April 14, 2020

Portfolio Manager's Commentary

I hope this letter finds you and your loved ones well. While we take great pride in our management of your financial assets, we are well aware -- especially in such a difficult time as this -- of the great importance of health.

Lately, many of you have told us that you don't even want to look at your portfolios given the market's recent declines, a natural response in these volatile times. But now that the first quarter is over, we suggest you do.

Our Spears Abacus Mid-Cap Opportunities composite -- what was formerly known as our Mid-Cap Domestic Equity composite but is the exact same thing -- is down 9.3%, net of fees, versus 27.1% for the Russell Midcap Index. While we, of course, would rather have not declined at all, a decline of 9% is much easier to recover from then a decline of 27%.

For the past two years, we have been emphasizing that our strategy is to make investments in recession-resistant businesses with recurring revenue. This strategy helped us keep up with the Midcap Index in 2018 and 2019, while declining significantly less than the Index in this difficult quarter. This was the right strategy for heading into this crisis, but now that we are in it, it is time to position your portfolio for the next thing -- to benefit from the eventual upturn in the economy and the markets that we believe should come.

It may seem premature to be thinking of a recovery when much of the country has yet to near the apex in the number of cases of coronavirus, and the road to normal is unclear. But there is an old saying on Wall Street that I have always found to be true: "The market is a barometer, not a thermometer." In other words, we don't need things to go well for the markets to start to recover, we just need them to be less bad. While full recovery might seem a stretch at the moment, "less bad" certainly seems possible. We could soon get past the apex in New York State. There could be exhibition games for professional sports. There could be a surplus of masks and protective gear rolling off US assembly lines. There could be an adequate supply of hospital beds, and so the overall number of deaths could turn out to be less than expected. Just as we didn't need to know what would spark this recession in order to prepare for it, we don't need to know the exact "road to normal" in order to know that a stock market with a dividend yield of 2.4% looks attractive compared with a ten-year Treasury yielding 0.7%.

Our job is to shepherd your portfolios through this recession by investing in strong companies that we believe will survive for the next six months and thrive for the next ten years. As such, while we continue to have the large majority of the portfolio in recession-resistant recurring revenue businesses with strong balance sheets, we are currently adding shares of companies whose businesses are getting hurt in the short term but that we believe have solid balance sheets and the ability to snap back quickly. For example, we are purchasing medical device companies hurt by a current lack of elective surgery and semiconductor companies that are hurt by disruptions in supply chain and distribution. In this recession, it is a win if a company has only a small decline in revenue, and those are the kinds of companies that we hope to purchase. In the 2008 crisis, buying well-capitalized small-cap companies when they were out of favor substantially helped our performance as we came out of the downturn in 2009. We think that the opportunities in smaller-cap companies are even greater this time around, and so while we will keep the large majority of the portfolio in midcap stocks, we will add small-cap stocks to the portfolio when we find appropriate investments.

We have maintained our positions in precious-metal royalty companies as the large deficit spending required to fight the battle against the COVID virus seems likely to lead to a depreciation, in general, in the value of fiat currency. It's impossible to know other societal and economic changes that will happen as a result of this pandemic, but I feel strongly that our strategy of investing in companies with strong fundamental momentum at reasonable valuations will continue to be a useful tool for those looking to preserve capital and purchasing power.

With all best wishes for a healthy spring and renewal for us all.

Sincerely,

Manny Weintraub

Manny Weintraub, CFA

MidCap Opportunities

SPEARS / ABACUS

Quarterly
Fact Sheet
As of March 31, 2020

Investment Strategy Highlights

Spears Abacus' MidCap Opportunities strategy is a long-only equity strategy that seeks to preserve capital on an absolute basis and outperform the Russell Midcap® index. Following a disciplined process, a proprietary screening methodology and fundamental analysis are applied to identify companies with an asymmetric risk / reward ratio, wherein each company's likely upside is disproportionately large compared to its worst-case scenario downside. Target investment characteristics include:

- High return on invested capital and strong free cash flow
- Solid long-term growth prospects
- Strong balance sheet and effective capital allocation
- Positive fundamental momentum
- Attractive valuation

Managed by
SA MidCap Opportunities Team

Portfolio Manager
Manny Weintraub

Years of Investment Experience
30 Years

Style
GARP

Inception Date
31-Mar-04

Sector Diversification[1]

	SA	Russell Midcap
Consumer Discretionary	7.1%	10.4%
Consumer Staples	0.0%	4.6%
Energy	0.0%	2.0%
Financials	23.0%	11.6%
Health care	18.4%	12.2%
Industrials	5.3%	12.8%
Information Technology	37.3%	20.3%
Materials	8.9%	5.1%
Real Estate	0.0%	9.5%
Communication Services	0.0%	3.6%
Utilities	0.0%	7.8%
Total	100.0%	100.0%

Portfolio Statistics[2,3]

	SA	Russell Midcap
Number of Securities	19	-
Cash Weight	7.4%	-
Dividend Yield	1.30%	2.24%
Market capitalization ($b)	41.1	14.0
Harmonic Avg. TTM Price/Earnings	20.8x	17.3x
Harmonic Avg. NTM Price/Earnings	17.2x	14.6x
LT Debt / Total Capital	0.68x	0.44x
Net Debt / EBITDA	2.1x	2.6x
Return on Invested Capital (ROIC)	16%	6%
Estimated Long-Term Growth (3-5 Y	9%	11%
Payout Ratio	28%	34%
Downside Capture (trailing 3 year)	48%	-
Active Share	97%	-

Top 5 Holdings

	% of Portfolio	YTD Return
Citrix Systems, Inc.	7.6%	28.0%
Fiserv, Inc.	7.1%	-17.9%
Domino's Pizza, Inc.	6.5%	10.6%
Virtu Financial, Inc. Class A	6.4%	31.7%
Fidelity National Information Service	6.0%	-12.3%
Total	33.6%	

Performance[4]

	Annualized Total Returns					
	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Inception
SA MidCap (gross)	-9.0%	-5.2%	8.1%	4.2%	9.0%	10.1%
SA MidCap (net)	-9.3%	-6.4%	6.7%	2.9%	7.6%	8.4%
Russell Midcap	-27.1%	-18.6%	-0.9%	1.8%	8.7%	7.6%
S&P 500	-19.6%	-7.1%	5.0%	6.7%	10.5%	7.5%

[1]Sector weights excluding cash
[2]All statistics based on weighted average unless otherwise noted
[3]Downside capture trailing 3 years, monthly basis vs Russell Midcap
[4]Returns for less than one year not annualized; YTD as of 3/31/20

Source: FactSet, Spears Abacus

PLEASE SEE DISCLOSURES ON THE FOLLOWING PAGE

Inception: March 31, 2004

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MidCap Opportunities

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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. There is no minimum asset size above which managed accounts would be included in or below which managed accounts would be excluded from the composite. 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 Midcap® are for informational purposes only, as the composites may hold securities not in the S&P 500 TR (Total Return) and Russell Midcap® and may have more or less volatility and risk than an investment in the S&P 500 TR (Total Return) and Russell Midcap®. Management fee information available upon request.

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