April 20, 2021

Manager Commentary

There are these two young fish swimming along, and they happen to meet an older fish swimming the other way, who nods at them and says, "Morning, boys. How's the water?" And the two young fish swim on for a bit, and then eventually one of them looks over at the other and goes, "What the hell is water?"

- ***David Foster Wallace***

We spend a lot of time in these letters talking about what happened in the quarter, what might happen in the future and how we are positioned, but maybe we don't spend enough time talking about what we are trying to accomplish.

We are trying to make our clients more money with less stress. We want them to have a higher allocation to equities that we believe have higher prospective returns than fixed income.

I am all for trying to teach household finance in schools, starting as early as possible. And when it comes to high school, I think learning about compound interest is at least as important as trigonometry or memorizing the names of all 50 state capitals.

- ***Richard Thaler,*** *awarded the 2017 Nobel Memorial Prize in Economic Sciences*

Compound interest is the interest that your interest earns. In the early years of a portfolio, it is often not much, but over time it can be huge. "How huge is it?" Well, a million dollars invested entirely in the S&P 500 since April 2004, when I started managing the MidCap Opportunities strategy, compounded at 9.9%, and is now worth $5.0 million. Bonds returned 4.0% since that time, and a million dollars grew to be $1.9 million. Let's assume most wealthy families or institutions were not 100% in stocks or bonds, but with hindsight every $100,000 of that hypothetical million-dollar portfolio allocated to bonds had an opportunity cost of $310,000.

In the spring last year, I was writing at the height of a pandemic induced stock-market crash. We were able to report that we had declined 9.3% versus the 27.1% decline for the Russell Midcap index as a result of our investments in companies that we perceived to have great business models at fair prices. We looked forward to things getting "less bad" and a market rally that would reflect that. There was never any fear in our minds of a permanent loss of capital. It might take a year or two, but we believe that, when investing in companies benefitting from long-term societal trends at reasonable valuations, it is not a matter of IF you will make money, but WHEN you will make money. Maybe earnings growth would be delayed by a year or two due to the global recession, or maybe valuations would reset to a lower level as part of a broad market retrenchment, but once expectations and valuations were reset, the trend would return to growth. None of our clients took money out of our strategy in the spring of 2020, and several added to their portfolios.

Courage is willingness to take the risk once you know the odds. Optimistic overconfidence means you are taking the risk because you don't know the odds. It's a big difference.

- ***Daniel Kahneman,*** *awarded the 2002 Nobel Memorial Prize in Economic Sciences*

For those who don't understand risk, it seems easy to outperform the stock market. Just buy the ProShares Ultra S&P 500, ETF (Ticker SSO), a double levered S&P 500 index fund. If the S&P 500 never goes down or borrowing costs never go up, you will make more money than just buying an index fund. This could be a good strategy for the young who are early in their careers with likely future earnings that are much larger than their current portfolio. But there are many of you who currently have portfolios that are many times a typical year's after-tax earnings or manage endowments that are required to support current and future needs for many decades to come. You cannot afford to take that kind of risk. We manage money for people just like you. We think about odds and risk ALL THE TIME.

I have been doing this for over 30 years. I have lived through market events that would make your toe hairs curl. I saw planes crash into the World Trade Center in 2001. I saw leading financial firms decline anywhere from 90% to 100% in 2008. I have seen giant well-regarded technology companies like Sun Microsystems and Nokia become irrelevant in a few short years. It is a risky world, and we work hard to manage those risks so that you get paid for the risks you are taking. The lower volatility that our portfolio experiences is an outcome of the work we put in, but it's not our goal. Our goal is that the odds are in your favor with every investment. Every stock has two risks: a business risk and a valuation risk. The business risk relates to competition, regulation and supply and demand. The valuation risk is that the market is overpaying for what will happen in the future. We believe that our process reduces both those risks.

With the ten-year Treasury yielding only 1.6%, it is no news that most individuals and institutions that have an allocation to bonds are not expecting to make money greater than the rate of inflation. It may be news to some investment committees that the total return for the bond market was negative in the first quarter, as bond investors suffered their worst quarter since 1980. Having a permanent allocation to bonds made sense when yields were higher and when returns were uncorrelated to stocks. The situation has changed, and we believe now is a good time to take a look at the SA MidCap Opportunities strategy as a risk reduction tool for your portfolio.

In the first quarter, we were able to find a number of businesses that we believed were well positioned for future growth but were not being valued as such. We often get these opportunities by having a longer term perspective than a typical manager. Three examples from this quarter are Church & Dwight, Domino's Pizza and Molson Coors. What do these three consumer franchises all have in common? None of them is perceived to benefit from a reopening of the economy as COVID-19 is brought under control. What else do they have in common? They all are very profitable. We believe Molson Coors is on the cusp of a revival in sales growth with investments in hard seltzer, CBD infused drinks, and an exclusive distribution agreement for Dwayne “The Rock” Johnson’s new energy drink, Zoa. Church & Dwight and Domino’s Pizza already have long track records of reinvesting profits well for the benefit of shareholders. While the market was focused on companies that will benefit from the reopening of the US economy in the near term, we were looking further and saw these above average franchises trading at below-average valuations. We like to look where the puck is going. Not where it has been.

The industries where we see opportunity currently are Software, Healthcare, E-commerce, Payments, Precious Metals, Data Monetization, Digital Infrastructure and Financial Exchanges. We have been following these industries for years and are always looking for opportunities to help you benefit when we see what we believe are mispriced stocks.

I also believe we can add value by reviewing portfolios that you may have with other financial institutions. Working with the great team of people at Spears Abacus over the past year, I have seen too many portfolios that were not optimized to meet future spending needs. Too often the decision makers didn’t come to us sooner because they didn’t know that we worked with clients in their situation. We do. Whether it’s just regular folk with savings or people with more complicated situations. Our president, Robert Raich, CPA, has been helping many descendants of the Norman family for twenty years and has seen many complicated situations, and he, like me, loves to help people to have more money with less stress.

With all best wishes,

Manny Weintraub

Manny Weintraub, CFA

MidCap Opportunities

SPEARS ABACUS

Quarterly
Fact Sheet
As of March 31, 2021

Investment Strategy Overview

Spears Abacus' MidCap Opportunities strategy is a long-only equity strategy that seeks to preserve capital on an absolute basis 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 and asymmetric risk-reward

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 Russell Midcap or S&P 500
- 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 MidCap (gross)	7.3%	46.4%	17.2%	14.3%	11.2%	12.0%
SA MidCap (net)	6.9%	44.5%	15.7%	12.8%	9.8%	10.3%
Russell Midcap	8.1%	73.6%	14.7%	14.7%	12.5%	10.7%
S&P 500	6.2%	56.4%	16.8%	16.3%	13.9%	9.9%

Source: Spears Abacus, FactSet. Inception Date 3/31/2004. [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 Midcap; Alpha based on Risk Index = Russell Midcap, Risk Free Rate = 10 Year Treasury note; [6]Sector weights excluding cash; [7]Returns for less than one year not annualized; YTD as of 3/31/21

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Portfolio Statistics[1,2,3,4,5]

	SA	Russell Midcap
Number of Securities	20	-
Cash Weight	6.7%	-
Dividend Yield	0.88%	1.26%
Market capitalization ($b)	33.8	21.9
Harmonic Avg. TTM P/E	18.1x	30.5x
Harmonic Avg. NTM P/E	18.9x	22.4x
LT Debt / Total Capital	0.39x	0.48x
Net Debt / EBITDA	2.1x	2.7x
Return on Invested Capital	17%	4%
Estimated LT Growth	15%	14%
Payout Ratio	25%	42%
Downside Capture (3-Year)	51%	-
Volatility (3-Year)	18.0%	22.0%
Alpha (3-Year)	6.7%	-
Active Share	99%	-

Top 10 Holdings

	% of Portfolio
Dropbox, Inc. Class A	7.7%
Fiserv, Inc.	6.2%
Fidelity National Information Services, Inc.	6.1%
Tabula Rasa Healthcare, Inc.	5.8%
CME Group Inc. Class A	5.7%
Molson Coors Beverage Company Class B	5.1%
IQVIA Holdings Inc	5.1%
Virtu Financial, Inc. Class A	5.0%
Intercontinental Exchange, Inc.	4.8%
Becton, Dickinson and Company	4.8%
Total	**56.1%**

Sector Diversification[6]

	SA	Russell Midcap
Consumer Discretionary	16.0%	11.6%
Consumer Staples	10.1%	4.5%
Energy	0.0%	4.7%
Financials	18.1%	18.6%
Health care	23.2%	18.5%
Industrials	0.0%	13.5%
Information Technology	22.3%	12.4%
Materials	10.4%	3.8%
Real Estate	0.0%	7.0%
Communication Services	0.0%	3.7%
Utilities	0.0%	1.6%
Total	**100.0%**	**100.0%**

MidCap Opportunities

SPEARS ABACUS

Market Cap Breakdown[1]

	SA	Russell Midcap
$0 to $5 billion	16.3%	4.5%
$5 billion to $15 billion	26.1%	31.7%
$15 billion to $50 billion	28.1%	61.7%
$50billion to $100 billion	29.5%	2.1%
Greater than $100 billion	0.0%	0.0%
Total	100.0%	100.0%

Portfolio Construction

- 15-25 Stocks
- Primarily U.S. based
- Max 30% industry concentration limit
- Target market capitalization below $60 billion

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

Managed by

Spears Abacus MidCap Opportunities Team

Portfolio Manager	Years Experience
Manny Weintraub	31
Senior Analyst	
Daniel Wetchler	11

Style

GARP

Inception Date

31-Mar-04

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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. There is no minimum asset size above which managed accounts would be included in or below which managed accounts would be excluded from the composite. 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.

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