



MID CAP VALUE EQUITY STRATEGY

1ST QUARTER 2009 COMMENTARY

THE ECONOMY AND EQUITY MARKETS

Is that light at the end of the tunnel or a train coming at us?

While the first quarter of the year was, in all respects, a stress endurance test for stock market investors, the final weeks of the quarter offered a ray of hope that the bear market bottom might be near. After many months of relentlessly negative economic news, some positive data points emerged in early March. In addition, the Obama administration finally presented a more detailed plan to restore health to the financial services industry. This combination of developments led to a robust market rally over the last weeks of the first quarter, suggesting that the worst may be over.

We have not yet brought out the champagne and caviar, but believe the economy is on the mend in several important areas, as evidenced by a number of encouraging reports. First, the February data on the housing industry showed a rise in existing home sales (up 5%), higher permits, and a 4.7% increase in new home sales. Also, historically low mortgage rates have led to a surge in refinancing activity, lowering debt service payments and giving consumers more breathing room with which to repair their personal balance sheets. In addition, we noted better than expected retail sales for February and an increase in durable goods orders. The details of the administration's plan to remove toxic assets from bank balance sheets was announced on March 23, and was greeted by the stock market with a +500 point rebound.

This string of news begs that age-old question, 'Are we there yet'?

Clearly, with investor confidence at all time lows, substantial sums of cash on the sidelines, and many equity valuations at truly compelling levels, a stock market rebound should not have been particularly surprising.

The current debate among investment professionals is whether this rebound is simply a bear market rally, as many market observers believe it is, or the early part of a gradual economic healing process that will produce a more stable economy and a sustainable recovery in equity prices.

HCM PERFORMANCE REVIEW

As we have noted in our earlier commentaries, our investment philosophy and strategy is intensely focused on managing portfolio and stock-specific risk. This strategy, in our opinion, has enabled us to produce better-than-market returns for our clients in particularly challenging periods such as the second half of 2008 and early 2009.

The first quarter of 2009 was, in many respects, even more challenging than the last half of 2008. However, our return for this period, while negative, was considerably better than the broader market averages as well as our benchmark and many of our investment manager peers, suggesting that our risk-management strategy was working to our clients' benefit.

As the Table below illustrates, our portfolio declined in the first quarter of the year 6.26% gross of fees, compared with the Russell Mid Cap Value Index, which declined 14.66%. The Russell Mid Cap Index, another index against which we are compared, declined 8.98%.

Our 800 basis points of relative out-performance for the period were almost equally balanced between our stock selection and our sector selection. Our Energy sector holdings made the biggest contribution to our relative return during the first quarter. In addition, our Consumer Discretionary stocks significantly outperformed the sector and produced a strong relative return. Finally, we benefitted by having chosen to remain under-weighted in the Financial Services sector, and over-weighted in the Healthcare sector.

% Annualized Returns As of 03/31/09	1Q 2009	1 Year	3 Years	5 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	-6.27%	-29.37%	-10.16%	0.03%	5.42%	12.79%
HCM Net of Fees	-6.52%	-30.15%	-11.08%	-0.97%	4.38%	11.69%
Russell Mid Cap Value Index	-14.68%	-42.51%	-16.68%	-3.81%	3.13%	9.02%
Russell Mid Cap Index	-8.98%	-40.81%	-15.53%	-3.53%	2.27%	8.84%

HCM employs a Mid Cap Value Strategy for portfolios in the HCM Mid Cap Value Composite. The foundation of HCM's investment selection process is bottom-up, fundamentally-driven security selection. Our approach combines our original quantitative research with our fundamental judgment. We place significant emphasis on due diligence to assess the risk potential of each investment candidate before assessing its return potential. The discovery of value within specific securities, rather than market sectors, drives the construction of the portfolio. Our in-depth research process results in a concentrated portfolio of companies

Composite Description: HCM requires a minimum equity account size of \$500,000. However, in some instances, HCM may agree to manage an account with a value less than \$500,000. All actual, fee-paying, discretionary portfolios are included in at least one composite and there are no non-fee paying portfolios included in any composite. A complete list of the firm's composites is available upon request. The mid cap value equity strategy composite includes all actual, fee-paying, discretionary taxable and tax-exempt portfolios that do not contain any restrictions, which were under management for the first full month for which results were calculated

Performance results are determined with monthly valuations geometrically linked for period returns. The U.S. Dollar is the currency used to express performance. It should not be assumed that past performance is indicative of future results. Results are based on fully discretionary accounts under management, including accounts no longer with the firm. All performance calculations are on a time-weighted, asset-weighted return basis and include the reinvestment of all income. Net of fee performance is net of an annual, model management fee of 1.00%, commissions and custodian fees. The model fee is the highest fee charged to any account included in the HCM Mid Cap Value Composite. Gross of fee performance is gross of management fees and net of commissions and custodian fees. HCM's advisory fees are described in its Form ADV Part II. The fee schedule for the HCM Mid Cap Value Composite: First \$5 MM at 1.00%, Over \$5 MM but less than \$10 MM at 0.70%, Over \$10 MM but less than \$15 MM at 0.60%, Over \$15 MM Negotiated. Actual fees for each client may vary. Non-discretionary portions of an otherwise discretionary portfolio have been excluded from composite performance. Performance calculations: June 1988 to December 1998 excludes all non-discretionary cash from an otherwise discretionary portfolio, consistent with guidelines established by client(s) designating un-invested cash as non-discretionary assets. HCM Mid Cap Value Composite was created on June 30, 1988.

The Index information contained herein has been obtained from sources that we believe to be reliable, but its accuracy and completeness are not guaranteed. It has been prepared solely for informative purposes. It is made available on an "as is" basis and should not be viewed as solicitation for business. The information contained herein may not be reproduced, in whole or in part, in any form, other than for your own personal, noncommercial use.

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1st QUARTER PORTFOLIO ACTIVITY

New Positions

Covanta Corp. (CVA) – We initiated a position in Covanta Corporation, a world leader in the Waste-to-Energy business. Covanta builds and operates combined waste management/power generation facilities in partnership with municipal, state and federal governments both in the U.S., Europe and Asia. It gets paid fees for accepting waste and also earns revenues by selling the energy that is produced through the disposal of that waste. Covanta has a large set of future growth opportunities through acquisitions and the construction of new facilities (both in the U.S. and abroad), has an industry leading balance sheet and is run by an experienced and highly successful management team.

Positions Increased

Global Payments, Inc (GPN) – We increased our position in Global Payments during the quarter as we continue to believe that Global Payments maintains a strategic advantage in the payment processing business due to its global reach, scale, technology platform, balance sheet and its uniquely stable management culture.

In an environment of declining transaction growth rates and economic contraction, we believe that Global Payments will continue to significantly outpace its peers and will also be the buyer of choice for strategic acquisitions in its industry.

Neustar, Inc. (NSR) – We increased our position in Neustar during the first quarter in order to build out a full position in the portfolio. Neustar's core database management business serving the tele-communications industry continues to execute flawlessly and appears to be relatively insulated from overall economic activity. Neustar is also investing in new growth initiatives that should gain traction and produce excellent returns when economic conditions start to improve.

Charles River Labs, Inc. (CRL) – We increased our position in Charles River Labs during the first quarter. Charles River's long-term potential seems materially undervalued due to near-term demand issues arising through its core customers, large pharmaceutical companies. We believe that Charles River Labs will be a strategic partner of choice for large and mid-size pharmaceutical companies looking for more efficient ways to get drugs to market.

Longer-term, we believe these customers will have to return to outsourcing its drug testing to Charles River Labs because of its monopoly position in research models and lower cost pre-clinical testing services.

Positions Reduced

Edwards Lifesciences, Inc. (EW) – We reduced our position in Edwards Lifesciences during the first quarter as its significant out-performance relative to the broader market caused the position size to exceed our 5% limit during the quarter. Edwards is an exceptionally well run medical device manufacturer with industry leading market shares, technological superiority in its markets and a superior balance sheet.

Ross Stores, Inc. (ROST) – We reduced our position in Ross Stores during the first quarter as its significant out-performance relative to the broader market caused the position size to exceed our 5% limit during the quarter. Ross Stores remains in the sweet spot of retailing as customers trade down from higher priced retailers to close out retailers like Ross. Ross continues to execute its business model very well, gaining market share and profitability in the process.

Positions Sold

Zebra Technologies, Inc (ZBRA) – We sold the remainder of our Zebra Technologies position during the first quarter. Zebra ended up, despite early promise, being a significant disappointment as an investment. Despite achieving a dominant position in mobile printing devices and associated supplies, it was plagued by inconsistent execution, underinvestment in its infrastructure and failed attempts at diversification.

MARKET OUTLOOK / PORTFOLIO STRATEGY

Despite some positive economic developments of late, it would be premature to assume that the global recession has run its course. This downturn is deep and broad-based, and likely to take many months to show meaningful improvement. The high level of consumer and corporate debt remains a major obstacle facing the U.S. economy, but also afflicts many other economies around the world.

The Obama administration is tackling many of the nation's problems with a high level of urgency and determination to find solutions.

The biggest change underway is the advent of a more comprehensive regulatory framework for U.S. banks and other financial institutions, designed to provide much more transparency and accountability than has existed in the past. The cost of past mistakes and the implementation of systems to prevent it from re-occurring will be born by American taxpayers, but the long-term benefit also will be reaped by American taxpayers if the result prevents another financial debacle.

Somewhat disconcerting is the wide range and scope of government initiatives that are being proposed almost simultaneously. What is the consequence of our government having to tackle so many costly issues at once? The Federal Reserve is aggressively expanding its balance sheet to buy treasury securities and to insure continued expansion of the money supply. The impact of the Fed's actions, coupled with the Obama administration's enormous fiscal stimulus program, will likely be rising budget deficits and may well be higher inflation in the future.

But we do not believe that inflation is a nearer-term risk, as we see considerable excess capacity, restrained growth in wages, and subdued demand in almost every economic sector that is likely to limit any broad-based upward movement in prices.

The recent market action seems to indicate that the dramatic degree of monetary and fiscal support being provided to the economy has put a floor under it from which a gradual recovery can begin. This is a critical first step in regaining the confidence of investors,

In our opinion, both the Obama administration and the Federal Reserve Bank got it right by determining that restoration of public confidence in the U.S. financial markets is the critical first step to the restoration of the health of the U.S. economy. Without a sound credit system and properly functioning capital markets, businesses and consumers would have remained paralyzed and increasingly insolvent, worsening the already deep economic slump.

Summary Comments

This current recession, which has lasted 15 months, has been longer than the post-WWII average of 11 months. So it is not surprising that Americans are weary and worried about the prospects for a recovery in the economy.

But as we noted earlier in this commentary, there is growing evidence of improving economic fundamentals. In March, we observed several large merger announcements, a number of corporate debt offerings at attractive rates, and other indicators that capital access is improving. As mentioned before, the Federal Reserve Bank continues to give broad support to the capital markets as they slowly return to normal function.

On the consumer side of the ledger, we believe that the rise in the personal savings rate to levels not seen in 15 years is likely to serve as the base upon which a recovery in discretionary spending can be built. We expect that consumer confidence will gradually improve as a function of the government's fiscal stimulus measures, a stabilizing housing market and less volatile financial markets.

The poet, Rudyard Kipling once said, "If you can keep your wits about you while all others are losing theirs, and blaming you. The world will be yours and everything in it." As painful as this equity market decline has been, we continue to look for opportunities to purchase great companies at bargain prices. We remain convinced that at no time in our respective careers have there been so many opportunities to own high quality companies at significant discounts to their intrinsic values.

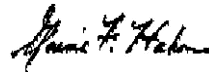
At the same time, there will also be more 'value traps' than we have seen in many years-companies that appear to be undervalued based on historical measures of cheapness, but in fact have compromised business models or impaired balance sheets that will prevent their return to prior rates of growth and profitability.

Our investment process is specifically designed to reveal these distinctions by focusing on company balance sheets, so that we understand the quality of its assets, the earning power of those assets, and the ability of the company to fund its long-term growth objectives.

We ask questions such as: Is the company capitalized appropriately? What is the nature of the company's liabilities and are they transparent? Does the company have enough liquidity to manage through difficult economic times? The answers we get to these questions give us the ability to more accurately measure a company's true intrinsic value and more importantly, its risk profile, helping us to avoid permanent losses of shareholder capital.

We have little doubt that the road ahead will be a bumpy one, and will certainly test investors' resilience, patience, and courage. But to answer the question we posed at the beginning of this commentary, we DO see light at the end of the tunnel.

We welcome any comments or questions from our clients and colleagues regarding our investment portfolio and strategy.



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