

April 17, 2020



## Portfolio Manager's commentary

We hope this letter finds you and your loved ones well. While we take great pride in our management of your financial assets, we are well aware -- especially in such a difficult time as this -- of the far greater importance of health.

In the first quarter of 2020, the Spears Abacus Small Cap Dividend Growth composite declined 26.0%, net of fees, versus 30.6% for the Russell 2000 small-cap index. The fight against COVID-19 has decimated the revenue of many hotels, restaurants and retailers; caused a large increase in unemployment; and forced banks to set aside increased provisions for loan losses. Over the past 20 years, we have managed through a number of recessions, but this one has been particularly brutal.

Our portfolio declined less than the Russell 2000 given our focus on companies with above average returns, free cash flow generation, and the ability to pay a dividend. As we mentioned in our last letter, 26% of the Russell 2000 small-cap index had negative GAAP profits for 2019. While we like to think that profitability always matters, it especially matters in a recession.

In the coming quarters, we believe that small-cap shares should start to recover as companies begin to report earnings, and virus-related lockdowns abate. While uncertainty is never good for stocks, it can be especially difficult for smaller companies as they are followed by fewer Wall Street analysts and portfolio managers who understand the value of each business, no matter how esoteric. While there are thousands of people deciding every day whether or not to own AT&T, nobody is required to own shares in a small cap regional bank or a national pizza chain. If one portfolio manager decides to sell its holdings in a small-cap company, there might not be another manager on the other side to buy it. In that case, the seller will have to accept a discounted price from a trader, or market maker, just to get liquidity.

Since inception of our strategy three years and one quarter ago, the Small Cap Dividend composite has had an annualized return of negative 2.0%, net of fees, versus negative 3.6% for the Russell 2000, with substantially lower volatility. Despite declining less than the Russell 2000, we believe your portfolio is well positioned for the economic recovery.

Below is a table of the top contributors to, and detractors from, our investment performance for this first quarter. As you can see, the number one contributor was Virtu Financial, a market maker that buys and sells securities and other financial



instruments. One of the main reasons we owned Virtu is that they actually do well in times of panic. Historically, when trading volumes have increased, their profits have increased. The largest detractor for the quarter was Ebix, a provider of software services to insurance companies, whose diversification into Indian travel and payment services is being viewed with suspicion given the lockdown of the Indian economy. While that is a legitimate concern, we believe Ebix's cash flow from European and U.S. insurance companies will provide it sufficient cash flow to weather this storm.

#### 1Q20 Performance of Top 5 Contributors<sup>1</sup>

Company	Ticker	% Change
Virtu Financial, Inc. Class A	VIRT	31.9%
Insulet Corporation	PODD	23.6%
TPI Composites, Inc.	TPIC	19.2%
Domino's Pizza, Inc.	DPZ	10.6%
Tabula Rasa Healthcare, Inc.	TRHC	7.4%

#### 1Q20 Performance of Top 5 Detractors<sup>1</sup>

Company	Ticker	% Change
Ebix, Inc.	EBIX	-54.6%
Western Alliance Bancorp	WAL	-46.3%
World Wrestling Entertainment	WWE	-47.5%
Cantel Medical Corp.	CMD	-49.3%
Choice Hotels International, Inc.	CHH	-40.8%

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

The same thing that can make small-cap investing great for active managers in a bull market – relatively underfollowed companies focused on a growing trend that increases their earnings - can make for a harrowing experience in bear markets, as investors barrel out of companies that they had only recently purchased. Of course, that same harrowing experience can give experienced investors the opportunity to buy shares in companies at bargain prices. As Shelby Cullom Davis, who was my first Wall Street mentor, and who got on the Forbes 400 due to his investing, liked to say with regard to the low valuations available in a panic: “You make your most money in bear markets. You just don't realize it at the time.”

Our goal is that one day, at some point in the future, you may be able to look back and say, “Wow, I made a lot of money in the spring of 2020. I just didn't realize it at the time.” Our plan to make this a reality is to continue to focus on each small cap company's balance sheet strength, competitive position, and long-term prospects.

This lockdown and economic slowdown will not last forever, and we believe we are well positioned for the time, albeit that now seems so distant, when we will have ample Coronavirus testing, medical supplies, medical treatments and a vaccine.

With all best wishes for a healthy spring, and renewal for you and your families,



Manny Weintraub, CFA  
Principal

## Investment Strategy Highlights

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 high 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 meaningfully 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 style is balanced between growth and value. Sector weights are maintained within 3% of the Russell 2000®.

## Performance<sup>1</sup>

	Annualized Total Returns				
	YTD	1 Yr.	2 Yr.	3 Yr.	Inception
SA Small Cap (gross)	-25.8%	-21.5%	-11.1%	-2.1%	-1.0%
SA Small Cap (net)	-26.0%	-22.3%	-12.0%	-3.1%	-2.0%
Russell 2000	-30.6%	-24.0%	-11.9%	-4.6%	-3.6%

## Portfolio Statistics<sup>2,3</sup>

	SA	Russell 2000
Number of Securities	70	-
Cash Weight	2.6%	-
Dividend Yield	1.98%	1.93%
Market capitalization (\$b)	4.1	1.9
Harmonic Avg. TTM P/E	16.0x	25.6x
Harmonic Avg. NTM P/E	15.0x	19.7x
LT Debt / Total Capital	0.57x	0.48x
Median Net Debt / EBITDA	2.5x	3.3x
Return on Invested Capital (ROIC)	12%	2%
NTM Revenue Growth	8%	2%
Median Payout Ratio	28%	46%
% of holdings paying dividend	87%	43%
Active Share	96%	-

Managed by

**Spears Abacus Small Cap Dividend Growth Team**

Portfolio Manager

**Manny Weintraub**

Years of Investment Experience

**30 Years**

Style

**Blend**

Inception Date

**31-Dec-16**

	SA	Russell 2000
<b>Sector Diversification<sup>4</sup></b>		
Consumer Discretionary	8.7%	8.7%
Consumer Staples	3.1%	3.4%
Energy	0.9%	1.7%
Financials	18.2%	16.8%
Health care	22.0%	21.3%
Industrials	12.2%	15.3%
Information Technology	17.8%	15.1%
Materials	3.3%	3.4%
Real Estate	8.4%	7.6%
Communication Services	2.3%	2.2%
Utilities	2.9%	4.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## Efficiency Measures<sup>5,6</sup>

	SA	Russell 2000
Annualized Excess Return	2.6%	-
Annualized Alpha	1.9%	-
Beta	0.87	-
Volatility	18.1%	20.4%
Upside Capture	94%	-
Downside Capture	85%	-
Sharpe Ratio	-0.1	-0.3
Sortino Ratio	-0.2	-0.3
Information Ratio	0.5	-
Tracking Error	4.9%	-
Turnover (trailing 1 year)	53%	-

<sup>1</sup>Returns for less than one year not annualized; YTD as of 3/31/20

<sup>2</sup>All statistics based on weighted average unless otherwise noted

<sup>3</sup>Dividend yield of total portfolio including cash

<sup>4</sup>Sector weights excluding cash; weight includes certain reclassifications

<sup>5</sup>Gross since inception, monthly basis vs Russell 2000

<sup>6</sup>Based on Risk Index = Russell 2000, Risk Free Index = 3 Month T-Bill

PLEASE SEE DISCLOSURES ON THE FOLLOWING PAGE

Source: FactSet, Spears Abacus

## Small Cap Dividend Growth Notes & Disclosures

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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*