HAHN CAPITAL MANAGEMENT, LLC

MID CAP Equity Strategy — 1st Quarter 2018 Commentary

1st QUARTER MARKET SUMMARY

US equities began 2018 strongly, buoyed by ongoing strength in economic data, robust earnings and the confirmation of a major tax reform package. Macroeconomic statistics remained broadly positive throughout Q1. US business confidence reached an unexpected, multi-decade high in March. GDP for Q4 2017 was revised upwards to show growth of 2.9%, and while the growth rate of industrial activity slowed, as measured by the ISM manufacturing index, it continued to indicate expansion.

However, the latter part of the first quarter saw a marked increase in volatility. Investors first digested the destabilizing potential for rising U.S. Inflation and the increasing odds that the Federal Reserve (Fed) would need to become more proactive in raising interest rates in order to keep upward price pressures under control. The Fed did indeed raise rates by 25 basis points in March, to 1.75%. It did not, however, alter its overall rate projection of three hikes for 2018. The announcement quelled some concerns, but escalating US-China trade sanctions precipitated additional volatility as the month progressed.

Overall, the broad market declined in the period with the S&P 500 declining 1.17%, its first such quarterly decline since 2015. Cyclical sectors performed more strongly in January and February, when the market was focused on the possibility of faster rate hikes. In March, the broader decline in risk appetites caused numerous sectors to underperform. While traditionally defensive sectors like Telecomm and Consumer Staples led the way down, there were few places to hide during the quarter as Utilities, Materials and Real Estate also underperformed.

The recent appearance of the FANG stocks (Facebook, Amazon, Netflix & Google) in the crosshairs of public scrutiny, over privacy and monopoly concerns, subsequently attracted the attention of President Trump's Twitter account and led to their significant underperformance.

Specifically, the first setback came on March 16, when news surfaced that a British political consulting firm had made undisclosed use of Facebook customer data. Facebook's stock tumbled in response, soon followed by shares of Twitter, Alphabet (parent of Google), and other companies perceived to be vulnerable to accusations about the misuse of customer information. Subsequently, two fatal accidents involving self-driving cars weighed on Tesla, Nvidia, and other prominent companies involved in the technology. Finally, Amazon shares fell following reports that President Trump was "obsessed" with the company. Indeed, the president set about attacking the company over Twitter, accusing Amazon of not paying its fair share of taxes or adequately reimbursing the U.S. Postal Service for deliveries, leading to speculation that antitrust action or other regulations might follow.

HCM PERFORMANCE HISTORY

For the first quarter of 2018, **the HCM Mid Cap Composite achieved a total return, gross of fees, of -0.97%, and outperformed our primary benchmark, the Russell Mid Cap Value Index, by 1.53 percentage points.** For the quarter, our outperformance was primarily due to our exposure to the Information Technology, Financials & Health Care sectors, partially offset by negative contributions from our exposure to the Materials, Industrials and Consumer Discretionary sectors.

% Annualized Returns As of 03/31/2018	1Q 2018	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	-0.97%	13.62%	7.34%	10.57%	11.12%	11.83%	14.25%
HCM Net of Fees	-1.22%	12.52%	6.29%	9.50%	10.04%	10.74%	13.15%
Russell Mid Cap Value Index	-2.50%	6.50%	7.23%	11.11%	11.21%	9.81%	11.66%
Russell Mid Cap Index	-0.46%	12.20%	8.01%	12.09%	11.51%	10.22%	11.56%

[Link to: HCM Performance Disclosures]

PORTFOLIO ACTIVITY

Positions Added

JELD-WEN Holding, Inc. (JELD) – We initiated a position in JELD-WEN during the quarter. JELD-WEN is a leading global manufacturer of doors and windows. The company has broadly restructured its operations over the past 7 years under the ownership of Canadian private equity firm Onex. Positioning itself as a low-cost producer, JELD-WEN is capable of implementing continuous manufacturing improvements, broadening distribution and enhancing profitability, all while gaining market share in the highly fragmented window and door markets. Despite some recent manufacturing efficiency issues, JELD-WEN remains very well positioned for long-term growth and enhanced profitability in this relatively inefficient market. JELD-WEN'S end markets remain quite robust and we were able to purchase our initial position at a significant discount to underlying intrinsic value.

Positions Increased

Alexandria Real Estate Equities, Inc. (ARE) – We added to our position in Alexandria during the quarter as the company continued its long streak of strong underlying operating performance and end market fundamentals.

The recent underperformance of the REIT sector has provided an opportunity to add to Alexandria and other strong, long-term real estate franchises at unusually attractive prices.

As the fears of significantly higher interest rates give way to greater scrutiny of operating performance and strong market momentum, we expect Alexandria and our other real estate stocks to be re-rated higher.

Albemarle, Inc. (ALB) – We added to our position in Albemarle during the quarter as strong company fundamentals were ignored by a jittery stock market, focused on near-term fears of rising interest rates and the longer-term possibility of greater supplies of refined Lithium coming to market. Albemarle and other high-quality lithium producers have enjoyed a relatively tight market for their product over the past several years, a condition which we expect to continue for several more. Rising long-term demand for electric and hybrid/electric vehicles and the low cost of lithium relative to the overall cost of vehicle production provide a long-term opportunity for Albemarle to provide a secure supply to its customers of the highest quality lithium materials at premium prices.

The recent volatility in the stock provides an opportunity to add to our position at cheap prices relative to our estimate of intrinsic value.

Mid-America Apartment Communities, Inc. (MAA) – We continued to add to our position in Mid-America apartment communities during the quarter as continued strengthening of real estate market fundamentals have filtered down to multi-family housing REITs like Mid-America, allowing for steady rent increases and continued expansion in its core Southeastern markets. Mid-America has continued to successfully integrate its recent acquisition of Post Properties; and while spending more on improvements than initially projected, it has also exceeding its own projections for cost saving synergies, allowing for greater reinvestment in the near term and greater free cash flow in the long term.

Carters, Inc. (CRI) – We added to our position in Carters during the quarter as we detected a significant shift in operating strategy at the company. Carters announced that it was de-emphasizing investments in brick and mortar stores in favor of increasing investments in e-commerce, an announcement that was met with mixed reaction by the market.

We applauded the strategy shift by way of increasing our investment, noting that e-commerce is Carters' most profitable segment and its fastest growing, while bricks and mortar lags significantly in terms of growth potential and profitability. This strategy shift is something we have been anxiously waiting for and thought was long overdue yet should continue to enhance the already dominant Carters franchise, one of the widest-moat businesses in our portfolio.

Ross Stores, Inc. (ROST) – We added to our position in Ross Stores during the quarter as the company gave predictably conservative guidance for 2018 on its fourth quarter 2017 review conference call. Every year it seems, Ross faces the gauntlet of difficult year-over-year growth comparisons, prompting its management team to give a conservative (but achievable) outlook for the coming year during its February call. This year was no different as management guided for growth in sales and profitability that was conservative, achievable and below consensus. Over the last 15 years, Ross has been one of the most consistent and predictable growth franchises in the entire market, and we continue to expect that to be the case for the near future. When the market provides us with opportunities to buy that growth at a discount, we try to oblige.

<u>Positions Reduced</u>

BankUnited, Inc. (BKU) –We continue to reduce our position in BankUnited as near-term growth has exceeded expectations but the prospects for longer term growth have become a bit too murky for our taste. BankUnited has executed pretty admirably for us since our initial purchases, and while we had higher expectations for its long-term growth outlook, we are also happy to accept the change in our circumstances for what they are and sell at a very respectable profit. BankUnited has undergone a change in management with long-time CEO and Chairman John Kanas leaving the board and with current management being much less inspiring relative to the dynamic leadership of Mr. Kanas.

Keysight Technologies, Inc. (KEYS) – We reduced our position in Keysight Technologies as our position approached our 5% position limit threshold. Keysight had an outstanding operating performance in 2017, gaining market share, increasing operating profitability and exhibiting strong organic growth, leading the stock to rise significantly beyond its underlying earnings growth.

Despite the expansion in valuation, we view the Keysight story as a long-term investment opportunity in generally slow-growth technology end markets but ones in which Keysight has a decided competitive advantage and can continue to gain share.

CBRE Group, Inc. (CBG) – We reduced our position in CBRE as our position approached our 5% position limit threshold. CBRE has continued to gain market share and increase profitability throughout the current cycle in commercial real estate. While the market has come to appreciate the operational excellence at CBRE, it has yet to appreciate just how much of the business revenues have become recurring in nature rather than just transaction-oriented.

Based on our estimates, over 70% of CBRE's revenues are now related to long-tern entrenched relationships with various real estate owners, lessors, lenders, and other interested parties; providing a long-term predictable stream of free cash flow which CBRE has adeptly re-invested in its business. We view CBRE's growth opportunity as very long-term in nature, with its business becoming increasing global and relationship- rather than transaction-oriented.

Positions Sold

Hanesbrands, Inc. (HBI) – We sold our remaining shares in Hanesbrands during the quarter, representing the final chapter in a very frustrating story. Hanesbrands is a powerful brand with enviable advantages around manufacturing scale, margin structure, global distribution capabilities and technical know-how. Yet the company repeatedly missed its own expectations as well as ours and Wall Street's during the three years that we owned the stock, despite the fact that they continued to lower those expectations at various points along that timeline. Ultimately, we sold due to a lack of faith in the veracity of management's statements, not an uncommon reason for us to sell, yet still frustrating given its various advantages and its unfulfilled promise.

The Market

The 1st quarter of 2018 saw the return of market volatility, with head-snapping swings of the equity markets in both directions.

What are the primary factors behind that volatility? In simple terms, the market this year has been in a tug of war between two dimensions of stock market valuation.

Early in the year, the market was focusing on the expectation for very positive earnings from corporations due to strong business fundamentals and the change in tax policy. But subsequently, the market began to question how to value these positive earnings expectations. This uncertainty has helped drive down valuations while increasing market volatility. We expect this to continue until such a time as a dominant paradigm emerges.

We consider ourselves "risk managers" first and foremost, and remain intensely focused on where risk may be rising in our portfolio, taking proactive actions to rebalance our risk-return portfolio structure where necessary. Our proprietary Risk Matrix Model has been very effective in identifying both sectors and stocks that present new or different risks early enough, to allow us to make adjustments before these risks affect portfolio performance. While broad market measures of valuation seem full, if not slightly overheated, we also recognize that in almost every market environment there are opportunities to make money; assets that are mispriced relative to their long-term prospects, thematic opportunities for those with vision and the experience to exploit them without taking unnecessary risk.

President and CIO

Research Director/
Co-Portfolio Manager

Hahn Capital Management, LLC * 601 Montgomery Street * Suite 840 * San Francisco, CA * 94111
Phone: (415) 394-6512 * Fax: (415) 394-6518 * Email: invest@hahncap.com * Website: www.hahncap.com