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Overview

After a strong start to the year, driven from a narrow group of leading stocks, equity markets pulled back during the third quarter.[i] While rising interest rates, above target inflation, concerns of a government shut down, and higher energy prices have contributed to a market slowdown and recessionary fears, the economy appears to be remaining resilient.

We are beginning to see the impact of rising interest rates on consumers as the 10-year Treasury yield has increased significantly – rising from 3.81% to over 4.50%[ii]. The shift upwards in the Treasury yield curve potentially signals waning optimism.[iii] 30-year mortgage rates are now north of 8%, which makes housing affordability more difficult.[iv] As a result of rising rates, housing delinquency rates and both car and consumer loans interest payments have increased which has further stretched the individual consumer.[v] Households are expected to run out of excess savings accumulated during Covid during first quarter 2024.[vi] This, coupled with student debt payments restarting in October after a two-year pause could potentially push the economy to roll over.

The government shutdown, which was resolved at the last minute on September 30th, added stress to both the market and economy. At the 25th hour House Republicans and Senate Democrats came to agreement on how to fund the government for the fiscal year.[vii] A failure to reach a budget resolution would have forced the government to shut down on October 1st. The potential shut down put a spotlight on the one of the most pressing and under followed issue – government debt has ballooned to $33 trillion and now stands at 98% of Gross Domestic Product (GDP).[viii] If this continues unchecked, eventually there will not be enough revenues to cover the interest payments on the federal debt. These worries have pressed on the markets. Ironically, it's the series of government stimulus that was passed over the last year for semiconductors, renewable energy and infrastructure spending that has been helping sustain the equity markets and overall economic activity.[ix]

Increased attention to weight loss drugs such as Wegovy and Mounjaro impacted several sectors during the quarter. Novo Nordisk originally created Ozempic to treat Type 2 diabetes, but it has also been used off-label for weight loss.[x] A sister drug approved specifically for weight loss, Wegovy, has been shown to suppress appetite and reduce body weight by 15% to 20%.[xi] Eli Lilly's weight loss drug Mounjaro is gaining popularity. It is estimated that weight loss drugs could reach $1 trillion in sales.[xii] As a result, several sectors have sold off on the possible impact that these drugs could have on eating habits and health care. Food and beverage, medical device and insulin pumps makers have pulled back because of the growing popularity of these drugs.[xiii] While it remains early to pinpoint the most likely benefactors and who could be most disrupted by this trend, we continue to monitor the developments and potential impacts around these drugs.

Litigation of major companies and the uncertainty of potential jury awards affected the market during the quarter. Johnson & Johnson, which recently spun off its consumer products division, reached an agreement to pay $8.9 billion related to talcum powder claims that it had caused cancer after a decade or more fight.[xiv] Lawyers are increasingly trying to go after big companies to win big jury awarded payouts. The most recent being Tylenol use during pregnancy.[xv] As this trend continues, it creates additional risks for larger companies. As such, we are considering this as part of our risk assessment, analysis, and research.

The commodities index rebounded in the third quarter primarily due to a strong 25% rally in oil prices, which are now hovering above $90/barrel.[xvi] Saudi Arabia, the world's second largest oil supplier and part of the Organization of the Petroleum Exporting Countries (OPEC+), has cut production by 1 million barrels a day since July and will extend the cut through the end of the year.[xvii] Russia, the third largest oil supplier, also extended its own cut of 300,000 barrels a month through year end.[xviii] Tighter supply has resulted in higher prices although we have not yet seen a pullback in overall global oil demand. Iron ore has also rallied and is up 7% for the quarter.[xix] Steel demand hasn't significantly picked up, but Chinese mills are continuing to produce to replenish low inventories.[xx] The increase in energy prices has been a driver of higher inflation.

U.S. Equity Markets

All U.S. equity markets underperformed for the quarter, with large cap stocks holding up better than mid and small cap stocks.[xxi] Value outperformed growth with the energy sector leading the way, benefitting from higher oil prices. Communication services were also positive, driven by Charter and Comcast specifically. These companies are beginning to see broadband share losses subside while other parts of their businesses pick up. Conversely the bond proxy sectors, REITs, and utilities were the worst performing sectors during the quarter. Rising interest rates have impacted their balance sheet structure and are competing against fixed income as a viable alternative. Technology underperformed for the quarter after a strong start to the year. Growth rates for technology firms are coming down. At higher valuations many technology firms were vulnerable to a sell off.[xxii]

U.S. Fixed Income

The bond market has seen increased volatility as interest rates have increased.[xxiii] This has been especially true for longer dated bonds. Clients have benefitted from holding shorter maturity Treasury bonds given that yields have been in the 5% to 5.5% range.[xxiv] The leveraged loan and high yield markets had positive performance with yields ranging from 7% to 10%.[xxv] U.S. junk bond default rates have started to increase. They will most likely continue to go higher but remain below the default levels that occurred in 2008.[xxvi] We believe that we are nearing the end of the interest rate hiking cycle, which means that real interest rate yields are positive. Our expectation is that the Fed will have to cut interest rates in 2024 to act against a slowing economy which will cause a rally in bonds.

Inflation

Inflation levels, as represented by the Consumer Price Index (CPI), remain elevated above the Feds targeted 2% annualized level.[xxvii] In August, the most recent CPI reading was 3.7% annualized[xxviii], which was a step up from the prior two months. This was primarily driven by higher energy prices. The Personal Consumption Expenditures (PCE) Price Index, which is a slightly different way of measuring inflation, has shown a sharp decline in goods inflation, while services inflation continues to remain high.[xxix] We continue to believe that inflation remains a bit sticky and that a recession may be the only answer to bringing the levels down.

Interest rates/Fed/Economy

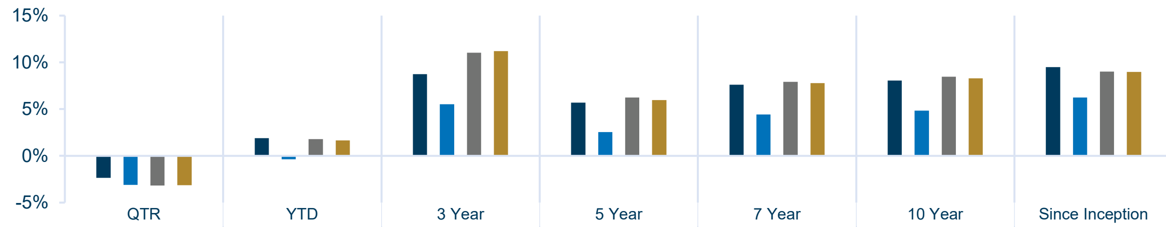
The Fed increased interest rates eleven times from March 2022 through September 2023, in one of the fastest rate hiking cycles in history. The Federal Funds targeted interest rate is between 5.25% and 5.5%.[xxx] At the September Fed meeting, the committee agreed to pause on interest rates to see the full effect on the economy. The 10-year Treasury yield is now at its highest level since 2007. There is potential for the Fed to increase rates one more time in 2023 and the markets believe that the Fed will cut at least two times in 2024.[xxxi] In our opinion, the economy will have to weaken significantly before the Fed starts cutting interest rates given that inflation is still above its targeted 2% level. While the U.S. economy has remained resilient, we are starting to see economic indicators roll over. Job opening levels and wages are softening, bank lending has been tightening since the Silicon Valley Bank collapse, credit card and auto delinquencies increasing and manufacturing has been weak. Consumers spending through their Covid savings coupled with the return of student loan payments could put added pressure on discretionary spending. Many economists are forecasting more economic weakness.

Performance Overview

The Anchor All Cap Value Portfolio returned -2.35% (gross of fees) and -3.09% (net of fees) during the quarter, outperforming the Russell 1000 Value Index, which returned -3.16%.

On a relative basis, the Portfolio benefitted the most from security selection in the Financials, Health Care and Consumer Discretionary sectors. Security selection in Technology and Real Estate as well as an overweighting to Energy were the greatest detractors from relative performance.[xxxiii]

Managed Accounts Model Performance[xxxiv]



	QTR	YTD	3 Year	5 Year	7 Year	10 Year	Since Inception
Anchor All Cap Value (Gross)	-2.35%	1.89%	8.75%	5.69%	7.62%	8.04%	9.49%
Anchor All Cap Value (Net)	-3.09%	-0.38%	5.53%	2.56%	4.43%	4.84%	6.25%
Russell 1000 Value	-3.16%	1.79%	11.05%	6.23%	7.92%	8.45%	9.02%
Russell 3000 Value	-3.15%	1.67%	11.19%	5.98%	7.79%	8.29%	8.99%

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

Quarterly Attribution Highlights[xxxiv]

Sector - Top 3 Contributors	Sector - Bottom 3 Detractors
Energy	Industrials
Financials	Technology
Telecommunications	Consumer Staples

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
Marathon Petroleum Corp (MPC)	1.10%	0.28%	RTX Corp. (RTX)	1.52%	-0.46%
Chevron Corporation (CVX)	2.88%	0.22%	Kenvue, Inc. (KVUE)	0.60%	-0.22%
Diamondback Energy, Inc. (FANG)	1.16%	0.18%	Ulta Beauty Inc. (ULTA)	1.23%	-0.20%
Cboe Global Markets Inc (CBOE)	1.17%	0.14%	NextEra Energy, Inc. (NEE)	0.81%	-0.19%
Chubb Limited (CB)	1.85%	0.14%	TE Connectivity Ltd. (TEL)	1.54%	-0.18%

Quarterly Transactions

Purchased	Sold
Kenvue Inc (KVUE)	Dollar General Corp (DG)
	BWX Technologies Inc (BWXT)
	Medtronic PLC (MDT)
	NextEra Energy Inc (NEE)

Purchases

Kenvue Inc (KVUE) is a global consumer products company that was spun out from Johnson & Johnson (JNJ). Johnson & Johnson offered the shares in a tender offer, but the terms of the tender were undesirable. We bought the shares in the open market after they pulled back. KVUE has strong consumer health care brands and is growing revenues in the 3% to 4% range. The company also has an attractive dividend yield.

Sale

Dollar General Corp (DG) operates 19,000-dollar merchandise stores in the U.S., primarily in rural America. Historically, DG has been consistent in same-store sales growth as they benefit from attractive price points in convenient locations where the customer base is looking for a value proposition. During Covid, DG benefitted from being an essential business that remained open and saw same-store sales increase significantly. Over the last few years, DG has been trying to implement several changes to help improve margins and grow the business, but that has come at the expense of labor and inventory issues and deferred maintenance. Under the leadership of the new CEO, DG has seen same-store sales slip and margins comes under pressure. We started reducing out of the position in the second quarter and completely exited in the third quarter.

BWX Technologies (BWXT) is a manufacturer of nuclear components, a developer of nuclear technologies, and a service provider with an operating history of more than 100 years. Its core businesses focus on the design, engineering and manufacture of precision naval nuclear components, reactors, and nuclear fuel for the U.S. Government. BWXT also provides special nuclear materials processing, environmental site restoration services, critical medical radioisotopes, and radiopharmaceuticals and other advanced nuclear technologies. We exited BWXT on valuation and better risk/reward opportunities in other defense related names. While we believe there are multiple late decade opportunities, BWXT's current valuation incorporates a medical isotope business contribution in 2025 and new wins in the project/remediation business. Given historic struggles getting the isotopes business through FDA approval and towards commercialization along with lumpiness in the project/remediation business we believe there are risks to BWXT reaching consensus expectations. We therefore chose to exit following the stock's outperformance year to date.

Medtronic PLC (MDT) is a global medical device maker. While still a big player in multiple markets, about 80% of its products are in low growth, mature markets and 20% in higher growth markets. We have seen Medtronic lose market share while overall growth levels have been anemic. We believe that there are more attractive opportunities in the market and exited the stock.

NextEra Energy Inc (NEE) is a Florida based utility that has been focused on growing its renewable energy. Higher debt costs are weighting on earnings. That coupled with some questions about political contributions has prompted us to sell the stock.

Anchor's Positioning

Given the steepening of the Treasury yield curve and the expectation for higher interest rates for longer, we are concerned that something in the markets or economy may break. We are starting to see the economic data points roll over and slow down but wonder if there is the potential for a harder landing. To provide downside protection across all portfolios, we have continued raising higher levels of cash which will help reduce volatility and help manage risk.

We believe there is an upcoming/ongoing capital spending Supercycle. With ~$2 trillion of ongoing investments geared toward them, we believe this should provide demand tailwinds across the broader industrial, material, and utility complexes. Given this, Anchor is invested in companies within the machinery, engineering, distribution, electrical, HVAC, EV, renewables, metals, broadband, transportation, and power grid spaces, among others. Not only do we expect growth rates to rise at these companies, but we also expect many of them to prove less cyclical due to the structural tailwinds described. These forces should combine to deliver outperformance in the coming years as new leaders emerge in the market.

Additionally, we are looking for opportunities in the retail space that have sold off and where valuations are attractive. We are cautiously watching how these businesses are navigating the increased turbulence and are doing research on what a normalized earnings picture could look like if some of the headwinds are resolved. We are also looking at the banking sector, which was significantly impacted during the banking issues earlier this year. A few impacted banks have bolstered their capital structure, are over reserved to manage potentials losses and are trading at tangible book values below 2008 levels. While there are always stocks to look at from a value perspective, we are going to patiently deploy capital.

Outlook

We remain cautious at this point in the market cycle. We are observing what we believe to be late market behavior that usually happens before a recession occurs. Strength in interest rates, US dollar and energy have typically been pre-cursors to market downturns. While we remain defensively positioned, we are working hard to line up stocks that could be interesting coming out of a recession and help drive performance in the market cycle.

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[i] FactSet Financial Data & Analytics
[ii] FactSet Financial Data & Analytics, Charting
[iii] Ibid.
[iv] https://www.google.com/search?q=30+year+mortgage+rates&rlz=1C1GCEU_enUS819US819&oq=30+year+mortgage+rates&gs_lcrp=EgZjaHJvbWUyBggAEEUYOdIBCTU0MTJqMGoxNagCALACAA&sourceid=chrome&ie=UTF-8&safe=active&ssui=on
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[xi] Ibid
[xii] Ibid
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[xiv] https://www.nytimes.com/2023/04/04/business/media/johnson-johnson-talc-settlement.html
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[xvi] FactSet Financial Data & Analytics, Charting
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[xxxii] FactSet financial data & analytics; attribution
[xxxiii] eVestment Analytics, see model disclosures below.

[xxxiv] 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 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. 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 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 12/2019 through 12/2020, the net returns presented were calculated using eVestment. These monthly net returns were compounded to calculate the quarterly, YTD and annual returns. The numbers may be slightly different from net returns published prior to 6/30/2017, which were calculated by simply subtracting 3% from the annual gross return. Effective 3/2021, the net returns presented are calculated by subtracting the 3% highest known annual wrap fee among sponsors, compounded monthly. 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 (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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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.