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Overview

During the fourth quarter equity markets remained choppy but ended the year with a strong post-election rally, led primarily by riskier assets and growth stocks.[i] The markets performed well, supported by the certainty of the presidential election results and the potential for reduced regulation and lower or stable tax rates. Asset classes expected to benefit from more protectionist policies, such as small cap stocks performed particularly well following the election.[ii] The incoming administration has expressed favorable views on cryptocurrencies, which have rallied and contributed to the rise in riskier asset prices. While continued interest rate cuts by the Federal Reserve generally support risk assets, the persistence of higher than targeted inflation, currently near 3%, seems to raise the uncertainty of future cuts. Additionally, the potential for tariffs could keep inflation expectations elevated, further dampening the prospects of additional easing.

Performance

As a value manager, Anchor strategies are deliberately positioned at the lower-end of the risk spectrum in contrast to speculative, high-valuation growth investments. Our strategies trailed during the quarter, as benchmark performance was driven largely by speculative names - even within the value benchmarks we use for comparison.[iii] A notable example is MicroStrategy, a company that shifted its focus to become a highly leveraged bitcoin speculation vehicle, reaching a market capitalization of $100 billion at one point in 2024.[iv] Although included in some of the value benchmarks, companies like this fall well outside of our mandate and risk tolerance. We remain unwavering in our commitment in striving to safeguarding and protect client assets by focusing on stable, high-quality[v] companies purchased at reasonable prices.

The Value Outlook

Value performed well this year, although growth outpaced it following a post-election surge at year-end. By most metrics, growth remains at or near all-time high valuation spreads relative to value, which historically bodes well for the relative (to growth) performance of value.[vi]

We see growth investors making two significant bets: that growth rates remain high or accelerate and that valuations remain elevated or increase. We believe this approach to be risky and prefer to do the opposite - investing in companies with lower valuations, but stable to strong sustainable growth potential.

We have also been pleased to find exposure to major growth trends, such as artificial intelligence, by investing in lower-valuation, behind-the-scenes businesses that drive these industries including those in HVAC and power management.

Conclusion

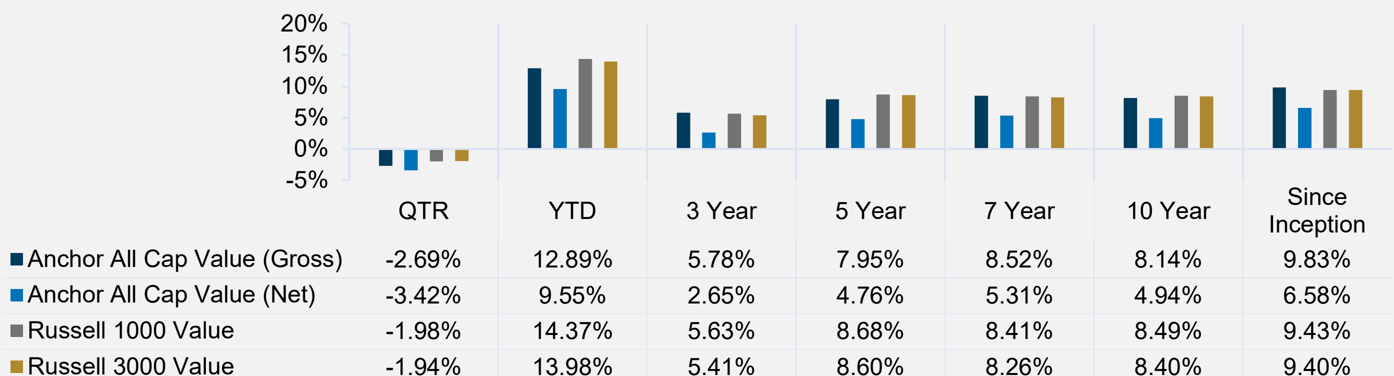
In our opinion, the current investing environment is characterized by elevated risk taking, with widespread investor optimism driving valuations beyond reasonable levels. By some measures, the valuation of the S&P 500 and growth equities at or near all-time highs.[vii] In response, we are selectively trimming more expensive holdings and reallocating to what we consider to be cheaper/undervalued names. As a result, we are positioning portfolios for what we hope to be stronger future performance and protecting portfolios from an eventual market drawdown/correction. With value trading at generational lows relative to growth, we remain optimistic about the opportunities ahead and both excited and confident about the prospects for attractive future returns.

Strategy Performance Overview

The Anchor All Cap Value Portfolio returned -2.69% (gross of fees) and -3.42% (net of fees) during the quarter, underperforming the Russell 1000 Value Index, which returned -1.98%. On a relative basis, the Portfolio benefitted the most from security selection in the Utilities, Technology and Basic Materials. Security selection in Industrials and Energy as well as an underweight allocation to Consumer Discretionary were the greatest detractors from relative performance.[viii]

Managed Accounts Model Performance [ix]

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



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor All Cap Value (Gross)	-2.69%	12.89%	5.78%	7.95%	8.52%	8.14%	9.83%
Anchor All Cap Value (Net)	-3.42%	9.55%	2.65%	4.76%	5.31%	4.94%	6.58%
Russell 1000 Value	-1.98%	14.37%	5.63%	8.68%	8.41%	8.49%	9.43%
Russell 3000 Value	-1.94%	13.98%	5.41%	8.60%	8.26%	8.40%	9.40%

Quarterly Attribution Highlights [x]

Sector – Top 3 Contributors	Sector – Bottom 3 Detractors
Financials	Health Care
Utilities	Industrials
Consumer Discretionary	Energy

Security – Top 5 Contributors	Avg. Weight %	Contribution %
JPMorgan Chase & Co. (JPM)	3.78	0.48
Salesforce, Inc. (CRM)	1.93	0.34
Apollo Global Management Inc (APO)	1.28	0.31
Goldman Sachs Group, Inc. (GS)	2.21	0.31
Walmart Inc. (WMT)	2.36	0.24

Security – Bottom 5 Detractors	Avg. Weight %	Contribution %
UnitedHealth Group Incorporated (UNH)	2.69	-0.34
Thermo Fisher Scientific Inc. (TMO)	1.78	-0.31
Mondelez International, Inc. Class A (MDLZ)	1.36	-0.27
Alcon AG (ALC)	1.46	-0.24
Freeport-McMoRan, Inc. (FCX)	0.84	-0.21

Quarterly Transactions - Purchased

Rio Tinto plc (RIO) is the 2nd largest metals and mining company in the world, operating in 35 countries with 57,000 employees. The company has more than 150 years of mining and processing experience. Its portfolio includes iron ore, copper, aluminum, and a range of other minerals and materials including diamonds, titanium oxide, lithium, salt, and borates. Its largest source of profits come from iron ore. The iron ore industry has an attractive industry structure as four miners control ~70% of the seaborne market. Demand growth is set to rise in the coming years from renewable energy and infrastructure spending. Steel intensity is also rising in India. Further, copper is becoming a larger part of RIO's portfolio, and we believe the supply/demand picture for copper will drive higher copper prices over the coming decade. Rising uncertainty around China's economy and particularly its property sector has led to the indiscriminate selling of RIO, which provided us an attractive entry point. The company boasts a best-in-class balance sheet with low leverage and generates high levels of free cash flow that support a 6-7% annual dividend yield.

GE HealthCare Technologies Inc (GEHC) engages in the development and manufacturing of medical technology including imaging, ultrasound, patient care solutions, and pharmaceutical diagnostics. New technology advancements have allowed GEHC to offer targeted solutions that were not available 5 or 10 years ago. Imaging solutions have become more accurate over the past several years and this has allowed for the medical community to accurately diagnose, prevent, and treat a much wider range of medical conditions. Since being spun from the old GE conglomerate, GEHC has increased its R&D budget and research efficiency. We expect new technology discoveries and solutions to allow GE Healthcare to grow revenues and earnings at a faster rate than the company did in past decades, and this should help drive the valuation higher.

Schlumberger NV (SLB) is the world's largest oilfield servicer. With high cyclicality, SLB has achieved HSD revenue and LDD EPS growth over the past 60 years which speaks to the enduring power of the company. Under the new CEO Olivier Le Peuch, the company has moved back to basics of financial conservatism, high capital return investments, and portfolio high grading. The leverage has been reduced. The company exited from low margin businesses and made acquisitions aimed at strengthening its market position in higher margin businesses. SLB is exposed to the two secular growth areas of the global energy industry - Middle East and offshore. OFS sector and SLB trade at a steeply discounted valuation versus historical averages. SLB is trading at an EV/EBITDA multiple of 6.5-7.2x versus its long-term averages of approximately 10.0x. We found the setup for SLB highly favorable.

Honeywell International Inc (HON) is a global multi-industry conglomerate with leading businesses across aerospace, industrial automation, energy sustainability solutions, and building automation. It has one of the largest installed bases of any company in the world, which includes 10m buildings, 50k aircraft, 11k industrial facilities, and over 15k warehouses. HON embeds its products into the operations of its customers, which generates recurring revenue from aftermarket products/services and leads to high customer switching costs. The company made a strategic shift in recent years away from lumpy product sales towards connected systems and software, which lowers cyclicality and increases recurring revenues. The company is targeting 4-7% organic top-line growth and 8-12% EPS growth, which we find more than doable. HON also pays a reliable and growing dividend that yields over 2%. We felt fortunate to be able to purchase this high-quality diversified industrial trading near all-time lows on a relative basis vs. its industrial peers and the market during the quarter.

Regeneron Pharmaceuticals Inc (REGN) is one of the most innovative biopharmaceutical companies in the world. It has especially strong expertise in antibody research and therapies. REGN invented two

blockbuster drugs - Elyea and Dupixent. We believe Lilly and REGN are the 2 best research companies. The opportunity to enter a position at bargain valuation was created by the management's mishandling of Elyea HD transition. The pricing was wrong, and the expectations were inflated. While not a good thing, it's does not change the company's long-term fundamentals. Adjusted for cash, it is valued as a pharma company with no pipeline. At the same time, the pipeline has 50 plus clinical product candidates of which 11 are in Phase 3. They have a proven track record of commercializing beyond Elyea and Dupixent which are blockbusters. Their cancer drug Libyao is already over a billion in sales, with peak expected at $ 2 billion. It treats certain type of cancer that is not curable by surgery or radiation. It is better than Keytruda expanding life expectancy by almost 3 years.

The net cash position of $18B, with $5B of annual FCF, it yields 7% on the enterprise value; this gives us downside protection. REGN trades at 14X cash earnings vs Lilly at 37X 2025.

Quarterly Transactions - Sold

First American Financial Corp. (FAF) underwrites and issues mortgage title insurance and provides real estate settlement services. As residential real estate costs have gone up, the US government has been seeking ways to reduce the cost of home ownership to consumers. New regulations are expected to reduce both the price FAF can charge for title insurance and may reduce the amount of interest they can earn on escrow funds that they hold. The title insurance industry historically represented a very good business, with only a few large players; but the concern going forward is that the regulatory environment will change dramatically, and in some simple home transactions title insurance may not be required at all. Regulators and consumers are very upset with the high cost of title insurance especially as the claim-to-payout ratio remains quite low as compared to other forms of insurance. The change in the regulatory environment represents a change in the thesis, and thus we decided to sell. The valuation of FAF remains reasonable, but the outlook has worsened, and new risks have emerged, therefore we have decided to look at other opportunities in the financial space.

Ulta Beauty (ULTA) is one of two major specialty beauty retailers in the US. We purchased Ulta Beauty a few years ago at a below market valuation. For years Ulta Beauty was a growth retailer with strong earnings growth with good unit economics. Ulta took share from department stores. Sephora was focused on urban/cities and Ulta was mainly focused in our view on suburban. We decided to sell due to the newer competitive pressures from Sephora which we believe from checks will only increase over the coming years as Sephora continues to open units close to Ulta Beauty units and enter their suburban space. From our checks Ulta Beauty units suffer greatly when this occurs, and we see this issue continuing for years to come. Due to this shift in competitive threat, we decided to sell on a thesis change.

A O Smith Corp (AOS) manufactures water heaters and boilers for the North American, Chinese and Indian markets. The company historically earned a premium valuation for its high returns, net cash balance sheet, and core North American business in a predictable replacement driven oligopolistic market. With economic weakness in China and pressure on discretionary purchases in North America likely to persist in 2025, we model growth below management's targets. With slower growth expected, we decided to exit AOS for higher return opportunities.

Nordson Corp (NDSN) manufactures systems for precision dispensing, fluid control and related processes and proprietary technology. 50% of revenue is from recurring parts and consumables. The company has a history of steady margin improvement and successful capital allocation towards acquisitions, dividends and buybacks while maintaining low leverage. Shares performed well in Q3 driven by multiple expansion following solid earnings and a positive investor day, and we exited as the stock reached our price target.

Booz Allen Hamilton Holding Corporation (BAH) provides IT contract services to the US government. 47% of sales are to Defense customers, 17% Intelligence, 34% Civil and 2% foreign governments. While we believe that Booz is the highest quality amongst its peers in terms of delivering value to its customers, we expect all government servicers to be scrutinized by the new Department of Government Efficiency (DOGE). We see less upside in Booz Allen today as it trades well above its long-term average multiples and peer group and may be rangebound until DOGE provides more details on its plans for government efficiency. As such, we decided to sell for higher return opportunities.

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[i] *FactSet financial data and analytics*
[ii] *Ibid*
[iii] *Ibid*
[iv] *FactSet financial data and analytics*
[v] *High quality refers to companies with a sticky business model, strong moat (competitive advantage), high Return on Equity (ROE)/Return on Capital Employed (ROCE), low earnings volatility, and low debt.*
[vi] *Ibid*
[vii] *Ibid*
[viii] *FactSet financial data & analytics; attribution*
[ix] *eVestment Analytics, see model disclosures below.*
[x] *FactSet financial data & analytics; attribution*

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 is 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 corresponding sponsor 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. The model performance does not represent actual performance and was not achieved by any investor. Results may not reflect the impact of economic and market factors. Conditions and objectives may have changed materially during the time periods portrayed in the advertisement. Hypothetical performance has been provided for illustrative purposes only, and is not necessarily, and does not purport to be, indicative, or a guarantee, of future results. Hypothetical performance represents performance results that no individual fund, portfolio or investor has actually achieved. The preparation of such information is based on underlying assumptions, and because it does not represent the actual performance of any fund, portfolio or investor, it is subject to various risks and limitations that are not applicable to non-hypothetical performance presentations. Although Anchor Capital Advisors believes any hypothetical performance calculations described herein are based on reasonable assumptions, the use of different assumptions would produce different results. For the foregoing and other similar reasons, the comparability of hypothetical performance to the prior (or future) actual performance of a fund is limited, and prospective investors should not unduly rely on any such information in making an investment decision. The risks and limitations of hypothetical performance information is available upon request.

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 investment of income. The accrual of interest income is added to the beginning and ending market value. The currency used to express performance is the U.S. dollar. Time-weighted portfolio returns are calculated for each monthly period in the prior quarter. Monthly model results are linked to determine returns for other periods. Calculations are done in Anchor's portfolio management system but may be uploaded to additional applications for linking and presentation, which may result in rounding differences. 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 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 presented after debiting the gross or pure gross of fee results by 3%, which represents the highest known annual wrap fee charged by any of the sponsors of the Separately Managed Account program that Anchor participates in. Effective 12/31/2024, net of fee returns are calculated by applying a monthly fee of 0.25% to the model's hypothetical market value. Monthly net of fee returns are then compounded to produce the net returns for other periods. Prior to 12/31/2024, net of fee returns were calculated by subtracting 0.25% from the monthly gross or pure gross return. Monthly net returns were then compounded to create the net return for other periods. Additional information regarding policies for calculating and reporting model returns is available upon request. Performance data contained herein is comprised of hypothetical and actual performance. Monthly returns are linked to determine returns for other periods. Monthly returns are sourced from the All Cap Value composite from its inception on 01/01/1994 through 12/31/2005 and the All Cap Value Model from its inception on 12/31/2005 through the latest quarter end. The All Cap Value composite includes all discretionary accounts over $250,000 invested in Anchor's corresponding strategy. Please contact us at info@AnchorCapital.com or 617.338.3800 for further information on the composite construction.

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 (R1000V) 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 (R3000V) 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.

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