

**CIO Commentary**

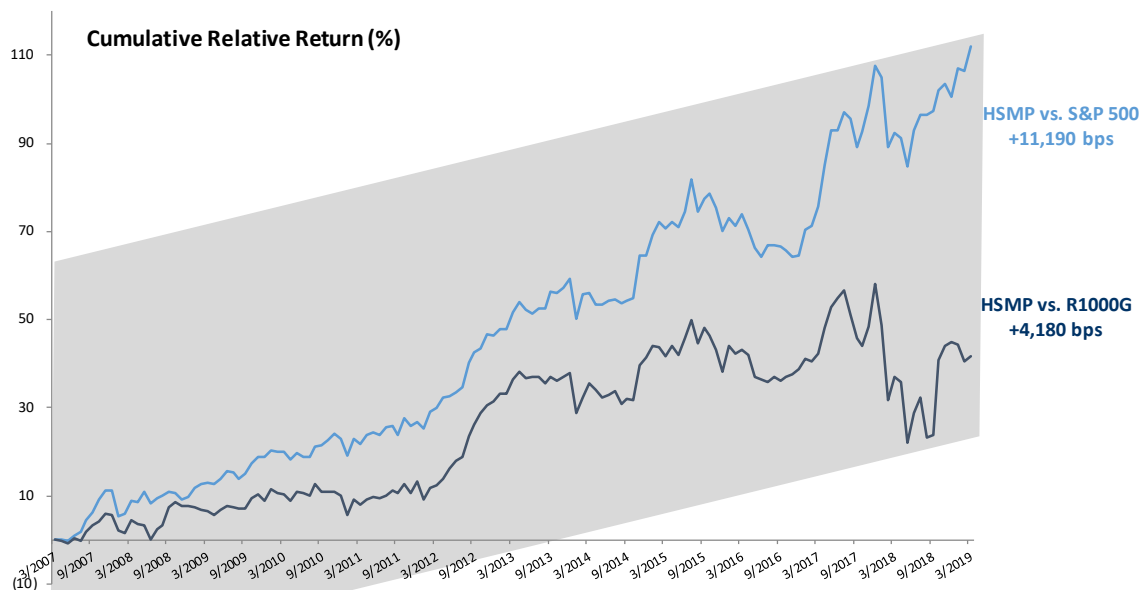
**Performance Review**

First quarter 2019 results for the HS Management Partners (HSMP) Concentrated Quality Growth Composite along with relevant comparative data are highlighted below:

HSMP Concentrated Quality Growth Composite	
	1Q19
HSMP Composite (net)	13.0%
Russell 1000® Growth Index	16.1%
S&P 500® Index	13.7%

*Performance results are net of fees through 3/31/19 and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. See page 5 for the 1-, 3-, and 5-year annualized Composite returns. Please refer to pages 5-7 for important information.*

The conclusion of the first quarter of 2019 marked the twelve-year point for our Firm’s Composite performance. Since inception (4/01/07) through 3/31/19, the HSMP Composite (net of fees) has increased cumulatively by 269.4% versus a 227.6% gain in the Russell 1000® Growth Index and a 157.5% increase in the S&P 500® Index, yielding a comparative relative advantage of 4,180 and 11,190 basis points respectively.



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## Investment Perspective

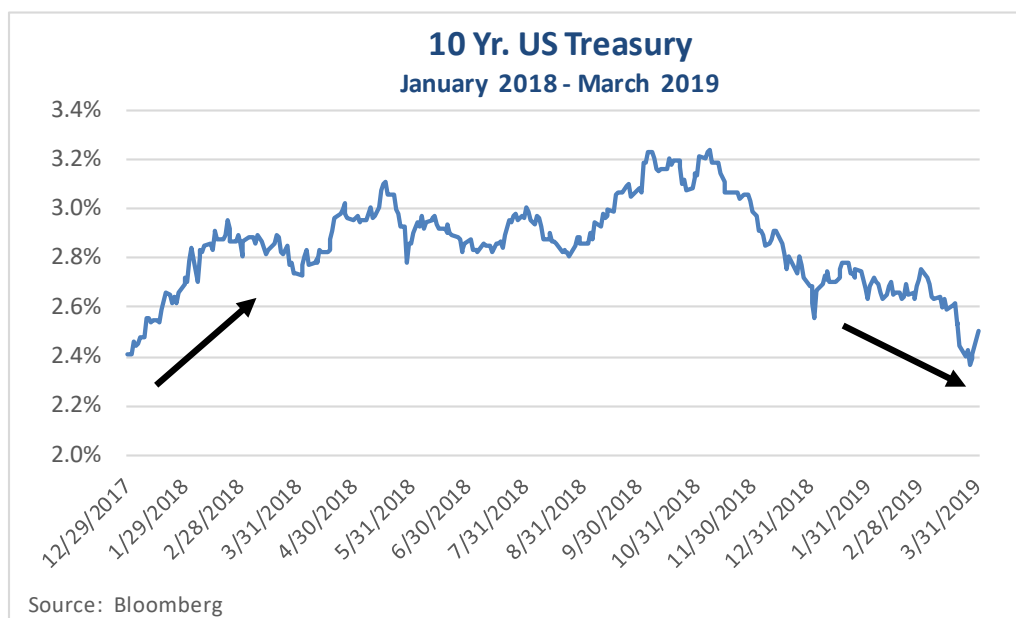
The start of 2019 is a whole lot different than how last year began.

Fueled by tax reform, the economy experienced a late cycle surge with GDP accelerating and corporate profits legging higher at the beginning of last year.

This year, US economic growth has moderated with GDP decelerating, overseas economies sluggish, and the pop from tax reform moving to the rear-view mirror.

Last year's first quarter was punctuated by rising interest rates with the Fed on a clear trajectory of higher rates and the ten-year bond hitting 3%.

This year, the Fed has reversed course with a now dovish stance and is on hold while the ten-year bond yield has also dropped.



From a Portfolio basis, last year's start was roiled by corporate developments that created uncertainty. This year, many of these outstanding issues have been settled and newer corporate sagas seemed aimed at unlocking potential value.

It is also worth adding that 2018's market start was on the heels of a robust 2017. This year's beginning comes right after the 4Q of 2018, which was the first real substantive market pullback since the steep declines suffered in 3Q of 2011. That's a long time.

So where does this leave us today? After a tough start for your portfolios during the 1Q of 2018, your portfolios were selling for 17.6X forward 12 month estimates with a 2.3% dividend and a forecast of better than 14% EPS growth in 2018. The ten-year bond yield stood at 2.74% so the earnings yield/bond yield ratio (EY/BY) (5.68%/2.74%) was at more than 2X.

Now, after a healthy 1Q19 and a solid last 12 months (notwithstanding the 4Q2018's drop), your portfolios sell for 19.3X with a 1.9% dividend yield. Forecasted earnings growth in 2019 for your portfolios—another year into the cycle with slowing global growth—stands at just 7%. Results this year also face the headwinds of a stronger dollar and a slight step up in expected tax rates (about 200 basis points hit/due mostly to the strong dollar) as well as about 100 basis points headwind from near-term dilution from two meaningful corporate acquisitions. Absent these items, we would expect our underlying EPS stream this year to grow closer to 10%, which we think is pretty good in this environment.

### HSMP Weighted Average Forward 12 Month P/E



Based on HSMP estimates since inception (4/1/07) through 3/31/19. Please refer to pages 5-7 for important information.

The Financial Times ran an article on 3/26/19 entitled “Wall Street braced for ‘earnings recession’ as margins fall.” It highlighted that US companies are struggling to pass on rising labor, transportation, and raw material costs and notes that “US profit margins are on track to suffer their first fall since 2015.” It went on to note that “the retreat from the post-crisis peak margins reached in 2018 signals a turn in the profit cycle that has powered the US market’s bull run.”

Our approach is to own what we deem are good businesses with strong cash flows and attractive financial characteristics. In the end, future performance will be a function of earnings and valuation. We like what we own and forecast a resilient earnings stream growing at 10%+ long-term.

P/E's for our Portfolio are up year over year but still down from prior highs and below levels when we started some 12 years ago. Today's EY/BY is at 2.2X and is more attractive than where it stood 12 months back and is historically at compelling levels.

### HSMP Forward 12 Month Earnings Yield & Bond Yield



Based on HSMP estimates since inception (4/1/07) through 3/31/19. Please refer to pages 5-7 for important information.

I write this as Opening Day of the 2019 MLB baseball season is upon us. A sure sign of Spring after enduring the short days and cold months of Winter. At the risk of confusing anyone (I'm a Yankees fan, got it), I read a great article in the Boston Globe by Dan Shaughnessy. He talks about baseball season returning and for many that means that life is better. He writes that "it is our heartbeat. It is our routine...the box scores are one of our four major food groups." He goes on to quote the late great manager Earl Weaver as saying "settle down, we do this every day" to calm an overreactive baseball writer. I agree with Shaughnessy on this (though not on his favoring the Sox over the Yanks) and see similarities with our approach to understanding businesses, markets, and overseeing your assets. It is our heartbeat. It is our routine. We do it every day. We try to settle down and not overreact. The growing value of your portfolios over time is our box score. As always, we thank you for your confidence in us and appreciate your support. Here's to a good Spring and we look forward to updating you in the seasons and years ahead.

Sincerely,

Harry W. Segalas

## Portfolio Profile (3/31/19)

### HSMP Composite Performance as of 3/31/19

	1Q19	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)	13.0%	12.8%	13.9%	12.0%	17.8%	11.5%	269.4%
Russell 1000® Growth Index	16.1%	12.8%	16.5%	13.5%	17.5%	10.4%	227.6%
S&P 500® Index	13.7%	9.5%	13.5%	10.9%	15.9%	8.2%	157.5%

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 information.

#### IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. When we use *Composite* or *Portfolio* we mean our HS Management Partners Concentrated Quality Growth Composite. This piece represents our opinion as of 4/9/19 based on our understanding of market conditions and publicly available information about the mentioned companies. It 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 are accurate as actual results and future events can differ materially from our assumptions. 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. Investing in securities involves significant risks, including the risk of loss of the original amount invested. 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 the only basis for making investment decisions.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). HS Management Partners, LLC is an independent SEC registered investment adviser (SEC registration does not imply any certain level of skill or training). The HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, investment advisory fee-paying accounts (even if they pay zero trading commissions), which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding \$500,000 at the time of initial inclusion in the Composite and have a market value exceeding \$300,000 to maintain inclusion. Results are based on fully discretionary accounts under management that meet our Composite's inclusion criteria, including those accounts no longer with HSMP. Results reflect accounts managed at another entity: prior to January 1, 2008, the accounts in the Composite were non-fee paying (non-investment-advisory fee-paying) individual accounts managed by Harry Segalas in accordance with HSMP's investment policies, becoming HSMP's accounts in December 2007. The U.S. Dollar is the currency used to express performance. For more information or for a copy of our fully compliant GIPS® Report and/or list of composite descriptions, please contact us at 212-888-0060.

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 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.

This piece is written from the perspective of our Composite holdings, performance and estimated metrics, and it does not refer to any specific group/client account (when we use *your portfolios* we mean client portfolios in general from our Composite perspective). 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 when viewed over narrow time periods. Client account holdings and performance can vary from the Composite or from other client accounts (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 act as a non-discretionary sub-adviser and 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).

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. We encourage you to refer to our Firm Brochure (which is available on our website—[www.hsmanage.com](http://www.hsmanage.com)—or upon request at 212-888-0060) for some material risks applicable to our investment strategy and additional information regarding our Firm. 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.

The price-earnings (P/E) ratio, earnings yield, free cash flow yield, and earnings yield/bond yield are weighted averages of the Composite holdings and are based on our estimates on a 12-month forward projected basis as of the indicated reporting date (our estimates can be inaccurate; actual results and future events can differ, even

materially, from our assumptions). The earnings yield/bond yield is based on the 10-year bond yield as of the indicated period. The dividend yield is a weighted average of the Composite holdings based on the most recently announced company gross dividend (annualized) divided by the last stock price as of the indicated reporting date.

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