

CIO Commentary

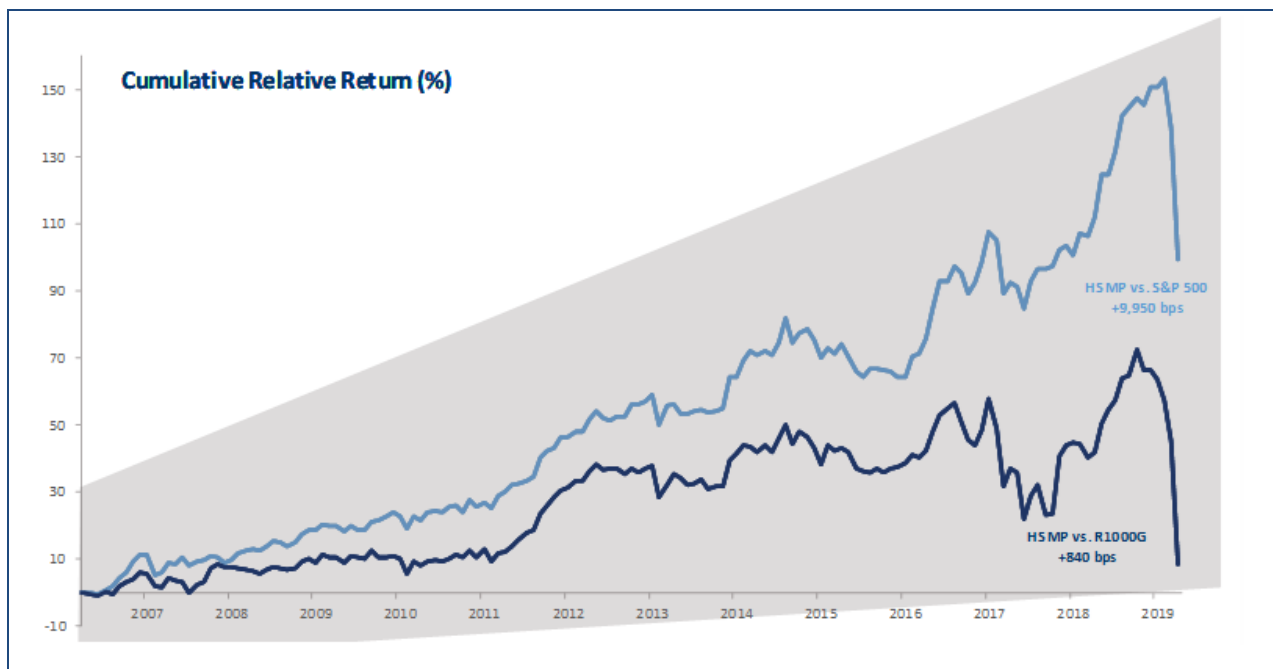
Performance Review

First quarter 2020 results for the HS Management Partners (HSMP) Concentrated Quality Growth Composite along with relevant comparative data are highlighted below:

| HSMP Concentrated Quality Growth Composite | |
|--|--------|
| | 1Q20 |
| HSMP Composite (net) | -24.4% |
| Russell 1000® Growth Index | -14.1% |
| S&P 500® Index | -19.6% |

Composite performance results are net of fees through 3/31/20 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.

Since inception (4/01/07) through 3/31/20, the HSMP Composite (net of fees) has increased cumulatively by 239.0% versus a 230.6% gain in the Russell 1000® Growth Index and a 139.5% increase in the S&P 500® Index, yielding a comparative relative advantage of 840 and 9,950 basis points, respectively.



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Investment Perspective

On the heels of a strong 2019, markets and your portfolios bounded ahead early in 2020. To be sure, spreading word of the COVID-19 virus came to the fore, and its impact on businesses with a strong footprint in China and with the Chinese consumer globally was of increasing concern. The worry was largely centered around Asia—in terms of local consumption, reduced travel, and any possible disruption of supply chains.

The S&P 500® Index reached its peak on February 19th. The table below provides a snapshot at that time.

| HSMP Concentrated Quality Growth Composite | | | |
|--|-------|-------------------|-------------------------------|
| | HSMP | S&P 500® Index | Russell 1000® Growth Index |
| 12/31/19 – 2/19/20 | +4.8% | +5.1% | +9.3% |

Composite performance results are net of fees through 2/19/20 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.

From that point on, fears over the virus spread like wildfire, first throughout Italy and Europe and then eventually to the United States. One defining moment in the United States came on Wednesday, March 11th when the NBA announced that several players had contracted COVID-19 and suspended its season. Major League Baseball—which had been conducting spring training games in Florida and Arizona then stopped playing—and the NHL and other leagues all followed suit. Soon, new phrases such as “social distancing”, and “bending the curve” entered our lexicon and the U.S. administration’s tone shifted to an alarmed state.

As I wrote in the 3/30/20 piece *Once in a Lifetime*: “The global COVID-19 pandemic is truly a once in a lifetime event. I have experienced much in my 38-year investment career: the 1987 Crash, the first Iraq War, the late 90’s Asian Crisis, the 2000 Tech Bubble bursting, 9/11, and the 2008/2009 Financial Crisis and Great Recession. We have not experienced anything like this.”

One phenomenon that is different than what we have experienced before is the harsh impact that the response to the public health crisis has had on our portfolio companies. Historically, while not immune from recessions, our portfolio companies have tended to exhibit recession resistant characteristics, and at least generated modest earnings growth relative to more traditionally cyclical profit streams away from us. Most recessions have historically been led by a downturn in manufacturing. Today, the issue we face is gauging the impact for our companies—most of them serving consumers globally--in a world where people simply stopped showing up.

COVID-19 has hit our portfolio companies hard in both a direct and immediate fashion and this has shown up in the portfolio’s performance during the downdraft.

| HSMP Concentrated Quality Growth Composite | | | |
|--|--------|-------------------|-------------------------------|
| | HSMP | S&P 500® Index | Russell 1000® Growth Index |
| 2/19/20 – 03/31/20 | -27.9% | -23.5% | -21.4% |

Composite performance results are net of fees 2/19/20 through 3/31/20 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.

On the one hand, it is as if our portfolio has entered a bizarre world in which results are opposite of expectations. That is, on average, we have historically preserved capital better during market downdrafts. That is not the case this time. On the other hand, it is understandable given the nature of the businesses we invest in.

We believe there will be indirect and lagged effects that permeate throughout the global economy and confront all companies, especially as more consumer facing companies slash capital expenditures, pull back on all discretionary spending, and sharply reduce inventory and working capital levels.

Investment Outlook

As we look ahead, we are focused on three things as it relates to our portfolio: the possible earnings trajectory in 2020 and 2021; valuation; and balance sheet strength.

For now, and during this period of tumult, it has been very hard to reasonably assess what short-term earnings may be. We started the year expecting our portfolio earnings stream to advance at a low double-digit clip. As recently as late March, we had forecast a 10%-20% drop with the caveat that it could be worse. Our best current thinking is a 20%-25% decline this year. It is a moving target. For perspective, S&P 500® Index earnings are now expected to drop 40% or so, according to Ed Hyman of ISI.

We have historically looked at the weighted average growth for our portfolio earnings when assessing its outlook. However, we are finding that a high degree of earnings variability for several portfolio holdings is skewing results and makes this forecasting method less reliable. To that end, we are taking the Buffet approach and looking at the aggregate earnings outlook when assessing earnings growth, valuation, and dividends. In other words, based on the number of shares in each security that we own, we determine our share of its actual forecasted earnings and dividends. When we look at our aggregate earnings cumulatively, we think the following chart is useful.

| Indexed Earnings & P/E | | | | | |
|------------------------|------|-----------------|-------|-----------------|-------|
| | 2019 | Y/Y % Change | 2020E | Y/Y % Change | 2021E |
| Indexed EPS | 100 | -23% | 77 | +39% | 106 |
| P/E Ratio | 15.0 | | 19.4 | | 14.1 |

Based on HSMP estimates as of 3/31/20. Please refer to pages 5-7 for important information.

As you can see, on an indexed basis, we think that aggregate earnings will drop substantially this year. Encouragingly, we believe that the COVID-19 epidemic will have less of an impact on our companies' earnings power in 2021. To be sure, earnings are not likely to reach levels that would have been attainable had COVID-19 pandemic not happened. But that said, we think a sharp earnings recovery is likely in the cards for 2021 and are optimistic about the long-term earnings power of the portfolio.

Valuation metrics are tricky since it is hard to know where earnings settle. That said, we think looking at valuation on this aggregated basis also yields hopeful signs. The portfolio P/E multiple stands at about 19x-20x our depressed 2020 earnings forecast. More to the point, we believe the current portfolio valuation is attractive at around 15x last year's earnings and about 14x our earnings estimate for 2021.

| Portfolio Metrics | |
|----------------------------|-------|
| FTM Estimated P/E | 17.7x |
| FTM Earnings Yield | 5.6% |
| Current 10-Year Bond Yield | 0.7% |
| Earnings Yield/Bond Yield | 8.1x |
| Indicated Dividend Yield | 2.3% |

*FTM means Forward Twelve Months. Based on HSMP aggregate estimates as of 3/31/20.
Please refer to pages 5 – 7 for important information.*

Relative valuation is buttressed when considering that the current earnings yield of the portfolio is selling for multiple times the current ten-year bond yield. The current dividend yield (net of announced dividend suspensions) of 2.3% is also attractive and gives some cushion should other companies decide to temporarily suspend their dividends.

Beyond earnings and P/E, we believe that the balance sheet now becomes the true center of attention. Companies broadly were prodded to take on debt, and many away from us went overboard, especially with interest rates so low. It is likely that we will go through a time with much more conservative balance sheets. Capital spending is likely to be subdued. Technology and software projects—an increasing part of spending plans—will be prioritized and in some cases delayed. “Nice to have” will have to wait. Initiatives to move into new markets may well be curtailed. Buying back stock will probably move out of vogue—building cash balances will be this year’s model.

We do believe that the inherent cash flow characteristics of the businesses we own should once again kick-in as revenue comes back. While pressures exist, we feel balance sheets overall are solid and a long-term advantage. We expect many will emerge stronger, especially relative to weaker competition, and many competitors will not survive. That said, a more conservative approach to capital allocation is likely to slow growth for us and others in the years ahead.

Conclusion

While we have often pointed to our ability to hold it together better during tough times, we have equally noted that we usually lag coming out of a recession, as more variable earnings growth companies—more wounded during the downturn—come roaring back. This time may well be different as the companies most effected on the way down—many of them global consumer-facing companies with stores and restaurants and physical points of distribution—may benefit most from a recovery in demand, even if gradual and even if not immediately back to prior levels.

As I noted in *Once in A Lifetime*: “This is a moment in time. The declines we have experienced reflect this moment in time. We are running the marathon—not the sprint—and are looking out at what given companies may look like not next month or next quarter but 12-18 months from now...even 3-5 years from now.”

Thanks again for your confidence in us and we wish you and your families the best health and safety in the days to come. We look forward to updating you as we all move past this crisis to better times ahead.

Sincerely,

Harry W. Segalas

Portfolio Profile (3/31/20)

| HSMP Composite Performance as of 3/31/20 | | | | | | | |
|--|--------|--------|-----------------------|-----------------------|------------------------|---|---|
| | 1Q20 | 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) | -24.4% | -8.2% | 6.3% | 6.8% | 12.1% | 9.9% | 239.0% |
| Russell 1000® Growth Index | -14.1% | 0.9% | 11.3% | 10.4% | 13.0% | 9.6% | 230.6% |
| S&P 500® Index | -19.6% | -7.0% | 5.1% | 6.7% | 10.5% | 7.0% | 139.5% |

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 4 & 5 for important information.

IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. When we use *Composite* we mean our HS Management Partners Concentrated Quality Growth Composite (as of 3/31/20). 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 *our portfolio(s)/your portfolio(s)* we mean client portfolios in general from our Composite perspective – please see below regarding differences between the Composite and actual client portfolios/ accounts). This piece represents our opinion as of 4/8/2020 based on our understanding of market conditions and publicly available information and the state of the ongoing COVID-19 crisis. 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, particularly given the uncertainty of the current health crisis. 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.

In response to the current coronavirus (COVID-19) global pandemic and in an effort to protect the safety and well-being of our team and the continuity of our critical business operations, our employees are working remotely and we suspended business travel and replaced in-person meetings with conference calls and video chats. We have tested our capacity to operate remotely and members of our team have worked from home in the past, and as of this moment, we believe we can perform critical services (making investment decisions, trading and settlement, and communicating with clients about the status of their accounts), assuming that current conditions do not worsen dramatically over the next few days, that our team and close family members do not fall ill infected with COVID-19, that there are no significant disruptions to our key service providers, and that our team continues to have internet connectivity and phone access from home. Although our business continuity/disaster recovery plan aims to mitigate the impact of natural disasters or catastrophic events by maintaining critical business functions, while keeping the safety of our employees first, no plan can guarantee the continuity of our operations in the presence of these events. In particular, given the rapidly evolving situation and the unknown impact of COVID-19, we cannot predict with certainty its effect to our business and client portfolios.

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.

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—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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