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Overview

During the second quarter, market choppiness increased following a strong start to 2024. What worked best during the quarter was momentum driven by a narrow group of stocks and things related to artificial intelligence (AI). Even areas of the market that wouldn't immediately seem related to AI, like utilities and air conditioning, have rallied as the power and cooling needs of the data centers that house AI servers has increased. As we mentioned in previous quarters, heavy investment continues to flow into AI infrastructure. However, questions have increased about how long this spending will last and if stocks related to the theme are becoming overhyped.

Meanwhile, as growth is slowing stocks that benefitted the most from the pandemic, inflation, and supply chain constraints are now in the processes of normalizing to new levels. Food producers that have been able to pass along inflationary price increases for several quarters are now seeing consumers pulling back. Prices may need to come down to increase volumes again. Health care insurers were able to drive profitability during and post pandemic as many people delayed going to the doctor and getting procedures done. That trend has reversed which has increased costs and impacted the profitability for health care insurers. Finally, we have seen a pullback in transportation companies. Through a combination of supply chain bottlenecks and increased demand for goods, transportation companies were seeing large volumes and higher prices. With a return to more standard volume levels and a freeing of bottlenecks, prices have meaningfully dropped. It will take a few quarters (potentially a few years) for volumes, prices, and costs to normalize for many companies. As a result, we are seeing companies reset expectations to the changing conditions – an inexact science that will require continued attention.

U.S. Equity Markets

The U.S. equity markets were mixed during the second quarter.[i] Large cap stocks continued to outperform mid and small cap stocks.[ii] The chart of the S&P 500 has gone parabolic in the last two years with the run up in mega cap technology stocks. Almost the entire performance of the S&P 500 has been generated by the top 10 stocks in the benchmark. As a result, the valuation of the top ten stocks is nearly at a record level, while the remaining benchmark holdings have valuations that are relatively tame.

Growth outperformed value for the quarter with communication services and technology leading the way.[iii] As mentioned, large investment around AI has been driving those sectors. On the flip side, energy and materials have been the laggards. Energy performed well in the first quarter with a rally in oil but has pulled back since early May.[iv] Material companies have also seen a pull back since the beginning of May, although we believe the supply and demand dynamics in the commodity space present upside opportunity.

U.S. Fixed Income

The U.S. fixed income market had mixed performance over the quarter. Longer dated interest rates have been fluctuating, but the general trend has been higher interest rates since the beginning of the year with the 10-year Treasury yield settling around 4.25%, up from 3.9% in December 2023[v]. Over the quarter we saw interest rates spike up to 4.7% on the 10-year Treasury bonds before settling back down.[vi] The S&P U.S. Aggregate Bond Index is down year to date 1.50% with even longer dated Treasury bonds down more than 5%.[vii] There are parts of the bond market that are positive given the higher coupon, such as leverage loans and high yield. If credit quality holds up, these bonds should continue to perform well. Asset backed securitized loans (ABS) and Treasury Inflation Protected Securities (TIPS) are also positive for the year.

Inflation / Interest Rates/Fed Reserve / U.S. Economy

We continue to monitor the Federal Reserve for potential interest rate cuts. This is especially true since the European Central Bank (ECB) started reducing their interest rates by 25bps at the June meeting. At the last Federal Reserve meeting, the committee kept the Fed Funds rate unchanged at the 5.25% to 5.50% range.[viii] It is uncertain whether the Fed will cut rates in 2024, but many investors are forecasting at least one rate cut.[ix]

The driving force behind the Fed's actions has been the combination of a resilient economy and sticky inflation. The latest inflation numbers for May show the Consumer Price Index (CPI) increased by 3.3%[x] and Personal Consumption Expenditures (PCE), which is a different way of showing inflation, increased by 2.8%.[xi] Both wages and rent continue to increase. These inflation levels are above the 2% targeted rate by the Fed.[xii] The Fed is in a precarious position and worries that cutting interest rates too soon will cause inflation to increase again or cutting too late could push the economy into a recession.

The U.S. economy has been holding up well. The first quarter GDP has come down but still grew at 1.3%[xiii], unemployment remained low at 4.0%[xiv], retail sales remain positive[xv] and the Purchasing Managers Index (PMI)[xvi], which measures manufacturing activity, is now in expansion mode. We continue to hear from retailers on earnings calls that the lower end consumer is focused on essential goods like groceries and health care and not spending on discretionary items.

Both new and existing home sales continue to be lower than average, primarily due to higher mortgage rates and an unwillingness of sellers to move.[xvii] 60% of homeowners have a mortgage with less than a 4% interest rate, so there is little desire to move.[xviii]

Anchor's Positioning

During the second quarter we were especially selective following the strong run in the markets. We believe a supply and demand imbalance is still in place, presenting opportunities in the energy and materials sectors. Copper has been an area of focus, with strong global demand and a shortage of copper mines.

Home builders are also an area of focus over the long-term. There continues to be a shortage of housing in the US coupled with the Millennial demographic coming into peak house buying years. Home builders have become more asset light and are building where they see demand.

Finally, we are seeing opportunities in the alternative finance space. Traditional banks are reining in lending due to regulatory changes and higher capital commitments. As a result, alternative asset managers are filling the role of lender across the debt spectrum for corporates, asset backed, and real estate. These alternative asset managers are growing quickly with larger loan books. Many of these asset managers have also bought insurance companies with permanent capital, so they are able to reduce volatility that exists around the lending cycle.

Conclusion

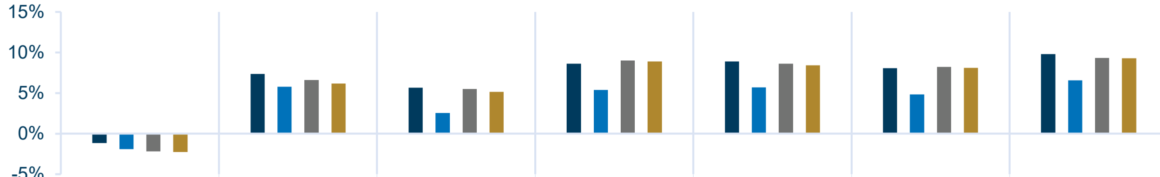
While we continue to find interesting ideas, it has become more challenging. Sectors have run a lot and have become expensive, or they are completely out of favor for the reasons we mentioned earlier. We are spending more time looking at normalized earnings and cash flows to figure out the adjusted outlook for many companies. This is requiring increased patience and discipline with the need to wait for better entry points. We are at an interesting crossroad and expect that we will continue to see volatility in the markets.

Performance Overview

The Anchor All Cap Value Portfolio returned -.1.16% (gross of fees) and -1.90% (net of fees) during the quarter, outperforming the Russell 1000 Value Index, which returned -2.17%. On a relative basis, the Portfolio benefitted the most from security selection in the Technology, Health Care, and Basic Materials. Security selection in Consumer Discretionary and Consumer Staples as well an underweight allocation to Utilities were the greatest detractors from relative performance.[xix]

Managed Accounts Model Performance[xxxiv]

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)	-1.16%	7.36%	5.66%	8.61%	8.91%	8.05%	9.82%
Anchor All Cap Value (Net)	-1.90%	5.76%	2.53%	5.40%	5.69%	4.85%	6.57%
Russell 1000 Value	-2.17%	6.62%	5.52%	9.01%	8.61%	8.23%	9.34%
Russell 3000 Value	-2.25%	6.18%	5.14%	8.89%	8.43%	8.10%	9.30%

Quarterly Attribution Highlights[xxi]

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

Security - Top 5 Contributors	Avg. Weight %	Contribution %	Security - Bottom 5 Detractors	Avg. Weight %	Contribution %
QUALCOMM Incorporated (QCOM)	2.04	0.32	Ulta Beauty Inc. (ULTA)	1.43	-0.48
Walmart Inc. (WMT)	2.07	0.25	CVS Health Corporation (CVS)	0.43	-0.35
Analog Devices, Inc. (ADI)	1.71	0.24	Salesforce, Inc. (CRM)	1.77	-0.30
Boston Scientific Corporation (BSX)	1.79	0.21	Advance Auto Parts, Inc. (AAP)	0.88	-0.26
Applied Materials, Inc. (AMAT)	1.55	0.21	Lowe's Companies, Inc. (LOW)	1.74	-0.25

Quarterly Transactions

Purchased	Sold
Chord Energy Corp (CHRD)	Kenvue Inc (KVUE)
Apollo Global Management Ord Shs (APO)	CVS Health Corp (CVS)

Purchases

Chord Energy Corp (CHRD) is the largest exploration and hydraulic fracturing company in the Williston Basin. Management has a favorable return of capital program balancing leverage, buybacks, and dividends. The current dividend yield is 5.5% and with less than 0.5x leverage, Chord is committed to returning 75%+ of FCF to shareholders. Chord recently announced strong Q4 earnings, guided for 2024 in line with expectations, and announced the acquisition of Enerplus (ERF). The deal is expected to be highly accretive on all metrics with $150M+ synergies in 2025 and beyond. This deal makes Chord the largest operator in the region, maintaining just 12% share providing more opportunity for accretive acquisitions. Leverage will remain low post deal at 0.2x.

Apollo Global Management Ord Shs (APO) is a global investment firm with over $670 billion in AUM with approximately $400 billion in perpetual capital. The company has compounded AUM at over 20% per year since the IPO. They are focused on the credit space, which represents 75% of AUM - mostly made up of investment grade credit. The firm is highly focused on downside protection with a value-oriented framework. With 60% of AUM permanent capital, they likely have a very long runway of fees on that side of the business. The company is growing its wealth business, origination business, and its insurance business, Athene. We believe Apollo can continue to grow 10% to 15% per year for years to come. Further we believe it has downside protection with permanent capital fees for years to come, a focus on credit, and a low valuation of less than 13x forward earnings. Long term we believe Apollo can re-rate slightly higher to a valuation closer to alternative peers while growing earnings over 10% per year.

Sales

Kenvue Inc (KVUE) is a consumer products company that spun out of J&J in May 2023. It sells well-known brands, including Aveeno, Band-Aid, Benadryl, Neutrogena, and Tylenol. Despite a portfolio of strong well-known brands, Kenvue management team has not done a good job of investing in the brands, and they have been losing share as a result. We believe that management isn't taking the steps necessary to turn the brands around. We adjusted our price target down to reflect the lower growth profile we expect from management's strategy, and exited the position when stock reached our price target.

CVS Health Corp (CVS) reported very poor first quarter results missing EPS consensus expectations by more than 20%. They also cut the full year guidance by more than 15%. CVS is experiencing higher utilization costs for Medicare Advantage with MLS going up to 90.4% from 88%. We did not see a quick fix for CVS because they have exponentially grown Medicare Advantage, up 24% y/y. We believe the management has a credibility issue as the company is not set up to provide quality care and achieve profitability in the current setup.

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[i] FactSet Data & Analytics, Charting
[ii] Ibid
[iii] Ibid
[iv] Ibid
[v] FactSet Data & Analytics, Charting
[vi] Ibid
[vii] Ibid.
[viii] https://www.cnbc.com/2024/06/12/fed-meeting-today-live-updates-on-june-fed-rate-decision.html
[ix] Ibid
[x] https://www.cnbc.com/2024/06/12/cpi-inflation-may-2024-in-one-chart.html
[xi] https://www.investing.com/economic-calendar/core-pce-price-index-905
[xii] Ibid.
[xiii] https://tradingeconomics.com/united-states/gdp-growth
[xiv] https://www.bls.gov/news.release/pdf/empsit.pdf
[xv] https://www.cnbc.com/2024/06/18/retail-sales-report-may-2024-may-retail-sales-rise-0point1percent.html
[xvi] https://tradingeconomics.com/united-states/manufacturing-pmi
[xvii] https://tradingeconomics.com/united-states/existing-home-sales
[xviii] https://investors.redfin.com/news-events/press-releases/detail/930/nearly-everyone-with-a-mortgage-has-an-interest-rate-below
[xix] FactSet financial data & analytics; attribution
[xx] eVestment Analytics, see model disclosures below.
[xxi] 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.