

The Last Waltz

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Bonds may be in the least desirable asset allocation position of baby boomer generational investors. Advancing inflation compromises the ability of fixed income coupons to keep pace with rising prices. The erosion in purchasing power yields a negative arbitrage for holders of fixed income instruments who consume goods and services at escalating prices.

Over much of the past forty years, intervals of risk aversion in financial markets have traditionally been times when investors moor against the safe anchor of Treasuries. As a recent Bloomberg opinion article highlighted, “Bonds have been as close to a sure thing as there is in financial markets over the past four decades.” Having been employed in the investment profession since the early 80’s, my partners and I can attest to then Fed Chairman Volcker’s architectural design to combat inflation. Volcker had a tall order: my first home carried a mortgage rate percentage well into the mid-teens, and, in the late 70’s, the Iranian oil embargo caused long lines to purchase gasoline despite odd/even rationing based on license plate numbers.

Bonds natural default as a haven perch – generally prevailing over the last forty years – is fraying given the pervasive dominance of inflationary piracy stealing purchasing power. The Fed has made clear its intent to tighten with mechanisms including the federal funds rate as well as reducing the size of the Fed’s very large (~ \$9 trillion) balance sheet.

Bonds may indeed be dancing The Last Waltz.



The chart from Strategas is illustrative.

Against this backdrop, and amidst the disruptive force of a global pandemic, the mantle of the human experience is mounted with everything digital. Well established trends – e-commerce, digital communication, social media – and pandemic necessitated applications – virtual health care, Microsoft Teams, e-commerce, the inexorable migration to the Cloud, higher price realizations becoming a more common element of enterprise revenue derivations – have been dramatically amplified in the past twenty-four months.

So too has the rise of novel digital conduits – Bitcoin, Dogecoin, Ethereum, NFT's, et al. – a fascination that has left yours truly more than a little baffled. More comprehensible to me (albeit no less baffling) has been the advance in SPAC's as a form factor, and the "democratization" of finance courtesy of Reddit, Robinhood, and others. (See [HSMP Year End 2021 Investment Perspective](#) and our thought pieces: [The Signal, The Noise](#) and [Behind the Wheel](#) available at www.hsmanage.com and HSMP's LinkedIn page which users can select to follow at [HSMP](#).)

As the sun set on January – a difficult start to the year by many measures – the chill across more speculative pockets of the equity market and traditionally more stable fixed income markets was broadly experienced.

Those entrusted with stewardship over client assets are faced with the challenge of how to allocate capital in a climate where it seems that an old reliable asset class is reliable no more.

No FEAR

Rising yields generally compress equity valuation multiples. Core to capital asset pricing models (CAPM) is the risk-free rate to which a risk premium is added, and the sum used as a factor to discount future cash flows. The higher the discount rate, the lower the present value associated with future cash flows; hence, the lower the valuation assigned equity securities.

Economist's toil over the barrage of signals about the direction of output and consumption, arraying discrete data points into a collage that ultimately produces a conclusively precise (if often inaccurate) forecast. Such pronouncements are widely circulated, the culmination of their craft, the manifestation of their *raison d'être*. In my own mind, I think of it as the economics club to which I colloquially refer in this piece as FEAR (Full Employment Act Rationalization).

FEAR is compelling, FEAR sways markets, FEAR has its place: amidst our bottom up, enterprise specific analysis, we at HSMP recognize that the Macro matters. And we particularly value the work of several economic research partners and have routinely used the insights of Strategas in our work. Within the context of FEAR, however, we opt for trust in a process that we believe has served clients generally well over time.

Is the 10-year likely to settle at 2%, 3%, 5%, sleep at 1.8%, or suggest something more sinister with a return below 1%? It is of course difficult to discern where rates will settle, even among the firms we admire and who specialize in economic forecasting. Where we toil – where the discipline and trust in our process meets FEAR – is the derivative effects of yields on the CAPM, and how business models, cash flows, and valuations may be affected.

The HSMP playbook: The Band Plays On

At HS Management Partners', we tune our instruments the same way every day, just as we've done since inception (and as we excitedly await our pending fifteen-year anniversary effective 3/31/22). While we appreciate the importance of FEAR, allowing fear to control our emotions and influence our investment judgements is not a productive strategy.

What has worked for us has been a consistent philosophy and approach to managing client assets: identifying quality business models that we are proud to own; assembling those businesses into a concentrated portfolio of 20-25 securities; advancing the portfolio earnings and cash flow stream in a consistent, visible manner; and being disciplined with respect to valuation. (For additional commentary on our thoughts about valuation, please refer to our thought piece, [Behind the Wheel.](#))

We think it is reasonable to anticipate that returns prospectively will be lower than the outsized gains the market has realized in the past twenty-four months. In our view, rising rates, reduced central bank liquidity, and a glide path toward sustainable growth in the face of heightened geopolitical risk and a still pervasive global health crisis seemingly translate to lower returns as we move ahead. In this environment, we believe it is important to own companies that are well-managed, financially strong, and increasing their relevancy within the industries in which they compete.

Owning relevant businesses is a constant pursuit at HSMP and a central tenet of our philosophy. We take a multi-dimensional approach – across the growth continuum from established to rapid growers, down the market cap scale, and with a willingness to own non-U.S. domiciled businesses provided our qualitative standards are satisfied.

All things considered, and in a world where some of the more reliable instruments of the past four plus decades may no longer offer the same refuge (and where the January swoon took the bloom off the speculative rose), we feel good about what we own and the underlying valuation of HSMP's Concentrated Quality Growth Portfolio.

Weighted Earnings Portfolio Metrics	
FTM Estimated P/E	20.5x
FTM Earnings Yield	4.9%
Current 10-Year Bond Yield	1.8%
Earnings Yield/Bond Yield	2.7x
Indicated Dividend Yield	1.6%

Based on HSMP estimates as of 1/31/22. See pages 6 & 7 for more information.

HSMP Composite Performance as of 12/31/21

	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)	30.5%	30.5%	26.8%	20.8%	18.2%	13.7%	566.6%
S&P 500® Index	28.7%	28.7%	26.1%	18.5%	16.6%	10.8%	353.9%
Russell 1000® Growth Index	27.6%	27.6%	34.1%	25.3%	19.8%	13.9%	580.1%

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 5 - 7 for important performance and disclosures information.

HS Management Partners, LLC
Concentrated Quality Growth Composite
GIPS® Report

Year End	Firm Assets (millions)	Composite Assets (USD) (millions) Number of Accounts		Performance Results					3-Year Annualized Std Deviation		
				Composite		S&P 500®	Russell 1000® Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500®	Russell 1000® Growth
				Gross	Net						
2021	3,927	3,813	281	31.43%	30.51%	28.71%	27.60%	.64	19.31	17.17	18.17
4Q21	3,927	3,813	281	10.76%	10.57%	11.03%	11.64%	.56	19.31	17.17	18.17
3Q21	3,650	3,554	285	-1.14%	-1.32%	0.58%	1.16%	.09	19.88	18.55	19.91
2Q21	3,791	3,695	284	10.65%	10.46%	8.55%	11.93%	.05	19.51	18.26	19.52
1Q21	3,559	3,425	277	8.47%	8.29%	6.17%	0.94%	.07	19.49	18.14	19.14
2020	3,491	3,341	284	14.70%	13.88%	18.40%	38.49%	.14	19.75	18.53	19.64
2019	3,566	3,478	280	38.12%	37.13%	31.49%	36.39%	1.13	11.29	11.93	13.07
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. There are accounts paying zero commissions included in the Composite. Additional information regarding the treatment of significant cash flows is available upon request. Also available upon request are policies for valuing investments, calculating performance, and preparing GIPS Reports.

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 (the inception date of the Composite was April 1, 2007). 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.

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. In addition, gross performance results are used to calculate the 3-year annualized standard deviation.

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, 2021. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the Firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Concentrated Quality Growth Composite has had a performance examination for the periods January 1, 2008 through December 31, 2021. The verification and performance examination reports are available upon request.

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The performance track record from April 1, 2007 through December 31, 2007 has been examined by Ashland Partners & Company, LLP and meets the portability requirements of the GIPS® standards. A copy of their 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

This piece represents our opinion as of 2/3/2022 based on our understanding of market conditions and publicly available information. 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 and can have some but not all of the holdings in 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, 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, 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 hsmmanage.com/documents/ or upon request at 212-888-0060) for material risks applicable to our strategy and information regarding our Firm. Some of the charts/tables 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. The information here 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 and have a market value exceeding \$500,000 at the time of inclusion, and exceeding \$300,000 to maintain inclusion, in the Composite. 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.

Composite performance is presented net-of-fees (net of actual investment advisory fees and trading costs). Performance includes the reinvestment of dividends and other earnings. The performance shown 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. Composite 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 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 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 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.

The price earnings (P/E) ratio is a weighted average of the Composite holdings based on our estimates on a 12-month forward projected basis as of the indicated date (our estimates can be inaccurate; actual results and future events can differ, even materially, from our assumptions). The P/E of the Composite is used to compute the earnings yield and the earnings yield/bond yield. The earnings yield is the inverse of the P/E ratio. The earnings yield/bond yield is based on the 10-year bond yield as of the indicated period. The current 10-year bond yield is as publicly reported as of the indicated date. The indicated 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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