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

In our opinion, we are, and will continue to be, in a new investment regime with higher levels of inflation and higher interest rates for the foreseeable future, signaling a rotation from growth to value in the market similar to what we saw in the early 2000's. For the last several years we saw massive amounts of money flowing into venture capital,[i] biotechnology,[ii] and cryptocurrencies,[iii] all of which are in the process of unwinding. In response, investors are moving money into more traditional value sectors, such as energy and natural resources. While the transition period from growth to value in the early 2000's was volatile, value outperformed expectations for the next several years.[iv]

U.S. Equity Markets

Every sector of the U.S. equity market sold off during the second quarter with the S&P 500 and Nasdaq indices firmly in bear market territory (defined as a greater than 20% drawdown) for the year.[v] The value indices are also down but have fared better than the core and growth indices.[vi] The primary reason, in our opinion, is the rotation from growth to value, with the expectation of benefiting from value's defensive characteristics through a rising rate environment. Coming into this year, growth areas of the market were overvalued relative to history and have benefited from the low interest rate environment over the last decade.[vii] As interest rates increased significantly this year to combat high inflation, we have seen large stock price decreases and valuation re-ratings in the technology, consumer discretionary, and communication services sectors.[viii] Meanwhile energy, consumer staples, healthcare, and utilities sectors have been less negative and behaved defensively in the market sell off.[ix]

Even with the markets being down there are some major undercurrents across sectors. The Covid-19 pandemic and associated government policies distorted consumer spending. Consumers had extra money either from savings or stimulus and used those dollars to buy goods.[x] Retailers responded by ordering more goods, which were delayed by supply chain issues and finally arrived this year.[xi] This led to a surplus of goods and increase in discounted items, increasing losses for this sector. We are now seeing a normalization back to pre-pandemic levels on the goods side and a shift in consumer spending.[xii] Furthermore, the cost of essentials like food, rent, and oil have gone up considerably, which impacts the consumer and their spending.[xiii] The shift happened so fast that it caught many companies by surprise and has made it difficult to forecast spending patterns and costs.[xiv] We expect the second quarter earnings season to be challenging given the rapid economic shifts. Currently, the expectations are for the S&P 500 earnings growth to be up 6% for 2022,[xv] but that prediction may be revised downward as the year progresses.

Inflation

The inflation picture has not eased as evidenced by the 8.6% annualized CPI growth in May.[xvi] This has been a year of sustained high inflation numbers due to various factors, including higher oil, food, and rent prices, as well as increases in wages and supply chain issues.[xvii] While some of the supply chain issues are getting better, we expect inflation to peak in the second half of 2022 and that it will remain elevated for some time.

Between government regulations and underinvestment in energy and natural resources, prices are likely to remain elevated. The forecast for inflation over the next three years is in the 3.5% to 4% range,[xviii] which is much higher than we have seen in the last 20 years. The Federal Reserve is trying to tame inflation by raising interest rates. However, high inflation on its own can be enough to reduce demand and slow growth, which is what we are seeing now. The question remains whether the combination of high inflation and increased interest rates will push the economy into a recession.

Federal Reserve and Interest Rates

Since the beginning of the year, the bond market has been proactively increasing the interest rates on government bonds. In the second quarter, the yield on the 10-year Treasury bond moved from 2.3% to 3.1%,[xix] which is a significant move in a short period of time. The front end of the yield curve steepened, while the back end flattened,[xx] resulting in a slight inversion of the curve.[xxi] We believe the bond market changes indicate that the Federal Reserve was late to act. Even Chairman Powell has acknowledged the need to be more aggressive in raising interest rates. The Fed started raising rates in March with more increases in May and June bringing the Fed fund rates to a 1.5%-1.75% range.[xxii] The market expects the Fed to raise rates at least three more times in 2022 to bring the Fed funds rate closer to the current yields on the 10-year Treasury bond.[xxiii]

Oil

The energy markets have continued to rally with tight supplies and continued pressure from the Russia/Ukraine war. The price of oil has gone from $100/barrel at the beginning of the quarter up to over $120/barrel and back down now to $103/barrel.[xxiv] We expect that energy prices will remain somewhat elevated but are now seeing some demand destruction from the high oil prices. We are just starting to see consumers adjust their driving plans to reflect the higher oil prices.[xxv]

U.S. Economy

Despite the inflation picture and broader macro concerns, the U.S. economy has been fairly resilient. Employment has been strong with unemployment levels continuing to stay at 3.6%.[xxvi] Manufacturing numbers as seen with the Purchasing Managers Index (PMI) has stayed above 50, in expansion territory.[xxvii] Many consumers continue to have a high level of savings relative to historic data.[xxviii] However, we are starting to see cracks in the economy. First quarter GDP growth decreased 1.5%.[xxix] Additionally, 30-year mortgage rates have reached over 6% and high housing prices have caused the housing market and mortgage applications to cool.[xxx] Retail sales for May declined by 0.3%.[xxxi] Finally, the University of Michigan Consumer Sentiment has reached extremely low levels.[xxxii]

Performance Overview

The Anchor Capital Value Opportunities Portfolio outperformed the Russell 3000 Value index for the quarter. On a relative basis, the Portfolio benefitted the most from security selection in the Financial and Industrial sectors as well as an overweighting to Consumer Staples. An underweight allocation to the Health Care and Utilities sectors as well as an overweight allocation to the Technology sector were the greatest detractors from performance.

Quarterly Attribution Highlights[xxxiii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Utilities	Technology
Real Estate	Industrials
Consumer Staples	Financials

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Dollar General Corporation (DG)	2.27%	0.20%	Apple Inc. (AAPL)	2.78%	-0.67%
McKesson Corporation (MCK)	3.20%	0.15%	Walt Disney Company (DIS)	1.51%	-0.56%
Waters Corporation (WAT)	1.16%	0.07%	Microsoft Corporation (MSFT)	2.75%	-0.53%
Helen of Troy Limited (HELE)	0.17%	0.07%	Crown Holdings, Inc. (CCK)	1.57%	-0.46%
Booz Allen Hamilton Holding Corp. (BAH)	1.25%	0.05%	Boston Scientific Corporation (BSX)	2.16%	-0.35%

Quarterly Transactions

Purchased	Sold
Johnson & Johnson (JNJ)	Helen of Troy Limited (HELE)
Shell plc (SHEL)	Perficient, Inc. (PRFT)
AbbVie Inc. (ABBV)	Gibraltar Industries Inc. (ROCK)
First Republic Bank (FRC)	Meta Platforms Inc. (META)
Otis Worldwide Corporation (OTIS)	SP Plus Corp (SP)
	Huntsman Corporation (HUN)
	Citi Trends Inc. (CTRN)

Purchases

Johnson & Johnson (JNJ) is a global healthcare company focused on consumer health, pharmaceuticals, and medical devices. The company is expected to split into two companies: consumer health and pharmaceutical/medical devices. JNJ has a strong pipeline on the pharmaceutical side, and we expect that as a separate company we will see the value unlocked. JNJ also pays a solid dividend.

JNJ has an MSCI ESG rating of BBB. The company has robust talent management initiatives and corporate governance practices. However, the company's weight is restricted by product recalls and lawsuit settlements related to the opioid crisis.

Shell plc (SHEL) is one of the largest integrated oil and gas exploration and production companies in the world. Shell has diverse upstream operations with high exposure to Asia and operates more than 30 refineries worldwide. The company has cut its dividend and capex to make sure the cash flows not only cover the dividend but also allow the company to deliver fast. As one of the largest LNG players in the world, we expect Shell to benefit from the rise in global demand due to continued macro uncertainty, while moving away from Russian oil.

SHEL has an MSCI ESG rating of AA. SHEL is a leader in the space - setting net zero targets. However, a Dutch district court has ruled that it must reduce its 2019 carbon footprint level by 45% by 2030. This may result in SHEL more aggressively selling off assets.

AbbVie Inc. (ABBV) is a major U.S. pharmaceutical company with strong positions in immunology, oncological hematology, and aesthetics. In early 2023 AbbVie's most successful drug Humira will face loss of exclusivity in the U.S. However, the company has already been marketing two next generation drugs (SKYRIZI and RINVOQ) which are expected to grow to $15 billion in sales by 2025. We also like AbbVie's Botox franchise as it has been a steady grower in both cosmetics and therapeutic areas. It is a branded product that is unique in the pharmaceutical industry as it does not face the issue of patent expiration and is very difficult to manufacture. ABBV is a highly cash generative company which, based on our estimates, is likely to generate 7% FCF yield on a sustainable bases going forward. We took a more conservative approach than the management to the sales and profit growth projections and still find the stock inexpensive at PE of 11-12x.

ABBV published an ESG Action Report in 2021 outlining detailed environmental goals for the company. ABBV has already achieved 92% of its zero waste to landfill goal. 51% of management positions are held by women. Product quality and safety are of paramount importance given the nature of the company's business.

First Republic Bank (FRC) is a specialty bank that provides private and business banking, real estate lending, and wealth management services. Its primary focus is on the markets with the greatest wealth in the U.S. They have successfully grown its loan book 15%-20% per year over time with the lowest loss rates in the banking industry. Our recent purchase was due to the company's valuation level.

FRC has a MSCI ESG rating of BBB. FRC tends to have very good governance, but MSCI believes it can make improvements around data privacy.

Otis Worldwide Corporation (OTIS) manufactures and sells elevators for commercial buildings. Otis has a strong reoccurring business with maintenance contracts, as well as growth from new buildings and retrofits of existing buildings. The stock price has pulled back due to concerns over the housing industry in China, which we believe are overdone.

Otis has a MSCI ESG rating of A. Otis is known for having strong anti-corruption policies and environmental management initiatives.

Sales

Helen of Troy Limited (HELE) is a manufacturer and distributor of personal care and household products. HELE benefitted from personal care and health product sales during COVID. Its organic growth is now slowing as COVID benefits disappear. We also believe that it is facing increasing competition in some product lines.

Perficient, Inc. (PRFT) is an IT consulting firm that designs, builds, and integrates technology solutions. We exited the position based on valuation.

Gibraltar Industries Inc. (ROCK) is a manufacturer and distributor of products for the residential, renewable energy, and infrastructure markets. Gibraltar has faced multiple headwinds in its Renewables segment relating supply of solar panels, rapid raw material cost inflation, and labor challenges due to COVID. These issues resulted in lower 2022 guidance than investors were expecting. We exited on concerns of increased solar panel supply chain issues and to make room for more defensive holdings.

Meta Platforms Inc. (META), formerly known as Facebook (FB), includes Facebook, Instagram, WhatsApp, and Reality Labs. META's business is currently undergoing change due to Apple's privacy updates that impacted its advertising platform, as well as its transition to Reels in order to combat competitive threats from fast growing TikTok. The company is also facing other headwinds associated with supply chain issues, the slowdown in e-commerce, the Russia/Ukraine war, and a potential slowdown in advertising spend. Given these uncertainties, we were no longer able to forecast the business with the degree of certainty required. The range of outcomes had widened to a level that we were not uncomfortable with. We still admire the company and will continue to monitor any developments, but until we have further clarity on some of the material issues described above, it was prudent to step to the sidelines to appropriately manage our risk.

META has a MSCI ESG rating of B. According to MSCI, its carbon intensity is 95% lower than the industry average. The company has initiatives to address data privacy and security issues. However, the company still has possible areas of concern related to executive pay and ownership structure.

SP Plus Corp (SP) is a leading provider of outsourced parking management with over 2,000 parking locations and >100 airport locations. We originally purchased SP in the early period of the Covid pandemic as a play on the recovery. While we believe SP Plus is benefitting from increased travel and general economic activity and continues to take share and win new business due to scale and technology, we believe SP is fairly valued at current prices and we chose to exit.

SP Plus focuses on ESG in a number of ways. They have electric vehicle charging stations, follow the Clean Water Act of 1977 for vehicle washing, and have recycling at all locations. From a governance perspective, they have all independent board members. They also have collective bargaining agreements with 76 groups. Finally, the company has a sustainability report with key data based on their ESG focus points.

Huntsman Corporation (HUN) is a chemical company that has improved the overall business and margins while reducing debt. It is a cyclical company and does not tend to do well in market down turns.

Citi Trends Inc. (CTRN) is an off priced retailer based in urban markets. While we like the segment and the growth profile the stock has been impacted by concerns over low end consumer spending and the market capitalization got to a level we could not hold in the portfolio.

Anchor's Positioning

At the beginning of the year Anchor actively reduced or sold out of stocks that had reached full valuations, rotated into stocks with lower valuations, and increased our cash levels. In addition, we added to our energy and materials positions given the potential opportunity for positive estimate revisions and higher dividends. We believe that years of underinvestment and tight supplies will provide tailwinds for many years. During the second quarter these changes helped protect Anchor's portfolios as the markets sold off.[xxxiv] We remain defensive given that we could see more market volatility as the Fed continues to raise interest rates. However, given the level of the sell-off we have opportunistically added new stocks. While this transitional period is challenging, we believe we are well positioned to take advantage of a multi-year value rally.

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