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July 13, 2022

Investment Perspective

Place & Time

As we are all painfully aware, the first half of 2022 has proven to be exceptionally difficult for most asset classes. Stocks and bonds have both retreated considerably. More speculative asset classes have been dismantled. This table produced by Strategas put the first half decline in historical perspective:

BAD HALF

Negative 1H S&P 500 Performances Since 1950

Year	1H	2H
1962	-23.5%	15.3%
1970	-21.0%	26.7%
2022	-20.6%	?
2002	-13.8%	-11.1%
2008	-12.8%	-29.4%
1974	-11.8%	-20.3%
1973	-11.7%	-6.4%
1982	-10.6%	28.3%
1953	-9.1%	2.8%
1966	-8.3%	-5.2%
2010	-7.6%	22.0%
2001	-7.3%	-6.2%
1984	-7.1%	9.2%
1977	-6.5%	-5.4%
1969	-5.9%	-5.8%
1960	-5.0%	2.1%
1994	-4.8%	3.4%
2020	-4.0%	21.2%
1981	-3.4%	-6.6%
1992	-2.1%	6.8%
2005	-1.7%	4.8%
2000	-1.0%	-9.2%
1965	-0.7%	9.9%
	Average	**2.1%**
	% Positive	**54.5%**
	Max	**28.3%**
	Min	**-29.4%**

Source: Used with permission of Strategas Research Partners as of 7/1/2022. Please refer to pages 7 & 8 for important information.

This bear market is a function of a toxic mix of much higher-than-expected inflation, a move by the Fed and global central bankers to tighten credit conditions after a period of extraordinary stimulus, and, of course, the fallout from the tragic Russian invasion of Ukraine. We have not been immune from its wrath as seen in the chart below, which displays the negative first half performances that we have experienced since opening our doors 15 years ago:

Negative 1H HSMP Composite (Net) Since 2008

Year	1H	2H
2022	-25.1%	?
2008	-13.3%	-24.8%
2020	-6.8%	22.2%
2010	-5.4%	23.0%
2018	-2.5%	-2.7%
	Average	4.4%
	% Positive	50.0%
	Max	23.0%
	Min	-24.8%

Note: Composite performance (net-of-fees) for those calendar years with a negative performance result in the first half of the corresponding year (1H) since inception (4/1/07 through 6/30/22). Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 6-8 for important information.

As you can see, the first half of this year is the worst first half that we have ever endured. As we survey the damage, it is clear to us that the heavy pressure on our price/earnings ratio — the estimated 30% drop in multiple — was the big weight on portfolio values. This pressure was driven by the long bond moving significantly higher due to escalating inflation fears and this deterioration in multiple swamped underlying portfolio earnings growth:

Portfolio P/E Ratios and Ten-Year Bond Yield

	12/31/21	6/30/22
Forward 12-month portfolio estimated P/E	21.6X	15.2X
Ten-year U.S. Government bond yield	1.5%	3.0%

Note: *Based on HSMP estimates as of 12/31/21 and as of 6/30/22. Please refer to pages 6-8 for important information.*

There have been moments during this relentless market retreat that reminded me of some of the darkest days of early 2020. As you may recall, after coming off a 37% net gain in our Composite in 2019, we saw your portfolios swing from a positive year-to-date gain of almost 6% on February 20th, 2020, to a stunning 35% decline by March 23rd. Broad brush and, at times, indiscriminate selling marked that early Pandemic period, and, in our mind, we saw some of that — perhaps ETF basket driven — in these past few months as well.

And much like then, we are entering a period of greatly reduced earnings visibility. Back then, it was the Pandemic onset. Today, earnings forecasts are increasingly challenged by an impending economic slowdown as well as a wide array of crosscurrents. Employment levels are strong, but the Fed is determined to cool wage gains. Higher energy costs and inflation curb discretionary and household spending plans. The consumer while now leaning toward services after spending heavily on goods, is experiencing sticker shock. Housing transactions are decelerating rapidly as mortgage rates rise but house values remain high. Europe is slumping and most vulnerable to Russia's hostile actions due to past energy policies that have proved naive. The U.S. dollar is soaring. Parts of the supply chain remain disrupted, but some backlogs are now being filled. China is in lockdown — and China is coming out of lockdowns. The list goes on and on.

So much like early 2020, our playbook is to intensify our focus on attributes that we already care a great deal about but find especially critical as we endure times of duress and low earnings visibility. This includes:

Balance sheet strength and an emphasis on companies with comfortable leverage ratios and, in some cases, net cash positions.

Powerful free cash flows. Our holdings generate more than 90 cents on the dollar on average in free cash flow after capital spending and working capital requirements.

Dividend payers. 20 of our 24 holdings pay a dividend with the portfolio's yield now over 2%. The four companies not yet paying a dividend have the financial firepower to do so.

Adroit management teams. There may be known knowns but there are also known unknowns as Donald Rumsfeld once said. Or as Mike Tyson put it: "everyone has a plan until they get punched in the mouth." No one knows exactly how things will turn out and, as a result, skillful and adaptable leadership matters more than ever.

Liquidity matters. As markets seize up and borrowing costs escalate, this is vital. This is especially true as for the first time in a long time, the Fed is not riding to the rescue.

As noted just above, a critical difference from 2020 and today is that early in the Pandemic, the Fed lowered rates and initiated Quantitative Easing – flooding the market with liquidity, lifting asset prices, and raising multiples. The problem was that the Fed then misjudged inflation and incentivized asset bubbles to form. The Fed must now tighten aggressively to slow the economy and to harness inflation at a time when markets are also being roiled by higher energy and commodity costs due to the Russian invasion. ***This makes it particularly important to maintain a strong valuation discipline*** since we don't think markets will get bailed out by a willingness to price assets on promises of things to come.

It is possible that despite our efforts to factor in more conservative earnings outcomes based on coming macro headwinds that the price/earnings multiple that we estimate today is higher than what we forecast. So perhaps we are not selling at 15X forward estimates but more like 16X-17X? That said, we think a lot of valuation damage has been done. And whether our earnings yield is at 6.6% (inverse of 15 multiple) or 5.8% (inverse of 17 multiple), we believe this is reasonable and can be supported even at the current bond yield or somewhat higher levels (the levels likely needed to curb inflation).

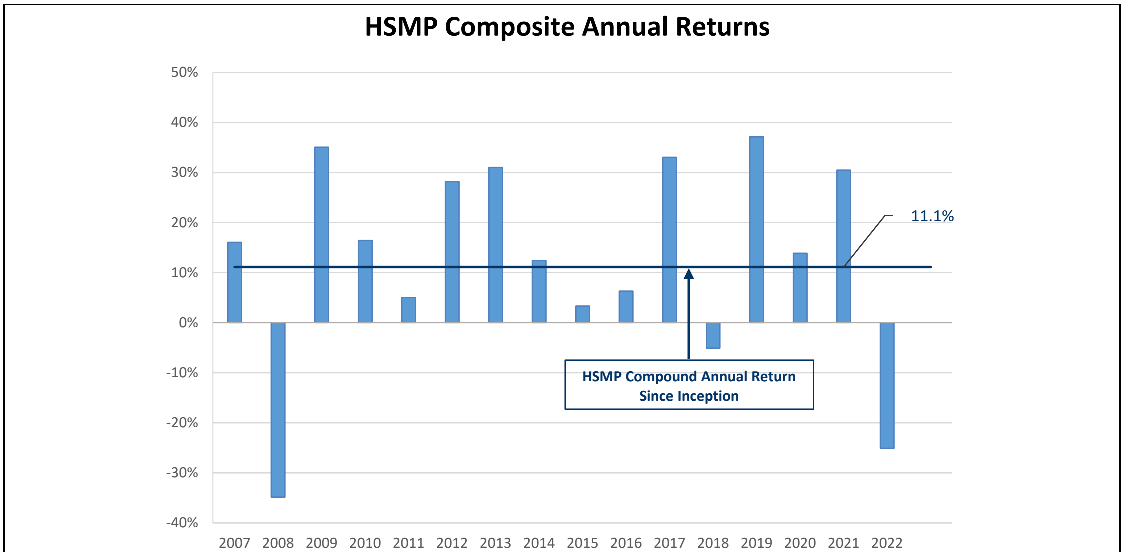
We also like that the free cash flow yield of the portfolio — likely between 5% and 6% — leaves ample room above dividends (about 2%) for the companies in our portfolio to fund increasingly accretive share repurchase activities if they so choose. Again, this speaks to balance sheets, cash flows, and liquidity.

During the first quarter, we made several portfolio changes to reflect our view that the world had meaningfully changed as a result of the Russian invasion. We wrote in our first quarter 2022 Investment Review that "we really do believe that we have entered a brave new world" and that "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."

In the second quarter, we purchased four names in which we saw opportunities created during selloffs. Each company has the characteristics we highlighted earlier. We currently hold 24 companies.

Searching for Light

When I first looked at the chart showing our five down first half portfolio declines, I thought there was something wrong with the 2020 data. I said, "wait a minute, weren't we down 35% year to date in late March that year?" As you can see the table just showed about a 7% drop through the entire first half. As I noted earlier, the Fed is in a much different position today than they were then, and there is no doubt that aggressive easing helped markets recover. The past is also never a perfect predictor of what may happen in the future. But what struck me about that period…and all other periods of decline – whether they be in the first half of a year, or the second half – is that the key for us over time has been to stick to our knitting. To stay the course. There will be periods of both absolute and relative pressure. But what we have seen over time is that the focus on quality, growth and valuation has been what has driven performance over time. The table below puts it in some perspective:

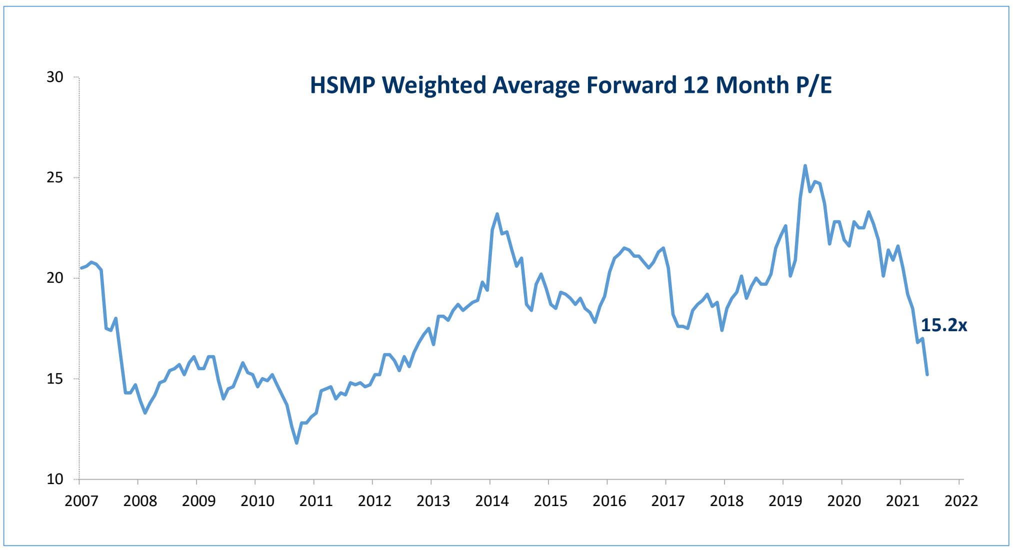


Composite annual performance (net-of-fees). The shown annual performance for 2007 is only since inception (4/1/07) through 12/30/07, and for 2022 is only from 1/1/22 through 6/30/22. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 6-8 for important information.

H S MANAGEMENT PARTNERS, LLC

Looking to the future, we like what we own and continue to find ample new opportunities. Earnings visibility is lower than normal, and we are facing some deceleration in earnings – whether it be from an overall economic slump or a recession. We believe our companies are financially capable of more than withstanding this slowdown – even if earnings are under pressure – and are likely to gain share from weaker competitors. We also continue to believe our companies have the wherewithal to fund future endeavors and to take the long view. Ultimately, earnings and cash flows will stabilize and reaccelerate. Over time, we look for that growth in earnings and cash flows to be the primary driver of absolute appreciation in your portfolios again. This should be augmented by a solid and growing dividend stream.

Moreover, from a valuation perspective, our starting point today is considerably below where we began our investment journey more than 15 years ago.



Based on HSMP estimates since inception (4/1/07) through 6/30/22. Please refer to pages 6-8 for important information.

We appreciate your faith in us as “we walk through these troubled times” — as Nick Lowe wrote and Elvis Costello sung. Rest assured, we have been here before — "searching for light” not just in 2008, or 2020 — but several times before that in my 40-year investment career. We have always found the light.

We hope you all have a good summer ahead. Know that we are fully focused and energized by the task ahead.

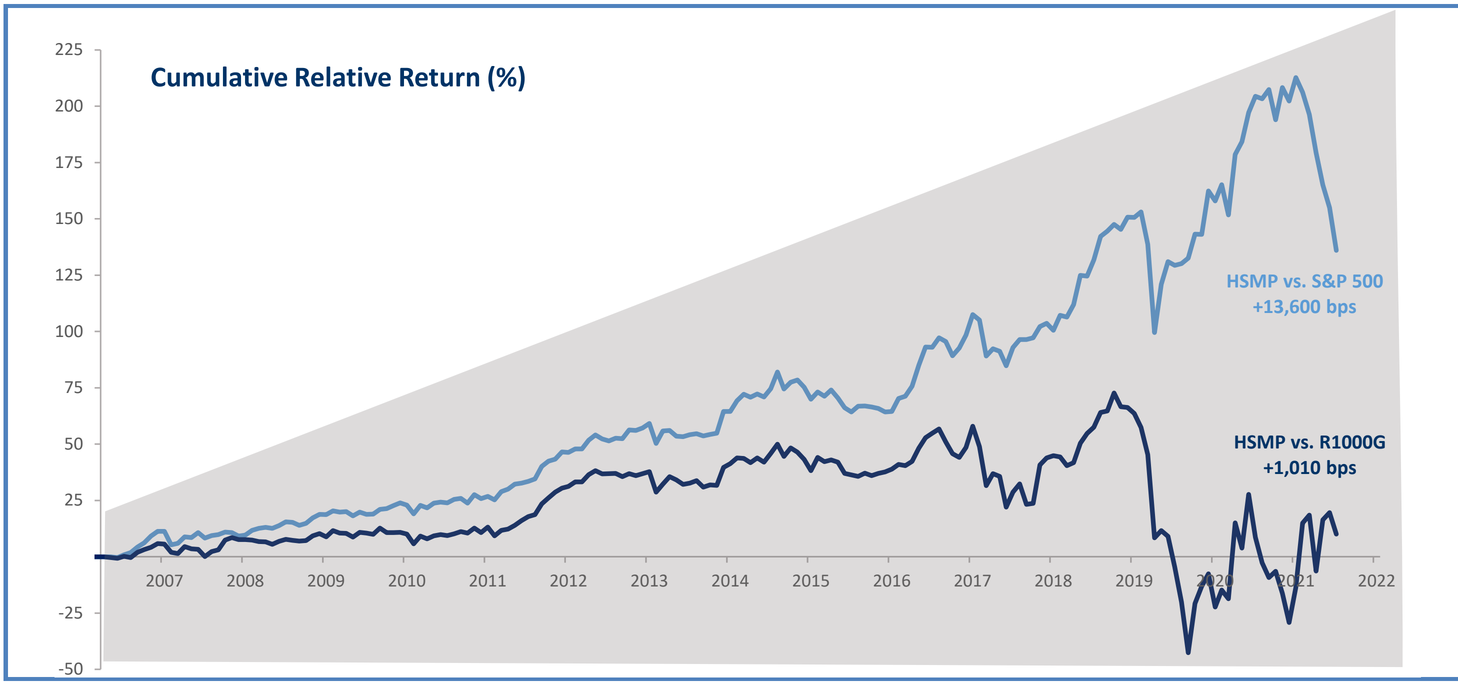
Sincerely,

Harry W. Segalas

Portfolio Profile (6/30/22)

HSMP Composite Performance as of 6/30/22	2Q22	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)	-18.5%	-25.1%	-18.3%	7.6%	10.3%	13.5%	11.1%	399.3%
S&P 500® Index	-16.1%	-20.0%	-10.6%	10.6%	11.3%	13.0%	8.8%	263.3%
Russell 1000® Growth Index	-20.9%	-28.1%	-18.8%	12.6%	14.3%	14.8%	11.0%	389.2%

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 7 & 8 for important information.



Composite monthly performance (net-of-fees) since inception (4/01/07) through 6/30/22. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 7 & 8 for important information.

IMPORTANT DISCLOSURES

This piece represents our opinion as of 6/30/2022 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 holdings, performance, and estimated outlook and 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). Composite performance is presented net-of-fees (net of actual investment advisory fees and trading costs) and includes the reinvestment of dividends and other earnings. The performance shown here 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. Some charts here 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. 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, free cash flows, earnings-per-share (EPS), price-earnings ratios (P/E), growth rates, dividend yields, 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. 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. 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.
- 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.

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 in this piece 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. 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. In some instances, Composite performance is presented by itself on an absolute basis (without comparing it to an index or benchmark) and in other instances, 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 use trading groups to facilitate trading and not all groups trade to the same extent. In sum, client account holdings and performance can deviate from our Composite and/or from other client accounts (even within the same trading 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 (client accounts can typically have over 50% exposure to the consumer discretionary, consumer staples and/or technology sectors). Cash is not a major component of our investment strategy, and we tend to keep client accounts almost fully invested with less than 1% residual cash position after a trading day. 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).

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.

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.

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. For information or questions please contact us at 212-888-0060.