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MANAGEMENT PARTNERS, LLC

Second Quarter 2019 Investment Perspective

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

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CIO Commentary

Performance Review

Second quarter 2019 results for the HS Management Partners (HSMP) Concentrated Quality Growth Composite along with relevant comparative data are highlighted below:

HSMP Concentrated Quality Growth Composite	2Q19	YTD
HSMP Composite (net)	8.4%	22.4%
Russell 1000® Growth Index	4.6%	21.5%
S&P 500® Index	4.3%	18.5%

Performance results are net of fees through 6/30/19 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. See page 7 for the 1-, 3-, and 5-year annualized Composite returns.

The conclusion of the second quarter of 2019 marked the 12 and 1/4-year point for our Firm's Composite performance. Since inception (4/01/07) through 6/30/19, the HSMP Composite (net of fees) has increased cumulatively by 300.3% versus a 242.8% gain in the Russell 1000® Growth Index and a 168.5% increase in the S&P 500® Index, yielding a comparative relative advantage of 5,750 and 13,180 basis points respectively.

Composite performance results are net of fees through 6/30/19 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

Investment Perspective

The first half of 2018 was marked by fiscal stimulus, rising rates, and surging profits. 2019's first half, in contrast, was the opposite. Fiscal policy—in the form of widespread tariffs or threats of tariffs—is now a headwind, interest rates are dropping, and corporate profits are moderating. What a difference a year makes.

What stands out most is the direction of interest rates. Ten-year U.S. treasury yields are now close to 2%, and overseas rates are even lower. In fact, the Financial Times noted in a June 19th, 2019 article that "the global bond market has been buoyed by rising concerns that economic growth is petering out, and bets that central banks in the U.S., Europe and Asia will all have to ease monetary policy to prevent another downturn…the market value of bonds trading at negative yields---once thought to be economic lunacy---rose to a fresh record of $12.5tn, according to Bloomberg data, surpassing the last peak in 2016. The average yield of the global bond market is now just 1.76%, down from 2.51% in November last year."

To be sure, low interest rates are supportive of equity market valuations as stocks look relatively more attractive in the face of declining bond yields. Increasingly, though, the question becomes about the E side of the P/E equation…that is earnings. Declining rates suggest concern about trade and the potential for slowing global growth. The bond market may be saying that the economic damage has been done.

And this perpetually low cost of capital world has led to some areas of speculation, most notably in the U.S. initial public offering (IPO) market. A high percentage of current IPOs are unprofitable yet are being rewarded with sky-high market capitalizations. There is no longer an effort to assign price/earnings ratios to many of these companies…. now it is more about price to sales (I remember in 1999 when it was about "page views"). Increasingly, the "cloud" businesses today are the "dot.com's" of 2000. I doubt long-time favorite Elvis Costello ever weighed in on meat-substitute valuations, but the title to long ago song "Beyond Belief" seems spot on.

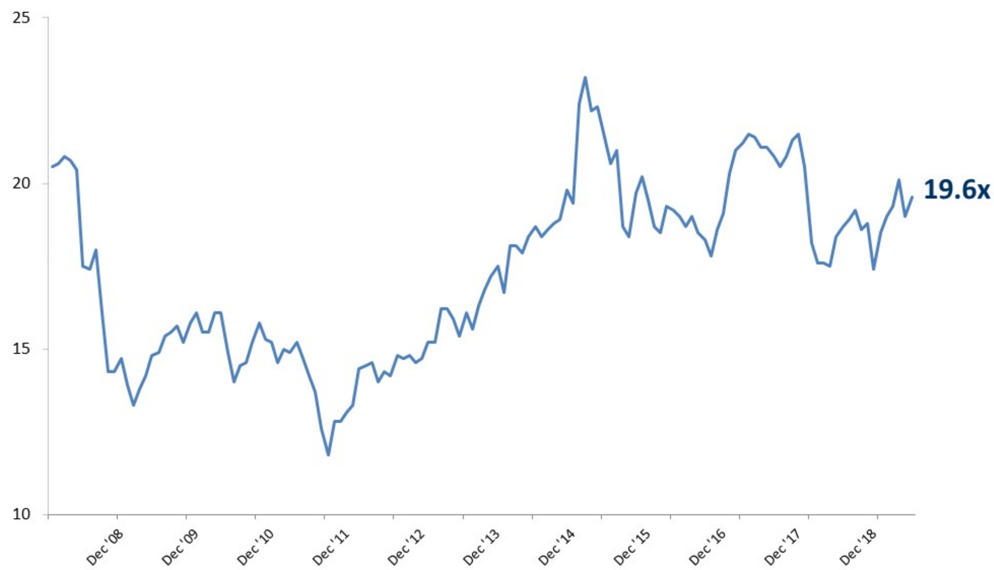
For us, we stick to our knitting regardless of the swings in emotions, sentiments, and actions around us. It is all about the quality of the business model, the earnings and underlying cash flows, and valuation.

We continue to like what we own and find attractive new investment opportunities. We anticipate that the underlying earnings per share stream will grow in the high single digits this year, certainly a tick down from prior years, but still healthy nonetheless given where we are in the economic cycle and some of the headwinds that have emerged. The strong dollar, combined with some unusually large investment spending for some key holdings, is clipping growth. Absent those items, underlying profit growth would be about 10%.

To that end, we continue to believe that the secular growth in your portfolio's profits stream---barring a recession---is more than 10% annually. Should a recession hit, our companies will not be immune, but some of the defensive characteristics of your holdings should enable earnings to advance modestly (which keeps upward pressure on the portfolio and will look compelling on a relative basis).

From a valuation perspective, your Concentrated Quality Growth portfolio currently sells for about 20X estimated forward 12-month earnings per share. As the chart below shows, this has moved up from levels at the start of year, but is still off higher levels reached in the past few years and is less than when we first began more than 12 years ago. As an aside, while there are pockets of 1999/2000 speculation in areas away from us as noted earlier, this is not the case for quality growth stocks, which sold for as much as 30X (or more) back in 2000.

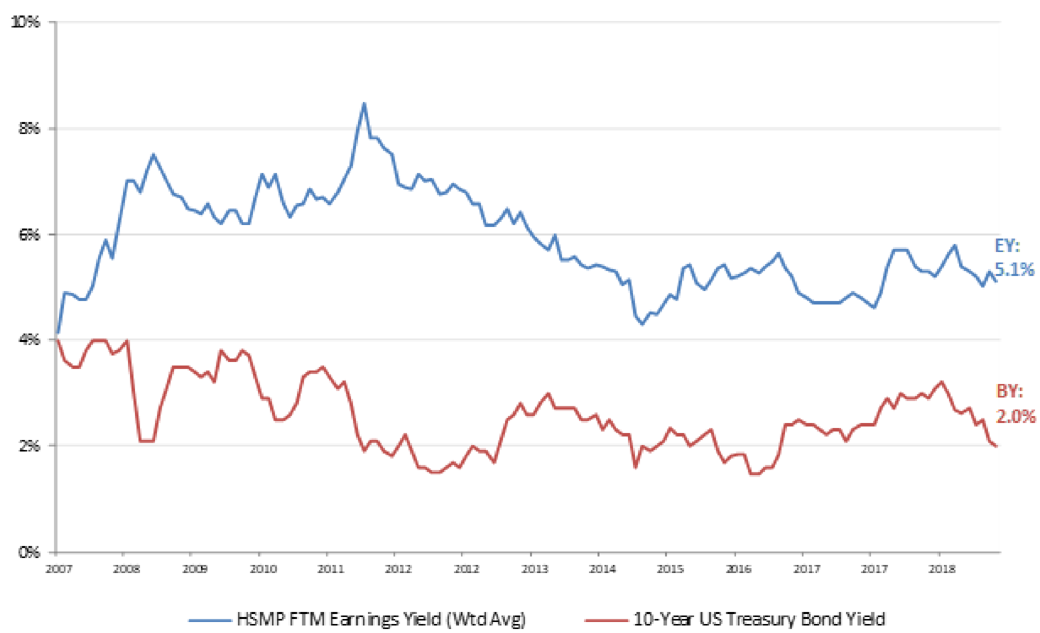
HSMP Weighted Average Forward 12 Month P/E



Based on HSMP estimates since inception (4/1/07) through 6/30/19.

Because of the declining bond yields highlighted earlier, the earnings yield/bond yield ratio has become increasingly attractive even as absolute P/E's rise. Today, a 20X multiple works out to a 5% earnings yield, which stands at levels approaching 2.5X the bond yield. For much of my 37-year career, the earnings yield for quality growth shares sold for less than the bond yield, not a multiple of the bond yield. Today's relationship speaks more to the fall in bond yields than a rise in price/earnings ratios. In fact, the dividend yield of your portfolio—at 1.7%--almost reaches the ten-year bond yield, and 9 of your 25 portfolio holdings have a dividend yield more than the bond yield.

HSMP Forward 12 Month Earnings Yield & Bond Yield



Based on HSMP estimates since inception (4/1/07) through 6/30/19.

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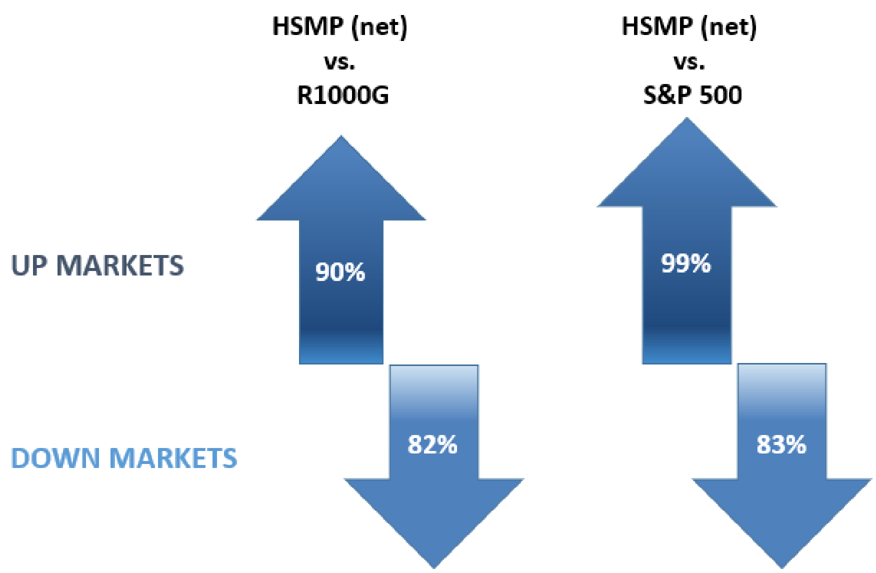
Stepping back, we have been true to our Concentrated Quality Growth methodology. We understand the overwhelming desire to have one's investment style boiled down neatly into a box. In some ways, I think we have our own box, a simple and straight forward approach that sometimes defies easy categorization. As our own descriptive title "Concentrated Quality Growth" suggests, we like growth. But we like different paces of growth—both the rapid, top-line growers—and the durable, defensive, more moderate growers as well. The tie that binds is that we think all are good businesses, run by good people, and when we buy them, feel the valuation is attractive.

That brings us to the next point. We like growth, but we also have a strong valuation discipline. We agree with Warren Buffett that growth and value are joined at the hip. To be sure, in a more momentum-oriented and easy money world, having a valuation discipline acts as a restraint…almost like a tapping on the brakes ahead of going fast into a curve. We are comfortable with that. It is one reason why we tend to capture much if not all the upside during the good times but have been able to preserve capital better historically during the down times. Our investment goal is to drive absolute performance over time, but on a relative basis, this upside/downside math works well.

Upside and Downside Capture Ratios



Analysis of monthly Composite performance returns since inception (4/1/07) through 6/30/19. Past performance is not indicative of future results.

A popular move afoot is "going global." This is something that we have done since the outset. We like owning multinationals that play in healthy developed and developing profit pools. The majority of what we own are U.S. companies, but, since our inception, we also have owned non-U.S. domiciled companies that fit that bill. This is one reason that about 55% of the sales for your portfolio companies come from the U.S., about 25%-30% from international developed markets, and the remaining 15%-20% from developing markets. What we don't do is own companies that participate only in emerging markets or derive most of their sales from one single emerging market. We don't take that risk.

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What about size? We certainly like the big 800 lb. gorillas in the world with large market capitalizations, but also are willing to go down the cap scale below $10 billion (3 holdings are currently under $5 billion) if we like the business model or find a company early in its life cycle. This also is something we have done since our inception.

Finally, we are comfortable staying within our circle of competence. We are benchmark agnostic and bottom-up in our approach. We find some companies and industries work better with our methodology and give us greater visibility to grow the earnings stream with powerful free cash flow to back it up. We find most of the investment universe—while full of good opportunities for practitioners of different approaches—does not fit as well with our approach. We steer clear of companies that are commodity oriented, capital intensive, tied to the government, or fundamentally selling higher ticket items to a concentrated customer base whose mission in life is to cut their price. So, we have a lot of consumer non-durable names, consumer discretionary companies, media, front-end technology, service companies (including fee-based financial services), and occasional industrial companies. We are not wed to these industries…we are wed to finding good business models…and recognize that over time industries and companies change. But this is where we immerse ourselves.

While we don't neatly fit into a box, we have found that this approach has stood the test of time---after going through periods of both being in and out of favor. What is most notable perhaps is that when you look back at our history, the Portfolio's post fee returns of 12.0% since inception syncs closely with the estimated growth in earnings per share. Valuations today are lower than when we started but we have received dividends to augment returns. As we look ahead, that will remain our focus. Find good businesses. Grow the earnings and cash flow stream. Pay attention to valuation.

We hope you all have a great summer and thanks as always for your confidence in us.

Sincerely,

Harry W. Segalas

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Portfolio Profile (6/30/19)

HSMP Composite Performance as of 6/30/19

	2Q19	YTD	1 Year	3 Years *Annualized*	5 Years *Annualized*	10 Years *Annualized*	*Since Inception 4/1/07 Annualized*	*Since Inception 4/1/07 Cumulative*
HSMP Composite (Net)	8.4%	22.4%	19.1%	17.8%	13.2%	17.0%	12.0%	300.3%
Russell 1000® Growth Index	4.6%	21.5%	11.6%	18.1%	13.4%	16.3%	10.6%	242.8%
S&P 500® Index	4.3%	18.5%	10.4%	14.2%	10.7%	14.7%	8.4%	168.5%

Performance results are net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

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 (as of 6/30/19, the Composite included a small residual position in Starbucks, which was fully exited as of 7/1/19). This piece represents our opinion as of 7/11/19 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. The performance shown 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.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). HS Management Partners, LLC is an independent SEC registered investment adviser (SEC registration does not imply any certain level of skill or training). The Composite includes all fully discretionary, actively managed, fee paying accounts which employ our style of investing in 20-25 quality growth businesses, including those accounts no longer with the Firm. Accounts must have a market value of greater than $500,000 at the time of initial inclusion in the Composite and meet certain other criteria to maintain inclusion. 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.

Composite performance is presented 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). 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.

This piece is written from the perspective of our Composite holdings, performance and estimated metrics, and it does not refer to any specific group/client account (when we use *your portfolios/your portfolio* 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) 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 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.

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.

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