# Globally Domesticated

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**At Home – and On Distant Shores**

I fondly recall attending the 1964 World's Fair in Queens, New York as a child and marveling at Disney's exhibit "It's a Small World." I was fascinated that such an amazing array of pavilions could bring to life the culture and pageantry of distant shores to those who had the good fortune to attend. Ah, the pleasant melody that crackled aloud as we circled the "world" in our little boat. Disney's creative genius was as evident then as now.

Over these many years, the world - figuratively speaking - has gotten smaller. Advances in technology, the ubiquity of smartphones, the proliferation of social media, airline deregulation and a host of other progressions have converged to raise awareness and curiosity about — and accessibility to — disparate lands and people.

Perhaps nowhere is such instantaneousness more apparent than in global financial arenas. Omnipresent trading and socio/political/economic developments in markets thousands of miles apart ripple across continents like stones skimming calm waters. Beijing and New York are 6,800 miles apart though no more than a millisecond and a click removed; markets react swiftly to the latest arc — or tweet. Come to think of it, clicks are rather *blasé…*tweets are the preferred *force majeure* of U.S. economic policy, and one every bit as effective in careening global markets.

**Trade, Tariffs, Twitter and Trump…Four T's Raise the Summer Temps**

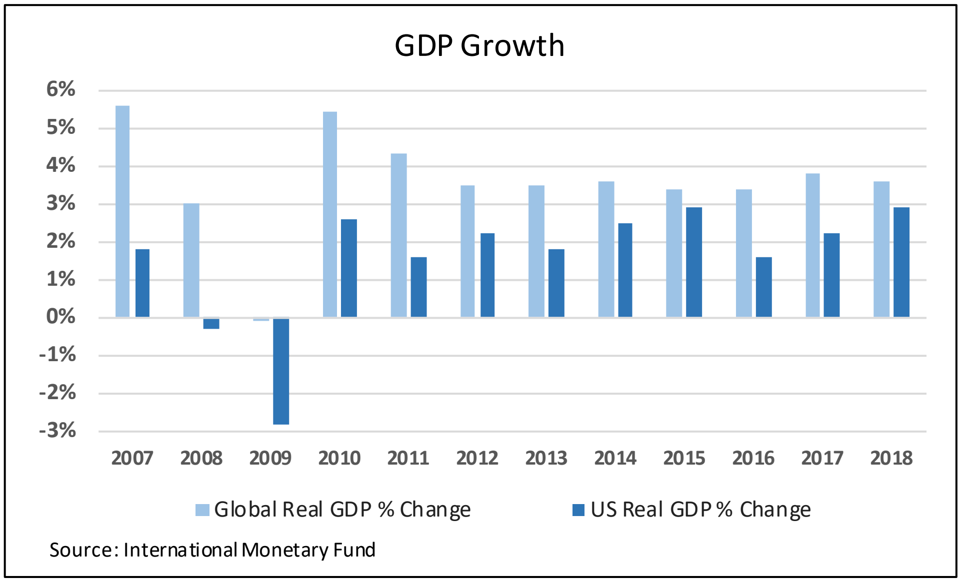
A May 31st NY Times article summarized the state of international economic diplomacy. Entitled "How Trump's Trade War Is Being Fought Around the World," the article detailed U.S. Administration efforts with Mexico, China, Japan, Europe and Canada, among others: "He is challenging the post-World War II consensus that free trade enriches the world." With a large field of Democratic candidates taking the stage again this evening in Miami, followed by the G20 Summit this weekend in Osaka, it looks like the lazy days of summer are going to be delayed for a bit. A dovish Fed and a hawkish Iran beckon in the background. Surely, we'll be hearing lots of news flow, and the clamor is likely to be bold on occasion. It is in noisy times that we try to dim the volume, focus on what matters, avoid knee jerk reactions to the latest data point, and cling more tightly to the fundamental precepts of our investment roots from whence we came.

Central to our investment philosophy is our aim to own quality businesses capable of growing the earnings and cash flow profile of the overall Portfolio at an above average rate. As a U.S.-based concentrated quality growth manager, we appreciate that the realization of our goal necessitates an acknowledgement that economies beyond our borders have grown more quickly. **Chart 1** is illustrative of the cadence of economic growth globally to that of the U.S., and for the period shown seemingly supports the thesis that owning a profile of quality businesses with a multi-national footprint has been an important ingredient in satisfying our mission over time.



*See pages 6-7 for important disclosures.*

**Chart 1**




Our investment guidelines typically permit us to invest our client portfolios in non-U.S. domiciled companies, and we have, since Firm inception, maintained positions in what we deem to be quality businesses based outside the U.S. We appreciate the relevance of country of origin data so as to better categorize and compare us to other managers. That said, we have consistently maintained a benchmark agnostic approach, one that largely belies the contours of precisely defined style boxes. As I write, the weighting of client portfolios not represented in the S&P 500® or the Russell 1000® Growth equal 24% and 28%, respectively, and we have typically owned securities not represented in the indices – not by design, not to simply be different – but because that's where our investment discipline and opportunity set led us. While we are predominantly large cap, we have and will go down the cap scale; while we are a U.S. based manager, we have and will gaze at horizons beyond our shores; while we are growth managers, we have and will maintain a valuation discipline; while we are intent on managing client assets to the best of our ability, we have and will maintain a quality lens to the businesses we own on their behalf. We invest based on where a given company conducts its business rather than where it is headquartered; selling to consumers/enterprises in healthy, advancing economies is most germane to our earnings/cash flow embrace. Many of our U.S.-based holdings have large (and in some cases, larger) presences outside the U.S. than within, and so too do some of our European-based holdings count North America as their primary region.

Typically, over 50% of Portfolio revenue is derived from the U.S., with developed markets in Western Europe and Japan around one-quarter to one-third and a collection of emerging markets the balance. Assuming global economic growth continues to exceed that of the U.S. — albeit with heightened volatility given the influence of emerging market economies — we believe we can maintain an anticipated weighted average of 10% or greater earnings-per-share (EPS) growth over the long term for Portfolio companies.

**HSMP's Song Remains the Same**

We own businesses that we think possess the qualitative elements we prize: a reasonably high measure of predictability to revenues/earnings/cash flows; sales into large and growing categories; seasoned and prudent management teams; the sale of affordable goods/services consumed/utilized on a fairly routine basis; capital lite models realizing meaningful free cash flow; broad geographic platforms; large and increasingly formidable



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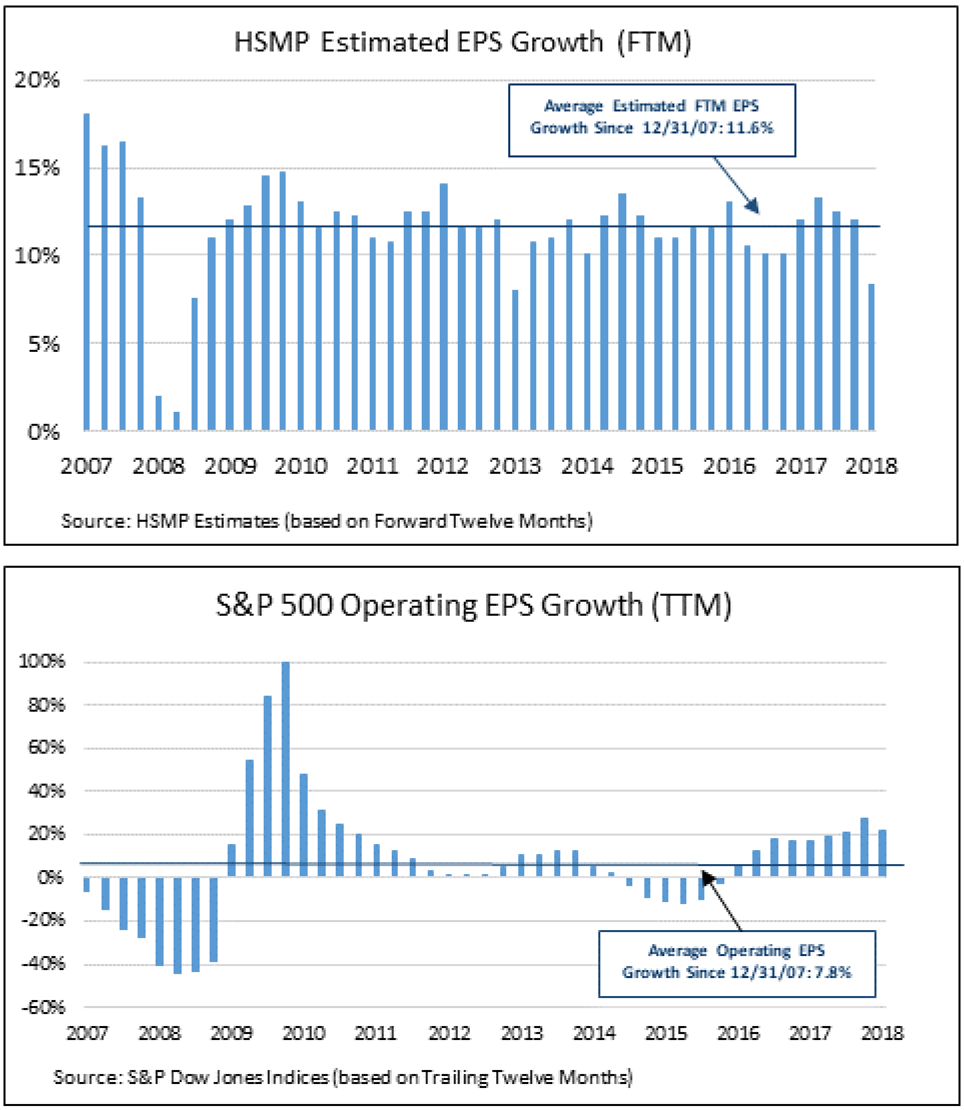
barriers to entry derived from the above criteria coupled with meaningful scale advantages, among others. We believe that the multi-dimensional mosaic with which we assemble client portfolios — embracing companies across the growth continuum from established to more rapid growers, a willingness to go up and down the cap scale, and an appreciation for non-U.S. domiciled businesses — affords us flexibility in managing client assets.

**Chart 2** highlights the estimated earnings per share (EPS) of Portfolio companies using HSMP quarterly data as compared to that of quarterly operating results posted by constituents of the S&P 500 from 12/31/07 to 12/31/18. In fact, HSMP Portfolio companies in aggregate exhibited fairly consistent low double-digit EPS growth in line with our forecast for the period shown. On average, the aggregate EPS of the companies in our Portfolio have advanced at a superior rate to that of the S&P 500 with less variability around the mean.

**Chart 2**




**Valuation Matters, Particularly in a Yield Deprived World**

At the same time, we are very attentive to valuation, utilizing three primary metrics — price/forward twelve-month earnings, price/forward twelve-month free cash flow yield, and an appraised present value analysis. The



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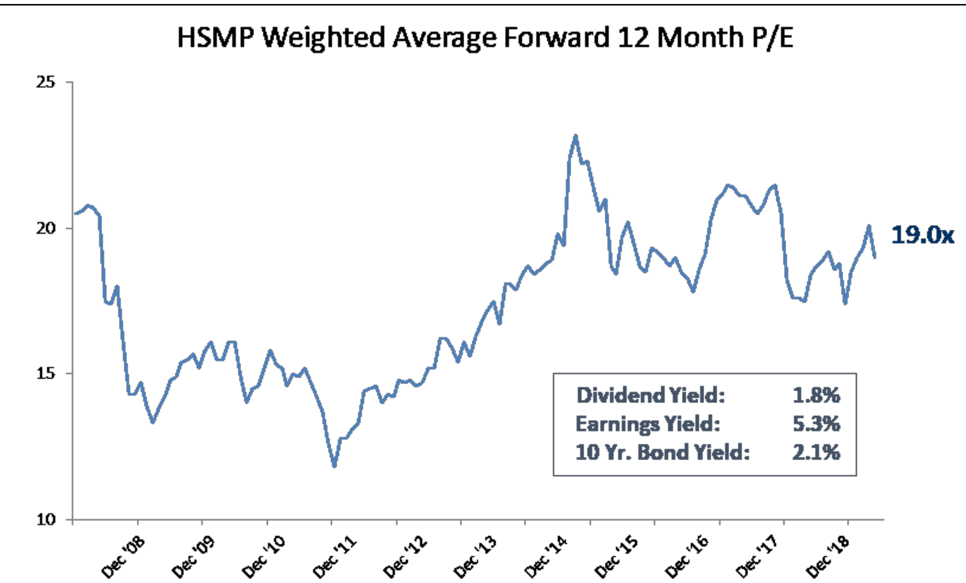
valuation dimension in our decision-making process serves to quantitatively complement the qualitative emphasis we place on identifying good businesses to invest our clients' precious capital.

We believe valuation always matters, and it is tightly woven into the fabric of our investment uniform. Our long term track record is a compilation of our relative performance in ebullient and difficult markets, and we've demonstrated an ability to largely — though not completely — keep pace in months when the market has advanced while preserving capital better than the indices in more challenging environments: our so-called upside/downside capture reading since inception and through 5/31/19 is 100%/(83%) to the S&P 500, and 90%/(82%) to the Russell 1000 Growth.

In a world of easy money, it is understandable that some observers may view equities as undervalued. With over $13 trillion in negative yielding debt around the globe — yes, with a T, and yes, you pay the issuer to borrow your money — it is no wonder that a certain complacency reigns with respect to valuations in other asset classes. IPOs with multi-billion dollar market capitalizations and no earnings to show (today and, in some cases, not for many tomorrows to come) is another signal that valuation has run somewhat amok — making it all the more imperative to our thought process. Bloomberg ran an article yesterday entitled "Bitcoin Goes Parabolic as Bubble-Like Gains Come Roaring Back." Enough said.

And given that the forward price earnings ratio (P/E) of the Portfolio is now nearly identical to when we started the Firm (**Chart 3**), our 11.5% annualized net of fee return (since Firm inception — 4/01/07 — through 5/31/19) has been supported unequivocally by our ability to advance the earnings and cash flow contour of client portfolios. With an earnings yield well in excess of the current dividend yield on the Portfolio, and with the latter competitive with the modest yield available on 10 year Treasuries, we find our valuation reasonable in a financial setting where the alternatives are not all that compelling from our perspective.

**Chart 3**




Note: Based on HSMP estimates since Inception (4/1/07) through 5/31/19.

The HSMP investment team is mindful that business fundamentals and industry structures can and do change, and that such change — in part, and at times, influenced by trade policies — can invite opportunity. We are proactive in our thinking and within our strategy, we try to guard against complacency with an open mindedness



*See pages 6-7 for important disclosures.*

to new business models, the removal of legacy barriers to existing models, and an appreciation that the world is subject to more rapid disruption and dislocation than at any time in our 35+ year investment careers. And we'll do it the only way we know how: understanding what we own, emphasizing quality business models, actively managing clients' scarce capital, and maintaining a disciplined valuation construct. To borrow the memorable John Houseman line from the Smith Barney commercial of yesteryear, "They make money the old fashioned way. They earn it."

**At HS Management Partners, This is Our Field of Play**

Amidst the consistency and duration of our approach, clients may rest a bit more comfortably at night, secure in the knowledge that the importance we ascribe to disciplined participation in global businesses — trade tensions, et. al.— is balanced with the U.S. market landscape we know so well.

It's a Small World, after all.

We appreciate deeply the trust we've earned from so many, and are grateful to our clients for their continuing support.

Our best to you and your families for a joyous summer.



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## GIPS Disclosure

### HS Management Partners, LLC

### Concentrated Quality Growth Composite

### Annual Disclosure Presentation

| | Firm | Composite | | Performance Results | | | | | 3-Year Annualized Std Deviation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year End | Assets (millions) | Assets (USD) (millions) | Number of Accounts | Composite Gross | Composite Net | S&P 500® | Russell 1000® Growth | Composite Dispersion (Std Dev) | Composite Gross | S&P 500® | Russell 1000® Growth |
| 1Q-19 | 3,234 | 3,173 | 257 | 13.15% | 12.95% | 13.65% | 16.10% | .27 | 10.23 | 10.58 | 12.02 |
| 2018 | 3,145 | 2,967 | 259 | -4.42% | -5.07% | -4.38% | -1.51% | .28 | 10.04 | 10.80 | 12.12 |
| 2017 | 4,028 | 3,840 | 236 | 33.87% | 33.06% | 21.83% | 30.21% | .46 | 9.61 | 9.92 | 10.54 |
| 2016 | 3,446 | 3,269 | 199 | 6.92% | 6.25% | 11.96% | 7.08% | .10 | 10.72 | 10.59 | 11.15 |
| 2015 | 3,143 | 3,014 | 176 | 3.94% | 3.32% | 1.38% | 5.67% | .81 | 11.03 | 10.48 | 10.70 |
| 2014 | 3,295 | 3,193 | 148 | 13.06% | 12.39% | 13.69% | 13.05% | .26 | 9.85 | 8.98 | 9.59 |
| 2013 | 2,392 | 2,298 | 136 | 31.76% | 31.04% | 32.39% | 33.48% | .09 | 12.26 | 11.94 | 12.18 |
| 2012 | 1,622 | 1,616 | 94 | 28.86% | 28.16% | 16.00% | 15.26% | .15 | 13.82 | 15.09 | 15.66 |
| 2011 | 884 | 880 | 72 | 5.55% | 5.00% | 2.11% | 2.64% | .11 | 15.81 | 18.70 | 17.76 |
| 2010 | 531 | 528 | 46 | 17.13% | 16.44% | 15.06% | 16.71% | .28 | 19.54 | 21.85 | 22.11 |
| 2009 | 292 | 290 | 32 | 35.91% | 35.06% | 26.46% | 37.21% | .33 | | | |
| 2008** | 172 | 152 | 27 | (34.49%) | (34.80%) | (37.00%) | (38.44%) | N.A. | | | |
| 2007* | - | 6 | 5 or fewer | 16.84% | 16.08% | 4.83% | 10.51% | N.A. | | | |

* Performance shown for 2007 is from April 1, 2007 through December 31, 2007.

** HS Management Partners, LLC charges its fees quarterly in arrears and therefore no significant fees were charged to client accounts in the first quarter of 2008. Had a modeled fee of 0.90% per annun been applied, the net of fee return for the first quarter of 2008 would be (10.82%).

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios (5 or fewer) in the Composite for the entire year.

*__The HS Management Partners Concentrated Quality Growth Composite__ includes all fully discretionary, actively managed, fee paying accounts which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding $500,000 at the time of initial inclusion in the Composite and have a market value exceeding $300,000 to maintain inclusion.*

*Accounts that have contributions/withdrawals of greater than 10% of their market value (at the time of the cash flow) shall be excluded from Composite membership. Accounts that are not actively managed according to the intended strategy are excluded at the end of the last full day in which they last met the inclusion criteria. Accounts are reinstated into the Composite on the first day after the account again meets our inclusion criteria. Prior to April 1, 2009, our inclusion and exclusion criteria were applied on a monthly basis, rather than daily. Additional information regarding the treatment of significant cash flows is available upon request. Also available upon request are policies for valuing portfolios, calculating performance, and preparing compliant presentations.*

*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 HS Management Partners Concentrated Quality Growth Composite was created January 1, 2008. Prior to January 1, 2008 the accounts in the Composite were non-fee paying individual accounts managed by Harry Segalas in accordance with HS Management Partners' investment policies, becoming HS Management Partners accounts in December 2007. Prior to July 1, 2011, the HS Management Partners Concentrated Quality Growth Composite was known as the HS Management Partners Concentrated Growth Composite.*

*The Composite Dispersion presented is an asset-weighted standard deviation calculated using gross performance results for accounts included within the Composite for the entire period.*

HS Management Partners, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. HS Management Partners, LLC has been independently verified for the period January 1, 2008 through September 30, 2018. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The Concentrated Quality Growth Composite has been examined for the period January 1, 2008 through September 30, 2018. The verification and performance examination reports are available upon request.

The performance track record from April 1, 2007 through December 31, 2007 has been examined by Ashland Partners & Company LLP and is compliant with the portability requirements of the GIPS® standards. A copy of the verification report is available upon request.

HS Management Partners, LLC is an independent SEC registered investment advisor (SEC registration does not imply a certain level of skill or training). The Firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the Firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. When international ordinary shares or ADRs are held in portfolios in the Composite, performance is shown net of foreign withholding taxes. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2008, a representative fee of 0.90% annually was applied to the individual accounts in the Composite managed by Harry Segalas. Additional information regarding the policies for calculating and reporting returns is available upon request. Policies governing compliance with the GIPS® Standards were followed in establishing HS Management Partners' performance record and the accounts to be included therein. In that regard, certain individual accounts managed by Harry Segalas were excluded from the Composite because of material differences in the management style of those accounts and HS Management Partners' investment policies. The GIPS® standards were applied retroactively for the purposes of computing 2007 performance, and are being applied prospectively in a consistent manner.

Investment advisory fees are charged as a percentage of on an account's assets under management. The annual fee schedule for accounts that are at least $10 million under management is as follows: 0.90% on first $25 million, 0.70% on next $25 million and 0.50% on the balance. Accounts below $10 million pay the greater of 1% or $10,000. Actual investment advisory fees may deviate from the above fee schedule at the Firm's sole discretion. Please refer to our Form ADV for more information related to our fees.



***See pages 6-7 for important disclosures.***

**IMPORTANT DISCLOSURES**

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. When we use *Composite* or *Portfolio* we mean our HS Management Partners Concentrated Quality Growth Composite. This piece represents our opinion as of 6/27/19 based on our understanding of market conditions and publicly available information. It has forward-looking statements that are by their nature uncertain and based on our assumptions (such as when we refer to possible/future/estimated earnings, cash flows, earnings-per-share (EPS), growth rates, price-earnings ratios (P/E), market conditions, or Portfolio/client portfolio outlook); there is no assurance that forward-looking statements are accurate as actual results and future events can differ materially from our assumptions. Any reference to performance should not be taken as an indication of how the Composite or a client account will perform in the future; past performance is not indicative of and does not guarantee future results. Investing in securities involves significant risks, including the risk of loss of the original amount invested. The information here is solely for illustration/discussion, is subject to change without notice, should not be construed as a recommendation to buy or sell any particular security, and should not be used as the only basis for making investment decisions.

Any comparison to the S&P 500® Index or the Russell 1000® Growth Index is provided for market context but there are meaningful differences between our Portfolio/ client portfolios and each of these indexes that should be considered in any such comparison. Similarly, the Composite is compared to the Russell 1000 Growth Index and the S&P 500 Index as benchmarks for market context only. The Russell 1000 Growth Index is an unmanaged index which measures the performance of those Russell 1000® Index companies (largest 1,000 U.S. companies based on market capitalization) with higher price-to-book ratios and higher forecasted growth values. The S&P 500 Index is an unmanaged market capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. Neither index bears fees and expenses and investors cannot invest directly in either of them. There are meaningful differences between the Composite and each index that should be considered when comparing performance, such as in terms of composition, concentration and volatility. For example: (1) the Composite can contain securities not represented in either or both indices and is much more concentrated than either index in terms of companies and sectors; (2) the average market capitalization of companies in the Composite will likely differ from that of either index; and (3) market or economic conditions may affect positively/negatively the Composite's performance but not the indices, which do not bear market risk. Composite performance is net of fees (net of actual investment advisory fees and trading costs, and also net of foreign withholding taxes for foreign ordinary shares and ADRs). Please refer to our attached *GIPS Annual Disclosure Presentation* for additional information regarding the performance of our Composite (gross and net).

This piece is written from the perspective of our Composite holdings, performance and estimated metrics, it does not refer to any specific group/client account (when we use *your portfolios* we mean client portfolios in general from our Composite perspective). Although most discretionary client accounts are included in the Composite and dispersion is typically low over time, not all client accounts are in the Composite, and even for those in the Composite, there can be dispersion, particularly when viewed over narrow time periods. Client account holdings and performance can vary from the Composite or from other client accounts (even different accounts of the same client), and also from the representative portfolio, for several reasons, such as: client restrictions, account type and size, timing and market conditions at an account's inception and contributions/withdrawals, timing and terms of trades, actual client investment advisory fees (or the lack thereof), and client directed brokerage/commission recapture instructions. Furthermore, under our sole investment strategy (HSMP Concentrated Quality Growth Equity strategy) we provide investment advice on a discretionary basis (we make all the investment decisions and trade the accounts) and also on a non-discretionary basis in the form of model portfolios for use in multimanager products (we act as a non-discretionary sub-adviser and do not make the final investment decisions nor trade the accounts); therefore, certain information here (including holdings, performance, Composite, and investment strategy implementation) is not applicable to model portfolio clients as we have no control and do not monitor the implementation (complete, partial or not at all) of model portfolios, and the performance of model portfolio clients is not attributable to us.

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

We typically build a concentrated portfolio with a hard cap on company names and with an aim to keeping clients' capital nearly fully invested. Our investment advice is limited to domestic and foreign equity securities of publicly traded companies. Client accounts generally hold 20-25 companies, although in certain circumstances they may hold more or less names. We do not maintain limits on industry or sector weightings, and while we do limit portfolio positions by company, clients' portfolios are likely to be significantly concentrated by sector, industry and/or geography, among other factors. While we believe that our investment strategy will produce desired returns, there can be no assurance that we will achieve our investment objectives. 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.

Chart 1 was produced by Bloomberg and has not been verified by HSMP. The bottom portion of Chart 2 was produced by S&P Dow Jones Indices and we have not verified the accuracy of its data.

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 HSMP 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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