Mid Cap Equity Strategy **4th Quarter 2019 Commentary**

A Great Year For Everything

2019 provided a great example to all investors regarding the perils of market timing and the resilience of markets. Throughout 2019, a logical, observant market professional could have made a strong case that headwinds were strong across the global landscape, including: a weak global economy and manufacturing malaise; broadly flat to negative corporate earnings; yield curve inversion and recession risk; elevated geopolitical risks and social unrest; volatile and unresolved trade wars; and, monetary policy uncertainty. On December 18th the House of Representatives impeached the President of the United States but stocks continued to hit new daily highs in December and U.S. equities plowed ahead for their best year since 2013, driven by a resilient U.S. consumer and, arguably more importantly, a dovish pivot by the Federal Reserve. Look at the results:

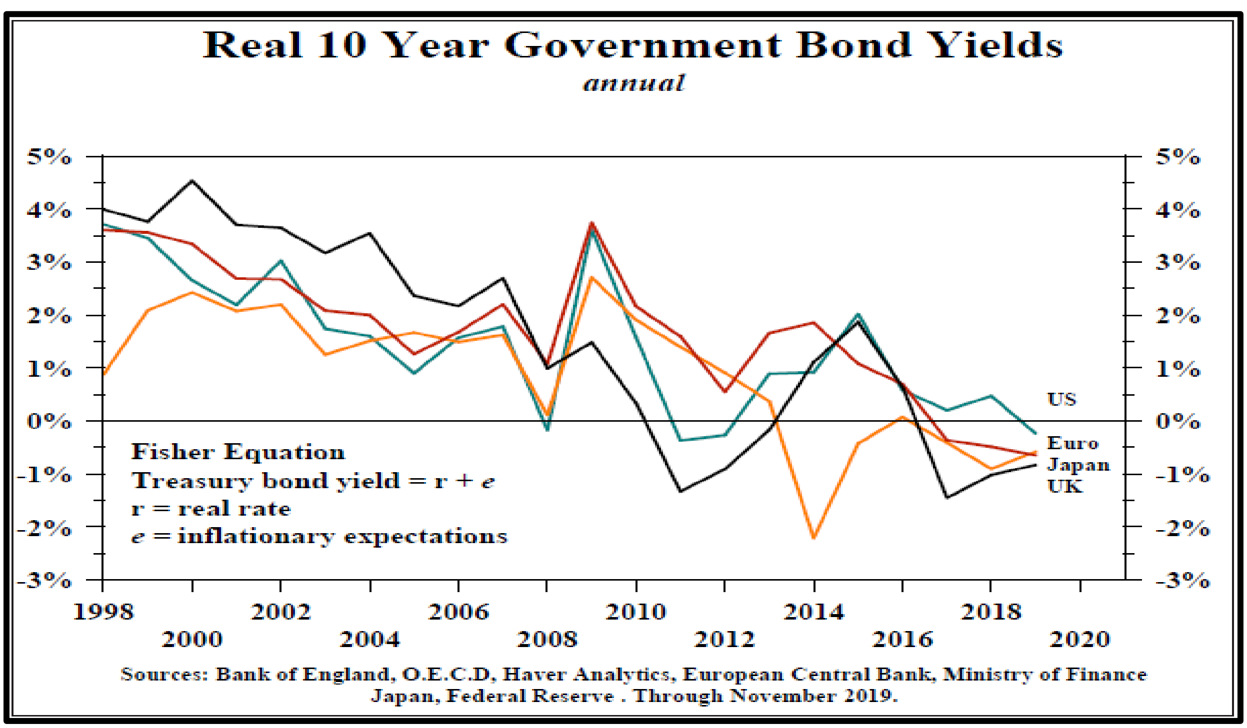
U.S. Indices	2019	Q4	Q3	Q2	Q1	2018
Nasdaq 100	38.0%	12.7%	1.0%	4.0%	16.6%	-1.0%
Nasdaq Composite	35.2%	12.2%	-0.1%	3.6%	16.5%	-3.9%
S&P 500	28.9%	8.5%	1.2%	3.8%	13.1%	-6.2%
Russell 3000	28.5%	8.6%	0.7%	3.6%	13.5%	-7.0%
S&P Midcap 400	24.1%	6.6%	-0.5%	2.6%	14.0%	-12.5%
Russell 2000	23.7%	9.5%	-2.8%	1.7%	14.2%	-12.2%
Dow Jones Industrials	22.3%	6.0%	1.2%	2.6%	11.2%	-5.6%
Russell Microcap	21.0%	13.1%	-5.8%	0.6%	12.8%	-14.0%

Even in the context of negative returns in 2018, the results were spectacular, particularly considering the laundry list of worries that were scattered across the calendar in 2019. Our own results were very good as well with our gross return exceeding 36%, our 2nd best year ever in absolute terms and our relative return of over 9% representing our 6th best calendar year on record.

So how did this occur? Our view is that a combination of declining inflation expectations and an abrupt reversal of Federal Reserve Bank (FED) monetary policy footing, first announced by FED Chairman Powell in January, carried the day. U.S. economic performance in 2019 came in substantially below expectations. This was most evident in observing Federal Reserve actions. In December 2018 they increased the federal funds target range from 2.25% to 2.5%, while they simultaneously announced that three more rate hikes would be necessary in 2019. Instead, the year unfolded with three cuts in the target rate as economic activity disappointed. This lower growth and decline in inflation expectations reinforced investor perception that lower real yields were warranted. In addition, the FED initiated a new round of quantitative easing and put in place an emergency liquidity swap facility to provide relief to foreign banks who found themselves short of dollars.

As 2019 unfolded, inflation expectations started to decline rather dramatically, causing the yield curve to invert, and signaling to the FED that monetary policy targets were far too tight. Indeed, the core personal consumption expenditures deflator dropped from 2% in December of 2018 to 1.6% at the end of 2019. Inflationary expectations followed the inflation retreat, as the median University of Michigan Survey of Expected Change in Prices During the next 5-10 Years dropped to a record low of 2.2%. Also, the Federal Reserve Bank of New York Survey of Consumer Expectations declined over the course of the year for both the one- and three-year expected inflation rates. The one-year expected inflation rate dropped to 2.35%, or 65 basis points, while the three-year view was down 46 basis points to 2.52%.

The decline in U.S. real yields has been consistent with trends across the globe. Over the past 20 years, real yields have fallen, although irregularly, in Japan, the euro area and the U.K. Based on the yearly averages, real sovereign yield levels were at a 21-year low in the U.S. and all three of these other major economic regions. The movement of real yields appears to be tightly correlated with changing economic output; real yields were more negative in Japan, the euro area and the U.K. than in the U.S. This reflects that U.S. economic growth, while disappointing, has exceeded that of these other major economic regions. The following chart suggests that low rates are here to stay and that the only factor that separates the U.S. economy from the rest of the globe (and negative interest rates) is our slight advantage in terms of growth in real economic output.



Taken together, we view the U.S. economy as likely to continue to slow into 2020, led by continued weakening in the industrial economy, partially offset by a strong consumer and a high likelihood that the FED will continue to ease monetary conditions further as the year progresses. Corporate profits as a percentage of GDP remain strong but peaked in 2012, adjusted for tax reform and in constant currency terms. The good news is that corporate profits are strong, the less good news is that revenue growth and profit margin expansion will be more difficult to achieve moving forward.

Quarterly & Annual Performance

Our **preliminary return** for the Hahn Capital Management Mid-Cap Value Composite was 6.90% gross of fees in the fourth quarter of 2019. For the quarter, we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 0.54 percentage points. For the quarter, sector allocations to Utilities (no holdings), Information Technology, Industrials, Consumer Discretionary, and Healthcare contributed positively, while those to Communication Services (no holdings), Energy, Materials, Financials and Real Estate somewhat detracted. The most significant contributors during the quarter were CBRE Group (CBRE), Air Lease Corp (AL), Carter's Inc. (CRI), First Republic Bank (FRC), and Bank of NT Butterfield & Sons (NTB), while the most significant detractors were Hexcel Corp (HXL), Jacobs Engineering Group (J – formerly JEC), Jeld-Wen Holdings (JELD), and Roper Technologies (ROP). During the quarter we exited our remaining position in Jeld-Wen Holdings (JELD) and reduced our position in IDEX Corp (IEX). For the year our preliminary return for the Hahn Capital Management Mid-Cap Value Composite was 36.14%.

Hahn Capital Quarterly & Annual Performance Attribution – 2019

QTD HCM vs. Russell Mid-Cap Value Index - Quarter Ended 12/31/2019

LINKED PERFORMANCE BY SECTORS

BENCHMARK: Russell Midcap Value Index

PORTFOLIO: Model Account

GICS Sector	PORT Weight	BENCH Weight	DIFF Weight	PORT Return	BENCH Return	DIFF Return	SECTOR SELECT	STOCK SELECT	ACTIVE CONTR	PASSIVE CONTR	TOTAL CONTR
Industrials	19.90%	11.78%	8.13%	0.55%	9.32%	-8.77%	0.28%	-1.80%	-1.52%	0.00%	-1.52%
Real Estate	16.18%	14.43%	1.75%	6.29%	-0.26%	6.55%	-0.11%	1.08%	0.97%	0.00%	0.97%
Information Technology	14.10%	7.38%	6.72%	7.28%	11.46%	-4.18%	0.33%	-0.57%	-0.24%	0.00%	-0.24%
Financials	16.73%	18.95%	-2.21%	11.84%	7.11%	4.73%	-0.03%	0.77%	0.74%	0.00%	0.74%
Consumer Discretionary	12.26%	9.10%	3.15%	12.85%	8.30%	4.55%	0.06%	0.53%	0.59%	0.00%	0.59%
Health Care	11.58%	6.79%	4.79%	6.75%	7.81%	-1.06%	0.06%	-0.11%	-0.05%	0.00%	-0.05%
Energy	1.91%	5.37%	-3.46%	20.71%	10.55%	10.15%	-0.15%	0.18%	0.03%	0.00%	0.03%
Materials	1.65%	6.59%	-4.94%	5.63%	9.40%	-3.76%	-0.15%	-0.06%	-0.21%	0.00%	-0.21%
Communication Services	0.00%	3.77%	-3.77%	0.00%	11.21%	-11.21%	-0.18%	0.00%	-0.18%	0.00%	-0.18%
Consumer Staples	0.00%	4.52%	-4.52%	0.00%	6.49%	-6.49%	-0.01%	0.00%	-0.01%	0.00%	-0.01%
Utilities	0.00%	11.32%	-11.32%	0.00%	-0.11%	0.11%	0.77%	0.00%	0.77%	0.00%	0.77%
Cash	5.68%	0.00%	5.68%	0.47%	0.00%	0.47%	-0.35%	0.00%	-0.35%	0.00%	-0.35%
Total Portfolio				**6.90%**	**6.36%**	**0.54%**	**0.52%**	**0.02%**	**0.54%**	**0.00%**	**0.54%**

For the year we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 9.10 percentage points. For the year, sector allocations to Industrial, Information Technology and Energy were the primary contributors to the outperformance, partially offset by our exposure to CASH, Financials, Consumer Discretionary and Health Care sectors.

The most significant individual contributors for the year were CBRE Group (CBG), Keysight Technologies (KEYS), Equinix (EQIX) and Ross Stores (ROST) partially offset by underperformance from SLM Corp. (SLM), Albemarle (ALB), Wabtec (WAB) and EastWest Bancorp. (EWBC).

YTD PERFORMANCE ATTRIBUTION ANALYSIS

Notable Performers by Sector

HCM vs. Russell Mid-Cap Value Index

HCM Attribution Analysis - Year Ended December 31, 2019 vs Russell Midcap Value Index

GICS Sector	Average Port. Weight	Benchmark Weight	Over/ Underweight	Contribution Return	Actual Return	Stock Alpha	Sector Alpha
Industrials	21.82%	11.91%	9.91%	8.93%	39.52%	0.85%	0.98%
Real Estate	15.50%	14.30%	1.20%	7.46%	51.70%	3.76%	0.04%
Information Technology	14.66%	8.07%	6.59%	7.90%	58.60%	2.25%	0.87%
Financials	14.68%	18.37%	-3.68%	4.40%	29.73%	-0.19%	-0.20%
Consumer Discretionary	12.47%	8.85%	3.62%	3.86%	29.18%	0.78%	-0.19%
Health Care	11.76%	6.90%	4.87%	3.31%	27.21%	0.37%	-0.15%
Energy	2.15%	5.72%	-3.57%	0.40%	16.07%	0.18%	0.83%
Materials	1.93%	6.32%	-4.39%	-0.10%	-3.31%	-0.62%	0.19%
Communication Services	0.00%	3.52%	-3.52%	0.00%	0.00%	0.00%	0.21%
Consumer Staples	0.00%	4.71%	-4.71%	0.00%	0.00%	0.00%	0.26%
Utilities	0.00%	11.33%	-11.33%	0.00%	0.00%	0.00%	0.39%
Cash	5.02%	0.00%	5.02%	0.13%	2.31%	-1.37%	-1.37%
Total Portfolio						**7.37%**	**1.86%**

HCM Model Portfolio – Relative Performance by Stock – Quarter Ended Dec 31, 2019

Attribution Analysis - Notable Performers by Sector & Stock

Notable Performers by Sector

Quarter Ended 12/31/2019 - Portfolio vs Russell Midcap Value Index

	Top Four Holdings Total Attribution			Bottom Four Holdings Total Attribution			Top Four Sectors Total Attribution			Bottom Four Sectors Total Attribution	
1	CBRE GROUP INC - A	0.65%	1	HEXCEL CORP	-0.91%	1	Real Estate	0.97%	1	Industrials	-1.52%
2	BANK OF N.T. BUTTERFIELD&SON	0.38%	2	JACOBS ENGINEERING GROUP IN(	-0.40%	2	Utilities	0.77%	2	Cash	-0.35%
3	FIRST REPUBLIC BANK/CA	0.37%	3	EMCOR GROUP INC	-0.26%	3	Financials	0.74%	3	Information Technology	-0.24%
4	CARTER'S INC	0.32%	4	KEYSIGHT TECHNOLOGIES IN	-0.25%	4	Consumer Discretionary	0.59%	4	Materials	-0.21%

Year-to-Date Ended 12/31/2019 - Portfolio vs. Russell Midcap Value Index

	Top Four Holdings Total Attribution			Bottom Four Holdings Total Attribution			Top Four Sectors Total Attribution			Bottom Four Sectors Total Attribution	
1	EQUINIX INC	1.38%	1	SLM CORP	-0.79%	1	Real Estate	3.80%	1	Cash	-1.37%
2	CBRE GROUP INC - A	1.04%	2	ALBEMARLE CORP	-0.60%	2	Information Technology	3.12%	2	Materials	-0.43%
3	KEYSIGHT TECHNOLOGIES IN	0.98%	3	WABTEC CORP	-0.38%	3	Industrials	1.83%	3	Financials	-0.39%
4	ROSS STORES INC	0.79%	4	EAST WEST BANCORP INC	-0.37%	4	Energy	1.00%	4	Health Care	0.21%

HCM PERFORMANCE HISTORY

% Annualized Returns As of 12/31/2019	4Q 2019	YTD	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	6.90%	36.22%	12.47%	9.35%	12.45%	13.64%	14.07%
HCM Net of Fees	6.65%	34.96%	11.38%	8.29%	11.36%	12.54%	12.97%
Russell Mid Cap Value Index	6.36%	27.06%	8.10%	7.62%	12.00%	12.41%	11.45%
Russell Mid Cap Index	7.06%	30.54%	12.06%	9.33%	13.21%	13.19%	11.51%

Link to: HCM Performance Disclosures

PORTFOLIO ACTIVITY

Positions Added

There were no new positions added during the quarter

Positions Increased

There were no positions increased during the quarter.

Positions Reduced

IDEX Corp. (IEX) – We reduced our position in IDEX during the quarter as the valuation accorded the stock continued to expand despite materially slowing business activity at the company. While IDEX is certainly not alone in this regard in the current market environment, the current valuation of IDEX represents an all-time record high for the stock. We have retained a small position and continue to closely monitor the outlook.

Positions Sold

Jeld-Wen Holding, Inc. (JELD) – We exited our remaining position in Jeld-Wen during the quarter. Our investment in Jeld-Wen was a mistake and a great example of positive confirmation bias. Jeld-Wen had a well-conceived plan to scale up its business through a global acquisition program, adding scale and higher returns as it streamlined its global operations, achieved better scale through scale purchasing of raw materials and expanded its product line-up to achieve better penetration of key distribution partners. Unfortunately, little of this ever occurred. Jeld-Wen did a poor job of integrating acquisitions, which created supply chain issues that were undetectable due to a poorly conceived incentive compensation structure and aggressive guidance from senior management. This proved to be a toxic mixture as production issues went undetected and customer product deadlines were missed, alienating said customers and causing a loss of market share. It is unclear whether Jeld-Wen has made any substantial progress in rectifying this situation. Due to the myriad long-term issues facing Jeld-Wen, we exited the last of our remaining shares and are chastened by our failure but determined not to repeat the same mistakes.

Outlook

U.S. equity investors spent much of 2019 worried that the equity bull market would come to an end. Money market deposits hit all-time highs during the year. And the bull market continued nearly unabated, despite investors pulling a significant amount of money out of global equities on fears about the economic outlook and unresolved political issues. While many investors remain anxious, we see ample reason for people to remain invested in equities in 2020.

A recession in 2020 is unlikely for a number of reasons

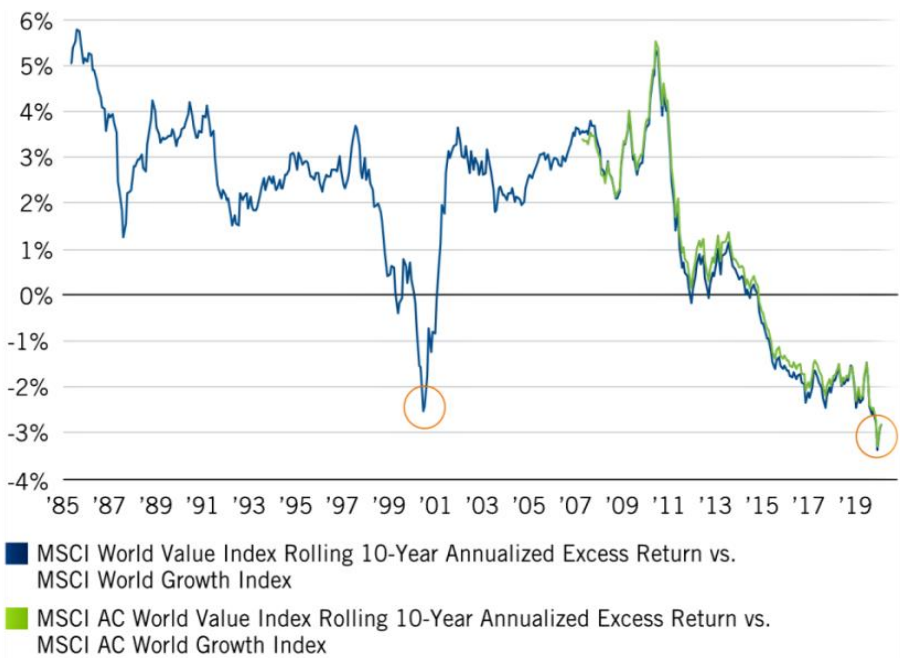
FED policy, which for much of the last two years was focused on gradually raising short term interest rates and allowing the retained portfolio of treasury and agency securities to run off (slowly) was abruptly reversed during 2019. This reversal helped to transform a stock market recovery from a poor 2018 into a full-fledged late-cycle bull market. Once again, the Jedi force of monetary policy prevailed, and once more could extend the current rally, before its power is spent. Lower mortgage rates, tied to easier Fed policy, already have re-energized the U.S. housing sector. In November, building permits hit 1.4 million units at an annual rate, the highest since 2007. Homebuilder confidence is at a 20-year high. Treasury yields have risen in recent months but are still historically low. Globally, reduced uncertainty, easier credit and modest fiscal stimulus across Europe, China, South Korea and Japan should also get traction and benefit our domestic markets.

The global economy remains fundamentally sound and we see few signs that it is headed toward recession. Although the expansion has been one of the longest on record, age alone does not lead to contraction. Economic data in the fall of 2019 showed softening in the manufacturing sector partly tied to trade issues. However, the global economy has changed and is now much more based on services, even in emerging markets, than on manufacturing, and this makes the economy more stable. So even while manufacturing has clearly hit a rough stretch, the consumer (especially in the United States) has proven much more resilient. As a result, we believe the US economy is slowing but not likely to fall into recession, while Chinese growth is also moderating and the eurozone continues to expand, albeit modestly. Taken together, growth is slowing, but we see no material economic downturn.

In addition, the unabated run of growth trouncing value continued in 2019 and as we have been saying for the last several years, sets up well for our intrinsic value investing style. Put another way, every investment decision we have made over the past three or more years that is based on the valuation discipline that is part of our DNA at Hahn Capital has been wrong. We have sold positions downward across numerous investments in our portfolio and, despite our significant near-term outperformance, have left money on the table as a result. Graphically, it shows up in even starker relief. The following chart looks at the relative performance of value vs growth strategies over the past 35 years. As you can see very clearly from the chart, the outperformance of growth is at levels last seen during the Internet bubble of 1997-2000. It's rarified air and makes us feel modestly better about all the money we left on the table over the past several years due to our valuation consciousness. Only modestly better, however.

VALUE'S RECENT UNDERPERFORMANCE IS COMPARABLE TO THE TECH BUBBLE

10-year annualized excess total return: Value vs. growth (January 31, 1985–October 31, 2019)



Source: MSCI

To summarize, we are worried about a lot of things, valuations among them, and the market seemingly is currently worried about nothing. Complacency is at an extreme level and is embodied in a number of different ways. Market volatility is at generational lows, both on an implied and a realized basis, leading to fewer opportunities to create alpha in more value-oriented, risk-managed strategies like the one we pursue on a daily basis. Corporate debt leverage has continued to soar with little of this debt being raised for purchase of productive capacity. The degree of stock re-purchase activity has hit all-time highs, much of it being paid for through corporate debt issuance. This is the very definition of financial engineering, and we are not fans.

Our best guess at what causes the market to finally take a break from its relentless climb higher? Something that is not on anyone's radar now. In other words, not China trade agreements, not FED policy, not the looming presidential election, not the relentless conflict in the Middle East. In the absence of such a black swan, we see no reason why positive returns wouldn't return for an encore in 2020, the force and momentum of expansion, while modest, is firmly positive and likely to improve this year, at least in the world's largest economies. We wish you all the very best in 2020.

We thank you for your continued support and look forward to serving your best interests for many years into the future.

Sincerely,

John Schaeffer
President and CIO

Michael Whitfield
Dir. of Research and Co-Portfolio Manager