H S MANAGEMENT PARTNERS, LLC

HS Perspectives

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

ANNIVERSARY 15 2007 2022 YEARS

Recess from Excess

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Recess from Excess

The pain and despair of the global pandemic is giving way to light and hope that the endemic phase is upon us, that life is normalizing. Among the abundant signs is school being back in session, with kids young (and old) toting backpacks to enjoy in-person learning and social interaction with little to no encumbrance for the first time since the fall of 2019 – imagine! Recess remains an important part of the school day, that interval when pent-up energy is unleashed, and kids enjoy free time to play, to socialize, to enjoy unstructured fun in an otherwise regimented day. College students will soon be returning for a holiday recess, a time of reunion, family gatherings, "Turkey Day" parades, and the traditional Detroit Lions Thanksgiving Day game in the Motor City.

Financial markets have taken to recess in 2022, a recess from pandemic induced excess liquidity, excess returns, negligible inflation, and excessively low, stable interest rates. Quantitative Easing (QE) and fiscal stimulus fueled the excesses of the past few years; Quantitative Tightening (QT) is now largely responsible for the recess of risk manifest in equity and fixed income market disruption in 2022. Bears are enjoying the long overdue market recess and seem in no great rush to resume class. And while the excess of liquidity produced outsized gains in GDP, goods consumption, household balance sheets, et al., fears of a global slowdown or worse – the dreaded R word – abound. Last I checked, you couldn't spell Recession without RECESS.

We've written extensively about the root causes of market disequilibrium (see "The Fed Put is Ka (Put)" 3/15/22, "Indelible", 3/7/22, "The Last Waltz", 2/3/22). While we cannot proffer when the recess in financial markets will end – and end it will – we can proffer how HS Management Partners is positioning client portfolios for a potentially very different set of economic and financial conditions as we ponder markets beyond a sobering 2022 to the promise of tomorrow.

Read His Lips

During his acceptance speech as the Republican nominee for President in 1988, then President George H.W. Bush famously remarked "Read my lips - no new taxes." His plan was averted, and many ascribed his defeat to Bill Clinton as attributable in part to his inability to fulfill his promise to the American public.

Fed Chair Powell has been unambiguous in his resolve to tame inflation, now running at a four-decade high. His hawkish, eight-minute short Jackson Hole speech in late August was followed by the comment on November 2nd that "It is very premature, in my view, to think about or be talking about pausing our rate hikes. We have a ways to go."

No lip reading necessary.

Something in the Air

Thunderclap Newman popularized "Something in the Air" in 1969, and it became a staple of British pop music. It's also true there is Something in the Air now, and that something seems to be the exhale of air from speculative assets of all species... SPAC's, meme stocks, concept companies populating the NASDAQ and other growth indices, FTX/crypto...the list goes on. It is also true that misery loves company: the dislocation is widespread and has included broad-based indices as well as the "safe haven" of U.S. Treasury bonds contained in the Bloomberg US Aggregate Bond Index below.

It's been said that the thrill of victory (financial markets in 2020, 2021) pales when compared with the agony of defeat (2022-to-date). Market declines and bear markets are ingredients in the financial ecosystem circle of life. Even so, the lessons – hard (and expensive) to accept – are necessary to support market equilibrium and prudent investment practices.

We have maintained that returns could well moderate following the outsized gains of 2020 and 2021, and year-to-date we'd wished markets had moderated rather than fallen sharply; decade-to-date, and with a little more than a quarter of that interval in the books, markets are tracking well below the returns realized in the preceding decade. Equity markets are essentially running at a rate consistent with the average returns dating to 2000; fixed income markets are faring much worse, as there has not been a decade dating back to 1980 – when the forty-year bull market in bonds commenced – that posted a negative return.

The Bond Vigilantes are back.

Index Returns

Best Annual Return of Decade | Worst Annual Return of Decade

Period	S&P 500 Index	Decade to date (annualized)	R1000G Index	Decade to date (annualized)	Bloomberg US Aggregate Bond Index	Decade to date (annualized)
2022 (thru 9/30)	-23.87%	5.55%	-30.66%	7.68%	-14.61%	-3.61%
2021	28.71%		27.60%		-1.54%	
2020	18.40%		38.49%		7.51%	
2019	31.49%	13.56%	36.39%	15.22%	8.72%	3.75%
2018	-4.38%		-1.51%		0.01%	
2017	21.83%		30.21%		3.54%	
2016	11.96%		7.08%		2.65%	
2015	1.38%		5.67%		0.55%	
2014	13.69%		13.05%		5.97%	
2013	32.39%		33.48%		-2.02%	
2012	16.00%		15.26%		4.22%	
2011	2.11%		2.64%		7.84%	
2010	15.06%		16.71%		6.54%	
2009	26.46%	-0.95%	37.21%	-3.99%	5.93%	6.33%
2008	-37.00%		-38.44%		5.24%	
2007	5.49%		11.81%		6.97%	
2006	15.79%		9.07%		4.33%	
2005	4.91%		5.26%		2.43%	
2004	10.88%		6.30%		4.34%	
2003	28.68%		29.75%		4.10%	
2002	-22.10%		-27.88%		10.25%	
2001	-11.89%		-20.42%		8.44%	
2000	-9.10%		-22.42%		11.63%	
1999	21.04%	18.21%	33.16%	20.32%	-0.82%	7.70%
1998	28.58%		38.71%		8.69%	
1997	33.36%		30.49%		9.65%	
1996	22.96%		23.12%		3.63%	
1995	37.58%		37.19%		18.47%	
1994	1.32%		2.66%		-2.92%	
1993	10.08%		2.90%		9.75%	
1992	7.62%		5.00%		7.40%	
1991	30.47%		41.16%		16.00%	
1990	-3.10%		-0.26%		8.96%	

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

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

This table represents the best and worst annual returns of the indicated indices for the available decades (green is best and pink is worst). For 2022, the data is through 9/30/22. We included the available annual data for each index. Past performance is not indicative of future results. Please refer to the performance information and disclosures on pages 9-11.

TINA meets TIAA

TINA has met her long-lost cousin, and their reunion, 40 years in the making, is a bit awkward, as one might expect. There Is No Alternative (to equities) – TINA – realizes There Is An Alternative – fixed income coupons are much more attractive – TIAA – and those voices are competing to command attention. The TINA and TIAA reunion isn't occasioned by the death of a loved one but rather the rebirth of an ostracized family member, inflation. Much to TINA's dismay, TIAA's arrival promises to make life interesting, and more than a little volatile.

My friend and partner David Altman and I entered the business a few short months apart, he in June of '81, me in October. In August '82, the stock market marched higher and rarely looked back, a nod to then Fed Chairman Paul Volcker's success in ridding the economy of the mid/late 70's energy-induced inflation spiral. The secular decline in rates (see below chart from Strategas) promoted strong real economic growth, the embrace of risk, and a bull market in stocks that punished bears relentlessly.

Source: Used with permission of Strategas Research Partners.

Long May You Run

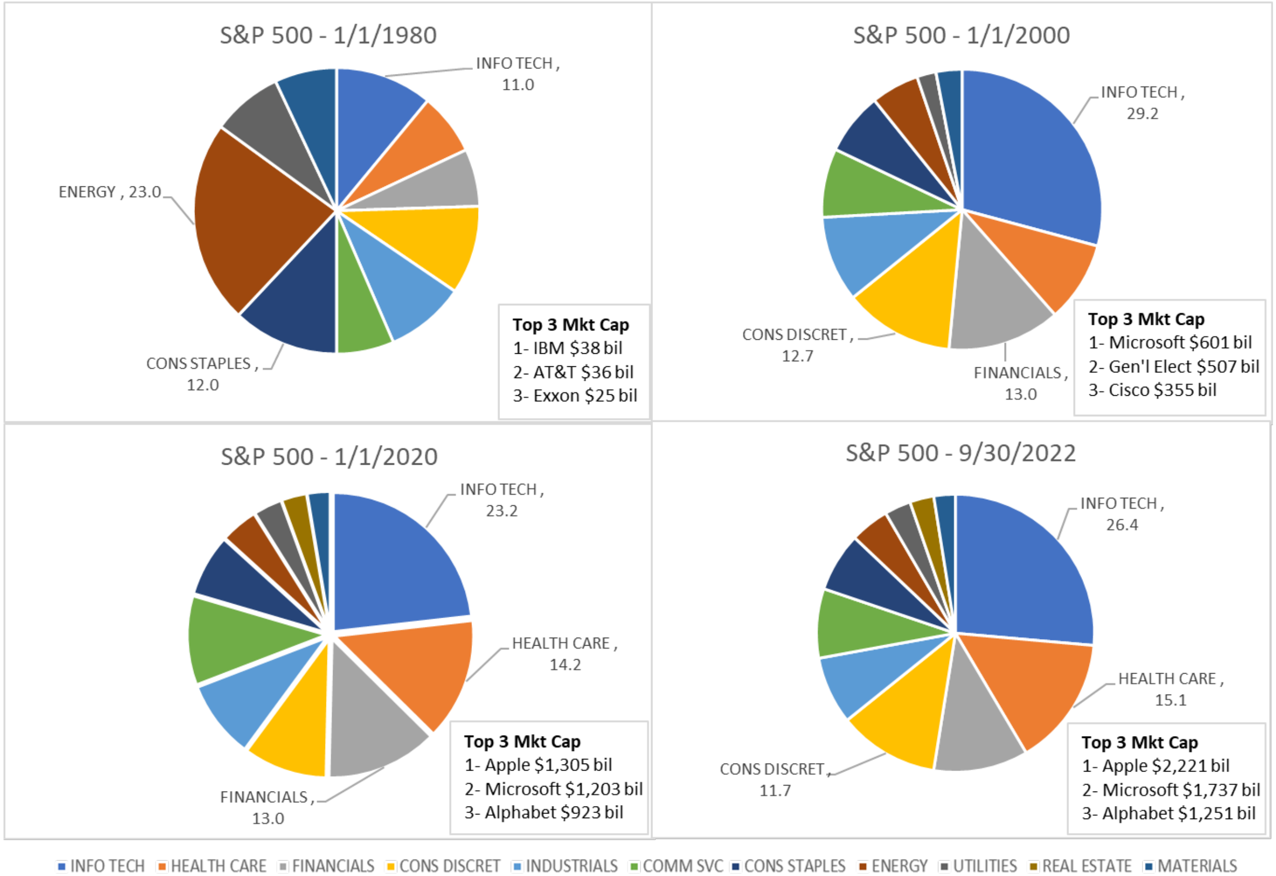
The Wall Street Journal published an article on August 7, 2022, entitled “RIP Big Bull Market (1982-2022)”:

> “On August 12, 1982, the Dow Jones Industrial Average bottomed at 776.91, around where it was in January 1964....It peaked on January 4, 2022, at 36800, a gain of 47 times, or a 9.6% annual rate, until inflation slew the super bull. I'm really going to miss it.
>
> Were there any clues that a rip-roaring bull market was starting? In 1982 the federal-funds rate was 10%, down from a peak of 19% a year earlier, and it began a long, steady drop until hitting zero in December 2008. It was still zero this March. Not anymore. The price-earnings multiple in 1982 7.7.”

For context, the forward price-earnings multiple on the S&P 500 at 12/31/21, days before the recent market peak, stood at approximately 22.1x. Rising cash flows and expanding multiples catalyzed one of the greatest and longest advances in stock market history.

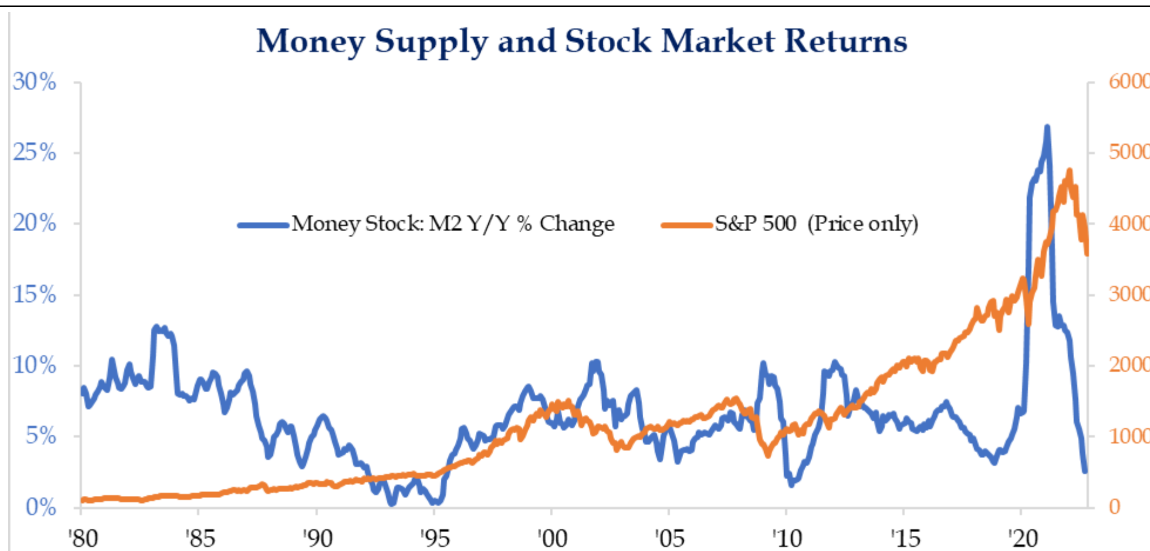
One of the elements of the investment profession I enjoy is to observe how markets, industries, business models, and companies evolve, and how investors allocate capital in recognition of such changes. The charts below, created using data provided by Strategas, illustrate the weightings of S&P 500 since 1980. Tech innovation created enormously powerful ecosystems – that internet thing turned out pretty good, heh? – and the secular decline in rates benefitted capitalization valuations of high-growth sectors, including technology companies, to a great extent.

S&P 500 Index Weightings



Data source: Strategas Research Partners. Please refer to the disclosures on pages 10-11.

As inflation tumbled from the energy embargo peak of the late 70's, secularly declining rates were aided and abetted by a Crisis button on rinse and repeat: the October '87 crash; the early 90's recession; Long Term Capital Management; the dot-com bubble; 9/11; the Great Financial Crisis; the Global Pandemic; Russia's invasion of Ukraine. Indeed, one of the economic aggregates that was the subject of the weekly drumroll early in our careers – money supply – has succumbed to the employment report. That said, money supply still matters – both the quantity and the velocity at which it is exchanged – and the slowdown as the Fed moves from QE to QT is worth monitoring (see chart below).



Source: Strategas Research Partners, Haver, Bloomberg. As of 9/30/2022. Please refer to the disclosures on pages 10-11.

The historical context of the rise in inflation and the cycle of higher interest rates now gripping global economies is one we experienced, not one we've had to read about.

With rates rising meaningfully, the risk-free rate contained in the capital asset pricing model – and from which discount rates are applied to future cash flows – is higher, pressuring price/earnings and free cash flow multiples. Contending with, and adjusting to, a higher cost of capital is the new normal: no lip reader or interpreter is needed to know Chairman Powell's resolve to corral inflation before it becomes intransigent.

HS Management: Keeping the Main Thing the Main Thing

Amidst our daily tango in the financial arena, life goes on: the global population recently surpassed 8 billion; the forecast red wave was in fact a midterm ripple, with moderates and centrists winning the day; China's seeming relaxation of its zero-COVID policy, and the potential boost to flagging economic conditions globally; Ukraine's fiercely inspirational defense in the face of unprovoked Russian aggression; North Korea's nuclear ambitions; and FTX drawing parallels to Enron and Madoff.

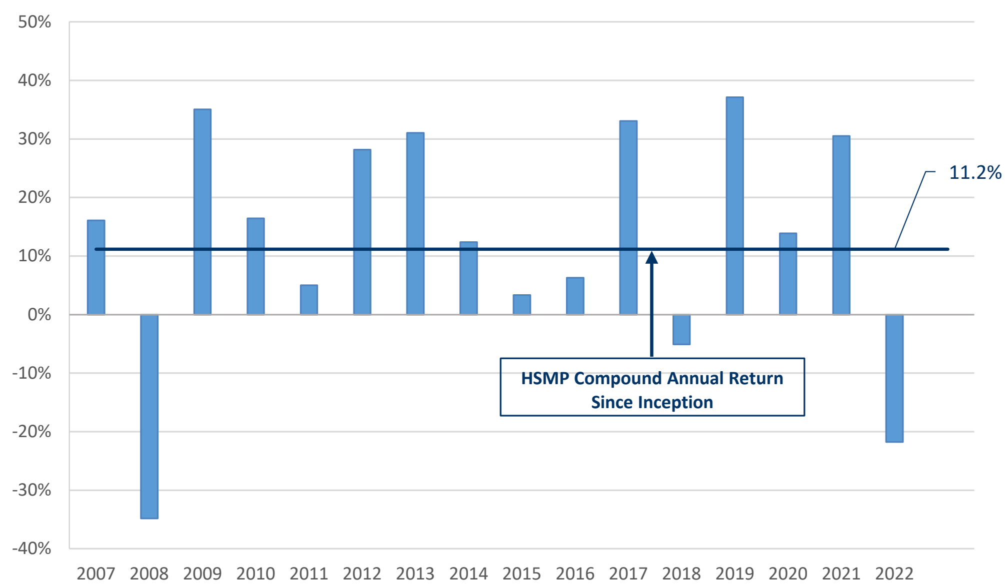
Taking a step back, the signal that is clearly distinct through the noise is that multiple expansion will be harder to come by, and therefore one of the major supports underlying equity market returns over several decades is likely to offer less of a tailwind. Jason Tennert, Strategas' Chief Investment Strategist, echoed this sentiment in a piece dated 11/11/22. In referencing one of the most significant shifts in economic policy since the late 1970's – the movement from QE to QT – Jason observed that companies and investors will find price discovery in the risk-free rate. He believes this in turn will favor the money manager who is more concerned with valuation than momentum, and that an environment in which the cost of capital is no longer free or negative in real terms should greatly increase the dispersion in returns between strong companies and weak ones.

At HS Management Partners, we have employed a consistent philosophy and approach to managing client assets. We've adhered to our investment tagline: Investment styles ebb and flow…fundamentals never go out of favor. Our principles include identifying quality business models that we are proud to own; assembling those businesses into a concentrated portfolio of 20-25 securities; advancing the earnings and cash flow stream in a consistent, visible manner; and being disciplined with respect to valuation. Notwithstanding recent market weakness, we believe we have demonstrated an ability to accomplish our objective over time.

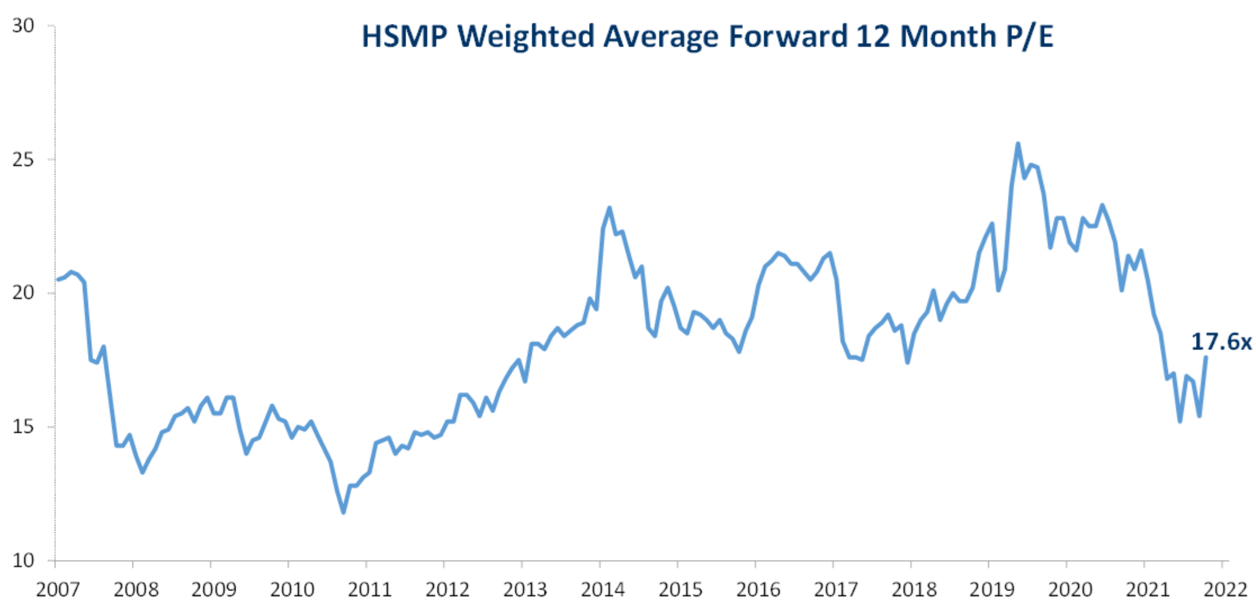
Indeed, two of the main drivers behind portfolio returns – earnings and associated cash flows, and the multiple assigned to those streams – is where we ply our craft. While we are very mindful of valuation when initiating a position and sizing the weighting of that security over time, we recognize Mr. Market has far more influence over that performance determinant. We do have discretion over which businesses we own on our clients' behalf, and place emphasis on advancing the earnings and cash flow stream consistently over time. By no means are our companies immune from economic cycles, though we are attracted to business models with an inherent resilience that may allow earnings and cash flows to hold up reasonably well even in the face of economic headwinds.

The table and chart below highlight our net-of-fee performance since inception, together with the P/E on the HSMP Composite Portfolio over the same interval. Theoretically, if the P/E on our portfolio had remained static over time, net-of-fee returns would be largely attributable to growth in earnings and cash flows. We have witnessed some P/E diminution since inception, and we've managed to overcome that by advancing the portfolio earnings stream.

HSMP Annual Returns



Composite annual performance (net-of-fees) and Composite compound annual return since inception (net-of-fees). The shown annual performance for 2007 is only since inception (4/1/07) through 12/31/07, and for 2022 is only from 1/1/22 through 10/31/22. Performance for 2022 is preliminary (preliminary performance has not yet been verified). Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to pages 9-11 for important information.



Based on HSMP estimates since inception (4/1/07) through 10/31/22. Please refer to pages 9-11 for important information.

Increasingly, as we ponder the Main Thing, we think of the Real Thing – that is, the ability to devise solutions to assist clients in realizing a Real rate of return considering underlying inflation. At the close of the third quarter, our team concluded the combination of dividend yield and anticipated share buyback on a forward twelve-month basis could produce a return approximating 5% (~ 2% dividend yield, 3% reduction in the share count), all else being equal. Although such an outcome would be insufficient to mitigate an inflation rate in the vicinity of 8%, we believe our companies have room to raise dividends and/or pursue buybacks more intently, as the free cash flow yield exceeds the dividend yield by ~350 basis points. Accordingly, should inflation begin to moderate, it is conceivable the Real thing could be realized over time.

We're not sure when the recess in financial markets will end. We do believe the apparent end of the forty-year bull market in bonds will act to govern the valuation assigned to risk assets, including equities, such that advancing portfolio cash flows will be a critical variable to portfolio performance. In the event quality businesses and a valuation discipline become more highly prized when recess ends, we believe we are well positioned.

Many thanks for the trust and confidence you've shown in HS Management Partners. On behalf of everyone at HSMP, wishing you and yours a Happy Thanksgiving and joyous start to the holiday season.

HS Management Partners, LLC
Concentrated Quality Growth Composite

HSMP Composite Performance as of 10/31/22

	YTD	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)	-21.8%	-19.3%	7.1%	10.3%	12.9%	11.2%	421.4%
S&P 500® Index	-17.7%	-14.6%	10.2%	10.4%	12.8%	8.8%	273.6%
Russell 1000® Growth Index	-26.6%	-24.6%	11.8%	12.6%	14.7%	10.9%	399.2%

Performance results are net-of-fees and include the reinvestment of dividends and other earnings. Performance for each period ending 10/31/22 is preliminary (preliminary performance has not yet been verified). Past performance is not indicative of future results. Please refer to pages 9-11 for important performance and disclosures information.

GIPS© Report

	Firm	Composite		Performance Results					3-Year Annualized Std Deviation		
Year End	Assets (USD) (millions)	Assets (USD) (millions)	Number of Accounts	Composite Gross	Composite Net	S&P 500®	Russell 1000® Growth	Composite Dispersion (Std Dev)	Composite Gross	S&P 500®	Russell 1000® Growth
3Q22	**2,274**	**2,097**	**259**	**-3.11%**	**-3.28%**	**-4.88%**	**-3.60%**	**.24**	**22.14**	**20.02**	**22.81**
2Q22	2,832	2,717	275	-18.30%	-18.45%	-16.10%	-20.92%	.09	20.69	18.38	20.80
1Q22	3,563	3,436	278	-7.97%	-8.14%	-4.60%	-9.04%	.34	19.65	17.51	19.20
2021	3,927	3,813	281	31.43%	30.51%	28.71%	27.60%	.64	19.31	17.17	18.17
2020	3,491	3,341	284	14.70%	13.88%	18.40%	38.49%	.14	19.75	18.53	19.64
2019	3,566	3,478	280	38.12%	37.13%	31.49%	36.39%	1.13	11.29	11.93	13.07
2018	3,145	2,967	259	-4.42%	-5.07%	-4.38%	-1.51%	.28	10.04	10.80	12.12
2017	4,028	3,840	236	33.87%	33.06%	21.83%	30.21%	.46	9.61	9.92	10.54
2016	3,446	3,269	199	6.92%	6.25%	11.96%	7.08%	.10	10.72	10.59	11.15
2015	3,143	3,014	176	3.94%	3.32%	1.38%	5.67%	.81	11.03	10.48	10.70
2014	3,295	3,193	148	13.06%	12.39%	13.69%	13.05%	.26	9.85	8.98	9.59
2013	2,392	2,298	136	31.76%	31.04%	32.39%	33.48%	.09	12.26	11.94	12.18
2012	1,622	1,616	94	28.86%	28.16%	16.00%	15.26%	.15	13.82	15.09	15.66
2011	884	880	72	5.55%	5.00%	2.11%	2.64%	.11	15.81	18.70	17.76
2010	531	528	46	17.13%	16.44%	15.06%	16.71%	.28	19.54	21.85	22.11
2009	292	290	32	35.91%	35.06%	26.46%	37.21%	.33			
2008**	172	152	27	-34.49%	-34.80%	-37.00%	-38.44%	N.A.			
2007*	-	6	5 or fewer	16.84%	16.08%	4.83%	10.51%	N.A.			

* Performance shown for 2007 is from April 1, 2007 through December 31, 2007.

** HS Management Partners, LLC charges its fees quarterly in arrears and therefore no significant fees were charged to client accounts in the first quarter of 2008. Had a modeled fee of 0.90% per annum been applied, the net of fee return for 2008 would have been -35.39%.

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios (5 or fewer) in the Composite for the entire year.

The HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, fee paying accounts which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding $500,000 at the time of initial inclusion in the Composite and have a market value exceeding $300,000 to maintain inclusion.

Accounts that have contributions/withdrawals of greater than 10% of their market value (at the time of the cash flow) shall be excluded from Composite membership. Accounts that are not actively managed according to the intended strategy are excluded at the end of the last full day in which they last met the inclusion criteria. Accounts are reinstated into the Composite on the first day after the account again meets our inclusion criteria. Prior to April 1, 2009, our inclusion and exclusion criteria were applied on a monthly basis, rather than daily. There are accounts paying zero commissions included in the Composite. Additional information regarding the treatment of significant cash flows is available upon request. Also available upon request are policies for valuing investments, calculating performance, and preparing GIPS Reports.

For benchmark purposes, the Composite is compared to the S&P 500® and Russell 1000® Growth indices, however, the Composite may contain securities not represented in either or both indices. The HS Management Partners Concentrated Quality Growth Composite was created January 1, 2008 (the inception date of the Composite was April 1, 2007). Prior to January 1, 2008 the accounts in the Composite were non-fee paying individual accounts managed by Harry Segalas in accordance with HS Management Partners' investment policies, becoming HS Management Partners accounts in December 2007.

The Composite Dispersion presented is an internal, asset-weighted risk measure of the variability of portfolio-level returns (gross of fee) around the Composite for those portfolios that are included in the Composite for the entire period. In addition, 3-Year Annualized Standard Deviation is a risk measure computed using monthly returns for the Composite (gross of fee) and Indices and quantifies the variability of returns over time.

The Composite Dispersion presented is an asset-weighted standard deviation calculated using gross performance results for accounts included within the Composite for the entire period. In addition, gross performance results are used to calculate the 3-year annualized standard deviation.

HS Management Partners, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. HS Management Partners, LLC has been independently verified for the period January 1, 2008 through September 30, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the Firm's policies and procedures related to composite, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Concentrated Quality Growth Composite has had a performance examination for the periods January 1, 2008 through September 30, 2022. The verification and performance examination reports are available upon request.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The performance track record from April 1, 2007 through December 31, 2007 has been examined by Ashland Partners & Company, LLP and meets the portability requirements of the GIPS® standards. A copy of their report is available upon request.

HS Management Partners, LLC is an independent SEC registered investment advisor (SEC registration does not imply a certain level of skill or training). The Firm maintains a complete list and description of composites, which is available upon request. Results are based on fully discretionary accounts under management, including those accounts no longer with the Firm. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. When international ordinary shares or ADRs are held in portfolios in the Composite, performance is shown net of foreign withholding taxes. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Prior to January 1, 2008, a representative fee of 0.90% annually was applied to the individual accounts in the Composite managed by Harry Segalas. Additional information regarding the policies for calculating and reporting returns is available upon request. Policies governing compliance with the GIPS® Standards were followed in establishing HS Management Partners' performance record and the accounts to be included therein. In that regard, certain individual accounts managed by Harry Segalas were excluded from the Composite because of material differences in the management style of those accounts and HS Management Partners' investment policies. The GIPS® standards were applied retroactively for the purposes of computing 2007 performance and are being applied prospectively in a consistent manner.

Investment advisory fees are charged as a percentage of on an account's assets under management. The annual fee schedule for accounts that are at least $10 million under management is as follows: 0.90% on first $25 million, 0.70% on next $25 million and 0.50% on the balance. Accounts below $10 million pay the greater of 1% or $10,000. Actual investment advisory fees may deviate from the above fee schedule at the Firm's sole discretion. Please refer to our Form ADV for more information related to our fees.

IMPORTANT DISCLOSURES

This piece represents our opinion as of 11/21/2022 based on our understanding of market conditions and publicly available information. This piece is written from the perspective of our investment philosophy and strategy, Composite performance, and estimated outlook and metrics, and does not refer to any specific client account (client accounts can have higher or lower performance than that shown here or than our Composite). When we use Composite, we mean our HS Management Partners Concentrated Quality Growth Composite, and when we use the portfolio/our portfolio/your portfolio(s), we mean client portfolios in general from our Composite perspective (see below regarding differences between the Composite and client portfolios/accounts and differences between client portfolios/accounts themselves). Composite performance is presented net-of-fees (net of actual investment advisory fees and trading costs) and includes the reinvestment of dividends and other earnings. The performance shown here should not be taken as an indication of how the Composite or a client account will perform in the future; past performance is not indicative of and does not guarantee future results. This piece has forward-looking statements that are by their nature uncertain and based on our assumptions (such as when we refer to possible/future/estimated earnings, free cash flows, earnings-per-share (EPS), price-earnings ratios (P/E), growth rates, dividend yields, market conditions, or portfolio/client portfolio outlook); there is no assurance that forward-looking statements will prove to be accurate as actual results and future events can differ, even materially, from our assumptions. While we believe that our investment strategy will produce desired returns, we do not guarantee that this will be the case, or that we can provide any margin of safety, any actual client experience, any profit or protection against loss whatsoever, or that we will achieve our investment objectives or be successful implementing our strategy. Investing in securities involves significant risks, including the risk of loss of the original amount invested. The following is a summary of some material risks, not all risks, applicable to our investment strategy and advisory business, listed alphabetically.

- Active Management Risk. Active management is key to our investment strategy, and we take an incremental trading approach. This increases trading, which in turn increases trading commissions and/or other transaction costs, fees and expenses that will reduce client returns/performance. Portfolio turnover can also result in short-term capital gains, which can reduce the after-tax return for taxable clients.
- 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.

- 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.
- 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.
- Reliance on Key Personnel Risk. Our CIO and sole Portfolio Manager is considered a key person with respect to our investment strategy. Although other experienced Firm-partner members of the investment team can make investment decisions, the unforeseen absence of our CIO can impair our ability to successfully implement our investment strategy.

Refer to our Firm Brochure (at www.hsmanage.com/documents/ or upon request at 212-888-0060) for material risks applicable to our strategy and information regarding our Firm. Some of the charts/tables 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 information in this piece is solely for illustration/discussion, has not been tailored to any particular recipient, is subject to change without notice, should not be construed as a recommendation to buy or sell any particular security, and should not be used as basis for making investment decisions.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). HS Management Partners, LLC is an independent SEC registered investment adviser (SEC registration does not imply any certain level of skill or training). The HS Management Partners Concentrated Quality Growth Composite includes all fully discretionary, actively managed, investment advisory fee-paying accounts (even if they pay zero trading commissions), which employ our style of investing in 20-25 quality growth businesses. These accounts must have a market value exceeding $500,000 at the time of initial inclusion in the Composite and have a market value exceeding $300,000 to maintain inclusion. Results are based on fully discretionary accounts under management that meet our Composite's inclusion criteria, including those accounts no longer with HSMP. Results reflect accounts managed at another entity: prior to January 1, 2008, a representative fee of 0.90% annually was applied to the individual accounts in the Composite managed by Harry Segalas in accordance with HSMP's investment policies, becoming HSMP's accounts in December 2007. The U.S. Dollar is the currency used to express performance. For more information or list of composite descriptions, please contact us at 212-888-0060. A copy of our fully compliant GIPS® Report is included in this piece.

The Composite is compared to the Russell 1000® Growth Index (R1000G) and the S&P 500® Index (S&P 500) as benchmarks for market context. The R1000G is an unmanaged index that measures the performance of those Russell 1000® Index companies (largest 1,000 U.S. companies based on market capitalization) with higher price-to-book ratios and higher forecasted growth values. The S&P 500 is an unmanaged market capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. There are meaningful differences between the Composite and each index that should be considered when comparing performance, such as in terms of composition, concentration and volatility (e.g., the Composite contains securities not represented in either index and is much more concentrated than either index in terms of companies and sectors; the average market capitalization of companies in the Composite will likely differ from that of either index; and market or economic conditions can affect positively/negatively the Composite's performance but not the indices to the same extent). In addition, neither index bears fees and expenses and investors cannot invest directly in either of them. Furthermore, we do not seek to mimic any market index in our investment approach and do not maintain limits on industry or sector weightings.

Although most discretionary client accounts are included in the Composite and dispersion is typically low over time, not all client accounts are in the Composite, and even for those in the Composite, there can be dispersion, particularly for small client accounts and also when viewed over narrow time periods. Small accounts generally experience higher dispersion from our Composite than large accounts primarily because they do not participate in trading, allocations, and aggregations to the same extent as large accounts given their size and that actual participation in trade orders depends, among other factors, on cash available in an account and on our imposed per-order share minimums, which typically range anywhere from 5 to 100 shares depending on the stock price. 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.

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.

We typically build a concentrated portfolio with a hard cap on company names and with an aim to keeping clients' capital nearly fully invested. Our investment advice is limited to domestic and foreign equity securities of publicly traded companies. Client accounts generally hold 20-25 companies, although in certain circumstances they may hold more or less names. We do not maintain limits on industry or sector weightings, and while we do limit portfolio positions by company, clients' portfolios are likely to be significantly concentrated by sector, industry and/or geography, among other factors (client accounts can typically have over 50% exposure to the consumer discretionary, consumer staples and/or technology sectors). Cash is not a major component of our investment strategy, and we tend to keep client accounts almost fully invested with less than 1% residual cash position after a trading day. Our portfolio has typically been invested in what are generally considered more established, large cap names (over traditionally growth companies and mid-small cap companies).

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

When we use HSMP, HS Management Partners, or Firm, we mean HS Management Partners, LLC.