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Overview

It has been a very eventful quarter. The year started with hopes that we may avoid or see only a shallow recession. As a result of slowing economic growth coupled with the retrenchment of the banking sector in the wake of several bank failures, a recession has become more probable.

While it appears that regulatory failure and management oversight were the main issues, the regional banking crisis is more nuanced than that. In the last two years, deposits at banks have doubled due to stimulus payments and market appreciation. Meanwhile, interest rates have increased significantly causing the bank's investment portfolio bonds to lose value to levels below the deposits on hand. This caused an asset/liability mismatch.[i] The speed of interest rate increases has seemingly caught many banks unprepared. With over 60% of people in the U.S. using mobile banking[ii] and having the means to transfer money online helped accelerate withdrawals. This left us concerned about the ripple effect a banking crisis could have on the economy.

The Federal Reserve stepped in to backstop the banks by purchasing bank held government and treasury bonds at face value. These bond purchases allowed banks to raise cash to cover deposits.[iii] While not an explicit guarantee, it has helped provide support for the banks. In the last few weeks, the Federal Reserve has used over $300 million of its balance sheet to do so.[iv] The markets rebounded in late March on the news of the support to banks.

As a result, banks will now hold on to more cash, lend out less and be generally less profitable. Tighter lending and credit markets will cause the economy to slow down. We expect continued shakeout in the banking sector with the larger banks taking share from both small and medium sized banks. After several years of significant hiring by all the major tech firms, most are now having to reduce their headcount given slowing sales.[v] On the positive side, we are seeing rapid developments in artificial intelligence (AI).[vi] Microsoft was an early investor and adopter of ChatGPT, an AI tool used to answer questions for people in search engines, which we believe has given it a first mover advantage.[vii] Many other technology firms are quickly racing to develop their own AI tools. These cost cutting measures plus the excitement around AI has led the technology and communication services sectors to outperform.

U.S. Equity Markets

Despite high levels of volatility over the quarter, equity market performance was better than expected. The quarter began strong as the hardest hit stocks of 2022 rallied the most.[viii] As we entered February, Fed Chairman Powell indicated they were going to continue to raise interest rates and they would stay higher for longer. This dashed the hopes of many investors who believed that the Fed would pivot and start cutting rates[ix], which resulted in the markets selling off. In March we saw a banking crisis that resulted in three major banks failing and put others in jeopardy. This spurred the concern that we are now headed for a recession causing other cyclical parts of the market, like energy and materials, to sell off. However, with the Fed stepping in to shore up the banks, it allowed for a relief rally at the end of the quarter.

The technology and communication services sectors outperformed, while energy, utilities and financials sectors performed the worst.[x] Despite all this, the Nasdaq was up 17% and the S&P 500 was up 7.5%.[xi] Meanwhile, the Dow Jones, which has larger weights in the financials and energy sectors, was slightly up at 0.9%.[xii] Small Cap stocks were hit the hardest, but then rebounded ending is positive territory (+ 2.7%) for the quarter.[xiii]

U.S. Fixed Income

Since February, the front end (or 12 months) of the Treasury yield curve has steepened as a result of the Fed interest rate increases. Farther out on the curve, interest rates have declined on the speculation of a recession. This has caused price appreciation/positive performance in bonds, especially longer dated bonds.[xiv]

Credit spread between corporate and treasury bonds have been widening. Credit spreads typically widen when there are credit concerns and increased potential for default. Credit spreads were tight and did not indicate a recession until the recent banking crisis.[xv]

Commodity Markets

The commodity markets are anticipating a recession with demand decreasing. Oil prices have fallen from $80/barrel to $75/barrel over the quarter.[xvi] We don't believe there will be a massive sell off in oil given that U.S. oil producers have been limiting production. Also, with China re-opening post Covid, we think there is demand. We have seen commodities increasing in two cases. First, copper prices have been increasing due to global demand for more electric batteries and limited supply of copper.[xvii] Secondly, due to the global banking crisis, gold has been increasing as a safe-haven asset.[xviii]

Inflation

Inflation peaked in June 2022 and has been steadily falling each month since then. The most current Consumer Price Index (CPI) reading was 6% annualized.[xix] While the easy deceleration has happened, the challenge becomes getting the rate back to the Fed target of 2%. Inflation remains sticky in many parts of the economy, most notably wage growth. Goods inflation has fallen while services inflation has continued to increase. There have been many reports about the airlines and railroads having negotiated higher wages, and retail stores have also increased wages to remain competitive. To get rid of high inflation, demand needs to fall. That usually occurs during a recession.

Interest rates/Fed/Economy

Given the persistently high inflation, the Fed has been focused on raising interest rates to bring inflation down. Since March 2022, the Fed has increased interest rates nine times, bringing the rates from essentially 0% to 4.75% during that period.[xx] This has been one of the fastest periods of interest rate increases we have seen in recent history. Historically, there has been a lag effect between raising interest rates and how the economy reacts. We have just started to see the economy slow down. As mentioned before, Chairman Powell wants his legacy to be as an inflation fighter. To bring inflation closer to the Fed's mandate of 2%, interest rates would need to continue increasing. Given the banking crisis and level of national debt, the Fed is walking a tightrope. Investors are hoping that the Fed pauses or even cuts interest rates by year end.

The Treasury yield curve has been inverted over this period, which historically has indicated a recession 12 to 24 months out. Usually, the yield curve reverts when the Fed starts to cut interest rates.

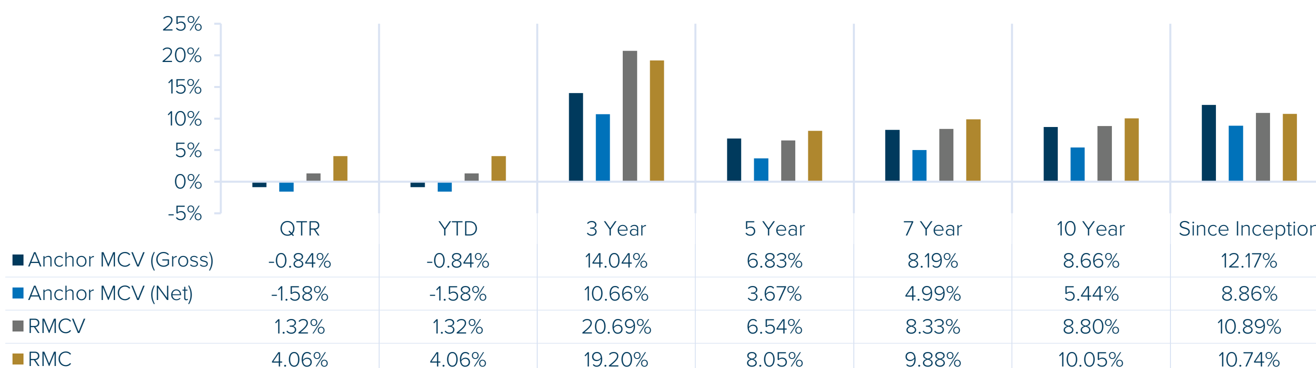
Economic data continues to soften. The Purchasing Manager's Index (PMI), which measures manufacturing activity, continues to be in contraction mode with a reading below 50.[xxi] Retail sales in February declined by 0.4% month over month.[xxii] Existing home sales, which is facing over 7% 30-year fixed mortgage rates,[xxiii] has declined 12 months in row.[xxiv] The only area that continues to be supportive is the jobs picture with employment remaining fairly tight.[xxv] However, with more economic pressures we expect that job layoffs will pick up.

Performance Overview

The Anchor Mid Cap Value Portfolio returned -0.84% (gross of fees) and -1.58% (net) during the quarter, underperforming the Russell Mid Cap Value Index, which returned 1.32%.

On a relative basis, the Portfolio benefited the most from an overweight allocation to Industrials and Technology as well as an underweight allocation to the Financial sector. Security selection in Financials and Consumer Discretionary as well as an underweight allocation to Consumer Discretionary were the greatest detractors from relative performance.[xxvi]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor MCV (Gross)	-0.84%	-0.84%	14.04%	6.83%	8.19%	8.66%	12.17%
Anchor MCV (Net)	-1.58%	-1.58%	10.66%	3.67%	4.99%	5.44%	8.86%
RMCV	1.32%	1.32%	20.69%	6.54%	8.33%	8.80%	10.89%
RMC	4.06%	4.06%	19.20%	8.05%	9.88%	10.05%	10.74%

Models are hypothetical. Past performance is not indicative of future results. Inherent in any investment is the possibility of loss.

Quarterly Attribution Highlights[xxviii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Industrials	Financials
Technology	Energy
Consumer Discretionary	Real Estate

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Watsco, Inc. (WSO)	2.77%	0.66%	First Republic Bank (FRC)	1.96%	-1.69%
Vontier Corp (VNT)	1.55%	0.50%	Bank of Hawaii Corp (BOH)	1.06%	-0.43%
Analog Devices, Inc. (ADI)	2.32%	0.43%	Fluor Corporation (FLR)	3.41%	-0.40%
A. O. Smith Corporation (AOS)	2.07%	0.38%	M&T Bank Corporation (MTB)	2.06%	-0.36%
Ulta Beauty Inc. (ULTA)	2.61%	0.36%	Dollar General Corporation (DG)	1.99%	-0.30%

Quarterly Transactions

Purchased	Sold
TE Connectivity Ltd (TEI)	Hasbro, Inc. (HAS)
International Flavors & Fragrances (IFF)	Hudson Pacific Properties Inc (HPP)
Autodesk Inc (ADSK)	Liberty Media Corp Series C (LSXMK)
Lamar Advertising Co (LAMR)	First Republic Bank (FRC)
	Bank of Hawaii Corp (BOH)

Purchases

TE Connectivity Ltd (TEI) is a large global connectors and sensors company. Connectors and sensors go into everything from automobiles, planes, medical devices, industrial equipment, and data centers. TE Connectivity's largest segment is automotive and transportation at over 70% of revenues. TE has enjoyed a leadership position in this space and has seen an increase each year in content per vehicle as well as price. TE has also focused on electric vehicles, which is growing faster than the general automotive market, and the content per vehicle is three times the amount as an internal combustion engine vehicle. While TE is subject to some cyclicality, the company is very well run and has a strong balance sheet to weather through difficult environments. We believe that the stock has the ability to outperform over time.

International Flavors & Fragrances (IFF), founded in 1889, is a creator and manufacturer of flavors and fragrances designed to enhance the smell and taste of a wide variety of consumer products. Its products are principally sold to manufacturers of perfumes and cosmetics, hair and other personal care products, soaps, detergents, cleaning products, foods, beverages, etc. It is estimated that consumers interact with its end products 20-30 times per day. The beauty of the business is that IFF operates in a global oligopoly with high barriers to entry and its products represent a very tiny fraction of the cost for the end products, yet they define customer loyalty thru taste and smell. Despite being a great business, prior management at IFF made several missteps including several bad acquisitions that have set the business back and destroyed returns in the process. The company now has several engaged activists who have forced management and board changes to bring in more accountability and improved execution. We believe the new management team is strong and like its plan to streamline the product portfolio, which should improve both growth and profitability. If they execute, IFF's returns on capital should improve and we believe the stock can re-rate to a higher valuation over time. The company also pays an attractive dividend that yields over 3%.

Autodesk Inc (ADSK) is a global leader in design software for the Architecture, Engineering and Construction (AEC) industry. It had developed its flagship CAD

product, AutoCAD, three decades ago and it is still the cornerstone product for architects, designers, and engineers. In 2016, Autodesk transitioned from on-prem, perpetual software to a subscription-based business model. The company has dominant market share and a high recurring revenue stream. It is expected that the company will continue to grow high single digits as there is increasing digitalization across the AEC sector and a steady level of new projects.

Lamar Advertising Co (LAMR) was founded in 1902 and is one of the largest outdoor advertising companies in the world, with over 356,000 displays across the U.S. and Canada. Lamar offers advertisers a variety of billboard, interstate logo, transit and airport advertising formats, helping both local businesses and national brands reach broad audiences every day. The out of home (OOH) advertising industry has steadily grown above GDP over the last few decades as it gains share from other advertising mediums such as radio. It is also a high barrier to entry industry as there are laws prohibiting where and how billboards can be built such as the Highway Beautification Act. In the past, Lamar has been relatively conservative in taking price but the inflationary environment of the last few years has proven the company has far more pricing power than believed. In addition, the company has been converting its traditional analog billboards to digital ones. Digital billboards have higher margins due to more inventory space. We believe this provides LAMR a long runway for above market growth. The company also pays a highly attractive dividend that yields over 4.5%.

Sales

Hasbro, Inc. (HAS) is a large global toy, gaming, and entertainment company, with the largest division selling toys and traditional board games like Monopoly and My Little Pony. The gaming segment covers Wizards of the Coast and Magic: The Gathering. The entertainment segment was acquired a few years ago and develops on-line content for young viewers. The company has undergone several changes with a new CEO and several activist shareholders. We exited this position after it reported lackluster growth and strategic direction.

Hudson Pacific Properties Inc (HPP) is a real estate investment trust (REIT) focused on commercial office buildings and movie studios on the West Coast, primarily San Francisco, Los Angeles, and Seattle. We entered the position after the March 2020 market sell off with the assumption that office space would recover. While some people are coming back to the office, occupancy is still down from pre-2020 levels. Furthermore, technology companies are reducing head count and office space to save money. For these reasons we decided to sell out of the remaining position.

Liberty Media Corp Series C (LSXMK) Liberty Media Corp Series C (LSXMK) is a subscription based, ad free radio network. As a discretionary expense, consumers have been cutting back on streaming services such as Sirius. We exited the position as we believe growth in future will be more difficult.

First Republic Bank (FRC) is a national bank with over $200 billion in assets focused on high-net-worth clients. They have been growing by taking market share from other banks, focusing on excellent customer service, and providing a range of banking and wealth management services. Over its history First Republic has had very low credit losses, far below most banks. More recently, First Republic has faced higher deposit costs due to higher interest rates and an impact to its investment portfolio also due to higher interest rates. First Republic had adequate assets to cover its liabilities, however with recent bank failures First Republic came into cross hairs. We exited this position as we became concerned that issues could sweep through the banking sector and take out some small and midsized banks, including First Republic.

Bank of Hawaii Corp (BOH) is a bank headquartered in Honolulu, HI. Its loan book is 60% consumer and 40% commercial. In general, we believe the current market environment will be difficult for banks, including BOH, due to higher deposit betas, potentially deteriorating credit, lower net interest margins, and a higher cost of capital. Bank of Hawaii could be considered riskier than other banks in this environment due to its uninsured deposit base alongside its higher than average investment book losses relative to equity.

Anchor's Positioning

Across the Anchor portfolios we have been defensively positioned for over a year. An inverted yield curve historically has given us clues about the direction of the economy. It was easy to get lulled in January with markets rallying and the headline inflation numbers coming down, but there were unknowns that have kept us cautious. The banking crisis caught everyone by surprise in the sense that most investors expect a credit situation, not an asset/liability mismatch. We have been underweight in banks versus respective benchmarks across all strategies.

Overall, we tend to be tilted more towards defensive sectors like consumer staples, health care and utilities, and have a good amount of cash in the portfolios. There are opportunities in healthcare as certain pharmaceutical companies have very strong drug pipelines. That said, we have found opportunities in other areas of the markets as well. Semiconductors have been going through a down cycle for three years, and we believe has room to improve from here. On the fixed income side, we are tilted more towards treasuries and government bonds, and we have been extending duration.

Outlook

We believe economic conditions will continue to tighten. The effects of higher interest rates and inflation are just taking hold now. This, in conjunction with the pull back on lending should slow the economy even more. We remain cautious on some of the cyclical parts of the market. We have increased cash levels in the portfolios reflecting that valuations are not exactly inexpensive. Given the economic outlook and growth we don't believe the market has fully priced in a recession. Our focus at Anchor remains protecting client assets and providing a smoother ride over market cycles.

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[xxvi] FactSet financial data & analytics; attribution
[xxvii] eVestment Analytics, see model disclosures below.
[xxviii] FactSet financial data & analytics; Attribution

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: Models are hypothetical. 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. 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.

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.

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In order to enhance current and prospective investor understanding of our process, approach and views, this letter includes detailed discussions regarding selected positions in our Strategy portfolios. In doing so, we hope this transparency enhances your understanding of our views on the investment opportunities we see in the marketplace and why we have positioned the Strategy portfolios the way we have. With such information available to you, we believe current and prospective investors are better informed and equipped to understand and/or challenge our views and approach to determine whether an investment in a Strategy is consistent with the mandate of each individual investor.