

Jan. 20, 2021

Manager Commentary

“Other than that Mrs. Lincoln, how did you enjoy the show?” That old joke sums up how we feel about 2020.

As human beings, we can't help but feel terrible for all the lives lost and disrupted by this global pandemic, but as portfolio managers we can't help but feel that “the show” was pretty good. The Russell 2000 just had its best quarter ever, investors are optimistic, and with the benchmark U.S. 10-year Treasury yielding around 1%, the theoretical valuation for profitable growing companies is infinite.

The Spears Abacus Small Cap Dividend Growth composite participated in that growth with a 26.0% rise for the quarter and a 10.3% rise for the year, net of fees, compared to a 31.4% and 19.9% rise for the Russell 2000. We didn't rise as much as the Russell 2000, as speculation in unprofitable companies drove the Russell 2000 Growth, which represents half of the Russell 2000, up 34.5% for the year, while the Russell 2000 Value, the other half of the Russell 2000 that focuses on small companies with low valuations, only rose 4.6%.

Indeed, since the inception of the SA Small Cap Dividend Growth portfolio four years ago, our portfolio has increased 39.5% net of fees, while the Russell 2000 Value has only increased 20.3%. Clearly, for investors who care about investing in profitable companies with reasonable valuations, our strategy has been more successful than the value index over the past four years.

We believe that growth is likely to continue, as the majority of our portfolio tends to grow in price as earnings grow. Last year at this time, the forecasted revenue growth for the next twelve months for our portfolio was 9%, and in the end the portfolio grew over 9%. It was one of the more volatile years we have seen, but in the end the stocks performed as we had hoped.

The Spears Abacus Divided Growth portfolio is well positioned for 2021. It is a portfolio of historically profitable companies with a forecasted revenue growth of 8% and a valuation that is no more expensive than it was twelve months ago. Whether it will outperform the Russell 2000 depends, in our opinion, on how long the speculation highlighted in the Spears Abacus investor commentary continues. Over the past thirty years, we have seen many bear markets, from the NASDAQ crash of 2000 to the financial crisis of 2008, and eventually valuation matters. Unless this time is different, and valuation does not matter. In that case, we will not outperform the Russell 2000 given its large weighting in unprofitable speculative companies.



Below is a table of the top contributors to, and detractors from, our investment performance for this quarter. The number one contributor was Cantel Medical Corp., a provider of infection prevention products used primarily in dental and endoscopy procedures. We increased our position significantly in Cantel when revenue growth dipped with the initial Covid-19 lockdown and the suspension of elective medical procedures. We knew that one day people would want their teeth cleaned and that endoscopic procedures could be delayed, but only for a limited period of time. In the meantime, Cantel had a great balance sheet, and we believed it could weather the storm. In the end, we were correct. Early in 2021, Cantel agreed to be acquired by STERIS.

Our largest detractor was Domino's Pizza, a great company with an amazing business model that declined over concern that a return to normalcy might dampen demand for take-out pizza. It might, but frankly that's why we have a portfolio. Domino's takes a pause as the pandemic seems like it may end sooner than expected and other companies in the portfolio that would benefit from reopening, like Cantel Medical, move forward.

4Q20 Performance of Top 5 Contributors¹

Company	Ticker	% Change
Cantel Medical Corp.	CMD	79.5%
Qurate Retail, Inc. Class A	QRTEA	73.6%
BGC Partners, Inc. Class A	BGCP	67.1%
Ebix, Inc.	EBIX	84.7%
Ubiquiti Inc.	UI	67.4%

4Q20 Performance of Top 5 Detractors¹

Company	Ticker	% Change
Domino's Pizza, Inc.	DPZ	-9.7%
Royal Gold, Inc.	RGLD	-11.3%
Lancaster Colony Corporation	LANC	-3.5%
Schneider National, Inc. Class B	SNDR	-8.0%
Community Healthcare Trust In	CHCT	1.7%

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 a world where speculation runs rampant, we feel really good about our portfolio of profitable growing companies. Our companies have a trailing return on invested capital of 21% versus 0% for the Russell 2000. The average forward PE for our portfolio is 17.4x versus 30.0x for the Russell 2000. Our experience in 1999 and 2000, when we were managing money during a similarly speculative time, is that quality and valuation don't matter until they do. And then when they do, they matter a lot.

As some of the mega-cap stocks that drove the S&P 500's rally over the past decade are starting to lose momentum, small-cap stocks would seem to be natural beneficiaries. We think our strategy is a natural choice for those who want to position themselves to benefit from that change, but don't want to invest in a Russell 2000 index fund with a large allocation to unprofitable businesses and the risk that entails.

With all best wishes,



Manny Weintraub, CFA

Small Cap Dividend Growth

SPEARS / ABACUS

Quarterly
Fact Sheet
As of December 31, 2020

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					Inception
	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	
SA Small Cap (gross)	11.3%	11.3%	6.5%	-	-	9.8%
SA Small Cap (net)	10.3%	10.2%	5.4%	-	-	8.7%
Russell 2000	19.9%	19.9%	10.2%	-	-	11.3%

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 12/31/20; 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	74	-
Cash Weight	3.8%	-
Dividend Yield	1.30%	1.19%
Market capitalization (\$b)	5.1	3.3
Harmonic Avg. TTM P/E	18.2x	72.1x
Harmonic Avg. NTM P/E	17.4x	30.0x
LT Debt / Total Capital	0.53x	0.50x
Median Net Debt / EBITDA	2.0x	3.6x
Return on Invested Capital	21%	0%
NTM Revenue Growth	8%	9%
Median Payout Ratio	27%	100%
% of holdings paying dividend	82%	43%
Active Share	97%	-

Sector Diversification ⁵	SA	Russell 2000
Consumer Discretionary	14.2%	13.1%
Consumer Staples	1.6%	3.2%
Energy	1.9%	2.1%
Financials	18.4%	15.4%
Health care	19.8%	21.0%
Industrials	13.6%	15.4%
Information Technology	15.8%	14.2%
Materials	3.6%	4.2%
Real Estate	7.0%	6.2%
Communication Services	2.6%	2.3%
Utilities	0.9%	3.0%
Total	100.0%	100.0%

Efficiency Measures ^{6,7}	SA	Russell 2000
Annualized Excess Return	-1.5%	-
Annualized Alpha	-0.2%	-
Beta	0.87	-
Volatility	20.1%	22.4%
Upside Capture	87%	-
Downside Capture	88%	-
Sharpe Ratio	0.4	0.4
Sortino Ratio	0.7	0.7
Information Ratio	-0.3	-
Tracking Error	5.7%	-
Turnover (trailing 1 year)	50%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

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Top 10 Holdings	% of Portfolio
Cantel Medical Corp.	3.0%
Virtu Financial, Inc. Class A	2.9%
BGC Partners, Inc. Class A	2.6%
World Wrestling Entertainment, Inc. Class A	2.5%
Curtiss-Wright Corporation	2.5%
Qurate Retail, Inc. Class A	2.4%
Morningstar, Inc.	2.4%
Tabula Rasa Healthcare, Inc.	2.4%
CDK Global, Inc.	2.2%
PRA Health Sciences, Inc.	2.2%
Total	25.1%

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

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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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Managed by
Spears Abacus Small Cap Dividend Growth Team

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Senior Analyst	
Daniel Wetchler	11

Style
Blend

Inception Date
31-Dec-16

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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*