



Sail On...Year 15 of the HSMP Voyage

Gregory A. Nejme, CFA
Partner & President
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The New Jersey coastline boasts some of the most majestic, family friendly beaches on the east coast, and beachcombers from all over the country frequent its shores. My family enjoys the good fortune to own a little slice of Heaven on an 18-mile barrier-reef island known as Long Beach Island (LBI locally).

It is a place where no block of time is enough, that never gets old, that always excites, energizes, satisfies, relaxes, invites joy. We watch as the tide rolls in and out, marveling at the celestial rhythm of the precisely timed meeting of sand and surf amongst the random plucking of sandpipers and grace of seagulls.

As HS Management Partners (HSMP) celebrates the fifteenth year of our performance track record (3/31/22), the natural cadence of our business allows me to express with pride our sincerest gratitude to all who have been a part of what we've achieved since the Spring of 2007. Like the tide tables on LBI, we believe investment styles ebb and flow; and like sailors navigating rarely predictable conditions with instruments and experiential judgment, we rely on our investment discipline, and the perspective that fundamentals never go out of favor. The resolve to anchor to our investment philosophy, and not chase offshore mirages, is a hallmark we believe served clients well over the decade and a half since our asset management practice began.

Deepest Gratitude...

...To Clients

Of course, the desire to pen this short note of immense gratitude would not be possible without the support, trust, and confidence our clients have demonstrated in us over the years. Thank you for entrusting us to be stewards of your capital, thank you for allowing us to play a small part in helping you satisfy your hopes, dreams, and aspirations, and thank you for helping us to be among the small businesses that have flourished even in the face of statistically well-documented odds suggesting otherwise, particularly within the first 24-36 months. And thank you for allowing us to employ a team of 18 professionals today, up from 8 when we began, and to be a resource for colleagues to count on to support their families, their hopes, dreams, and aspirations. Like the serenity of a late-afternoon summer breeze on LBI, that satisfaction is a good vibe that never grows old.

I find elements of my role – and I know this to be true of my colleagues – as richly fulfilling. Very high on that list is the ability to contribute to bigger causes, to have a meaningful impact on the individuals and institutions for whom we manage assets. Many clients have laudable objectives that we, as an asset manager, are called upon to play a role in satisfying. These include (though are certainly not limited to): endowments and foundations mitigating the cost of higher education; medical research conducted for the development of life altering treatments; supporting the arts and sciences, and other charitable activities; defraying the cost of education for children and grandchildren; planning for a secure and enjoyable retirement. Provided we do our job effectively, HSMP can play a small part in the positive outcomes our clients are pursuing. To the extent being effective at our craft supports our clients' purposeful missions, that ranks among the most fulfilling of the many rewards I'm fortunate to realize in my role.

...To My Partners

My participation in HS Management Partners would not have been possible without an invitation from my friend of thirty-five plus years, our CIO and Managing Partner, Harry Segalas. Harry and I grew up in the investment profession together in the late 1980's at what was then Shearson Lehman Hutton. We maintained a close personal and professional relationship after Harry joined the buy-side in 1990. I was evaluating different options at the time Harry approached me with an opportunity to join the partnership; joining HSMP felt intellectually and instinctually right.

One aspect of the blueprint he shared, and which resonated with me, was the importance of the Firm being fully formed at the outset. A successful asset management business depends on professionals in the disciplines of investments, client service/development, and the broadly defined area of operations. While staffing each core pillar raised the amount of seed capital required, it also raised the probability of success in that the marketplace would recognize the serious-minded nature of our effort. Harry's unwavering commitment to the Firm's prosperity, and his tenured reputation for effectively managing client portfolios, is the primary reason this note of thanks is possible. The Firm's strong heartbeat at year fifteen would not exist without the pulse Harry inspired.

David Altman, our Director of Research, and internal Prince of Optimism, is someone I did not know when our little journey began, though I implicitly trusted Harry's judgement as the two of them had worked together for 14 years prior to HS Management Partners' formation. David has a capacity to recall facts unlike anyone I've ever met (though I've never fact checked him) and is the consummate analyst. I've worked with many analysts in my forty-plus years as an investment professional, and never met one as accomplished as David at his craft. His attention to detail, ability to connect seemingly disparate dots, and deep knowledge/understanding of industries and companies is extraordinary. We see the world through the lens of hard work, honesty, integrity; we appreciate that a good laugh goes a long way, that relationships matter, and we beam when sharing stories about the blessing of grandchildren.

Like David, I did not know Bart when we started, though again relied on Harry's perspective given they'd worked together for many years before we established HSMP. Within the context of considerable industry headwinds – hedge funds, alternatives, ETF's, scale advantages among large competitors, industry-wide fee pressure – Bart marshaled the judgement and understanding to identify where our investment solution could play effectively, with the result that we've grown assets deliberately yet substantially over the years. Our client base and related revenue streams are diverse, in large measure attributable to Bart's tireless efforts on behalf of HSMP, our clients and consultant relationships.

The Firm has experienced Three Black Swan events since our inception: The Great Financial Crisis unceremoniously greeted us when we opened our doors in '07/08; the COVID-19 Global Pandemic in February 2020; and the greatest threat to world order since WW II with the unspeakable, inhumane invasion of Ukraine by Russia two months ago. Much smaller events have sunk much larger firms: we survived the gravity of those enormous challenges – and stand tall – because of the unparalleled intellect, industriousness, and conscious commitment of my partners.

It hasn't been easy, though very few things worth having in life come easily. We've had our share of highs and lows and persevered time and time again. And certainly, and thankfully, the highs have well outpaced the lows.

My deepest appreciation to Harry, David, and Bart for accepting me on the journey. I look forward to continuing our sail, knowing there remain many financial seas yet to conquer.

...To Team Members Past and Present

Our team members past and present have been and will continue to be key to our success. The professionals behind our investment performance, operational processes, and client relationships take tremendous pride in their responsibilities; I am proud to call them teammates. And as talented as I believe them to be professionally; they are better people.

Two members of our team have been with us from the very start, our CCO Ron Staib and our Head Trader Mark Dreifus. I also experienced amazing inspiration and among the most joyful experiences of my professional career working together with my daughter Kate, a valued member of the HSMP team for seven years, and one who stays in touch with former colleagues who are now close friends. Among the team members we've hired, currently seven of the fourteen are women, and several occupy senior roles. Six members of the Firm worked together for many years before the formation of HSMP, providing a high degree of continuity. Our culture reflects a collection of individual talents, and a healthy commitment to trust and respect even as we recognize different philosophies toward devising solutions to everyday business challenges.

Our team members are the most formidable “Asset” in our asset management practice. The fifteen-year milestone reflects the individual and collective efforts of those, past and present, who've chosen to join us on our voyage.

...To Our Families

Starting a new business is an exciting and hopeful time for all involved, though the enthusiasm is accompanied by periodic levels of stress that necessitates having a strong support network at home. Many thanks to our families who've sacrificed and persevered alongside us.

The Journey

Former President Obama wrote of The Audacity of Hope in the fall of 2006. The Audacity of Hope has served us well since March 2007, and we are grateful for the last decade and a half, and hopeful for the next fifteen years as we pen the next chapter. Our emphasis on approaching our practice as optimistic realists has served us well.

Several years ago, a client posed a simple though deeply thought-provoking question in a meeting: “What was the best business decision you made?” After some reflection, I would offer one answer: the best decision we made was to model HS Management Partners in a manner consistent with the criteria we prize among our portfolio holdings – a long term perspective, a highly focused approach, and a relentless emphasis on quality in people, processes, products, and services. We invested behind the core of our convictions, and that has made all the difference.

Sinatra sang of regrets too few to mention; I have fewer still. Is it regretful to wish we’d started sooner, recognizing how quickly the years have flown by – particularly given how rewarding the sail has been – or is that simply the cross of the human condition that longs and dreams for more of a good thing? The moments to minutes to memories we’ve created are cherished, and that qualifies as a smooth sail in my journal, one where the wind of good fortune and hard work has often been at our back. And the best news is knowing that we will remain engaged for as long as the sails remain aloft...the optimistic realist in me is hopeful that timeframe extends well beyond the dot on the horizon.

I occasionally reference lyrics in pieces I write that are meaningful to me and relatable to the topic at hand. Harry often chides me about the nostalgic nature of my selections. By now, you'd think I'd heed his message and go with some contemporary, novel artist. Rather, I'll reach way back to a Louis Armstrong classic. When the winds calm, I reflect on what a gift the journey has been: “And I think to myself, What a Wonderful World.”

I think seasoned investment professionals have a lot in common with skillful deckhands. The more you experience, the more you know, the better prepared you are to address and overcome whatever adversity may await. The laws of nature and those of financial markets share the commonality that each, in its own element, can be enormously humbling. Having experienced and navigated three Black Swan events in fifteen years, I am encouraged by the time-tested principles and discipline we’ve employed, and I believe HSMP’s emphasis on quality businesses, growing the portfolio earnings and cash flow stream, and being highly attentive to valuation will continue to position clients well over the next fifteen years. And just as the thought of LBI brings a smile to my face, for I know it never gets old, always excites, energizes, and satisfies, so too does the thought of continuing our journey with the same resolve and time-tested principles in place.

We've thoroughly enjoyed the sail, in large measure because we've had great company, and we are grateful for the trust, support and contributions of one and all.

Mark Twain’s words ring true:

“Twenty years from now, you will be more disappointed by the things you didn’t do than those you did. So, throw off the bowlines. Sail away from safe harbor. Catch the wind in your sails. Explore. Dream. Discover.”

Stay well and I hope you will continue the journey with us as we Sail On...

IMPORTANT DISCLOSURES

This is an opinion piece. 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 or maintaining the continuity of the Firm. 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. Our source of revenue is the investment advisory fees we charge our clients. The information here is solely for illustration/discussion, has not been tailored to any particular recipient, does not consider anyone's investment needs, 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.

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