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MANAGEMENT PARTNERS, LLC

Year End 2020
Investment Perspective

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

640 Fifth Avenue, 18th Floor
New York, NY 10019
212.888.0060
www.hsmanage.com

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Investment Perspective

Our Aim is True

As stated in our last correspondence and worth highlighting again (and again), our Investment Goal is to deliver positive absolute returns over time by owning what we believe are good businesses, growing the earnings and cash flow stream yearly, and attaching ourselves to this stream at what we think is an attractive valuation.

As I reflect on 2020, and to steal a phrase from a longtime favorite Elvis Costello, *our aim is true*. And like E.C., we too believe that our approach has stood the test of time, evolving for sure but always authentic at its core.

Our Composite's absolute net return advanced 37% in 2019, an above average year for our Composite performance. 2020 initially bounded forward, notching an almost 6% gain in our Composite's absolute net return through February 20th. Then COVID hit — which turned the world on its head — and walloped our traditionally defensive portfolio sending our Composite's performance down by roughly 35% on an absolute net, year-to-date basis as of March 23rd. Those were not peaceful weeks. The characteristics which imbued defensive traits to many of our holdings — selling low-ticket items to billions of consumers around the world — became kryptonite in a world where people simply stopped showing up.

This was seen in any consumer facing business that ultimately relied on physical points of distribution or engagement. It was not simply travel and retail establishments that were stung. The soft drink and beer business — usually some of the most defensive businesses on the planet – were rocked. What happened in the restaurant business was especially telling. Normally, the most defensive part of the restaurant industry is fast-food chains. And usually, the most resilient part of the fast-food business is the breakfast day part. People experiment with lunch or dinner and cut back in typical recessions, but they do not normally change their morning habits. And the most defensive part of breakfast is the coffee business as people always grab their cup of coffee on the way to work, right? But what happens if people stop going to work?

As we discussed in the last letter, I can describe our pandemic response as threefold:

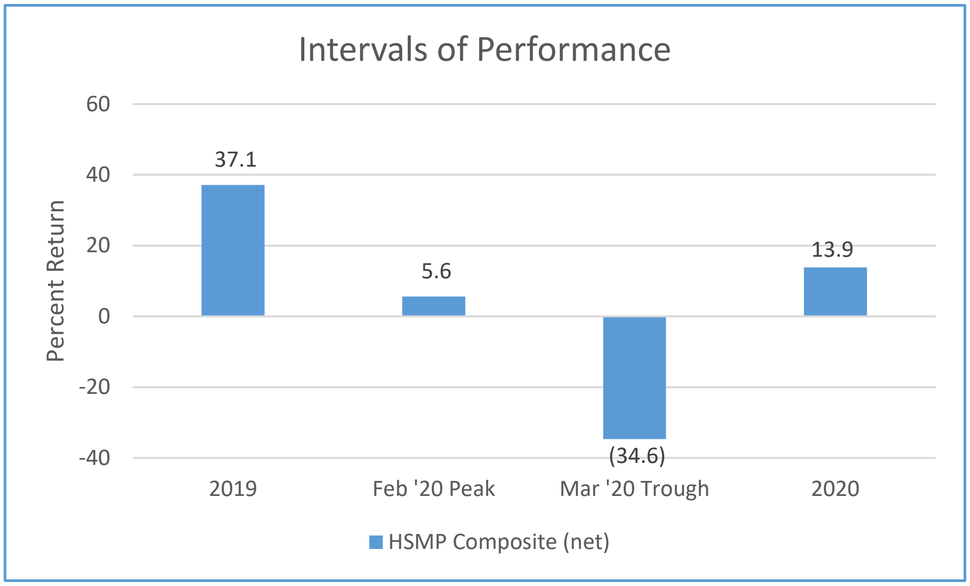
First, focus on the balance sheet. We have always cared about owning companies with strong financials, but in a world where the top line was greatly curtailed, it was hard to rely on traditional earnings and cash flow metrics. So, we leaned into balance sheet analysis which gave us the confidence to either stay with or buy into several companies that were freefalling during the market's March panic.

Second, starting in April, we began to align the portfolio for what was likely to be a subpar world for some time. In other words, we were no longer thinking this was a weeks or months problem. We looked for companies that we believed brought both offensive and defensive characteristics to the new world we lived in and that we thought possessed fundamentally good business models with attractive valuations.

See pages 4 - 6 for important information & disclosures.

Third, while we believe COVID-19 will eventually pass, the pandemic has accelerated certain trends, and changed some behaviors in a lasting way, which has enhanced the secular outlooks for some companies. In that vein, we emphasized names that we believe have increasingly relevant business models. We have stayed true to our mantra that growth and value are joined at the hip and looked to purchase these newer holdings at what we believe are attractive valuations, which is increasingly the rub.

These actions contributed to a recovery in portfolio values from the March lows and we ended the year with solid absolute gains.



Composite performance results are net-of-fees and include the reinvestment of dividends and other earnings. The shown Feb '20 Peak performance is YTD to 2/20/20, and the shown Mar '20 Trough performance is YTD to 3/23/20. Past performance is not indicative of future results. See page 4 for the net 1 year (2020), and the net 3- and 5-year annualized Composite returns through 12/31/20. Please refer to pages 4 - 6 for important information.

Getting Mighty Crowded

But the big story looking back at markets in 2020 with lasting effects into the new year is what the Fed did. Sure, companies adapted and there was fiscal stimulus, but the world changed when the Fed acted with great force in late March. In the old days, it was mostly about the Fed lowering interest rates. Then the Fed added in Quantitative Easing during the Great Financial Crisis. In the past year, the Fed has gone to even greater lengths to provide accommodation and confidence to the economy and the markets, and has told the world that this easy stance will be with us for a long while.

In early June, Fed Chair Powell stated, "We're not thinking about raising rates. We're not even thinking about thinking about raising rates." As monetary stimulus greatly outraced economic activity, dollars have flowed into financial markets with abandon. This has not only fueled a powerful market recovery but in our minds has led to real pockets of market speculation and supersized valuations away from us.

This is a world in which Tesla has a market capitalization in excess of $800 billion dollars and where, at the end of last week, Elon Musk was richer than Jeff Bezos, Warren Buffett, and Bill Gates. This is a world in which Bitcoin advanced eight-fold since March. This is a world of Robinhood, Lemonade, and Snowflake.

This is a world in which markets have become top-heavy, there has been extreme NASDAQ-100 outperformance, the price to sales multiple is at peak levels, and valuations are taking on a whiff of the Nifty-Fifty and 1999.

This is a world in which the number of Zombie companies (those that cannot service debt) are at peak levels. This is a world in which IPO's and Secondaries and SPAC (Special Purpose Acquisition Vehicles) offerings are at all-time high levels.

My 21-year-old son Zane — an avid market watcher and current undergraduate finance major – keeps asking me, "When does it end?" I tell him what the late, great investor Bob Kahn used to say to me back in my W.P. Stewart days…. "No one rings a bell." But as Hemingway and John Donne remind us, eventually, the bell will toll for thee.

Watch Your Step

As we said before, we do not know when the bell will ring and pockets of speculation will begin to ease. While we are staring at several difficult months with the pandemic still raging, monetary stimulus will now be joined by more fiscal stimulus, and over time, widespread vaccinations. This should powerfully fuel the economy and we suspect the long bond — which has started to creep up — will be paying more attention to inflation, especially with deficits reaching new heights.

Market participants have been paid to focus solely on growth and momentum…. not valuation. We have adhered to our valuation discipline — and while this can act as a break as we steer through fast tracks, it ultimately has controlled what we are willing to pay for a long duration cash generating asset. In other words, in a world that Bloomberg describes in a recent article as "'Full-Blown Mania': Stock Market Jackpot Bells Just Keep Ringing," *we do not feel extended*.

Your portfolio sells for about 21X aggregate forward earnings estimates which is about where we began HS Management Partner's investment journey back in 2007. The dividend yield on the portfolio is 1.7% (that is more than what you get on the 10-year Treasury Bond). We are encouraged that our portfolio holdings continue to generate what we believe are ample sums of free cash flow. This free cash flow is coming back to us in the form of buybacks and dividends, an especially sharp contrast to the world of companies taking money from investors through stock offerings and SPACS. In our opinion, the earnings yield for your portfolio relative to the 10-year Treasury Bond yield ratio remains compelling. And while a backup in rates can cause broad dislocations, we think our valuation levels can ultimately withstand it while speculative areas of the market could be prone to fatal revaluations, when the bell does toll.

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

Sincerely,

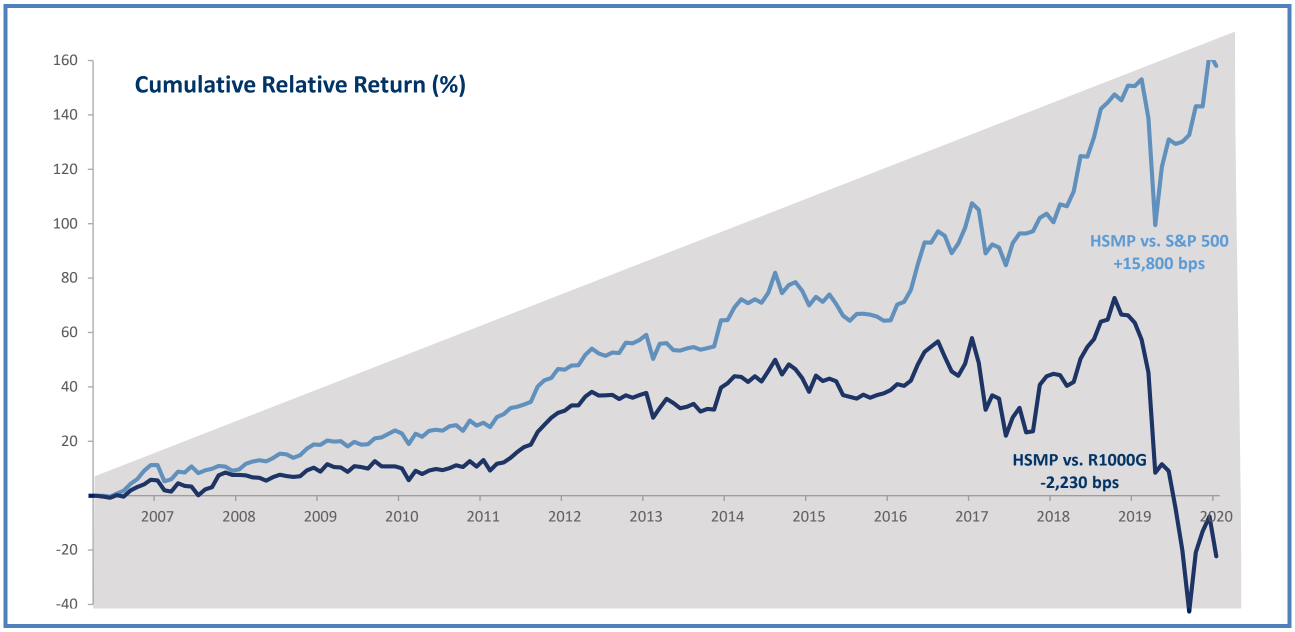
Harry W. Segalas

Portfolio Profile (12/31/20)

HSMP Composite Performance as of 12/31/20

	4Q20	2020	3 Years *Annualized*	5 Years *Annualized*	10 Years *Annualized*	*Since Inception 4/1/07 Annualized*	*Since Inception 4/1/07 Cumulative*
HSMP Composite (Net)	11.6%	13.9%	14.0%	16.0%	15.7%	12.6%	410.7%
S&P 500® Index	12.2%	18.4%	14.2%	15.2%	13.9%	9.6%	252.7%
Russell 1000® Growth Index	11.4%	38.5%	23.0%	21.0%	17.2%	12.9%	433.0%

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 5 & 6 for important information.



Composite performance results since inception (4/01/07) through 12/31/20. 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 5 & 6 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. 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 – see below regarding differences between the Composite and client portfolios/ accounts). This piece represents our opinion as of 1/12/2021 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 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. Please refer to our previous quarterly letters for 2020.

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.