

April 28, 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 be able to generate attractive returns from small-cap stocks confident that their portfolio is full of profitable growing companies with strong balance sheets.

This quarter that portfolio returned 11.8%, net of fees, compared to 12.7% for the Russell 2000 Index. Our middle of the road, not-value, not-growth strategy benefitted from a strong US economy and the broadening investor interest beyond a few mega-cap stocks that was highlighted in the Spears Abacus economic commentary. We say "not-value" because while we care about valuation, we worry more about diversification, growth and balance sheet quality than the creators of the value index, which has 70% allocated to cyclical sectors, including 27% to financials, versus only 11% to health care and information technology combined. And we say "not-growth" because we care more about profitability than the creators of the growth index, where only 49% of the companies were profitable over the last twelve months.

We believe the SA Small Cap Dividend Growth strategy is a great option for small-cap investors who care about both valuation and growth.

We also believe that now is an exciting time to take a look at the SA Small Cap Dividend Growth for exposure to small-caps as finally, after many years, small-cap stocks outperformed large-cap stocks, both last year and this quarter. We look for small companies with a better "mouse trap" that can benefit from the law of small numbers and can gain market share from larger competitors.

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**



Small-cap stocks are by their nature volatile, but we hope our strategy will reduce your stress, as our goal is for your portfolio to grow as the earnings of the portfolio grow. We want you to feel confident that your portfolio holds both profitable companies and growing companies. We avoid companies that have become small because their businesses stopped growing.

Below is a table of the top contributors to, and detractors from, our investment performance for this quarter. The number one contributor was Texas Pacific Land, a royalty company and one of the biggest landowners in the State of Texas, with approximately 880,000 acres of land in west Texas. Because TPL generates most of its revenue through oil and gas royalties for the use of its land, we believed an investment in TPL was a low risk way to benefit from a pick-up in demand for energy as the global economy reopened. We increased our position in September 2020, when energy stocks were unloved and out of favor. If our thesis was wrong, we believed downside was limited given TPL's capital light model with minimal operating risk and a very strong balance sheet.

Our largest detractor was Science Applications International Corp., a technology services provider to the defense, space, civilian, and intelligence markets. While the company is strategically aligned to areas of national importance, the pandemic has delayed the timing of new contracts, and the company reported a disappointing book-to-bill last quarter. With the company trading at a 9% free cash flow yield, we do not think the stock is getting any credit for what we think will be an inflection in revenue as contract wins will likely ramp up in the coming quarters given demand for cyber, data analytics, and cloud services. As we do with all of our holdings, we will continue to closely monitor the situation.

1Q21 Performance of Top 5 Contributors¹

Company	Ticker	% Change
Texas Pacific Land Corp	TPL	119.1%
InMode Ltd.	INMD	52.4%
MSG Networks Inc. Class A	MSGN	27.6%
Virtu Financial, Inc. Class A	VIRT	24.4%
Western Alliance Bancorp	WAL	58.0%

1Q21 Performance of Top 5 Detractors¹

Company	Ticker	% Change
Science Applications Internationa	SAIC	-11.3%
Ebix, Inc.	EBIX	-15.4%
Masimo Corporation	MASI	-0.8%
U.S. Physical Therapy, Inc.	USPH	-13.2%
Globus Medical Inc Class A	GMED	-5.4%

¹Top 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.

In the short term, the market is a voting machine; a stock will rise if there are more buyers than sellers. But in the long term, the market is a weighing machine, reflecting the underlying fundamentals of a business. With a trailing return on invested capital of 23% versus 0% for the Russell 2000 and an average forward price-earnings of 18.6x versus 30.1x for the Russell 2000, we believe that our portfolio is really well positioned to benefit as the U.S. economy improves. We will never be the shiniest toy on the shelf, but we believe that we can meet our objectives of small-cap exposure with less volatility. As we noted in our last letter, it's unlikely that we would outperform in a market where valuation and quality did not matter, and we're happy to report, the SA Small Cap Dividend Growth strategy has done extremely well through

the recent small-cap volatility, outperforming the index by over 6% since it reached its all-time high on March 15, 2021.

With all best wishes,

A handwritten signature in black ink that reads "Manny Weintraub". The signature is written in a cursive style with a long, sweeping underline.

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)	12.1%	68.7%	10.0%	-	-	12.2%
SA Small Cap (net)	11.8%	67.1%	8.9%	-	-	11.0%
Russell 2000	12.7%	94.8%	14.7%	-	-	13.8%

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 3/31/21; ²All statistics based on weighted unless otherwise notes; index based on aggregate; ³Dividend yield of total portfolio including cash; ⁴ROIC calculated using cash returns for portfolio holdings; ⁵Sector weights excluding cash; ⁶Downside capture gross since inception, monthly basis vs Russell 2000; ⁷Based on Risk Index = Russell 2000, Risk Free Index = 3 Month T-Bill

Portfolio Statistics ^{2,3,4}	SA	Russell 2000
Number of Securities	72	-
Cash Weight	3.3%	-
Dividend Yield	1.14%	0.98%
Market capitalization (\$b)	5.3	3.7
Harmonic Avg. TTM P/E	19.2x	66.4x
Harmonic Avg. NTM P/E	18.6x	30.1x
LT Debt / Total Capital	0.36x	0.48x
Median Net Debt / EBITDA	1.5x	3.3x
Return on Invested Capital	23%	0%
NTM Revenue Growth	9%	10%
Median Payout Ratio	26%	74%
% of holdings paying dividend	82%	43%
Active Share	97%	-

Sector Diversification ⁵	SA	Russell 2000
Consumer Discretionary	14.2%	14.6%
Consumer Staples	1.5%	3.3%
Energy	3.2%	2.6%
Financials	18.9%	15.8%
Health care	19.2%	19.3%
Industrials	14.3%	16.1%
Information Technology	14.9%	12.6%
Materials	4.5%	4.5%
Real Estate	6.2%	5.9%
Communication Services	2.6%	2.5%
Utilities	0.0%	2.8%
Total	100.0%	100.0%

Efficiency Measures ^{6,7}	SA	Russell 2000
Annualized Excess Return	-1.6%	-
Annualized Alpha	0.2%	-
Beta	0.86	-
Volatility	19.7%	22.0%
Upside Capture	88%	-
Downside Capture	88%	-
Sharpe Ratio	0.6	0.6
Sortino Ratio	0.9	0.9
Information Ratio	-0.2	-
Tracking Error	6.4%	-
Turnover (trailing 1 year)	49%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Top 10 Holdings	% of Portfolio
Virtu Financial, Inc. Class A	3.2%
Tabula Rasa Healthcare, Inc.	2.8%
BGC Partners, Inc. Class A	2.8%
Switch, Inc. Class A	2.7%
InMode Ltd.	2.7%
Strategic Education, Inc.	2.6%
World Wrestling Entertainment, Inc. Class A	2.5%
Texas Pacific Land Corporation	2.5%
Qurate Retail, Inc. Class A	2.3%
Curtiss-Wright Corporation	2.3%
Total	26.5%

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

Managed by

Spears Abacus Small Cap Dividend Growth Team

Portfolio Manager	Years Experience
Manny Weintraub	31

Senior Analyst	
Daniel Wetchler	11

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*