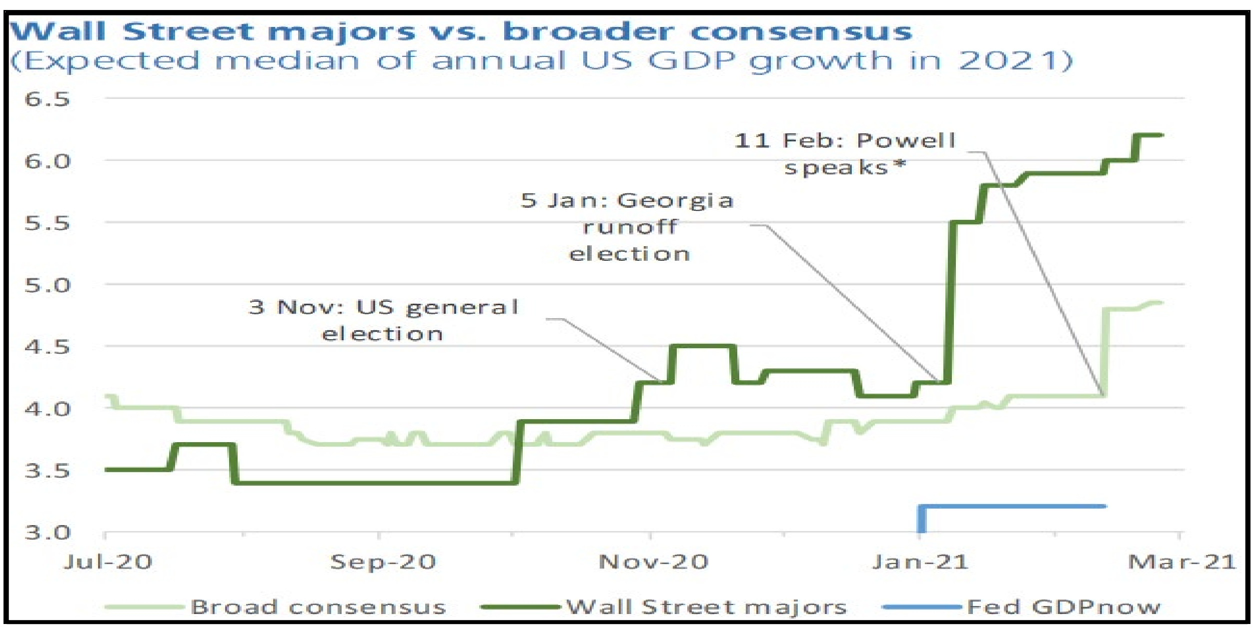
HAHN CAPITAL MANAGEMENT, LLC
REGISTERED INVESTMENT ADVISORS

Mid Cap Equity Strategy **1st Quarter 2021 Commentary**

We're Going To Party Likes it 1999

The New Year started with dramatic political events, most notably the violent siege of the US Capitol on 6 January by supporters of former President Donald Trump. The tumult and its political fallout dominated the news cycle for several weeks. However, given that the actual handover of power was never really in question, investors largely ignored the upheaval. Instead, market participants focused on the economic aspects of these developments – and they did so long before the accompanying noise began to subside. The key date in this respect was 5 January, the day before the Capitol riot. On that day, the Democrats won the two U.S. Senate seats on offer in runoff elections in Georgia, thus gaining effective control of both chambers of Congress. This victory meant that President Joe Biden's new administration, which took office less than three weeks later, would be able pass generous fiscal spending programs (and potentially other legislation including "green" infrastructure) with relative ease. Indeed, even before officially taking office, Biden quickly announced an economic relief package worth USD 1.9 trillion, or about 9% of US gross domestic product. While talks on the plan continue, seeking common ground with the Republicans is now merely an option for the Democrats, rather than a requirement. Given the way the package was constructed, bipartisanship was clearly a tertiary concern. Nonetheless the President and his congressional allies can ultimately go ahead on their own if they can manage their way past intra-party squabbling and turf wars.

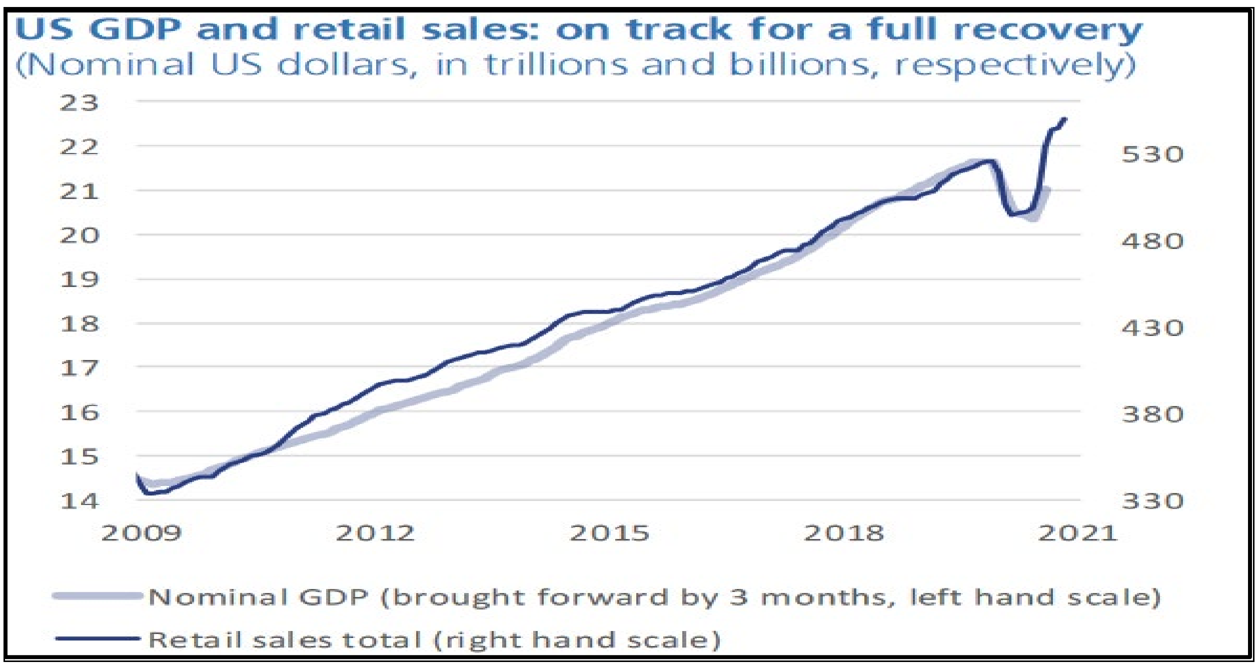
Reflecting this fact, US inflation expectations instantly jumped above the targeted average level of 2% per year on January 5th. The longer-term inflation compensation instruments followed on the same path, albeit in a more moderate manner. Projections for US economic growth were also immediately revised higher by most investment banks. The broader consensus and the Wall Street investment houses both expect US economic growth this year to approach Chinese GDP growth levels and come in far above the level suggested by the Atlanta Federal Reserve's growth proxy.



Source: The Federal Reserve Bank of Atlanta

Investors have reacted to the potential for economic normalization, including a return of moderate inflation in a perfectly logical way, by continually bidding up asset prices. Consequently, equity markets now trade in a range that discounts a very benign economic outlook, attaching full credibility to US economic policy in general and to the Federal Reserve in particular. We continue to maintain that, as long as this continues to be the case, financial markets should generally remain buoyant, at least over the medium term, and any drawdowns should prove temporary – like the brief downturn in January.

The U.S. economy is on a tear, reflecting what appears to be both a sustainable and durable recovery in demand across the vast majority of economic sectors. US retail sales in January jumped 5.3% from December, compared to a consensus forecast for 1.1% gain. The January gain is most welcome because much of it occurred amid the disconcerting media coverage of the Capitol riots, and before the announcement (let alone the passage) of the latest USD 1.9 trillion pandemic relief bill (although it includes the impact of the USD 464 billion in handouts included in the last bill, passed in December of last year). These developments bode very well for overall economic growth going forward, as retail sales tend to lead and match the overall performance of gross domestic product by about three months.

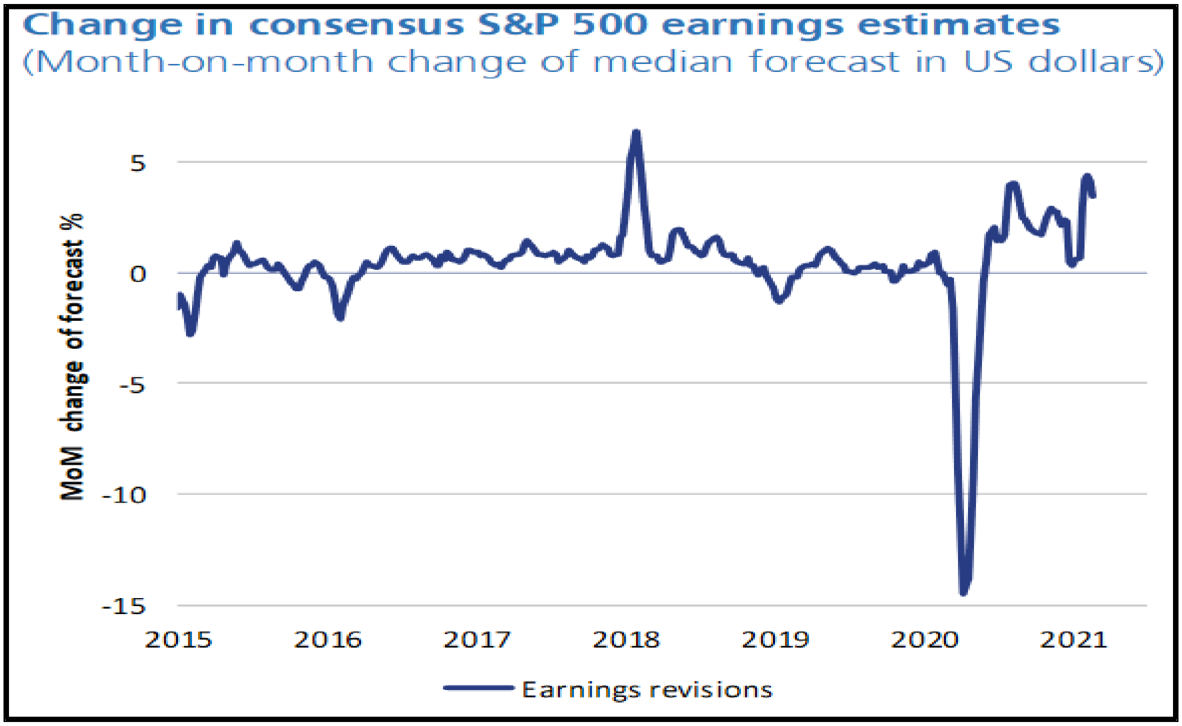


Source: U.S. Department of Commerce

Adding even more positivity to the rosy top-down macro picture, the most recent corporate earnings season has triggered notable upward revisions of bottom-up expectations, after underestimating the hitherto strong rebound of last year. With about four-fifths of the companies having disclosed their fourth quarter earnings, the S&P 500 index earnings per share (EPS) rose about 6% year-on-year, compared to a consensus prediction for a 25% drop. A record 80% of the individual index members beat consensus forecasts, with all sectors surprising on the upside. About 70% of the companies also beat expectations for revenue per share, which rose close to 4% year-on-year, compared to a flat forecast.

As a result, analysts have had to revise higher their forecasts for the full-year. In fact, the subsequent month-on-month rise in the consensus revenue forecasts for the S&P 500 was the biggest since 2012 and comparable to the recovery from the Global Financial Crisis of 2008/2009.

The surge in expected full-year EPS was the biggest since the corporate tax cuts at the beginning of Donald Trump's presidency.



Source: Bloomberg

The message has come through to equity markets loud and clear: the economy is open for business, corporate investments will rise accordingly with a backdrop of continued massive fiscal and monetary stimulus paving the way for a wave of mergers & acquisitions, improving employment and ultimately consumer demand.

Quarterly Performance

Our 1st quarter 2021 return for the Hahn Capital Management Mid-Cap Value Composite was 10.79% gross of fees. For the quarter, we underperformed our primary benchmark, the Russell Mid-Cap Value Index, by 2.26 percentage points. For the quarter, sector allocations to Utilities (no holdings), Consumer Staples (no holdings), Healthcare and Financials (relative to the benchmark) contributed, while those to Information Technology, Consumer Discretionary, Energy (no holdings), Real Estate, Materials, Communication Services, Industrials and Cash detracted. The most significant relative performers during the quarter were SLM Corp.(SLM), Laboratory Corporation of America (LH), Albemarle (ALB), CBRE Group (CBRE), and EastWest Bancorp (EWBC), while the most significant underperformers were Ross Stores (ROST), Euronet Worldwide (EEFT), Equinx (EQIX), and Carters, Inc. (CRI).

Hahn Capital Quarterly Performance Attribution – 1Q 2021

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
Real Estate	15.10%	9.81%	5.28%	8.35%	10.30%	-1.95%	-0.14%	-0.33%	-0.47%	0.00%	-0.47%
Industrials	16.55%	17.22%	-0.67%	12.52%	13.66%	-1.14%	0.01%	-0.18%	-0.17%	0.00%	-0.17%
Financials	21.31%	15.84%	5.47%	27.25%	18.80%	8.44%	0.29%	1.59%	1.88%	0.01%	1.89%
Information Technology	16.87%	9.71%	7.15%	-0.80%	10.08%	-10.88%	-0.22%	-1.94%	-2.16%	0.00%	-2.16%
Health Care	12.62%	7.67%	4.94%	10.01%	2.68%	7.33%	-0.56%	0.99%	0.43%	0.00%	0.43%
Consumer Discretionary	10.76%	12.39%	-1.63%	6.00%	16.90%	-10.90%	-0.05%	-1.20%	-1.25%	0.01%	-1.24%
Materials	3.36%	7.61%	-4.24%	-0.72%	14.67%	-15.39%	-0.10%	-0.48%	-0.58%	0.00%	-0.58%
Energy	0.00%	4.14%	-4.14%	0.00%	30.37%	-30.37%	-0.64%	0.00%	-0.64%	0.00%	-0.64%
Communication Services	1.36%	4.49%	-3.13%	1.62%	14.88%	-13.26%	-0.04%	-0.20%	-0.24%	0.00%	-0.24%
Consumer Staples	0.00%	3.81%	-3.81%	0.00%	8.82%	-8.82%	0.16%	0.00%	0.16%	0.00%	0.16%
Utilities	0.00%	7.30%	-7.30%	0.00%	3.65%	-3.65%	0.74%	0.00%	0.74%	0.00%	0.74%
Cash	2.09%	0.00%	2.09%	0.03%	0.00%	0.03%	-0.28%	0.00%	-0.28%	0.00%	-0.28%
Total Portfolio				**10.49%**	**13.05%**	**-2.56%**	**-0.82%**	**-1.75%**	**-2.57%**	**0.01%**	**-2.56%**

Relative Performance by Stock – Quarter Ended March 31, 2021

Quarter Ended 03/31/2021 - 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	EAST WEST BANCORP INC	0.91%	1	ROSS STORES INC	-0.87%	1	Financials	1.89%	1	Information Technology	-2.16%
2	SLM CORP	0.89%	2	EURONET WORLDWIDE INC	-0.77%	2	Utilities	0.74%	2	Consumer Discretionary	-1.24%
3	LABORATORY CRP OF AMER HLDGS	0.82%	3	EQUINIX INC	-0.58%	3	Health Care	0.43%	3	Energy	-0.64%
4	CBRE GROUP INC - A	0.61%	4	CARTER'S INC	-0.53%	4	Consumer Staples	0.16%	4	Materials	-0.58%

HCM MID-CAP VALUE COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 03/31/2021	1Q 2021	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	10.79%	68.49%	12.89%	13.22%	10.00%	11.64%	14.12%
HCM Net of Fees	10.54%	67.01%	11.78%	12.12%	8.93%	10.55%	13.02%
Russell Mid Cap Value Index	13.05%	73.76%	10.70%	11.60%	9.34%	11.06%	11.57%
Russell Mid Cap Index	8.14%	73.64%	14.73%	14.68%	11.65%	12.47%	11.85%

Link to: HCM Performance Disclosures

PORTFOLIO ACTIVITY

New Positions

SBA Communications Corp. (SBAC) – We initiated a position in SBA Communications during the quarter. SBA Communications (SBAC) is a tower REIT which owns and operates wireless communications towers mainly in the U.S. SBAC leases antenna space on its multi-tenant towers to major wireless service providers under long-term contracts with annual escalators. The long-term and repetitive nature of the site leasing business (93% of rev.) maintains a stable, recurring cash flow stream with low cyclicality. SBAC is uniquely positioned with a portfolio of towers in exclusive locations servicing high-density metropolitan areas at scale. Tower supply constraints enable SBAC's strong management team to set favorable contract terms and generate strong tower returns. Steady tower cash flows enable management to maintain a strong balance sheet, with slightly higher leverage at investment grade level interest rates.

Looking ahead, SBAC stands to benefit from a 5- to 10-year 5G network buildout. Domestic demand will be driven by spectrum auctions, site upgrades and new leases as major wireless carriers invest in 5G infrastructure and technology. The latest C-band auction has already spurred broad 5G network investment activity. In addition, Dish is slated to build its own 5G network as part of the T-Mobile/Sprint merger agreement. International demand is expected to recover and grow as wireless infrastructure continues to improve and expand. We expect these secular growth drivers to amplify SBAC's resilient and consistent business model, resulting in topline, margin and valuation expansion over time.

Positions Increased

There were no positions increased during the quarter.

Positions Reduced

Keysight Technologies (KEYS) – We reduced our position in Keysight during the quarter as the position size approached our 5% limit. Keysight has been on a multi-year run of outperformance relative to the market due to the global roll-out of 5G infrastructure and associated wireless carrier investments in many of the tools provided by Keysight to manage the quality and integrity of this mission critical technology moving forward. Keysight has had solid results with several significant acquisitions, adding capabilities to its core business of providing tools and software to analyze wireless communications and radio frequency semiconductor design and performance. Keysight has done an admirable job investing in these businesses to create long-term market advantage and technological superiority over its peers. The really great news is that 5G-related investment and the "electronification" of the automobile likely won't peak for another 5-7 years, providing Keysight with an exceptional demand tailwind to its impressive portfolio of customer solutions.

SLM Corp. (SLM) – We reduced our position in Sallie Mae as the position size approached our 5% limit. Sallie Mae, despite a challenging interest rate environment, has continued to execute its business model at a very high level. It has gained market share in each of the eight quarters during which we have owned it and is the *de facto* gold standard in private higher education lending.

Combined with savvy management of its balance sheet and opportunistic share repurchases, book value has compounded at a double-digit pace, and the company retains one of the highest return on equity metrics for any net interest margin lender we follow. We have more than doubled our money in a little more than two years into holding this company.

Albemarle Corp. (ALB) – We reduced our position in Albemarle in order to lock in some profits on this extraordinarily volatile investment. Albemarle is the world's leading producer of battery grade lithium and is in an absolutely vital spot in the future of the "green" supply chain. If the very aggressive electric vehicle penetration targets of the future are to be met, Albemarle will be required to ramp up lithium production to a multiple of its current rate, presenting a very attractive long-term investment case for the company. The short-term volatility in lithium prices has presented a headwind, however, and the stock will likely continue to be volatile in the near- to intermediate term. We opportunistically reduced the position and will continue to trade this position more aggressively than most others in our portfolio.

First Republic Bank (FRC) – We reduced our position in First Republic as its premium valuation among bank stocks argued for a more normalized position relative to our longstanding overweight. First Republic has appreciated in value more than 5-fold over our 9+-year holding period and is now the premier private bank in the United States by any measure. Its credit quality metrics remain the industry gold standard and it continues to grow its asset base at the mid-teens percentage, despite the fact that it is now one of the top ten banks in the country by assets.

East West Bank Corporation (EWBC) – We reduced our position in East West Bank as the position approached our 5% position limit. East West continued to cement its position as the number one bank in the country servicing Asian and Asian American customers. East West boasts a strong balance sheet, top decile asset growth and most importantly, a defensible niche in the banking industry among a customer group that is outgrowing the rest of the population.

With a less challenging yield curve environment and excellent credit quality, we continue to expect East West to perform at a high level for years to come.

Positions Sold

There were no positions sold during the quarter.

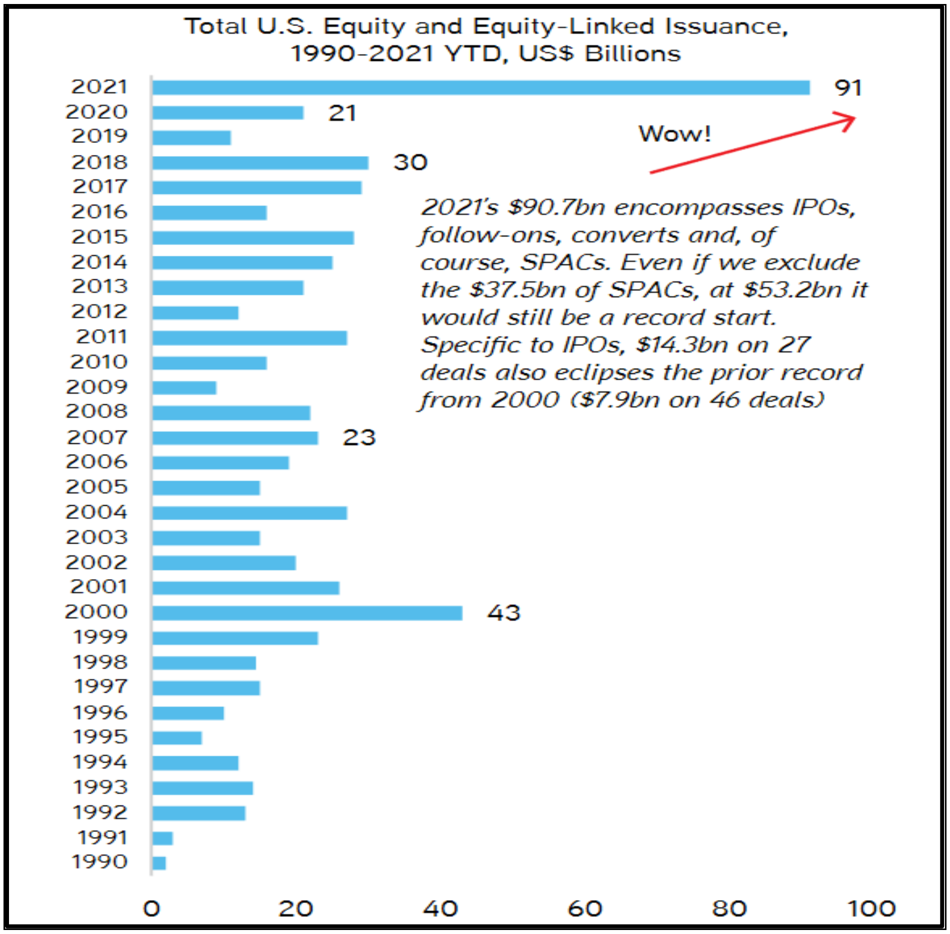
Outlook

In terms of what could derail our thesis (of a very favorable equity investing backdrop), we believe the single biggest risk is that something unsettles the bond market, as suggested by the Yield Gap versus the 10 Year Treasury in the table below. Were that to occur, valuations could prove quite challenging. What could do that? Most likely it would be a potential misstep by the Federal Reserve, or one of its global peers around tapering in the second half of this year. Another risk could be if inflation increased faster than the market currently anticipates. We don't see either the Fed making a policy mistake or inflation running rampant as a substantial risk in the near-term.

VALUATION METRIC	S&P 500 AGGREGATE INDEX	
	CURRENT	HISTORIC PERCENTILE
U.S. MARKET CAP/GDP	239%	100%
EV/SALES	3.0X	100%
EV/EBITDA	15.9X	100%
FORWARD P/E	22.3X	96%
CASH FLOW YIELD	6.1%	93%
PRICE/BOOK	3.9X	92%
CYCLICALLY ADJUSTED P/E	29.0X	91%
FREE CASH FLOW YIELD	3.8%	60%
YIELD GAP VS. 10-YEAR UST	367 Basis Points	37%
MEDIAN METRIC		92%

Source: S&P Global, data since 1976.

Are there areas of the market that appear frothy or overvalued? Yes, as we have discussed in past newsletters, software and a few other technology industry valuations are, even in the current low interest rate environment, absurd. The SPAC market is a classic investment bubble with $37.5 billion of capital raised in the first quarter of 2021 alone (see chart below). That capital will be chasing already richly valued private companies in a growing arms war with the IPO market and private equity sponsors. Are financial conditions too attractive in the current environment? We would argue that there aren't enough unicorns to go around for even a small portion of SPACs to turn out well for their investors, but time will tell the story and we remain skeptical.



Source: Goldman Sachs

From a portfolio construction perspective, we advocate for more of a cyclical bias that favors pricing power and is connected to global growth and hard assets. Financials, Real Estate and Industrial should all benefit as should infrastructure and related service industries.

We never tire of the intellectual challenge of investing in ever evolving equity markets on your behalf. Despite the challenges represented to our organization by the Covid-19 pandemic, we have learned so much and gained invaluable experience and insight into this unique investing environment. It has been a fascinating period, and we are, as always, honored to be the faithful stewards of your capital. Best Wishes on a healthy and prosperous balance of the year.

Sincerely,

John Schaeffer
President and CIO

Michael Whitfield
Dir. of Research and Co-Portfolio Manager