



The Importance of Fundamentals Amidst Virus Concerns

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Financial markets loath uncertainty, and the outbreak of the coronavirus - COVID-19 - epitomizes the type of uncertainty for which equity market participants have little tolerance. In the matter of one trading week, sentiment has reversed abruptly, with the S&P 500® Index declining 12% in just 6 trading days after posting a new all-time closing high.

The human toll is of course the greatest concern, and the ability to control or in some way contain the virus is foremost on the minds of all, most notably government and health care officials.

The initial market response to the virus outbreak was largely one wherein the attention remained on the broader narrative: modest first half economic growth followed by the prospect of output accelerating as the resolution of trade disputes and ongoing central bank stimulus - coupled with a U.S. Presidential election - would yield to a stronger back half and global economic momentum entering 2021.

Alas, the narrative shifted quickly as realization the human toll was more pronounced, and much trickier to diagnose/contain given the disease had infiltrated over twenty countries, and lock downs from northern Italy to Seoul mirror travel bans to and from China. Per a recent NY Times article, the CDC director of the National Center for Immunization and Respiratory Diseases said that cities and towns should plan for “social distancing measures,” like dividing school classes into smaller groups of students or closing schools altogether. Meetings and conferences may have to be canceled, the director said. Businesses should arrange for employees to work from home. “We are asking the American public to work with us to prepare, in the expectation that this could be bad,” Dr. Messonnier said.

Earnings Pressured, Valuations More Compelling

J.P. Morgan recently identified that approximately half the companies comprising the S&P 500 have made reference to the coronavirus during earnings related calls, and about one-quarter of those adjusted earnings guidance as a consequence.

The flight to quality normally accompanying such fears is manifest in gold and U.S. Treasuries rallying; the yield on the ten-year Treasury is now 1.26%, an all-time low. Clearly bond market participants - historically prescient arbiters of risk - see tough times in the immediate future. Credit market conditions have become somewhat challenged by heightened levels of illiquidity as investors elect to sit tight and allow markets to settle. In such a climate, quality businesses capable of self-funding could eventually become more highly prized, as will the emphasis on valuation.

Calm Amidst the Storm

At HS Management Partners, our investment approach has consistently emphasized quality business models capable of advancing client portfolio earnings and cash flow streams while remaining vigilant with respect to valuation. Indeed, while HSMP client portfolios will not be immune from the economic impact of the coronavirus, we still expect portfolio earnings to advance, albeit at a moderating cadence relative to the low double-digit pace we've managed to sustain over many years.

Valuations are now more compelling - the forward P/E, free cash flow yield, and appraised present value tools we employ have compressed - even as high quality alternatives such as ten-year Treasuries have rallied and become less compelling.

At HSMP, we have demonstrated a consistent resolve to stick to our knitting and canvass the market with regard to the deployment of our clients' scarce capital at all times, and notably at times of market distress. We believe our tag line, "markets ebb and flow...fundamentals never go out of favor" holds true and takes on greater significance in times of uncertainty.

We ultimately believe the fundamental precepts of identifying attractive business models; of assembling those businesses into a concentrated, actively managed portfolio of 20-25 securities; and the fundamental discipline of adhering to our valuation principles have and will continue to serve clients well as markets work through virus related imponderables.

Throughout the current uncertainty, we will carry on with our time-tested quality growth methodology.

GIPS Report
HS Management Partners, LLC
Concentrated Quality Growth Composite
Annual Disclosure Presentation

Year End	Firm	Composite		Performance Results					3-Year Annualized Std Deviation			
		Assets (millions)	Assets (USD) (millions)	Number of Accounts	Composite		S&P 500 [®]	Russell 1000 [®] Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500 [®]	Russell 1000 [®] Growth
					Gross	Net						
2019	3,566	3,478	280	38.12%	37.13%	31.49%	36.39%	1.13	11.29	11.93	13.07	
4Q-19	3,566	3,478	280	6.84%	6.63%	9.07%	10.62%	.07	11.29	11.93	13.07	
3Q-19	3,377	3,260	263	5.24%	5.05%	1.70%	1.49%	.49	11.36	12.01	13.11	
2Q-19	3,266	3,197	254	8.57%	8.38%	4.30%	4.64%	.12	11.38	12.02	13.21	
1Q-19	3,234	3,173	257	13.15%	12.95%	13.65%	16.10%	.27	10.23	10.58	12.02	
2018	3,145	2,967	259	-4.42%	-5.07%	-4.38%	-1.51%	.28	10.04	10.80	12.12	
2017	4,028	3,840	236	33.87%	33.06%	21.83%	30.21%	.46	9.61	9.92	10.54	
2016	3,446	3,269	199	6.92%	6.25%	11.96%	7.08%	.10	10.72	10.59	11.15	
2015	3,143	3,014	176	3.94%	3.32%	1.38%	5.67%	.81	11.03	10.48	10.70	
2014	3,295	3,193	148	13.06%	12.39%	13.69%	13.05%	.26	9.85	8.98	9.59	
2013	2,392	2,298	136	31.76%	31.04%	32.39%	33.48%	.09	12.26	11.94	12.18	
2012	1,622	1,616	94	28.86%	28.16%	16.00%	15.26%	.15	13.82	15.09	15.66	
2011	884	880	72	5.55%	5.00%	2.11%	2.64%	.11	15.81	18.70	17.76	
2010	531	528	46	17.13%	16.44%	15.06%	16.71%	.28	19.54	21.85	22.11	
2009	292	290	32	35.91%	35.06%	26.46%	37.21%	.33				
2008**	172	152	27	(34.49%)	(34.80%)	(37.00%)	(38.44%)	N.A.				
2007*	-	6	5 or fewer	16.84%	16.08%	4.83%	10.51%	N.A.				

* Performance shown for 2007 is from April 1, 2007 through December 31, 2007.

** HS Management Partners, LLC charges its fees quarterly in arrears and therefore no significant fees were charged to client accounts in the first quarter of 2008. Had a modeled fee of 0.90% per annum been applied, the net of fee return for the first quarter of 2008 would be (10.82%).

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios (5 or fewer) in the Composite for the entire year.

The HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, fee paying accounts which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding \$500,000 at the time of initial inclusion in the Composite and have a market value exceeding \$300,000 to maintain inclusion.

Accounts that have contributions/withdrawals of greater than 10% of their market value (at the time of the cash flow) shall be excluded from Composite membership. Accounts that are not actively managed according to the intended strategy are excluded at the end of the last full day in which they last met the inclusion criteria. Accounts are reinstated into the Composite on the first day after the account again meets our inclusion criteria. Prior to April 1, 2009, our inclusion and exclusion criteria were applied on a monthly basis, rather than daily. Additional information regarding the treatment of significant cash flows is available upon request. Also available upon request are policies for valuing portfolios, calculating performance, and preparing compliant presentations.

For benchmark purposes, the Composite is compared to the S&P 500[®] and Russell 1000[®] Growth indices, however, the Composite may contain securities not represented in either or both indices. The HS Management Partners Concentrated Quality Growth Composite was created January 1, 2008. Prior to January 1, 2008 the accounts in the Composite were non-fee paying individual accounts managed by Harry Segalas in accordance with HS Management Partners' investment policies, becoming HS Management Partners accounts in December 2007. Prior to July 1, 2011, the HS Management Partners Concentrated Quality Growth Composite was known as the HS Management Partners Concentrated Growth Composite.

The Composite Dispersion presented is an asset-weighted standard deviation calculated using gross performance results for accounts included within the Composite for the entire period.

HS Management Partners, LLC claims compliance with the Global Investment Performance Standards (GIPS[®]) and has prepared and presented this report in compliance with the GIPS[®] standards. HS Management Partners, LLC has been independently verified for the period January 1, 2008 through December 31, 2019. Verification assesses whether (1) the Firm has complied with all the composite construction requirements of the GIPS[®] standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS[®] standards. The Concentrated Quality Growth Composite has been examined for the period January 1, 2008 through December 31, 2019. The verification and performance examination reports are available upon request.

The performance track record from April 1, 2007 through December 31, 2007 has been examined by Ashland Partners & Company, LLP and is compliant with the portability requirements of the GIPS[®] standards. A copy of the verification report is available upon request.

HS Management Partners, LLC is an independent SEC registered investment advisor (SEC registration does not imply a certain level of skill or training). The Firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the Firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. When international ordinary shares or ADRs are held in portfolios in the Composite, performance is shown net of foreign withholding taxes. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2008, a representative fee of 0.90% annually was applied to the individual accounts in the Composite managed by Harry Segalas. Additional information regarding the policies for calculating and reporting returns is available upon request. Policies governing compliance with the GIPS[®] Standards were followed in establishing HS Management Partners' performance record and the accounts to be included therein. In that regard, certain individual accounts managed by Harry Segalas were excluded from the Composite because of material differences in the management style of those accounts and HS Management Partners' investment policies. The GIPS[®] standards were applied retroactively for the purposes of computing 2007 performance, and are being applied prospectively in a consistent manner.

Investment advisory fees are charged as a percentage of an account's assets under management. The annual fee schedule for accounts that are at least \$10 million under management is as follows: 0.90% on first \$25 million, 0.70% on next \$25 million and 0.50% on the balance. Accounts below \$10 million pay the greater of 1% or \$10,000. Actual investment advisory fees may deviate from the above fee schedule at the Firm's sole discretion. Please refer to our Form ADV for more information related to our fees.

IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. When we use *Composite*, we mean our HS Management Partners Concentrated Quality Growth Composite. This piece represents our opinion as of 2/27/20 based on our understanding of market conditions and publicly available information. The information here is solely for illustration/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 a base for making investment decisions.

This piece is written from the perspective of our investment philosophy and strategy, Composite performance, and estimated outlook and metrics, and does not refer to any specific client account (client accounts can have higher or lower performance than that shown here or than our Composite). 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. 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 Composite Performance as of 12/31/19

	2019	2018	2017	3 Years Annualized	5 Years Annualized	10 Years Annualized	Since Inception 4/1/07 Annualized	Since Inception 4/1/07 Cumulative
HSMP Composite (Net)	37.1%	-5.1%	33.1%	20.1%	13.7%	15.9%	12.5%	348.5%
Russell 1000® Growth Index	36.4%	-1.5%	30.2%	20.5%	14.6%	15.2%	11.2%	284.9%
S&P 500® Index	31.5%	-4.4%	21.8%	15.3%	11.7%	13.6%	8.9%	197.9%

Performance results are net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

The performance shown right above 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. 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 list of composite descriptions, please contact us at 212-888-0060. A copy of our fully compliant GIPS® Report is included in this piece.

The Composite is compared to the Russell 1000® Growth Index (R1000G) and the S&P 500® Index (S&P 500) as benchmarks for market context. The R1000G is an unmanaged index that measures the performance of those Russell 1000® Index companies (largest 1,000 U.S. companies based on market capitalization) with higher price-to-book ratios and higher forecasted growth values. The S&P 500 is an unmanaged market capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. There are meaningful differences between the Composite and each index that should be considered when comparing performance, such as in terms of composition, concentration and volatility (e.g., the Composite contains securities not represented in either index and is much more concentrated than either index in terms of companies and sectors; the average market capitalization of companies in the Composite will likely differ from that of either index; and market or economic conditions can affect positively/negatively the Composite's performance but not the indices to the same extent). In addition, neither index bears fees and expenses and investors cannot invest directly in either of them. Furthermore, we do not seek to mimic any market index in our investment approach and do not maintain limits on industry or sector weightings.

Although most discretionary client accounts are included in the Composite and dispersion is typically low over time, not all client accounts are in the Composite, and even for those in the Composite, there can be dispersion, particularly for small client accounts and also when viewed over narrow time periods. Small accounts generally experience higher dispersion from our Composite than large accounts primarily because they do not participate in trading, allocations, and aggregations to the same extent as large accounts given their size and that actual participation in trade orders depends, among other factors, on cash available in an account and on our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares depending on the stock price. Also, while the investment merits of a given security drive our investment decisions, we 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 group and even different accounts of the same client) 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 performance, Composite, and investment strategy implementation) is not applicable to model portfolio clients as we have no control and do not monitor the implementation (complete, partial or not at all) of model portfolios, and the performance of model portfolio clients is not attributable to us.

We typically build a concentrated portfolio with a hard cap on company names and with an aim to keeping clients' capital nearly fully invested. Our investment advice is limited to domestic and foreign equity securities of publicly traded companies. Client accounts generally hold 20-25 companies, although in certain circumstances they may hold more or less names. We do not maintain limits on industry or sector weightings, and while we do limit portfolio positions by company, clients' portfolios are likely to be significantly concentrated by sector, industry and/or geography, among other factors (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).

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

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