The Power of Compounding

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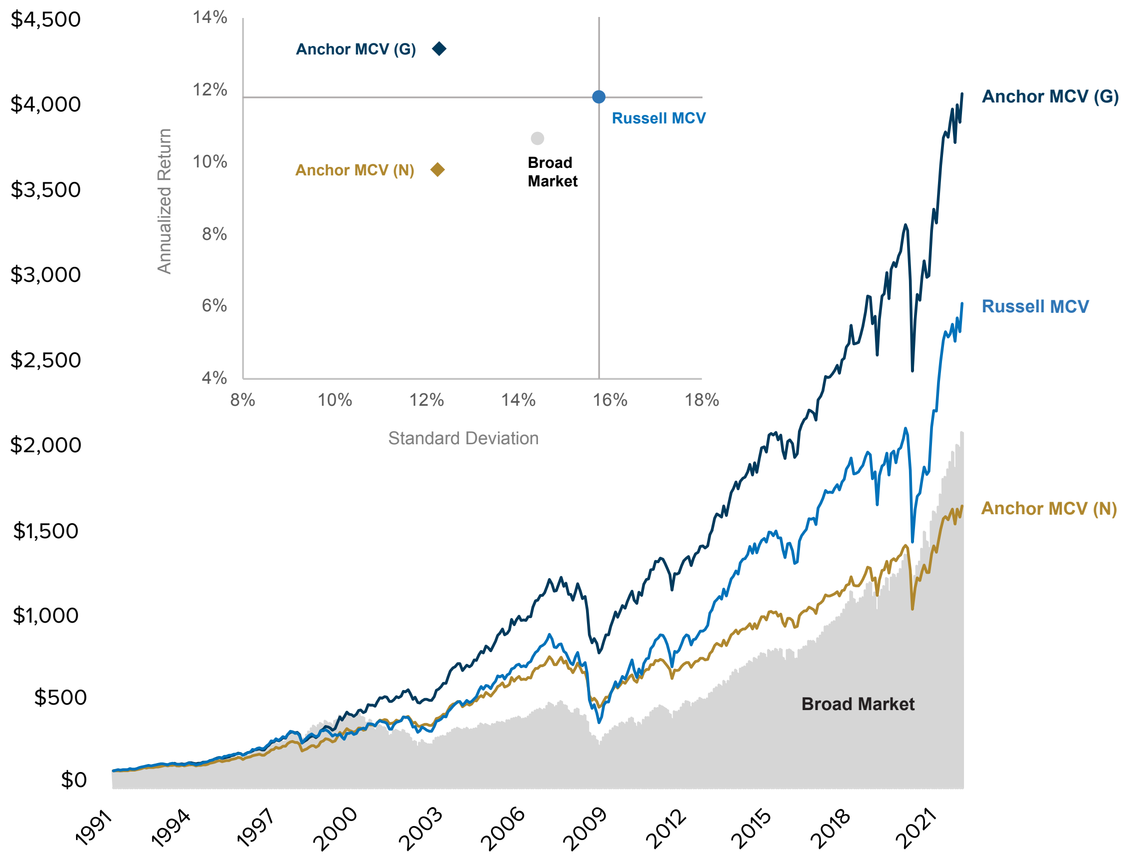
Introduction

Anchor Capital has held a singular mission since its founding in 1983; to protect and grow the capital to which we have been entrusted over the long-term, by maintaining a disciplined, repeatable investment process tied to an unwavering risk management process. To that end, we employ our fundamental investment approach to discover, what we consider to be, high quality companies, generating stable, consistent returns while protecting and preserving wealth in turbulent markets. Our unwavering commitment to both capital appreciation and capital preservation have been factors that have allowed us the opportunity to compound shareholder wealth at what we believe to be a much greater rate than the market, while providing relative downside protection. This is the hallmark of Anchor's DNA.

Growth of $100 / Risk Return Analysis[1]
January 1, 1992 – December 31, 2021



Source: eVestment Analytics

Long term Compounding – Key Investment Tenants
We focus on the fundamentals. With the belief that the key to securing compounded growth over the long-term lies in constructing a portfolio of companies that we believe to be high quality, well run and that are undervalued relative to the broader market. The following elements of our investment process are critical to attaining the results in the chart above:

- **Margin of Safety/Valuation**
  Anchor seeks to buy companies that are trading at a discount to our assessment of their intrinsic value, which we refer to as a margin of safety. Intrinsic value may be determined by the company's ability to generate free cash flow over time or by the value of the company's assets. Valuation methods include discounted cash flow analysis, calculation of the net asset value of the company, an assessment of the company's private market value based on recent deal activity, sum-of-the-parts analysis, a consideration of earnings power based on normalized margins (especially for highly cyclical businesses or companies with transitory issues).

  We attempt to identify sources of a company's tangible value, which may include brands or trademarks, land or real estate, fixed assets or contracts and goodwill. Anchor will use as many valuation tools as possible or appropriate for each situation. A portfolio of undervalued companies at the time of purchase should help to preserve capital over time. Much of our success can be attributed to our ability to protect our clients' assets in turbulent market environments.

- **Risk Assessment**
  Riskier investments are those for which the outcome is less certain and for which the probability distribution of returns is wider. Risks that we rigorously assess include technology obsolescence, patent expiration, management turnover, data security, competition, environmental regulations, capital allocation, balance sheet, interest rate, foreign exchange rate, and accounting risks. Anchor defines risk as the permanent loss of principal.

- **Time Horizon**
  Anchor has a 3-5 year time horizon for investments and in many instances, can be even longer. We practice what we call "time horizon arbitrage", which means that by having a longer time horizon than other investors, we can afford to look past a company's short term difficulties to a potential time when the share price will more closely approximate our estimate of intrinsic value. This is one of our key differentiators.

- **Key Sustainable Advantages: Companies with Significant Moat**
  Having a sustainable competitive advantage is a critical component of growth, and the accretion and compounding of net asset value. We invest in companies that consistently generate returns on capital significantly in excess of their cost of capital. We seek companies with strong franchises, large amounts of predictable and recurring revenues, high barriers to entry, hard to replace assets, leading market positions, strong brands and the ability to raise prices.

- **Quality of Business Model**
  Anchor considers the quality of the business, stressing the visibility of sales and earnings, the consistency of the company's operating history, the degree to which the company is integral to the functioning of its customers, the amount of recurring revenue and the competitive environment. We appraise the value of the company's physical and intangible assets. We prefer businesses that are easy to understand, analyze, model, and that are dominant in their industry. A good business should be able to raise prices at least enough to offset inflationary pressures.

- **Industry Structure and Competitive Dynamics**
  Anchor seeks to understand the characteristics of the industry in which a company operates and takes into consideration the bargaining power of suppliers and buyers and the threat of new entrants and substitution. The underlying growth trends and competition within the industry and among other industries are important considerations. We should be able to reasonably estimate what the industry will look like five years from now.

- **Avoidance of Leverage**
  We pay close attention to a company's financial leverage and avoid companies that we believe have too much debt or other obligations. We have a strong preference for companies that are less dependent on the capital markets for their financing and are better able to make capital allocation decisions. Importantly, we also consider operating leverage, which is a measure of the impact on a company's earnings that could result from a decline in sales. We also consider a company's concentration in a particular industry, geography, or exposure to a large customer.

- **Analyzing a Company's Earnings**
  In addition to GAAP earnings, Anchor considers a company's "look through earnings". We define these as the operating cash flow of the company less capital expenditures, adjusted for share based compensation dilution (we assume that share based dilution will be offset with cash flow that would otherwise be available to shareholders or reinvested in the business) and adjusted for other cash requirements such as pension contributions. We want to know what cash flow shareholders can truly consider "theirs". The predictability, sustainability, and estimated growth of look through earnings are critical.

- **Analyzing Management**
  Anchor speaks and/or meets with the management teams of its holdings on a regular basis and evaluates them based on their honesty, their historic record of achieving specific goals, their ability to communicate a concise capital allocation framework and our assessment of the alignment of their incentives with the interests of our clients. It is important that management have a significant portion of their net worth in the shares of the company. Analysts often conduct company and facility visits as part of their work. We view our ownership of companies' shares as a long-term partnership between management and us and act as fiduciaries on behalf of our clients.

- **Growth Prospects**
  While Anchor is a value manager, we seek companies that are growing their sales, cash flow, and intrinsic value per share. We believe that growth can be hard to predict, and we are generally not willing to pay high multiples for companies that are considered to be rapid growers, however, we often consider buying faster growing companies when their valuations are attractive.

- **Adequate Return**
  An adequate return is dependent upon several factors, but at a minimum Anchor looks for companies that will grow earnings faster than the market and in many cases pay a dividend to shareholders. Anchor requires a minimum 10% expected total return annually for equity purchases.

Anchor Mid Cap Value Model (Since Inception: January 1, 1992)[2]

	Strategy (Gross)	Strategy (Net)	Benchmark	Broad Market
Annualized Performance	13.2%	9.8%	11.8%	10.7%
Upside Capture	83.9%	74.9%	100.8%	100.0%
Downside Capture	67.0%	73.2%	95.4%	100.0%
Standard Deviation	12.3%	12.2%	15.8%	14.4%
Downside Standard Deviation	11.4%	11.4%	14.3%	10.8%
Sharpe Ratio	0.9	0.6	0.6	0.6

Source: FactSet financial data and analytics

We believe the critical tenets to achieving long-term compounded returns are the ability to provide not only competitive results in appreciating markets, but also protecting capital when markets are in decline. Demonstrated in the grid above, Anchor's long-term outperformance has been achieved primarily by capital preservation. We have been competitive with market returns on the upside, but our outperformance on the downside has been the foundation for our long-term performance.

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1 eVestment Analytics. The Anchor Mid Cap Value strategy is used to illustrate the effects of compounding. The Russell Mid Cap Value serves as the risk benchmark, and the S&P 500 the broad market proxy.

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The **Russell Midcap Value Index** measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set. The benchmark returns include the reinvestment of income.

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. The benchmark returns include the reinvestment of income.

Definitions:
- **Upside capture** is simply the ratio of a fund's overall return to global equity market returns evaluated over periods when equities have risen. **Downside capture** is the same ratio when equities have fallen. The time period for measurement matters. Too short and results can be meaningless and volatile.
- A **standard deviation** is a statistic that measures the dispersion of a dataset relative to its mean. The standard deviation is calculated as the square root of variance by determining each data point's deviation relative to the mean. If the data points are further from the mean, there is a higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation.
- **Downside standard deviation** is a measure of downside risk that focuses on returns that fall below a minimum threshold or minimum acceptable return (MAR). It is used in the calculation of the Sortino ratio, a measure of risk-adjusted return. The Sortino ratio is like the Sharpe ratio, except that it replaces the standard deviation with downside deviation.
- The **Sharpe ratio** was developed by Nobel laureate William F. Sharpe and is used to help investors understand the return of an investment compared to its risk. The ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk. Volatility is a measure of the price fluctuations of an asset or portfolio.

Mid Cap Value Model Disclosures

MODEL DESCRIPTION: The Anchor managed accounts mid cap value (mcv) 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 mid cap sponsor program portfolios in aggregate. The investment objective for the model is to achieve a high rate of return through the purchase of mid cap stocks.

MODEL DISCLOSURES: 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 mid 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 income. Effective 1/1/2010, dividends (excluding income on money market securities) are credited on an accrual basis. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Quarterly 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 Mid Cap Indices exclude fees. The Managed Accounts Mid 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 calculated by compounding the monthly net returns to calculate the quarterly, YTD and annual returns. The numbers may be slightly different from net returns published in other Anchor Capital materials created outside of Style Advisor prior to 6/30/2017, which were calculated by simply subtracting 3% from the annual gross return. Additional information regarding policies for calculating and reporting model returns is available upon request. Prior to 2005 performance is based on the Anchor Mid Cap Value Composite performance.

BENCHMARK DESCRIPTION: The Russell Midcap Value Index measures the performance of the mid cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap Value Index is constructed to provide a comprehensive and unbiased barometer of the mid cap value market. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid cap value market. The Russell Midcap Index measures the performance of the mid cap segment of the U.S. equity universe. The Russell Mid cap is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid cap opportunity set. The benchmark returns include the reinvestment of income.

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

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