



MID CAP VALUE EQUITY STRATEGY

4th Quarter 2009 Market Commentary

Reconciliation

In retrospect, 2009 was a year of extremes. It was a year in which investors were introduced rudely to the terms “systemic risk”, “credit default swap” and “deflationary debt spiral”. While trouble had been brewing for much of 2007 and 2008, it erupted into a full blown crisis with the collapse of 159 year old investment bank Lehman Brothers in September of 2008 and culminated in what turned out to be a cathartic capitulation and stock market bottom on March 9, 2009. At that point in time, the S&P 500 had fallen 56.8% from peak to trough and the economy seemed headed for its worst performance since The Great Depression. The credit system was effectively frozen; counterparties did not trust each other’s willingness or ability to meet financial obligations; a crisis of confidence in the midst of a market collapse portended grim times ahead.

In what can only be viewed as a stunning reversal, by the market close on December 31, the S&P 500 had gained 65% from the March 9 low, and ended the year up 26.5%. The Nasdaq National Market Index gained 78.9% from the low, and nearly 44% for the year. Consensus estimates for soon-to-be-released 4th quarter 2009 GDP growth are rising above 4%, while business confidence has recovered significantly and real final demand is rising rapidly. How then can we reconcile the grave outlook on that dark March day with the subsequent Phoenix-like performance of the economy and stock market? More importantly, what does this dramatic reversal of fortune imply about 2010 and beyond?

The Federal Reserve Bank’s “Zero Interest Rate Policy “ (ZIRP) and its spiritual cousin the U.S. Treasury Department’s “Troubled Asset Relief Program” (TARP) were crucial to this outcome. By providing an equity backstop to financial institutions (TARP) and making the financial institutions cost of funds effectively zero (ZIRP), the Fed and the Treasury Department removed any doubts about the ultimate survival of the financial system. The banking system would be able to earn its way out of any lingering balance sheet issues (though it may take longer than currently expected).

In addition, the banking system was able to resume more normalized business activity in the absence of meaningful competition from securitization markets, which has served to further accelerate the industry’s path to recovery.

Finally, fiscal stimulus, in the form of the \$787 billion American Recovery and Reinvestment Act of 2009, has added significant substance to the healing process, setting up the potential necessary pre-conditions for a self-sustaining cyclical recovery. The funds from this bill are only now starting to impact the economy meaningfully and should continue to aid the recovery over the coming months.

The unprecedented scale and breadth of the programs implemented since the crisis exploded into the collective consciousness of regulators, lawmakers and the general public in 2008 has largely ensured that the economy will continue to gain momentum over the course of 2010 and beyond.

The remaining questions are much harder to answer: What are the long-term *costs* of the steps that have been taken? How have significant *structural* changes in the global economy impacted the outlook for equity markets? Finally, where should we invest to take maximum advantage of what we have previously referred to as the “*new normal*”?

HCM PERFORMANCE

As illustrated in the chart below, our **Mid Cap Value Composite portfolio increased 2.13% gross and 1.88% net of fees respectively** for the fourth quarter of 2009. As was the case in the third quarter of the year, we observed a continuation of lower quality issues outperforming higher-quality issues during this final period of the year. As a result, we underperformed our primary benchmark, which is the Russell Mid Cap Value Index, by 3.08% gross and by 3.33% net of fees in this final quarter of the year. **However, we maintained our out-performance for the full year, both gross and net of fees.**

HAHN CAPITAL MANAGEMENT, LLC

Performance History

| % Annualized Returns As of 12/31/09 | 4Q 2009 | 1 Year | 3 Years | 5 Years | 10 Years | Since Inception 06-30-88 |
|--|---------|--------|---------|---------|----------|-----------------------------|
| HCM Gross of Fees | 2.13% | 35.78% | 0.22% | 5.76% | 8.95% | 14.27% |
| HCM Net of Fees | 1.88% | 34.51% | -0.79% | 4.71% | 7.88% | 13.16% |
| Russell Mid Cap Value Index | 5.21% | 34.21% | -6.62% | 1.98% | 7.58% | 11.00% |
| Russell Mid Cap Index | 5.92% | 40.48% | -4.59% | 2.43% | 4.98% | 10.73% |

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. Returns are presented both before (Gross) and after (Net) of all fees, which may include management fees, legal, audit, tax and withholding tax on foreign dividends, where applicable and include reinvestment of all income. Net of fee performance are calculated using the highest advertised management fee. Gross of fee performance calculations are on a time-weighted, asset-weighted return basis and are before management fees, after commissions and after custodian fees. Net of fee performance are on a time-weighted, asset-weighted return basis and are after management fees based on an Annual Model Fee of 1.00% (100 Basis Points), after commissions and after custodian fees. Hahn Capital Management's advisory fees are described in Part II of SEC Form ADV. The equity segment returns of multiple-asset portfolios are included in the value equity strategy composite. Hahn Capital Management's returns from June 1988 to December 1998; reflect the equity segment of multiple-asset portfolios and includes manager initiated cash flows. Non-discretionary portions of an otherwise discretionary portfolio have been excluded when constructing composites. HCM Composite has a start date of 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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Our out-performance for the year was achieved largely from our sector selection, particularly in the Energy, Consumer Discretionary and Information Technology sectors. Detracting from performance was our stock selection, primarily in the Industrial and Health Care sectors.

4th QUARTER PORTFOLIO ACTIVITY

Positions Increased

Weatherford International (WFT) – We added to our position in Weatherford during the quarter as depressed business activity in many of the company's important markets caused the stock to trade well below what we consider to be its long-term intrinsic value. We are confident in the long-term outlook for Weatherford and for the energy sector more broadly.

Western Union (WU) – Following an initial buy of Western Union shares during the 3rd quarter, we increased our position during the 4th quarter. While current business activity at Western Union is depressed, due to global unemployment, the long-term outlook is

very encouraging due to Western Union's brand power, balance sheet and global breadth of products and services.

Host Hotels (HST) – We recently increased our position in Host, which we view as the premier company in the hotel REIT industry. The company has a very good balance sheet and is well positioned to take advantage of both an economy recovery and potential acquisitions from distressed sellers.

Positions Reduced

Valeant Pharmaceutical (VRX) – We recently reduced our position in Valeant as it crossed our risk threshold as a 5% position in the portfolio. We remain very positive about Valeant's management its execution abilities and product pipeline.

Kinder Morgan Energy (KMP) / Kinder Morgan Management (KMR) – We recently reduced our position in KMP/KMR as it had reached our near term price target. We remain constructive on the long-term outlook for KMP/KMR and its opportunity set.

Edwards Life Sciences (EW) – We recently reduced our position in Edward as it had reached our near-term price target. Edwards has proven its ability to develop leading-edge heart valve replacement therapies. We continue to believe the company has further potential over the next couple of years when new products are expected to be introduced in the United States.

Kroger (KR) – We recently reduced our position in Kroger in order to lower our positional risk as the company fights the tide of deflationary food costs. Kroger continues to expand its market share but has been held back by deflation in retail food prices.

Positions Sold

There were no positions sold during the 4th quarter.

MARKET OUTLOOK /PORTFOLIO STRATEGY

In Kyoto, Japan, there is a rock garden called the Ryoanji. It is a beautiful basin fed by a bamboo fountain with a message that reads: “*I learn only to be contented.*”

As we enter this new decade, perhaps this message best reflects the current refrain among the people of this country. Following the most horrendous upheaval in our nation’s economic system since the Great Depression, and a near-collapse of our largest financial institutions, Americans are seeking a measure of contentment—some small refuge from the daily barrage of negative news, of continual haggling among government legislators, of the lack of systemic reform that is sustaining the great divide between the haves and the have-nots in our country.

Our thoughts return to the formidable challenges that face the United States as the bills come due for the steps that have been taken to put the economy back on more solid footing. Structural fiscal deficits that exceed 30% of GDP are obviously unsustainable over the long-term.

In addition the Fed, at some point, must wean our economy off perpetually low interest rates, another unsustainable condition in the long run. Finally, the myriad programs created to restore the health of the economy have had the impact, in many regards, of favoring Wall Street over Main Street. The attendant resentment (tea parties) and the impact of structurally higher unemployment (corporate cost cutting) threaten to snowball into a more serious social crisis if not

addressed through future legislation/regulation of risk takers. The perception and reality of the crisis of 2008-9 is that it was created by an overly accommodative Federal Reserve, incompetent regulators, lawmakers blinded by special interests and unprecedented greed on Wall Street.

We believe that there are always opportunities to make money for investors willing to look through the problems of the present and see the solutions of the future. For individual companies with a vision (business model), superior execution (smart and aggressive management) and financial wherewithal (superior balance sheet), we feel the opportunities have never been greater. We have just exited an era where the cost of capital was artificially low for a generation. In the foreseeable future, it may be much higher, which will create more profound rewards for the type of enterprise described above than was the case in the recent past..

Still, we believe the economic recovery will be uneven. Even when we begin to see job growth again (and we feel comfortable that we will), there may well be a more structural frugality among consumers that keeps spending restrained for years to come. The current savings rate at 7% suggests an altered behavior pattern among Americans compared with just a few years ago when the savings rate was negative. Reduced access to credit, combined with the jobless rate, has certainly contributed to this shift, but American consumers have also learned how to buy *better and cheaper*, a lesson not likely to be unlearned any time soon. Consumer balance sheets remain at critically over-leveraged levels, suggesting that a structurally higher savings rate may well be a semi-permanent fixture of the investing landscape.

This suggests that consumer-led economic sectors will not have as many success stories as we have become accustomed to seeing.

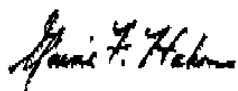
Business-led investment, export growth, long-term energy investments, population aging, productivity-based information technology spending and other niche themes are likely to be the main drivers of returns for the next generation, as opposed to broad-based growth in consumption.

The rapid improvement in the U.S. and global equity markets have, to our great relief, returned much of the lost capital to those investors who stayed with their long-term investment strategies through the tumultuous fourth quarter of 2008 and first quarter of 2009.

Market gains of this magnitude do not come along very often, and we do not expect to see them again any time soon. We expect 2010 to be a transition year, with the recovery in corporate profits starting to catch up with the very impressive trajectory of the broad market averages.

As we completed the third quarter of the year, we observed that many stocks were at relatively full valuations, reflecting much of the positive economic news that was emerging. This observation is still very much intact as we begin the New Year. Our caution is heightened by the current forecasts of corporate earnings for this year by Wall Street analysts. Having been too pessimistic going into 2009, we believe they may be too optimistic for 2010, particularly if the employment picture remains muted. As stewards of our clients' capital, we will remain focused on risk management as the year unfolds.

As always, we welcome any comments or inquiries from our clients and colleagues.



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Russell® Midcap Index is an unmanaged index that measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 26% of the total market capitalization of the Russell 1000 Index.