

October 19, 2021

Manager Commentary

“In the short-run, the market is a voting machine, but in the long-run, the market is a weighing machine.”

- **Warren Buffett**

The third quarter saw the beginning of a period of market volatility, the likes of which we have not seen since the market began its meteoric rise from its low set in March 2020. By the end of the third quarter, about 61% of stocks in the Russell 3000 were trading below their 50-day moving average.

A decrease in economic activity caused by the COVID-19 Delta variant, an increase in wages required to bring staff back to the workforce and a decline in valuation caused by the rise of long-term US interest rates were enough to cause many stocks to retreat from recent highs.

Prices in our portfolio were impacted by concerns as well, especially some of our fintech payment companies and small-cap holdings. But business is going well for most of our payment companies. Perhaps the voting machine of the market is concerned that credit card charges will decline given Square’s acquisition of Afterpay, a leader in point-of-sale installment loans, known as Buy Now Pay Later (BNPL). But where some see a potential threat, we see complexity. As it is, we can’t check out of the local CVS without being bombarded by payment options including all major credit cards, Alipay, or Venmo. All this complexity has to be managed. Our holdings, Fiserv and Fidelity National Information Services, can manage that complexity for merchants, including enabling BNPL, and continue to grow profits as they do. We believe that the most likely case scenario is that within, two or three years, the market will “weigh” those growing profits, and the share prices will recover.

The disconnect between share price and likely-case scenario for many of our stocks has made our portfolio’s discount to fair value the largest that we have seen since June 2020. We believe this bodes well for returns over the next 12 months.

In the meantime, we are going to focus on what we believe can drive the portfolio for the next 10 years: making investments in industries that, we believe, are benefitting from inevitable trends at valuations that we believe will limit downside in a bear market, and, hopefully, using volatility to your benefit as the market lurches from optimism to pessimism and back again.

We believe that it is inevitable that the global population will age, more and more payments will be done electronically – without cash or checks, the internet of things will require both more semiconductors and bandwidth, financial exchanges will continue to expand and



digitize more and more of the financial system, collectors of data will find new ways to profit from that data, more items will be bought online, and all of this will require a much more robust global cloud infrastructure than we have now.

In the second quarter, we established a position in Amedisys, one of the companies well positioned to profit from helping the elderly access in-home healthcare in the United States. We believe that home health will be one of the fastest growing sectors within healthcare services, given an aging population (baby boomers are just entering the prime age for these services), consumer preferences for staying at home as compared to nursing facilities, and the lower cost of delivering this care at home. Additionally, as healthcare shifts towards value-based care, the highest quality providers with scale and sophistication should be able to take market share and consolidate this highly fragmented industry. While the publicly traded home health companies are currently out of favor given near-term labor headwinds and the impact of the Delta variant, we believe that the market is missing the forest for the trees. Investor focus on the next three to six months instead of the next three to five years has created a wonderful opportunity to own a business that, we believe, can generate double-digit compounded growth for the foreseeable future.

We like to focus on trends we can foresee because so much of the future is unknowable. If the past 25 years is any guide, the next 25 years are going to be crazy. We started managing money at Neuberger in 1998 - before September 11, before the financial crisis, before the birth of the smart phone, before President Donald J. Trump, and before COVID-19. Years ago, many investors thought that they had some idea of what the future might bring. We believe that innocence is gone and the smart money knows that the next 25 years will be very complex.

We believe it is more important than ever to keep your portfolio focused on growing investments that are less likely to decline relative to the market during inevitable times of volatility – investments that, in our view, have recurring revenue, are recession resistant, and have high returns on invested capital. We believe that these investments give us the best chance of achieving our goal of delivering you above-average risk-adjusted returns.

Sincerely,

A handwritten signature in cursive script that reads "Manny Weintraub".

Manny Weintraub, CFA

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)	6.2%	16.7%	13.2%	13.6%	13.9%	11.1%
SA Opp Eq (net)	5.3%	15.3%	11.9%	12.2%	12.6%	9.7%
Russell 3000	15.0%	31.9%	16.0%	16.8%	16.6%	10.3%
S&P 500	15.9%	30.0%	16.0%	16.9%	16.6%	10.1%

Source: Spears Abacus, FactSet. Inception Date 12/31/2003. ¹All statistics based on weighted average unless otherwise noted; ²Dividend yield of total portfolio including cash; ³ROIC calculated using cash returns for portfolio holdings; ⁴Long-term growth is based on the consensus 3-5 year EPS growth forecast; ⁵Downside capture trailing 3 years, monthly basis vs Russell 3000; Alpha based on Risk Index = Russell 3000, Risk Free Rate = 10 Year Treasury note; ⁶Sector weights excluding cash; ⁷Returns for less than one year not annualized; YTD as of 9/30/21

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

Portfolio Statistics ^{1,2,3,4,5}	SA	Russell 3000
Number of Securities	28	-
Cash Weight	4.8%	-
Dividend Yield	0.82%	1.24%
Market capitalization (\$b)	61.1	471.7
Harmonic Avg. TTM P/E	18.3x	24.2x
Harmonic Avg. NTM P/E	18.5x	20.8x
LT Debt / Total Capital	0.40x	0.45x
Return on Invested Capital	21%	8%
Estimated LT Growth	13%	16%
Payout Ratio	27%	33%
Downside Capture (3-Year)	68%	-
Volatility (3-Year)	16.5%	19.7%
Alpha (3-Year)	0.6%	-
Active Share	97%	-

Top 10 Holdings	% of Portfolio
IHS Markit Ltd.	5.0%
Analog Devices, Inc.	4.4%
eBay Inc.	4.3%
Fidelity National Information Services, Inc.	4.2%
Dropbox, Inc. Class A	4.1%
Virtu Financial, Inc. Class A	4.1%
VMware, Inc. Class A	4.1%
Intercontinental Exchange, Inc.	3.9%
Fiserv, Inc.	3.9%
Molson Coors Beverage Company Class B	3.9%
Total	42.0%

Sector Diversification ⁶	SA	Russell 3000
Consumer Discretionary	10.6%	11.5%
Consumer Staples	7.2%	6.5%
Energy	0.0%	3.5%
Financials	15.0%	22.3%
Health care	16.2%	17.2%
Industrials	5.2%	12.7%
Information Technology	37.4%	13.1%
Materials	6.4%	3.5%
Real Estate	2.1%	4.6%
Communication Services	0.0%	2.6%
Utilities	0.0%	2.5%
Total	100.0%	100.0%

Market Cap Breakdown ¹	Russell	
	SA	3000
\$0 to \$5 billion	14.8%	6.2%
\$5 billion to \$15 billion	14.8%	8.7%
\$15 billion to \$50 billion	29.8%	19.4%
\$50 billion to \$100 billion	30.1%	11.9%
Greater than \$100 billion	10.6%	43.8%
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. ¹Market cap weights excluding cash

Managed by

Spears Abacus Opportunistic Equity Team

Portfolio Manager	Years Experience
Manny Weintraub	31

Senior Analyst	Years Experience
Daniel Wetchler	11

Style

GARP

Inception Date

31-Dec-03

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