SPEARS ABACUS SMALL CAP DIVIDEND GROWTH STRATEGY

We are the American-Dynamism people.

Over the years the United States has produced a tremendous amount of wealth. The United States represents 24% of global Gross Domestic Product, despite only having 4% of the world's population[1].

Our resources allow us to be more than self-sufficient in food and energy. The United States has 10% of the world's arable land and produces more oil than Saudi Arabia[2]. We have had to import some oil over the years, only because our consumer economy was so large that we had a use for oil that Saudi Arabia did not. The United States is the largest consumer market in the world, accounting for nearly a third of global demand.

Our geography with two friendly neighbors and two oceans on each side make the U.S. the most secure of all advanced nations. Sadly, as the invasion of the Ukraine shows, security still matters. Clearly to the Ukrainian people, but also to the rest of those in Europe, who have seen the cost of energy skyrocket over the past year.

Our culture, which welcomes immigrants from around the world, has benefited economically in ways great and small from labor and intellectual capacities of new immigrants and the children of immigrants. Certainly, the contributions of Elon Musk, founder of Tesla, from South Africa or Sergey Brin, co-founder of Google, from Russia are indisputable.

In addition, despite the January 6 riots, we have one of the most stable systems of government in the world. Fun fact: the United States has the second oldest continually operating system of government after the British monarchy. The stability that Americans take for granted is the exception, not the rule.

If you would like your portfolio to benefit from the growth of this rich, militarily secure, welcoming, and stable nation, we can think of no better place to invest than in profitable small U.S. listed companies. These are companies often run by their founders, who still see international expansion ahead as an opportunity. Our median company has 91% of its revenue in the United States, as compared to 71% for the dollar-weighted S&P 500[3].

Why not just invest in the Russell 2000 exchange-traded fund to get this exposure to U.S. listed small companies? Profitability in small companies is not as easy to find as you may think; 39% of the companies in the Russell 2000 reported negative GAAP earnings on a trailing twelve-

[1] Source: WorldoMeter World Population and YCharts US GDP as % of World GDP
[2] Source: Global Economy USA Arable Land and WorldoMeter Oil Production
[3] Goldman Sachs Equal Weight U.S. Large Cap Equity ETF

month basis[4]. Possibly this is a hangover from the thirteen years of easy money that began in 2009 after the great financial crisis.

It will be a shame if the volatility that comes from the Russell 2000's heavy weighting in speculative companies keeps investors away from small cap stocks just when we think that they are poised to outperform their large cap competitors.

Our proprietary strategy has historically seen less volatility than the Russell 2000 (19.5% versus 21.6% since inception). We believe that our general focus on profitable companies that have the confidence to pay a dividend, despite being relatively young in their respective corporate lives, has been a major contributor to reduced volatility.

In addition, over the past twenty-four months, our performance benefitted from eleven of our holdings being acquired: these recently included Paya Holdings, Switch, Mantech International, and CDK Global to name. We believe that this trend will continue, given the relative scarcity of profitable small companies.

We believe that 2023 marks the beginning of a period of outperformance for our strategy, as past twelve years of historically low interest rates have made the above-average profitability and free-cash-flow generation of our typical holding seem ho-hum. Who needs a company that generates cash when corporations are able to issue twenty-year bonds with interest rates as low as 1.625%? It wasn't zero percent, but pretty close. All in all, we are excited to leave the new normal of free money behind and return to the old normal, when borrowers are compensated for the risks that they take.

Despite what we believe is a positive outlook for the next decade, small cap stocks are trading below their long-term average price-to-earnings ratio.

According to Bank of America Global Research, in December 2022 alone, the Russell 2000 forward price-to-earnings (P/E) ratio on profitable companies fell from 13.1x to 12.4x. While the P/E ratios for all three market-cap segments are down more than 20% since the start of 2022, small caps during 2022 were the only historically cheap size segment, trading 19% below their long-term average P/E ratio, as compared to 8% above average for large cap companies.

The stock market can be inefficient. We believe it is being inefficient right now and that opportunity in high quality small cap stocks is just sitting there, waiting to be seized.

Manny Weintraub, CFA

Manny Weintraub

[4] FactSet, Spears Abacus. Data as of 12/31/2022

- 2022 was a challenging year; interest rates and inflation were to blame.
- A short, shallow recession is the consensus view. We remain cautious until proven otherwise.
- The silver lining? Higher yields are good for bond investors. Lower stock prices are good for bargain hunters.
- We maintain our strategy of investing in businesses where the underlying fundamentals remain extremely attractive. We believe patient investors will be rewarded.

I. Market Overview

2022 was a challenging year. There is no way to soft-pedal the results. In round numbers, U.S., global and emerging market stock indices each declined approximately 20%. Long term bonds fared worse, falling nearly 30%. Broadly speaking, there was no place to hide.

As we have written previously, the culprit has been rising interest rates and the specter of significantly higher inflation. Central banks around the world have used monetary policy (raising interest rates) to try to tame rising prices. So far, that strategy has had greater impact on financial markets than the real economy. Most growth measures have remained resilient while the labor market is historically strong. Business revenue growth has been sturdy, though rising expenses have applied modest pressure to earnings. On the other hand, stock valuations have shrunk meaningfully.

As is often the case during sharp market declines, speculative investments performed the worst. Crypto currency became front page news as price drops uncovered both well- and less-well-publicized crypto frauds. More traditional speculators were burned as well. An astonishing 613 Special Purpose Acquisition Companies (referred to as "SPACs" or blank check companies) were sold to the public in 2021. Retail investment "products", such as Exchange Traded Funds ("ETFs") were created to give even broader access to these questionable investments. In 2022, DSPC[5], an ETF that invests in an index of SPACs dropped 70%. In 2023, DSPC will close its doors and return what little remains of its investors' capital.

Very long-term "visionary" investors also felt the sting of rising interest rates. Companies with great future promise but little or no current earnings were hit particularly hard. The once highly regarded Ark Innovation ETF, ARKK, held nearly $30 billion of investor assets in early 2021 and declined 67% in 2022, as large holdings like Zoom Inc., Tesla and Shopify came down to earth.

Mainstream growth companies with higher-than-average valuations were also victims of higher rates. At Spears Abacus, we avoided the worst of these very large companies, but not all.

[5] AXS De-SPAC ETF Source: FactSet

Name	2022 Return
Meta Platforms Inc. (Facebook)	-64.2%
Netflix, Inc.	-51.1%
Amazon.com, Inc.	-49.6%
Alphabet Inc. Class C	-38.7%
Microsoft Corporation	-27.9%
Apple Inc.	-26.3%

Looking ahead, a consensus has been reached by investors, observers and corporate executives. Most are confident that the Fed will successfully orchestrate the breaking of inflation[6]. That leaves the question of how much collateral damage will be inflicted on the economy?

"Just about every region with the exception of China and Japan believes there is going to be some kind of economic slowdown. Ninety-eight percent of CEOs in the U.S. think there is going to be a recession – but it's going to be short and shallow."

- Dana Peterson, Chief Economist of the Conference Board

The economic press will expand its vocabulary or simply return to well-worn phrases like "goldilocks economy" and "soft-landing". If this hallowed state is achieved, investors will cheer, and markets could rebound sharply. We believe this scenario is entirely possible; in it our investments would prosper. But we are mindful that optimistic projections do not always meet expectations. Consequently, our portfolios include holdings that should defend well against a more adverse environment. Rather than *predicting* dire circumstances, we think of this as *insurance* for negative events that might occur.

We always try to consider what might surprise investors in a way that would cause asset prices to fall. Of course, sometimes this is impossible. Events like Covid-19 or the war in Ukraine are manifestly unpredictable. However, there are more garden-variety surprises that might catch markets unaware. One consideration would be a longer than expected period of high inflation.

Jobs statistics have become the flavor of the month. Wage-induced inflation seems to be among central bankers' primary concerns. In previous recessions, corporations were quick to lay off workers in high-cost areas and eventually replace them with lower cost workers in China and other emerging markets. This strategy seems far less popular thanks to a shrinking labor force in developed economies and higher costs in emerging ones. In a Conference Board survey, U.S.

[6] Short U.S. Recession is Expected by CEOs – Theo Francis, *The Wall Street Journal* 1/13/2023 (print edition)

CEOs preferred "pricing strategies" to layoffs[3]. If wages continue to rise, central bankers, particularly in the U.S., might prefer to keep interest rates higher for longer than expected.

There is a silver lining here. Though the rapid rise in interest rates caused negative returns for bonds last year, for fixed-income investors, the current environment is the most favorable in years. Where appropriate, bonds can finally have a meaningfully positive impact on portfolios. Perhaps the largest change can be seen in short-term cash reserves. A year ago, cash was kept in bank "deposit accounts" which provided safety but virtually no yield. Today, we deploy a strategy that combines higher-yielding (but still safe) money-market funds and U.S. Treasury Bills to take advantage of the fact the Fed has raised interest rates to close to 4.5%.

We have observed that major banks are generally not offering the same advice to their customers, even those with large cash balances. Banks use customer balances to fund their own lending activity which incentivizes them to pay the lowest possible rates on deposits. Thanks to aggressive Fed actions, a pickup of over 4.0% is possible for investors with checking accounts at certain banks. For further details, please contact us to learn more.

Bonds that now have reasonable yields are a good reminder that sharp market declines like the one we endured in 2022 set the stage for bargain hunting. Last year's turmoil is forcing investors to differentiate between speculative and proven, between those that promise and those that deliver. This year is off to a good start. While the average stock may drop further, investors will benefit from owning the most resilient businesses that provide goods or services to growing segments of the economy. At Spears Abacus we continue to focus on just such investments and maintain our long-term optimism.

II. Personal Finance

A reminder that with the change of the calendar year comes a few federal tax rule changes that may be relevant to you. As always, we recommend you speak with your own tax advisor about your particular circumstances including any state or local tax changes. Effective this year:

- The annual gift exclusion amount has increased to $17,000 per person per year (increased from $16,000)
- The lifetime credit amount for gifting or inheritance (including generation-skipping) increased significantly due to inflation adjustments. For 2023, the lifetime credit is $12.92 million per person, and therefore $25.84 million for a married couple. It is currently scheduled to revert back to $5 million (adjusted for inflation since 2018) in 2026, although we expect additional changes before then.

Also of potential interest, the required minimum distribution (RMD) age for non-Roth retirement plans has increased to 73 as of this year.

We would be pleased to discuss these changes, and any opportunities they present, with you and/or your tax advisor.

Important Note About SA Investor Commentaries

This letter should not be relied upon as investment advice. Any mention of particular stocks or companies does not constitute and should not be considered an investment recommendation by SA. Any forward-looking statement is inherently uncertain. If you would like to learn more about SA and its investment program, please contact us at www.spearsabacus.com.

Please contact SA if your financial situation or investment objectives have changed in any way or if you wish to impose new restrictions or modify existing restrictions on your accounts. You should be receiving, at least quarterly, a statement from your custodian showing transactions in your accounts. SA urges you to compare your custodial statements to any statements that you receive from SA.

Small Cap Dividend Growth

SPEARS/ABACUS

Quarterly
Fact Sheet
As of December 31, 2022

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 combines 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)	-14.2%	-14.2%	5.5%	4.9%	-	7.4%
SA Small Cap (net)	-14.9%	-14.9%	4.5%	3.9%	-	6.3%
Russell 2000	-20.4%	-20.4%	3.1%	4.1%	-	5.8%

Source: Spears Abacus, FactSet. Inception Date 12/31/2016. ^See portfolio statistics and efficiency measures. [1]Returns for less than one year not annualized; YTD as of 12/31/22; [2]All statistics based on weighted average unless otherwise noted; index based on aggregate; [3]Dividend yield of total portfolio including cash; [4]ROIC calculated using LTM cash returns for portfolio holdings; [5]Sector weights excluding cash; [6]Efficiency measures gross since inception, monthly basis; [7]Based on Risk Index = Russell 2000, Risk Free Index = 3 Month T-Bill

Portfolio Statistics[2,3,4]

	SA	Russell 2000
Number of Securities	91	-
Cash Weight	2.7%	-
Dividend Yield	1.27%	1.36%
Market capitalization ($b)	5.1	2.8
Harmonic Avg. TTM P/E	14.0x	21.9x
Harmonic Avg. NTM P/E	14.1x	19.1x
LT Debt / Total Capital	0.32x	0.46x
Return on Invested Capital	22%	4%
NTM Revenue Growth	6%	2%
Median Payout Ratio	20%	37%
% of holdings paying dividend	82%	43%
Active Share	96%	-

Sector Diversification[5]

	SA	Russell 2000
Consumer Discretionary	11.7%	10.5%
Consumer Staples	3.3%	3.6%
Energy	6.5%	6.8%
Financials	16.6%	17.2%
Health care	17.9%	16.9%
Industrials	15.2%	15.5%
Information Technology	13.5%	12.7%
Materials	7.0%	4.3%
Real Estate	5.4%	6.4%
Communication Services	1.8%	2.5%
Utilities	0.5%	3.5%
Total	100.0%	100.0%

Efficiency Measures[6,7]

	SA	Russell 2000
Annualized Excess Return	1.6%	-
Annualized Alpha	2.2%	-
Beta	0.86	-
Volatility	19.5%	21.6%
Upside Capture	93%	-
Downside Capture	87%	-
Sharpe Ratio	0.3	0.2
Sortino Ratio	0.5	0.3
Tracking Error	6.3%	-
Turnover (trailing 1 year)	24%	-

PLEASE SEE ADDITIONAL DISCLOSURES ON THE FOLLOWING PAGE

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Top 10 Holdings

Top 10 Holdings	% of Portfolio
Texas Pacific Land Corporation	3.4%
A. O. Smith Corporation	2.5%
InMode Ltd.	2.3%
Royal Gold, Inc.	2.3%
Morningstar, Inc.	2.2%
Coca-Cola Consolidated, Inc.	2.1%
Virtu Financial, Inc. Class A	2.0%
U.S. Physical Therapy, Inc.	1.9%
Globus Medical Inc Class A	1.9%
Science Applications International Corp.	1.9%
Total	22.5%

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

Managed by

Spears Abacus Small Cap Dividend Growth Team

Portfolio Manager	Years Experience
Manny Weintraub	32
Senior Analyst	
Daniel Wetchler	12

Style

Blend

Inception Date

31-Dec-16

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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.

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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For further information please see www.spearsabacus.com or contact the firm by electronic mail at info@spearsabacus.com.

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