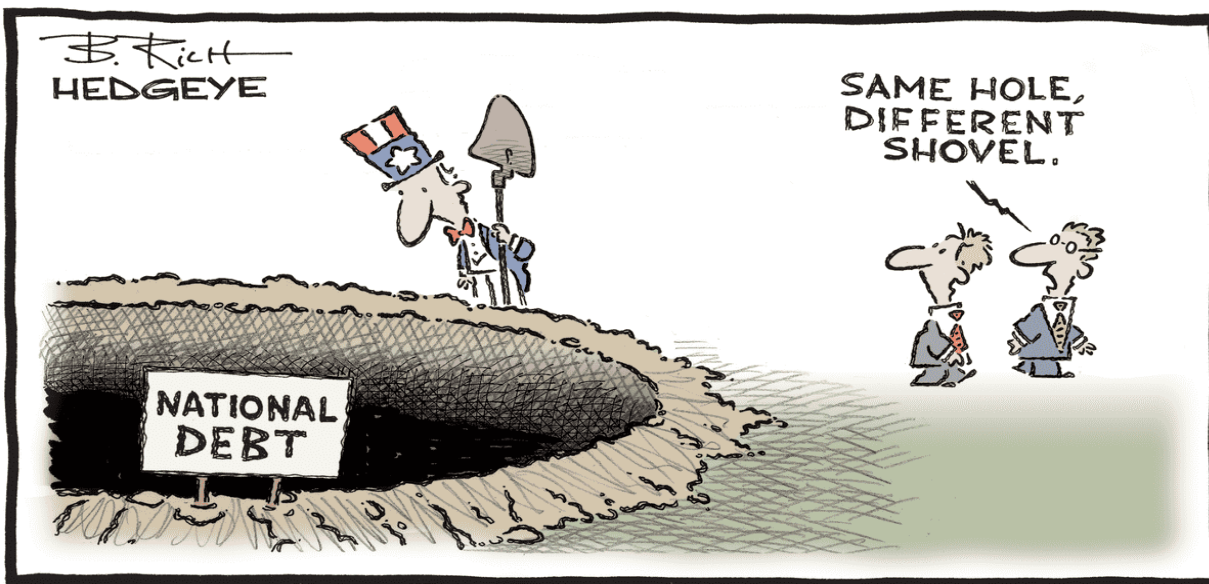


Mid Cap Equity Strategy

1st Quarter 2025 Commentary



Source: Hedgeye

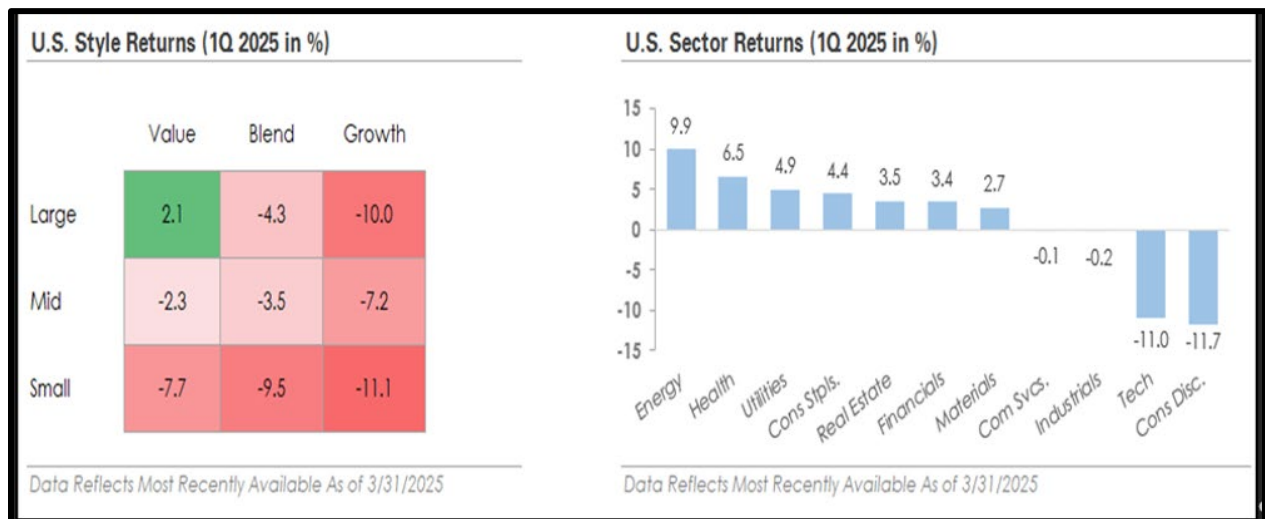
Beating Back the Optimism

The big development in Q1 was falling stock market valuations, as rising policy uncertainty weighed on investor sentiment. The shift in sentiment during the quarter, from optimism to caution, caused valuations to decline and stocks to fall.

Most of the stock market decline occurred in the second half of the quarter, after the S&P 500 set a new all-time high on February 19th. A small group of mega-cap stocks drove the selloff, and their size and weight within broad stock market indices impacted performance trends. The Growth factor, which holds many of these high-profile mega-cap stocks, returned -10% in Q1. Similarly, the Nasdaq 100, an index of leading technology companies that include the Magnificent 7, returned -8%.

Sector returns highlight the concentrated nature of the selloff. Nine of the eleven S&P 500 sectors outperformed the broad index to start the year. Seven of those sectors posted gains, while the other two were flat. This is a sharp contrast to last year, when a handful of sectors powered the S&P 500's gains. Technology and Consumer Discretionary, two of last year's top performers, are the two worst performing sectors this year. It's not a coincidence that these sectors are the most exposed to the Magnificent 7, which have weighed on their returns just like the broader S&P 500. In contrast, sectors that underperformed in 2024 are the top-performing sectors this year. While the S&P 500 is down by -4.3%, the average stock within the index is down -1%.

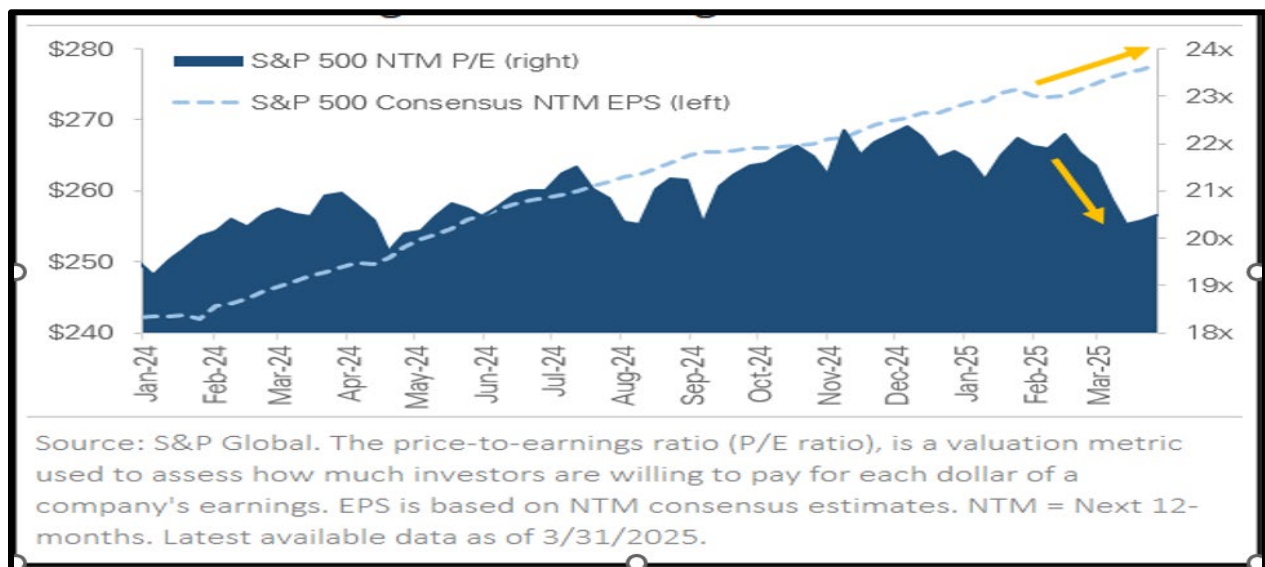
1st Quarter Stock Returns by Style & Sector



Source: S&P Global

No Correction in Analyst Estimates...Yet?

The chart below provides context around the recent pullback, highlighting the divergence between earnings estimates and valuations. The dashed blue line graphs the rolling 12-month earnings forecast for the S&P 500, reflecting Wall Street analysts' profit expectations for the year ahead. The navy shading graphs the S&P 500's price-to-earnings (P/E) ratio, or how much investors are willing to pay for those future earnings. The chart shows earnings estimates tend to be less volatile than P/E ratios, which is natural as the market often swings between optimism and pessimism.



Source: S&P Global

The right side of the chart shows Wall Street analysts slightly lowered their earnings forecast in Q1, citing the potential for tariffs and slower growth. Meanwhile, the S&P 500's P/E ratio declined from over 22x to around 20x. The valuation decline may seem modest, but it had a meaningful effect on returns. Those falling valuations were the primary driver of the selloff as sentiment weakened. Investors started to price stocks more conservatively due to concerns about tariffs, slower economic growth, and policy uncertainty.

Company size impacted returns during the quarter, as market leadership shifted and last year's top performers lost momentum. Last year, the Magnificent 7, a group of leading tech stocks that includes Nvidia, Microsoft, Alphabet, Amazon, Tesla, Apple, and Meta, delivered an impressive +63% return. The group's strength lifted the broader market, with the S&P 500 gaining +23%. In contrast, the equal-weight S&P 500, which gives all companies the same weight regardless of size, gained only +11%. In the 1st quarter, the dynamic flipped. Instead of lifting the market, the biggest stocks dragged it down. The Magnificent 7 declined -15% year-to-date (at quarter end), while the equal-weight S&P 500 was down only -1%. The takeaway: smaller companies held up better during the selloff.

Rising Policy Uncertainty is Impacting Sentiment

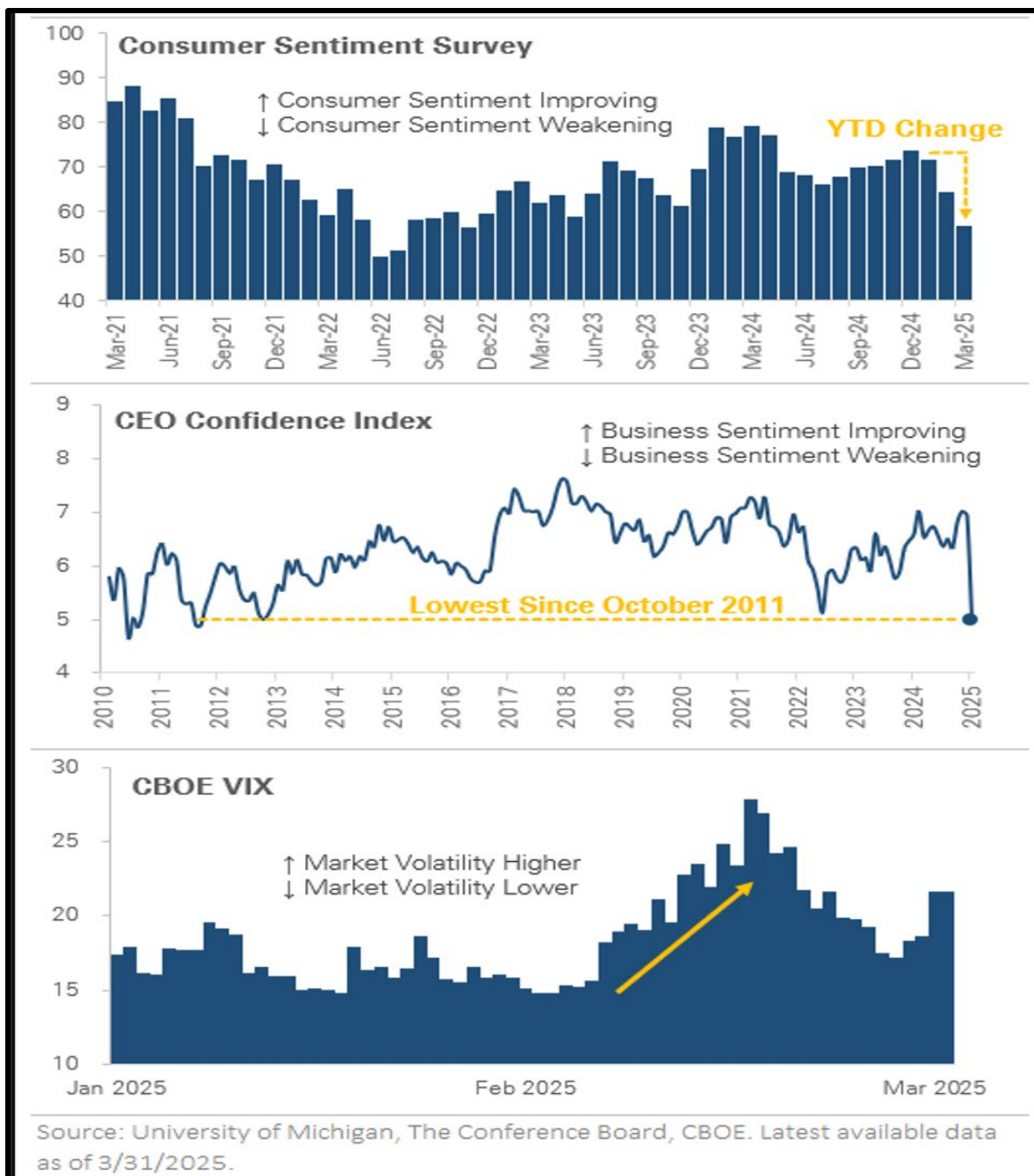
Policy Developments in Washington took center stage during the 1st quarter as the Trump administration started rolling out its agenda. The administration's early efforts focused on trade policy, tariffs, and reducing government spending. The policies are a notable shift from the status quo and have drawn attention from investors and business leaders due to their potential impact on the economy.

The three charts in the graph below illustrate three measures of sentiment. The datasets provide insight into how households, business leaders, and investors view current conditions and what they expect in the future. Tracking sentiment can help gauge potential shifts in consumer spending, business investment, and overall economic momentum.

The top chart graphs the University of Michigan's Consumer Sentiment Index, which tracks how optimistic or pessimistic consumers feel about the economy. Consumer sentiment weakened early in the pandemic and hit a record low in June 2022. The decline reflected concerns about rising inflation, expectations for higher interest rates, and broader economic uncertainty. Sentiment gradually recovered from late 2022 through the end of 2024, as inflation eased, economic growth exceeded expectations, and stocks set record highs. However, sentiment turned downward again in early 2025. The reversal signals renewed concern among consumers, who have been a key driver of economic growth in recent years. It should be noted that consumer sentiment is notoriously volatile.

The middle chart graphs The Conference Board's CEO Confidence Index, which measures how optimistic business leaders are about conditions. Since the 2010s, the index has fluctuated between 5 and 8. Recent years have been especially volatile due to pandemic disruptions, persistent inflation, high interest rates, and geopolitical and policy uncertainty. In Q1, the index fell to 5.0, the lowest level since October 2011. The decline signals increased caution among CEOs as they navigate changing policy, the potential for tariffs, and an uncertain economic environment.

The bottom chart graphs market volatility during the first quarter, as measured by the CBOE Volatility Index (VIX). Volatility increased in early 2025, starting in mid-February. Some market volatility is normal, but the recent spike occurred as policy uncertainty increased, and the stock market sold off. Markets dislike uncertainty, and until there is more clarity, market volatility could remain elevated.



Source: University of Michigan, The Conference Board, CBOE

The Credit Market Rallied But Spreads Widened

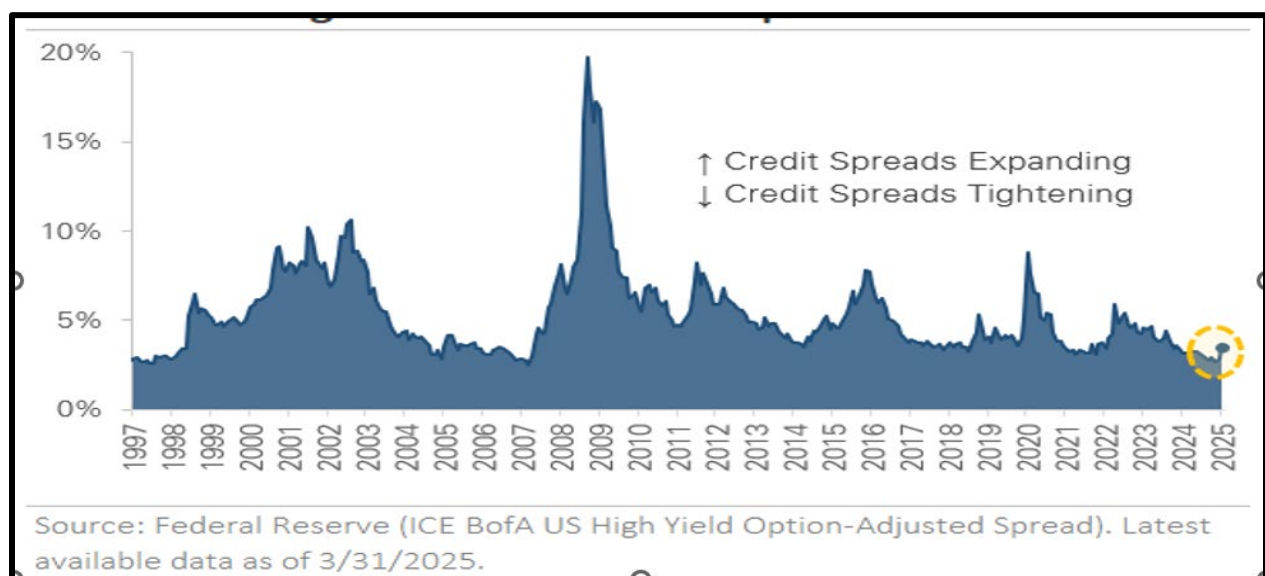
There were two notable themes in the bond market in Q1: falling U.S. Treasury bond yields and wider credit spreads. The 10-year Treasury yield fell from a peak of around 4.80% in mid-January to 4.15% in early March. It was a reversal from Q4, when the 10-year yield rose more than +0.75% due to renewed inflation concerns. Several factors contributed to the Q1 reversal, including rising policy uncertainty, the potential for tariffs, and concerns about slower economic growth. The combination prompted investors to move money into longer-maturity government bonds, which are viewed as safe havens. Bond prices rose as yields declined, and Treasury bonds provided diversification benefits in Q1, offsetting a portion of the stock market decline.

Another major theme was credit-spread expansion. Credit spreads measure the difference in yield between high-yield corporate bonds and safer government bonds, such as U.S. Treasuries. Spread

levels can serve as a real-time gauge of market sentiment, showing how easy or expensive it is for companies to borrow money. A narrower spread signals that investors view credit risk as low, while a wider spread signals higher perceived default risk.

The graphic below traces the high-yield credit spread since 1997. The high yield spread narrowed in late 2024 as the Federal Reserve cut interest rates, reaching levels last seen in 2007. However, the yellow circle shows credit spreads widened in Q1. The increase indicates investors are becoming more cautious, with the potential for tariffs and slower economic growth leading to higher credit risk.

Despite the recent rise, the chart shows credit spreads remain low by historical standards. Compared to past periods of market stress, today's spread levels suggest financial conditions are still relatively stable and liquidity is plentiful, a reflection of the U.S. economy's overall strength. While investors are concerned about policy uncertainty and the potential for slower growth, the market is not signaling financial distress.



Source: Federal Reserve

Quarterly Performance

The return for the Hahn Capital Management Mid-Cap Value Composite was **-0.51% gross of fees and -0.76% net of fees in the 1st quarter of 2025**. For the quarter, we outperformed our primary benchmark, the Bloomberg Mid-Cap Total Return Index, by 3.05 percentage points gross of fees and outperformed by 2.80 percentage points net of fees.

For the quarter, in the representative account, sector allocations to Real Estate, Information Technology, Financials, Consumer Discretionary, Healthcare and cash contributed, while those to Utilities, Energy, Consumer Staples, Communication Services, Industrials and Materials detracted from performance

In the representative account, the most significant relative performers during the quarter were Genpact (G), InterContinental Exchange (ICE), Roper Technologies (ROP), and Fidelity National Financial (FNF), while the most significant underperformers were Emcor Group (EME), Ross Stores (ROST), Brown-Forman (BF/B), Agilent (A), and Bio-Techne (TECH).

Hahn Capital Quarterly Performance Attribution – 1Q 2025

LINKED PERFORMANCE BY SECTORS											
BENCHMARK: Bloomberg Mid-cap Value TR Index											
PORTFOLIO: Representative 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
Financials	22.93%	20.84%	2.09%	7.34%	-1.21%	8.55%	0.03%	1.89%	1.92%	0.00%	1.92%
Information Technology	6.39%	7.91%	-1.52%	0.77%	-9.22%	9.99%	0.10%	0.65%	0.75%	0.01%	0.76%
Real Estate	16.24%	7.83%	8.40%	3.40%	4.01%	-0.61%	0.40%	-0.10%	0.30%	-0.01%	0.29%
Industrials	19.08%	9.70%	9.38%	-5.07%	-3.82%	-1.25%	-0.31%	-0.24%	-0.55%	0.00%	-0.55%
Health Care	11.82%	7.47%	4.35%	-7.50%	-2.93%	-4.57%	-0.09%	-0.54%	-0.63%	0.00%	-0.63%
Consumer Discretionary	4.12%	9.23%	-5.10%	-15.25%	-4.29%	-10.95%	0.20%	-0.51%	-0.31%	0.00%	-0.31%
Materials	0.00%	7.62%	-7.62%	0.00%	-1.99%	1.99%	0.12%	0.00%	0.12%	0.00%	0.12%
Communication Services	6.08%	2.15%	3.93%	-0.14%	2.99%	-3.13%	0.14%	-0.20%	-0.06%	0.00%	-0.06%
Energy	2.60%	5.83%	-3.23%	0.41%	1.94%	-1.53%	-0.06%	-0.06%	-0.12%	0.00%	-0.12%
Consumer Staples	2.53%	9.32%	-6.79%	-10.09%	2.49%	-12.58%	-0.22%	-0.33%	-0.55%	0.00%	-0.55%
Utilities	0.00%	12.09%	-12.09%	0.00%	7.37%	-7.37%	-0.94%	0.00%	-0.94%	0.00%	-0.94%
Cash	8.21%	0.00%	8.21%	1.08%	0.00%	1.08%	0.10%	0.00%	0.10%	0.00%	0.10%
Total Portfolio - Net of Fees				-0.49%	-0.52%	0.03%	-0.53%	0.56%	0.03%	0.00%	0.03%

TOP 10 PORTFOLIO HOLDINGS

As of 03/31/2025

Company	% of Assets	Sector	Industry
CBRE GROUP INC - A	5.8%	Real Estate	Real Estate Management & Devel
VIRTU FINANCIAL INC-CLASS A	5.5%	Financials	Capital Markets
INTERCONTINENTAL EXCHANGE IN	5.0%	Financials	Capital Markets
WABTEC CORP	4.9%	Industrials	Machinery
GENPACT LTD	4.6%	Industrials	Professional Services
EURONET WORLDWIDE INC	4.3%	Financials	Financial Services
EMCOR GROUP INC	4.1%	Industrials	Construction & Engineering
SEI INVESTMENTS COMPANY	4.0%	Financials	Capital Markets
ROSS STORES INC	3.8%	Consumer Discretionary	Specialty Retail
FIDELITY NATIONAL FINANCIAL	3.8%	Financials	Insurance

HCM COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 03/31/2025	1Q 2025	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	-0.51%	5.34%	3.13%	14.66%	7.81%	7.66%	12.99%
HCM Net of Fees	-0.76%	4.31%	2.11%	13.56%	6.74%	6.60%	11.90%
Bloomberg Mid Cap Total Return Index	-3.56%	1.71%	4.09%	16.59%	9.47%	9.19%	11.27%

[Link to: HCM Performance Disclosures](#)

PORTFOLIO ACTIVITY

New Positions

There were no new positions added during the quarter.

Positions Added

There were no positions added to during the quarter

Positions Reduced

There were no positions reduced during the quarter.

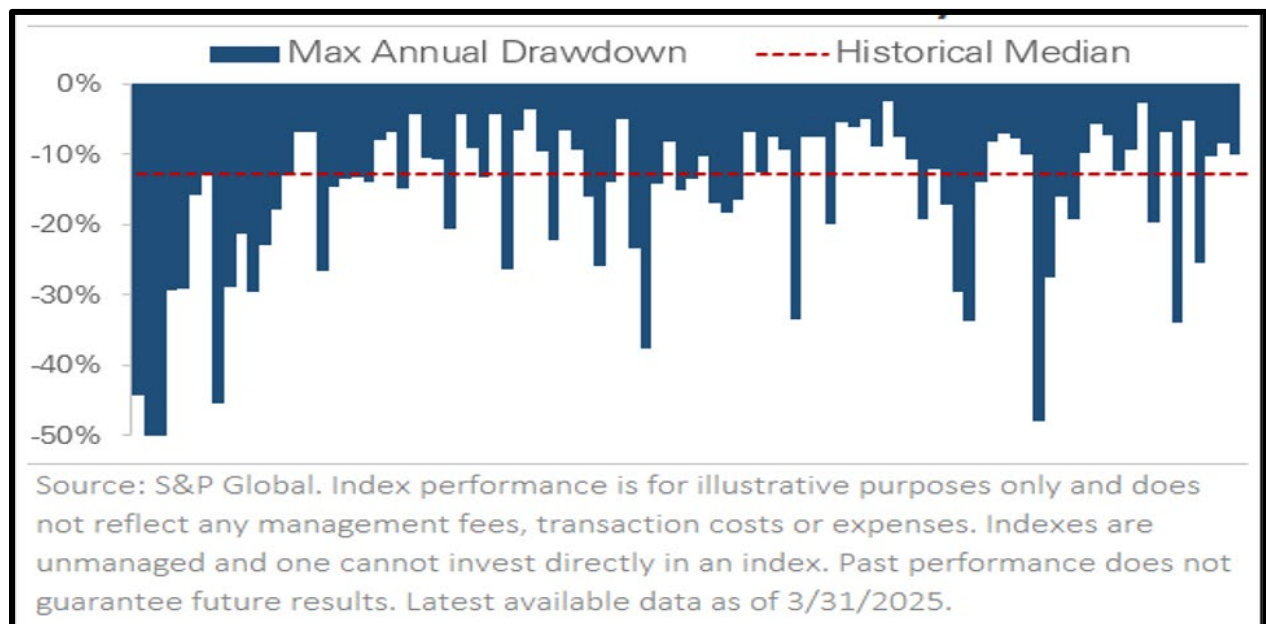
Positions Sold

There were no positions sold during the quarter.

Outlook

Economic & Market Outlook

Market volatility has generally been quite subdued over the past two years, with mega-cap earnings and reinvestment having driven stock averages higher and earnings multiples expanding. Periods of enthusiasm often lead to recalibration. The chart below puts the Q1 market volatility and selloff into perspective. It uses almost a century of S&P 500 price data to show that market pullbacks like this year are not just common—they're a commonly recurring part of investing. The chart graphs annual drawdowns, or the largest peak-to-trough decline within each calendar year. The bars show the S&P 500 experienced a pullback nearly every year, with a median intra-year drawdown of -13%. Since 1928, the S&P 500 has experienced a drawdown of -5% or more in 91 out of 98 calendar years, including 2025.



Source: S&P Global

Despite these frequent and sometimes severe drawdowns, the S&P 500 has delivered strong returns over nearly a century. This is despite wars, recessions, inflation spikes, financial crises, and a global pandemic. The upward trajectory is driven by economic growth, innovation, and corporate earnings growth.

Staying invested through ups and downs has consistently been one of the most effective strategies for building wealth over time. Market declines can feel unsettling in the moment, but history shows the powerful effect of compounding returns over time.

Despite the recent volatility, we remain quite bullish in the prospects for our portfolio companies, all of which are market leaders with industry leading management teams, business models and balance sheets. In addition, mid-cap valuations have lagged their large cap peers for one of the longest periods on record, implying a much greater upside for our portfolio compared to the broad market in the years ahead. We continue to find highly attractive investment opportunities across a wide spectrum of industries with excellent long-term potential for superior returns. We wish you the very best in 2025 and thank you for your continued support.



John Schaeffer
President and CIO



Michael Whitfield
Dir. of Research and Co-Portfolio Manager