

July 22, 2020

## Manager Commentary

In the second quarter, the small cap market had a recovery in both the economically sensitive travel and leisure stocks that bore the brunt of the selling in the first quarter and in the volatile growth stocks that tend to rise when central banks provide liquidity.

The Spears Abacus Small Cap Dividend Growth portfolio, which seeks to own shares in profitable companies and to avoid unprofitable speculative companies, rose 16.5% for the quarter and is now down 14.0%, net of fees, for the first half of the year. The Russell 2000 increased 25.4% for the quarter and is now down 13.0% for the year. As in previous years, our results were much less volatile than the benchmark.

Looking at the index, however, masks the wide divergence between the fortunes of the Russell 2000 Growth and the Russell 2000 Value. The severe economic difficulties suffered by cyclical value stocks are in stark contrast to the speculative fervor igniting some growth stocks. Year to date, the Russell 2000 Growth is down only 3.1%, while the Russell 2000 Value is down 23.5%. Not an easy six-month period in which to care about valuation.

Between growth companies that investors hope will be profitable one day and value stocks that are losing money due to the Covid-19 crisis, both growth stocks and value stocks are trading at high valuations on expected earnings. While our portfolio is trading at nineteen times forward earnings per share with a return on invested capital (ROIC) of 13%, the Russell 2000 is trading at fifty-seven times forward earnings with an ROIC of 1%. We like our relative position even in these uncertain times.

The portfolio is structured assuming a strong economic recovery off the bottom, but one in which many drivers of economic activity: travel, restaurants, commercial real estate remain muted for at least the next twelve months.

Given that outlook, early in the quarter we sold shares in both travel related names that had bounced off their March lows and companies that had suspended their dividends. We reinvested the proceeds in companies that we thought would still benefit from the recovery, but with less existential risk.



Below is a table of the top contributors to, and detractors from, our investment performance for this quarter. The number one contributor was Medifast, a multilevel marketer of healthful food to promote general wellness. The lockdown turned out to be a great opportunity for people to become salespeople for their Optavia brand of food and recipes, and the stock reacted accordingly. The number one detractor was AMN Healthcare Services, a staffing company specializing in nurses and clinicians. The suspension of elective surgeries around the country has led to a rare decline in annual earnings for the company, but we expect earnings growth to resume next year.

#### 2Q20 Performance of Top 5 Contributors<sup>1</sup>

Company	Ticker	% Change
Medifast, Inc.	MED	123.9%
Royal Gold, Inc.	RGLD	41.7%
Logitech International S.A.	LOGI	51.9%
Masimo Corporation	MASI	28.7%
Catalent Inc	CTLT	41.1%

#### 2Q20 Performance of Top 5 Detractors<sup>1</sup>

Company	Ticker	% Change
AMN Healthcare Services, Inc.	AMN	-21.7%
Inogen, Inc.	INGN	-31.2%
Hawaiian Electric Industries, Inc	HE	-15.5%
Portland General Electric Comp	POR	-12.0%
Brink's Company	BCO	-12.2%

<sup>1</sup>Top contributors / detractors based on percentage contribution to the portfolio'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 security was purchased/sold during the quarter, performance is calculated based on purchase/sale date.

Since inception three and a half years ago, we have had annualized returns of 3.5%, and 2.4% net of fees, with less volatility than the Russell 2000, which has returned 3.1%. Our strategy offers the opportunity to benefit from the growth in earnings, revenue, and dividends of profitable small cap companies. During a speculative growth bubble, it might seem more attractive to invest in concept stocks that are untethered to any actual valuation metrics, but every cycle turns.

The next three months should prove interesting as we approach the upcoming election and the presumed second wave of the pandemic. Our focus will remain on investments with financial stability and the potential for long-term success.

With all best wishes for a healthy summer,



Manny Weintraub, CFA



# SMALL CAP DIVIDEND GROWTH

**SPEARS / ABACUS**

Quarterly  
Fact Sheet  
As of June 30, 2020

## 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)	-13.6%	-12.3%	-6.4%	1.9%	3.5%
SA Small Cap (net)	-14.0%	-13.2%	-7.3%	0.8%	2.4%
Russell 2000	-13.0%	-6.6%	-5.0%	2.0%	3.1%

Portfolio Statistics <sup>2,3</sup>	SA	Russell 2000
Number of Securities	73	-
Cash Weight	4.4%	-
Dividend Yield	1.67%	1.76%
Market capitalization (\$b)	4.9	2.1
Harmonic Avg. TTM P/E	18.5x	57.2x
Harmonic Avg. NTM P/E	19.0x	57.2x
LT Debt / Total Capital	0.58x	0.50x
Median Net Debt / EBITDA	2.2x	3.8x
Return on Invested Capital (ROIC)	13%	1%
NTM Revenue Growth	6%	1%
Median Payout Ratio	30%	93%
% of holdings paying dividend	85%	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**

Sector Diversification <sup>4</sup>	SA	Russell 2000
Consumer Discretionary	9.2%	11.7%
Consumer Staples	2.9%	3.3%
Energy	1.0%	2.2%
Financials	18.6%	16.3%
Health care	22.4%	20.7%
Industrials	12.7%	14.5%
Information Technology	16.5%	13.9%
Materials	3.9%	4.0%
Real Estate	8.0%	7.1%
Communication Services	2.5%	2.5%
Utilities	2.1%	3.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Efficiency Measures <sup>5,6</sup>	SA	Russell 2000
Annualized Excess Return	0.4%	-
Annualized Alpha	0.6%	-
Beta	0.86	-
Volatility	19.0%	21.3%
Upside Capture	88%	-
Downside Capture	85%	-
Sharpe Ratio	0.1	0.1
Sortino Ratio	0.2	0.1
Information Ratio	0.1	-
Tracking Error	5.6%	-
Turnover (trailing 1 year)	53%	-

<sup>1</sup>Returns for less than one year not annualized; YTD as of 6/30/20

<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>Sector weights excluding cash; weights 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

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**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*