JULY 13, 2022

Markets Post Worst First Half of Year In Decades – Wall Street Journal front page headline, July 1, 2022

The S&P 500 has dropped nearly 20 percent so far this year. In the second quarter alone, it declined more than 16 percent. Bonds were no safe haven. The broadest measure of high-quality bonds fell more than 10 percent, the worst first half in history (in this case, "history" dates back to about 1970).

We try to avoid rehashing statistics that are readily available in print and online. These numbers are so stark that we feel they deserve prominent mention. However, context is everything, and there are important points to keep in mind:

- Investing is not a one-way street. Assets prices have declined sharply before and will do so again.
- Our goal is to be able to withstand volatility and avoid permanent loss of capital. It is critical to be well-positioned as markets inevitably rebound.
- Our investment process is designed with precisely this fact in mind. We hold high quality, durable companies. Stock prices may fluctuate, but underlying businesses are stable.
- The best businesses get stronger during difficult periods. Weak competitors fall by the wayside.
- Front page headlines reflect the past and are generally very poor predicters of the future.

A 20% drop in stock market averages is painful, but not unusual. Declines of this magnitude have occurred a dozen times in the last 60 years or about once every five years. We were spoiled by the fact that the early Covid decline lasted a mere 30 days and that it had been 11 years since the previous similar drop.

What happened?

While there have been a number of well-publicized adverse events this year, we believe that the primary reason markets are down is money. Specifically, investor ***expectations*** about the future cost and availability of money. For the first time since the outbreak of Covid-19, and arguably since the Great Financial Crisis, investors are seriously considering the implications of a shrinking rather than expanding supply of money.

As we have written about previously, the mountain of cash that the Fed injected into the financial system had a much larger impact on the valuation of financial assets than it did on the underlying earnings of those assets. By the end of last year, most common valuation metrics were at or near all-time highs.

On December 31, 2021, the P/E Multiple[1] of the S&P 500 stood at 21.33 times expected earnings. As of June 30, the P/E Multiple has shrunk to 16 times despite the fact that expected earnings have actually increased. The entire market decline can be explained by this reduction in valuation, which, in turn, can be explained by higher interest rates and investor concerns about tighter monetary policy.

Where was the damage worst?

In order to withstand volatility, it is imperative to avoid the most overvalued assets. Over the last several years, there have been numerous instances of extreme valuation expansion. Covid related fiscal stimulus and near zero interest rates converted some portion of the population from savers to speculators, guiding some of that mountain of cash toward the riskiest assets. The boldest examples were assets with no earnings whatsoever like crypto currencies and some so-called meme stocks.

Asset	2021 Price Change	Earnings 2017 - 2021	YTD Price Change
Bitcoin	+58%	0	-57.9%
AMC Entertainment	+1,183%	$ 6.4 Billion Loss	- 50.2%

Of the 4000 or so publicly traded companies in the U.S., nearly 1000 dropped 40% or more this year. More than half of those are not expected to show a profit in 2022. Undoubtedly, some will survive and even prosper. Many will not. The result will be permanent loss of capital for shareholders.

[1] ***Valuation = Price divided by earnings*** To oversimplify, the measure of a stock's valuation is its price divided by its earnings per share. This is referred to as its Price/Earnings Ratio or P/E Multiple (sometimes just "P/E" or "multiple" for short). The same measure can be applied to broad market indices like the S&P 500.

Company	Industry	First Profits (Projections)	YTD Price Change
Carvana	Auto dealer	2025 or later	-90.3%
Aspen Aerogels	Building Products	2025 or later	-80.2%
The RealReal	Designer clothing consignment	2025 or later	-78.5%
Wayfair	On-line Furniture	2025 or later	-77.1%

By contrast, our portfolios hold companies that generate cash flow, not just accounting earnings (generally accepted accounting principles, or GAAP, leave a lot of wiggle room; cash is cash). We think cash flow is important in all environments and even more so when lending conditions are tight and financing difficult.

What about inflation?

The yield on the 10-year U.S. Treasury Note peaked at around 3.50%, a whopping 2% (percentage points) higher than just a year ago. The increase can be traced back to inflation that has proved more severe and persistent than most ever imagined. Consumers immediately feel the pressure of inflation on highly visible essentials like gasoline, food and utility bills or discretionary items like air travel. But it is the expectations of inflation that concern policy makers at the Federal Reserve the most. Once inflation expectations become entrenched, it is difficult to get the consumer to stop spending as the belief is that things will only get more expensive. The cycle become vicious, and inflation becomes self-fulfilling.

After some waning confidence during the quarter, the market now believes that the Fed will be successful. Inflation expectations have come back down to 2.0%-2.5% over the long term, rather than the high single digit rates we are seeing today. As one problem is solved, another potentially arises. Tighter monetary policy often leads to a recession.

We believe that this is the risk that investors will focus on in the coming months. We are already seeing the first signs. In the last week of the quarter, the 10-year Treasury rate dipped below 3%. Credit spreads[2] are increasing, indicating that lenders are less inclined to extend cheap credit to lower quality borrowers. If this proves to be the case, the high quality and resiliency of our stock and bond holdings should prove even more valuable relative to riskier and more expensive securities.

---

[2] Credit spreads measure the difference in borrowing costs between the U.S. Treasury and lower quality borrowers.

The opportunity for profitable companies

There are going to be a number of small, single product companies that are probably not going to survive what's happening and the valuation multiple changing is actually, I think, good for larger companies like Adobe.

– Shantanu Narayen, Adobe CEO, during June 16, 2022 earnings call

To state the obvious, the days of free money have come to an end. To put numbers to it, last year Snapchat issued convertible bonds with an interest rate of 0.0% (not a typo). Today, the same bonds trade at 71 cents on the dollar, and investors require a 7% annualized return to take the risk.

The pendulum swing in the availability and cost of capital from abundant to scarce, cheap to expensive has taken place to different degrees across public and private markets. For relatively large public companies like Snapchat, higher borrowing costs are painful but not fatal. For small, development stage companies, the funds may not exist, and, as Shantanu Narayen said, a number will not survive.

Many businesses with great technology and lots of future promise, but no profits today, will be forced to consider selling to an industry player with deeper pockets or to cut spending on sales and marketing and reduce investment in product development to conserve cash. In either case, this is good news for the incumbents with established business models and strong cash flow that these challengers sought to displace.

We also see the benefit for larger companies extending to what has been one of this cycle's scarcest resources – human capital. As noted by *The Wall Street Journal*, "after years of fighting to keep engineers and other sought-after employees from leaving for rivals or buzzy startups, the healthiest of the big tech companies are increasingly attractive for tech workers suddenly more keen on stability."[3]

Right now, investor focus is on the losers in this sea-change. We are looking for the beneficiaries, and our focus on highly profitable businesses means that we own many incumbents. Most of these stocks are down with the market this year, but we believe that their competitive positions have been strengthened and that the multi-year outlook is, if anything, brighter.

Spears Abacus Opportunistic Equity Strategy discussion – Manny Weintraub, Manager

In the second quarter, as in past bear markets, the Spears Abacus Opportunistic Equity Strategy declined less than the S&P 500 by design. We believe our focus on valuation, profitability and recession resistant business models positioned us well entering this downturn. We have seen ten declines of 20% or more since starting on Wall Street in 1989 and always consider the possibility of a bear market when making new investments.

---

[3] Mims, Christopher, "The Tech Crash Could be a Talent Bonanza for Big Tech", *The Wall Street Journal*, May 8, 2022

Just as we prefer to be cautious when others are greedy, we believe now is the time to start thinking about how much we could make if the environment were to improve with a resolution to the Russian invasion of Ukraine or a full reopening of the Chinese economy. However, given the issues of inflation, rising interest rates, and deglobalization that we raised last quarter, we are making any portfolio moves slowly with a focus on quality like we did in the 2008 bear market.

We established new positions in Stryker Corporation, a leading medical technology company, whose margins have been hurt by high shipping costs; Altria, a manufacturer of cigarettes and smokeless tobacco, whose share price has been hurt by a disappointing outlook for its ill-fated investment in the vaping company, Juul, and JPMorgan Chase, the largest US money center bank. JPMorgan has been knocked down in price due to fears of loan losses at the exact moment that profit margins should expand due to rising interest rates.

It's easy to get myopic when the stock market declines week after week and only worry about losing less money, but it's called a business cycle for a reason, and one day things will get better. We used the 18 months of the last bear market to make a number of investments at valuations that seemed ridiculous to us, while others were panicking. Their eventual recovery to an improved valuation on improved earnings was a large part of the reason why this strategy outperformed the market in 2009 by 15%.[4]

We are just beginning to see some signs of share prices and valuations that we believe are ridiculous. Two examples of the single-digit valuations available in this market are Virtu Financial and EQT Corporation. Virtu, a provider of market making services, trades at six times earnings estimates, with a 4.3% dividend yield, due to concerns over potential regulatory changes in its industry. EQT, a leading producer of natural gas in the United States is trading at five times 2023 earnings estimates, at a time when new US liquid natural gas terminals for export will be online in 2025 and Germany desperately needs to diversify away from Russian natural gas.

These examples don't mean that the market has hit a bottom, but rather that we believe increased pessimism, reduced liquidity and the popularity of trading baskets of stocks through ETFs make this is a good time to search for mispriced stocks that will drive future performance.

[4] Past performance is not indicative of future results. Given the inherent volatility of the securities markets, it should not be assumed that investors will experience returns comparable to those shown here. Market and economic conditions could change in the future producing materially different returns than those shown here. Accordingly, no representation or warranty is made to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose. The comparisons herein of the performance of the market indicators, benchmarks or indices may not be meaningful since the constitution and risks associated with each market indicator, benchmark or index may be significantly different.

Important Note About SA Investor Commentaries

This letter should not be relied upon as investment advice. Any mention of particular stocks or companies does not constitute and should not be considered an investment recommendation by SA. Any forward-looking statement is inherently uncertain. If you would like to learn more about SA and its investment program, please contact us at www.spearsabacus.com.

Please contact SA if your financial situation or investment objectives have changed in any way or if you wish to impose new restrictions or modify existing restrictions on your accounts. You should be receiving, at least quarterly, a statement from your custodian showing transactions in your accounts. SA urges you to compare your custodial statements to any statements that you receive from SA.

OPPORTUNISTIC EQUITY

SPEARS ABACUS

Quarterly
Fact Sheet
As of June 30, 2022

Investment Strategy Overview

Spears Abacus' Opportunistic Equity strategy is a long-only investment strategy that seeks to minimize downside participation 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 through disciplined stock selection and risk management.

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

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 S&P 500 or Russell 3000
- 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 Opp Eq (gross)	-17.4%	-18.3%	6.3%	9.1%	10.5%	9.6%
SA Opp Eq (net)	-17.9%	-19.2%	5.1%	7.8%	9.2%	8.2%
Russell 3000	-21.1%	-13.9%	9.8%	10.6%	12.6%	9.0%
S&P 500	-20.0%	-10.6%	10.6%	11.3%	13.0%	9.0%

Source: Spears Abacus, FactSet. Inception Date 12/31/2003. [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 3000; Alpha based on Risk Index = Russell 3000, Risk Free Rate = 10 Year Treasury note; [6]Sector weights excluding cash; [7]Returns for less than one year not annualized; YTD as of 6/30/22

Portfolio Statistics[1,2,3,4,5]	SA	Russell 3000
Number of Securities	34	-
Cash Weight	8.1%	-
Dividend Yield	1.01%	1.54%
Market capitalization ($b)	71.5	410.7
Harmonic Avg. TTM P/E	18.8x	19.1x
Harmonic Avg. NTM P/E	16.3x	15.9x
LT Debt / Total Capital	0.39x	0.43x
Return on Invested Capital	22%	10%
Estimated LT Growth	13%	13%
Payout Ratio	24%	29%
Downside Capture (3-Year)	78%	-
Volatility (3-Year)	16.6%	19.4%
Alpha (3-Year)	-1.9%	-
Active Share	94%	-

Top 10 Holdings	% of Portfolio
Centene Corporation	5.8%
IQVIA Holdings Inc	4.3%
PTC Inc.	4.0%
Mastercard Incorporated Class A	3.9%
CME Group Inc. Class A	3.8%
Schlumberger NV	3.8%
S&P Global, Inc.	3.8%
Intercontinental Exchange, Inc.	3.8%
Fiserv, Inc.	3.8%
Franco-Nevada Corporation	3.6%
Total	40.5%

Sector Diversification[6]	SA	Russell 3000
Consumer Discretionary	3.6%	10.8%
Consumer Staples	4.0%	6.5%
Energy	5.8%	4.5%
Financials	19.1%	11.7%
Health care	17.6%	14.9%
Industrials	0.0%	9.1%
Information Technology	37.0%	25.8%
Materials	8.4%	2.9%
Real Estate	2.1%	3.7%
Communication Services	2.3%	7.1%
Utilities	0.0%	3.1%
Total	100.0%	100.0%

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

147 EAST 48TH STREET
NEW YORK, NY 10017
T 212-230-9888 F 212-230-9861

SPEARS ABACUS

Market Cap Breakdown[1]

	SA	Russell 3000
$0 to $5 billion	7.7%	7.0%
$5 billion to $15 billion	13.4%	8.9%
$15 billion to $50 billion	31.3%	18.3%
$50billion to $100 billion	28.8%	12.7%
Greater than $100 billion	18.9%	45.0%
Total	100.0%	100.0%

Portfolio Construction

- 25-35 Stocks
- Primarily U.S. based
- No market capitalization preference
- Max 30% industry concentration limit

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

Managed by

Spears Abacus Opportunistic Equity Team

Portfolio Manager	Years Experience
Manny Weintraub	32
Senior Analyst	
Daniel Wetchler	12

Style

GARP

Inception Date

31-Dec-03

INFORMATION PROVIDED IN THIS COMMUNICATION IS CONSIDERED PROPRIETARY AND PRIVATE TO THE FIRM. THE FIRM DOES NOT ALLOW THE DISSIMINATION OF THIS INFORMATION THROUGH ELECTRONIC MEANS, OR OTHERWISE, WITHOUT EXPLICIT WRITTEN CONSENT.

Spears Abacus Advisors LLC is an independent investment management firm registered with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. This material is intended to inform you of services available through Spears Abacus.

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.

Comparisons to the S&P 500 TR (Total Return) and Russell 3000® are for informational purposes only, as the composites may hold securities not in the S&P 500 TR (Total Return) and Russell 3000® and may have more or less volatility and risk than an investment in the S&P 500 TR (Total Return) and Russell 3000®. Management fee information available upon request.

Neither Spears Abacus Advisors nor its employees provide tax or legal advice. All investors are strongly urged to consult their own tax or legal advisors with respect to the impact on their personal situation of any potential strategy or investment.

This material is presented solely for informational purposes and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Additional information can be provided upon request.

All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. The views expressed in this presentation are subject to change based on market and other conditions.

The information presented herein has been prepared for informational purposes only and is not an offer to buy or sell, or a solicitation of an offer to buy or sell, any security or fund interest or any financial instrument.

The illustrations, written or communicated otherwise, are intended solely as a tool to assist in consideration of various potential asset allocations for a client's account. Spears Abacus makes no warranty that the asset allocations discussed in this presentation will be used to manage your account. Asset allocations may differ between clients based on their investment objectives and financial situations. No assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis.

Note 1: The stocks communicated in the verbal or written examples may be included in client portfolios. They do not reflect all securities traded by the client. Stocks used in written or verbal communication are selected on the basis of being within a representative portfolio. The stocks were not selected on the basis of any performance based criteria and the use of those stocks in the examples does not constitute a recommendation to buy or sell any securities.

Note 2: Past performance is not indicative of future results. Given the inherent volatility of the securities markets, it should not be assumed that investors will experience returns comparable to those shown here. Market and economic conditions could change in the future producing materially different returns than those shown here. Accordingly, no representation or warranty is made to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific purpose.

Note 3: The benchmarks used are for purposes of comparison and should not be understood to mean that there will necessarily be a correlation between the portrayed returns herein and these benchmarks. The comparisons herein of the performance of the market indicators, benchmarks or indices may not be meaningful since the constitution and risks associated with each market indicator, benchmark or index may be significantly different. The referenced indices are unmanaged and not available for direct investment. Index performance does not reflect transaction costs, fees or expenses.

SEC FORMS ADV 1, 2A, 2B AND THE PRIVACY POLICY ARE AVAILABLE ON REQUEST.

For further information please see www.spearsabacus.com or contact the firm by electronic mail at info@spearsabacus.com.