

October 29, 2021

Manager Commentary

“In the short-run, the market is a voting machine, but in the long-run, the market is a weighing machine.”

- **Warren Buffett**

2021 has been the year of weighing, and we believe that it is just beginning. The Spears Abacus Small Cap Dividend Growth strategy is up 15.5%, net of fees, year-to-date, versus 12.4% for the Russell 2000. We outperformed the index for the quarter and nine months, as the market’s fascination with speculation in unprofitable companies has begun to wane. Year-to-date, the Russell 2000 growth is up only 2.8%.

If the market continues to focus on quality and profitability, that bodes well for our strategy’s future relative performance. At quarter end, 41% of the companies in the Russell 2000 were unprofitable, a measure of speculative excess that was only exceeded at the height of the dot.com era, when 34% of the companies in the index were unprofitable.¹

We love this strategy because we focus on dividend-paying profitable small companies that may benefit from the law of small numbers. This is the opposite of the law of large numbers, which states that it’s harder for large companies to grow quickly.

Since 2011 and the birth of the smartphone, it seems as if there has been a new sheriff in town, and the law of large numbers has been replaced by the law of the network effect. The big companies get bigger because each new customer that they get makes their platforms more valuable to the next customer, and so on and so forth. Companies like Google, Facebook, Amazon, Microsoft, and Apple are great examples of those that have benefitted from the network effect. They have benefitted so well that they now represent 22% of the S&P 500. As a result, many large-cap investors are no longer getting the diversification that they were used to in the past.

An investment in the SA Small Cap Dividend Growth strategy represents an opportunity to diversify U.S. equity investments from a small handful of great companies to a portfolio of 75 companies that we believe are great as measured by profitability and the ability to reinvest in the business even after paying dividends. Our favorite measure of profitability is return on invested capital, which measures how much profit a company gets for every dollar that it has historically invested in its business. Our strategy’s ROIC, on a trailing twelve-month basis, is 24%, versus 3% for the Russell 2000. Despite having a higher dividend yield than the Russell 2000, our median payout ratio is 23% versus 46% for the Russell 2000, indicating that more earnings are retained to invest for growth.



3Q21 Performance of Top 5 Contributors¹

Company	Ticker	% Change
InMode Ltd.	INMD	68.4%
Switch, Inc. Class A	SWCH	20.5%
Insperty, Inc.	NSP	22.5%
AMN Healthcare Services, Inc.	AMN	18.3%
Carriage Services Inc.	CSV	20.9%

3Q21 Performance of Top 5 Detractors¹

Company	Ticker	% Change
Tabula Rasa Healthcare, Inc.	TRHC	-47.6%
Texas Pacific Land Corporation	TPL	-24.2%
Amedisys, Inc.	AMED	-39.1%
Qurate Retail, Inc. Class A	QRTEA	-22.2%
Nu Skin Enterprises, Inc. Class A	NUS	-28.0%

¹Top contributors and detractors are based on percentage contribution to the strategy's performance, which is impacted by both the security's performance and its position size (i.e., the top contributor may not have the best performance); if the security was purchased or sold during the quarter, performance is calculated based on the purchase or sale date.

Our top contributor this quarter was InMode, a leading global provider of innovative, minimally invasive surgical medical treatment solutions with a focus on aesthetics – especially face and body contouring. We believe that its cash return on invested capital of 47% is a reflection of the high barriers to entry that its brand and intellectual property have created.

Our biggest detractor was Tabula Rasa, a company that provides patient-specific, data-driven technology and solutions that enable healthcare organizations to optimize medication regimens. Its core business is providing these services to the elderly, primarily through the PACE program, which provides nursing-facility level of care in a community setting during the day before the patients return to their own homes for the evening. Its secondary business is focused on software that mitigates the risk of unintended drug interactions, which is the fourth leading cause of the death in the U.S.; we believe that many of these deaths and hospitalizations are preventable. In our opinion, from a fundamental point of view, Tabula Rasa's quarter was not as bad as the stock price indicates, but many healthcare services companies were out of favor in the third quarter, and Tabula Rasa was no exception.

The Russell 2000 is a strange benchmark. Sometimes it feels like it is a Frankenstein monster made half of highly speculative concept stocks and half of slow growing highly levered banks. We invite investors who are not particularly interested in either of those strategies, but who want to diversify their portfolios to benefit from a potential change in market leadership, to reach out to discuss the SA Small Cap Dividend Growth strategy.

Sincerely,



Manny Weintraub, CFA

¹The number of unprofitable companies was higher in 2002 and 2010, but we believe that this was driven by the economic cycle rather than speculative behavior.

Small Cap Dividend Growth



Quarterly Fact Sheet

As of September 30, 2021

Investment Strategy Overview

Spears Abacus' Small Cap Dividend Growth Equity strategy is a long-only investment strategy that seeks to outperform the Russell 2000® Index with less volatility over a market cycle. The strategy offers the opportunity to participate in the higher growth of small caps while limiting downside risk.

Philosophy: The strategy invests in U.S. small cap dividend paying stocks, a subset of the small cap universe which has outperformed non-dividend paying peers over the long term with less volatility.* Active stock selection from this unique universe significantly increases the probability of generating attractive long-term risk-adjusted returns.

Approach: Using a “quantamental” approach, a proprietary screening methodology and fundamental analysis are applied in a disciplined process to identify relatively attractive companies, creating a repeatable and methodical decision making process.

Portfolio Construction: Despite the focus on dividend paying stocks, the portfolio aims to combine the best of both growth and value. Sector weights are maintained within 3% of the Russell 2000® across a portfolio of 70-100 stocks.

Target Investment Characteristics

- High return on invested capital and high free cash flow
- Strong balance sheets and effective capital allocation
- Exceptional management and positive fundamental momentum
- Attractive valuation and asymmetric risk-reward

What Makes Us Different^

- Higher growth, better quality, and lower valuation versus the Russell 2000
- Down the middle approach to avoid the excesses of small cap benchmarks
- Less risk than your typical small cap portfolio
- Unique universe with history of outperformance

Performance ¹	Avg Annual Total Returns					
	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Inception
SA Small Cap (gross)	16.3%	46.9%	7.5%	-	-	11.7%
SA Small Cap (net)	15.5%	45.5%	6.5%	-	-	10.6%
Russell 2000	12.4%	47.7%	10.5%	-	-	12.2%

Source: Spears Abacus, FactSet. Inception Date 12/31/2016. *See portfolio statistics and efficiency measures. ¹Returns for less than one year not annualized; YTD as of 9/30/21; ²All statistics based on weighted average unless otherwise noted; index based on aggregate; ³Dividend yield of total portfolio including cash; ⁴ROIC calculated using LTM cash returns for portfolio holdings; ⁵Sector weights excluding cash; ⁶Efficiency measures gross since inception, monthly basis; ⁷Based on Risk Index = Russell 2000, Risk Free Index = 3 Month T-Bill

Portfolio Statistics ^{2,3,4}	Russell	
	SA	2000
Number of Securities	75	-
Cash Weight	1.1%	-
Dividend Yield	1.00%	0.90%
Market capitalization (\$b)	4.9	3.4
Harmonic Avg. TTM P/E	18.1x	42.5x
Harmonic Avg. NTM P/E	17.5x	25.4x
LT Debt / Total Capital	0.28x	0.48x
Return on Invested Capital	24%	3%
NTM Revenue Growth	11%	11%
Median Payout Ratio	23%	46%
% of holdings paying dividend	79%	43%
Active Share	97%	-

Sector Diversification ⁵	Russell	
	SA	2000
Consumer Discretionary	11.4%	11.5%
Consumer Staples	3.5%	3.2%
Energy	2.7%	4.5%
Financials	16.8%	15.5%
Health care	21.2%	20.2%
Industrials	12.2%	14.6%
Information Technology	16.7%	14.1%
Materials	4.6%	3.7%
Real Estate	7.7%	6.9%
Communication Services	2.5%	3.4%
Utilities	0.0%	2.4%
Total	100.0%	100.0%

Efficiency Measures ^{6,7}	Russell	
	SA	2000
Annualized Excess Return	-0.5%	-
Annualized Alpha	1.1%	-
Beta	0.85	-
Volatility	18.8%	21.0%
Upside Capture	89%	-
Downside Capture	85%	-
Sharpe Ratio	0.6	0.5
Sortino Ratio	0.9	0.8
Tracking Error	6.4%	-
Turnover (trailing 1 year)	51%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Top 10 Holdings	% of Portfolio
InMode Ltd.	3.3%
BGC Partners, Inc. Class A	3.1%
Tabula Rasa Healthcare, Inc.	2.9%
Switch, Inc. Class A	2.8%
World Wrestling Entertainment, Inc. Class A	2.5%
Qurate Retail, Inc. Class A	2.4%
Texas Pacific Land Corporation	2.3%
Morningstar, Inc.	2.3%
Paya Holdings Inc Class A	2.1%
Installed Building Products, Inc.	2.0%
Total	25.8%

Source: Spears Abacus, FactSet. ¹Portfolio weightings including cash

Managed by

Spears Abacus Small Cap Dividend Growth Team

Portfolio Manager	Years Experience
Manny Weintraub	31

Senior Analyst

Daniel Wetchler	11
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Style

Blend

Inception Date

31-Dec-16

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Preliminary performance figures are unaudited. Past performance may not be indicative of future results and every investment program has the potential for loss as well as profit. The Composite is the dollar-weighted linked monthly returns of those accounts sharing the objective of the respective strategy. Composite accounts were managed by Manny Weintraub while he was the portfolio manager at Integre Asset Management, LLC. Mr. Weintraub joined forces with Spears Abacus in January 2020 and will continue to manage the strategy. Accounts are included in the composite at the beginning of the first full month following the month during which the account came under management. Accounts that are terminated remain in the composite until the last full month the portfolio is under management, and the composite continues to include terminated portfolios for all periods prior to their termination. There is no minimum asset size above which managed accounts would be included in or below which managed accounts would be excluded from the composite. Individual account results will vary from that of the composite based on fee structures, investment restrictions, the timing of contributions and withdrawals and other factors.

The Russell 2000® Index measures the performance of the small-cap segment of the US equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

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**C. Mitchell Conover, Gerald R. Jensen & Marc W. Simpson (2016) What Difference Do Dividends Make?, Financial Analysts Journal, 72:6, 28-40, DOI: 10.2469/faj.v72.n6.1*