H S MANAGEMENT PARTNERS, LLC

Year End 2018
Investment Perspective

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

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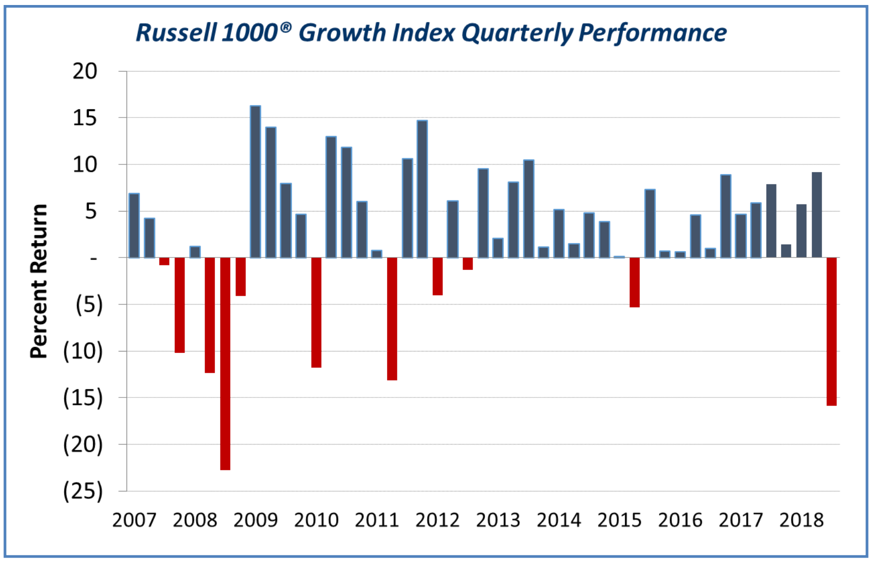
Investment Perspective

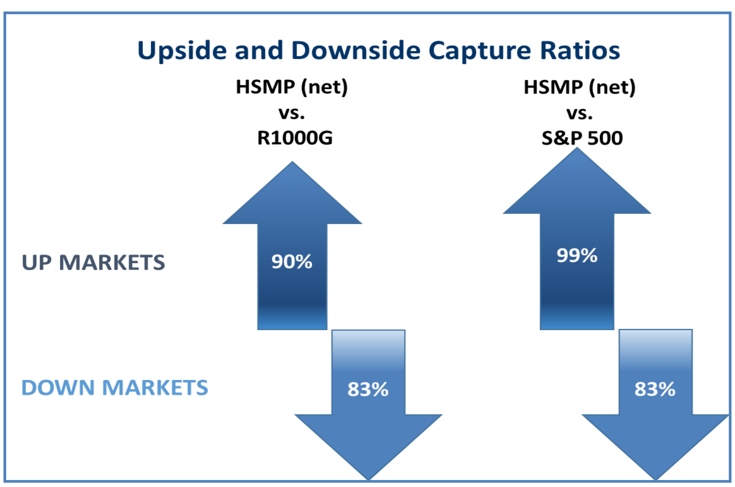
Despite a resilient fourth quarter, we dropped about 5% this year and ended up slightly lagging the S&P 500® Index and to a greater degree, the Russell 1000® Growth Index. This comes on the heels of a robust 2017 both on an absolute and relative basis, the latter especially so versus the S&P 500® Index.

The recent pullback was a long time in coming. The bull market started almost ten years ago in March of 2009, valuation lows were hit more than 7 years ago in September of 2011, and prior to the 4Q of 2018, the Russell 1000® Growth Index had experienced only one down quarter over the past 23 (the S&P 500® Index had two).



Note: Quarterly returns for the Russell 1000® Growth from 2nd quarter 2007 through 4rd quarter 2018.

Our concentrated quality growth approach and strong valuation discipline tends to lag during more momentum-oriented, go-go markets. The corollary has been that while not immune from market downdrafts, we have historically preserved capital better during more challenging periods.



Note: Analysis of monthly Composite performance since inception (04/01/07) through 12/31/18. Performance results are net-of-fees and include the reinvestment of dividends and other earnings. See second to last page for the calculation methodology of the upside/downside ratios. Past performance is not indicative of future results.

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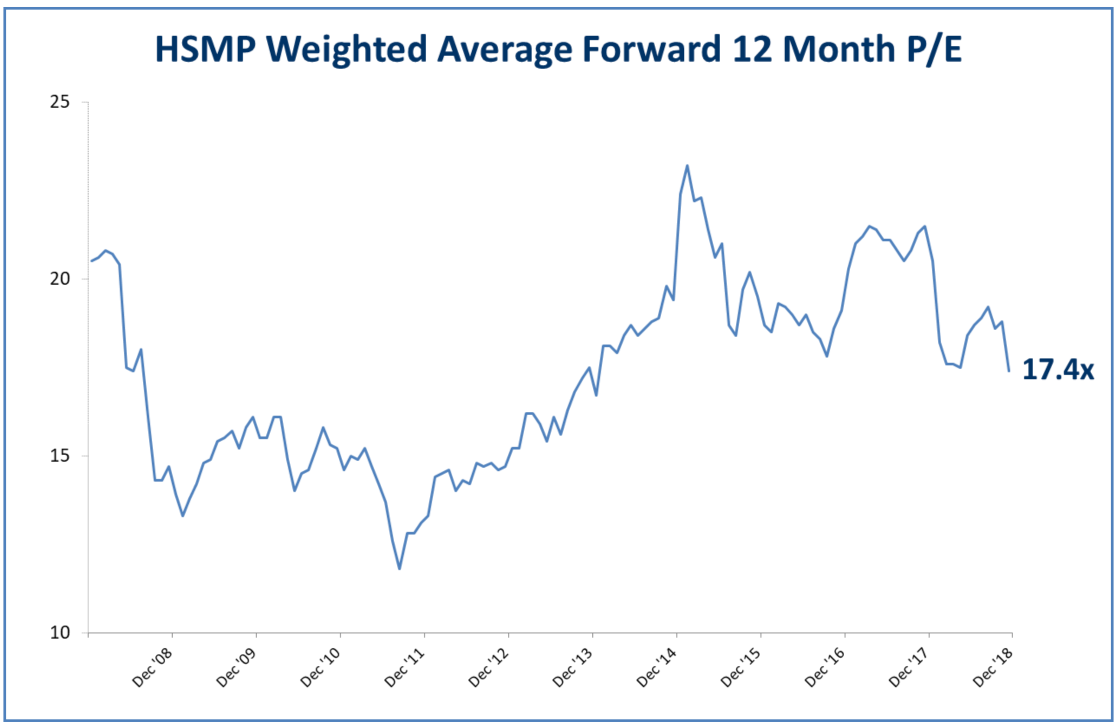
See last two pages for important disclosures.

In my year-end letter last year, I wrote that "passive equity flows are climbing, active equity flows are declining, and market volatility is at historical lows." It now appears that this move to passive contributed to extreme market volatility. In its 12/25/2018 article, "Behind the Market Swoon: The Herdlike Behavior of Computerized Trading," The Wall Street Journal began: "Behind the broad, swift market slide of 2018 is an underlying new reality: Roughly 85% of all trading is on autopilot—controlled by machines, models, or passive investing formulas, creating an unprecedented trading herd that moves in unison and is blazingly fast." The article noted: "Markets were remarkably placid in recent years, even as machine trading came to dominate, suggesting that these approaches didn't cause problems during the bull market, or even contributed to the market's extended calm. One reason the dynamic might have changed: Many of the trading models use momentum as an input. When markets turn south, they're programmed to sell. And if prices drop, many are programmed to sell even more."

Our approach remains consistent in times of calm or tumult. Focus on the quality of the business, grow the underlying earnings and cash flow stream, and pay close attention to valuation and the future worth of a business. We then look to apply a multi-dimensional approach to quality growth—that is to own both dominant, durable, defensive companies as well as more rapid top-line growth businesses; to go up and down the market cap spectrum; and to be willing to own non-U.S. domiciled multinationals--and to actively manage the portfolio based on fundamentals and valuation.

To this end, we continue to find business models we like with strong free cash flow generation. 2018 was an above average year of profit growth for our Portfolio and the market at large, in part due to tax reform. We believe that 2019's EPS progress for your portfolio will be solid—in the 8%+ vicinity---held back in part by heavy investment spending by several key holdings. This should be respectable so late in the cycle and with pockets of economic weakness globally and the absence of incremental fiscal stimulus. Long-term, we think Portfolio profit growth will exceed 10% absent a recession.



Note: Based on HSMP estimates since inception (4/1/07) through 12/31/18.

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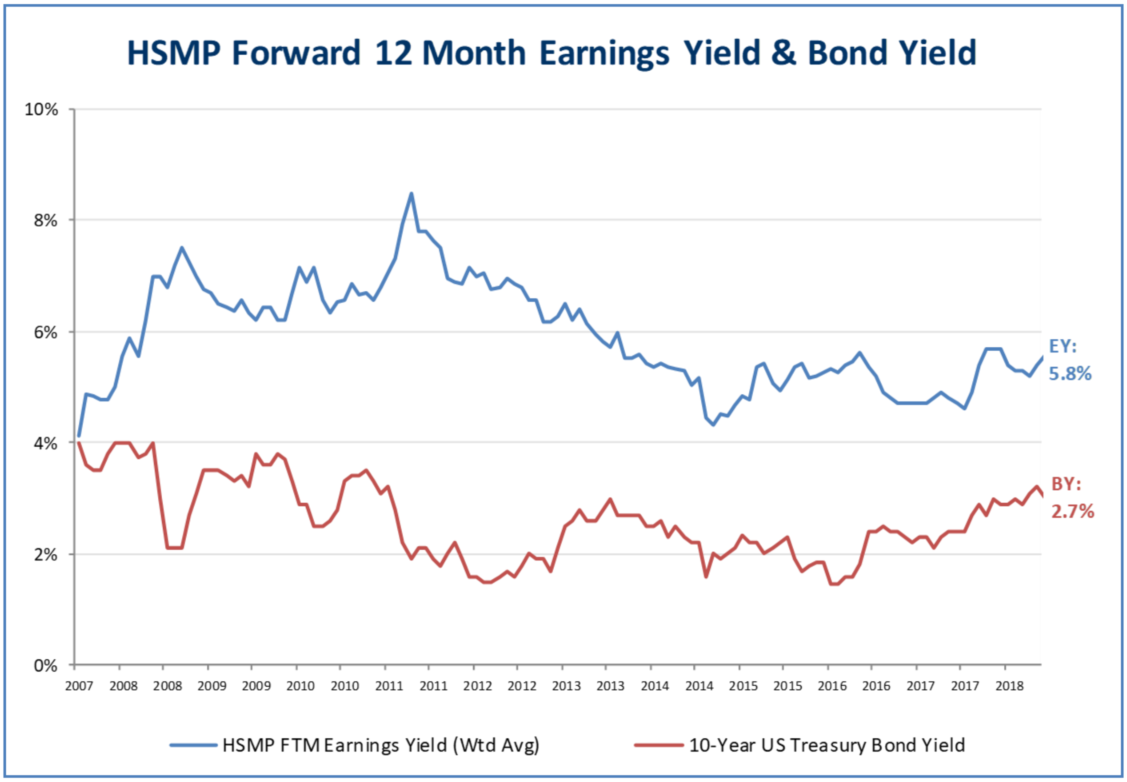
With EPS growing robustly in 2018 while the Portfolio retreated, the valuation picture looks as attractive as we have seen it in some time. To be sure, global uncertainty and an unwinding of the post WWII world order—not to be minimized or neglected--lowers long term visibility, which may well mean a period of lower multiples than otherwise would be the case. That said, we think that a 17X-18X forward multiple for a high-quality group of strong cash generating companies plus a 1.8% dividend yield in a 2.7% ten-year bond world is a compelling investor alternative.



Note: Based on HSMP estimates since inception (4/1/07) through 12/31/18.

2018's final quarter was a stark reminder to all that markets swing between greed and fear. We were also reminded of the value of preserving capital better during tough times. And we were reminded that going along with the crowd may feel comforting when the trend is up, and is anything but that when the direction changes. Going forward, these investment truths are likely to come into play, especially as we go deeper into the economic cycle and confront the inevitable challenges that will come our way. Thanks again for the confidence you have shown in us, and here is to a healthy, happy, and prosperous 2019.

Sincerely,

Harry W. Segalas

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IMPORTANT DISCLOSURES

When we use: (1) "HSMP" or "HS Management Partners" or "Firm" or "we" or "us" or "our" in this document, we are referring to HS Management Partners, LLC; (2) "Composite," we are referring to our HS Management Partners Concentrated Quality Growth Composite; and (3) "net-of-fees," we mean that the performance is calculated net of our investment advisory fees and net of trading costs only. The securities identified here do not represent all of the securities purchased, sold or recommended for client accounts and the reader should not assume that an investment in the securities identified was, is or will be profitable. Also, the performance data in this piece should not be taken as an indication of how the performance of the Composite or of a client account will be in the future; past performance is not indicative of and does not guarantee future results. In addition, client account holdings and performance may vary from that of the Composite or from that of other client accounts (including our representative portfolio) for reasons such as client restrictions, type and size of the account, timing and market conditions at the account's inception and further contributions or withdrawals, timing and terms of trade execution orders, market conditions at the time of investment, actual client investment advisory fees or the lack thereof, and client directed brokerage and commission recapture instructions. Moreover, there are meaningful differences between the S&P 500® and Russell 1000® Growth indices and the Composite and client accounts, such as in terms of composition, concentration and volatility. Furthermore, this piece represents only the opinion of HSMP as of the day of this letter based on our understanding of market conditions and reported information about the aforementioned companies. It contains certain forward-looking statements that are by their very nature uncertain and based on our assumptions, such as when we refer to possible, future or estimated earnings or cash flows of a company or its possible, future or estimated earnings-per-share (EPS), growth rates, or price-earnings (P/E) ratios, or when we refer to future market conditions or our outlook for our Portfolio or client portfolios; there can be no assurance that forward looking statements will prove to be accurate as actual results and future events could differ materially from our assumptions. In any event, the information here (including our opinion, performance data, forward looking statements, and identified securities or holdings) is provided solely for purposes of 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 the only basis for making investment decisions (including engaging or continuing engaging HSMP's advisory services). Investment in securities involves significant risks that clients should be prepared to bear, including the risk of loss of the original amount invested. While we believe that our investment strategy will produce desired returns, there can be no assurance that HSMP will achieve its investment objective or will be successful in implementing its investment strategy. We encourage you to refer to our Firm Brochure (which is available on our website [www.hsmanage.com] or upon request at 212.888.0060) for some material risks applicable to our investment strategy and additional information regarding our Firm.

HSMP claims compliance with the Global Investment Performance Standards (GIPS®). For the purpose of complying with GIPS®, HS Management Partners defines itself as HS Management Partners, LLC, an independent SEC registered investment adviser. (SEC registration does not imply any certain level of skill or training.) The Composite includes all fully discretionary fee paying accounts which employ our style of investing in 20 to 25 quality growth businesses. These accounts must have a market value of greater than $500,000 at the time of initial inclusion, including those accounts no longer with the Firm. The U.S. Dollar is the currency used to express performance. For more information or for a copy of our fully compliant GIPS® presentation and/or list of composite descriptions, please contact us at 212.888.0060.

For benchmark purposes, the Composite is compared to the S&P 500® and Russell 1000® Growth indices. Such comparisons are provided for market context only, and there are meaningful differences between the Composite and the S&P 500 and Russell 1000 Growth indices that should be considered when comparing performance (such as in terms of composition, concentration and volatility). The S&P 500 Index is an unmanaged 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. The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. Neither index bears fees and expenses and investors cannot invest directly in either of them. Also, the average market capitalization of companies in the Composite will likely differ from that of either index. In addition, the Composite can contain securities not represented in either or both indices, is much more concentrated than either index in terms of companies and sectors, and the volatility of the Composite may be greater or less than that of either index. Furthermore, market or economic conditions may affect positively or negatively the performance of the Composite but not the indices, which do not bear market risk. Moreover, the performance of the Composite may vary from that of the indices due to the performance of stocks held in the Composite but not included in the indices and vice versa.

As previously mentioned, client account holdings and performance may vary from that of the Composite or from that of other client accounts (including our representative portfolio). In this regard, it should be noted that our representative portfolio is a non-fee paying account and therefore is not included in our Composite and its performance is gross-of-fees (unlike the return of fee paying clients that is reduced by their corresponding investment advisory fee payments, the performance of our representative portfolio does not reflect the payment of advisory fees and is net of trading costs only). In addition, just as with the Composite, there are meaningful differences between the S&P 500 and Russell 1000 Growth indices and client accounts, such as in terms of composition, concentration and volatility.

During certain transitional periods of selling or buying a security or due to some corporate actions such as spinoffs, or due to some other factors, the Portfolio and/or client accounts may hold more or less than 20 to 25 securities (client accounts may hold more or less than 20 to 25 securities for other reasons such as client restrictions or available cash for investment).

The upside [downside] capture ratios shown in this letter were computed by dividing the cumulative annualized return of the HSMP Composite (net-of-fee) in months of positive [negative] index returns by the cumulative annualized return of said index for those same months.

Note: Important Disclosures continued on the following page.

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IMPORTANT DISCLOSURES (continued from previous page)

Under our sole investment strategy (HSMP Concentrated Quality Growth Equity) we provide discretionary investment advice (we act as adviser or sub-adviser and make the final decisions as to the holdings in the accounts and trade the accounts subject to certain guidelines or client restrictions or instructions) and we also provide non-discretionary investment recommendations in the form of model portfolios for use in multimanager products (we act as a sub-adviser but do not exercise final investment discretion or trade the accounts). Certain information in this piece (including that which refers to holdings, performance, Composite, or implementation of our investment strategy) is applicable to our discretionary investment advisory services only and is not applicable to our model portfolio arrangements as we have no control and do not monitor the implementation (complete, partial or not at all) of the model portfolios we provide under said arrangements.

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