

January 27, 2022

Manager Commentary

**“Buy good companies. Don’t overpay. Do nothing.”**

- **Terry Smith**

2021 was a great year for Spears Abacus Small Cap Dividend Growth strategy, increasing 21.6%, net of fees, vs. 14.8% for the Russell 2000. Our focus on profitable dividend paying companies paid off in terms of relative and absolute performance particularly, as the speculation in unprofitable companies that was so prevalent in 2019 and 2020 continued to cool.

We have generated annualized alpha of 1.8% relative to the Russell 2000 since inception five years ago. When we offered this strategy, we believed we would generate a positive absolute return by investing in growing companies that have chosen to share a portion of their profits with fellow shareholders in the form of a dividend. We also believed that we could generate alpha relative to the benchmark by protecting the portfolio when small cap markets declined. And that prediction basically came true, as our relative results were worse when speculation was at its highest level and better when speculation ebbed. While there is less speculation today than there was nine months ago, it is far from gone, and we are optimistic about our future absolute and relative performance.

Our alpha was generated through stock selection and not through sector weightings. As part of our process, unlike other small-cap dividend strategies that we are aware of, we keep our sector weighting within 3% of our benchmark. The alpha generation has largely resulted from a focus on quality companies. That focus is key to everything we do.

We have crafted a portfolio with a lower valuation, higher forecasted growth rate, and less leverage than the Russell 2000 with our focus on quality, high return on invested capital businesses. We also have a lower valuation and less leverage than the large-cap Russell 3000 index. Historically, small companies have traded at a premium to large companies given their greater growth prospects. We believe that this lower relative valuation and the large-cap index’s concentration in a few mega-cap technology companies sets up our strategy well to deliver strong relative performance over the long term.



Our largest contributor for the quarter was Coca-Cola Consolidated, the largest Coca-Cola bottler in the United States. We bought the company many years ago after it made a large acquisition from the Coca-Cola Company. Any analysts following the company completely underestimated how accretive that acquisition could be. The strong performance in the fourth quarter was a result of the pricing power that likely has allowed the company to more than offset the inflationary pressures that it was facing.

Our largest detractor was Paya Holdings, an integrated payments company that helps customers accept and make payments more efficiently. The stock declined entirely due to a reduction in the valuation that Wall Street was willing to pay for the business. That is a bit unusual for a top detractor. It is more typical for the business to have some sort of disappointment that leads to the reduction in valuation. With revenue in the most recent quarter growing 12% organically, it is hard to argue that business is bad. We believe that the valuation came down due to the poor price performance of so many companies that came public as SPACs. We can control what we buy, but we can't control what other people will pay for it. We are very glad to have Paya in our portfolio.

#### 4Q21 Performance of Top 5 Contributors<sup>1</sup>

Company	Ticker	% Change
Coca-Cola Consolidated, Inc.	COKE	57.2%
Carriage Services Inc.	CSV	44.8%
Morningstar, Inc.	MORN	32.0%
A. O. Smith Corporation	AOS	41.1%
Installed Building Products, Inc.	IBP	30.7%

#### 4Q21 Performance of Top 5 Detractors<sup>1</sup>

Company	Ticker	% Change
Paya Holdings Inc Class A	PAYA	-41.7%
Tabula Rasa Healthcare, Inc.	TRHC	-42.8%
InMode Ltd.	INMD	-11.5%
Cambium Networks Corporation	CMBM	-29.2%
Sabre Corp.	SABR	-27.4%

<sup>1</sup>Top 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.

Investors can no longer rely on the bond market to provide diversification and returns in excess of inflation. The large-cap indexes are heavily concentrated in a few large tech companies. We believe our small-cap dividend strategy will be a helpful tool to deliver diversification and positive returns above and beyond inflation.

Sincerely,



Manny Weintraub, CFA

# Small Cap Dividend Growth



Quarterly  
Fact Sheet  
As of December 31, 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 <sup>1</sup>	Avg Annual Total Returns					
	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Inception
SA Small Cap (gross)	22.7%	22.7%	17.8%	12.3%	-	12.3%
SA Small Cap (net)	21.6%	21.6%	16.6%	11.1%	-	11.1%
Russell 2000	14.8%	14.8%	20.0%	12.0%	-	12.0%

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

Portfolio Statistics <sup>2,3,4</sup>	SA	Russell 2000
Number of Securities	72	-
Cash Weight	1.9%	-
Dividend Yield	0.86%	0.92%
Market capitalization (\$b)	5.4	3.4
Harmonic Avg. TTM P/E	18.7x	30.4x
Harmonic Avg. NTM P/E	17.8x	23.3x
LT Debt / Total Capital	0.28x	0.47x
Return on Invested Capital	25%	4%
NTM Revenue Growth	11%	10%
Median Payout Ratio	20%	33%
% of holdings paying dividend	78%	43%
Active Share	97%	-

Sector Diversification <sup>5</sup>	SA	Russell 2000
Consumer Discretionary	12.4%	11.4%
Consumer Staples	3.5%	3.5%
Energy	2.8%	4.4%
Financials	17.0%	16.1%
Health care	18.5%	17.9%
Industrials	14.2%	15.2%
Information Technology	16.7%	14.6%
Materials	5.7%	3.8%
Real Estate	6.4%	7.4%
Communication Services	2.2%	3.1%
Utilities	0.0%	2.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Efficiency Measures <sup>6,7</sup>	SA	Russell 2000
Annualized Excess Return	0.3%	-
Annualized Alpha	1.8%	-
Beta	0.86	-
Volatility	18.7%	20.6%
Upside Capture	92%	-
Downside Capture	86%	-
Sharpe Ratio	0.6	0.5
Sortino Ratio	1.0	0.8
Tracking Error	6.4%	-
Turnover (trailing 1 year)	37%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

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Top 10 Holdings	% of Portfolio
InMode Ltd.	4.9%
Switch, Inc. Class A	3.7%
Morningstar, Inc.	3.0%
Virtu Financial, Inc. Class A	2.7%
Carriage Services Inc.	2.5%
A. O. Smith Corporation	2.3%
Installed Building Products, Inc.	2.3%
Amedisys, Inc.	2.3%
CDK Global, Inc.	2.2%
Coca-Cola Consolidated, Inc.	2.2%
<b>Total</b>	<b>28.0%</b>

Source: Spears Abacus, FactSet. <sup>1</sup>Portfolio weightings including cash

Managed by

**Spears Abacus Small Cap Dividend Growth Team**

Portfolio Manager	Years Experience
<b>Manny Weintraub</b>	<b>32</b>

Senior Analyst

<b>Daniel Wetchler</b>	<b>12</b>
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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. 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*