

April 20, 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. It also saw the reversal of three broad trends that have been supportive of the bull market that began in 1982.

When trends reverse, it's a good time to reassess one's portfolio allocation. As you reassess, ask yourself whether this is a good time to be overweight mega-cap growth stocks.

Broken trend one: 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 valuation support that mega-cap growth stocks received from declining and even negative interest rates may have peaked.

Broken trend two: Globalization has peaked. 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. We believe this a bigger problem for large multinationals than for the smaller U.S.-focused companies in our investable universe.



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Broken trend three: Inflation is back. 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. Inflation could lead to more volatility in the stock market, and we believe our portfolio with its relatively high return on invested capital is well positioned to benefit from that volatility through strategic acquisitions.

There are reasons to be optimistic as well. 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 S&P 500 is down only 6% from its all-time high, below the surface many of the excesses of the last bull market have already been 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 ask yourself whether you have enough of an opportunity to make money if these trend reversals lead to the outperformance of domestic small-cap stocks relative to the S&P 500.

1Q22 Performance of Top 5 Contributors¹

Company	Ticker	% Change
Virtu Financial, Inc. Class A	VIRT	30.0%
Royal Gold, Inc.	RGLD	35.1%
CDK Global, Inc.	CDK	16.6%
Sabre Corp.	SABR	33.1%
Switch, Inc. Class A	SWCH	7.8%

1Q22 Performance of Top 5 Detractors¹

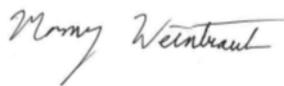
Company	Ticker	% Change
InMode Ltd.	INMD	-47.7%
Installed Building Products, Inc.	IBP	-38.8%
Morningstar, Inc.	MORN	-19.9%
A. O. Smith Corporation	AOS	-25.3%
Hibbett Inc	HIBB	-22.9%

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 greatest performance contributor this quarter was Virtu Financial, a market maker, that benefits from volatility which this eventful quarter provided in spades. Our greatest detractor was InMode, a developer and manufacturer of minimally invasive aesthetic products. Its valuation has shrunk as the company has matured, but we believe it has a bright future.

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 Small-Cap Dividend Growth strategy, which historically has had a low downside capture ratio, will be an important tool in helping to preserve purchasing power over the next decade.

All best,



Manny Weintraub, CFA

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)	-6.8%	2.1%	10.5%	10.0%	-	10.2%
SA Small Cap (net)	-7.0%	1.1%	9.4%	8.9%	-	9.1%
Russell 2000	-7.5%	-5.8%	11.7%	9.7%	-	9.8%

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 3/31/22; 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	1.2%	-
Dividend Yield	1.00%	1.03%
Market capitalization (\$b)	5.2	3.3
Harmonic Avg. TTM P/E	17.3x	25.9x
Harmonic Avg. NTM P/E	16.1x	21.0x
LT Debt / Total Capital	0.30x	0.47x
Return on Invested Capital	25%	4%
NTM Revenue Growth	10%	10%
Median Payout Ratio	19%	32%
% of holdings paying dividend	81%	43%
Active Share	97%	-

Sector Diversification ⁵	Russell	
	SA	2000
Consumer Discretionary	11.0%	10.2%
Consumer Staples	3.2%	3.5%
Energy	3.5%	6.7%
Financials	17.7%	16.0%
Health care	17.1%	16.5%
Industrials	12.5%	15.6%
Information Technology	18.7%	13.7%
Materials	6.5%	4.0%
Real Estate	6.2%	7.8%
Communication Services	3.0%	3.2%
Utilities	0.0%	3.0%
Total	100.0%	100.0%

Efficiency Measures ^{6,7}	Russell	
	SA	2000
Annualized Excess Return	0.4%	-
Annualized Alpha	1.6%	-
Beta	0.86	-
Volatility	18.7%	20.7%
Upside Capture	92%	-
Downside Capture	87%	-
Sharpe Ratio	0.5	0.4
Sortino Ratio	0.8	0.7
Tracking Error	6.3%	-
Turnover (trailing 1 year)	29%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Top 10 Holdings	% of Portfolio
Switch, Inc. Class A	4.3%
Virtu Financial, Inc. Class A	3.7%
World Wrestling Entertainment, Inc. Class A	2.9%
CDK Global, Inc.	2.8%
InMode Ltd.	2.7%
Royal Gold, Inc.	2.6%
Amedisys, Inc.	2.6%
Morningstar, Inc.	2.5%
Carriage Services Inc.	2.3%
Qualys, Inc.	2.1%
Total	28.6%

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

Managed by

Spears Abacus Small Cap Dividend Growth Team

Portfolio Manager	Years Experience
Manny Weintraub	32

Senior Analyst	
Daniel Wetchler	12

Style
Blend

Inception Date
31-Dec-16

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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*