

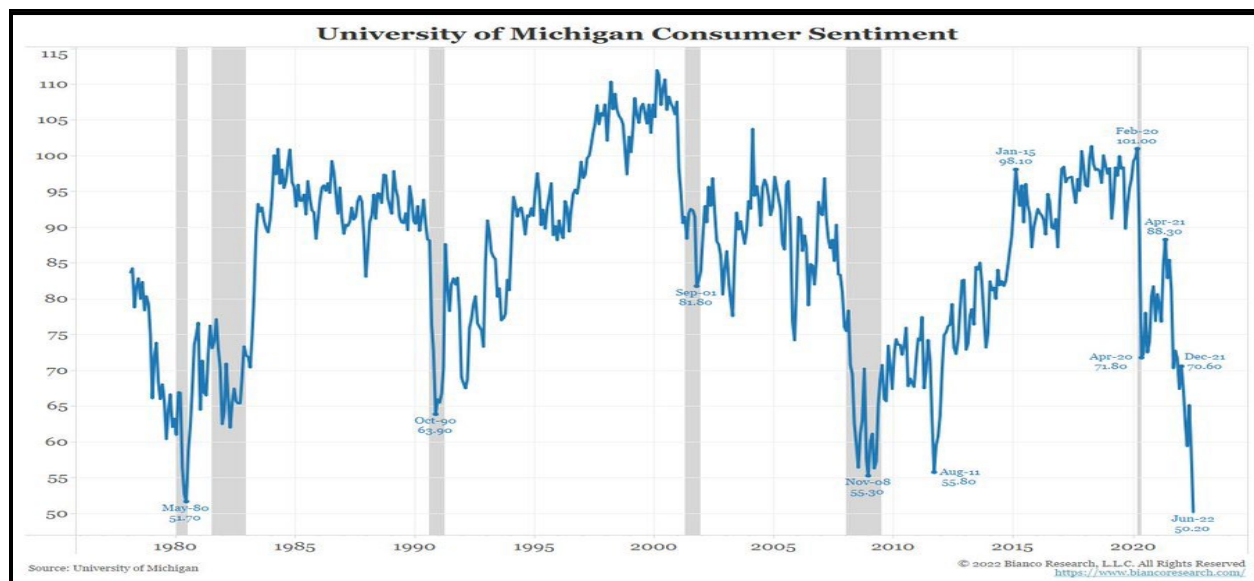
Mid Cap Equity Strategy

2nd Quarter 2022 Commentary

Recession: Are We There Yet?

In our many conversations with clients over the past 3 months, by far the most frequently asked question that we fielded is captioned above. Are we there yet? Meaning, have investor expectations, as embodied by the sell-off in equities, reached a point where the steep correction where underlying fundamentals will be supportive of the stock market in the period ahead? In our 1st quarter letter, we explained in depth how the Federal Reserve Bank had created the inflationary pressures against which they were fighting, the irony of which was lost on no one. Fast forward three months and it now appears that the Federal Reserve Bank is continuing to tighten monetary policy as the economy has moved to the brink of recession. It would surprise no one, except for perhaps the Federal Open Market Committee (FOMC), if real GDP were again negative in the 2nd quarter. We'll start with the University of Michigan Consumer Sentiment Survey which clearly indicates a pronounced and rapid deterioration on a scale not seen since the inception of the survey in 1976. Not 1980, the 1987 stock market crash, September 11, the Iraq War, the Great Financial Crisis, or the COVID lockdowns in 2020.

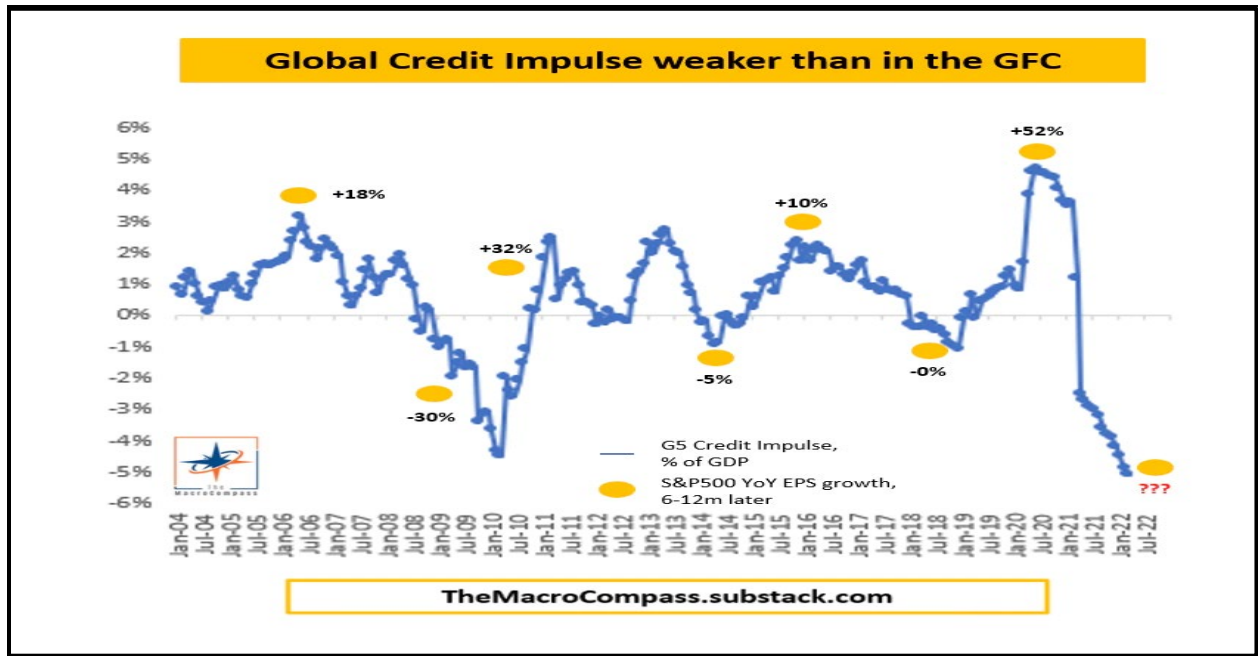
Everyone is Sad about Inflation & Their Favorite Technology Stocks



We view consumer sentiment as an important but largely coincident indicator of economic activity. It measures the financial pressure placed on consumers by a combination of inflation in everything they need to buy and the relative deflation they have seen in many of their assets. The more discretionary the product or service being contemplated for purchase, the greater the impact from this type of sentiment. We should not expect a very good market for new/used cars, boats and recreational vehicles over the next 12 months, for example.

The news gets worse, however. One of our favorite indicators for the next 12-18 months of global economic activity comes courtesy of independent research firm The Macro Compass. The G5 Liquidity Impulse measures the pace of change of credit creation in the five largest economies worldwide and it typically serves as a very reliable leading indicator (6-15 months lead time) for economic growth and the performance of several asset classes.

Look Out Below



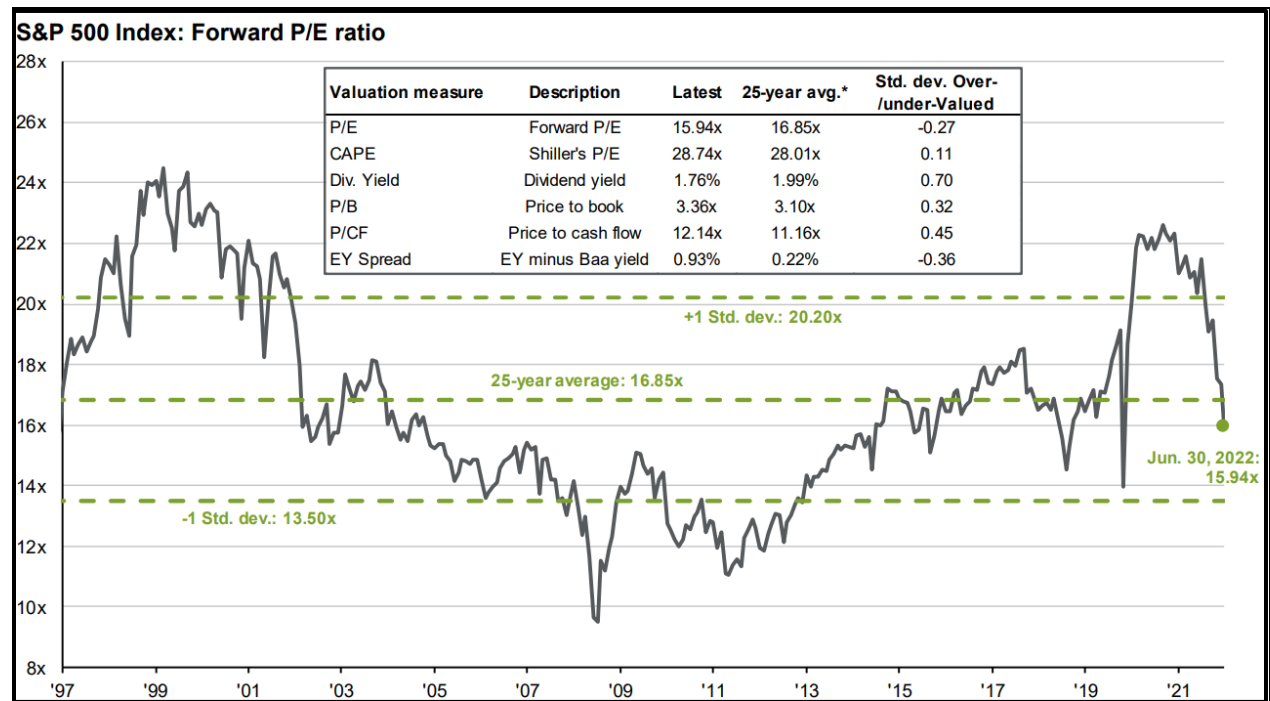
It's important to remember that while global liquidity is indeed rapidly drying up, this is a global measure and the situation in the United States is better than anywhere else in the developed world. The U.S. dollar is still the world's reserve currency; the Fed is the big bully of central banks and its tightening of monetary conditions after an unprecedented period of easing has had, and will continue to have, a greater impact on other developed nations. That having been said, the depth of contraction in liquidity is having an outsized impact on credit costs and will clearly have a significant impact on earnings expectations over the coming quarters.

Sector	2022 Expected	2022 Expected
	Earnings Growth	Earnings % of Index
Industrials	36.6%	8.3%
Energy	32.8%	4.8%
Consumer Discretionary	26.8%	8.6%
Health Care	18.0%	15.4%
Information Technology	15.0%	24.6%
S&P 500	9.0%	100.0%
Utilities	8.4%	2.0%
Materials	7.0%	2.8%
Consumer Staples	6.1%	5.6%
Communication Services	5.6%	11.2%
Real Estate	-12.2%	1.1%
Financials	-18.2%	15.6%

Source: S&P Global

Across the S&P 500 Index, earnings are expected to increase by 9% in 2022. Our view is that this number will decrease substantially as the year progresses. Capital has become more expensive, both debt and equity, and inflation will continue to impact discretionary income, particularly if energy prices remain stubbornly high. Sectors where growth expectations are highest, particularly Industrials, Consumer Discretionary, Health Care and Information Technology appear the most vulnerable to flagging demand. As the chart below shows, based on the consensus, the stock market looks reasonably priced by historical standards, perhaps even a tad cheap. However, that assumption relies on the accuracy of the underlying consensus, which we view as vulnerable in light of recent levels of inflation and significantly tightening credit markets.

Cheap or Expensive: Beauty is in the Eye of the Beholder

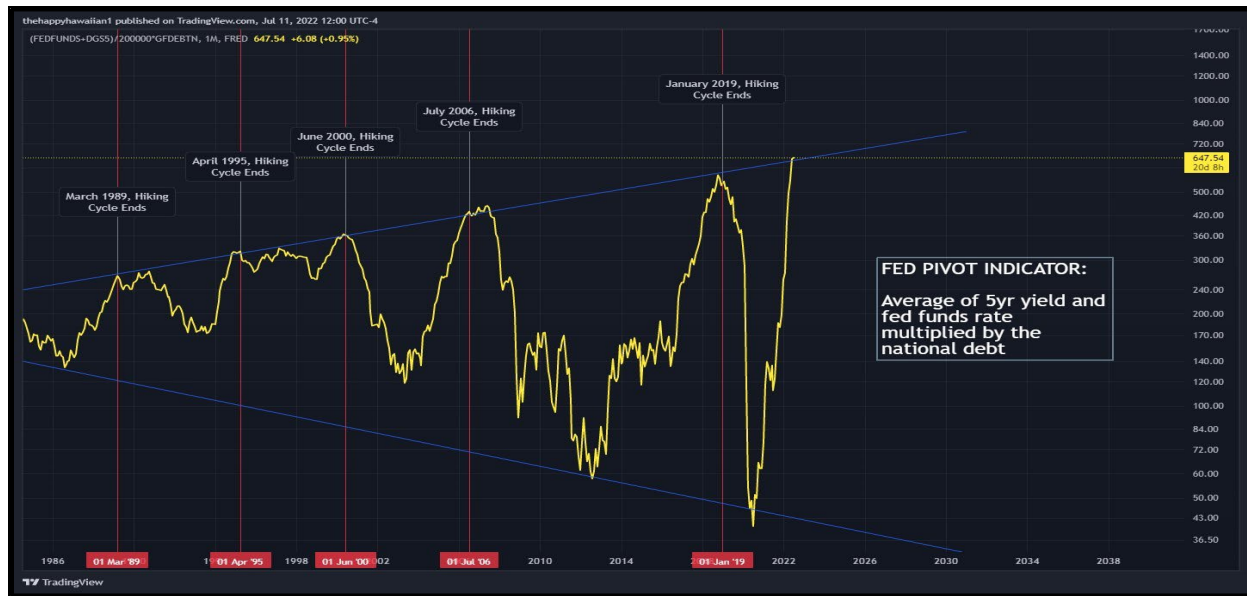


Source: JP Morgan Capital Markets

The Fed has been very direct in their communications with the markets since the beginning of the year, with Chairman Jay Powell and his peers making a forceful case for the need to slow the economy before inflation could become endemic. The result has been a rapid rise in the Fed Funds rate from 0% to 1.75% and at least another 50, if not 75, basis points increase expected in July. Asset prices have adjusted significantly downward and commodity prices have rolled over as well, indicating that at least some of the inflation pressures might start to abate in the 2nd half of 2022. The Fed also realizes that it must walk an economic tightrope in the coming year as it can scarcely afford to keep the Fed Funds rate at elevated levels for very long without cratering the economy.

The Fed Pivot Indicator is essentially a pain measurement scale for the U.S. government's total interest expense. As the national debt has expanded so dramatically over the past 15 years, so has the sensitivity of the government budget to rising interest rates. In addition to having a dual mandate of full employment and price stability the Fed must also act as a babysitter for the national debt, making sure that the total interest expense doesn't cripple the national budget. The Pivot Index has become a very reliable indicator of just how high the Fed has been willing to raise rates before the pain becomes too great on the budget. As you can see, the Fed is already at a maximum pain point, even before the widely expected 50-75 basis point rate hike in July.

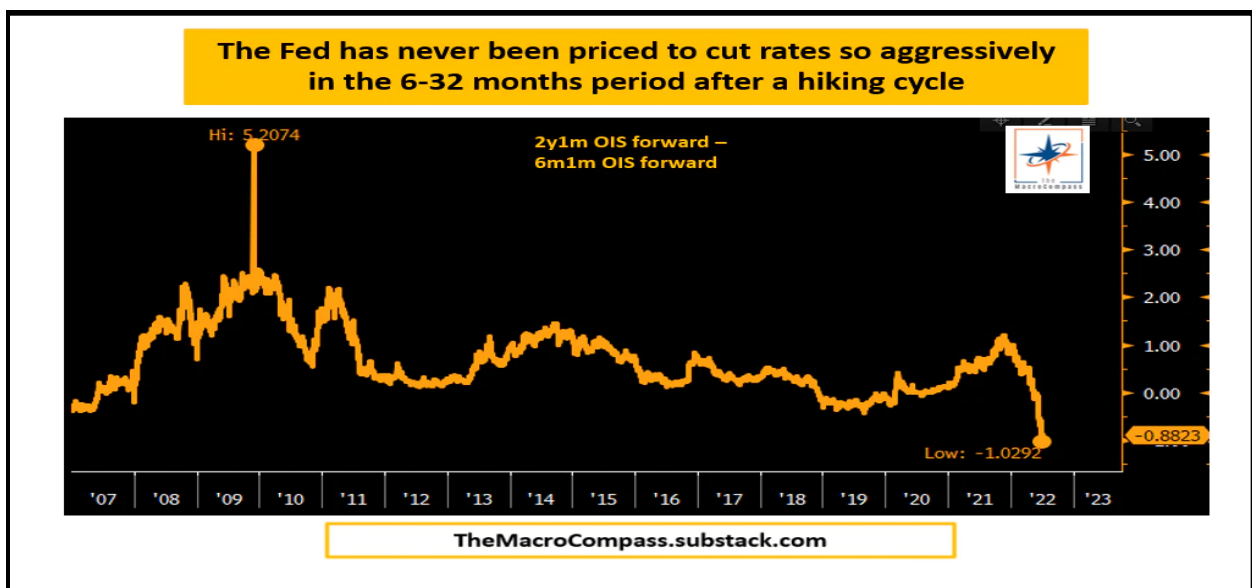
Maximum Pain?



Source: Tradingviews

Indeed, the bond market is already pricing in a Fed capitulation as soon as early 2023. The following chart exhibits the expected amount of rate cuts as embedded in Treasury futures one year from now. The bond market is effectively anticipating 100 basis points of rate cuts in 2023, after peaking above 2.00% in 2022.

Course Reversal for the FED



Perhaps the most striking aspect of the current environment in capital markets is the volatility in expectations that has taken hold in markets. After 10 years of declining volatility in both fixed income and equity markets, the only constant over the past year has been rapidly changes asset market outlooks and associated volatility. It's a great time to be patient and take advantage of dislocations to add value at better purchase prices.

Quarterly Performance

Our 2nd Quarter 2022 return for the Hahn Capital Management Mid-Cap Value Composite was -13.73% gross of fees. For the quarter, we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 0.95 percentage points. The outperformance was driven by stock selection somewhat offset sector selection. Stock selection in Information Technology (Black Knight & Genpact) positively impacted our relative performance. In addition, Albemarle (Materials) and Liberty Media Formula One (Consumer) were positive contributors to performance. The most significant detractors to performance were Virtu Financial, Air Lease, Alexandria Real Estate and Advanced Micro Devices.

Hahn Capital Quarterly Performance Attribution – 2Q 2022

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
Financials	20.66%	16.09%	4.57%	-18.33%	-15.51%	-2.82%	-0.04%	-0.62%	-0.66%	0.00%	-0.66%
Information Technology	20.11%	9.04%	11.07%	-11.33%	-20.04%	8.71%	-0.53%	1.73%	1.20%	0.01%	1.21%
Real Estate	17.35%	11.34%	6.00%	-16.78%	-15.92%	-0.85%	-0.11%	-0.14%	-0.25%	0.00%	-0.25%
Industrials	11.88%	13.84%	-1.96%	-12.90%	-14.86%	1.96%	0.02%	0.22%	0.24%	0.00%	0.24%
Health Care	11.69%	7.70%	3.99%	-8.85%	-12.04%	3.20%	0.11%	0.36%	0.47%	0.00%	0.47%
Consumer Discretionary	7.97%	9.23%	-1.27%	-19.49%	-16.53%	-2.96%	0.03%	-0.23%	-0.20%	-0.01%	-0.21%
Materials	3.05%	8.12%	-5.08%	-5.35%	-17.37%	12.03%	0.10%	0.40%	0.50%	0.00%	0.50%
Communication Services	1.89%	3.73%	-1.84%	-9.12%	-25.36%	16.24%	0.24%	0.31%	0.55%	0.00%	0.55%
Energy	0.21%	7.93%	-7.72%	1.75%	-6.82%	8.56%	-0.63%	0.14%	-0.49%	0.00%	-0.49%
Consumer Staples	0.00%	4.87%	-4.87%	0.00%	-8.95%	8.95%	-0.24%	0.00%	-0.24%	0.00%	-0.24%
Utilities	0.00%	8.10%	-8.10%	0.00%	-5.53%	5.53%	-0.68%	0.00%	-0.68%	0.00%	-0.68%
Cash	5.20%	0.00%	5.20%	0.19%	0.00%	0.19%	0.69%	0.00%	0.69%	0.00%	0.69%
Total Portfolio				-13.55%	-14.68%	1.13%	-1.04%	2.17%	1.13%	0.00%	1.13%

Relative Performance by Stock – Quarter Ended June 30, 2022

Quarter Ended 06/30/2022 - Portfolio vs Russell Midcap Value Index											
Top Four Holdings			Bottom Four Holdings			Top Four Sectors			Bottom Four Sectors		
Total Attribution			Total Attribution			Total Attribution			Total Attribution		
1	BLACK KNIGHT INC	1.00%	1	VIRTU FINANCIAL INC-CLASS A	-0.97%	1	Information Technology	1.21%	1	Utilities	-0.68%
2	GENPACT LTD	0.55%	2	AIR LEASE CORP	-0.29%	2	Not Classified	0.69%	2	Financials	-0.66%
3	ALBEMARLE CORP	0.38%	3	ALEXANDRIA REAL ESTATE EQU	-0.27%	3	Communication Services	0.55%	3	Energy	-0.49%
4	LIBERTY MEDIA CORP-LIBERTY-C	0.30%	4	ADVANCED MICRO DEVICES	-0.21%	4	Materials	0.50%	4	Real Estate	-0.25%
Year-to-Date Ended 06/30/2022 - Portfolio vs. Russell Midcap Value Index											
Top Four Holdings			Bottom Four Holdings			Top Four Sectors			Bottom Four Sectors		
Total Attribution			Total Attribution			Total Attribution			Total Attribution		
1	JACOBS ENGINEERING GROUP INC	0.54%	1	CBRE GROUP INC - A	-0.53%	1	Industrials	0.95%	1	Energy	-2.23%
2	BECTON DICKINSON AND CO	0.46%	2	ROSS STORES INC	-0.39%	2	Not Classified	0.68%	2	Real Estate	-1.58%
3	EURONET WORLDWIDE INC	0.45%	3	PVH CORP	-0.39%	3	Communication Services	0.67%	3	Utilities	-0.95%
4	LIBERTY MEDIA CORP-LIBERTY-C	0.43%	4	ALEXANDRIA REAL ESTATE EQU	-0.38%	4	Materials	-0.05%	4	Consumer Discretionary	-0.77%

HCM MID-CAP VALUE COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 06/30/2022	2Q 2022	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	-13.73%	-13.10%	6.02%	8.09%	7.30%	10.72%	13.31%
HCM Net of Fees	-13.98%	-14.00%	4.97%	7.03%	6.24%	9.64%	12.21%
Russell Mid Cap Value Index	-14.68%	-10.00%	6.70%	6.27%	7.16%	10.62%	10.96%
Russell Mid Cap Index	-16.85%	-17.30%	6.59%	7.96%	8.04%	11.29%	11.01%

[Link to: HCM Performance Disclosures](#)

PORTFOLIO ACTIVITY

New Positions

Occidental Petroleum (OXY) – We initiated a position in Occidental Petroleum during the quarter. Oxy is an integrated oil and gas company with interests in exploration, production, transportation and refining. Like many oil and gas companies, Oxy has excellent operational leverage to structurally higher oil and gas prices, our argument for which is in the outlook portion of this newsletter. Our team has come around to the view that, primarily due to past underinvestment, high cost of capital and a hostile regulatory and legislative backdrop, that energy markets will remain structurally supply-constrained for the foreseeable future. Oxy is, in our view, the best combination of risk and reward to get exposure to our thesis on supply.

Positions Increased

There were no positions increased during the quarter.

Positions Reduced

There were no positions reduced during the quarter

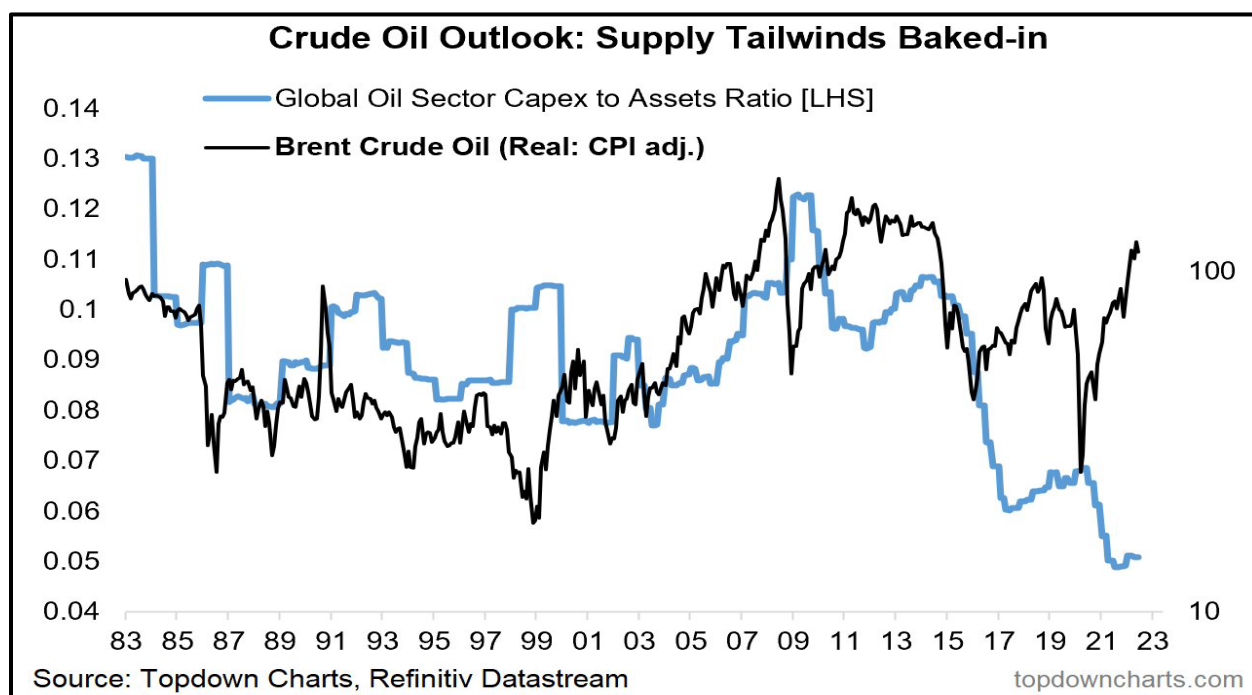
Positions Sold

There were no Positions sold during the quarter

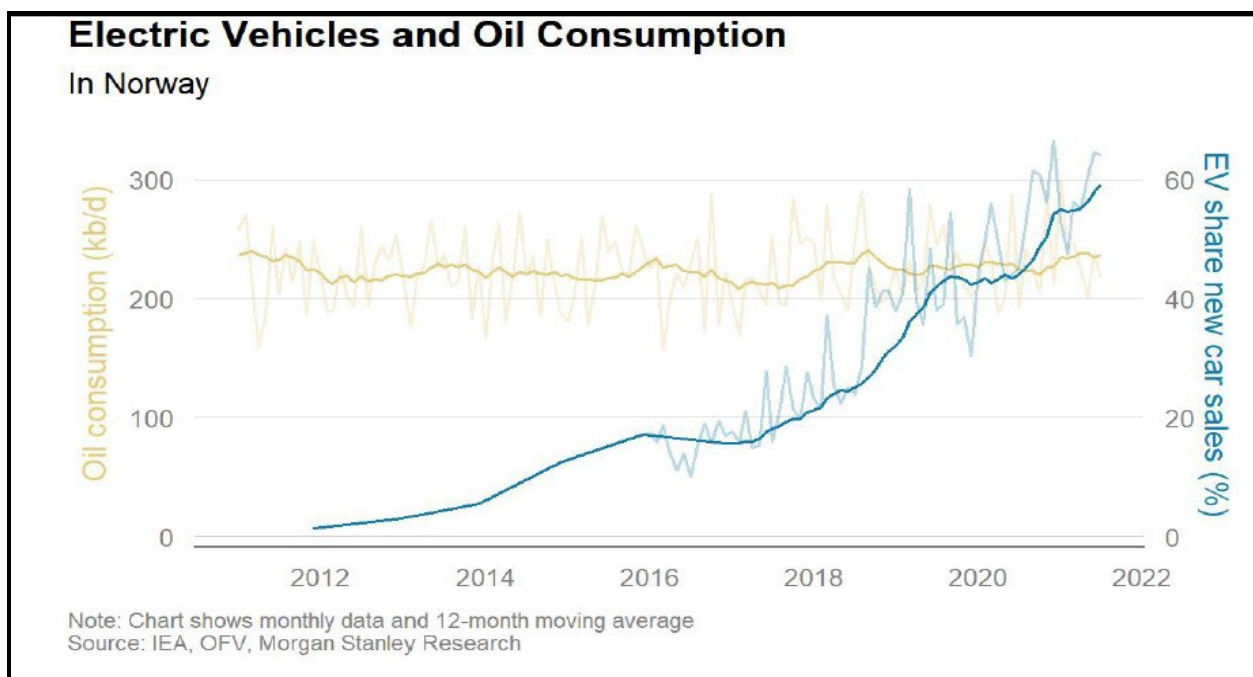
Outlook

The stock market has been a bit of a minefield in 2022 with the volatility of earnings expectations, company-specific risk factors and rapidly moving and illiquid credit markets contributing to individual stock volatility that we have not seen in recent years.

For instance, it's now abundantly clear that Information Technology stocks were not only overpriced over the last several years but were also overearning (unsustainable margins and demand). Now that the Information Technology sector has corrected by 30% just this year, they are surely better bargains than in 2021, but risks remain, especially to their revenue and earnings outlook. The one area where we have added exposure is Energy due to what we would characterize as a structurally supply-constrained market with additional upward pressure from a deteriorating geo-political environment. The biggest factor in our reasoning around structural supply constraints is well represented by the following chart. Energy sector capital expenditures have collapsed over the past 12 years. There simply has not been enough capital invested to meet rising oil demand. This becomes even more acute when you consider that finding costs continue to rise as incremental supplies will come from areas that have less existing infrastructure and are more expensive to access.



One of the most important tests of our thesis revolved around the assumption that as the world moves to a greater proportion of renewables and electrification continues its recent pace that global demand would peak and ultimately start to fall, irreversibly. The more time we spent examining this premise, the less we believed it was possible unless, as we now see happening in Germany, that there is a sustainable political will to drive their economy into the ground. We present to you a long-term chart of oil consumption in Norway. Norway is a virtual poster child for the green energy transition. Norway is blessed with both extraordinary hydropower resources as well as enormous hydrocarbon riches with which to fund their transition. Despite EV/Hybrid vehicles representing nearly 90% of new car sales, oil consumption has not declined measurably in the last 20 years. This has happened even as Norway spends almost 6% of GDP on green energy initiatives and transition. Norway also levies severe taxes and disincentives for fossil fuel use. Both measures are, for all practical purposes, unavailable to poorer countries.



We will continue to review our thesis on this investment in the period ahead but believe that short of a major global pivot toward nuclear power, that both oil and gas will be investable opportunities for the foreseeable future.

Finally, we would like to acknowledge the importance of the nature of our clients in helping us achieve our performance goals. As a firm whose portfolio turns over completely only about every 10 years, it is important that we acknowledge the role you play in making our strategy possible. We are always focused for the long-term, on process and risk, with the goal of sustainable wealth creation. Without your understanding and support in this effort, it would truly be a fruitless enterprise, particularly considering the more volatile markets we are likely to experience in the coming years. We wish you the best in all your professional and personal endeavors for this year and welcome your feedback.

Sincerely,

John Schaeffer
President and CIO

Michael Whitfield
Dir. of Research and Co-Portfolio Manager