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MANAGEMENT PARTNERS, LLC

First Quarter 2020 Investment Review

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

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CIO Commentary

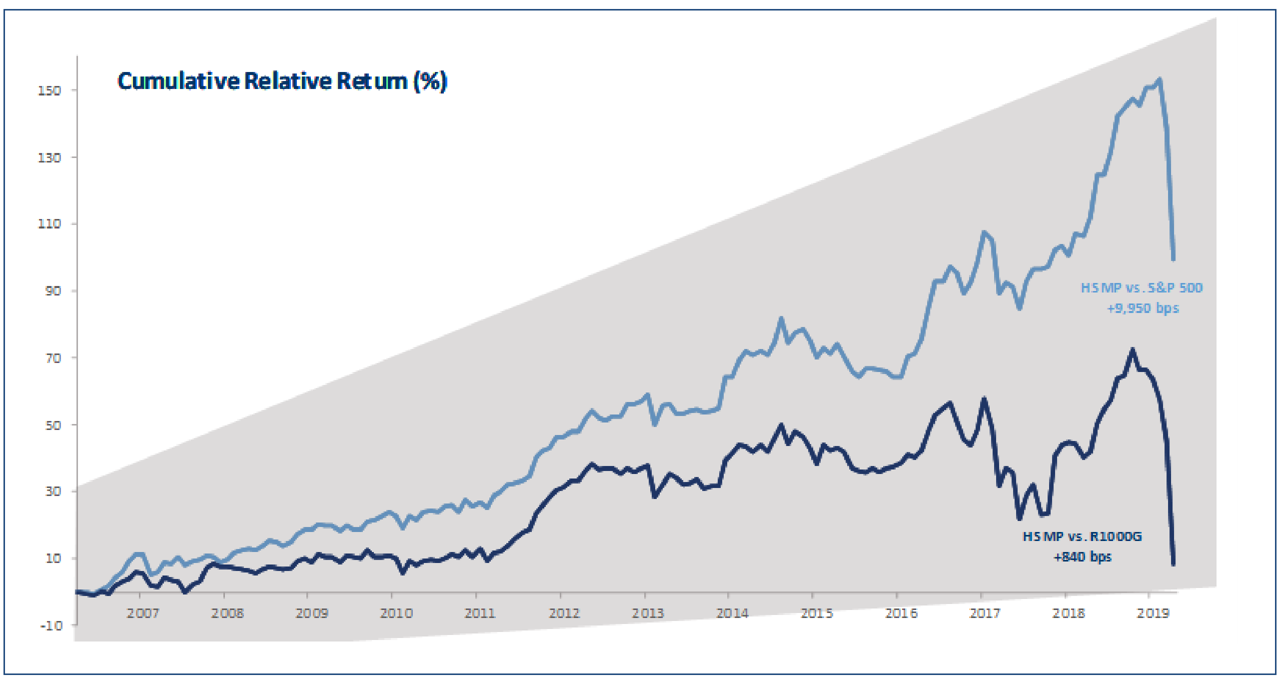
Performance Review

First quarter 2020 results for the HS Management Partners (HSMP) Concentrated Quality Growth Composite along with relevant comparative data are highlighted below:

HSMP Concentrated Quality Growth Composite	1Q20
HSMP Composite (net)	-24.4%
Russell 1000® Growth Index	-14.1%
S&P 500® Index	-19.6%

Composite performance results are net of fees through 3/31/20 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.

Since inception (4/01/07) through 3/31/20, the HSMP Composite (net of fees) has increased cumulatively by 239.0% versus a 230.6% gain in the Russell 1000® Growth Index and a 139.5% increase in the S&P 500® Index, yielding a comparative relative advantage of 840 and 9,950 basis points, respectively.



Composite performance results are net of fees through 3/31/20 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

Investment Perspective

On the heels of a strong 2019, markets and your portfolios bounded ahead early in 2020. To be sure, spreading word of the COVID-19 virus came to the fore, and its impact on businesses with a strong footprint in China and with the Chinese consumer globally was of increasing concern. The worry was largely centered around Asia—in terms of local consumption, reduced travel, and any possible disruption of supply chains.

The S&P 500® Index reached its peak on February 19th. The table below provides a snapshot at that time.

HSMP Concentrated Quality Growth Composite			
	HSMP	S&P 500® Index	Russell 1000® Growth Index
12/31/19 – 2/19/20	+4.8%	+5.1%	+9.3%

Composite performance results are net of fees through 2/19/20 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.*

From that point on, fears over the virus spread like wildfire, first throughout Italy and Europe and then eventually to the United States. One defining moment in the United States came on Wednesday, March 11th when the NBA announced that several players had contracted COVID-19 and suspended its season. Major League Baseball—which had been conducting spring training games in Florida and Arizona then stopped playing—and the NHL and other leagues all followed suit. Soon, new phrases such as "social distancing", and "bending the curve" entered our lexicon and the U.S. administration's tone shifted to an alarmed state.

As I wrote in the 3/30/20 piece *Once in a Lifetime*: "The global COVID-19 pandemic is truly a once in a lifetime event. I have experienced much in my 38-year investment career: the 1987 Crash, the first Iraq War, the late 90's Asian Crisis, the 2000 Tech Bubble bursting, 9/11, and the 2008/2009 Financial Crisis and Great Recession. We have not experienced anything like this."

One phenomenon that is different than what we have experienced before is the harsh impact that the response to the public health crisis has had on our portfolio companies. Historically, while not immune from recessions, our portfolio companies have tended to exhibit recession resistant characteristics, and at least generated modest earnings growth relative to more traditionally cyclical profit streams away from us. Most recessions have historically been led by a downturn in manufacturing. Today, the issue we face is gauging the impact for our companies—most of them serving consumers globally--in a world where people simply stopped showing up.

COVID-19 has hit our portfolio companies hard in both a direct and immediate fashion and this has shown up in the portfolio's performance during the downdraft.

HSMP Concentrated Quality Growth Composite			
	HSMP	S&P 500® Index	Russell 1000® Growth Index
2/19/20 – 03/31/20	-27.9%	-23.5%	-21.4%

Composite performance results are net of fees 2/19/20 through 3/31/20 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.*

On the one hand, it is as if our portfolio has entered a bizarro world in which results are opposite of expectations. That is, on average, we have historically preserved capital better during market downdrafts. That is not the case this time. On the other hand, it is understandable given the nature of the businesses we invest in.

We believe there will be indirect and lagged effects that permeate throughout the global economy and confront all companies, especially as more consumer facing companies slash capital expenditures, pull back on all discretionary spending, and sharply reduce inventory and working capital levels.

New Names

Active management remains at the core of our investment approach. We have moved to be responsive to changes in stock prices, adjustments to our views of future values along with current worth, and the need to rebalance the portfolio due to the extreme volatility. As you know, we have always been willing to go against the grain—not for the sake of being contrarian—but often because we have found the best opportunities arise during times when transitory factors overwhelm secular possibilities. And we have done so during this period as it relates to buying new names, adding and subtracting from existing holdings, and exiting positions needed to fund purchases.

Early in the quarter (before COVID-19 became a pandemic), we took a stake in Hasbro (HAS). We like HAS's brands (Monopoly, Scrabble, Nerf, Play-Doh, Magic the Gathering, Disney/Marvel/Star Wars tie-ins, My Little Pony, Power Rangers, etc.) and saw an opportunity arising from being able to move past the Toys-R-Us bankruptcy and the 2019 China tariff hit. Moreover, the recent purchase of E-One gives them strong franchises such as Peppa the Pig, and also an entertainment studio that could help them better capitalize on their existing brands. While HAS levered up to buy E-One, we remain comfortable with their balance sheet and ability to pay their dividend. While COVID-19 is disruptive to their film studio, we think the supply chain is functioning well, and demand for HAS's products has been healthy during what is typically a seasonally slow period. We have bought into weakness.

We subsequently purchased three additional companies' shares into the teeth of the crisis as their stocks succumbed to market pressures. We bought a stake in Burberry (BRBY) after it retreated due to COVID-19 pressures in China. For better (long-term) or worse (short-term), Burberry has a powerful franchise in Asia, with Chinese consumers alone accounting for about 40% of their business (about half and half between locally bought goods and Chinese purchases abroad). The secular story for Burberry is based on the teaming up of a new CEO and a new creative designer–both who had success individually—but also who have worked together successfully in the past. The strategy is to move Burberry up the luxury ladder around the world. The company's franchise in Europe and the U.S. lags its perception in Asia. Inconsistencies in the go-to-market strategy of the past are being addressed and new products and new categories are being added. As COVID-19 has spread globally, the strain on Burberry's current business has been magnified. That said, this 164-year-old company has a solid balance sheet. Asia went into the crisis first and it seems to be slowly coming out of the crisis as it moves to a peak elsewhere. We have gradually nibbled on the shares at lower levels and expect to see a substantial recovery in EPS power post 2020.

We also bought back into Starbucks (SBUX), a name from the past. China is an important market for the company; in fact, it is its second largest geography after the U.S. SBUX's shares fell under great pressure as the epidemic spread into a pandemic, and, in our view, created an opportunity to buy into an attractive long-term business. On the positive side, SBUX is seeing most of its Chinese stores reopen, though traffic remains low and restrictions on social gatherings still exist. While the U.S. now faces overwhelming pressure, the fact that SBUX can maintain a take-out, drive-through, and delivery component is an offset. To some degree, the company's substantial investments in technology and their app is a help, especially as it relates to ordering and payment in this social distancing, non-contact world. We think the company's finances are solid and believe that the company's long-term EPS power is largely intact, notwithstanding a difficult 2020 outlook.

Lastly, we also bought back into Marriott (MAR), the leading global hospitality chain. Occupancy levels have plummeted due to travel restrictions around the world. The company has been forced to furlough a substantial part of their work force and slash salaries of existing workers. Both CEO Arne Sorenson and Chairman Bill Marriott are forgoing salaries, and the company rightfully decided to suspend the dividend to preserve cash. To be sure, the next several months, and even quarters, will likely prove devastating to MAR's P&L. But we think MAR has a powerful culture and is the best in the business. We have confidence that they are taking the steps to survive today and prosper once again in the future when the pandemic subsides. Long-term, this is likely to lead to lower supply growth and less rather than more competition in the industry. We have seen in past crises, including 9/11, that people do come back. And when they come back, we believe MAR will once again produce a high level of cash flow with their largely managed and franchised business model. We have taken a stake into the weakness with an eye toward the long-term.

Along with these new names, we have also leaned into several other existing holdings that have seen disproportionate weakness, especially in the retail and restaurant space, as well as some of our smaller capitalization holdings. In order to fund these buys, we have reduced exposure to some existing stocks and exited outright from two holdings: Amazon and Domino's Pizza. Each of these companies have moved up nicely in the past six months or so, have seen their P/E's expand when others have compressed, and have held up well in part due to the real appeal of their services, especially in this time. We continue to like both franchises but felt the capital is better allocated to names under duress, with an eye on longer-term returns.

Investment Outlook

As we look ahead, we are focused on three things as it relates to our portfolio: the possible earnings trajectory in 2020 and 2021; valuation; and balance sheet strength.

For now, and during this period of tumult, it has been very hard to reasonably assess what short-term earnings may be. We started the year expecting our portfolio earnings stream to advance at a low double-digit clip. As recently as late March, we had forecast a 10%-20% drop with the caveat that it could be worse. Our best current thinking is a 20%-25% decline this year. It is a moving target. For perspective, S&P 500®Index earnings are now expected to drop 40% or so, according to Ed Hyman of ISI.

We have historically looked at the weighted average growth for our portfolio earnings when assessing its outlook. However, we are finding that a high degree of earnings variability for several portfolio holdings is skewing results and makes this forecasting method less reliable. To that end, we are taking the Buffet approach and looking at the aggregate earnings outlook when assessing earnings growth, valuation, and dividends. In other words, based on the number of shares in each security that we own, we determine our share of its actual forecasted earnings and dividends.

When we look at our aggregate earnings cumulatively, we think the following chart is useful.

Indexed Earnings & P/E

	2019	Y/Y % Change	2020E	Y/Y % Change	2021E
Indexed EPS	100	-23%	77	+39%	106
P/E Ratio	15.0		19.4		14.1

Based on HSMP estimates as of 3/31/20.

As you can see, on an indexed basis, we think that aggregate earnings will drop substantially this year. Encouragingly, we believe that the COVID-19 epidemic will have less of an impact on our companies' earnings power in 2021. To be sure, earnings are not likely to reach levels that would have been attainable had COVID-19 pandemic not happened. But that said, we think a sharp earnings recovery is likely in the cards for 2021 and are optimistic about the long-term earnings power of the portfolio.

Valuation metrics are tricky since it is hard to know where earnings settle. That said, we think looking at valuation on this aggregated basis also yields hopeful signs. The portfolio P/E multiple stands at about 19x-20x our depressed 2020 earnings forecast. More to the point, we believe the current portfolio valuation is attractive at around 15x last year's earnings and about 14x our earnings estimate for 2021.

Portfolio Metrics	
FTM Estimated P/E	17.7x
FTM Earnings Yield	5.6%
Current 10-Year Bond Yield	0.7%
Earnings Yield/Bond Yield	8.1x
Indicated Dividend Yield	2.3%

FTM means Forward Twelve Months. Based on HSMP aggregate estimates as of 3/31/20.

Relative valuation is buttressed when considering that the current earnings yield of the portfolio is selling for multiple times the current ten-year bond yield. The current dividend yield (net of announced dividend suspensions) of 2.3% is also attractive and gives some cushion should other companies decide to temporarily suspend their dividends.

Beyond earnings and P/E, we believe that the balance sheet now becomes the true center of attention. Companies broadly were prodded to take on debt, and many away from us went overboard, especially with interest rates so low. It is likely that we will go through a time with much more conservative balance sheets. Capital spending is likely to be subdued. Technology and software projects—an increasing part of spending plans—will be prioritized and in some cases delayed. "Nice to have" will have to wait. Initiatives to move into new markets may well be curtailed. Buying back stock will probably move out of vogue–building cash balances will be this year's model.

We do believe that the inherent cash flow characteristics of the businesses we own should once again kick-in as revenue comes back. While pressures exist, we feel balance sheets overall are solid and a long-term advantage. We expect many will emerge stronger, especially relative to weaker competition, and many competitors will not survive. That said, a more conservative approach to capital allocation is likely to slow growth for us and others in the years ahead.

Conclusion

While we have often pointed to our ability to hold it together better during tough times, we have equally noted that we usually lag coming out of a recession, as more variable earnings growth companies—more wounded during the downturn—come roaring back. This time may well be different as the companies most effected on the way down—many of them global consumer-facing companies with stores and restaurants and physical points of distribution—may benefit most from a recovery in demand, even if gradual and even if not immediately back to prior levels.

As I noted in *Once in A Lifetime*: "This is a moment in time. The declines we have experienced reflect this moment in time. We are running the marathon—not the sprint—and are looking out at what given companies may look like not next month or next quarter but 12-18 months from now…even 3-5 years from now."

Thanks again for your confidence in us and we wish you and your families the best health and safety in the days to come. We look forward to updating you as we all move past this crisis to better times ahead.

Sincerely,

Harry W. Segalas

HS MANAGEMENT PARTNERS, LLC

Portfolio Profile (3/31/20)

HSMP Composite Performance as of 3/31/20

	1Q20	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)	-24.4%	-8.2%	6.3%	6.8%	12.1%	9.9%	239.0%
Russell 1000® Growth Index	-14.1%	0.9%	11.3%	10.4%	13.0%	9.6%	230.6%
S&P 500® Index	-19.6%	-7.0%	5.1%	6.7%	10.5%	7.0%	139.5%

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

Portfolio Drivers (Quarter Ending 3/31/20)

Greatest Contributors	Avg. Weight %	Contribution %	Greatest Detractors	Avg. Weight %	Contribution %
Domino's Pizza	1.81	0.44	DICK's Sporting Goods	3.66	-2.61
Amazon	2.79	0.23	Ralph Lauren	4.47	-2.27
Microsoft	2.75	0.14	Disney	6.04	-2.17
Walmart	4.21	-0.09	WW International	2.65	-1.73
Starbucks	0.64	-0.11	American Express	5.28	-1.70

Portfolio Drivers (1 Year Ending 3/31/20)

Greatest Contributors	Avg. Weight %	Contribution %	Greatest Detractors	Avg. Weight %	Contribution %
Domino's Pizza	1.39	1.15	Ulta Beauty	3.17	-2.10
Walmart	4.69	0.99	Ralph Lauren	1.76	-1.89
Tiffany	1.90	0.96	Darden Restaurants	3.05	-1.48
Microsoft	2.67	0.95	American Express	3.83	-1.39
AB InBev	1.99	0.79	DICK's Sporting Goods	2.77	-1.37

The information presented above is based on a representative portfolio. The holdings identified do not represent all of the securities purchased, sold, or recommended for our client accounts during the period shown. The calculation methodology and a list showing every holding's contribution to the overall representative account's performance during the period shown is available upon request by calling us at 212-888-0060. The reader should not assume that an investment in the securities identified is, was or will be profitable. Past performance does not guarantee future results. The representative portfolio is a non-fee paying account.

Portfolio Characteristics 3/31/20

Number of Holdings	25
Est. 2020 EPS Growth* (%)	-23
Est. 2021 EPS Growth* (%)	38
Est. 5 Yr EPS Growth* (%)	10+
Dividend Yield (%)	2.3
FTM P/E Ratio*	17.7x
FTM Earnings Yield* (%)	5.6

**Based on HSMP estimates as of 3/31/20.*

Current Composite holdings as of 3/31/20. The holdings identified 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 is, was or will be profitable.

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 (as of 3/31/20). This piece is written from the perspective of our Composite holdings, performance and estimated metrics, and except for the *representative portfolio* used to provide the top 5/bottom 5 portfolio drivers charts, it does not refer to any specific group/client account (when we use *our portfolio(s)/your portfolio(s)* we mean client portfolios in general from our Composite perspective – please see below regarding differences between the Composite and actual client portfolios/ accounts). This piece represents our opinion as of 4/8/2020 based on our understanding of market conditions and publicly available information about the mentioned companies and the state of the ongoing COVID-19 crisis. 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, particularly given the uncertainty of the current health crisis. 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. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts, and the reader should not assume that an investment in the securities identified is, was, or will be profitable. 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.

In response to the current coronavirus (COVID-19) global pandemic and in an effort to protect the safety and well-being of our team and the continuity of our critical business operations, our employees are working remotely and we suspended business travel and replaced in-person meetings with conference calls and video chats. We have tested our capacity to operate remotely and members of our team have worked from home in the past, and as of this moment, we believe we can perform critical services (making investment decisions, trading and settlement, and communicating with clients about the status of their accounts), assuming that current conditions do not worsen dramatically over the next few days, that our team and close family members do not fall ill infected with COVID-19, that there are no significant disruptions to our key service providers, and that our team continues to have internet connectivity and phone access from home. Although our business continuity/disaster recovery plan aims to mitigate the impact of natural disasters or catastrophic events by maintaining critical business functions, while keeping the safety of our employees first, no plan can guarantee the continuity of our operations in the presence of these events. In particular, given the rapidly evolving situation and the unknown impact of COVID-19, we cannot predict with certainty its effect to our business and client portfolios.

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.

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.

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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