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MANAGEMENT PARTNERS, LLC

HS Perspectives

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

(Too Much) Money Changes Everything

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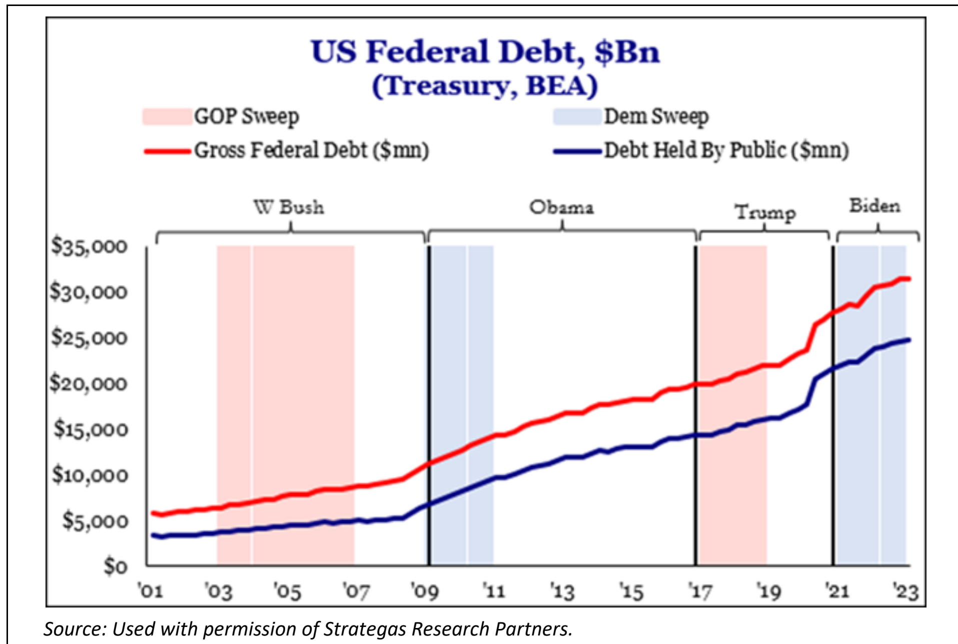
Most Americans would agree – as would observers beyond our borders who closely monitor the U.S. scene – that the level of incivility in the U.S. is at an extreme pitch. Were Dale Carnegie to issue a modern-day sequel to "How to Win Friends and Influence People", the prologue might well include the advice to avoid any conversation of a political nature. Family and friends have been torn asunder by divisions that, once suppressed in the spirit of keeping world (or, at the least, dinner table) peace, are now featured like a badge of honor. The shield is worn proudly, conveniently satisfying the human desire for association and affiliation by aligning with the political party/candidate/issue of choice.

As I thought about my patriotic responsibility to, in some small way, unify otherwise disparate perspectives, I wondered long and hard about where bipartisan support exists beyond a theoretical framework. Our upcoming Memorial Day celebration is intended to honor the courageous and selfless acts of Veterans from all disciplines of our military service, and that is certainly a tribute all Americans proudly rally around. With Memorial Day as inspiration, and after pondering the topic for thirty seconds, the current state of global financial disequilibrium spoke to me an indisputable truth: (Too Much) Money Changes Everything, and politicians of every persuasion – campaign rhetoric be damned – love to spend, spend, spend. Other People's Money (OPM) may have been monetized on Wall Street, but its popularity was borne and still sails mightily on the shores of the Potomac. Traditions die hard, if at all…and the propensity to spend is one the right and left have agreed to agree on.

Bipartisanship lives in the mountainous collection of debt we've accumulated.

(Too Much) Money Changes Everything

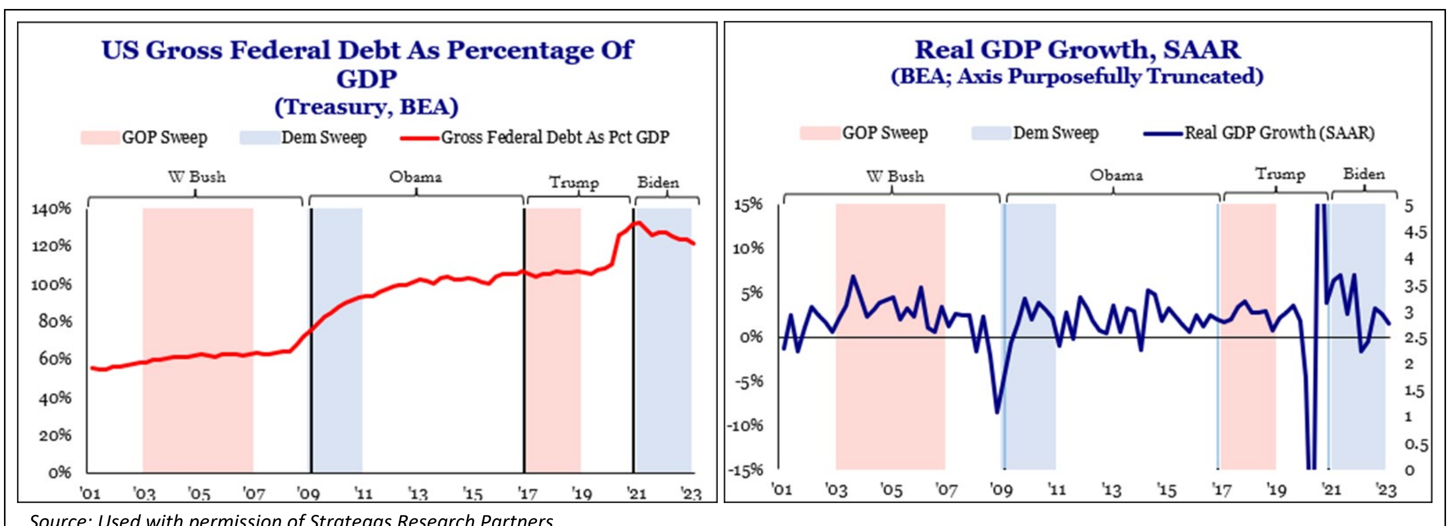
While the annals of U.S. history illustrate the national acceptance of debt, I elected to rely on relatively recent history to detail the scale and scope of our borrowing dependence. Since 2000, we've had a two-term Republican President (Bush 01-09), two-term Democrat (Obama 09-16), a one-term Republican (Trump 16-20), and we are on the back nine of Democrat Biden's first term. The symmetry of party balance in the White House is mirrored by the rise in the Federal debt (see chart on next page). Perhaps the customary private letter left by the outgoing President for the new occupant of the Oval Office contains a consistent and very clear directive.



Source: Used with permission of Strategas Research Partners.

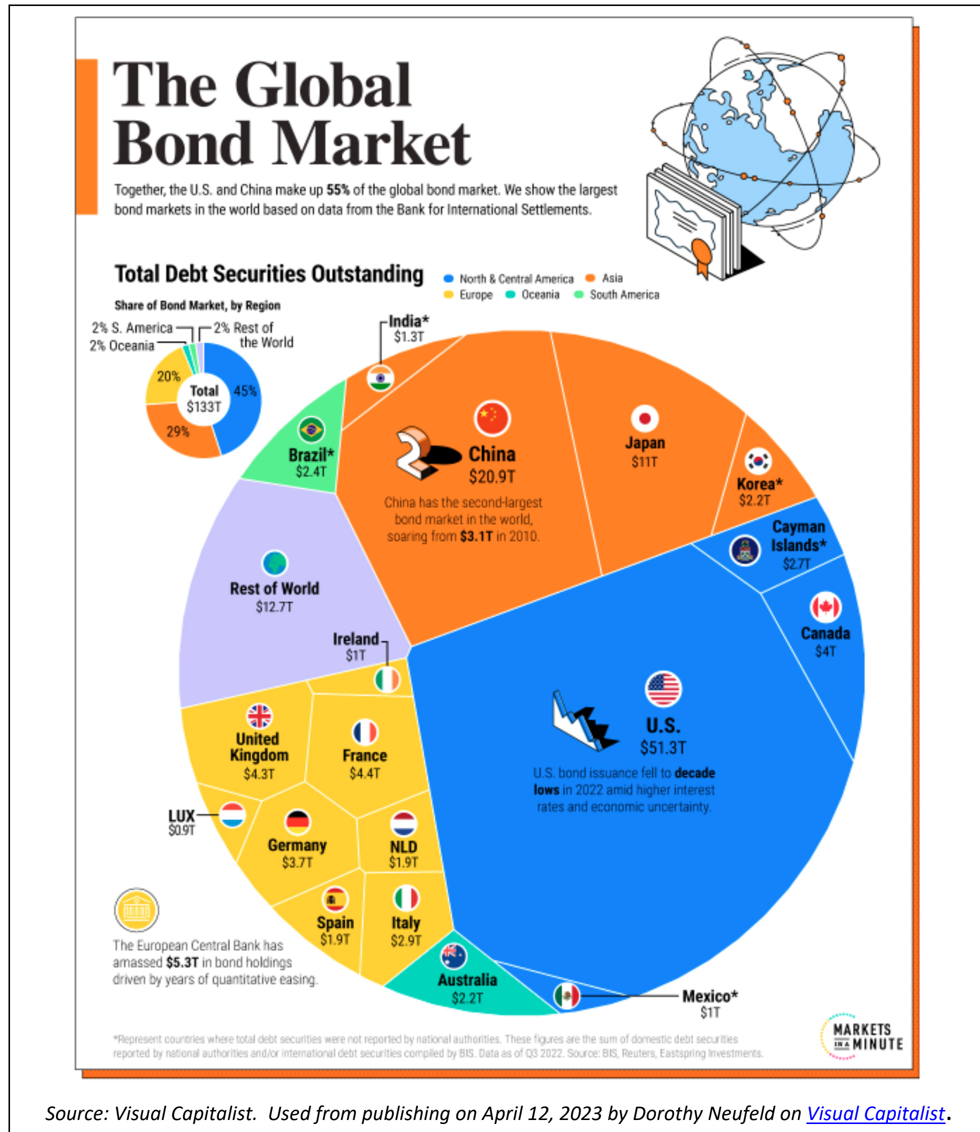
There is little question seismic episodes – 9/11, the Great Financial Crisis (GFC), the 2011 debt ceiling stare down (a repeat of which has markets anxious for what's now upon us), the global pandemic (February/March 2020), the Russian invasion of Ukraine (February '22), the demise of Silicon Valley Bank (and others) – contributed to stresses about economic and financial disequilibrium at such times. Easy money persisted long after the apex of the respective crises, amplifying speculative excesses in real estate and financial markets. (For more, see This Too Shall Pass dated 5/26/22, The Fed Put is Ka(Put) dated 3/15/22, and The Last Waltz dated 2/3/22.)

Since the start of the millennium, U.S. GDP has advanced from $10.4 trillion (2000) to $25.9 trillion, trailing considerably the buildup in debt balances. The resultant debt to GDP ratio is stunning. Debt as a percentage of GDP has advanced in each interval, and the cumulative effect yields a percentage of 122%. It's as though the U.S. has moved into a house 2.5x larger than its previous dwelling and become 5.5x more levered in the process. What happens when you move into a house 2.5x as large and you're 5.5x more levered? It usually doesn't end well, as the margin of error shrinks under the weight of carrying costs, principal repayments, and hard to anticipate though inevitable expenditures necessary to preserve the asset.



Source: Used with permission of Strategas Research Partners.

Of course, the U.S. is not unique in our appetite as an issuer, and the global penchant for debt is among the reasons systemic risk and financial contagion has markets laboring with one eye open at night.



Source: Visual Capitalist. Used from publishing on April 12, 2023 by Dorothy Neufeld on Visual Capitalist.

The Fear Gauge…The Delusion of Market Timing

J.P. Morgan observed that the confluence of bank failures, economic instability, market volatility and high inflation have raised the specter of a "Minsky moment", named after the American economist Hyman Minsky. The Minsky moment is a reference to the end of an economic boom (in this case sparked by easy money for too long followed by too sudden global central bank tightening). Abundant liquidity at negligible interest rates encourages risk taking in the form of excessive borrowing, and an inability to repay borrowings when there is a destabilizing shock to the system…forced asset sales impair balance sheets further, with negative consequences for institutions and individuals, a reverse wealth effect, etc... Referring to the abruptness with which collapses may occur, J.P. Morgan analysts cited a quote, "There are decades where nothing happens; and there are weeks where decades happen."

Such stark and dire warnings could encourage placing your money under the mattress; capital preservation becomes the Darwinian financial incentive when the pendulum swings to fear from greed. As long-time clients of HS Management Partners (HSMP) know, we are fully invested on behalf of our clients at all times: market timers we're not. And for good reason, as the table below depicts – being out of the market at arbitrary times is more costly than being consistently engaged, considering the detrimental effects on performance associated with trying to outmaneuver Mr. Market.

Source: JonesTrading, 3/21/23.

Behavioral finance is a fascinating science, and the intersection of investment decisions when fear beckons while market timing falsely tugs – often pulls – investors out of positions at the most inopportune times will forever characterize the circle of life in financial arenas. At HSMP, our consistent approach of seeking to identify quality businesses capable of growing the portfolio earnings/cash flow stream, while being highly attentive to valuation, is the philosophy we employ that offers a construct to brave invariable market turbulence.

Fear of Missing Out (FOMO)

The market has staged a meaningful rally from the 10/12/22 low (S&P +17.6%, NASDAQ +18.0%) through the end of April, and in the process has ascended the proverbial wall of worry: Russia/Ukraine; China/Taiwan; China-Saudi Arabia-Iran; China reopening; hard/soft/no landing; the rolling hills of inflation; 60/40's denial last year (both asset classes declining) and this (both asset classes advancing); growth outpacing value; a crisis of banks (as distinct from a banking crisis); services advancing as goods consumption eases; brick and mortar gaining cyclically vs. e-commerce; ChatGPT; the indictment of an ex-President; the massive leak of U.S. intelligence; an active, and potentially catastrophic, debate on the U.S. debt ceiling.

It is easy to get caught up in the FOMO narrative: bifurcated dialogue often influences markets. We know, however, that away from the edges of market psyche, the truth lies between the brackets of bullish and bearish sentiment.

At HSMP, we aspire to take advantage of the pendulum swinging between fear (the better part of the first three quarters of '22) to now greed (10/12/22 to date). Like any accomplished team, we seek to take what the market gives us, operating across the growth continuum, up and down the cap scale, and owning non-U.S. businesses that satisfy our qualitative criteria. Our portfolio changes over time illustrate our philosophy in motion.

As a boutique manager, we believe we enjoy certain advantages, including the capability to move quickly by mobilizing all team members rapidly. We also have an appreciation for the importance of cash flow and balance sheets. We believe our recognition of the importance of fixed income analysis differentiates our practice and philosophy in so far as we integrate balance sheet analysis, sustainable cash flows, and credit default swap (CDS) spreads into our security selection and monitoring discipline. We have incorporated an equity risk premium tool into our Focus List that represents the intersection of risk and return in a daily metric applied to each security under consideration.

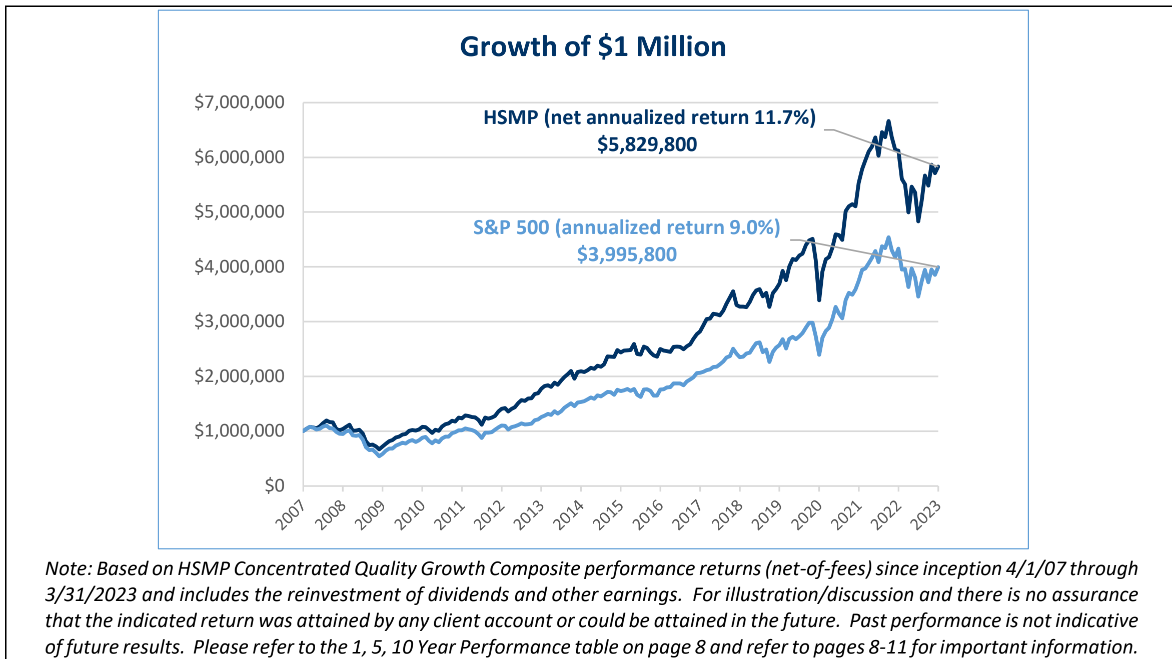
As the U.S. debt crisis has increased the perceived risk of default on government debt, CDS spreads – a measure of insurance to protect against default – have similarly risen. Several weeks ago, Strategas published a report highlighting the number of U.S. companies with CDS spreads below that of the U.S. government – yes, there are several U.S. businesses with insurance protection as measured by CDS spreads below that which investors are commanding for Treasury debt. We pride ourselves on owning quality businesses with strong balance sheets and free cash flow profiles. As of Friday's close (5/12), more than half of the securities in client portfolios representing over 60% of portfolio value were represented by businesses with lower CDS spreads than U.S. Treasuries, a dimension of our philosophy and process that bolsters our conviction in challenging market environments.

For HSMP, (Too Much) Money Changes…Nothing

Our performance is a function of owning quality businesses capable of advancing the portfolio cash flow profile at an above average pace, and applying capital at an attractive valuation, with emphasis on a reasonable margin of safety. We believe dividends will play an increasingly important role in total shareholder return, and we recognize cash flow and dividends are facts – not the subject of some accounting discretion as applies to earnings derivations. With a bit more than a third of the calendar year behind us, we own 13 holdings which have raised dividends year-to-date, with a median increase of 10% and an average excluding the high and low of 16%. Providing clients with a "real" solution that will allow portfolios to compete with an inflation rate that is likely to persist some level higher than has existed for the last twenty years, is an important ingredient to client portfolio construction.

Our now sixteen-year body of work (through 3/31/23) has yielded an 11.7% annualized rate of return*, 270bps (basis points) better than the S&P 500 per annum, on average (see Growth of $1 Million chart on the next page and refer to the 1, 5, 10-Year Performance table on page 8). Portfolio performance is largely derived from cash flow growth and the attendant valuation paid for a given security. The valuation on the portfolio today is nearly identical to that which existed when we opened our doors, a bit north of 20x. With a relatively static price/earnings (P/E) ratio, most of the advance in performance has been occasioned by assembling a collection of businesses that have exhibited consistent low double-digit growth in cash flows. In a climate where rates are likely to remain structurally higher, acting as a ballast against P/E expansion, plying our craft with an emphasis on growing the portfolio cash flow pool will be more important tomorrow than it was yesterday.

**Past performance is not indicative of future results.*



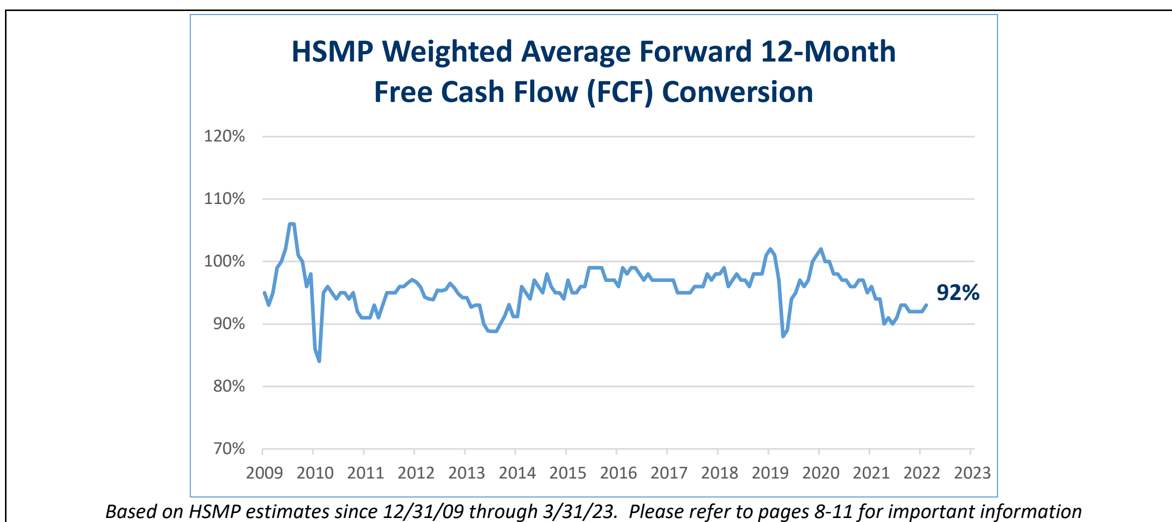
Note: Based on HSMP Concentrated Quality Growth Composite performance returns (net-of-fees) since inception 4/1/07 through 3/31/2023 and includes the reinvestment of dividends and other earnings. For illustration/discussion and there is no assurance that the indicated return was attained by any client account or could be attained in the future. Past performance is not indicative of future results. Please refer to the 1, 5, 10 Year Performance table on page 8 and refer to pages 8-11 for important information.

Free Cash Flow: The Quantitative Signal of Quality Businesses

Quality businesses have many characteristics in common, though to our mind one is tangible above all else: they generate free cash flow above and beyond mandatory capital spending, business reinvestment, and working capital requirements. When we think of quality businesses, one thought rises to the top: the ability to generate free cash flow. Absent other characteristics – leading market positions, pricing power, large market opportunities, talent from the C-suite to the company cafeteria, formidable and widening barriers to entry – abundant free cash flow would not exist. So, quality businesses invariably have a singular quantitative marker: free cash flow. When capital markets seize up, those capable of self-financing with inherently advantageous free cash flow profiles shine more brightly, as they should, because that singular qualitatively quantifiable attribute becomes recognized for what it is – a thing of beauty, the financial equivalent of a Picasso.

Free cash flow is the quantitative metric – to us, the singularly most important quantitative metric – that defines a quality business model…most if not all other metrics are noise to the free cash flow signal.

Our emphasis on cash flow has been among the many constants in our practice, and we've been fortunate to select businesses that have exhibited a high degree of cash flow consistency over time (see chart below.)



Based on HSMP estimates since 12/31/09 through 3/31/23. Please refer to pages 8-11 for important information

In a world where easy money no longer exists, we believe the importance of free cash flows and strong balance sheets is about to have its day in the sun, and that illumination could last many, many years. While we have long recognized the importance of free cash flow, cheap credit substantially diluted that attribute, providing oxygen to companies that otherwise behaved recklessly from a capital perspective because they could: the consequence of value destructive behavior in an era when the cost of capital was free was, in some instances, the ability to raise more capital when the well ran dry. It is possible that the allocation of capital among many of our businesses may be directed more offensively, externally, and strategically – think M & A – than purely internally and tactically – fortressing balance sheets, reinvestment, buybacks, and dividends. The competitive advantage afforded by quality – read: cash flow – franchises arrives at an opportune time, when economic concerns, financial market dislocation, inflationary impulses, and the last exhale of Zombie companies will allow prudent management teams opportunities for distinction: not only do they possess the financial wherewithal to do so, but those management teams capable of pursuing a prudent external path (as a complement to reinvestment/returning capital to shareholders) will advance their growth at an above average rate. And they may have the luxury of doing so with fewer buyers at the table, for whom financing has become more difficult, with potentially positive implications for valuations among strategic buyers. In a world where the International Monetary Fund believes the five-year outlook will produce less than 3% real GDP growth – the slowest pace of global growth since the early 90's, and with the U.S. forecast as a laggard – the scarcity of growth will serve those who can employ their financial muscle effectively to be rewarded (think higher valuations) in a way that has not existed since the turn of the century.

The Madness of Crowds…The Road Less Traveled

We'll leave others to lament FOMO, to invest on the fringes of fear and greed, to parse growth vs. value. We've enjoyed respectable absolute and relative returns over time by effectively embracing our core competencies, and we again affirm those disciplines at a time of heightened market uncertainty...FOMO is a place best known by the madness of crowds...our journey is on the road less traveled, and for sixteen years, and in our own perfectly imperfect way, that has made all the difference.

I would like to take a moment to acknowledge the upcoming retirement of our former Chief Compliance Officer and Senior Vice President of Operations, Ron Staib. Ron joined HSMP as our CCO and one of our first team members. He was there when our conference room consisted of a card table and folding chairs. Many of the practices and procedures that exist at HSMP have Ron’s handprint and will serve us well for many years to come. On behalf of the Partners and all members of the HSMP Team, past and present, thank you Ron on a job well done…you left HSMP a better place than you found it, and that is the purest measure of success.

Many thanks to clients for the trust and confidence you’ve shown in HSMP over the years; it is a responsibility we accept with enormous seriousness and pride. A pleasant and safe summer to all.

A note of gratitude this Memorial Day to all Veterans past, present, and future who’ve served – and will serve – our nation so valiantly.

See pages 8 - 11 for important disclosures.

HS Management Partners, LLC
Concentrated Quality Growth Composite

HSMP Composite Performance

HSMP Composite Performance as of 3/31/23							
	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)	6.3%	-4.8%	19.8%	12.2%	12.6%	11.7%	483.0%
S&P 500® Index	7.5%	-7.7%	18.6%	11.2%	12.2%	9.0%	299.6%
Russell 1000® Growth Index	14.4%	-10.9%	18.6%	13.7%	14.6%	11.3%	451.2%

Performance results are net of fees and include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

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
1Q23	**2,450**	**2,303**	**246**	**6.52%**	**6.33%**	**7.50%**	**14.37%**	**.15**	**19.86**	**18.96**	**22.73**
2022	2,427	2,308	250	-17.14%	-17.74%	-18.11%	-29.14%	.39	23.05	20.87	23.47
2021	3,927	3,822	281	31.43%	30.50%	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.

See pages 8 - 11 for important disclosures.

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.

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 December 31, 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 December 31, 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 5/18/2023 based on our understanding of market conditions and publicly available information, and is intended for Institutional and High-Net-Worth investors only. This piece is written from the perspective of our investment philosophy and strategy, Composite holdings, performance, and estimated outlook and 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. Composite performance is presented net-of-fees and trading costs, and includes dividends, interest, 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. Some charts were obtained from third-party sources which we believe reliable, but we did not verify, nor do we guarantee the accuracy of this information. The J.P. Morgan comments were sourced from the Yahoo Finance post of the original Fortune March 21, 2023, article titled, "Already past the point of no return' J.P. Morgan says the U.S. is probably headed for a recession as economic 'engines are about to turn off". In the article, the J.P. Morgan analysts wrote, "There are decades where nothing happens' and there are weeks where decades happen," citing a famous Vladimir Lenin quote.

This document may contain forward-looking statements relating to the objectives, opportunities, and the future performance of the U.S. market generally. Forward-looking statements may be identified by the use of such words as; "believe,", "anticipate," "estimated," and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of any particular investment strategy. All are subject to various factors, including, but not limited to general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting a portfolio's operations that could cause actual results to differ materially from projected results. Such statements are forward-looking in nature and involve a number of known and unknown risks, uncertainties and other factors, and accordingly, actual results may differ materially from those reflected or contemplated in such forward-looking statements. Prospective investors are cautioned not to place undue reliance on any forward-looking statements or examples. None of HSMP, its affiliates, principals nor any other individual or entity assumes any obligation to update any forward-looking statements as a result of new information, subsequent events or any other circumstances. All statements made herein speak only as of the date that they were made.

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.

- 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 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. The technology industry is sensitive to rapid and unforeseeable innovation and product obsolescence.
- 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 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.
- 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 http://www.hsmanage.com/documents/ or upon request at 212-888-0060) for material risks applicable to our strategy and information regarding our Firm. The information here is solely for illustration or 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, 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 for a copy of our fully compliant GIPS® Report and/or list of composite descriptions, please contact us at 212-888-0060.

See pages 8 - 11 for important disclosures.

In some instances, Composite performance is presented by itself on an absolute basis (without comparing it to an index or benchmark) and in other instances, the Composite is compared to the Russell 1000® Growth Index and the S&P 500® Index as benchmarks for market context only. The Russell 1000 Growth Index 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® Index 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 or both indices 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. For these and other reasons the Composite does not directly relate to an index. 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. 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. Client account holdings and performance can deviate from our Composite and/or from other client accounts, and also from the representative portfolio, 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.

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 some cases 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 not been tailored for any specific recipient or recipients. Accordingly, the information here 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.

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