January 24, 2022

Manager Commentary

2021 was a solid year for the absolute return of the Spears Abacus Opportunistic Equity strategy, but we were disappointed in our performance relative to the S&P 500. With hindsight, we were positioned too conservatively after the S&P 500's double-digit return in 2020. We had too high an allocation to small and mid-capitalization stocks that we thought would benefit from the reopening of global economies. We had too small an allocation to the trillion-dollar-club companies, Google, Apple, Microsoft, Meta and Amazon, that we feared might be hard hit in a potential market pullback. Instead, many of those mega-cap companies performed extremely well, as they were the primary beneficiaries of record inflows into US markets, while almost 40% of U.S. stocks were down for the year.

We believe that these record inflows are a symptom of the enormous amount of money that was spent to combat the economic effects of the Covid lockdown. In 2021, a record trillion dollars was invested in global equity funds, more than twice 2018's record of 400 billion dollars. We believe there was more money created than can be invested wisely in the economy. That money has found a home in many assets that we believe will never be productive. For example, before Covid-19, the total market value of all cryptocurrencies was $250 billion. Now it is $2.5 trillion. With Build Back Better stalled and the Federal Reserve tightening monetary policy, we believe that the strong positive sentiment toward mega-cap companies may reverse.

The advantage of an all-capitalization strategy is the ability to benefit from discrepancies in sentiment and valuation between different market capitalizations. That said, going forward, our required rate of return for small-cap investments will be much higher than it was in the past. We believe that something has changed in the markets that causes smaller companies that have suffered a disappointment to trade lower than before. We don't know if it's because of the rise in day trading or the decline in the number of portfolios that are actively managed, but the increase in price volatility for smaller companies means that we will need to raise our hurdle rate, given the increased possibility of smaller companies trading down to valuations that we would have believed absurd just a year ago.

Over the years, we have had a number of positive experiences with small-caps trading at absurd valuations. Stocks in this situation are called "show-me" stories in Wall Street parlance. Unlike a large-cap company, there is no army of analysts following their every move; there are no portfolio managers that need to own them or explain why they didn't own them. That's why they can trade at prices that, we believe, don't reflect their values. But, in the end, math is math, and "if the earnings are found, the stock will compound." Small companies can stay "too cheap" for a longer time than large companies, but not forever. Once a "show-me" story shows Wall Street that its business is improving, the price can improve quickly. That's why we believe that it is worth the risk to occasionally have some small-cap stocks in the portfolio.

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Risk management remains at the heart of all we do. We came into this business in 1989 with the goal of helping ordinary people get access to Wall Street. At that time, stocks were considered risky with the crash of 1987, in which the Dow Jones Industrial Average declined 22% in one day, still fresh in the minds of many. No doubt some considered investing in common stocks foolhardy as the U.S. ten-year Treasury yielded 9.0%, comfortably ahead of 1989's inflation rate of 4.6%. But we believed that common stocks should make up a significant allocation in the portfolios of typical investors as we believed, correctly, that these investors could make more than 9% a year with a portfolio of stocks in growing companies – a difference that could be significant for anyone with a time horizon of ten years or more.

Over the past thirty years, the situation has changed completely. Available yields have declined substantially. At the beginning of 2022, the U.S. ten-year Treasury yield is only 1.5% despite the most recent annual inflation rate of 7%. We believe that inflation rate will come down over time, but not below 1.5%. The bond market itself is predicting that inflation will be 2.65% a year over the next ten years. This implies owners of the ten-year bond can expect to lose 1.0% of their purchasing power each year.

Ordinary people's experience of risk in stock market investing has changed as well. The S&P 500 has had a nearly uninterrupted string of positive annual returns since 2009, apart from 2018's 4.3% decline. The conventional wisdom is that placing money in an index fund is safe, since these funds will go up over time. We guess that it depends on what the average person's definitions of "safe" and "over time" are. Are people aware that it took ten years for the S&P 500 to rise above the 1,000 point level that it set in the year 2000, with two bear markets with declines of 30% or more before 2010? The year 2000 was also a period, after a long bull market, in which a few large-cap stocks made up a large percentage of the S&P 500. The Federal Reserve had also created a tremendous amount of excess liquidity due to the fear that the calendar change from 1999 to 2000 would cause computer systems around the world to freeze – also known as the Y2K problem. Thank goodness computer systems did not freeze, but we believe, then, as now, that more money was created than could be invested productively.

The top 5 components in 2000 were General Electric, ExxonMobil, Pfizer, Citigroup and Cisco, and, yes, twenty-two years ago we had to apologize for not owning them also. But not for long, because even today all except Pfizer and ExxonMobil are trading below the prices at which they were trading in the year 2000, and it took Pfizer twenty-one years to break that level, and ExxonMobil was below that level as recently as September 2020.

We believe, then as now, that the moment when investors are least concerned about risks is the riskiest moment. Our challenge is to manage that risk when investors can no longer rely on the bond market to provide returns in excess of inflation. We believe the next ten years will be more volatile than the past ten years and that our refined portfolio management process will be a helpful tool to deliver positive returns above and beyond inflation.

Sincerely,

Manny Weintraub

Manny Weintraub, CFA

OPPORTUNISTIC EQUITY

SPEARS ABACUS

Quarterly
Fact Sheet
As of December 31, 2021

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)	11.4%	11.4%	20.1%	15.4%	13.5%	11.3%
SA Opp Eq (net)	10.2%	10.2%	18.8%	14.0%	12.2%	9.8%
Russell 3000	25.7%	25.7%	25.8%	18.0%	16.3%	10.7%
S&P 500	28.7%	28.7%	26.1%	18.5%	16.6%	10.6%

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 12/31/21

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

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

	SA	Russell 3000
Number of Securities	32	-
Cash Weight	1.7%	-
Dividend Yield	0.73%	1.16%
Market capitalization ($b)	70.3	552.7
Harmonic Avg. TTM P/E	24.9x	23.4x
Harmonic Avg. NTM P/E	22.3x	21.3x
LT Debt / Total Capital	0.42x	0.44x
Return on Invested Capital	19%	9%
Estimated LT Growth	15%	18%
Payout Ratio	28%	29%
Downside Capture (3-Year)	71%	-
Volatility (3-Year)	15.7%	18.2%
Alpha (3-Year)	-0.2%	-
Active Share	96%	-

Top 10 Holdings

	% of Portfolio
IHS Markit Ltd.	5.4%
Centene Corporation	4.6%
Intercontinental Exchange, Inc.	4.5%
Analog Devices, Inc.	4.4%
CME Group Inc. Class A	4.3%
Broadcom Inc.	4.0%
eBay Inc.	4.0%
Domino's Pizza, Inc.	3.8%
Switch, Inc. Class A	3.7%
PTC Inc.	3.7%
Total	**42.4%**

Sector Diversification[6]

	SA	Russell 3000
Consumer Discretionary	7.9%	9.5%
Consumer Staples	4.4%	2.9%
Energy	1.8%	4.0%
Financials	12.7%	16.6%
Health care	15.5%	17.8%
Industrials	8.5%	10.9%
Information Technology	40.5%	18.2%
Materials	6.5%	4.1%
Real Estate	2.0%	5.3%
Communication Services	0.0%	7.6%
Utilities	0.0%	3.1%
Total	**100.0%**	**100.0%**

Market Cap Breakdown[1]	SA	Russell 3000
$0 to $5 billion	6.3%	5.6%
$5 billion to $15 billion	16.3%	8.3%
$15 billion to $50 billion	31.1%	17.7%
$50billion to $100 billion	34.8%	11.9%
Greater than $100 billion	11.5%	45.4%
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

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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. 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.

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