First Quarter 2021 Investment Perspective

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

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April 12, 2021

Investment Perspective

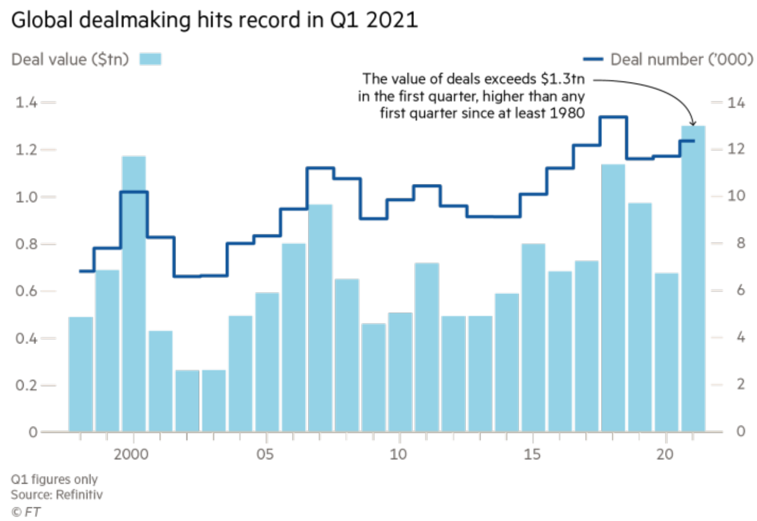
There is a lot of momentum building in the U.S. economy. Easy Federal Reserve monetary policy has now been joined by aggressive Federal government fiscal actions. All the while, vaccines – the ultimate tonic to improved economic performance – are being rolled out leading to increased mobility and steps toward a return to normalcy. Corporate earnings are likely to power forward at a robust pace in 2021. Markets – resilient in the face of the Pandemic over the course of last year – continue to march forward on this fuel.

Jamie Dimon, J.P. Morgan's iconic CEO, described the current outlook in his April 7th annual shareholder letter: "I have little doubt that with excess savings, new stimulus savings, huge deficit spending, more QE, a new potential infrastructure bill, a successful vaccine and euphoria around the end of the Pandemic, the U.S. economy will likely boom. This boom could easily run into 2023 because all the spending could extend well into 2023."

While Alfred E. Neuman may ask: "What, me worry?", we do think there are several factors to consider as the good times roll. First, inflation. Second, rising bond yields (see point one) and third, rising valuation levels. Tax rates will also soon start going up, and the regulatory environment is likely to be more onerous.

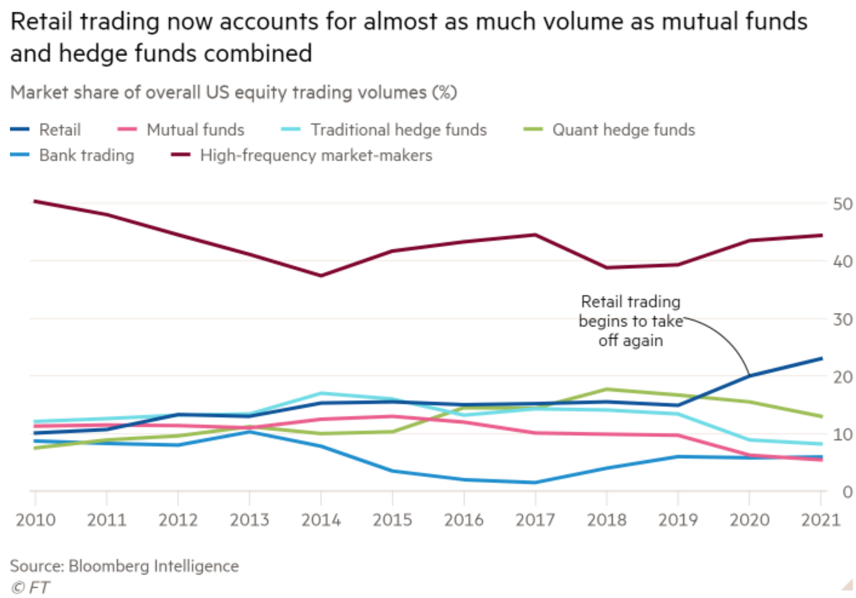
Moreover, there are clearly signs of rampant speculation. The SPAC (Special Purpose Acquisition Corporation) boom of 2021 may prove especially hazardous to the public investors' health. Barry Sternlicht, Starwood's Chairman and CEO is no stranger to SPACS and in a recent CNBC interview, he put it this way: "It's a little out of control. No, it's a lot out of control. Don't expect Wall Street to regulate the launch of SPACS. It is making too much money. If you can walk, you can do a SPAC."

An article from a 3/31/21 Financial Times article adds: "Global deal making activity had its strongest start to the year in four decades, fueled by a flurry of U.S. acquisitions and SPAC mergers, even as the global economy reels from the impact of lockdowns and coronavirus restrictions. Deals worth $1.3 trillion were agreed to in the three months to March 30th, more than any first quarter since at least 1980 and topping even the heady levels of the dotcom boom at the turn of the millennium."



Source: Financial Times as of 3.31.2021.

And while GameStop may have once been all the rage, NFTs (non-fungible tokens) are now this year's model. These ever-changing pockets of speculation reflect a very easy money world, stimulus money gone bad, and the growing influence of the retail investor (along with the explosion of social media surrounding this phenomenon). Retail trading levels now account for as much as mutual funds and hedge funds combined and markets are now routinely moved by the latest thematic trend.



Source: Financial Times as of 3.9.2021.

Oh, and I would be remiss if I did not mention Archegos, the failing family office/hedge funds that triggered a recent avalanche of margin calls and share sales in parts of the stock market. On the plus side, Wall Street banks seem able to absorb the blows of prime brokerage losses. On the minus side, this debacle speaks to a lack of transparency in sectors of the financial markets, excessive levels of leverage in this accommodative financial world, and the ongoing threat of more disruptions from the shadow banking system.

Do the Right Thing

As you can tell, I have never been accused of being much fun at parties. In part, I could be suffering from the Groucho Marx syndrome: "I refuse to join any club that would have me as a member."

But after almost 61 years on the planet, 39 years in the business, and 14 years at HS Management Partners, I believe it is more about maintaining a sense of balance, remembering both reward and risk, and staying true to the principles that got us here. It's about trying to do the right thing.

A little more than a year ago, markets were reeling from the Pandemic, and our historically defensive and recession resistant portfolio was hit hard by a world in which the consumer simply stopped showing up.

Our efforts intensified on balance sheet prowess and the realization that the COVID world would last for more than a few months. It became apparent that some business models would be secularly stronger due to an acceleration of trends triggered by the Pandemic.

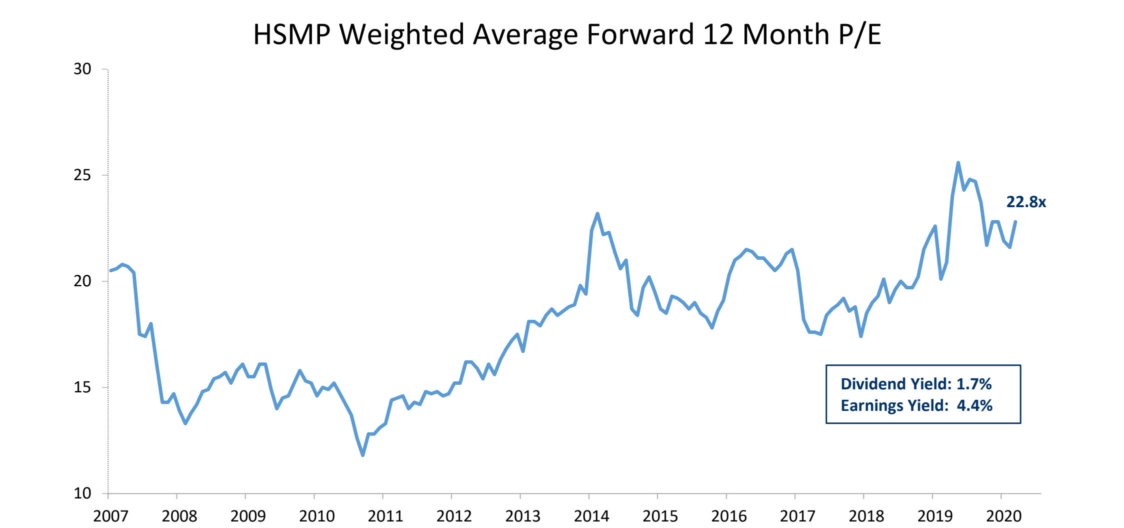
As your portfolio recovered and then advanced forward, the basic principles that we deploy remain consistent. It's about the business…it's about the earnings and cash flow stream…and it's about valuation.

And moving across the growth continuum still holds – from dominant, durable growth at one end of the spectrum – to more rapid, top-line growth companies on the other – so long as the fundamentals are good and the valuation is attractive.

As does our belief that active management adds value with a mindset that our client's capital is scarce capital, and efforts to deploy that capital with a clean slate mindset in the best way possible each day.

Watch Your Step….Still

At the first quarter of 2021's end, the portfolio's price/earnings ratio stood at 22.8X estimated forward 12-month weighted earnings which still seems attractive with the long bond current selling at 1.7% yield.



Based on HSMP estimates since inception (4/1/07) through 3/31/21. Please refer to pages 6 - 8 for important information.

As you can see, the weighted average P/E has moved up over the past several years and stands above where we began the HSMP investment journey in 2007. We may well be underestimating the E (earnings) part of the equation given favorable economic prospects. That said, it reminds us to stay vigilant as it relates to valuation and drives us to seek out attractive valuation opportunities, which are often in less favored names.

A determinant of future value will be the direction of inflation, bond yields, and the possible resurgence of the bond vigilantes. As the economy boils, all eyes will be on inflation. This recent table by Ed Hyman of ISI notes increased inflation expectations.

Inflation expectations are 2.57% today.

Source: Used with permission of Evercore ISI as of 3/29/2021

And notwithstanding a cooling of the recent upward move in the ten-year bond yield, Chris Verrone of Strategas notes that the rise in bond yields is now happening in the context of a longer-term uptrend.

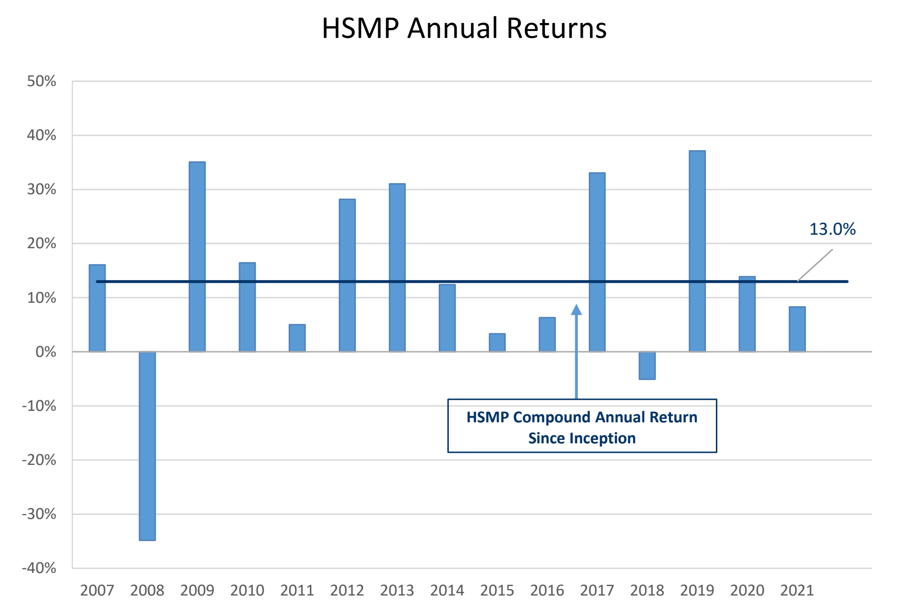
Source: Used with permission of Strategas Research Partners as of 3/31/2021.

The famed Democratic political strategist James Carville once noted that: "I used to think if there was reincarnation, I wanted to come back as the President or the Pope or a .400 baseball hitter. But now I want to come back as the bond market. You can intimidate everybody."

As the economy revs forward and inflation lifts its head, the bond market may push up long term rates and act as a brake. While Fed Chairman Powell insists that he is "not even thinking about thinking" about raising rates, the bond market may well force his hand earlier than he would desire. As we've seen in the past, removing accommodation is not easy and has led to taper tantrums around the world. From our perspective, we must be mindful that the possibility of higher bond yields can curb valuations – especially for the highest P/E names – and create dislocations in the market.

To that end, our year-end 2020 letter implored clients to watch their step and we still think that is the case. While we believe pockets of market speculation outlined earlier create outsized risk elsewhere, we like what we own and continue to find new opportunities. We forecast a healthy rise in portfolio earnings and cash flows over the next few years and find the valuation – while higher – still reasonable.

Since our inception, we have seen the growth in portfolio earnings drive portfolio values over time and we continue to believe that prospects for portfolio appreciation will largely be driven by earnings gains.



Composite performance (net-of-fees) since inception (4/1/07) through 3/31/21. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to the Performance Notes and the Additional Disclosures on pages 6-8 for important information.

Thanks as always for your confidence in us. Stay safe, stay healthy, and we wish you all the best in the times ahead.

Sincerely,

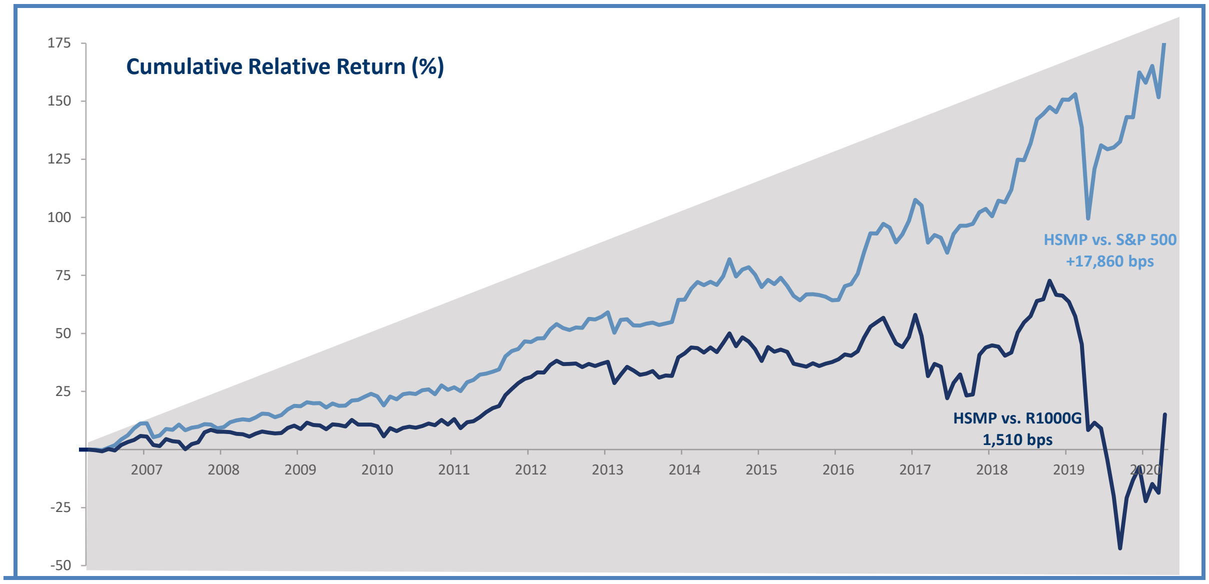
Harry W. Segalas

Portfolio Profile (3/31/21)

HSMP Composite Performance as of 3/31/21

	1Q21	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)	8.3%	63.2%	19.1%	17.2%	16.2%	13.0%	453.1%
S&P 500® Index	6.2%	56.4%	16.8%	16.3%	13.9%	9.9%	274.5%
Russell 1000® Growth Index	0.9%	62.7%	22.8%	21.1%	16.6%	12.8%	438.0%

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 7 & 8 for important information.



Composite performance results since inception (4/01/07) through 3/31/21. Performance is net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 7 & 8 for important information.

IMPORTANT DISCLOSURES

When we use *HSMP*, *HS Management Partners*, or *Firm*, we mean HS Management Partners, LLC. This piece is written from the perspective of our Composite holdings, performance, and estimated metrics, and it does not refer to any specific client account (client accounts can have higher or lower performance than that shown here and can have some but not all of the holdings shown here). When we use Composite, we mean our HS Management Partners Concentrated Quality Growth Composite, and when we use our portfolio(s)/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). This piece represents our opinion as of 4/12/2021 based on our understanding of market conditions and publicly available information. 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 will prove to be accurate as actual results and future events can differ materially from our assumptions. 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. Some of the charts in this piece were obtained from the indicated third-party sources which we believe reliable, but we did not verify, nor do we guarantee the accuracy of this information. The 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 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.

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.

In response to COVID-19 and in an effort to protect the safety of our team and the continuity of our critical business operations (making investment decisions, trading and settlement, and communicating with clients about the status of their accounts), 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 we believe we can continue to perform our services, assuming that conditions do not worsen dramatically, that our team and close family members do not fall ill 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.

This document includes general information and has not been tailored for any specific recipient or recipients. Accordingly, the information in this document is not intended to cause HSMP to become a fiduciary within the meaning of Section 3(21)(A)(ii) of the Employee Retirement Income Security Act of 1974, as amended, or Section 4975(e)(3)(B) of the Internal Revenue Code of 1986, as amended.