



The Importance of Fundamentals Amidst Virus Concerns

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Financial markets loath uncertainty, and the outbreak of the coronavirus - COVID-19 - epitomizes the type of uncertainty for which equity market participants have little tolerance. In the matter of one trading week, sentiment has reversed abruptly, with the S&P 500® Index declining 12% in just 6 trading days after posting a new all-time closing high.

The human toll is of course the greatest concern, and the ability to control or in some way contain the virus is foremost on the minds of all, most notably government and health care officials.

The initial market response to the virus outbreak was largely one wherein the attention remained on the broader narrative: modest first half economic growth followed by the prospect of output accelerating as the resolution of trade disputes and ongoing central bank stimulus - coupled with a U.S. Presidential election - would yield to a stronger back half and global economic momentum entering 2021.

Alas, the narrative shifted quickly as realization the human toll was more pronounced, and much trickier to diagnose/contain given the disease had infiltrated over twenty countries, and lock downs from northern Italy to Seoul mirror travel bans to and from China. Per a recent NY Times article, the CDC director of the National Center for Immunization and Respiratory Diseases said that cities and towns should plan for “social distancing measures,” like dividing school classes into smaller groups of students or closing schools altogether. Meetings and conferences may have to be canceled, the director said. Businesses should arrange for employees to work from home. “We are asking the American public to work with us to prepare, in the expectation that this could be bad,” Dr. Messonnier said.

Earnings Pressured, Valuations More Compelling

J.P. Morgan recently identified that approximately half the companies comprising the S&P 500 have made reference to the coronavirus during earnings related calls, and about one-quarter of those adjusted earnings guidance as a consequence.

The flight to quality normally accompanying such fears is manifest in gold and U.S. Treasuries rallying; the yield on the ten-year Treasury is now 1.26%, an all-time low. Clearly bond market participants - historically prescient arbiters of risk - see tough times in the immediate future. Credit market conditions have become somewhat challenged by heightened levels of illiquidity as investors elect to sit tight and allow markets to settle. In such a climate, quality businesses capable of self-funding could eventually become more highly prized, as will the emphasis on valuation.

Calm Amidst the Storm

At HS Management Partners, our investment approach has consistently emphasized quality business models capable of advancing client portfolio earnings and cash flow streams while remaining vigilant with respect to valuation. Indeed, while HSMP client portfolios will not be immune from the economic impact of the coronavirus, we still expect portfolio earnings to advance, albeit at a moderating cadence relative to the low double-digit pace we've managed to sustain over many years.

Valuations are now more compelling - the forward P/E, free cash flow yield, and appraised present value tools we employ have compressed - even as high quality alternatives such as ten-year Treasuries have rallied and become less compelling.

At HSMP, we have demonstrated a consistent resolve to stick to our knitting and canvass the market with regard to the deployment of our clients' scarce capital at all times, and notably at times of market distress. We believe our tag line, "markets ebb and flow...fundamentals never go out of favor" holds true and takes on greater significance in times of uncertainty.

We ultimately believe the fundamental precepts of identifying attractive business models; of assembling those businesses into a concentrated, actively managed portfolio of 20-25 securities; and the fundamental discipline of adhering to our valuation principles have and will continue to serve clients well as markets work through virus related imponderables.

Throughout the current uncertainty, we will carry on with our time-tested quality growth methodology.

GIPS Disclosure
HS Management Partners, LLC
Concentrated Quality Growth Composite
Annual Disclosure Presentation

Year End	Firm	Composite		Performance Results					3-Year Annualized Std Deviation			
		Assets (millions)	Assets (USD) (millions)	Number of Accounts	Composite		S&P 500 [®]	Russell 1000 [®] Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500 [®]	Russell 1000 [®] Growth
					Gross	Net						
2019	3,566	3,478	280	38.12%	37.13%	31.49%	36.39%	1.13	11.29	11.93	13.07	
4Q-19	3,566	3,478	280	6.84%	6.63%	9.07%	10.62%	.07	11.29	11.93	13.07	
3Q-19	3,377	3,260	263	5.24%	5.05%	1.70%	1.49%	.49	11.36	12.01	13.11	
2Q-19	3,266	3,197	254	8.57%	8.38%	4.30%	4.64%	.12	11.38	12.02	13.21	
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 annum 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 December 31, 2019. 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 December 31, 2019. 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 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.

IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. When we use *Composite*, we mean our HS Management Partners Concentrated Quality Growth Composite. This piece represents our opinion as of 2/27/20 based on our understanding of market conditions and publicly available information. 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 a base for making investment decisions.

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.

HSMP Composite Performance as of 12/31/19

	2019	2018	2017	3 Years <i>Annualized</i>	5 Years <i>Annualized</i>	10 Years <i>Annualized</i>	<i>Since Inception</i> 4/1/07 <i>Annualized</i>	<i>Since Inception</i> 4/1/07 <i>Cumulative</i>
HSMP Composite (Net)	37.1%	-5.1%	33.1%	20.1%	13.7%	15.9%	12.5%	348.5%
Russell 1000® Growth Index	36.4%	-1.5%	30.2%	20.5%	14.6%	15.2%	11.2%	284.9%
S&P 500® Index	31.5%	-4.4%	21.8%	15.3%	11.7%	13.6%	8.9%	197.9%

Performance results are net of fees and include the reinvestment of dividends and other earnings.

The performance shown right above 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. 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) and includes the reinvestment of dividends and other earnings. 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.

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