Second Quarter 2020
Investment Perspective

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

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CIO Commentary

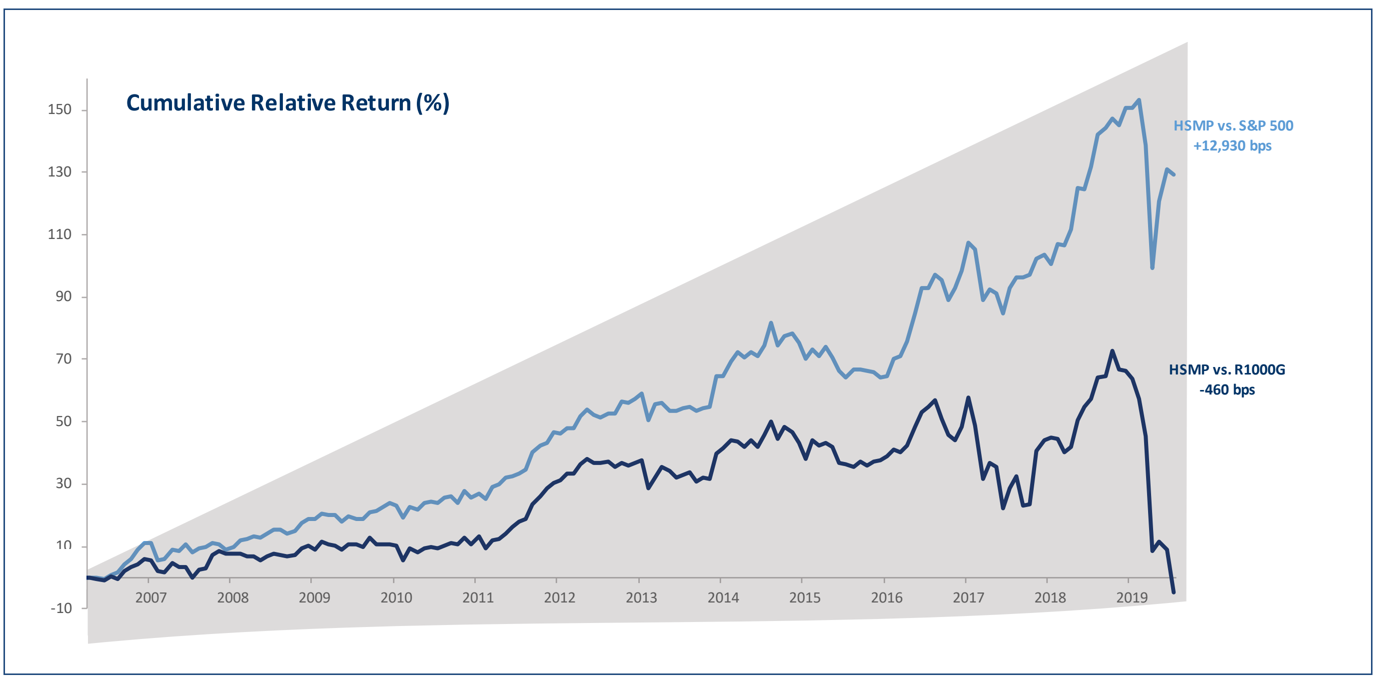
Performance Review

Second 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	2Q20	YTD
HSMP Composite (net)	23.3%	-6.8%
Russell 1000® Growth Index	27.8%	9.8%
S&P 500® Index	20.5%	-3.1%

Composite performance results are net of fees through 6/30/20 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. See page 5 for the 1-, 3-, and 5-year annualized Composite returns.

Since inception (4/01/07) through 6/30/20, the HSMP Composite (net of fees) has increased cumulatively by 318.0% versus a 322.6% gain in the Russell 1000® Growth Index and a 188.7% increase in the S&P 500® Index.



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To recap an eventful first half:

Earlier this year, COVID-19 spread from a Chinese epidemic to a global pandemic.

Markets plunged from peak levels reached on February 19th.

Financial panic ensued and it quickly became about solvency, liquidity, and access to capital markets.

Our focus on owning good businesses, growing the earnings and cash flow stream over time, and valuation remained undimmed.

We increasingly relied on balance sheet analysis. It was hard to predict near-term earnings and cash flows, but we could build conviction around a company's liquidity, durability, and long-term market position.

We leaned into some of the most distressed quality stocks, including companies greatly hurt by the virtual shutting down of physical commerce, travel and restaurants.

The Federal Reserve rode to the rescue in a big, big way by lowering rates and flooding the market with money in historic ways.

The U.S. Government responded with fiscal programs (such as the Paycheck Protection Program and extended unemployment benefits), but it was mostly about the Fed.

Markets bounced from March 23rd lows and recovered much of the lost ground by Q2's end.

The global economy began to re-open…in some cases prematurely.

Where to from here:

As the Fed's actions took hold and markets recovered, we increasingly turned our attention to, "How do we proceed from here?"

Our view has been that we will live in a subpar economic world—running far from full capacity—until there is a vaccine next year and widespread herd immunity.

Fiscal and monetary stimulus do help—though it seems the monetary stimulus helps markets more than the economy and may even be a source of bubbles—but in the end, this is a health issue which needs to be solved.

During the second quarter, we shifted out of many of the names more vulnerable to the near-term economic stress as they began to discount a recovery and focused on companies with the strongest balance sheets, most durable cash flows, and we believe promising secular outlooks.

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What's Next:

As noted, we expected a subpar economic world even as we reopened the economy. While recent economic data has been stronger than forecast, we believe the outlook is not as good as we thought just a month or so back. As you know, the United States' COVID-19 case trajectory is proving worse than China's, Greater Asia, and Europe overall.

Unfortunately, the COVID crisis has become political in nature and the country has lacked a unified response. While different states and localities will apply different guidelines and restrictions toward reopening, ultimately companies and consumers will shape behavior based on the threat they feel from possible COVID infection.

To that end, we believe our emphasis on balance sheet strength, durability, and resilient cash flows continues to make sense. We also continue to focus on valuation, which is at the heart of our investment methodology. This is especially important in our minds during a time when Fed easing is leading to pockets of speculative behavior. We are also mindful of a surge in retail investment and know that some fiscal dollars have ended up in the market (Robinhood phenomena).

Finally, while we own several technology stocks—which have been justifiably buoyed by strong balance sheets and favorable business models---the relentless rise across a broad swath of companies in this sector without regard in some cases to valuation creates risk. If you listen closely enough, that sound you hear could be a famous Midwest icon (Prince, not Buffet) singing, "gonna party like it's 1999."

The table below highlights our current view of the aggregate earnings power for your portfolio:

Indexed Earnings & P/E

	2019	Y/Y % Change	2020E	Y/Y % Change	2021E
Indexed EPS	100	-23%	77	+33%	102
P/E Ratio	20.2		26.4		19.8

Based on HSMP estimates as of 6/30/20.

As you can see, on an indexed basis, we think that aggregate earnings will drop substantially this year. Encouragingly, we think a sharp earnings recovery is likely in the cards for 2021 and that next year's earnings power will roughly equal 2019's level.

Valuation metrics are tricky since it is hard to know where earnings settle. The portfolio's multiple has improved from the end of the first quarter and is high at 26X estimated 2020 estimates. But current results are depressed, and the valuation is reasonable at both 20X last year's (2019) actual earnings and 2021's early forecast.

Aggregated Earnings Portfolio Metrics	
FTM Estimated P/E	22.6x
FTM Earnings Yield	4.4%
Current 10-Year Bond Yield	0.66%
Earnings Yield/Bond Yield	6.7x
Indicated Dividend Yield	1.7%

FTM means Forward Twelve Months. Based on HSMP aggregate estimates as of 6/30/20.

Thanks in part to the Fed, alternative long duration assets such as the ten-year bond yield is low so the relative valuation of the portfolio to the long bond remains appealing. The current dividend yield of 1.7% is also supportive of portfolio values.

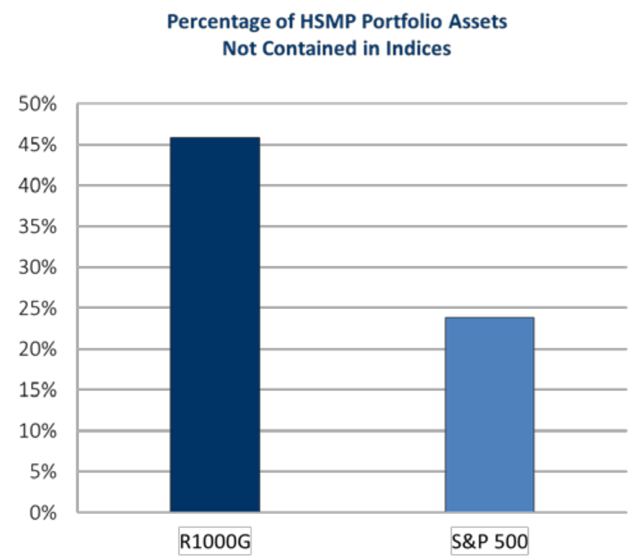
As I noted in my March 30th, 2020 thought piece, "Once in A Lifetime," this has been a most unusual time. While discussions swirl around recessions and varying shaped recoveries, this is different. Recessions are typically industrial driven events. This was a forced health shut down and a world where consumers simply stopped showing up. It has challenged business models typically resilient to tougher times, from soft drinks to beer to fast food breakfasts. It has accelerated trends such as the move to digital and online shopping. Efficiencies that have been realized with remote working are likely to continue even after a vaccine has been discovered.

We expect the world will look different 12 to 18 months from today. We most likely will have a vaccine which has been widely administered. Consumers will once again want to travel, shop at stores, and go to restaurants, bars, theatres and concerts. A hard-fought election will have already been waged and sharply different legislative outcomes will take shape depending on its results. We may well be staring at a period of higher taxes. We are surely staring at a world of higher unemployment levels than before the pandemic and more debt…lots more debt.

We continue to focus on quality, growth, and valuation and have tried to construct a portfolio that will prove resilient today and still relevant tomorrow. The importance of strong balance sheets and our intensified analysis of these metrics will be lasting. We seek to drive absolute returns over time and remain bottom-up and benchmark agnostic in our approach. We also continue to balance both risk and reward as we assess the future and manage your portfolios. Thanks for your confidence in us and we wish you and your families the best health and safety in the days to come.

Sincerely,

Harry W. Segalas



Based on HSMP Composite assets and holdings as of 6/30/20.

Portfolio Profile (6/30/20)

HSMP Composite Performance as of 6/30/20

	2Q20	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)	23.3%	-6.8%	4.41%	11.0%	11.0%	15.8%	11.4%	318.0%
Russell 1000® Growth Index	27.8%	9.8%	23.3%	19.0%	15.9%	17.2%	11.5%	322.6%
S&P 500® Index	20.5%	-3.1%	7.5%	10.7%	10.7%	14.0%	8.3%	188.7%

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

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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 6/30/20). 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 *our portfolio(s)/your portfolio(s)* we mean client portfolios in general from our Composite perspective – see below regarding differences between the Composite and client portfolios/ accounts). This piece represents our opinion as of 7/10/2020 based on our understanding of market conditions and publicly available information 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. 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 continue to perform critical services (making investment decisions, trading and settlement, and communicating with clients about the status of their accounts), assuming that conditions do not worsen dramatically, that our team and close family members do not fall ill 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 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 that 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. 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, the Composite contains securities not represented in either or both indices and is much more concentrated than either index in terms of companies and sectors; the average market capitalization of companies in the Composite will likely differ from that of either index; and market or economic conditions can affect positively/negatively the Composite's performance but not the indices). In addition, neither index bears fees and expenses and investors cannot invest directly in either of them. Furthermore, we do not seek to mimic any market index in our investment approach and do not maintain limits on industry or sector weightings.

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.

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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