Second Quarter 2024 Investment Perspective

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

July 11, 2024

Investment Review

Portfolio results retreated during the second quarter, curbing the HSMP Composite year-to-date advance to roughly 4% (HSMP Composite performance table provided on the next page). The S&P 500 Index – which is a market-cap weighted index – is now up about 15% on a year-to-date basis. In contrast, the equally weighted S&P 500 advanced 5% so far this year, which was more in line with our own experience. The S&P 500 Index has become increasingly concentrated, with the top ten companies now accounting for over 37% of the S&P 500 Index market capitalization (see chart below). Moreover, the S&P 500 Index gains have been narrowly driven with 73% of the advance (11.2%) coming from just these top ten stocks. Notably, 37% of the stocks in the S&P 500 Index have declined year-to-date.

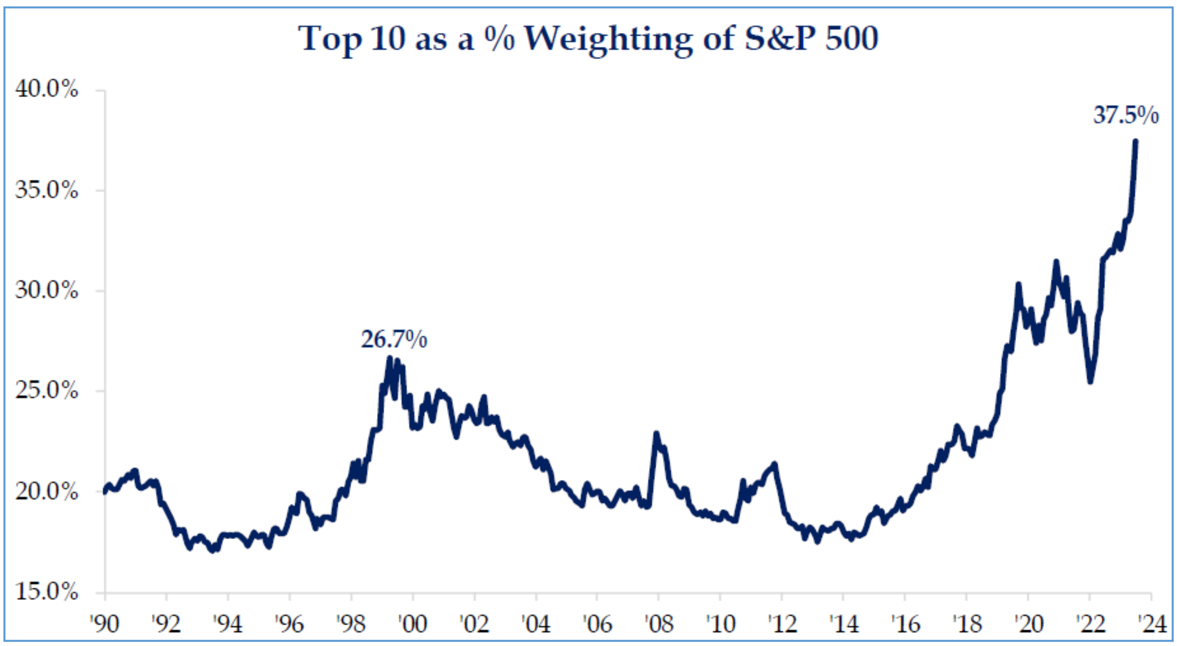
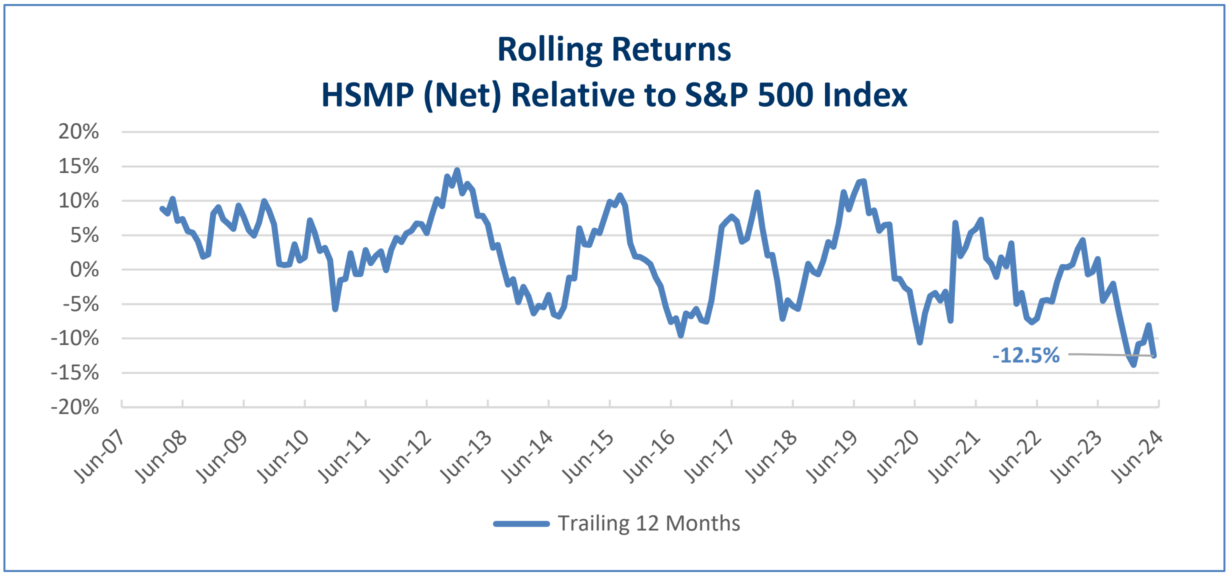


Chart refers to the S&P 500 Index (market-cap weighted). Used with permission of Strategas Research Partners as of 7/1/24. Please refer to pages 6-8 for important information.

This has proven to be the most difficult relative performance stretch in the Firm's history, and we have experienced a prolonged period of relative underperformance since the beginning of 2023. Largely, this is tied directly to the explosion of Artificial Intelligence (AI) and the market's headlong gravitation into this sector. ChatGPT was announced late in 2022, but Nvidia's surprisingly robust results early in 2023 was the fuse that lit what has turned out to be a powder keg for market capitalization in this space and for technology overall. To a lesser but still important extent, we have seen several consumer goods companies

— a segment we have historically had a meaningful interest in — run into difficulty as inflation-induced cumulative price hikes hurt demand, especially from lower-end consumers. So, while absolute returns have mostly remained healthy, relative returns in more recent periods have fallen shy of the market.



HSMP Composite Performance (As of 6/30/2024)	YTD	1 Year	5 Years *Annualized*	10 Years *Annualized*	*Since Inception* 4/1/07 *Annualized*
HSMP Composite (net-of-fees)	4.0%	12.1%	10.8%	12.0%	11.6%
S&P 500® Index	15.3%	24.6%	15.1%	12.9%	10.3%

Based on HSMP Concentrated Quality Growth Composite performance returns (net-of-fees) since inception 4/1/07 through 6/30/24 and includes the reinvestment of dividends and other earnings. Rolling Returns are trailing 12-month returns for HSMP (net-of-fees) relative to the S&P 500 Index. Past performance is not indicative of future results. Please refer to pages 6-8 for important information.

We never like lagging and are continuously looking to improve. When we make mistakes, we face them, try to learn from them, and move forward. We are not momentum investors and are not inclined to chase stocks or abandon our investment discipline. For sure, we must keep up with a changing world and not be dogmatic. At the same time, we are in no way tempted to alter the fundamental underpinnings of our investment approach.

For us, the investment focus remains on quality, growth, and valuation. It's about moving across the spectrum of quality growth companies — from dominant-durable companies with duration to more rapid top-line growth companies with higher earnings prospects — based on fundamentals and valuation. It's about owning large-cap companies along with going down the market-cap scale and willing to own some non-U.S. domiciled companies that share similar attributes of their U.S.-based brethren. It's about constructing a concentrated portfolio of 20 to 25 names, employing active management, and making hard decisions when we reach our 25-stock hard cap.

HS MANAGEMENT PARTNERS, LLC

Investment Prospects

After 42 years in the business, 30+ years of managing money, and now into our 18th year of investment performance at HS Management Partners, one cannot help but be reflective. We have lived through both bull and bear markets, periods of higher and lower interest rates, and times of both greed and fear.

It is hard to directly compare today's market environment exactly with other markets in the past. Mark Twain may have said it best when he quipped that "history never repeats itself, but it does often rhyme." In that regard, we seem to be experiencing a fever around AI which is reminiscent of the late 1990s dot-com bubble, and a concentration of buying interest around a select group of names which has shades of the early 1970s Nifty Fifty era.

Today's "one-decision" stocks (a Nifty Fifty catchphrase) are the Magnificent 7. We monitor all the Magnificent 7 (Tesla (TSLA), NVIDIA (NVDA), Amazon (AMZN), Microsoft (MSFT), Apple (AAPL), Alphabet (GOOG), and Meta Platforms (META)) on our 50-stock focus list and currently see the valuations of these companies in the chart below. As you can see, valuations are somewhat elevated for most of these names:

Magnificent 7 Symbol	Forward Twelve Month Price/Earnings Estimate
TSLA	70X
NVDA	43X
AMZN	37X
MSFT	33X
AAPL	30X
GOOG	24X
META	23X

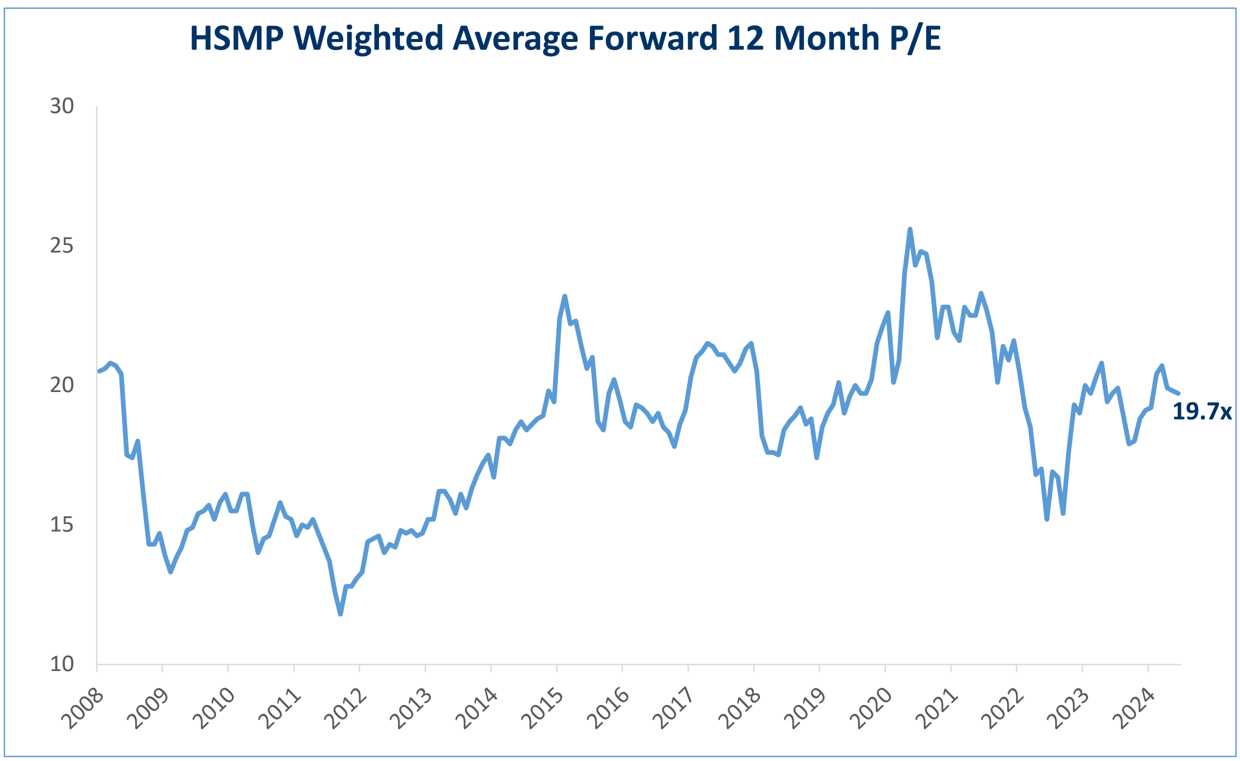
As highlighted earlier, the top ten companies now account for more than 37% of the S&P 500 Index market capitalization. There has been a strong move to passive investing, which has undoubtedly helped fuel this increased concentration. Looking in the rear-view mirror, that worked. Most active managers have underperformed relatively, and Charles Schwab notes that only 17% of stocks in the S&P 500 Index have outperformed the market itself over the past year.

But looking through the windshield, the question becomes where should one go from here? Does one keep buying the index as many investors have already done or look for a more selective approach. The Financial Times (FT) July 7th Unhedged column posed the question to money managers at large: "To put it more bluntly: the options are (a) make a huge bet on big tech's great run continuing, or (b) risk losing investor assets...."

This may not surprise you, but we have great confidence in both the absolute prospects for the HSMP Concentrated Quality Growth Portfolio and its relative merits from here.

The FT article goes on to highlight the JP Morgan Global Research mid-year outlook, penned by its departing Global Strategist, that makes several points we agree with: momentum trades are massively crowded; most of the returns are concentrated in a few mega-cap stocks; to keep the momentum going, the mega-caps will have to keep beating consensus estimates; those estimates encode expectations of double-digit growth for the foreseeable future; year-over-year earnings comparisons will get harder in the second half; valuations for many of these leading companies are at cycle highs; investors are aggressively positioned in equities and sentiment is bullish; the equity risk premium is very low; volatility is unsustainably low; the list goes on…..

In contrast, many of our holdings have already corrected well off their highs and, as a result, have what we believe are reasonably discounted expectations and increasingly attractive valuations. For perspective, the three Magnificent 7 stocks that we currently own account for 17% of the portfolio and currently have an estimated weighted P/E of roughly 26X. The remaining 21 portfolio holdings (or almost 83% of the portfolio) currently sell for just 18X estimates, which gives you some sense of the bifurcation of valuations, even within our own portfolio. The forward P/E estimate for our entire portfolio is currently almost 20X. This multiple is down from the first quarter of this year and in the vicinity of what it was when we began 17+ years ago. Importantly, the earnings yield for our portfolio of roughly 5% also compares favorably with long-term 10-year Treasury bond yield of about 4.4%.



Based on HSMP estimates since inception (4/1/07) through 6/30/24. Please refer to pages 6-8 for important information.

Valuation is not the only part of the equation. We are ultimately looking for growth in earnings to drive portfolio appreciation. We project that portfolio earnings will compound at roughly a 10%+ annualized pace over time, even with macro headwinds, although in a full-blown recession, this figure would be lower than that. The final piece of the puzzle is dividends, and today the dividend yield for the portfolio is 1.6%. While dividend-paying stocks have not been in vogue as AI fever has swept the land, we expect the growth in dividends to reliably augment portfolio returns over time.

In sum, we like the quality of our portfolio holdings, the diversity of its earnings stream, its future earnings prospects, its free cash flow characteristics (which leads to money coming back to the portfolio in the form of dividends and accretive buybacks), and its valuation. In the long term, we believe our portfolio holdings can drive healthy absolute gains without going too far out on the risk curve or taking undue valuation jeopardy.

These latter points on risk and valuation grow increasingly relevant in our thinking as investors' appetite has swung strongly from fear to greed over the past 18 months.

Markets never stay the same and can adjust quickly. We believe our experienced and cohesive investment team is well suited to navigate through inevitably changing investment cycles. We think there is great value in having a focused approach on one methodology. At the same time, we retain a willingness to modify our concentrated quality growth portfolio based on shifting fundamentals and valuation. The HSMP team has skin in the game with meaningful personal assets managed alongside our clients. We will not chase shiny narratives if it means increasing the risk of loss of capital.

As always, thanks for your confidence (and patience) in us. In our opinion, the building blocks of future absolute appreciation are the same as they were back when we started this journey in 2007. We also believe that the market's fever will ultimately break and that our staying true to our investment discipline will pay off in potentially improved relative performance. We will continue to work hard on your behalf in the months and years ahead and wish you all a happy and healthy summer.

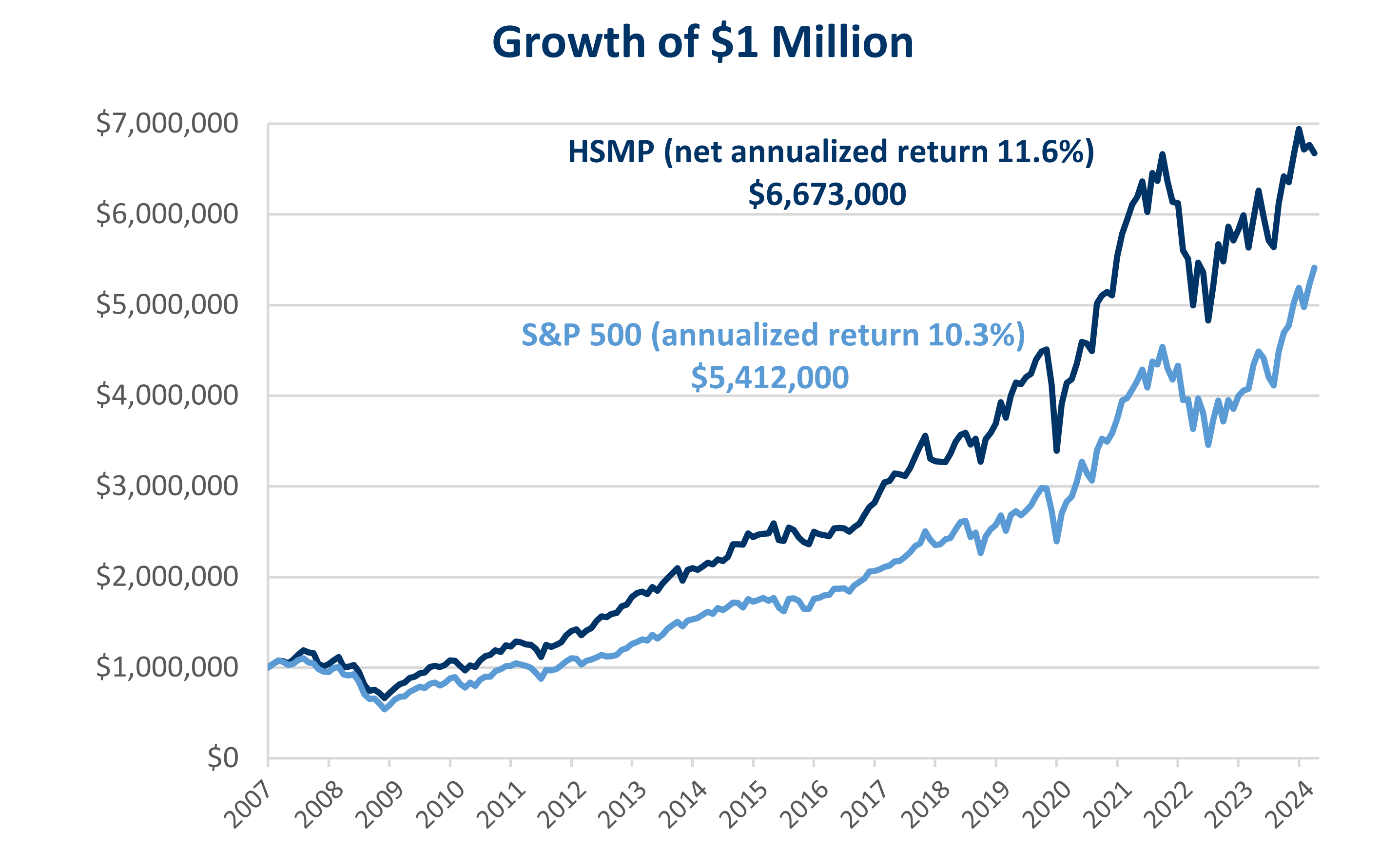
Sincerely,

Harry W. Segalas

Portfolio Profile (6/30/24)

HSMP Composite Performance as of 6/30/24								
	2Q24	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)	-3.9%	4.0%	12.1%	3.0%	10.8%	12.0%	11.6%	567.3%
S&P 500® Index	4.3%	15.3%	24.6%	10.0%	15.1%	12.9%	10.3%	441.2%

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 6-8 for important information.



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

H S MANAGEMENT PARTNERS, LLC

IMPORTANT DISCLOSURES

This piece represents our opinion as of 7/11/24 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 except for the representative portfolio used to provide the top-5/bottom-5 portfolio-drivers charts, 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. The securities identified and described do not represent all the securities purchased or sold and the reader should not assume that an investment in the securities identified is, was, or will be profitable.

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).

The price-to-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).

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. eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. HSMP pays eVestment to collect our data that is used to provide data and other to information to qualified investment professionals and financial institutions. eVestment does not guarantee or warrant the accuracy, adequacy, timeliness, or completeness or availability of the information provided, and neither is responsible for any errors or omissions or for the results obtained from the use of such information.

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