Third Quarter 2024
Investment Perspective

Investment Styles Ebb and Flow . . . Fundamentals Never Go Out of Favor

October 15, 2024

Investment Review

Absolute progress was registered during the third quarter, and relative performance for the period improved as well. While relative returns on a year-to-date basis still meaningfully lag the S&P 500 Index, absolute gains remain healthy. Additionally, since inception (17 ½ years ago), after-fee compounded Composite returns have climbed higher this year and remain superior to the S&P 500 Index (please see the Composite performance table on page 5). While we are not prognosticators, we would happily sign up for similar absolute returns (or anywhere close to them) over the next 5, 10 or 17 ½ years.

The (well-known) story since the start of 2023 has been the emergence of artificial intelligence (AI), the powerful advance of the Magnificent Seven (MAG-7), and the increased market concentration overall.

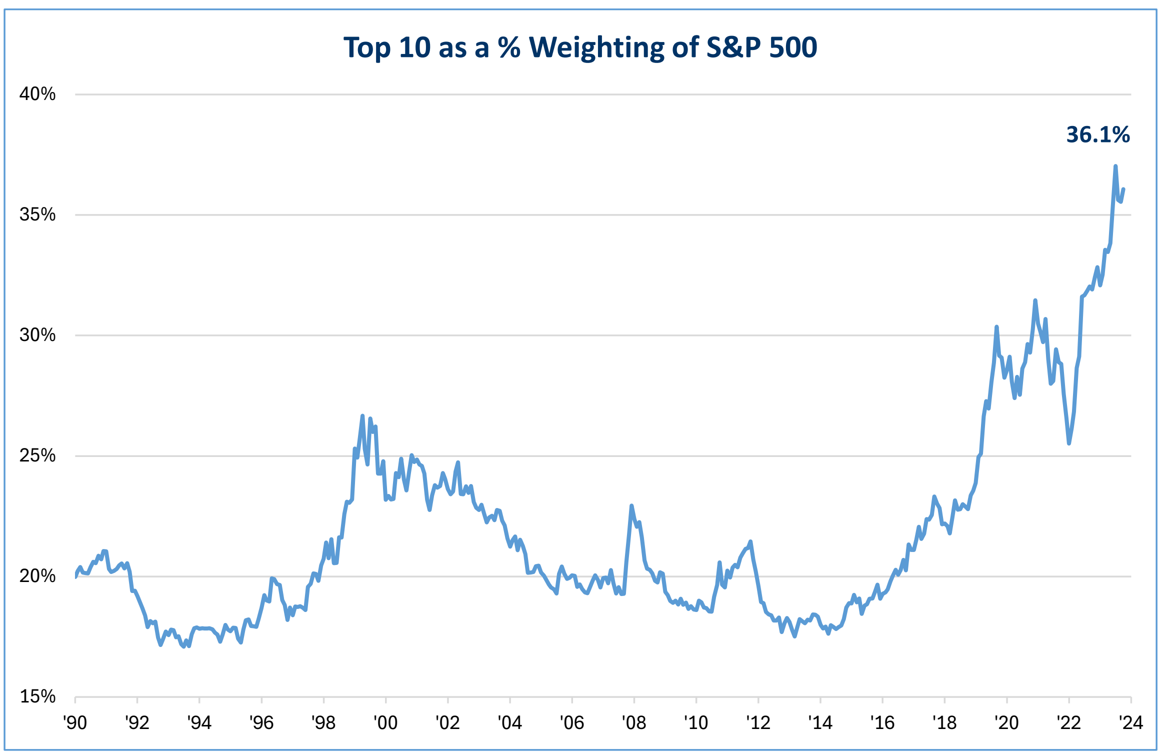
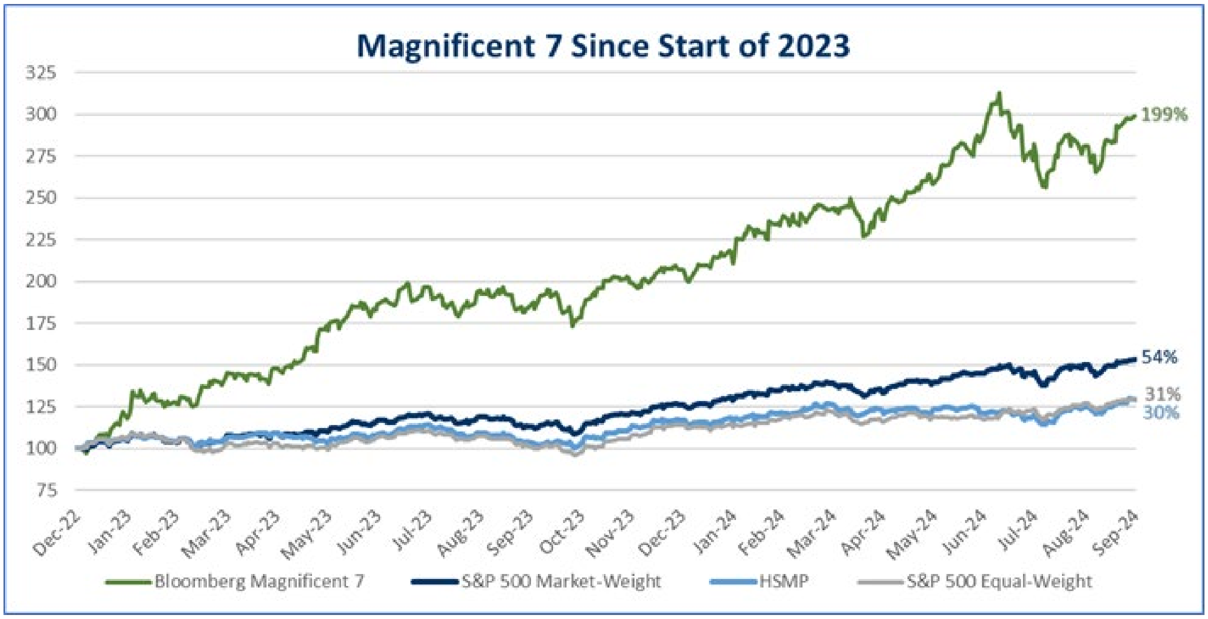


Chart refers to the percentage weighting of the top ten companies in the S&P 500 Index (market-cap weighted). HSMP compiled chart using data provided by Strategas Research Partners as of 9/30/24. Please refer to pages 5-7 for important information.

The chart below updates the MAG-7's advance, which has driven the outsized gains in the S&P 500 Index since the start of 2023 (the market-cap weighted index has advanced far more than the usually well correlated equal-weighted index), though there was some broadening out of the market of late, which did assist us.



HSMP compiled chart using data provided by Bloomberg. The Magnificent Seven stocks include: AAPL, AMZN, GOOG, META, MSFT, NVDA and TSLA. Performance returns include the period from 12/31/22 through 9/30/24. Performance returns for the Magnificent Seven (gross-of-fees) and HSMP Composite (net-of-fees) include the reinvestment of dividends and other earnings. Past performance is not indicative of future results. Please refer to the 1, 5, 10 Year Performance table on page 5 and refer to pages 5-7 for important information.

Investment Process

While we are continuously learning and adapting to changing times, we have remained true to our Concentrated Quality Growth investment approach. This is our sole methodology, and all our client's assets along with considerable sums of our own net worth are invested in this manner.

Our investment process starts with the business. We look for first-rate enterprises with attractive business models, robust free cash flow characteristics and strong balance sheets. Many have well-known brands or franchises and are able to sell products or services around the world. We look to invest alongside managements that we hold in high regard and trust to do the right things for the long run. We put together a group of these companies — 20 to 25 with a hard cap of 25 — in which we make our clients the owner of an earnings and cash flow stream that we expect to grow each and every year and faster than average over time. By doing so, these earnings put upward pressure on the portfolio.

We also have a rigorous valuation discipline. We find ourselves in Warren Buffett's camp where growth and value are joined at the hip. Our valuation discipline is deployed in an effort to attach ourselves to this growing stream of earnings and cash flow at what we think is a reasonable price. We believe this approach contributes to above-average long-term returns with below-average risk.

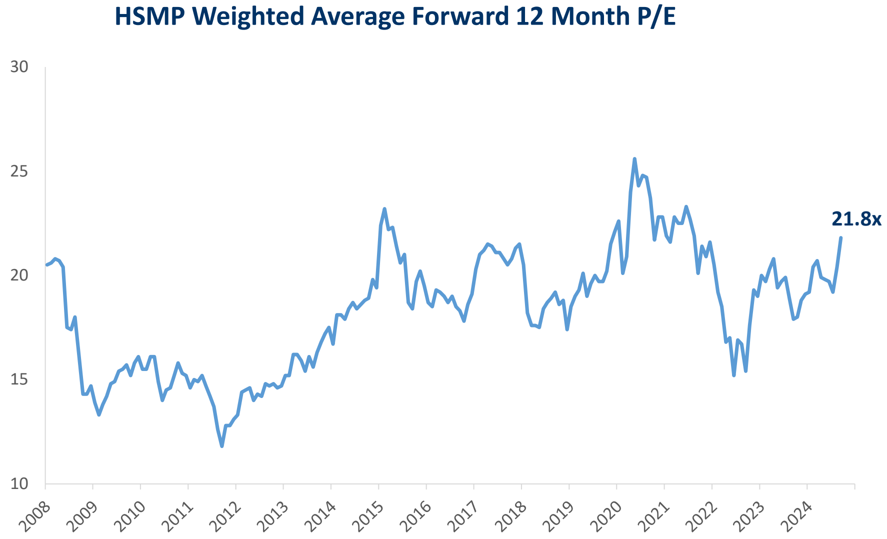
We are equally attracted to dominant, durable, defensive companies with duration as we are to the more rapid top-line and faster earnings-growth companies, along with everything in between so long as the fundamentals are good and the valuation is attractive. While most portfolio holdings are 800-pound gorillas with large market capitalizations (market caps), our investment process includes the flexibility to go down the market cap scale if opportunities exist. The types of companies today with smaller capitalizations differ from opportunities back in earlier times. In the 1990's, one could buy a company early in their life cycle at a $2 or $3 billion market cap. Today, companies stay private longer and often become public with market caps between $50-100 billion or more. More recently, opportunities to go down the market cap scale have presented themselves with companies misperceived as dinosaurs, when in fact their business models have evolved and are highly relevant. Lastly, we will also buy non-U.S. domiciled businesses if they have characteristics we prize and match our disciplined fundamentals analysis.

We view a client's capital as scarce capital, and every day determine what is the best use for this capital. Portfolio changes are guided by fundamentals and our valuation discipline as we adjust to fluctuations in holdings' relative attractiveness. We make hard decisions as new entrants collide with our hard cap of owning just 25 stocks. This continual focus is one of the benefits of our active management and differentiates our strategy from other concentrated buy and hold strategies. We *are not* buy and hold quality businesses forever investors. We *are* buy and hold quality businesses so long as the fundamentals are good, the valuation is attractive, and there are not better alternatives available.

Investment Prospects

As always, the question is, where to go from here? As noted earlier, we don't make predictions, but we can look at our methodology and a review of building blocks of historical returns and where they stand today as guideposts to the future.

When we think back to Composite since-inception compound annual returns, most of the gain was driven by a steadily growing earnings stream. We also collected a reliable dividend flow during this time. But as you can see from the chart below, the ending P/E multiple is roughly the same as it was when we started.



Based on HSMP estimates since inception (4/1/07) through 9/30/24.
Please refer to pages 5-7 for important information.

As we look forward, we see promising building blocks of future absolute returns. We continue to be able to find and own quality businesses. We believe the earnings stream in the underlying companies we own will advance roughly 10-12% over time. We are able to pay a reasonable multiple, both in absolute terms and relative to other long-duration assets, such as the ten-year Treasury bond. We are not counting on, nor reliant on, multiple expansion for the portfolio overall to deliver healthy absolute returns. We do not have to go out far on the risk curve to assemble our portfolio. We look forward to a steady collection of dividends (current yield 1.3%) which we believe will become more prized again as interest rates decline.

These building blocks will drive and determine absolute returns, which we believe will be favorable over time. We think relative returns should stand up well in the years ahead, and suspect that this outcome will be influenced by when the AI fever breaks. Undoubtedly, as we traverse the times ahead, we will go through periods of ups and downs, times of higher and lower multiples, and advances and setbacks. That said, our disciplined fundamental and valuation approach gives us confidence in the journey ahead.

We believe that there is both a "science and art" to investment management; the *science* being the math of investing, the *art* being more behavioral in nature. We are fortunate to be able to draw on an experienced and cohesive team of investment professionals that is open to new ideas and ways of thinking. The HSMP team strives for reward but never stops thinking about risk.

We are well aware of the massive move to passive investment vehicles that is fueling current market performance, along with the allure of private market opportunities, causing many to move away from active public equity management. While this creates challenges, ultimately, we think it will create opportunities for those with the fortitude to not go with the crowd. The swings from greed to fear have not been revoked; when the flock panics, we believe the value of risk management and a benchmark agnostic bottom-up approach will be visible and prized. The value of liquidity will also likely prove to be paramount, and the dangers of illiquidity will be stark.

Over the past year, I have enjoyed the opportunity to meet with many clients, their advisors and consultants, thanks to both virtual meetings and my travels for face-to-face meetings. As a boutique firm, we take pride in our investment teams' availability to speak with clients directly, and we equally learn from and appreciate these conversations. Please feel free to reach out directly to Patti Norton — who heads up our client service efforts — and we will do our best to accommodate any needs or requests promptly.

Thanks as always, and we wish everyone a healthy and happy fall and upcoming holiday season.

Sincerely,

Harry W. Segalas

P.S. Oh yeah, go Yanks!

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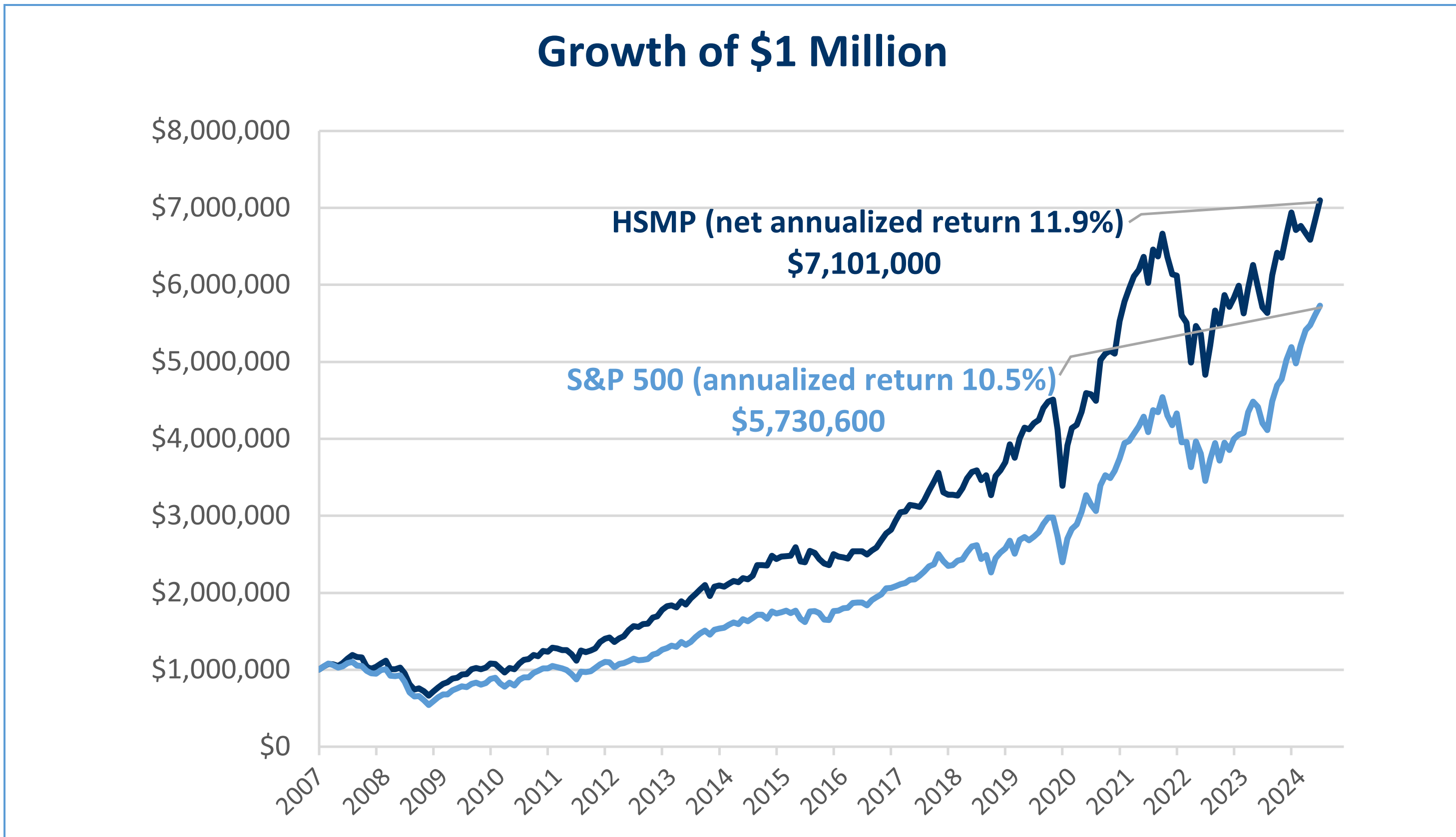
See pages 5 - 7 for important information & disclosures.

Portfolio Profile (9/30/24)

HSMP Composite Performance as of 9/30/24	3Q24	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)	6.4%	10.6%	24.3%	5.6%	11.0%	12.6%	11.9%	610.1%
S&P 500® Index	5.9%	22.1%	36.4%	11.9%	16.0%	13.4%	10.5%	473.1%

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.



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.

*Note: Additional portfolio holdings commentary for the third quarter (including 3Q24 new buys/total sales and top portfolio drivers) have been **redacted** from this online version. Please contact us at **clientservice@hsmanage.com** to schedule a call and/or request the original distributed version.*

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IMPORTANT DISCLOSURES

This piece represents our opinion as of 10/15/24 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.

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