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Market Review

The equity and fixed income markets continue to be volatile with the back drop of high inflationⁱ and high interest rates.ⁱⁱ The markets are anticipating that the Federal Reserve will make a misstep and potentially cause a recession,ⁱⁱⁱ a result of the Fed's commitment to aggressively bringing down the stubbornly high inflation through increasing interest rates and quantitative tightening.^{iv} Questions still remain, can companies and consumers weather this current market landscape as many entered into it, with excess cash on their balance sheets?^v What would be the potential timing and magnitude of a recession? Through volatile markets such as these, Anchor remains focused on downside protection and defensive positioning.

U.S. Equity Markets

All U.S. equity markets ended negative for the quarter with growth indices down more than value.^{vi} The S&P 500 and Nasdaq are firmly in bear market territory as defined by a 20% decline in the markets.^{vii} Large cap stocks outperformed mid and small cap stocks.^{viii} The markets had a short bear market rally at the beginning of the quarter with the hardest hit stocks and sectors rebounding the most.^{ix} In mid-August investors started to get concerned about continued high inflation numbers and how quickly the Federal Reserve would raise rates to combat the inflation, which resulted in a sell-off in the markets in the second half of the quarter.^x Value sectors continue to perform well with energy and utilities as the only positive performing sectors for the year.^{xi} We are also seeing other defensive parts of the market like consumer staples and health care performing well.^{xii} Growth parts of the markets like technology and consumer discretionary continue to trade down.^{xiii}

Second quarter earnings were generally positive for most companies.^{xiv} However, as the quarter progressed, we saw several companies preannounce revised down financials.^{xv} Many of these companies are cyclicals and are generally seeing lower volumes and higher inflation-related costs impacting their businesses. On the flip side travel and entertainment remain strong. The airlines are reporting a rebound in business travelers and strong bookings for holidays.^{xvi} Concert and ticket promoters are reporting strong ticket sales for concerts and other entertainment.^{xvii} Nonetheless, we expect to see more earnings warnings as the year progresses. There hasn't been a recession without a decline in S&P 500 earnings.^{xviii}

Inflation

Inflation, as measured by the consumer price index (CPI), peaked on a year-over-year change at 9.1% in June.^{xix} It declined to 8.5% annualized in July and 8.3% annualized in August.^{xx} The rate of change is continuing to come down and analysts are predicting that it will decrease to 7.5% annualized by year-end.^{xxi}

Energy and commodity prices have declined, but food, rent and utilities remain elevated.^{xxii} Many companies are facing higher inflation-related costs, which are now starting to destroy demand (volumes). Many of these companies are saying that they can only raise prices so much before the customer balks, which appears to be happening now. We believe structural reasons, such as geopolitical events and onshoring of manufacturing and supply

chains, are contributing to inflation remaining higher than we have seen in the past.

Federal Reserve and Interest Rates

The Fed raised interest rates five times in 2022 with the most recent 0.75% increase at the September Fed meeting.^{xxiii} The Fed Funds interest rate range is 3.0% to 3.25%.^{xxiv} Chairman Powell has stated that he will continue to raise interest rates until inflation comes down.^{xxv} The Fed dot plot, which forecasts where interest rates are going, is predicting 4.60% on the 10-year Treasury bond.^{xxvi} As of quarter end it was 3.8%, up from 2.98% at the beginning of June.^{xxvii}

Many investors believed that the Fed would be forced to stop raising interest rates at the risk of putting the economy in a recession. We believe Powell wants his legacy to be his fight to control inflation. Concurrently, the Fed has been quantitatively tightening, selling \$95 billion of Treasury bonds per month to pay down the Fed's balance sheet, which peaked at close to \$9 Trillion.^{xxviii} The effect is reducing the money supply and increasing interest rates, with the hopes of reducing inflation. As a result, the 30-year mortgage rate is at 6.55%.^{xxix} and the U.S. dollar has strengthened to levels we have not seen since 2002.^{xxx}

In fact, the strength of the U.S. dollar is problematic for U.S. corporations that operate abroad and need to convert profits back into U.S. dollars. It also makes exports less competitive. Japan for the first time since 1984 had to sell U.S. dollars to buy Yen to shore up the currency since the Yen had weakened so significantly versus the U.S. dollar.^{xxxi} We believe that a weakening economy, pressures of the currency, and stress in the credit markets could force Powell to pause interest rates in 2023.

Oil

Oil prices have been falling steadily since June with the price per barrel going from \$104 to \$84 at quarter end.^{xxxii} The U.S. government has been releasing oil from the strategic petroleum reserves to help consumers.^{xxxiii} In addition, China, which is a major consumer of oil, has a decreased demand due to their Covid shutdowns and slowing economy.^{xxxiv} On the other hand, natural gas prices have skyrocketed due to Russia shutting off the gas pipeline to Europe.^{xxxv} Europe has been reliant on Russia for its energy needs and is now forced to source gas from the U.S. and elsewhere.^{xxxvi} In our opinion, we are seeing a shortage of oil given the underinvestment in the space and we believe that it will take time and capital to shift to renewable energy sources, which will force higher prices.

U.S. Economy

The U.S. economy continues to hold up well as most economic measures remain in positive territory despite slowing down. The most notable sector of the market to see a slowdown is in housing, with the higher mortgage rates and higher prices.^{xxxvii} Retail sales, outside of food and energy, were most recently negative.^{xxxviii} In the positive camp, credit card sales are back to pre-pandemic levels as consumers have resumed spending on services, travel, and entertainment.^{xxxix} Furthermore, many consumers still have excess

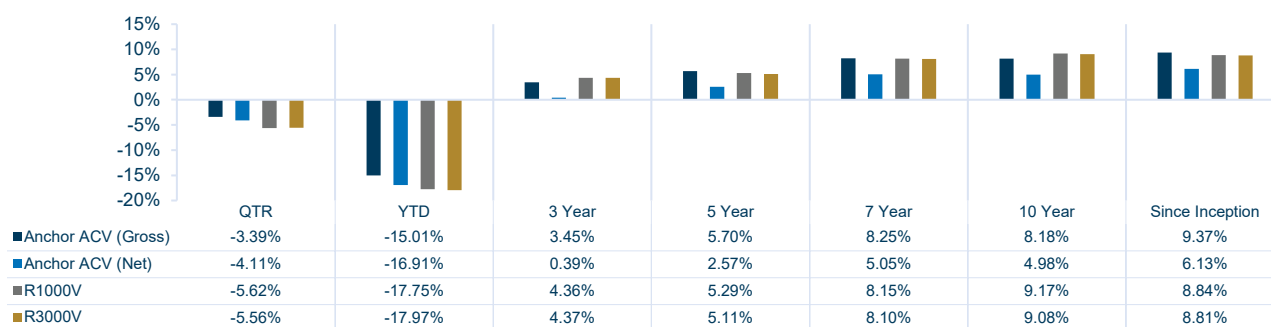
savings from the Covid time period, employment levels remain strong^{xi} and manufacturing indices, while slow are still in expansion mode.^{xii}

Performance Overview

The Anchor All Cap Value Portfolio returned -3.39% (gross of fees) and -4.11% (net of fees) during the quarter, outperforming the Russell 1000 Value Index, which returned -5.62%.

On a relative basis, the Portfolio benefitted the most from security selection in the Consumer Discretionary, Technology, and Consumer Staples sectors. Security selection in the Telecommunications, Industrials and Health Care sectors were the greatest detractors from relative performance.^{xiii}

Managed Accounts Model Performance^{xxxiv} *Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.*



Quarterly Attribution Highlights^{xliv}

Sector - Top 3 Contributors

Consumer Discretionary
Energy
Basic Materials

Sector - Bottom 3 Detractors

Health Care
Industrials
Financials

Security - Top 5 Contributors

| | Avg. Weight % | Contribution % |
|--------------------------------------|---------------|----------------|
| Marathon Petroleum Corporation (MPC) | 1.09% | 0.19% |
| Ross Stores, Inc. (ROST) | 0.63% | 0.18% |
| M&T Bank Corporation (MTB) | 1.71% | 0.15% |
| Lowe's Companies, Inc. (LOW) | 1.83% | 0.13% |
| Walmart Inc. (WMT) | 1.94% | 0.11% |

Security - Bottom 5 Detractors

| | Avg. Weight % | Contribution % |
|---|---------------|----------------|
| Comcast Corporation (CMCSA) | 1.50% | -0.36% |
| Procter & Gamble Company (PG) | 2.31% | -0.25% |
| Mondelez International, Inc. (MDLZ) | 2.20% | -0.24% |
| Alcon AG (ALC) | 1.50% | -0.23% |
| Raytheon Technologies Corporation (RTX) | 1.41% | -0.21% |

Quarterly Transactions

Purchased

Diageo plc (DEO)

Sold

Ross Stores, Inc. (ROST)
SPDR Gold Trust (GLD)

Purchases

Diageo plc (DEO) is a global international spirits company with a broad-based geographic footprint and strong presence in almost all key categories. The company has been a long term compounder growing steadily in the premium segment of the market. It has had a stable operating margin between 28% and 32% in the past almost two decades. DEO's marketing and brand building capabilities are among the best in industry and across consumer goods. It is a reliable free cash generator which has grown dividends every year since 2000. DEO is well positioned to deliver a strong operating

performance going forward thanks to favorable category and geographic mix of its product portfolio.

Sales

Ross Stores, Inc. (ROST) is a U.S. off-priced retailer. They sell clothing, shoes, home goods, and toys at prices 20% to 70% less than department and specialty stores. Off priced retailers have been gaining market share as consumers have shifted their spending. Consumers enjoy the treasure hunt experience and getting a value.



Also, consumers have traded down to off-priced retailers in challenging economic conditions. Given the high inflationary environment consumers are focused on basic goods and not spending on discretionary goods. Given the macro environment we chose to sell ROST for better opportunities.

SPDR Gold Trust (GLD) tracks the gold spot price, less expenses and liabilities, using gold bars held in London vaults. We sold out of the position given that inflation should start to recede.

Anchor's Positioning

Since the beginning of the year Anchor has been defensively positioned across all strategies.^{xiv} We reduced our exposure to higher growth and fully valued companies and sectors that are more

likely to be impacted by higher interest rates and rotated into less expensive, more defensive companies and sectors. Certain health care, defense, insurance, utilities, and core consumer companies behaved defensively and performed better during the market sell-off and were positive contributors. We have also brought up cash levels across all strategies, which contributed to performance. We focused our efforts on downside protection and that has played out during the quarter, as we waited to see how inflation and interest rates played out. We believe that much of the excess over the last few years needs to be purged. On the fixed income side, we remain shorter duration, higher cash and defensively positioned to weather through the rates increases. We are being patient, and the investment team is working hard to uncover value-oriented opportunities that we can put to work once we see a bottoming process in the markets.

ⁱ <https://www.cnbc.com/2022/09/13/inflation-rose-0pointpercent-in-august-even-with-sharp-drop-in-gas-prices.html>

ⁱⁱ FactSet Data & Analytics, Charting

ⁱⁱⁱ <https://www.bloomberg.com/features/2022-federal-reserve-recession-inflation-response/?leadSource=verify%20wall>

^{iv} <https://www.cnbc.com/2022/09/21/fed-rate-hike-september-2022.html>

^v <https://www.cnbc.com/2022/08/13/ultra-rich-still-shopping-for-luxury-despite-inflation-recession-fears.html>

^{vi} <https://www.gsam.com/content/gsam/us/en/institutions/market-insights/gsam-connect/2022/credit-check-in-balance-sheet-status-check.html>

^{vii} FactSet Data & Analytics, Charting

^{viii} Ibid

^{ix} Ibid

^x Ibid

^{xi} Ibid

^{xii} Ibid

^{xiii} Ibid

^{xiv} <https://www.reuters.com/markets/us/us-corporate-profits-economic-outlooks-surprisingly-upbeat-2022-08-02/>

^{xv} https://advantage.factset.com/hubs/Website/Resources/Research%20Desk/Earnings%20Insight/EarningsInsight_092322.pdf

^{xvi} <https://www.dallasnews.com/business/airlines/2022/09/13/business-travel-bookings-for-fall-signal-a-blockbuster-season-for-airlines/>

^{xvii} <https://www.nasdaq.com/articles/live-nation-lyv-benefits-from-robust-demand-for-live-events>

^{xviii} FactSet Data & Analytics, Charting

^{xix} <https://www.cnbc.com/2022/09/13/inflation-rose-0pointpercent-in-august-even-with-sharp-drop-in-gas-prices.html>

^{xx} Ibid

^{xxi} <https://www.stlouisfed.org/publications/regional-economist/2022/aug/gdp-growth-decelerating-inflation-us-economic-outlook#:~:text=In%20August%2C%20the%20consensus%20from,ands%20to%20.5%25%20in%202024.>

^{xxii} Ibid

^{xxiii} <https://www.cnbc.com/2022/09/21/fed-rate-hike-september-2022.html>

^{xxiv} Ibid

^{xxv} Ibid

^{xxvi} Ibid

^{xxvii} FactSet Data & Analytics, Charting

^{xxviii} <https://www.cnbc.com/2022/09/21/fed-rate-hike-september-2022.html>

^{xxix} <https://www.bankrate.com/mortgages/30-year-mortgage-rates/>

^{xxx} FactSet Data & Analytics, Charting

^{xxxi} <https://www.cnn.com/2022/09/22/investing/japan-yen-intervention>

^{xxxii} FactSet Data & Analytics, Charting

^{xxxiii} <https://www.energy.gov/articles/doe-announces-notice-sale-additional-crude-oil-strategic-petroleum-reserve>

^{xxxiv} <https://www.reuters.com/markets/commodities/china-oil-demand-may-shrink-first-time-since-2002-covid-curbs-bite-2022-09-09/>

^{xxxv} <https://www.reuters.com/business/energy/no-stream-eu-gas-markets-brace-price-surge-after-latest-russia-gas-cut-2022-09-04/>

^{xxxvi} Ibid

^{xxxvii} <https://www.cnbc.com/2022/09/21/existing-home-sales-fall-in-august-and-prices-soften-significantly.html>

^{xxxviii} <https://www.nytimes.com/2022/08/17/business/us-retail-sales-july.html>

^{xxxix} <https://www.cnbc.com/2022/08/05/credit-card-usage-surges-amid-record-inflation.html>

^{xl} <https://www.bls.gov/news.release/pdf/empstat.pdf>

^{xli} <https://tradingeconomics.com/united-states/business-confidence>

^{xlii} FactSet financial data & analytics; attribution

^{xliiii} eVestment Analytics, see model disclosures below.

^{xliiii} FactSet financial data & analytics; attribution

^{xliiii} FactSet financial data & analytics

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 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. 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. 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 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.

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 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 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.

For a complete listing of all strategies contact Anchor Capital Advisors LLC (617) 338-3800. For Financial Professional Use Only. Not For Use with the Public.

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