

Investment Perspective

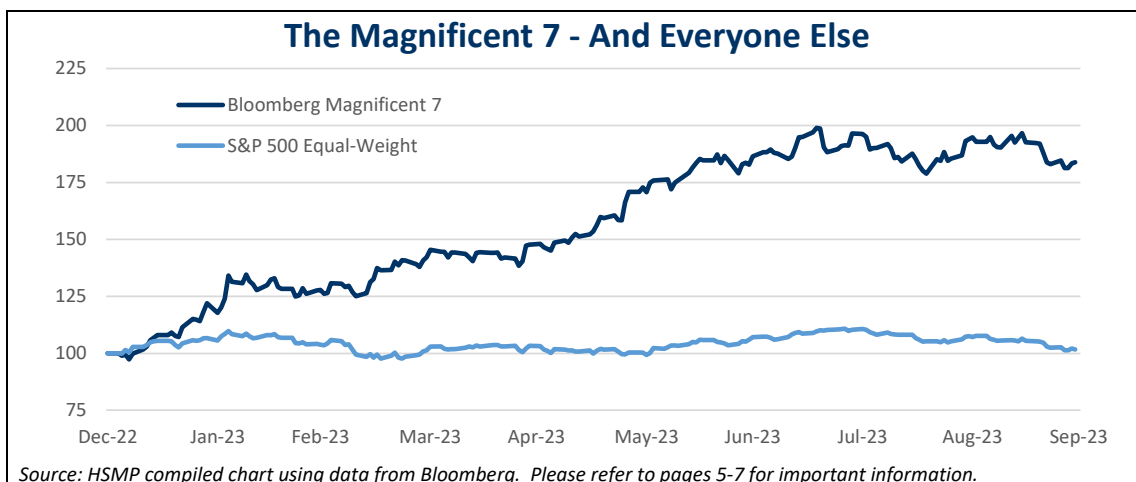
Portfolio values are driven by earnings growth, price/earnings ratios, and dividends. So far in 2023, the positive upward pressure from the growth in your portfolio’s underlying earnings (about 10% annualized) and the contribution from dividends (about 2%) has been offset by a drop in price/earnings ratios.

The decline in the price/earnings (P/E) ratio began in August, which explains the pullback we experienced during the third quarter. Your portfolio P/E started the year at about 19X estimated forward 12-month EPS (earnings per share) and then rose to 20X by the end of July before declining steadily to less than 18X by September 30th.

The culprit behind lower P/E ratios has been the dramatic rise in the ten-year bond yield, from 3.87% at the year’s start to 4.58% on September 30th. Bond market vigilantes want to be compensated for higher inflation rates and rising deficits. While the ten-year bond yield has moved up sharply over the past few years (the low was 0.51% in 2020), it is moving back toward historical norms.

As owners of long-duration assets, current values are a function of future earnings and cash flows, discounted back to present value. As interest rates climb higher, this discounting mechanism decreases current values. While there is much sound and fury around us, to a very large extent, this explains what has transpired so far this year. Your portfolio’s earnings progress and the contribution from dividends have been curbed by a lower valuation.

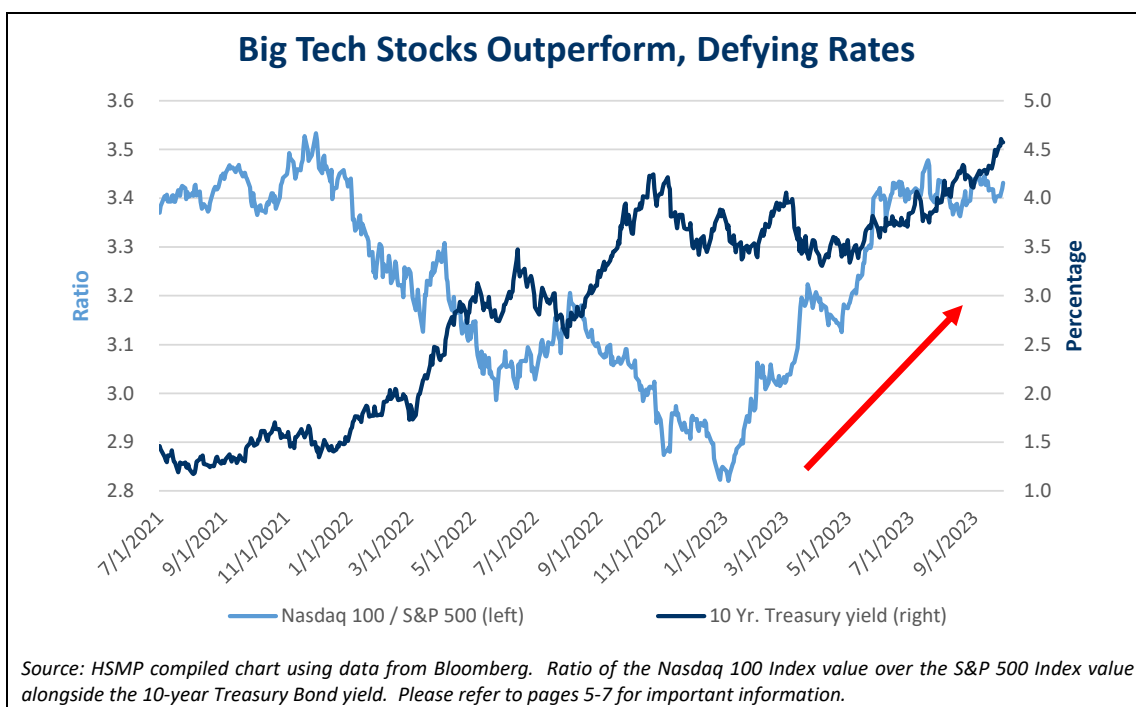
This phenomenon — rising rates hurting P/E ratios—is not unique. Most equities are seeing little to no progress this year. There is an exception though...a very large and impactful exception...and that is in the technology space. The Magnificent Seven (AAPL, AMZN, GOOG, META, MSFT, NVDA, TSLA) are up a whopping 80%+ this year through September. Going further, the top ten market-capitalized companies account for almost all the S&P 500’s 13.1% year-to-date advance. In contrast, the equal-weighted S&P 500 Index is up 2%. Apart from the Magnificent Seven, this means on average the other 493 stocks are down this year. Year-to-date our portfolio was up 4.2% net-of-fees through Sept. 2023 (refer to the 1, 5, 10 Year Performance Table on page 6 and pages 6-8 for additional information).



The Magnificent Seven’s rise can be attributed to several factors. Many of these companies’ shares declined significantly last year and this year’s advance represents a large, but not full, rebound in value. These companies have strong balance sheets and, in that sense, are relatively more attractive in a period of tighter financial conditions. However, this is true of many other equities — including all of those within your portfolio — that have not curried favor with markets this year.

The emergence of artificial intelligence (AI) appears to be the catalyst of the Magnificent Seven’s ascent. This has boosted current results for some, enhanced the perceived future earnings power for others, and led to a willingness to reappraise future growth earnings power more enthusiastically for all.

So, in contrast to our portfolio and the market at large excluding the Magnificent Seven — both of which have seen P/E ratios drop as interest rates have risen — the Magnificent Seven have seen P/E ratios rise in the face of higher rates, which is unusual. In sum, our portfolio valuation has been correcting to lower levels as rates moved higher...the Magnificent Seven, and technology at large, have yet to do so.



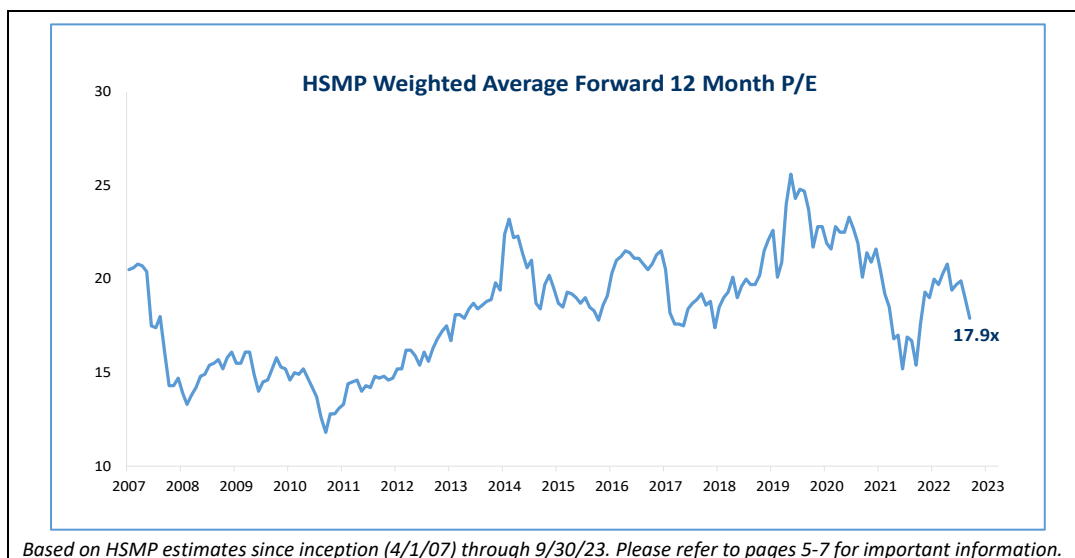
While it is no fun as an investment manager or a client to go through these periods, 40+ years of investment experience and a lifetime around this business provides needed perspective during these challenging stretches. In times like this...we stick to our knitting.

Our focus remains on our single methodology: find good businesses, that grow the earnings and cash flow stream, and adhere to our valuation discipline. We continue to move across the growth continuum seeking to own both dominant, durable, defensive growers with duration to more rapid, top-line growth companies so long as the fundamentals are strong, and the valuation is attractive. We continue to move up and down the market capitalization scale owning both multi-trillion-dollar market capitalization companies and equities with market capitalizations of \$10 billion or less. And we remain willing to own non-U.S. domiciled companies that have the same fundamental characteristics of our U.S. based holdings.

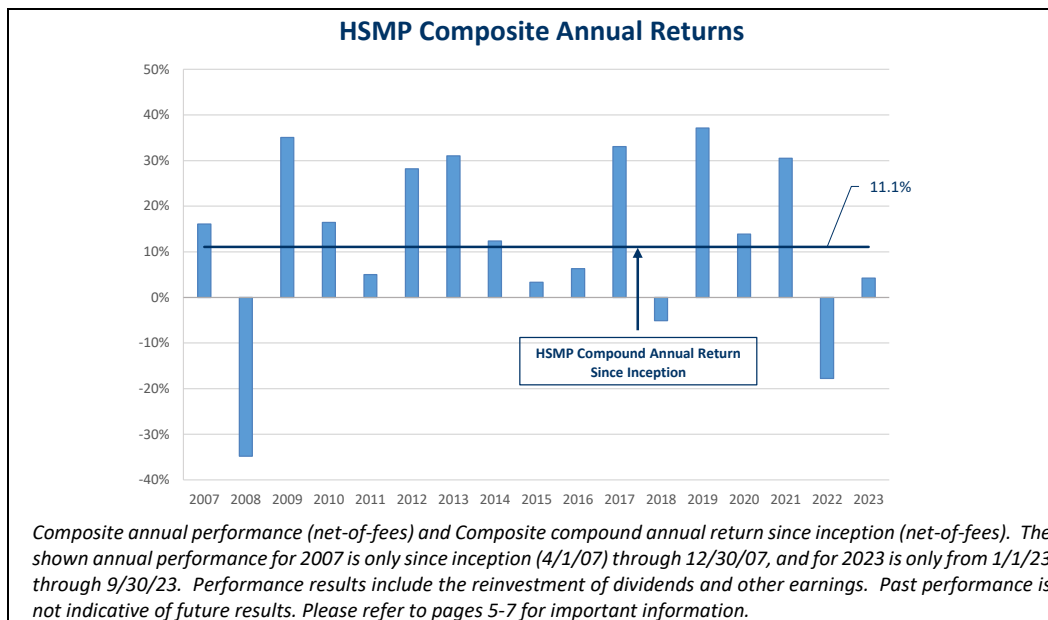
In doing so, we've assembled what we believe is a defensive earnings stream, that is not stretched on valuation, and will collect growing dividends that add to total returns. *To be sure, this is not this year's model of what's in vogue.* That said, the macro matters and the rise in interest rates is slowing the economy. We have seen our valuations correct and believe resilience will be prized again. The growth of dividends should augment returns and ample excess free cash will be targeted to accretive share repurchase. This financial flexibility in a time of tightening financial conditions and the end of easy money bodes well for your portfolio companies' competitive positions.

Investment Outlook

Our bottom line is simple. We like what we own and think the current pullback represents an attractive entry point for long-term investment capital. We estimate portfolio earnings could advance roughly 10% going forward, even in the face of an economic slowdown. The retreat in P/E ratios has made valuation more attractive, even considering the likelihood of interest rates being sustained at higher levels.



To be sure, the rise in interest rates can cause dislocations in valuations. That said, as an investor in long duration quality assets, we are currently receiving a 5.6% earnings yield in roughly a 5% ten-year bond yield world. This ratio of more than 100% is historically attractive. If earnings compound at approximately a 10% pace, the \$5.60 in earnings we receive for every \$100 invested will grow to about \$9 five years out, and more than \$14 ten years from now. The growth in earnings — along with the dividends accumulated over that time — is what has driven absolute returns over time.



As you know, we are bottom-up and benchmark-agnostic in our approach. That said, we’re well aware that relative returns have fallen behind major indexes that have become increasingly concentrated. We believe we are well positioned to deliver on our investment goal of *positive absolute returns over a market cycle with stock appreciation complemented by a growing dividend stream while being keenly mindful of risk*. Given current valuation dynamics and the prospects for more moderate economic growth, this could also result in superior relative returns in the years to come. We are optimistic about the future.

Thanks as always for your confidence and trust in us.

Sincerely,

Harry W. Segalas

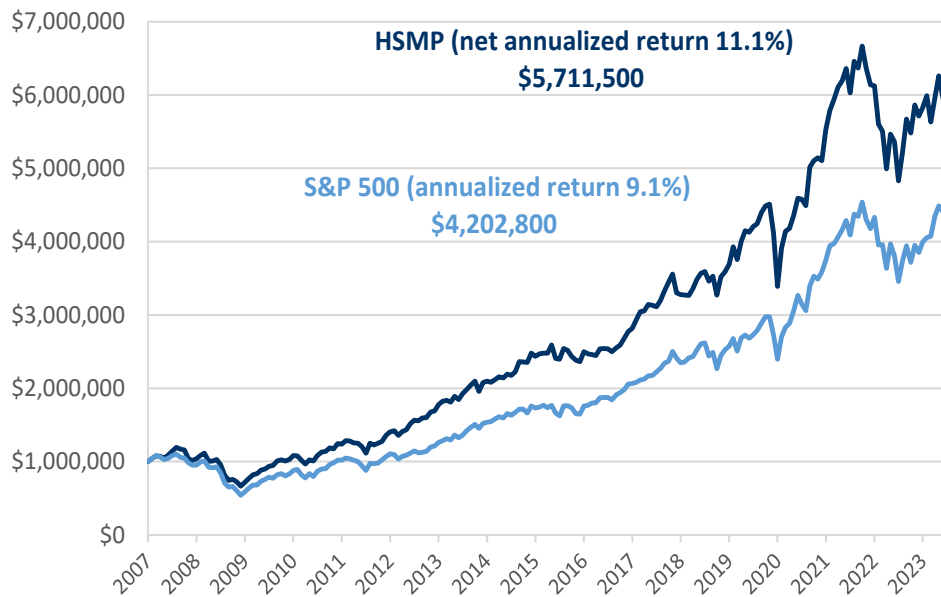
Portfolio Profile (9/30/23)

HSMP Composite Performance as of 9/30/23

	3Q23	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)	-4.1%	4.2%	18.3%	7.7%	9.7%	11.5%	11.1%	471.2%
S&P 500® Index	-3.3%	13.1%	21.6%	10.2%	9.9%	11.9%	9.1%	320.3%

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 5-7 for important information.

Growth of \$1 Million



For illustration/discussion only, based on HSMP Composite annual returns (net-of-fees). There is no assurance that the indicated return was attained by any client account or could be attained in the future. Annual performance for 2007 is since inception (4/1/07) through 12/31/07, and 2023 is 1/1/2023 through 9/30/2023. Performance results include the reinvestment of dividends and other earnings. Past performance is not indicative of future results.

IMPORTANT DISCLOSURES

This piece represents our opinion as of 10/11/23 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.

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.

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 S&P 500® Index as a benchmark for market context only. The S&P 500® Index is an unmanaged market capitalization-weighted index of 500 stocks 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 the S&P 500 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 the S&P 500 Index and is much more concentrated than the S&P 500 Index in terms of companies and sectors; the average market capitalization of companies in the Composite will likely differ from the S&P500 Index; and market or economic conditions can affect positively/negatively the Composite's performance but not the S&P 500 Index to the same extent). In addition, the S&P 500 Index does not bear fees and expenses and investors cannot invest directly in the S&P 500 Index. 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).

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 S&P 500® index used in the Magnificent 7 chart refers to the equal-weighted version of the S&P 500 Index (S&P 500 EWI). The S&P 500 EWI has the same constituents as the capitalization weighted S&P 500, but each company in the index is allocated a fixed weight of 0.20% at each quarterly rebalancing. In the Big Tech Stocks chart, the NASDAQ-100 Index includes 100 of the largest non-financial companies listed on the NASDAQ Stock Market based on market capitalization.

The price-earnings (P/E) ratio and earnings 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).

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