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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.

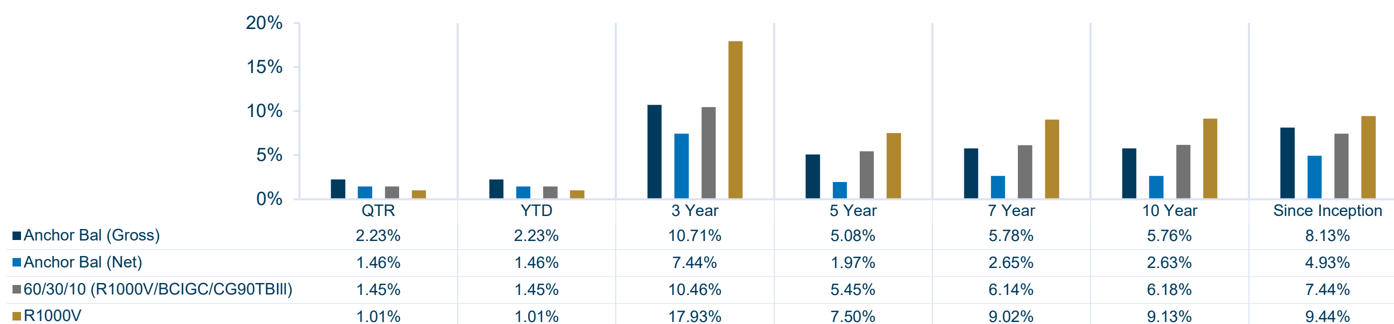
Economic data continues to soften. The Purchasing Manager's Index (PMI), which measures manufacturing activity, continues to be in contraction mode with a reading below 50.[xxi] Retail sales in February declined by 0.4% month over month.[xxii] Existing home sales, which is facing over 7% 30-year fixed 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 Balanced Value Portfolio returned 2.23% (gross of fees) and 1.46% (net) during the quarter, outperforming the 60/30/10 Index, which returned 1.45%.

On a relative basis, the equity portion of the Portfolio benefitted the most from security selection in the Health Care and Energy sectors, as well as an overweight allocation to the Technology sector. Security selection in Basic Materials and Consumer Discretionary as well as an overweighted allocation to Consumer Staples 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 Bal (Gross)	2.23%	2.23%	10.71%	5.08%	5.78%	5.76%	8.13%
Anchor Bal (Net)	1.46%	1.46%	7.44%	1.97%	2.65%	2.63%	4.93%
60/30/10 (R1000V/BCIGC/CG90TBIll)	1.45%	1.45%	10.46%	5.45%	6.14%	6.18%	7.44%
R1000V	1.01%	1.01%	17.93%	7.50%	9.02%	9.13%	9.44%

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

Quarterly Attribution Highlights – Equity Portion of Portfolio[xxvii]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Technology	Financials
Industrials	Consumer Staples
Consumer Discretionary	Health Care

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Salesforce, Inc. (CRM)	1.44%	0.59%	CVS Health Corporation (CVS)	1.32%	-0.29%
Apple Inc. (AAPl)	1.82%	0.44%	First Republic Bank (FRC)	0.92%	-0.26%
Analog Devices, Inc. (ADI)	1.83%	0.35%	M&T Bank Corporation (MTB)	1.31%	-0.24%
Microsoft Corporation (MSFT)	1.64%	0.33%	PNC Financial Services Group, Inc. (PNC)	1.22%	-0.24%
Marathon Petroleum Corporation (MPC)	2.16%	0.30%	Dollar General Corporation (DG)	1.46%	-0.24%

Quarterly Transactions

Purchased	Sold
CME Group Inc (CME)	Crown Holdings, Inc. (CCK)
Qualcomm Inc (QCOM)	SS&C Technologies Holdings Inc (SSNC)
Freeport-McMoran Inc (FCX)	First Republic Bank (FRC)
AstraZeneca (AZN)	Fiserv Inc (FISV)
iShares 5-10 Year Investment Grade Corporate Bd ETF (IGIB)	Vanguard Intermediate-Term Corp Bond Idx Fund ETF (VCIT)
iShares 1-5 Year Investment Grade Corporate Bd ETF (IGSB)	Vanguard Short-Term Corporate Bond Idx Fd ETF (VCSH)

Purchases

CME Group Inc (CME) is the world's largest derivatives marketplace, offering a wide array of products across various asset classes, including interest rates, energy, agricultural products, metals, and FX. Due to the liquidity on its exchanges and the associated network effects, CME operates as a monopoly or oligopoly in many of its product categories. The beauty of its business model is that is doesn't require a lot of capital to grow and the incremental margins on each additional transaction it processes are near 100%. Those transactions also generate proprietary data that CME can repackage and sell. Over the years, the company has also proven its ability to innovate new products at minimal incremental costs, driving solid long-term growth and resulting in robust operating margins north of 60%. In addition, the business model allows the company to pay out a significant amount of cash to shareholders each year. CME pays a regular quarterly dividend that currently yields 2.5% and also pays out all excess cash flows in the form of a special dividend at the end of the year. This typically brings the total annual yield to north of 4%. We believe it is exceptionally rare to find a company that can continue to grow over the long-term while also paying out a dividend of that size. As a leader in products that help market participants manage financial risk globally, CME is well positioned to benefit from ongoing market uncertainty and elevated volatility. The company has structural tailwinds in many of its key product categories including interest rates, energy, and metals.

Qualcomm Inc (QCOM) designs advanced chips for handsets. The company's Snapdragon chipset platform is a global standard. QCOM has been steadily

gaining share in high end phones. We estimate its market share in the segment to be close to 60%. Leveraging on its expertise, QCOM has been rapidly expanding into other areas of computing that require high mobility. It is a market leader in the fast growing edge computing (IoT) and Automotive. Major OEMs such as BMW

partner with QCOM in designing Snapdragon powered digital chassis. IoT and Automotive are expected to grow 15-20% through 2025. Overall, we believe

QCOM should grow in LDD in the next few years. Valuation is among the cheapest in the sector due to a cyclical downturn in the main handset business. The company has virtually no debt and is highly cash generative. It trades at a FCF yield of ~ 9%. We see QCOM as a value opportunity.

Freeport-McMoran Inc (FCX) is the second largest copper producer and the largest publicly traded copper company in the world. It operates large, long-lived, geographically diverse assets with proven and probable mineral reserves of copper, gold, and molybdenum. We believe demand for copper is set to accelerate over the next two decades driven by growth in EVs, renewables (solar and wind farms), and infrastructure spending. Copper demand is also growing at a time when the industry's pipeline of new mine supply development is shrinking. Supply is already tight and underinvestment in capacity, long lead-times to develop new projects, geopolitical risks, and aging mines, are expected to worsen the supply picture over the coming years with a massive deficit opening up in the second half of the decade. This makes the backdrop exceptionally favorable for the long-term fundamentals of copper. With over 80% of its revenues coming from copper and a proven track record of strong operational execution, we believe FCX is set to generate significant amounts of cash flow over the coming years. The company underwent a significant balance sheet deleveraging over the last several years, which will allow it to withstand any short-term pressure on the commodity and pay out a high percentage of its free cash flow to shareholders each year in the form of both dividends and buybacks.

AstraZeneca (AZN) has launched and commercialized seven new products in the past 10 years, which totaled over $20 billion in sales in 2022. This young portfolio of patented drugs translates into one of the strongest growth profiles among major pharmaceutical companies globally. Oncology accounts for more than a third of the company's revenues with four major drugs expected to grow at a double-digit rate in the next 5 years. In many countries, its leading oncology drug Tagrisso is designated as a standard of care medication for several types of lung cancer. In 2021, AZN acquired a rare disease specialist Alexion at a very attractive valuation taking advantage of poor market sentiment at the height of the Covid pandemic. AZN's rare diseases portfolio consists of a rapidly growing Ultramiris, which is the only approved medication for a rare life-threatening blood disease among adults and children. The growth is secure as it is the next generation medication with the patent expiry in mid 2030s. The company is expected to launch 5-7 new molecules in rare diseases in the next 5-7 years. AZN has large exposure to Emerging markets. China is their second largest market after the United States with a strong position in oncology and growing in rare diseases. In 2024-2027, we expect AZN to grow sales 8-12% and EPS 16-23%. The implied margin expansion is realistic given the accretive nature of new drugs in oncology, rare diseases, cardiovascular and renal. It is a highly cash generative company with a low level of balance sheet debt. The stock trades at 17.7x for 2023 and 14.9x for 2024.

iShares 5-10 Year Investment Grade Corporate Bd ETF (IGIB) &
iShares 1-5 Year Investment Grade Corporate Bd ETF (IGSB) We rotated out of VCIT and VCSH and increased our allocation to corporate bonds. In our opinion, we are reaching the upper end of yields, which are at attractive levels.

Sales

Crown Holdings, Inc. (CCK) is the second largest aluminum can manufacturer in the world. Aluminum cans have benefitted from drinks such as energy drinks, craft beers and other alcoholic drinks preferring aluminum cans. Global growth has been above 5% for the last several years. Crown has benefitted from this global growth and is strategically positioned in higher growth areas such as Asia and Brazil. While we believe Crown will continue to see benefits from trends, such as alcoholic and energy drinks, we believe volume growth is coming down and have seen challenges associated with cost. We exited this position to rotate into a new stock that we thought had more upside and a higher dividend yield.

SS&C Technologies Holdings Inc (SSNC) buys and aggregates financial technology firms and finds cost efficiencies. It is very similar to a private equity

playbook. They have used debt to make acquisitions and help with their organic growth. SS&C's last major acquisition was DTC, since then the company has

streamlined costs and tried to reduce debt levels. We exited this position as we expect that without major acquisitions organic growth will be below expectations and that interest expense on the debt will be a headwind.

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.

Fiserv Inc (FISV) is a technology company that supports the financial services industry. Fiserv provides the bank office technology for small and medium sized banks. Fiserv also has a point-of-sale payment system called Clover. We exited this position given the banking crisis that we believe will bleed over into less lending and lower profitability for banks, ultimately altering Fiserv's growth profile.

Vanguard Intermediate-Term Corp Bond Idx Fund ETF (VCIT) & Vanguard Short-Term Corporate Bond Idx Fd ETF (VCSH): Corporate bonds were down considerably last year, and we took the opportunity to take a tax loss in these bonds. However, we still like corporate bonds and they are now at more attractive yields.

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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[vii] Ibid.
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[xxvi] FactSet financial data & analytics; attribution
[xxvii] FactSet financial data & analytics; attribution

Balanced Model Disclosures

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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 Balanced 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. 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 benchmark indices exclude fees. The Managed Accounts Balanced model returns are 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 benchmark is a static blend of: 60% Russell 1000 Value Index; 30% Barclays Capital U.S. Government/Credit Intermediate Bond Index; 10% Citigroup 90-Day Treasury Bill Index. 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, growing equities are included, and that the represented companies continue to reflect value characteristics. The Barclays Capital U.S. Intermediate Government/Credit Bond Index measures the performance of U.S. dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. Securities have $250 million or more of outstanding face value and must be fixed rate and non-convertible. The Citigroup 90-Day Treasury Bill Index measures the average return of the last three-month U.S. Treasury Bill issues. U.S. Treasury Bills are short-term securities issued by the U.S. government with maturities of up to one year. They are backed by the faith and credit of the U.S. government who guarantees full payment of principal and interest at maturity. Total return comprises price appreciation/depreciation and income as a percentage of the original investment. All benchmark returns include the reinvestment of income.
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