HS Perspectives

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

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This Too Shall Pass

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Greed and fear are distant financial market cousins, and when greed's ascent plateaus, the descent of fear gathers momentum, often at a ferocious pace. We witness in our daily activities an unfortunate discord co-existing with one another, a dismissal of civility whereby we affirm our differences by seeking out like-minded people, places, media sources and experiences.

That is also true of the greedy and the fearful among financial market participants. Adulation for select CEO's, rationalizations for certain business models, novel approaches to valuation – often in favor of largely speculative enterprises (ahem, the retreat in SPACs, crypto, MEME stocks, anyone?) – fosters even greater animal spirits among the converted. And suddenly, all that glitters turns to rust; pessimists, armored with proudly tarnished vests, occupy the arena, espousing the end of the world as we know it. I've always been fascinated by the world of behavioral finance, and the excess returns of 2020 and 2021 followed by the severity of the year-to-date retreat is a behavioral case study begging for analysis by the Harvard Business School.

Perspective: We've Been Here Before

Following outsized gains for market participants in 2020 and 2021, calendar year '22 has been a sobering reminder that the laws of gravity apply to financial markets as to physics: through April month end, the market had suffered its weakest start to a calendar year since 1939. The month of May has not been any kinder. It has been a brutal sell off, accompanied by numerous storm clouds: aggressive Fed tightening to counter inflation and tame economic growth; mounting fears the Fed's actions would usher in recession; P/E diminution in response to rising rates; heightened geopolitical risk given the inhumane invasion of Ukraine by Russia; still prevalent COVID-19 concerns including lockdowns in select major cities in China. Bears have been in hibernation for many years, and the growl year-to-date has shown the beast to be more than a little ornery.

We've commented extensively on the implications for equity multiples in the context of rising rates, and have seen the P/E on HS Management client portfolios retrace on a year-to-date basis. (For more on multiple diminution, see Behind the Wheel, The Last Waltz, The Fed Put is Kaput, among others available on our website at www.hsmanage.com.) Harry Segalas, my partner and our CIO, has also commented on the degrees of speculative excess in recent quarterly client letters.

Difficult Days (Storm Clouds)...

Jamie Dimon, J.P. Morgan CEO, recently spoke of a strong U.S. economy while citing big storm clouds potentially hampering economic growth. At the same time, he suggested the storm clouds may dissipate, contrasting the current state of the economy with '07/08, which he described as a hurricane. Notwithstanding those storm clouds, J.P. Morgan is investing aggressively in its business, with expenses rising 9%, a sign of confidence that the storm clouds will indeed dissipate.

We've experienced several cycles over the course of our individual and collective investment careers: Harry Segalas and David Altman, my partners on the investment team, and I started our investment tenures in the early 1980's, so the historical context of the rise in inflation now being cited by economists and market seers is one we experienced, not one we've had to read about.

Indeed, since opening our doors to clients in 2007/8, we've navigated three Black Swan events: the '07/08 financial crisis; the 2020 global pandemic; and the unprovoked war against Ukraine. The October '87 crash, the early 90's recession, the spike in rates in '94, the dislocation associated with Long Term Capital Management, the dot-com bubble, and the tragedy of 9/11 to sample a few helped us manage the trifecta of Crises since HSMP's formation.

We are not immune to drawdowns in times of market duress. The table below shows the ten weakest days of our Composite absolute net performance since our performance track record commenced just over fifteen years ago (4/1/2007). One such day – our fifth weakest on record - occurred last week with the precipitous drop in consumer discretionary stocks.

Notably, the nine other instances shown below occurred in 2008 and 2020 – intervals of severe market stress. Last week's decline has some rather inauspicious company.

Top 10 Weakest HSMP Composite Days and Ensuing Periods

Top 10 Weakest Days - Absolute Returns					Absolute Returns for Ensuing Periods											
					HSMP Composite Returns (Net) Next				S&P 500® Index Returns Next				Russell 1000® Growth Index Returns Next			
Rank	Date	HSMP Composite (Net)	S&P 500® Index	Russell 1000® Growth Index	3 months	6 months	9 months	12 months	3 months	6 months	9 months	12 months	3 months	6 months	9 months	12 months
1	3/16/2020	(13.34)	(11.98)	(12.35)	36.7	47.7	63.3	70.8	31.6	43.2	57.2	69.0	39.1	57.2	74.2	79.5
2	3/12/2020	(10.52)	(9.49)	(9.17)	24.6	36.8	49.9	57.1	23.3	36.0	49.7	61.8	29.1	48.1	63.2	69.5
3	10/15/2008	(7.56)	(9.03)	(9.07)	(5.9)	(2.4)	11.6	25.4	(6.3)	(4.7)	4.9	24.0	(3.5)	1.6	13.7	31.7
4	12/1/2008	(7.16)	(8.92)	(8.39)	(3.7)	20.6	28.6	47.0	(9.2)	17.2	24.8	39.3	(2.2)	26.5	33.2	49.9
5	5/18/2022	(6.99)	(4.02)	(4.80)												
6	3/9/2020	(6.82)	(7.59)	(6.90)	14.8	19.5	31.4	35.2	17.4	25.0	35.6	43.6	22.4	38.4	48.6	52.4
7	9/29/2008	(6.45)	(8.79)	(8.08)	(20.3)	(20.5)	(8.4)	1.9	(20.8)	(25.1)	(14.4)	(1.5)	(22.3)	(21.3)	(9.4)	2.5
8	3/11/2020	(6.21)	(4.88)	(4.66)	10.1	22.4	34.2	40.7	10.1	23.1	35.5	46.2	16.0	34.5	48.3	54.9
9	3/18/2020	(6.16)	(5.18)	(4.52)	43.6	52.8	72.9	80.4	30.6	39.7	56.8	66.1	38.5	52.4	74.5	73.7
10	6/11/2020	(5.61)	(5.88)	(5.45)	11.2	21.9	27.9	46.8	11.8	23.1	32.8	43.7	15.9	27.8	33.5	44.3
				Average	**12.3**	**22.1**	**34.6**	**45.0**	**9.8**	**19.7**	**31.4**	**43.6**	**14.8**	**29.5**	**42.2**	**50.9**

This table presents (1) our Composite absolute net performance for each of the top 10 weakest Composite performance days since inception of our Composite performance (4/1/2007); and (2) our Composite absolute net performance for the corresponding forward 3-, 6-, 9-, and 12-month periods with the average performance for each such periods. Composite results are net-of-fees and include the reimbursement of dividends and other earnings. The parenthetical indicates that the presented results are negative. The performance for 5/18/22 is preliminary (has not yet been verified internally or independently and is subject to change). Past performance is not indicative of future results. Please refer to pages 5 - 7 for important performance information and disclosures.

Better Tomorrows Possible...(Storm Clouds May Dissipate)

Amidst such negative returns, one must maintain the conviction and courage to recognize it doesn't rain forever, and that the sun will eventually shine again. This is not to say past performance is by any means a harbinger of future returns. We are clearly at a structurally different stage of the economic cycle: '07/08 and the spring of 2020 were periods of tremendous uncertainty, weaker economic conditions, and negligible inflation. The Fed Put was instituted to counter economic weakness then, and that flexibility existed in part because inflationary concerns were largely dormant. Today, the economy, while slowing, is coming off a white-hot pace, full employment exists, and inflation is at a forty-year high. COVID-19 related stimulus went too far in promoting consumption in the real economy and speculation in the financial economy. That said, and applying our ten weakest Composite absolute net return days as our control variable, we've posted on the table above the returns dating from each of those difficult days forward by 3, 6, 9 and 12 months for both the HSMP Composite as well as the S&P 500 and the Russell 1000G. We believe the virtue of patience, temperament, and enduring belief in one's investment philosophy and process has typically served clients well over time notwithstanding the bleakness of the moment.

Through the Decades...A Long-Term Lens

We've commented in recent thought pieces on our view that market returns would likely moderate in the years ahead. This is a nod to not only the outsized market gains to start the current decade, but also the decade that began in 2010, whereby double-digit annualized returns were the norm for both the S&P 500 and the Russell 1000G, as depicted in the table below. Indeed, nearly 25% of the way through the present decade, annualized returns for both the S&P 500 and the Russell 1000G are meaningfully below the decade that began in 2010. Perhaps most noteworthy is the decade to date negative return in bonds per the Bloomberg US Aggregate Bond Index: should that pattern prevail, bonds would average a negative return for the first time since such data was traced in our series, to 1980.

Index Returns

Best Annual Return of Decade | Worst Annual Return of Decade

Period	S&P 500 Index	Decade to date (annualized)	R1000G Index	Decade to date (annualized)	Bloomberg US Aggregate Bond Index	Decade to date (annualized)
2022 (thru 5/20)	-17.67%	9.98%	-26.77%	11.42%	-9.18%	-1.64%
2021	28.71%		27.60%		-1.54%	
2020	18.40%		38.49%		7.51%	
2019	31.49%	13.56%	36.39%	15.22%	8.72%	3.75%
2018	-4.38%		-1.51%		0.01%	
2017	21.83%		30.21%		3.54%	
2016	11.96%		7.08%		2.65%	
2015	1.38%		5.67%		0.55%	
2014	13.69%		13.05%		5.97%	
2013	32.39%		33.48%		-2.02%	
2012	16.00%		15.26%		4.22%	
2011	2.11%		2.64%		7.84%	
2010	15.06%		16.71%		6.54%	
2009	26.46%	-0.95%	37.21%	-3.99%	5.93%	6.33%
2008	-37.00%		-38.44%		5.24%	
2007	5.49%		11.81%		6.97%	
2006	15.79%		9.07%		4.33%	
2005	4.91%		5.26%		2.43%	
2004	10.88%		6.30%		4.34%	
2003	28.68%		29.75%		4.10%	
2002	-22.10%		-27.88%		10.25%	
2001	-11.89%		-20.42%		8.44%	
2000	-9.10%		-22.42%		11.63%	
1999	21.04%	18.21%	33.16%	20.32%	-0.82%	7.70%
1998	28.58%		38.71%		8.69%	
1997	33.36%		30.49%		9.65%	
1996	22.96%		23.12%		3.63%	
1995	37.58%		37.19%		18.47%	
1994	1.32%		2.66%		-2.92%	
1993	10.08%		2.90%		9.75%	
1992	7.62%		5.00%		7.40%	
1991	30.47%		41.16%		16.00%	
1990	-3.10%		-0.26%		8.96%	

Period	S&P 500 Index	Decade to date (annualized)	R1000G Index	Decade to date (annualized)	Bloomberg US Aggregate Bond Index	Decade to date (annualized)
1989	31.69%	17.55%	35.92%	15.38%	14.53%	12.43%
1988	16.61%		11.27%		7.89%	
1987	5.25%		5.31%		2.76%	
1986	18.67%		15.36%		15.26%	
1985	31.73%		32.85%		22.10%	
1984	6.27%		-0.95%		15.15%	
1983	22.56%		15.98%		8.36%	
1982	21.55%		20.46%		32.62%	
1981	-4.91%		-11.31%		6.25%	
1980	32.42%		39.57%		2.71%	
1979	18.44%	5.86%	23.91%		1.92%	
1978	6.56%				1.40%	
1977	-7.18%				3.03%	
1976	23.84%				15.60%	
1975	37.20%					
1974	-26.47%					
1973	-14.66%					
1972	18.98%					
1971	14.31%					
1970	4.01%					
1969	-8.50%	7.81%				
1968	11.06%					
1967	23.98%					
1966	-10.06%					
1965	12.45%					
1964	16.48%					
1963	22.80%					
1962	-8.73%					
1961	26.89%					
1960	0.47%					

Period	S&P 500 Index	Decade to date (annualized)	R1000G Index	Decade to date (annualized)	Bloomberg US Aggregate Bond Index	Decade to date (annualized)
1959	11.96%	19.35%				
1958	43.36%					
1957	-10.78%					
1956	6.56%					
1955	31.56%					
1954	52.62%					
1953	-0.99%					
1952	18.37%					
1951	24.02%					
1950	31.71%					
1949	18.79%	9.17%				
1948	5.50%					
1947	5.71%					
1946	-8.07%					
1945	36.44%					
1944	19.75%					
1943	25.90%					
1942	20.34%					
1941	-11.59%					
1940	-9.78%					
1939	-0.41%	-0.05%				
1938	31.12%					
1937	-35.03%					
1936	33.92%					
1935	47.67%					
1934	-1.44%					
1933	53.99%					
1932	-8.19%					
1931	-43.34%					
1930	-24.90%					
1929	-8.42%					
1928	43.61%					
1927	37.49%					
1926	11.62%					

This table represents the best and worst annual returns of the indicated indices for the available decades (green is best and pink is worst). For 2022, the data is through 5/20/22. We included the available annual data for each index. Past performance is not indicative of future results. Please refer to the performance information and disclosures on pages 5-7.

My partner and colleague David Altman makes well-reasoned observations that seemingly support a more tempered return environment prospectively.

David's perspective is that some element of de-globalization will likely create the imperative to better control supply channels for purposes of security and reliability, yielding higher costs by localizing and diversifying sources of supply. Government deficits are destined to rise as economies weaken cyclically and defense spending rises secularly, and demographics in western democracies are poor. Technology is by nature deflationary and can serve to mitigate existing inflationary pressures. Such conditions would pose challenges for asset classes generally, and maintaining a disciplined approach while remaining nimble to take advantage of heightened market volatility could well reward seasoned equity asset managers over time.

HSMP: Staying the Course

At HSMP, we maintain an even keel, not getting too high when times are good, nor despondent when running against the wind. Our emphasis is on what we believe to be quality business models and seasoned management teams and our aim is to grow the portfolio earnings and cash flow streams, while being attentive to valuation; these are the hallmarks of our approach. Our focus on balance sheets and free cash flow characteristics may become increasingly relevant elements of our returns prospectively in a world where dividends are likely to be more highly prized. A February 15, 2022 piece from Strategas highlights that dividends made up nearly 60% of the total return, on average, each decade for the S&P 500 since 1930. Today, 20 of our 25 holdings pay dividends, and the Portfolio presently yields 2.1% (average dividend yield). Slowing earnings growth and the likelihood of limited multiple expansion given the interest rate climate may well translate to dividends being a more highly sought component of total return, as has been the case for decades.

The performance table below covers our since-inception Composite performance under a variety of market and economic conditions. We have operated with a consistent philosophy and approach, and that has allowed us to proceed with conviction when positioning client portfolios for the history that has yet to be written.

HSMP Composite Performance as of 3/31/22

	1Q22	1 Year	3 Years *Annualized*	5 Years *Annualized*	10 Years *Annualized*	*Since Inception 4/1/07 Annualized*	*Since Inception 4/1/07 Cumulative*
HSMP Composite (Net)	-8.1%	10.7%	18.4%	16.8%	15.9%	12.8%	512.3%
S&P 500® Index	-4.6%	15.7%	18.9%	16.0%	14.6%	10.3%	333.0%
Russell 1000® Growth Index	-9.0%	15.0%	23.6%	20.9%	17.0%	12.9%	518.6%

Composite performance (net-of-fees) as of 3/31/22. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 5-7 for important disclosures.

We believe our philosophy will continue to serve clients well as we look to tomorrow.

As always, our sincerest thanks for the trust and confidence our clients have shown in us. A pleasant, enjoyable, and safe summer to all.

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

	Firm	Composite		Performance Results					3-Year Annualized Std Deviation		
Year End	Assets (millions)	Assets (USD) (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500®	Russell 1000® Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500®	Russell 1000® Growth
1Q22	**3,563**	**3,436**	**278**	**-7.97%**	**-8.14%**	**-4.60%**	**-9.04%**	**.34**	**19.65**	**17.51**	19.20
2021	3,927	3,813	281	31.43%	30.51%	28.71%	27.60%	.64	19.31	17.17	18.17
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 March 31, 2022. 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 March 31, 2022. 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 on 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.

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IMPORTANT DISCLOSURES

This piece represents our opinion as of 5/26/2022 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 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 presented for 5/18/22 is preliminary (has not yet been verified internally or independently; therefore, there can be changes to this preliminary performance data once it is verified internally and/or independently, which can impact the information presented here). In any event, the performance shown in this piece 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), 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/discussion, has not been tailored to any particular recipient, is subject

to change without notice, should not be construed as a recommendation to buy or sell any particular security, and should not be used as basis for making investment decisions.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). HS Management Partners, LLC is an independent SEC registered investment adviser (SEC registration does not imply any certain level of skill or training). The HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, investment advisory fee-paying accounts (even if they pay zero trading commissions), which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding $500,000 at the time of initial inclusion in the Composite and have a market value exceeding $300,000 to maintain inclusion. Results are based on fully discretionary accounts under management that meet our Composite's inclusion criteria, including those accounts no longer with HSMP. Results reflect accounts managed at another entity: prior to January 1, 2008, the accounts in the Composite were non-fee paying (non-investment-advisory fee-paying) individual accounts managed by Harry Segalas in accordance with HSMP's investment policies, becoming HSMP's accounts in December 2007. The U.S. Dollar is the currency used to express performance. For more information or 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.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

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 neither been tailored for any specific recipient nor consider your/anyone's particular investment needs. Accordingly, the information herein is not intended to cause HSMP to become a fiduciary within the meaning of the Investment Advisers Act of 1940, the Investment Company Act of 1940, Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974, or Section 4975(e)(3)(B) of the Internal Revenue Code of 1986–all as amended.

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