

The Fed Put is Ka(Put)

Gregory A. Nejme, CFA
Partner & President

Black Swans are a rare species. Black Swan events are labeled as such to highlight their unpredictable origin, the improbable convergence of circumstances spawning such events, and the intrinsically uncertain nature of outcomes.

Alas, Black Swan events appear far less endangered than the designation conferred on the protected waterfowl.

In twenty-four months, we've experienced successive mind-numbing episodes: the global COVID-19 pandemic, and now, Russia's inhumane invasion of Ukraine. It is little wonder that mental well-being is a critical public health crisis.

While the Swans wade in separate lakes, the stream connecting them is inflation, the severity of which world economies have not experienced for four decades.

Financial markets are attempting to process and discount potential outcomes. A safety-net long relied on by equity market investors – notably those who embrace momentum as a factor – is the so called "Fed Put".

Considering conditions then (March 2020) and now, the persistence of inflation renders the Fed Put impractical and even counter-productive, a tool stowed for some other day.

The Fed Put appears KaPut.

Hello, Inflation Everywhere...Farewell, Fed Put

We've written extensively about the consequences of monetary and financial stimulus. Such measures initially promoted a "V" shaped rebound in financial markets, and subsequently (and presently) in the real economy. (Please see our [HSMP LinkedIn](#) page and our website at www.hsmanage.com for commentary.)

The diminished realization of Fed support to financial market duress is likely to be measured. Flexibility will be maintained given Russian aggression and the need for coordinated policy responses with European allies.

That said, inflation as an economic headwind was a global concern before that indelible date (2/24/22). Immediate financial, military and humanitarian assistance, and stepped-up defense appropriations by unified democracies, may well serve to accentuate inflationary pressures.

Somewhat lost in the narrative of Russian atrocity in Ukraine is the reality that the world is engaged in an uneven – albeit directionally clear – path toward a synchronized re-opening on an unprecedented scale. Inflationary pressure is real and was destined to flourish given the global re-opening. The ability to counter such headwinds is further complicated by oil, grain, metals, neon gases and other commodities advancing sharply given the important role of Russian production in such markets. And the recent closing of Shenzhen over COVID-19 concerns, an important tech hub of 17 million in China, tugs on the tension of the supply rope.

The bond market is anticipating higher rates ahead, and the Fed's meeting on 3/16 is seemingly likely to confirm what the bond market has already begun to price in: the yield on ten-year U.S. Treasuries began last week at 1.70% and ended at 1.98%, the largest move higher over a four-day interval since March 2020. As of last night's close, the ten-year yield continued to advance, closing at 2.14%.

Equity markets have sold off sharply year-to-date, a drawdown not surprising given outsized returns of the last few years, and the arrival of yet another Black Swan event. We think it is reasonable to anticipate that returns prospectively will be lower than the outsized gains the market has realized in the past twenty-four months. In our view, rising rates, reduced central bank liquidity, and a glide path toward sustainable growth in the face of heightened geopolitical risk and a still pervasive global health crisis seemingly translate to lower returns as we move ahead.

Staying the Course

HS Management Partners' discipline and resolve remain the same: identify quality businesses, advance the earnings/cash flow stream (admittedly tougher now), and be highly attentive to valuation.

When Fed policy was more accommodative, we found some elements of our discipline less appreciated by investors; the factors driving the market over select intervals (notably 2020) had little overlap with what mattered most to our philosophy from an investment perspective.

Easy money – and the existence of the Fed Put – encouraged risk taking in pockets of the market deemed more speculative (MEME stocks, SPAC's, companies long on vision though short on cash flow, NFT's, et al.).

With the Fed Put potentially KaPut, we believe the importance we attach to fundamental precepts of business model quality, reasonably attainable growth, and attentiveness to valuation may become more highly prized as time honored investment principles.

That is not to suggest we are immune to equity market drawdowns – we are not. It is to say we adhere to principles that we think have served us well since our performance track record commenced: officially, we'll celebrate our fifteen-year anniversary at the close of this quarter.

Optimistic Realists: The Test

When HSMP was founded nearly fifteen years ago, conviction in our ability to succeed was grounded in a worldview I'd describe as optimistic realism. Starting a business is at its core a calculated wager on a brighter future, and optimism is fundamental to persevering against invariable difficulties.

While optimism persists, we are faced with a crisis of humanity that tests that promise, much as we cling to hope. I am well into President Biden's book *Promise Me, Dad*, a poignant account of the Biden family upon learning of Beau Biden's illness. Recounting a conversation he had with Putin when Biden was Vice President, Biden commented to Putin, "Mr. Prime Minister, I'm looking into your eyes" ... "I don't think you have a soul." Putin replied, "We understand each other." Putin's soullessness is on display for the world to see.

As our fifteen-year mark calls, our conviction as optimistic realists is being tested as never before. And yet our optimism is as strong as ever for we know it to be grounded in truth: good will prevail over evil, democracy over autocracy, courageousness over cowardice.

Three Black Swan events later – the Great Financial Crisis arrived as we opened our doors to clients – optimism in the face of harsh realities is a guiding principle as foundational to our longevity as our investment philosophy.

Our deepest gratitude to those on the front lines in Ukraine and everywhere for your selfless acts of heroism.

HS Management Partners, LLC
Concentrated Quality Growth Composite
GIPS® Report

Year End	Firm Assets (millions)	Composite Assets (USD) (millions) Number of Accounts		Performance Results					3-Year Annualized Std Deviation		
				Composite		S&P 500®	Russell 1000® Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500®	Russell 1000® Growth
				Gross	Net						
2021	3,927	3,813	281	31.43%	30.51%	28.71%	27.60%	.64	19.31	17.17	18.17
4Q21	3,927	3,813	281	10.76%	10.57%	11.03%	11.64%	.56	19.31	17.17	18.17
3Q21	3,650	3,554	285	-1.14%	-1.32%	0.58%	1.16%	.09	19.88	18.55	19.91
2Q21	3,791	3,695	284	10.65%	10.46%	8.55%	11.93%	.05	19.51	18.26	19.52
1Q21	3,559	3,425	277	8.47%	8.29%	6.17%	0.94%	.07	19.49	18.14	19.14
2020	3,491	3,341	284	14.70%	13.88%	18.40%	38.49%	.14	19.75	18.53	19.64
2019	3,566	3,478	280	38.12%	37.13%	31.49%	36.39%	1.13	11.29	11.93	13.07
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. There are accounts paying zero commissions included in the Composite. Additional information regarding the treatment of significant cash flows is available upon request. Also available upon request are policies for valuing investments, calculating performance, and preparing GIPS Reports.

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 (the inception date of the Composite was April 1, 2007). 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.

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. In addition, gross performance results are used to calculate the 3-year annualized standard deviation.

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, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the Firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Concentrated Quality Growth Composite has had a performance examination for the periods January 1, 2008 through December 31, 2021. The verification and performance examination reports are available upon request.

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The performance track record from April 1, 2007 through December 31, 2007 has been examined by Ashland Partners & Company, LLP and meets the portability requirements of the GIPS® standards. A copy of their 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

This piece represents our opinion as of 3/15/2022 based on our understanding of market conditions and publicly available information. This piece is written from the perspective of our investment philosophy and strategy, Composite, performance, and estimated outlook, and it does not refer to any specific client account (client accounts can have higher or lower performance and can have some or all of the holdings in our Composite). This piece has forward-looking statements that are by their nature uncertain and based on our assumptions (such as when we refer to possible/future earnings, market conditions, or portfolio/client portfolio outlook); there is no assurance that forward-looking statements will prove to be accurate as actual results and future events can differ, even materially, from our assumptions. In addition, past performance is not indicative and does not guarantee future results. While we believe that our investment strategy will produce desired returns, we do not guarantee that this will be the case, or that we can provide any margin of safety, any actual client experience, any profit or protection against loss whatsoever, or that we will achieve our investment objectives or be successful implementing our strategy. Investing in securities involves significant risks, including the risk of loss of the original amount invested. Refer to our Firm Brochure (at www.hsmanage.com/documents/ or upon request at 212-888-0060) for material risks applicable to our strategy and information regarding our Firm. The information here is solely for illustration/discussion, has not been tailored to any particular recipient, 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 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 HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, investment advisory fee-paying accounts (even if they pay zero trading commissions), which employ our style of investing in 20-25 quality growth businesses and have a market value exceeding \$500,000 at the time of inclusion, and exceeding \$300,000 to maintain inclusion, in the Composite. The U.S. Dollar is the currency used to express performance. For more information or list of composite descriptions, please contact us at 212-888-0060. A copy of our fully compliant GIPS® Report is included in this piece.

Composite performance is presented net-of-fees (net of actual investment advisory fees and trading costs). Performance includes the reinvestment of dividends and other earnings. In any event 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. Composite results reflect accounts managed at another entity: prior to January 1, 2008, the accounts in the Composite were non-fee paying (non-investment-advisory fee-paying) individual accounts managed by Harry Segalas in accordance with HSMP's investment policies, becoming HSMP's accounts in December 2007. The Composite is compared to the Russell 1000® Growth Index (R1000G) and the S&P 500® Index (S&P 500) as benchmarks for market context. The R1000G 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 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 (e.g., the Composite contains securities not represented in either index 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 to the same extent). 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 for small client accounts and also when viewed over narrow time periods. Small accounts generally experience higher dispersion from our Composite than large accounts primarily because they do not participate in trading, allocations, and aggregations to the same extent as large accounts given their size and that actual participation in trade orders depends, among other factors, on cash available in an account and on our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares depending on the stock price. Also, while the investment merits of a given security drive our investment decisions, we take into consideration the tax status of an account or group of accounts in certain instances when practicable (that being said, we are not a tax-efficient focused adviser and do not provide tax advice, and clients should consult with their own separate tax advisors in this regard). In sum, client account holdings and performance can deviate from our Composite and/or from other client accounts (even within the same group and 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 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. Our portfolio has typically been invested in what are generally considered more established, large cap names (over traditionally growth companies and mid-small cap companies).

This document includes general information and has neither been tailored for any specific recipient nor consider your/anyone's particular investment needs. Accordingly, the information herein is not intended to cause HSMP to become a fiduciary within the meaning of the Investment Advisers Act of 1940, the Investment Company Act of 1940, Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974, or Section 4975(e)(3)(B) of the Internal Revenue Code of 1986—all as amended.

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