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MANAGEMENT PARTNERS, LLC

Third Quarter 2022
Investment Perspective

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October 14, 2022

Investment Perspective

Consequential Times

Every year makes its imprints on us in its own way, but this year is proving to be especially consequential on many fronts.

War in Ukraine, rapid inflation, rising bond yields, a China conflict, a Fed behind the curve steering us toward a recession, a U.K. financial crisis, a big bump in mortgage rates, a rampaging U.S. dollar, and lingering COVID-19 lockdowns in parts of the world. This has led to a bear market across asset classes and volatility of notable proportions.

Thankfully New York Yankee Aaron Judge gave us something good to cheer about.

3rd Consecutive Quarter with Negative Returns for Both Stocks and Bonds

Quarters With Both Negative Returns For Stocks and Bonds

Quarter-End	S&P 500	Barclays Agg.	Quarter-End	S&P 500	Barclays Agg.
Mar-77	-8.4%	-0.8%	Mar-94	-4.4%	-2.9%
Dec-77	-1.5%	-0.1%	Jun-94	-0.3%	-1.0%
Dec-78	-6.3%	-1.4%	Mar-05	-2.6%	-0.5%
Dec-79	-1.3%	-3.1%	Jun-06	-1.9%	-0.1%
Mar-80	-5.4%	-8.7%	Jun-08	-3.2%	-1.0%
Jun-81	-3.5%	-0.3%	Sep-08	-8.9%	-0.5%
Sep-81	-11.5%	-4.1%	Jun-15	-0.2%	-1.7%
Jun-84	-3.8%	-2.1%	Mar-18	-1.2%	-1.5%
Mar-90	-3.8%	-0.8%	Mar-22	-4.9%	-5.9%
Mar-92	-3.2%	-1.3%	Jun-22	-16.4%	-4.7%
			Sep-22	-5.3%	-4.8%

This chart shows the quarters with negative returns for both stocks and bonds since 1977 to the present. Out of these quarters, 2022 is the only period in which there were three consecutive negative quarters.
Source: Used with permission of Strategas Research Partners as of 10/3/2022. Please refer to pages 8-9 for important information.

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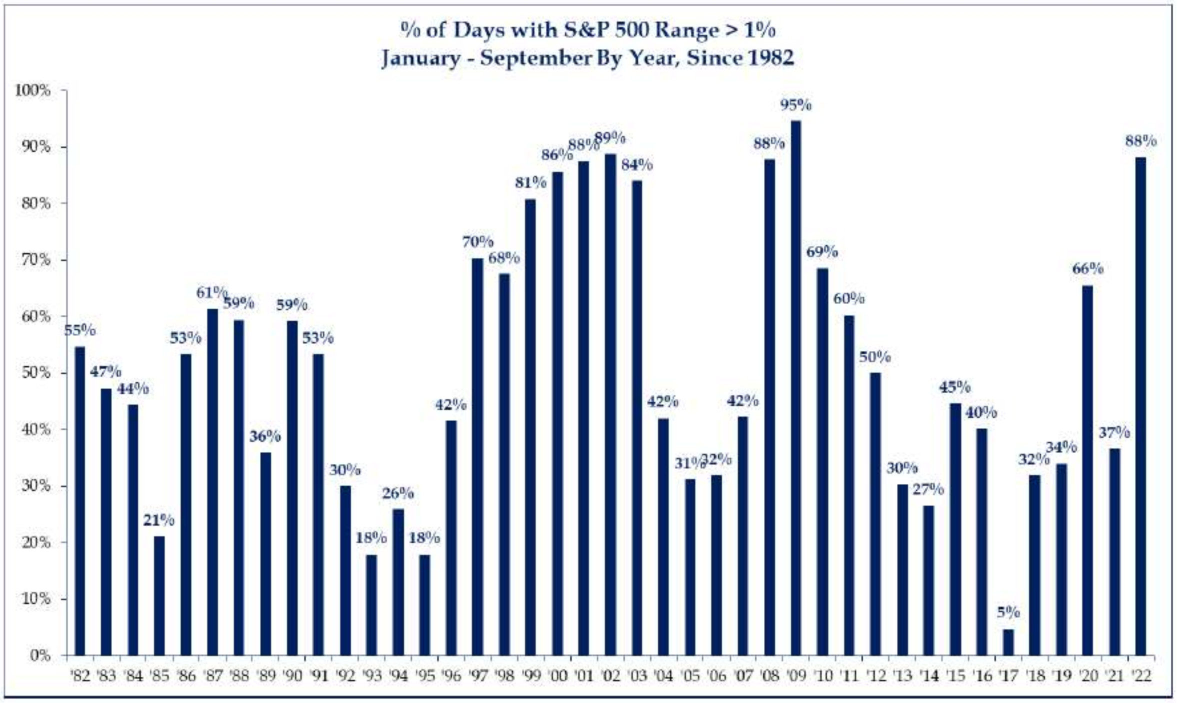
One Measure of Volatility is the Highest Since the Financial Crisis



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Our approach during this time is the same approach during every other time. That is, to focus on quality, to focus on the growth of earnings and cash flows, and to focus on valuation. To support that, we move — as we always have — across the growth continuum of quality businesses — from the dominant durable companies with duration to the more rapid top line growth entities — with the constant emphasis on fundamentals and valuation. This leads to active management which is, in our view, especially valuable in times of market volatility, continual new name flow, and hard portfolio decisions as, we believe, our client capital is scarce and we adhere to our cap of 25 names within the portfolio.

So, what has this led to so far in 2022?

As we have written before, we really do believe that the world has meaningfully changed as a result of the Russian attack on Ukraine and we made adjustments in the portfolio as a result. As we noted in our first quarter 2022 Investment Review: "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." The energy transition will take a long time and there will be a need for more fossil fuel developments and there is a need for more deterrence. These are cold hard facts. There also is a need to bring semiconductor manufacturing back to the States and Western Europe. The passing of the CHIPS and Science Act speaks to this.

As the year progressed, we reallocated capital away from some of our more defensive stocks that saw their valuations rise as safe havens and into some of our consumer discretionary names – all of which were being pummeled by slowdown fears and carrying attractive price/earnings ratios, high free cash flow yields, healthy dividends, ample room for accretive buybacks and market caps we felt were too low given the respective franchises.

As consumer discretionary, more retail, physical goods names recovered, we then shifted some capital away from these companies toward consumer discretionary businesses that were more service oriented, more travel oriented, and more positively affected by higher inflation as higher prices were more likely to be easily passed along.

We do think that Chairman Powell's Jackson Hole speech in August marked a new chapter in this year's book. The message was loud, clear, and to the point (8-minute speech). The Fed, behind the curve and with a loss of credibility, would be serious about driving down inflation which had proved far from transitory and was running much hotter than expected. This hawkish Fed has set out on aggressive rate hikes which has barreled through not only the U.S. market but also the world. The U.S. economy — still buoyed by prior stimulus — is proving stubbornly strong and the real question is not how we are doing economically today, but how we will be doing economically tomorrow.

This made us lean more defensively and as valuations for our resilient consumer non-durable companies retreated in the markets down draft, we had a chance to buy more.

So where does this leave us? In our last correspondence, we noted that "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 adroitly managed companies with balance sheet strength and powerful free cash flows — always important but increasingly valuable as rates rise and critical if there is a financial or liquidity crisis of any sorts. Also, dividend payers – 21 of our 25 holdings pay a dividend resulting in an average portfolio yield of 2.2% – and companies with funds left over to repurchase increasingly attractively valued shares at accretive prices.

Seasons to Come

The damage done year-to-date has been driven by the reduction in the price/earnings ratio as inflation and rates have risen.

Portfolio and Economic Metrics		
	12/31/21	**9/30/22**
Forward 12-month portfolio estimated P/E	21.6X	15.4X
Ten-year U.S. Government bond yield	1.5%	3.8%
Consumer Price Index (YOY)	7.0%	8.2%

Note: *Based on HSMP aggregate estimates as of 12/31/21 and as of 9/30/22. Please refer to pages 7-9 for important information.*

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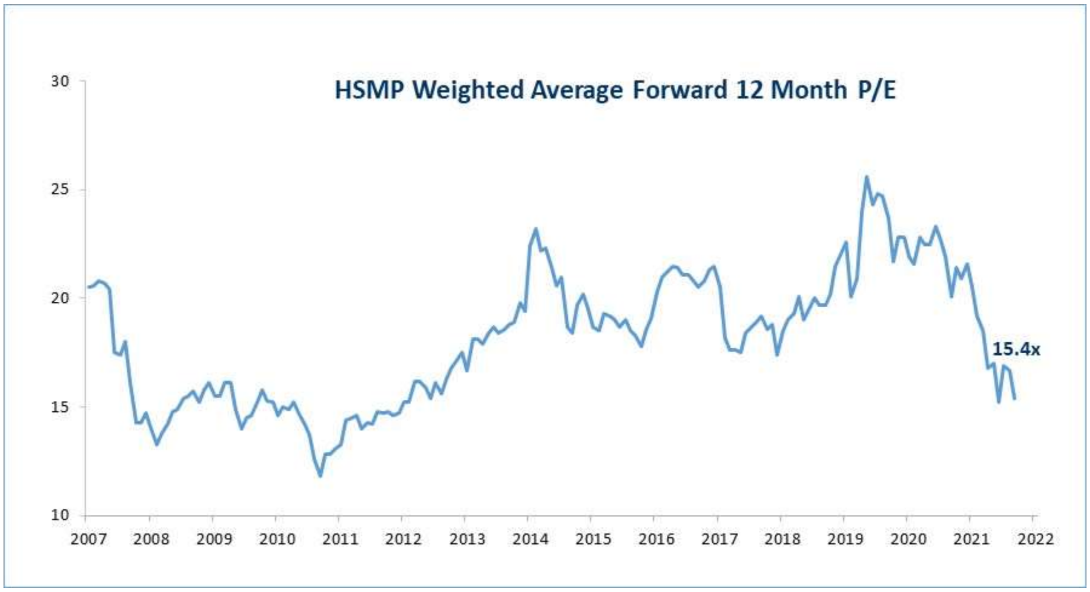
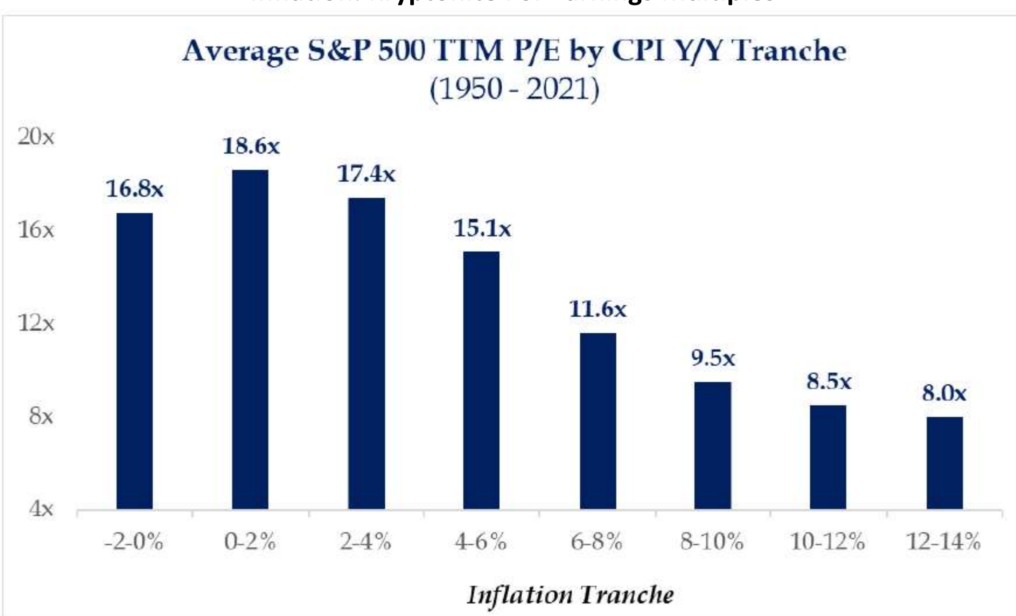
As you can see, the multiple has sustained a good amount of damage and has retreated from prior levels.



Based on HSMP estimates since inception (4/1/07) through 9/30/22. Please refer to pages 7-9 for important information.

In our view, the challenge going forward will have less to do with the multiple and more to do with how resilient our earnings and cash flow streams will fare during what is likely to be an economic slowdown of some note. For sure, the rise in inflation and rates disturbs valuations, but saying that, we find the earnings yield on the portfolio of 6.5% attractive next to the current bond yield and even in the face of generally higher yields. As Strategas points out below, inflation is kryptonite for earnings multiples so it will be important for the Fed to tame inflation as that will directly influence future returns.

Inflation: Kryptonite For Earnings Multiples



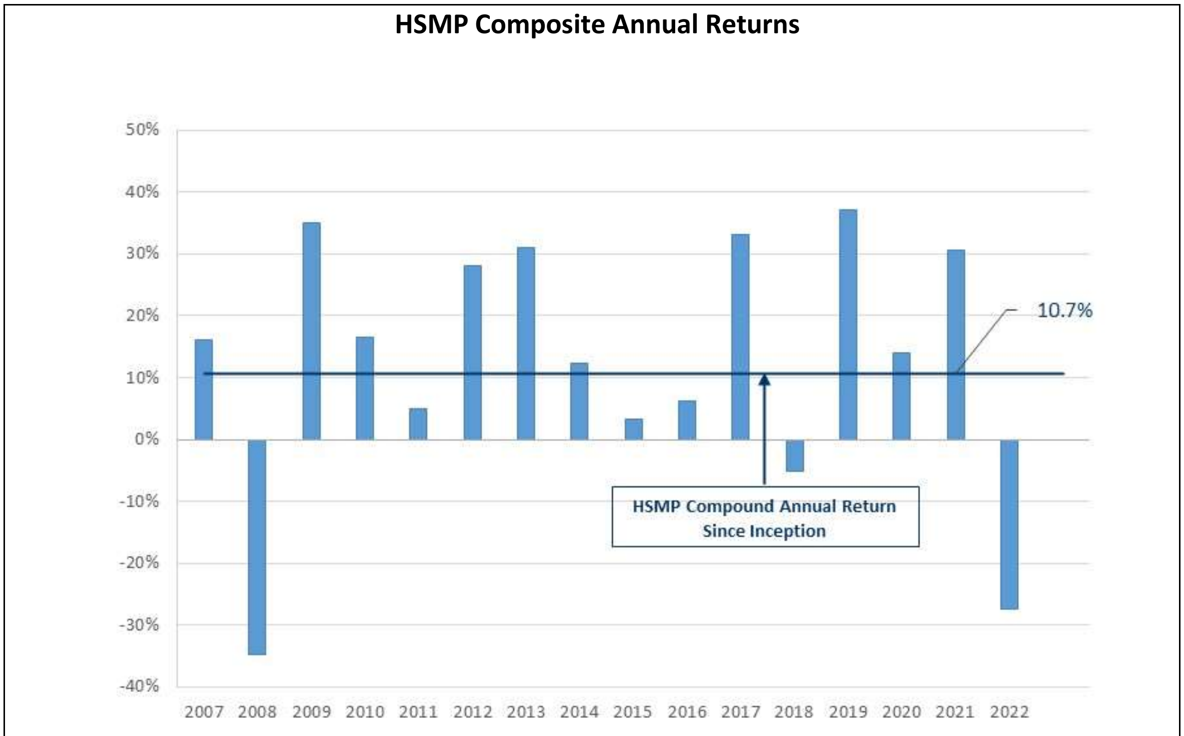
Source: Used with permission of Strategas Research Partners as of 10/3/2022. Please refer to pages 8-9 for important information.

The question now is how much damage there will be to corporate earnings, and will it trigger — as tightening cycles have frequently done in the past — a financial crisis of some sorts. The U.S. banks are in far better shape than 2008 and risks loom largest in shadow lending markets, the United Kingdom, and less liquid vehicles.

Which gets back to why we focus on quality, why we focus on valuation, why we focus on resilient business models, and why we focus on balance sheets. To be sure, we have not been, nor will we be immune from economic hurdles coming our way. And not every investment nor every portfolio move works out. But saying that, we like what we own. We believe earnings can advance next year. Our portfolio balance sheet is strong. We are generating more than $0.90 of free cash flow on the dollar of reported earnings. The dividend yield is 2.2% and dividends are growing. The secular outlook is also good.

Our goal is to drive absolute returns over time, and we take a benchmark agnostic approach in doing so.

The chart below shows absolute annual returns since inception and it is notable that despite a very tough first full year (2008) and a very tough past nine months, we have been able to provide our clients a 10.7% after-fee compound annual return — while deploying this methodology and, we believe, taking less risk in the process.



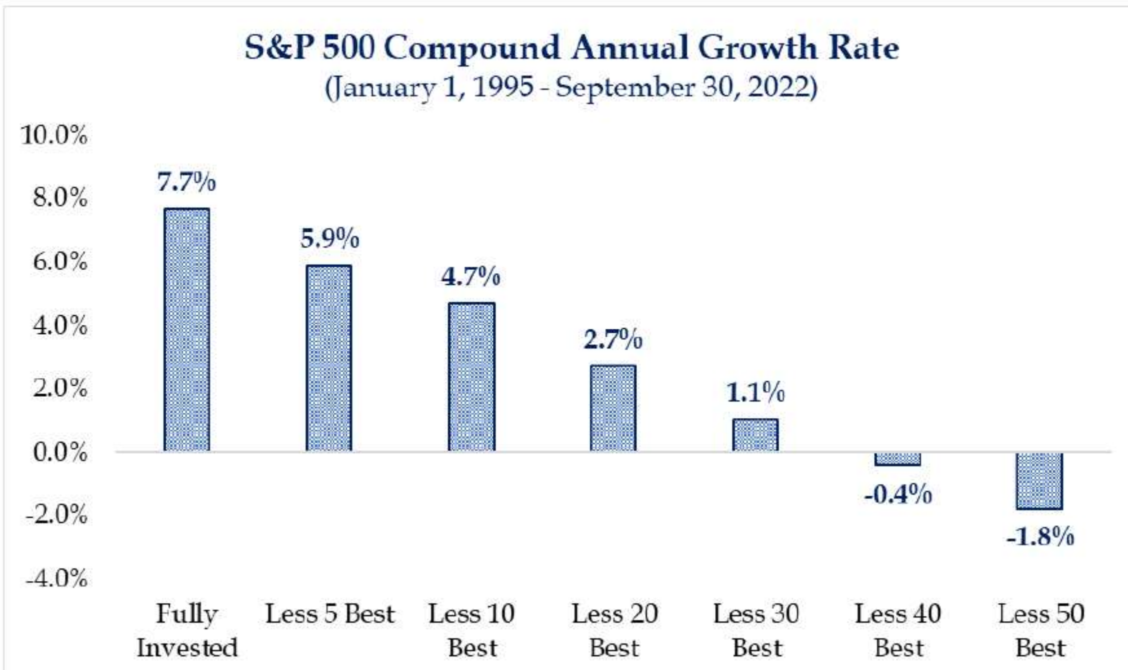
Composite annual performance (net-of-fees) and Composite compound annual return since inception (net-of-fees). The shown annual performance for 2007 is only since inception (4/1/07) through 12/30/07, and for 2022 is only from 1/1/22 through 9/30/22. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 7- 9 for important information.

We remain fully invested and as the chart below shows, believe that trying to time the market can be detrimental to long-term results. Much like any good team, we know at HS Management Partners that each season will contain many highs and many lows. But, like Aaron Judge, we will relentlessly pursue greater highs on your behalf. Thanks as always for your confidence in us.

Sincerely,

Harry W. Segalas

The Perils of Market Timing



The table shows what returns would have been obtained if one would have invested in the S&P 500® Index for the indicated period (1-1-95 to 9-30-22) in different case scenarios: from invested during the entire period (fully invested) to invested only during certain parts of the period (represented by each bar). Our Composite does not track the S&P 500 Index and there are meaningful differences between our Composite and the Index. One cannot invest in the S&P 500 Index itself. Please refer to pages 7-9 for our Composite performance, important disclosures and information regarding this table.

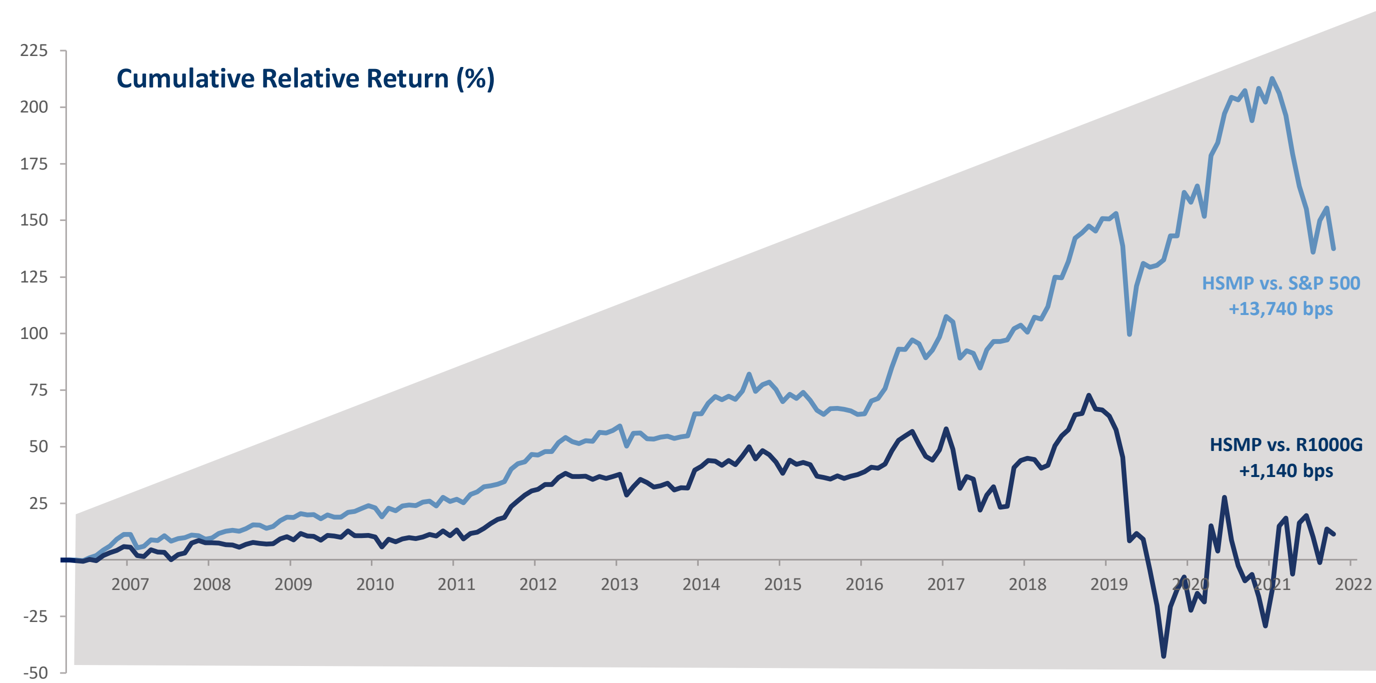
Source: Used with permission of Strategas Research Partners as of 10/3/2022.

Portfolio Profile (9/30/22)

HSMP Composite Performance as of 9/30/22

	3Q22	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)	-3.3%	-27.5%	-19.9%	4.7%	9.2%	11.9%	10.7%	383.0%
S&P 500® Index	-4.9%	-23.9%	-15.5%	8.2%	9.2%	11.7%	8.3%	245.6%
Russell 1000® Growth Index	-3.6%	-30.7%	-22.6%	10.7%	12.2%	13.7%	10.5%	371.6%

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 8-9 for important information.



Composite monthly performance (net-of-fees) since inception (4/01/07) through 9/30/22. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 8-9 for important information.

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IMPORTANT DISCLOSURES

This piece represents our opinion as of 9/30/2022 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 and can have some but not all of the holdings 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 here is solely for illustration or discussion, is subject to change without notice, should not be construed as a recommendation to buy or sell any particular security, and should not be used as 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.

The table at the end of this piece (The Perils of Market Timing) shows what returns would have been obtained if one would have invested in the S&P 500® Index for the indicated period (1-1-95 to 9-30-22) in different case scenarios: from invested during the entire period (fully invested) to invested only during certain parts of the period (represented by each bar). For example, the "less 50 best" bar shows what would have happened if one would have invested in the index for the indicated period except for the 50 best days of the index performance for said period. This table has several limitations and should be read with that in mind; for example, the returns on the table assume that in market timing the investment, one would have missed the days of best index performance; however, the table does not show the benefit of market timing the investment if one would have instead missed the days of worst index performance. It should also be noted that while one can invest in the ETF that tracks the S&P 500 index, one cannot actually invest in the index itself. Furthermore, our Composite does not track the index and there are meaningful differences between our Composite and the index as noted above.

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.