarterly Attribution Highlights[viii]

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

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
HyreCar, Inc. (HYRE)	6.14%	4.92%	Aterian Inc (ATER)	8.02%	-5.98%
Celsius Holdings, Inc. (CELH)	7.26%	3.70%	Viemed Healthcare Inc (VMD)	5.26%	-2.07%
EPAM Systems, Inc. (EPAM)	6.61%	1.56%	AudioEye, Inc. (AEYE)	3.33%	-2.03%
Open Lending Corporation Class A (LPRO)	5.30%	0.98%	eXp World Holdings, Inc. (EXPI)	6.73%	-1.27%
BM Technologies, Inc. Class A (BMTX)	5.10%	0.65%	CarLotz, Inc. Class A (LOTZ)	2.62%	-0.99%

Quarterly Transactions

Purchased	Sold
LifeMD Inc (LFMD)	Ion Acquisition Corp (IACA)

Purchases

LifeMD Inc (LFMD) is a leader in direct to patient telehealth in 50 states. They have 4 telehealth oriented brands for men's ED, hair loss, derm, and concierge coming. Through LifeMD people can go online, have a doctor do a consultation via telemedicine, and be prescribed medication. The company is expected to grow 300% this year, and should continue to rapidly grow for years to come. It sells at a 75% discount to its closest peer HIMS. We believe the company has the opportunity to 5x to 10x the size of the business over the next few years, as well as re-rate closer to peers in the telemedicine space.

Sales

Acquisition Corp (IACA) We sold Ion Acquisition Corp based on wanting to add LifeMD, and realizing which had the better opportunity set from here.

Outlook

The Fed is in an interesting spot because they want the economy to fully recover and get to full employment, but they do not want inflation to get out of control.[ix] This is controlled by the Fed raising interest rates.[x] If the Fed raises rates too early then the economy could stall out, and if the Fed waits too long then the rampant inflation could impact economic growth.[xi] In addition, the Fed is cautious in telegraphing any interest rate increases so the markets do not sell off. The Fed has said that they are happy to let inflation run a little hot, but based on the June Fed meeting they are expecting to have two interest rate increases in 2023.[xii] Interest rates increased quickly for the 10 Year Treasury Bond, from 0.90% at the end of 2020 up to 1.7% at one point, and is now hovering around 1.5%.[xiii] We expect that interest rates will grind higher as the year progresses and the economic recovery takes hold.

President Biden's proposed infrastructure plan, which is currently being negotiated, is meant to fix aging infrastructure, support the continued build out of electric vehicle charging stations, fund solar and wind projects and build out broadband for rural America.[xiv] To fund this plan requires an increase in corporate and personal taxes to currently unknown levels. In looking at our holdings, we are monitoring the impact a potential tax increase from 21% to as high as 28% could have on their business. The proposal also includes an increase in the capital gains tax rate.[xv] For many investors that would be a significant and impactful change. Our ability to construct portfolios of securities we can hold over multiple market cycles remains critical.

As the global economy reopens and we see strong GDP growth, especially in emerging markets, we expect that value will continue to perform well. We anticipate there will be demand for value parts of the market like industrials, energy, and materials. Generally, a strong economic recovery benefits banks, as interest rates rise and loan growth increases. As mentioned earlier, we expect that the markets will broaden, quality companies will be more desirable, and stock picking will come into focus. These attributes benefit Anchor's portfolios as we believe quality performs well over market cycles.

We continue to look for high quality companies that can manage through the business cycle and have the ability to grow. Our research process allows us to identify strong businesses and the COVID-19 selloff gave us the opportunity to buy these companies at a discount to intrinsic value. We now have to be patient as the market realizes the earning potential for our portfolio companies. We are excited about the holdings in our portfolios and we believe we are well positioned going forward.

[i] FactSet financial data & analytics; Charting
[ii] Ibid.
[iii] https://www.morganstanley.com/ideas/excess-savings-fiscal-spending-boosts-economy
[iv] https://www.wsj.com/articles/companies-weigh-price-increases-other-options-as-costs-rise-11621243807
[v] https://www.cnbc.com/2021/05/12/consumer-price-index-april-2021.html
[vi] https://www.nytimes.com/2021/06/10/business/consumer-price-index-may-2021.html
[vii] https://www.chicagofed.org/research/dual-mandate/dual-mandate#:~:text=What%20is%20the%20dual%20mandate,longer%2Drun%20goals%20and%20strategies.
[viii] FactSet financial data & analytics; Attribution
[ix] https://www.cnbc.com/2021/03/20/the-fed-can-fight-inflation-but-it-may-come-at-a-cost.html
[x] Ibid.
[xi] Ibid.

[xii] https://www.cnbc.com/2021/06/16/fed-holds-rates-steady-but-raises-inflation-expectations-sharply-and-makes-no-mention-of-taper.html
[xiii] FactSet Data & Analytics, Charting
[xiv] https://www.npr.org/2021/04/01/983470782/by-the-numbers-bidens-2-trillion-infrastructure-plan
[xv] Ibid.

For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800.