Jan. 27, 2021

Manager Commentary

"Other than that Mrs. Lincoln, how did you enjoy the show?"

Amidst all the lost and disrupted lives of 2020, it feels a little weird to be reviewing "the show" of financial markets in 2020, but, frankly, the show was pretty good. The S&P 500 rose double digits, investors are optimistic, and with the benchmark U.S. 10-year Treasury yielding around 1%, the theoretical valuation for profitable growing companies is infinite.

For the Spears Abacus MidCap Opportunities composite in particular, we are very proud of how we declined less than the market in the brutal bear market of the spring, but still outperformed for the full calendar year as the market recovered. And we still see great opportunities ahead.

While talking heads on financial news might tell you about the trade of the day, or that now is the time to get in or out of the market, we have been laser focused on investing in companies that are benefitting from long-term societal trends. This focus has allowed us stay invested when the S&P 500 was seizing up, like it did in the first quarter, or when the outcome of the election was uncertain in the fall, or when the market is lately hitting new highs.

The future is always uncertain, but we can be reasonably sure that a portfolio of companies gaining market share in the global economy will grow over time as their earnings grow. And we can be reasonably sure that software demand will increase as more and more tasks are automated and that demand for healthcare technology and services will increase as the global population ages.

We have a diversified portfolio with investments befitting from more than just increased spending on healthcare and software. Additional sectors that we are currently invested in are E-Commerce, Payments, Precious Metals, Data Monetization, Defense Infrastructure Modernization and Financial Exchanges.

While the core of the portfolio does not change frequently, we continue to apply the "ABCD" process that we have developed over the years to adjust our portfolio in response to opportunities that we find in the market. It stands for Average up, Buy the business, Cut losses, and Derisk the portfolio.

This quarter we averaged up on Qurate, the parent company of QVC, as the market started to recognize the value that had been created through a series of special dividends that management paid out in September. In addition, we increased our position in Tabula Rasa, a healthcare technology provider that we believe has a bright future once they pass some Covid-19 related disruptions. We also bought more Curtiss Wright, an aerospace industrial company that was trading at a price that seemed to us to be completely decoupled from reality, given the very strong fundamentals at its defense subsidiary.

We initiated positions in a number of high-return-on-capital businesses trading at reasonable valuations in the most recent quarter. Dropbox and eBay were trading cheaply, as the consensus opinion is that 2020's revenue gains will evaporate as the economy reopens. Smaller capitalization companies with high levels of profitability were a particular area of focus for us, as other small-cap investors seemed to prefer more speculative unprofitable investments. CDK Global, the leading provider of software to automotive dealers; MSG Networks, the exclusive cable channel of the Rangers, the Knicks, and the Islanders; and Strategic Education, a for-profit provider of higher education for working adults, are all trading at significant discounts to their private market values.

We funded these purchases, and sought to reduce risk in the portfolio, by trimming the size of some of positions whose valuations had increased in the quarter. Some the companies that we trimmed were Domino's Pizza and PayPal.

Investors spend too much time worrying about the future and not enough time looking at the present. Bonds have been a good investment as long-term interest rates have declined to historically low levels. However, at this point, we believe that they are only useful to reduce volatility in a portfolio. We believe now is a great time to consider investing some maturing bonds into a portfolio of growing stocks with a track record of less than market volatility, like the Spears Abacus MidCap Opportunities Portfolio.

With all best wishes,

Manny Weintraub

Manny Weintraub, CFA

MidCap Opportunities

SPEARS/ABACUS

Quarterly
Fact Sheet
As of December 31, 2020

Investment Strategy Overview

Spears Abacus' MidCap Opportunities strategy is a long-only equity strategy that seeks to preserve capital on an absolute basis 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.

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 and asymmetric risk-reward

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 Russell Midcap or S&P 500
- 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 MidCap (gross)	24.2%	24.2%	15.7%	13.0%	11.0%	11.7%
SA MidCap (net)	22.7%	22.7%	14.2%	11.5%	9.6%	10.0%
Russell Midcap	17.1%	17.1%	11.6%	13.4%	12.4%	10.4%
S&P 500	18.4%	18.4%	14.2%	15.2%	13.9%	9.7%

Source: Spears Abacus, FactSet. Inception Date 3/31/2004. [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 Midcap; [6]Sector weights excluding cash; [7]Returns for less than one year not annualized; YTD as of 12/31/20

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

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

	SA	Russell Midcap
Number of Securities	22	-
Cash Weight	3.0%	-
Dividend Yield	0.83%	1.45%
Market capitalization ($b)	37.3	20.1
Harmonic Avg. TTM P/E	17.6x	32.6x
Harmonic Avg. NTM P/E	17.5x	22.8x
LT Debt / Total Capital	0.42x	0.49x
Net Debt / EBITDA	1.8x	2.9x
Return on Invested Capital	18%	4%
Estimated LT Growth	14%	12%
Payout Ratio	20%	47%
Downside Capture (3-Year)	55%	-
Active Share	99%	-

Top 10 Holdings

	% of Portfolio
Dropbox, Inc. Class A	6.9%
Fiserv, Inc.	6.3%
Intercontinental Exchange, Inc.	6.3%
PTC Inc.	6.3%
CME Group Inc. Class A	6.3%
Wheaton Precious Metals Corp	5.5%
Becton, Dickinson and Company	5.2%
Virtu Financial, Inc. Class A	5.2%
Fidelity National Information Services, Inc.	5.2%
IQVIA Holdings Inc	5.0%
Total	58.3%

Sector Diversification[6]

	SA	Russell Midcap
Consumer Discretionary	14.6%	11.0%
Consumer Staples	0.0%	3.5%
Energy	0.0%	4.7%
Financials	19.8%	19.3%
Health care	18.8%	17.5%
Industrials	6.1%	13.2%
Information Technology	25.4%	13.4%
Materials	11.1%	4.2%
Real Estate	0.0%	7.1%
Communication Services	4.2%	3.7%
Utilities	0.0%	2.3%
Total	100.0%	100.0%

Market Cap Breakdown[1]

	SA	Russell Midcap
$0 to $5 billion	23.8%	6.0%
$5 billion to $15 billion	17.0%	33.4%
$15 billion to $50 billion	27.2%	59.9%
$50billion to $100 billion	30.3%	0.4%
Greater than $100 billion	1.9%	0.0%
Total	100.0%	100.0%

Portfolio Construction

- 15-25 Stocks
- Primarily U.S. based
- Max 30% industry concentration limit
- Target market capitalization below $60 billion

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

Managed by

Spears Abacus MidCap Opportunities Team

Portfolio Manager	Years Experience
Manny Weintraub	31
Senior Analyst	
Daniel Wetchler	11

Style

GARP

Inception Date

31-Mar-04

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