Third Quarter 2018 Investment Perspective

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HS MANAGEMENT PARTNERS, LLC

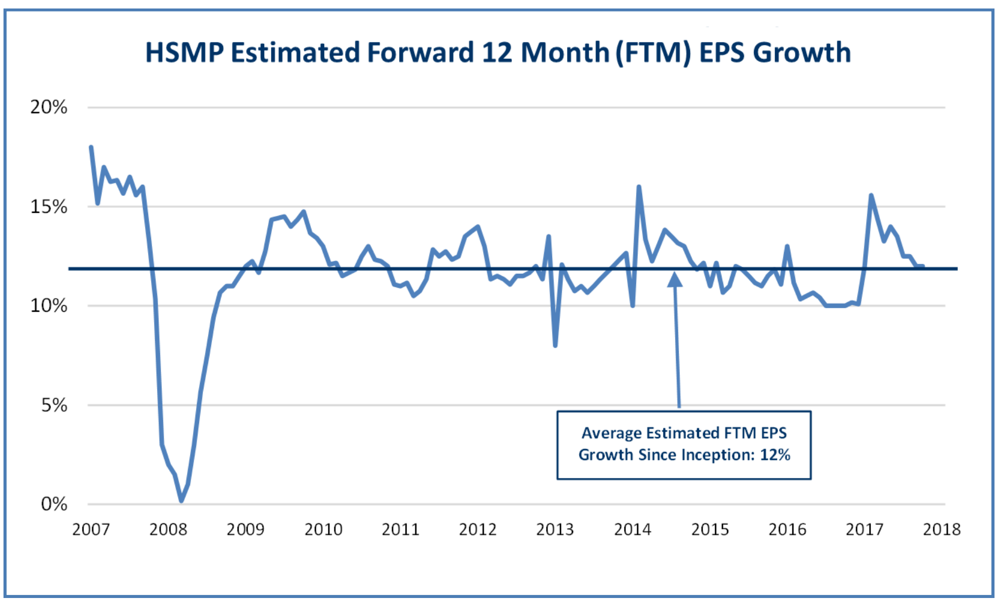
investment styles ebb and flow . . . fundamentals never go out of favor

October 12, 2018

Investment Perspective

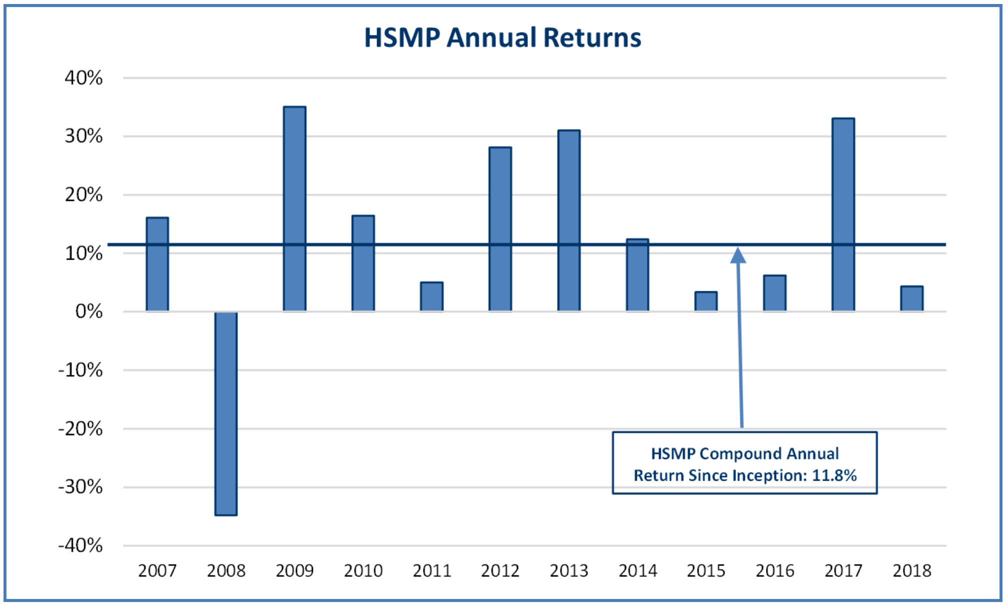
After a pullback early in the year, absolute results began to rebound in June and that trend continued throughout the third quarter. 2018 has been a year characterized by fiscal stimulus which has driven a late cycle earnings acceleration and contributed to a rise in interest rates. In conjunction, there has been U.S. dollar strength which has been a negative for both U.S. and non-U.S. domiciled multinationals, and especially for emerging markets. Finally, 9 ½ years into this bull market and 7 years removed from price/earnings ratio lows, this has remained more of a momentum-driven than a valuation sensitive market. Overall, these phenomena have worked as a headwind to the fundamental appeal of our concentrated quality growth approach.

Stepping back, we have seen that the underlying earnings growth of your portfolio holdings has been the engine behind absolute returns over time. The chart below shows our estimated forward 12-month earnings growth for our portfolio holdings historically. As you can see, forecasted results have been as high as the upper teens on a few occasions (including recently due to tax reform) and as low as barely positive during the depths of financial crisis (resilient given collapsing corporate profits). Over time, these forecasted EPS results have averaged about 12%.



Note: Based on HS Management Partners, LLC estimates since inception (4/1/07) through 9/30/18.

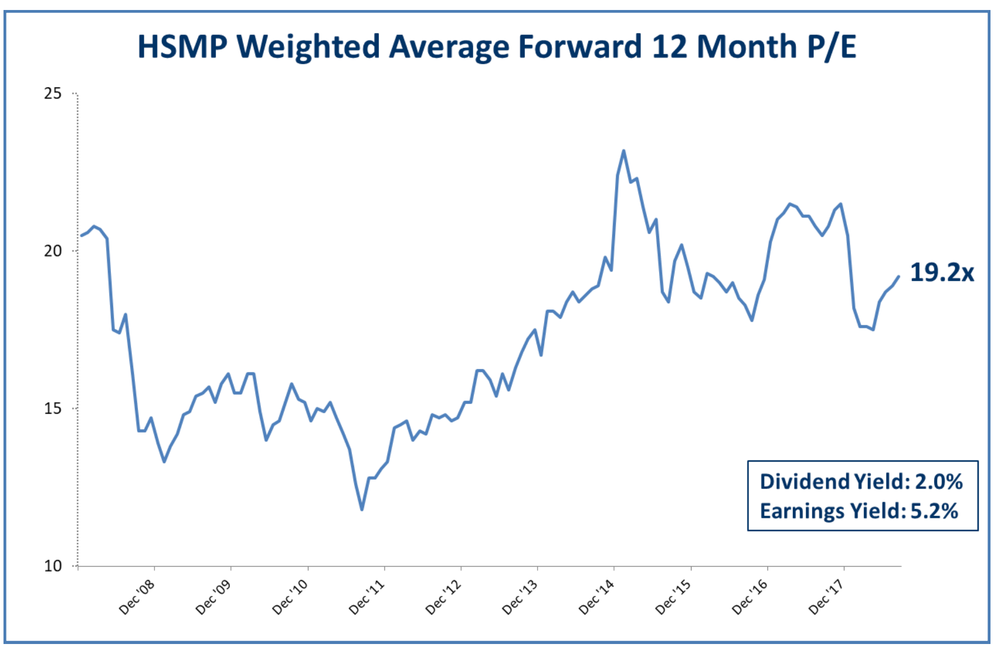
Post-fee returns are shown on an annual basis in the following bar chart on the next page. Some years, portfolio returns advance more than earnings growth (like last year) and some years behind (such as this year so far). Changes in the price/earnings ratio also dictate returns as do portfolio changes and the contribution of dividends. Over the long run, the principal driver has been earnings growth and it is not a coincidence that our compounded annualized net return of 11.8% since inception is in line with the 12% average forecasted EPS results noted earlier.



Note: Performance results are presented net-of-fees since inception (4/1/07) through 9/30/18 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

Future appreciation will predominately come down to the trend in earnings growth and the price/earnings ratio. We expect portfolio earnings—which may grow by a tax rate cut enhanced 18% or so this year—to advance roughly 10% in 2019. We will be lapping fiscal stimulus while rising commodity, wage and tariff costs are headwinds as is the strong dollar. In our view, 10% growth will be a healthy level of earnings growth so deep into the economic cycle and is consistent with the resilient businesses we own in clients portfolios. We think this is a sustainable pace of profit gains over the next few years barring a recession.

Since portfolio earnings have grown faster than portfolio appreciation this year, we have seen a reduction in the price/earnings ratio of your portfolio in 2018 (from 21.5X on 12/31/17 to about 19.2X now). The graph below highlights the estimated forward 12-month P/E for our portfolio over time.



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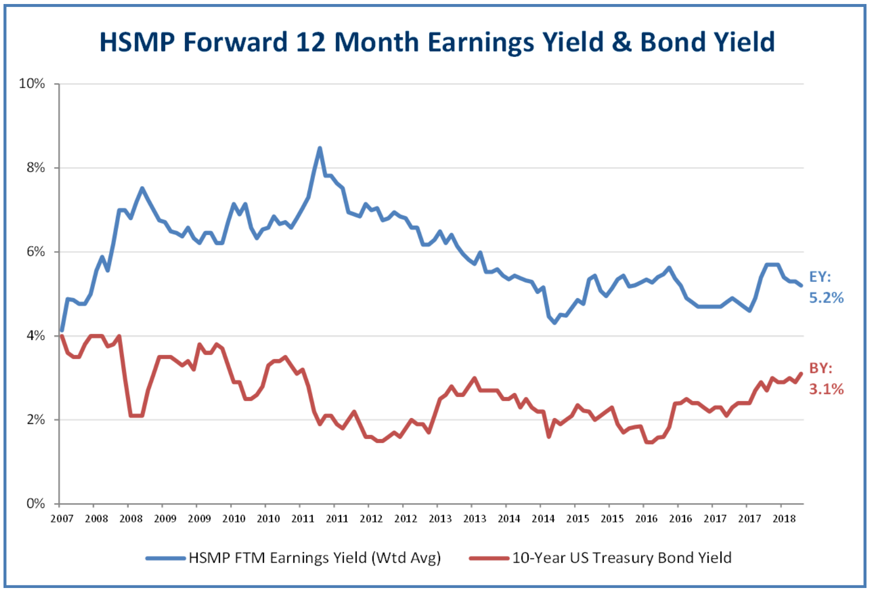
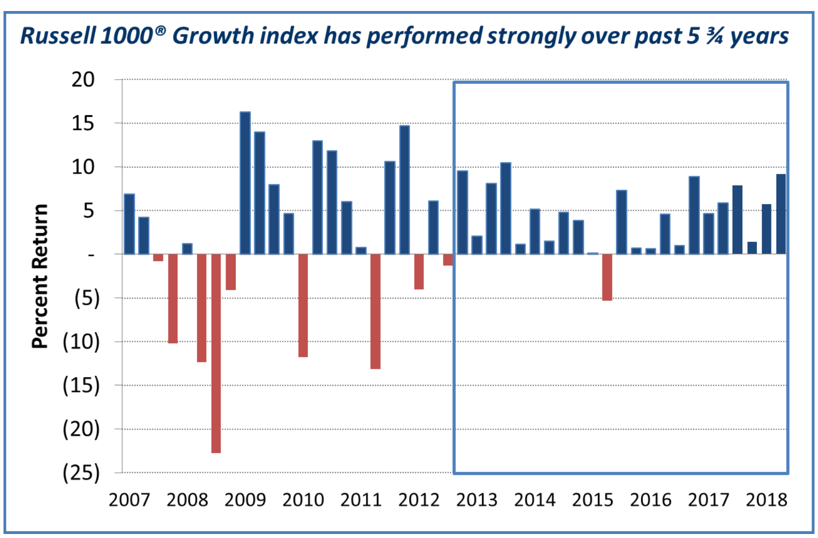
An important development in 2018 has been the direction of the ten-year bond yield which has increased from 2.4% at the start of the year to 3.1% at third quarter's end. We think higher rates have had an impact on multiples but remain sanguine about your portfolio's valuation. The earnings yield (the inverse of the price/earnings ratio) on our concentrated quality growth portfolio remains well above current bond yields and we think can be supported with even higher rates. In our view, the same cannot be said about momentum driven stocks with steep price/earnings ratios (and very low earnings yields), have little underlying free cash flow, and in some cases, require big new borrowings to support operations.



Note: Based on HS Management Partners, LLC estimates since inception (4/1/07) through 9/30/18.

Looking broadly, the market has mostly been on a non-stop tear for almost 6 years. In the past 23 quarters, encompassing the first quarter of 2013 through the just completed third quarter of 2018, the Russell 1000 Growth Index has advanced in 22 quarters; the S&P 500 Index registered 21 positive quarters in this time. This is in contrast with the prior 23 quarters which began with the second quarter of 2007—the time of our inception—through the fourth quarter of 2012, in which the Russell 1000 Growth index advanced in 14 quarters and had 9 losing quarters, and the S&P 500 had 13 positive quarters and 10 negative. The chart below shows the data for the Russell 1000 growth Index. Note the S&P 500 chart looks similar.



Note: Quarterly returns for the Russell 1000® Growth from 2nd quarter 2007 through 3rd quarter 2018.

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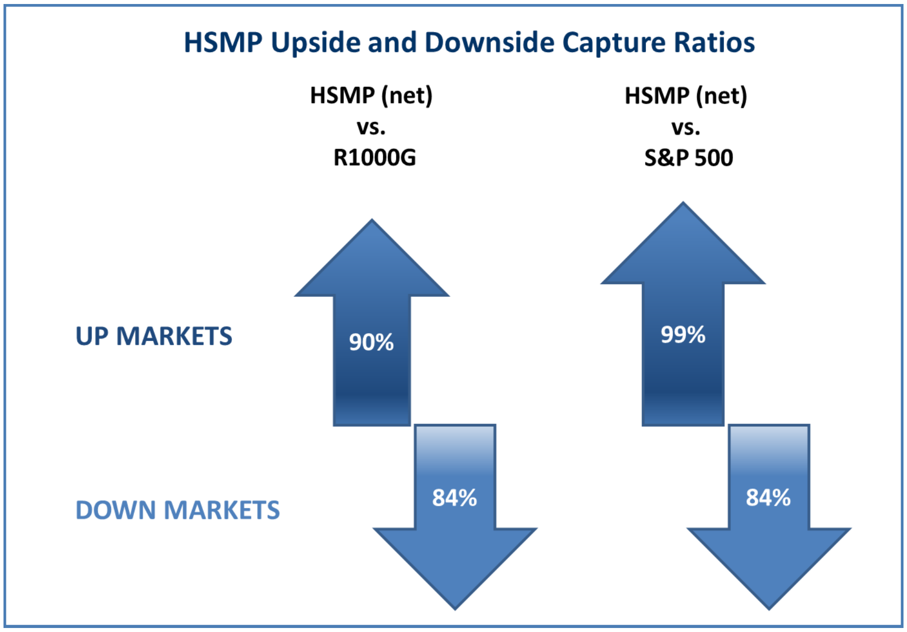
As I wrote in last year's third quarter letter: "To be sure, our valuation discipline can act as a restraint in more go-go markets and we can be early in taking profits. Moreover, sometimes other sectors can be more in vogue or some of the more defensive characteristics that we gravitate to can be out of favor. In the long run, we think our methodology's ability to capture much, if not all the upside in good markets, but to preserve capital better in more challenging times, positions your portfolios well over market cycles."



Note: Performance results are presented net-of-fees since inception (4/1/07) through 9/30/18 and include the reinvestment of dividends and other earnings. See last page for the calculation methodology of the upside/downside ratios. Past performance is not indicative of future results.

In conclusion, we have stayed true to our concentrated quality growth discipline throughout our history. Our goal is to deliver positive absolute returns over time by owning good businesses, making our clients the owner of an earnings and cash flow stream that grows every year, and by attaching ourselves to this stream at an attractive valuation. We then look for positive absolute gains to translate into above average relative performance over investment cycles. We think the focus on quality, growth, and valuation is an important part of capturing much if not all the upside during good times but preserving capital better during challenging periods. While this latter attribute has not been called into play frequently during this recent bull market run, it most assuredly will be put to the test in the years to come. That said, we believe the building blocks of future appreciation remain well in place. We thank you as always for your confidence in us.

Sincerely,

Harry W. Segalas

IMPORTANT DISCLOSURES

When we use "HSMP" or "HS Management Partners" or "Firm" or "we" or "us" or "our" in this document, we are referring to HS Management Partners, LLC. When we use "Composite" in this document, we are referring to our HS Management Partners Concentrated Quality Growth Composite. When we use "net-of-fees," we mean net of our investment advisory fees and net of trading costs only.

This piece represents the opinion of HSMP as of the day of this letter based on our understanding of market conditions and reported information about the aforementioned companies. It contains certain forward-looking statements that are by their very nature uncertain and based on our assumptions, such as when we refer to possible future earnings or cash flows of a company or its estimated earnings-per-share (EPS), growth rates, or price-earnings (P/E) ratios. There can be no assurance that forward looking statements will prove to be accurate as actual results and future events could differ materially from our assumptions. The opinions stated here are subject to change without notice and are provided solely for purposes of illustration or discussion. This piece should not be construed as a recommendation to buy or sell any particular security, and the information here should not be used as the basis for making investment decisions.

The securities identified and described in this piece do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. While we believe that our investment strategy will produce desired returns, there can be no assurance that HSMP will achieve its investment objective or will be successful in implementing its investment strategy.

Investment in securities involves significant risks that clients should be prepared to bear, including the risk of loss of the original amount invested. We encourage you to refer to our Firm Brochure (which is available on our website [www.hsmanage.com] or upon request at 212.888.0060) for some material risks applicable to our investment strategy and additional information regarding our Firm.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). For the purpose of complying with GIPS®, HS Management Partners defines itself as HS Management Partners, LLC, an independent SEC registered investment adviser. (Please note that although HSMP is registered with the SEC as an investment adviser, SEC registration does not imply any certain level of skill or training.) The Composite includes all fully discretionary fee paying accounts which employ our style of investing in 20 to 25 quality growth businesses. These accounts must have a market value of greater than $500,000 at the time of initial inclusion, including those accounts no longer with the Firm. The U.S. Dollar is the currency used to express performance. For more information or for a copy of our fully compliant GIPS® presentation and/or list of composite descriptions, please contact us at 212.888.0060.

For benchmark purposes, the Composite is compared to the S&P 500® and Russell 1000® Growth indices, however, the Composite may contain securities not represented in either or both indices. The S&P 500® Index is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. The performance comparisons in this document are provided for market context only, and there are meaningful differences between the Composite and the S&P 500® and Russell 1000® Growth indices that should be considered when comparing performance (such as in terms of composition, concentration and volatility). Also, neither index bears fees and expenses, and investors cannot invest directly in either of them. Client accounts may contain securities not represented in either or both indices. In addition, client account performance may vary from that of the Composite or from that of other client accounts for reasons such as account size, timing of transactions and market conditions at the time of investment.

The performance data contained in this piece should not be taken as an indication of how the performance of the Composite or of a client account will be in the future. Past performance is not indicative of and does not guarantee future results.

Please note that during certain transitional periods of selling or buying a security or due to some corporate actions such as spinoffs, or due to some other factors, the Portfolio may hold more or less than 20 to 25 securities.

The turnover rate shown in this piece is comprised of new names and incremental changes to existing positions for the periods shown. Our portfolio strategy has resulted in an annual turnover rate of generally between 65% and 95% (measured in dollars). Please refer to our Firm Brochure for more information regarding active management risk.

The upside [downside] capture ratios shown in this letter were computed by dividing the cumulative annualized return of the HSMP Composite (net-of-fee) in months of positive [negative] index returns by the cumulative annualized return of said index for those same months.

This document includes general information and has not been tailored for any specific recipient or recipients. Accordingly, the information in this document is not intended to cause HS Management Partners, LLC to become a fiduciary within the meaning of Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974, as amended or Section 4975(e)(3)(B) of the Internal Revenue Code of 1986, as amended.

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