Mid Cap Equity Strategy 4th Quarter 2020 Commentary

The Year of Living Dangerously

First and foremost, we will remember 2020 as the year when COVID-19 spread throughout the world and killed nearly 2 million people globally, including nearly 400,000 Americans. Depending upon how you count, that is the greatest loss of American life ever, except for the Civil War. The year also experienced several other tragic events that sparked calls for social justice solutions to create positive and lasting changes. Adding in a high -stakes presidential election with a contested result, the recipe for volatility across multiple asset classes was firmly in place.

One of the seminal lessons of 2020 was the uselessness of the annual ritual of market forecasting. A pandemic was in no one's forecast, nor was the worst economic contraction and the highest unemployment rate since the Great Depression. The associated rise in unemployment and reduction in GDP around the world was profound as the global economy essentially closed for roughly a month, and that had to be reflected in stock prices. Oil prices collapsed as driving and air travel virtually ceased overnight. Millions lost their jobs and small businesses were devastated, with Yelp reporting that 60% of listed businesses had closed for good. Stock indices collapsed, with the Dow falling from a high of 29,568.57 on February 12 to a low of 18,213.65 on March 23 – a decline of over *38%* in just over a *month*.

Bull, Bear, Bull

We call this year "The Year of Living Dangerously" not because of the outrageous spike in asset volatility, nor the wild swings in economic growth and least of all due to the subsequent reaction from global monetary authorities and governments. It was a dangerous year because it once again, in very dramatic fashion, demonstrated the absolute folly of both market predictions and the associated danger of market timing as this particular market collapse turned out to be the shortest downturn in U.S. history. Since the U.S. stock market bottomed on March 23, the S&P 500 has risen 68 percent, shattering all-time records along the way. The stunning year-end tallies are presented in the following table.

Index	December 2020	Trailing 12 Month
S & P 500	3.84%	18.40%
Dow Jones Industrial Average	3.41%	9.72%
NASDAQ Composite	5.71%	44.92%
MSCI EAFE	4.65%	7.82%
MSCI Emerging Markets	7.35%	18.31%
Barclays U.S. Aggregate Bond	0.14%	7.51%
Barclays U.S. Corp. High Yield	1.88%	7.11%
Barclays Municipal	0.61%	5.21%
Bloomberg Commodity	4.97%	-3.12%

Source: Morningstar

According to CFRA Research, the S&P 500 experienced its fastest-ever bear market, clocking in at just 33 days before its third-fastest recovery to a breakeven level in about five months. Information technology stocks partied like it was 1999, with the tech-heavy NASDAQ Composite Index rising almost 45% for the year. Price did not matter for most of 2020, at least not in the conventional sense. Investors essentially abandoned valuation as a tool for evaluating risk versus reward. Growth stocks supercharged by low interest rates, digitization, work-from-home and other pandemic-related trends were continuously bid up and led the market higher. A brief handful of examples illustrate the point:

- Tesla's market value grew to $670 billion, (and depending upon the day, it equals the approximate value of BMW, Mercedes, Volkswagen, Fiat/Chrysler, Ferrari, Honda, Toyota, Subaru, Mazda, Mitsubishi, Ford, and General Motors *combined*)
- FANGAM (Facebook, Amazon, Netflix, Google, Apple and Microsoft) stocks now have a larger market cap than every individual country except China
- Zoom gained 400%, Pinterest 250%, Overstock 600%, Moderna 400%, Plug Power 1000%, and Workhorse 550%, to name a few examples

The final quarter of 2020 will be remembered for many reasons, but perhaps none more consequential than the realization of at least three viable COVID-19 vaccines. Markets were cheered by the prospect of an end to the global pandemic and its weighty economic impact. Cyclical value stocks, those most beaten down in the COVID crisis, staged a late-year surge relative to growth stocks. Still, the divergence between growth and value was dramatic in 2020, with growth style indices outperforming their value counterparts by over 30 percentage points, on average, for the year. Bankruptcies mounted, particularly in retail, restaurants and automotive, ensnaring well-known brands: Brooks Brothers, Neiman Marcus, and JC Penny; California Pizza Kitchen, Ruby Tuesday, and Sizzler; Dollar Thrifty Automotive Group, Advantage Rent a Car, and Hertz.

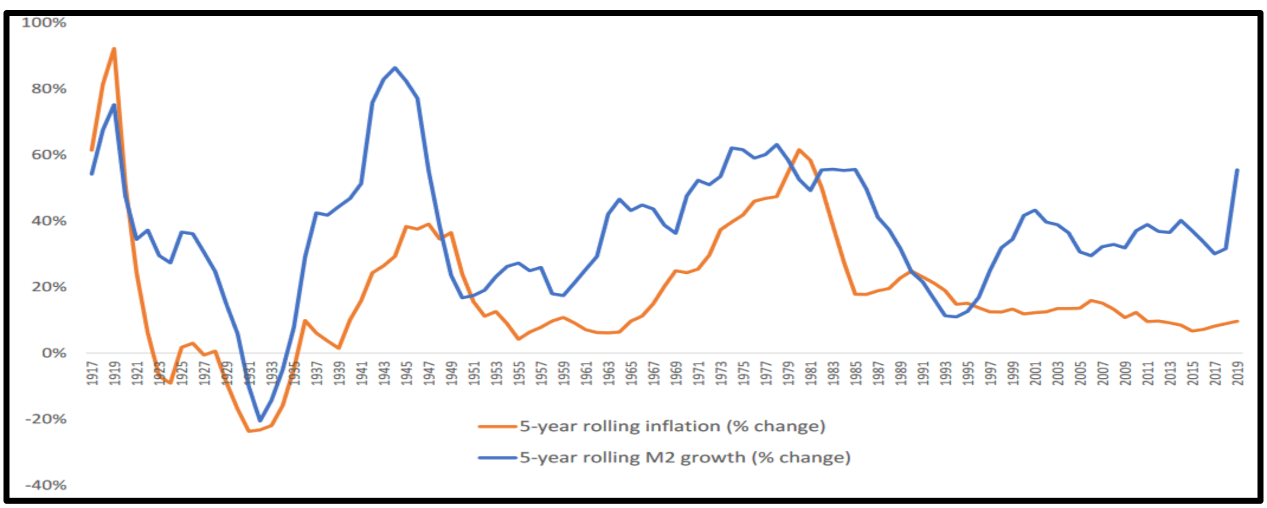
The key question to answer is, why we did we experience this dramatic reversal in the stock market, despite the deep global economic contraction and on-going economic pain for so many, particularly small business owners, low-income consumers and many others? The short answer is MONEY. Lots of Money. The following graph shows how the money supply in the United States as expressed by the M2 monetary aggregate has developed and the annual rate of its growth. The year 2020was exceptional beyond all previous years and money inflation was very high.

Monetary inflation is one of the main reasons for the long-term growth in asset prices. The ever-growing quantity of money in circulation means that ever more and more money is chasing a limited amount of assets and is pushing their prices ever higher. This is nudged on by the direct and indirect effects of low interest rates, which are themselves seemingly artificially suppressed by the Fed. The combination of a soaring money supply, declining long-term interest rates (a primary determinant of discount rates) and a fair bit of speculative euphoria over the prospect of future returns, sent stock prices soaring higher after the 33-day collapse from late February to late March of this year.

Modern Monetary Theory (MMT) rushed in to save the day….

Global governments, including the United States, tried to save their economies by printing and spending more money than ever before, and with the US budget deficit currently around -20% of GDP we remain hopeful that MMT will prove a temporary situation and soon the economy will be able to stand on its own feet. Yet with total U.S. indebtedness topping $27 Trillion, the relief that this deficit spending provided may come at a price to be paid by future generations. The most likely culprit for future problems will be inflation.

Consumer price inflation concerns the prices of goods and services that we use every day. To a lesser extent, consumer price inflation is also influenced by asset prices, because it is affected by the prices for residences, for example, but otherwise it is primarily driven by non-financial items. Many economists are inclined to the opinion that officially reported consumer price inflation rather underestimates its actual level. Moreover, inflation does not affect everyone the same. There is a relationship between money inflation and consumer price inflation. The following graph shows the 5-year rolling percentage change in the money supply in circulation (M2) and the 5-year accumulated inflation.



Source: Statistica/Federal Reserve Bank

As the chart clearly demonstrates, there is a significant long-term relationship between growth in the M2 money supply and subsequent consumer inflation. Given the very significant decline in economic output and the likely pace of recovery, there will still be a very significant lag between the upturn in the money supply and any associated dangers of inflation. However, if there is something to worry about in the future, this would be amongst the top on our list of concerns. In the meantime, high unemployment, low associated wage growth and their impact on consumption of many different goods and services should give government and monetary authorities some time to reign in their current profligate policies.

Quarterly & Annual Performance

Our return for the Hahn Capital Management Mid-Cap Value Composite was 25.64% gross of fees in the fourth quarter of 2020. For the quarter, we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 5.21 percentage points. For the quarter, sector allocations to Utilities (no holdings), Consumer Staples (no holdings), Information Technology, Financials (relative to the benchmark) contributed, while those to Energy (no holdings), Healthcare, Real Estate, Materials, Communication Services, Industrials and Cash detracted. The most significant relative performers during the quarter were Euronet Worldwide (EEFT), AirLease (AL), Albemarle (ALB), and EastWest Bancorp (EWBC), while the most significant underperformers were Equinix (EQIX), Genpact (G), SEI Investments (SEI), and Becton Dickinson (BDX).

Hahn Capital Quarterly Performance Attribution – 4Q20

QTD HCM vs. Russell Mid-Cap Value Index - Quarter Ended 12/31/2020

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
Real Estate	16.43%	10.20%	6.24%	11.42%	16.42%	-5.00%	-0.24%	-0.90%	-1.14%	0.00%	-1.14%
Industrials	16.69%	17.37%	-0.67%	28.36%	19.69%	8.67%	-0.02%	1.44%	1.42%	0.00%	1.42%
Financials	18.44%	15.03%	3.41%	40.62%	29.32%	11.30%	0.29%	1.71%	2.00%	0.01%	2.01%
Information Technology	17.24%	9.77%	7.47%	30.58%	25.75%	4.83%	0.45%	0.75%	1.20%	0.00%	1.20%
Health Care	13.32%	7.85%	5.47%	11.56%	16.00%	-4.44%	-0.25%	-0.63%	-0.88%	0.00%	-0.88%
Consumer Discretionary	10.61%	12.13%	-1.52%	31.83%	20.51%	11.33%	0.00%	1.17%	1.17%	0.01%	1.18%
Materials	2.87%	7.29%	-4.42%	65.68%	24.95%	40.73%	-0.21%	1.00%	0.79%	0.00%	0.79%
Energy	0.00%	3.58%	-3.58%	0.00%	38.56%	-38.56%	-0.62%	0.00%	-0.62%	0.00%	-0.62%
Communication Services	1.46%	4.01%	-2.56%	17.45%	21.90%	-4.45%	-0.04%	-0.07%	-0.11%	0.00%	-0.11%
Consumer Staples	0.00%	4.15%	-4.15%	0.00%	6.74%	-6.74%	0.62%	0.00%	0.62%	0.00%	0.62%
Utilities	0.00%	8.62%	-8.62%	0.00%	5.93%	-5.93%	1.34%	0.00%	1.34%	0.00%	1.34%
Cash	2.93%	0.00%	2.93%	0.04%	0.00%	0.04%	-0.63%	0.00%	-0.63%	0.00%	-0.63%
Total Portfolio				**25.58%**	**20.41%**	**5.17%**	**0.69%**	**4.48%**	**5.17%**	**0.00%**	**5.17%**

Relative Performance by Stock – Quarter and Year Ended December 31, 2020

As of December 31, 2020

Attribution Analysis - Notable Performers by Sector & Stock

Notable Performers by Sector

Quarter Ended 12/31/2020 - 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	EURONET WORLDWIDE INC	1.28%	1	EQUINIX INC	-1.18%	1	Financials	2.01%	1	Real Estate	-1.14%
2	AIR LEASE CORP	0.97%	2	GENPACT LTD	-0.82%	2	Industrials	1.42%	2	Health Care	-0.88%
3	ALBEMARLE CORP	0.97%	3	SEI INVESTMENTS COMPANY	-0.39%	3	Utilities	1.34%	3	Cash	-0.63%
4	EAST WEST BANCORP INC	0.73%	4	BECTON DICKINSON AND CO	-0.37%	4	Information Technology	1.20%	4	Energy	-0.62%

Year-to-Date Ended 12/31/2020 - 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	1.81%	1	HEXCEL CORP	-1.61%	1	Real Estate	2.73%	1	Industrials	-2.20%
2	ALBEMARLE CORP	1.24%	2	BECTON DICKINSON AND CO	-1.42%	2	Financials	1.77%	2	Consumer Discretionary	-1.31%
3	SLM CORP	1.04%	3	EURONET WORLDWIDE INC	-1.05%	3	Energy	1.48%	3	Communication Services	-0.71%
4	ALEXANDRIA REAL ESTATE EQUIT	0.78%	4	GENPACT LTD	-0.89%	4	Utilities	0.84%	4	Information Technology	-0.32%

For the year 2020, our return for the Hahn Capital Management Mid-Cap Value Composite was 7.57% gross of fees, and we outperformed our primary benchmark, the Russell Mid-Cap Value Index, by 2.60 percentage points. For the year overweight sector allocations to Healthcare and Information Technology and underweight sector allocations to Energy and Utilities contributed to performance, while overweight allocations to Real Estate and underweight allocations to Materials and Communications Services detracted. The most significant relative performers during the year were Equinix (EQIX), Albemarle (ALB), SLM Corp (SLM) and Alexandria Real Estate (ARE), while the most significant underperformers were Hexcel (HXL), Becton Dickinson (BDX), Euronet Worldwide (EEFT), and Genpact (G).

Hahn Capital Annual Performance Attribution – 2020

YTD HCM vs. Russell Mid-Cap Value Index - Period Ended 12/31/2020

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
Real Estate	17.29%	12.13%	5.17%	9.78%	-9.61%	19.39%	-0.98%	3.72%	2.74%	-0.01%	2.73%
Industrials	17.35%	14.59%	2.76%	0.13%	14.01%	-13.87%	0.17%	-2.37%	-2.20%	0.00%	-2.20%
Financials	16.54%	16.18%	0.36%	5.68%	-2.41%	8.09%	0.49%	1.28%	1.77%	0.00%	1.77%
Information Technology	15.05%	8.75%	6.30%	10.59%	22.21%	-11.62%	1.22%	-1.54%	-0.32%	0.00%	-0.32%
Health Care	13.35%	7.85%	5.50%	16.47%	23.32%	-6.86%	0.88%	-0.86%	0.02%	-0.01%	0.01%
Consumer Discretionary	10.66%	10.17%	0.49%	-2.96%	6.58%	-9.54%	-0.41%	-0.90%	-1.31%	0.00%	-1.31%
Materials	2.33%	7.03%	-4.70%	105.56%	26.96%	78.60%	-0.94%	1.27%	0.33%	0.00%	0.33%
Energy	1.21%	4.06%	-2.85%	-42.02%	-32.99%	-9.03%	1.19%	0.29%	1.48%	0.00%	1.48%
Communication Services	0.37%	3.94%	-3.58%	17.45%	23.26%	-5.81%	-0.65%	-0.06%	-0.71%	0.00%	-0.71%
Consumer Staples	0.00%	4.72%	-4.72%	0.00%	2.85%	-2.85%	0.01%	0.00%	0.01%	0.00%	0.01%
Utilities	0.00%	10.58%	-10.58%	0.00%	-5.66%	5.66%	0.84%	0.00%	0.84%	0.00%	0.84%
Cash	0.00%	0.00%	0.000%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Portfolio				**8.03%**	**4.96%**	**3.06%**	**2.24%**	**0.82%**	**3.06%**	**0.00%**	**3.06%**

HCM MID-CAP VALUE COMPOSITE PERFORMANCE HISTORY

% Annualized Returns As of 12/31/2020	4Q 2020	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception 06-30-88
HCM Gross of Fees	25.64%	7.57%	8.58%	11.12%	8.36%	11.81%	13.87%
HCM Net of Fees	25.39%	6.49%	7.51%	10.03%	7.29%	10.72%	12.76%
Russell Mid Cap Value Index	20.43%	4.97%	5.37%	9.73%	8.22%	10.49%	11.24%
Russell Mid Cap Index	19.91%	17.10%	11.61%	13.40%	10.96%	12.41%	11.68%

Link to: HCM Performance Disclosures

PORTFOLIO ACTIVITY

New Positions

Virtu Financial (VIRT) - Virtu is a global financial technology company delivering innovative, transparent trading solutions that are designed to reduce investors' end-to-end cost and provide reliable liquidity to global markets. Virtu's solutions create transparency that enables market participants to make better, more informed decisions and that these tools provide all investors with a benefit by making markets that are more efficient.

Virtu's technology is used to solve problems and reduce risk. Virtu's application of technology to create solutions, automate processes and enhance risk controls has enabled it to provide customized, reliable liquidity and raise the bar of transparency into client order handling and trade analysis.

Virtu is a global business, providing its financial technology solutions on 5 continents with offices in 9 countries. As the largest market share competitor in the global market making business, Virtu trades or provides trading and risk management solutions for over 25,000 different securities, listed on 235 discrete venues comprising over 60 global markets in 50 countries.

With 2020 revenues approaching $2 billion, Virtu is an exceptionally profitable company, with adjusted returns on invested capital exceeding 20%, after-tax net margins exceeding 15% and a long-term track record of increasing market share, organic growth and well-timed, value enhancing strategic acquisitions. A unique aspect of Virtu's business is that when asset market conditions become more difficult and volatile, usually during times of crisis or economic stress, the value of Virtu's solutions is enhanced and subsequently, the business becomes more profitable. In this unique way, Virtu acts as somewhat of a natural hedge to a long-only portfolio, particularly during times of asset market stress.

Virtu also maintains extraordinary capital discipline, targeting a 50-60% dividend pay-out ratio (% of net income). This focus on capital discipline has resulted in excess market returns for Virtu shareholders, a trend we expect to continue for years into the future, particularly if volatile markets persist for any significant length of time.

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

As we move into 2021, we may see another dip in economic activity in the near-term due to the skyrocketing number of COVID-19 cases being experienced, but the longer-term outlook appears brighter. Easy monetary and fiscal policy, combined with an anticipated COVID-19 vaccine rollout beginning in the first half of 2021, may lead to a strong rise in economic and earnings growth as the year progresses and economic activity starts to normalize. The global economy has the potential to make a full recovery in 2021, rebounding from the 4.4% decline in 2020 to growth of 5.2% in 2021, according to current estimates from the International Monetary Fund.

This backdrop may see the passing of the baton of global growth leadership to value, favoring stocks that would benefit from a rebound in cyclical activity and a broader overall market advance, compared to 2020. We started to witness this in the 4th quarter, but we believe it is a trend that can advance much more significantly in the year ahead. Interest rate-sensitive stocks such as banks, industrial and consumer discretionary are particularly leveraged to this potential outcome. Our portfolio stands to benefit in an outsized way if this continues to develop as it has over the last three months.

Our happier 2020 memories will include more time with family, friends and relatives, those stricken by COVID-19 who thankfully survived and recovered, renewed appreciation for our essential workers, discovering new creative outlets and ways to binge watch TV, and saying goodbye to that dreaded commute. Our organization has become even closer; our team made the adjustment to remote operation appear seamless though the partners in our firm realize that it was only through their dedication and professionalism that this became a reality. That dedication and effort is ultimately made in pursuit of providing our clients with the highest quality investment and portfolio management, and we are thankful for their efforts on your behalf.

Sincerely,

John Schaeffer
President and CIO

Michael Whitfield
Dir. of Research and Co-Portfolio Manager

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