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MANAGEMENT PARTNERS, LLC

First Quarter 2022 Investment Perspective

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

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Investment Perspective

Brave New World

As noted in our 2021 Investment Review, your portfolio had experienced a strong 4Q finish, a robust 2021 overall, a sharp advance from March 2020's lows and significant gains over the past 3-, 5-, and 10-year periods. We wrote that "these well-above average trends reflected a recovering economy, a prolonged economic expansion, low inflation, a drop in interest rates, and accommodative monetary policies."

Today, we face a very different picture. Markets and your portfolio are correcting. Inflation is running hot. The Fed is now tightening. Bond yields have backed up markedly. And we are now at the seven-week mark of Russia's brutal invasion of Ukraine. To steal a phrase from Aldous Huxley, we really do believe that we have entered a brave new world.

It is worth taking a step back and consider where we have come from as we grapple with the implications of Russia's actions. In late 1991, The Soviet Union collapsed, and the Cold War ended. Fifteen newly independent states were created (including Ukraine) and Western companies wasted little time moving into these new geographic markets. This coincided with China's economic reform that opened the country and paved the way for China's emergence as an economic superpower. NAFTA also went into effect in 1994, and the era of globalization had begun.

This past 30-year period has been good to Corporate America. New markets boosted the top line and globalization lowered cost structures as well. "Just in time" inventory became the mantra and profits powered forward.

However, the focus on the top-line, cost efficiencies and, of late, an increased emphasis on environmental and social priorities obscured inconvenient realities. To some degree, some of the realities or risks had begun to rear their heads during the Trump administration when Chinese tariffs upended supply chains. COVID-19 brought this further to the fore as critical items such as PPE (personal protective equipment) were in short supply and, in fact, made largely out of the U.S. Supply chains were further thrown into turmoil by the Pandemic disrupting sales opportunities and raising costs.

But the Russian invasion has awakened the world to the most serious consequences of relying on hostile parties for key natural resources. It has also forced a reappraisal of priorities, especially as it relates to national security. And it has made countries think more than twice about other vulnerabilities that may exist worldwide.

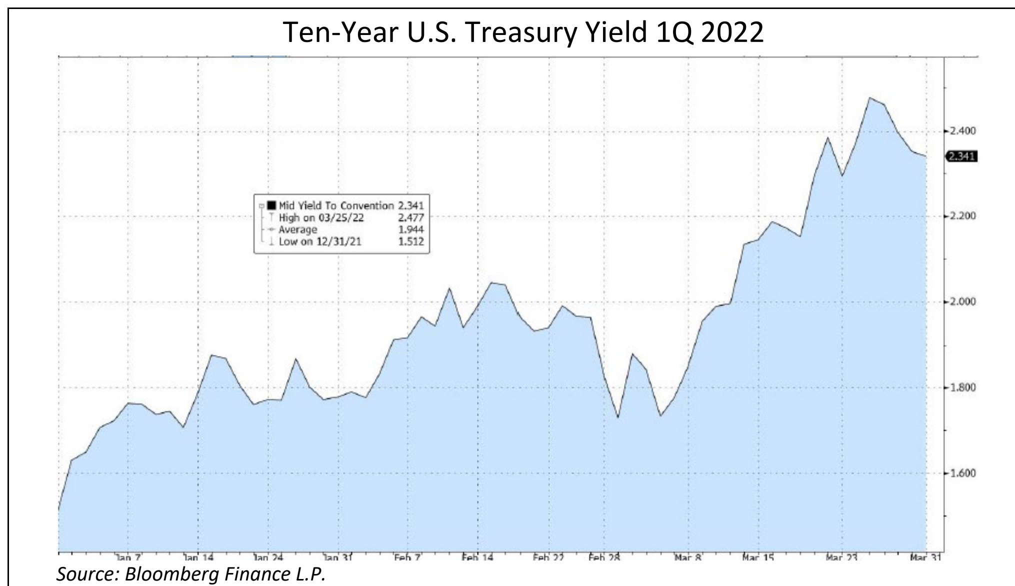
See pages 5 - 7 for important information & disclosures.

Which brings us to today and how we are thinking about your portfolio in this post 2/24/22 Russian invasion of Ukraine world…this brave new world.

Our investment methodology focuses on quality businesses, growing earnings and cash flows, and a strict valuation discipline. Active management and a willingness to move across the continuum of quality growth companies also remains core to our investment playbook. These tenets set the guideposts as we adjust to changing times.

Investment Outlook

Earlier on, we discussed the favorable backdrop for sales growth and margins stemming back to the early 1990's. It has also been a beneficial environment for price/earnings ratios, thanks to an almost 40-year decline in bond yields. When I started in the business back in the summer of 1982, the ten-year bond yield had recently come off a peak of almost 16%. Rates dropped persistently down to the 4% or so level in the mid 2000's before taking another leg down to about 2% in the 2010-2019 period, before plummeting below 1% during the Pandemic. This drop in the ten-year bond yield was led by extremely stimulative Federal Reserve monetary policy, which also coincided with aggressive fiscal spending. The problem now is that it has contributed to a big resurgence in inflation. As a result, the Fed has reversed course with Fed Fund rates on the rise and quantitative tightening on the horizon. This has led to an especially dramatic rise in the ten-year bond yield during the first quarter of 2022.



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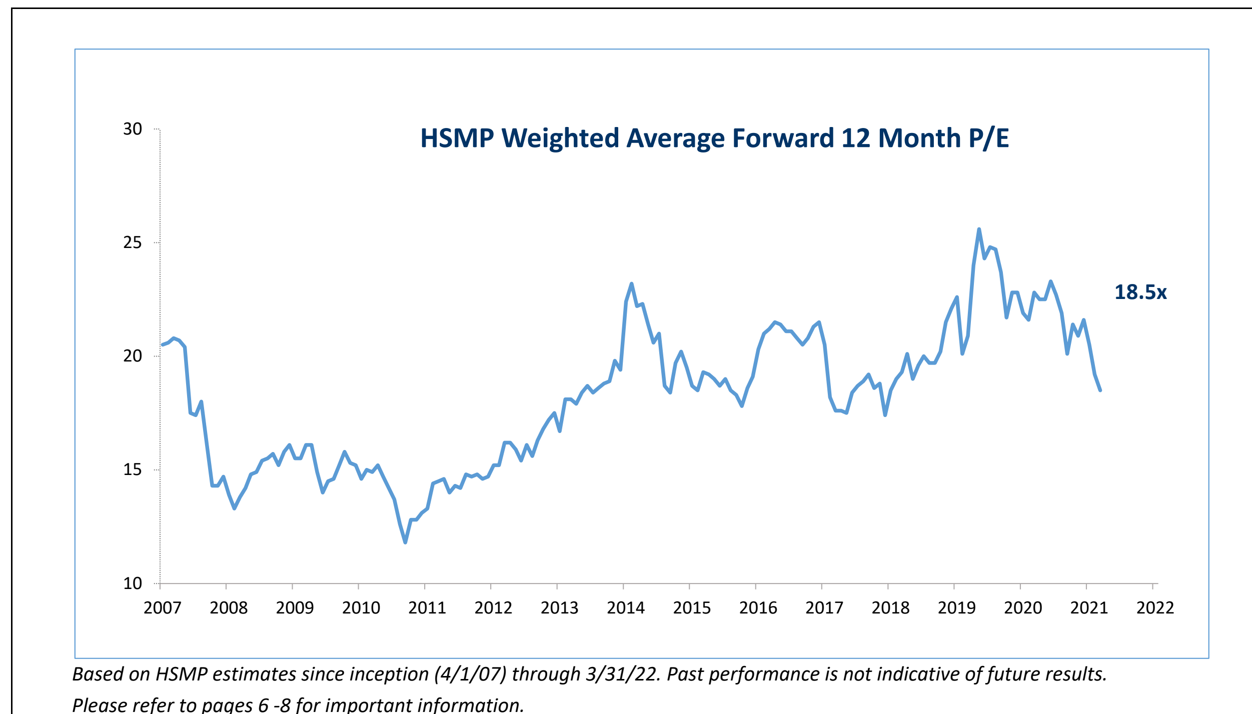
Rising inflation and interest rates are not good for multiples and the pullback we witnessed in portfolios was driven by declining valuations. For perspective, your portfolio sold for 21.6X forward EPS estimates at year-end 2021 and then dropped to 18.5X by the end of the first quarter of 2022 so we lost a good three multiple points.



Based on HSMP estimates since inception (4/1/07) through 3/31/22. Past performance is not indicative of future results. Please refer to pages 6 -8 for important information.

We ended the 1Q with a 5.4% earnings yield (inverse of the P/E ratio) with the 10-year bond yield at 2.34% (it has gone to 2.7% since then). We think the earnings yield/bond yield ratio looks attractive, even in the face of higher bond yields and note that when our Composite began 15 years ago, multiples were more than 20X (and the earnings yield less than 5%) in a world in which the bond yield was more than 4.6%. As we wrote last time "while rising yields can cause dislocations to valuation, we feel comfortable that we own our portfolio at reasonable levels and can face somewhat higher yields. Rising bond yields may well disproportionately pressure companies with high valuations and no cash flow." We continue to believe this is the case.

A more hawkish Fed will ultimately slow today's recovering economy. Jamie Dimon, JP Morgan's CEO, framed today's dilemma well in his 2022 Shareholder Letter: "I do not envy the Fed for what it must do next: The stronger the recovery, the higher the rates that follow (I believe that this could be significantly higher than the markets expect) and the stronger the quantitative tightening (QT). If the Fed gets it just right, we can have years of growth, and inflation will eventually start to recede. In any event, this process will cause lots of consternation and very volatile markets…rates will need to go up substantially. The Fed has a hard job to do so let's all wish them the best."

Which ultimately brings us back to the building blocks of your portfolio. Future appreciation will largely be a function of earnings and price/earnings ratios. Your holdings are not immune from future economic slowdowns or recessions, but we believe they are inherently resilient companies, with robust free cash flow capabilities and strong balance sheets. We do not think valuations are extended and believe many fears have begun to be discounted into current price/earnings ratios. In addition, your portfolio sports a 1.8% dividend yield which adds to total returns and leaves ample funds available for other shareholder friendly activities, such as accretive share repurchase.

15 Years and Counting

Our Composite hit the 15-year mark at the end of the first quarter of 2022. Since inception, over that interval, our Composite has compounded returns at a 12.8% annual post-fee rate (4/1/2007 through 3/31/2022). The power of this compounding shows that cumulative returns amounted to 512.3% in that period and that $1 million invested at our start (4/1/2007) is now worth $5,123,000. Needless to say, we have faced considerable challenges in that time, starting with the Financial Crisis in 2008, the Pandemic in 2020, and the Russian Invasion of Ukraine in 2022. As my partner Greg Nejmeh points out, three Black Swan events in 15 years.

As we go forward, we are committed to our sole focus on our concentrated quality growth methodology. This includes a strong valuation discipline and active management. Undoubtedly, we will face many challenges but believe this approach will serve our clients well in our drive toward absolute returns in the years ahead.

Many thanks to the incredible HS Management Partners team that has been assembled over the years and who work tirelessly on your behalf. My partners and I feel enormous pride at the professionalism, commitment, and culture that we see at work every day.

And thanks most of all to you, our clients, who have stood with us over the years, entrusting us with the management of your valuable assets. It is a responsibility that we take with utmost seriousness, and I can assure you that every member of the HS Management team is focused on doing the right thing for you each and every day.

Sincerely,

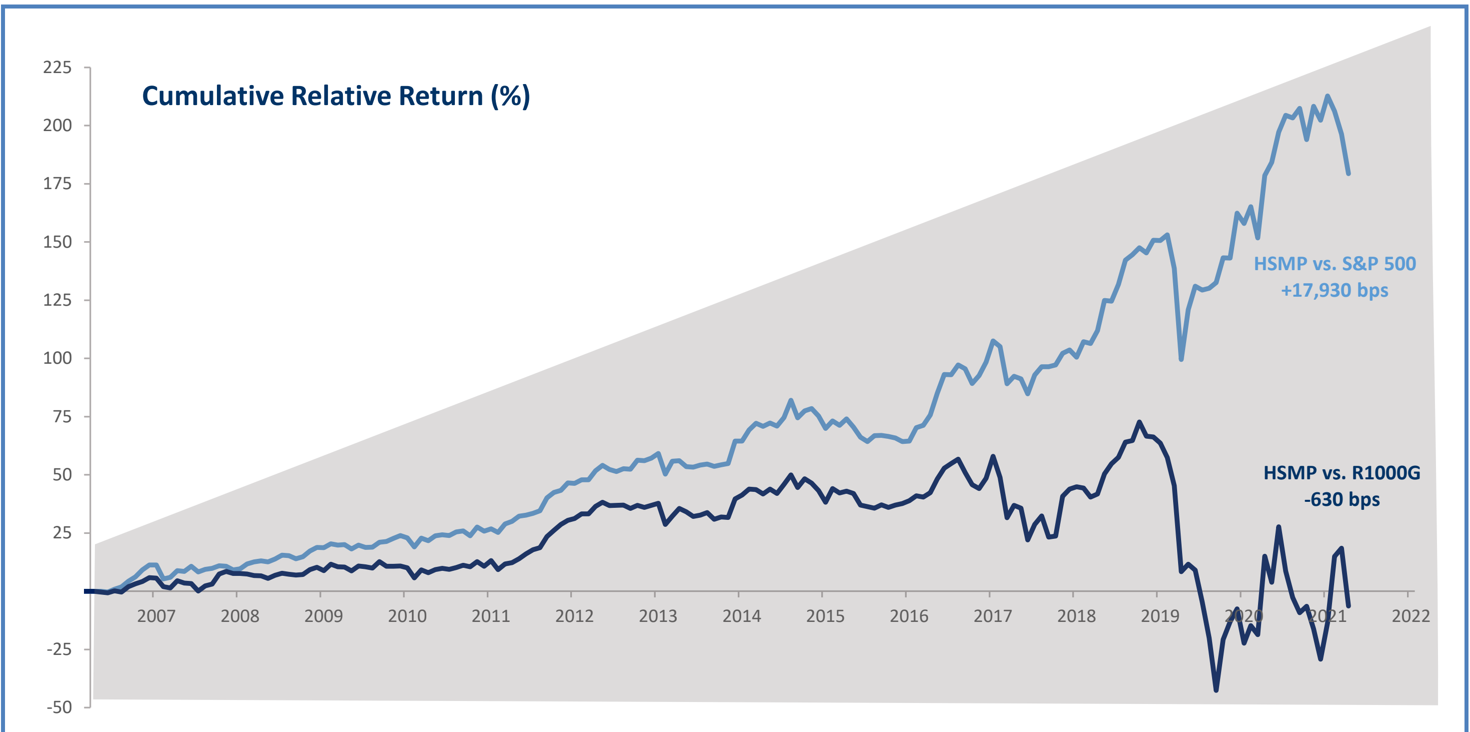
Harry W. Segalas

Portfolio Profile (3/31/22)

HSMP Composite Performance as of 3/31/22

	1Q22	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)	-8.1%	10.7%	18.4%	16.8%	15.9%	12.8%	512.3%
S&P 500® Index	-4.6%	15.7%	18.9%	16.0%	14.6%	10.3%	333.0%
Russell 1000® Growth Index	-9.0%	15.0%	23.6%	20.9%	17.0%	12.9%	518.6%

Performance results are net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 6 & 7 for important information.



Composite performance results since inception (4/01/07) through 3/31/22. Performance is net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 6 & 7 for important information.

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IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. This piece is written from the perspective of our Composite holdings, performance, and estimated metrics, and it does not refer to any specific client account (client accounts can have higher or lower performance than that shown here). When we use *Composite*, we mean our HS Management Partners Concentrated Quality Growth Composite, and when we use *the portfolio/our portfolio/your portfolio(s)*, we mean client portfolios in general from our Composite perspective (see below regarding differences between the Composite and client portfolios/accounts and differences between client portfolios/accounts themselves). The Composite 12.8% compounded return noted on page 4 is net-of-fees and was used for the $1 million investment example on that page (this example is for illustration/discussion only—actual client accounts could have had or had higher or lower performance than our Composite and there is no guarantee than the return noted in the example was actually attained by any client account or could indeed be attained in the future. Our Composite net-of-fees performance for 4Q21 was 10.57%, for 2021 was 30.51%, for 1Q20 –24.42%, and for the past 3-, 5-, and 10-year periods please refer to the performance table under Portfolio Profile on page 5. Composite performance is presented net-of-fees (net of actual investment advisory fees and trading costs). The performance shown in this piece, including this page, 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. 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/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 will prove to be accurate as actual results and future events can differ materially from our assumptions. In any event, investing in securities involves significant risks, including the risk of loss of the original amount invested. We encourage you to refer to our Firm Brochure (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. The following is a summary of some material risks, not all risks, applicable to our investment strategy and advisory business, listed alphabetically.

- Active Management Risk. Active management is key to our investment strategy, and we take an incremental trading approach. This increases trading, which in turn increases trading commissions and/or other transaction costs, fees and expenses that will reduce client returns/performance. Portfolio turnover can also result in short-term capital gains, which can reduce the after-tax return for taxable clients.
- Catastrophic Events, Civil Disturbances, Health Crises, Wars, Natural Disasters, Terrorist Attacks, Environmental Calamities, and Acts of God Risk. All these events can significantly disrupt not only the economy and market conditions, but also exchanges, trading, our vendors' services, the performance of the companies in which we invest and their competitors, and our ability to carry out our investment advisory business, as well as making our employees, vendors and market participants more susceptible to cyberattacks
- Concentration Risk. Our investment strategy involves a high concentration in certain market sectors, industries, geographic regions, and number of issuers. A concentrated portfolio is subject to greater risk of loss and market impact than a more diversified account.
- Consumer Discretionary, Consumer Staples and Technology Sectors Risk. Our discretionary client portfolios are concentrated in these sectors, which are highly sensitive to rising inflation, increased interest rates, pandemics, wars, and other events that impact consumer confidence and behavior. The consumer discretionary and the technology sectors are especially tied to the strength of the economy. Moreover, the technology industry is very sensitive to rapid and often unforeseeable innovation and product obsolescence.
- Cybersecurity and Other Technology Risk. We rely heavily on technology to perform our functions and also share sensitive, confidential information with client consultants, investment advisers and custodians, as well as with other third-party service providers such as broker-dealers, software providers, network administrators, and other parties we engage in the client service, operations, legal/compliance, marketing, and Firm accounting areas, among other. Thus, client and Firm sensitive, confidential data on our network or on the networks of third parties with whom we have shared data are vulnerable to inadvertent disclosure and nefarious cyberattacks aiming to expose or exploit the data.
- Equity Securities Risk. We invest in equity securities, which involves several risks. Their value can decrease, potentially dramatically, in response to many factors (including general economic conditions, inflation, changes in interest rates, fluctuations in foreign currencies, and national or international political, social, governmental, tax, legal, regulatory and economic events, as well as natural disasters, environmental calamities, terrorist attacks, wars, and health crises such as epidemics or pandemics) that can negatively impact the economy in general or a particular company's financial situation, result in poor performance of some companies in certain geographical regions or economic sectors or industries, and/or adversely affect the stock market in general or overall market sentiment. Even under favorable market and industry conditions, a company's performance can be negatively impacted by internal factors, such as poor execution by company management, a cybersecurity attack or data breach, and a change in the demand for its products or services.
- Foreign Security Risk. Our discretionary client portfolios generally include foreign companies. Investing in foreign companies exposes clients to political, social, economic, legal and currency factors or other issues relevant to the corresponding foreign countries or regions.
- General Economic and Market Conditions Risk. The success of our Firm and the companies in which we invest will be affected by general economic and market conditions, such as inflation, interest rate fluctuations, a recession, the availability of credit, economic uncertainty, changes in laws, supply chain issues, labor shortages, trade barriers, currency exchange controls, energy and commodity prices, national and international political circumstances, natural disasters such as environmental calamities, and regional, national and global health crises.
- Credit Risk. Financial intermediaries and security issuers can experience adverse economic consequences, including impaired credit ratings, default, and bankruptcy or insolvency. All of which can cause adverse events, such as trading disruptions and credit events that can impair or erase a client's investment.
- Legal, Tax, and Regulatory Risk. We are a registered investment adviser regulated by the SEC. As a regulated entity, changes in laws or regulations can impact our ability to operate our business. In addition, legal, tax and regulatory developments can adversely affect the companies in which we invest or the regulatory or tax treatment of client gains.
- Liquidity Risk. In times of turbulent or uncertain market conditions liquidity risk for our client portfolio increases as there can be fewer market participants, or no market participant, willing to pay a stock price that is not deeply discounted from the price we paid when we invested in the stock, or willing to pay a stock price that we deem reasonable for the securities we own.
- Low Cash Balances Risk. Our investment strategy generally involves maintaining very low levels of cash (including cash equivalents selected by the client or the client's custodian) in client accounts, meaning client accounts are typically nearly fully invested. Therefore, client portfolios will likely be more impacted by market fluctuations than portfolios that are less invested and keep more cash available. In addition, client withdrawals of cash from an account will most likely require the sale of securities which can be at a time when prices are not favorable.
- Market Capitalization Risk. Although we typically invest in large capitalization companies, we have demonstrated a willingness to go down the capitalization scale. When moving down the capitalization scale, stock liquidity risk can significantly increase as the market for the stock can shrink and the stock price can decline, particularly in turbulent markets. In addition, small and mid-capitalization companies tend to be more volatile or vulnerable to adverse company specific or general economic conditions than large capitalization companies.
- Material Non-public Information Risk. There can be instances where we receive non-public information, voluntarily or involuntarily. In such cases, we will act in accordance with our policies and procedures relating to insider trading and determine whether the information constitutes material non-public information or is likely or possible to be considered so with the benefit of hindsight.

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- Reliance on Key Personnel Risk. Our CIO and sole Portfolio Manager is considered a key person with respect to our investment strategy. Although other experienced Firm-partner members of the investment team can make investment decisions, the unforeseen absence of our CIO can impair our ability to successfully implement our investment strategy.

The information here is solely for illustration or discussion, represents our opinion about the mentioned companies and market conditions as of the date of this document, 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. Some of the charts in this piece were obtained from the indicated third-party sources which we believe reliable, but we did not verify, nor do we guarantee the accuracy of this information.

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, fee paying accounts (accounts that pay us an investment advisory fee even if they pay zero trading commissions) 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. Results are based on fully discretionary accounts under management that meet our Composite's inclusion criteria, including those accounts no longer with HSMP. 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 U.S. Dollar is the currency used to express performance. For more information or for a copy of our fully compliant GIPS® Report and/or list of composite descriptions, please contact us at 212-888-0060. 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 (e.g., 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 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 some cases 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. Refer to our Firm Brochure for risks applicable to our investment strategy and Firm information.

This document includes general information and has not been tailored for any specific recipient or recipients. Accordingly, the information here 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.

The price-earnings (P/E) ratio, earnings yield, free cash flow yield, and earnings yield/bond yield are weighted averages of the Composite holdings and are based on our estimates on a 12-month forward projected basis as of the indicated reporting date (our estimates can be inaccurate; actual results and future events can differ, even materially, from our assumptions). The earnings yield/bond yield is based on the 10-year bond yield as of the indicated period. The dividend yield is a weighted average of the Composite holdings based on the most recently announced company gross dividend (annualized) divided by the last stock price as of the indicated reporting date.

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