April 6, 2022

Manager Commentary

Trends tend to last longer and go further than expected.

– Wall Street aphorism

Trends create the reason for their own reversal.

- Howard Marks, co-chairman of Oaktree Capital Management

The past quarter was one of the most eventful that I have seen in the past decade with a land war in Europe, inflation running at 7.9%, and U.S. interest rates rising. While the stock market has recovered off its lows as Ukrainians performed much better on the battlefield than the conventional wisdom predicted, we have taken this opportunity to fortify the portfolio by increasing investments in larger, more diversified companies, raising cash, and diversifying our holdings into more industries.

While we are very optimistic long term about our portfolio of growing companies at reasonable valuations that are benefitting from long-term trends, we have decided to put 10% of the portfolio in cash for a few simple reasons: the S&P 500 has gone thirteen years without a decline for a calendar year; the Federal Reserve is on the most aggressive campaign to tighten monetary policy (including raising rates and shrinking the balance sheet) that we have seen since starting on Wall Street in 1989; and the stock market is up since Russia invaded Ukraine (an event that we don't believe was good for the global economy).

We are also nervous that several trends that have persisted for the past forty years during a fantastic bull market in stocks and real estate have started to reverse. Long-term interest rates are no longer declining. In 1982, the ten-year treasury yield was 13.7%. At the height of the Covid-19 lockdown, it bottomed around 0.6%. At the end of the quarter, the 10-year treasury yielded 2.3%, up from just 1.5% ninety days ago. We don't believe the ten-year yield will move too much higher from here, but we believe that the support the stock market received from declining and even negative interest rates could cease.

The Ukrainian invasion has put a nail in the coffin of the long-term trend of globalization that began in 1978 with Deng Xiaoping's opening of the Chinese economy and the 1989 collapse of the Berlin Wall. Those two events began a process that would eventually add 1.4 billion potential consumers for goods and services produced by U.S. corporations. Over the past ninety days, most U.S. corporations stopped serving 145 million Russians. Not a huge percentage of the global population, but the trend is down – not up.

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And finally, the forty-year trend of declining and low inflation that supported the bull market since 1982 already started to reverse in 2021 with oil prices rising by 62%, but the invasion of Ukraine will make it that much harder to put Humpty Dumpty back together again. Even if peace breaks out, Germany can no longer blithely depend on Russia for roughly 30% of its natural gas needs and will need to pay higher prices to find sources of energy that don't come from a potential enemy. And higher prices for energy will lead to higher prices throughout the economy as well.

There are reasons to be optimistic as well. We wouldn't have 90% of the portfolio in stocks if we didn't think there was a good chance to make money over our investment time horizon. Pent up demand for autos, housing and commercial construction is tremendous. The strong demand for labor limits the possibility of wide-spread unemployment. And while the market itself is down only 6% from its all-time high, below the surface many of the excesses of the last bull market have already corrected. Former growth stock darlings like DocuSign and Roku are down 66% and 74% respectively off their highs achieved last summer, while the ARK Innovation fund, a poster child for aggressive growth investing, is down 58% from its peak.

Given the positive and negative currents in the market, we believe that it is more important than ever this year to review your asset allocation and financial plan to make sure that your assets reflect your risk tolerance. We will reach out to schedule a conversation about how our portfolio fits into your overall picture.

We spent the quarter working to reduce risk in the portfolio. In addition to raising cash, we increased the number of holdings in the portfolio, adding larger, more established companies in an effort to reduce single stock and liquidity risk.

We also further diversified the portfolio by industry, initiating investments in energy and natural resources with Freeport-McMoRan, one of the world's leading producers of copper (a necessary material for any green energy transition), and EQT, the largest pure-play natural gas producer in the U.S. We also bought four software companies when their prices were down. We bought Sabre Corp, a provider of technology to the travel industry, which will benefit strongly when airline travel recovers, PayPal, a technology platform that enables payments and commerce, Adobe, the leading publisher of creativity and document management software, and Take-Two Holdings, a leading console-based videogame publisher that is in the process of merging with Zynga, a leading mobile videogame publisher.

We funded these purchases by de-risking the portfolio by trimming positions that had increased in price and by cutting our losses on some positions that had declined in price.

It has been a long time since investors have had to navigate an inflationary environment starting from a position of low nominal yields, and we believe that our opportunistic strategy, which historically has a low downside capture ratio, will be an important tool in helping to preserve purchasing power over the next decade.

All best,

Manny Weintraub

Manny Weintraub, CFA

OPPORTUNISTIC EQUITY

SPEARS ABACUS

Quarterly
Fact Sheet
As of March 31, 2022

Investment Strategy Overview

Spears Abacus' Opportunistic Equity strategy is a long-only investment strategy that seeks to minimize downside participation and deliver attractive risk-adjusted returns over a market cycle. The team's investment approach focuses on high quality, growing companies (fundamental momentum) trading at attractive valuations (value). Utilizing this approach, the goal is to construct a concentrated portfolio designed to participate in the upside of equity markets while limiting downside risk through disciplined stock selection and risk management.

Target Investment Characteristics

- High return on invested capital and high free cash flow
- Resilient businesses benefiting from long-term thematic trends
- Strong balance sheets and effective capital allocation
- Exceptional management
- Attractive valuation

What Makes Us Different

- We make new investments when the crowd is selling
- We look for companies that are temporarily unpopular because of something that *might* go wrong
- We quickly admit when we are wrong and sell losers
- We like high quality businesses with long-term tailwinds that should do well in *any* environment
- We focus on ROIC and FCF instead of commonly used metrics like *adjusted* EPS
- Our portfolio will not look like the S&P 500 or Russell 3000
- We are more likely to average up than average down
- We have a track record of generating excess returns in periods of high volatility

Performance[7]

	Annualized Total Returns					
	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Inception
SA Opp Eq (gross)	-4.9%	1.0%	13.0%	13.1%	11.4%	10.8%
SA Opp Eq (net)	-5.2%	-0.2%	11.7%	11.8%	10.1%	9.3%
Russell 3000	-5.3%	11.9%	18.2%	15.4%	14.3%	10.2%
S&P 500	-4.6%	15.7%	18.9%	16.0%	14.6%	10.2%

Source: Spears Abacus, FactSet. Inception Date 12/31/2003. [1]All statistics based on weighted average unless otherwise noted; [2]Dividend yield of total portfolio including cash; [3]ROIC calculated using cash returns for portfolio holdings; [4]Long-term growth is based on the consensus 3-5 year EPS growth forecast; [5]Downside capture trailing 3 years, monthly basis vs Russell 3000; Alpha based on Risk Index = Russell 3000, Risk Free Rate = 10 Year Treasury note; [6]Sector weights excluding cash; [7]Returns for less than one year not annualized; YTD as of 3/31/22

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Portfolio Statistics[1,2,3,4,5]

	SA	Russell 3000
Number of Securities	33	-
Cash Weight	9.8%	-
Dividend Yield	0.70%	1.26%
Market capitalization ($b)	77.2	554.3
Harmonic Avg. TTM P/E	23.5x	21.2x
Harmonic Avg. NTM P/E	20.7x	19.6x
LT Debt / Total Capital	0.40x	0.43x
Return on Invested Capital	22%	10%
Estimated LT Growth	15%	14%
Payout Ratio	24%	29%
Downside Capture (3-Year)	74%	-
Volatility (3-Year)	15.6%	18.5%
Alpha (3-Year)	-1.4%	-
Active Share	95%	-

Top 10 Holdings

	% of Portfolio
Centene Corporation	5.0%
Intercontinental Exchange, Inc.	4.5%
Broadcom Inc.	4.0%
S&P Global, Inc.	4.0%
Domino's Pizza, Inc.	3.9%
CME Group Inc. Class A	3.8%
Mastercard Incorporated Class A	3.8%
Wheaton Precious Metals Corp	3.8%
Schlumberger NV	3.8%
Franco-Nevada Corporation	3.8%
Total	40.5%

Sector Diversification[6]

	SA	Russell 3000
Consumer Discretionary	4.3%	12.0%
Consumer Staples	2.8%	5.6%
Energy	5.3%	3.9%
Financials	18.0%	11.7%
Health care	13.9%	13.6%
Industrials	0.0%	8.9%
Information Technology	41.6%	27.1%
Materials	11.1%	2.6%
Real Estate	2.1%	3.6%
Communication Services	1.0%	8.5%
Utilities	0.0%	2.7%
Total	100.0%	100.0%

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Market Cap Breakdown[1]

	SA	Russell 3000
$0 to $5 billion	4.7%	5.7%
$5 billion to $15 billion	17.4%	8.2%
$15 billion to $50 billion	29.8%	18.3%
$50billion to $100 billion	30.4%	12.0%
Greater than $100 billion	17.7%	44.5%
Total	100.0%	100.0%

Portfolio Construction

- 25-35 Stocks
- Primarily U.S. based
- No market capitalization preference
- Max 30% industry concentration limit

Source: Spears Abacus, FactSet. [1]Market cap weights excluding cash

Managed by

Spears Abacus Opportunistic Equity Team

Portfolio Manager	Years Experience
Manny Weintraub	32

Senior Analyst	
Daniel Wetchler	12

Style

GARP

Inception Date

31-Dec-03

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Comparisons to the S&P 500 TR (Total Return) and Russell 3000® are for informational purposes only, as the composites may hold securities not in the S&P 500 TR (Total Return) and Russell 3000® and may have more or less volatility and risk than an investment in the S&P 500 TR (Total Return) and Russell 3000®. Management fee information available upon request.

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