HAMLIN
CAPITAL MANAGEMENT, LLC

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Second Quarter 2020 Update

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Overview

Hamlin equity accounts increased significantly over the last three months as the S&P 500 had its strongest quarter since 1998, gaining 20.54%. Monetary and fiscal stimulus calmed credit and labor markets, and the global spread of coronavirus showed signs of containment. Our municipal bond portfolios increased in value, benefiting from lower rates and Fed-induced spread compression.

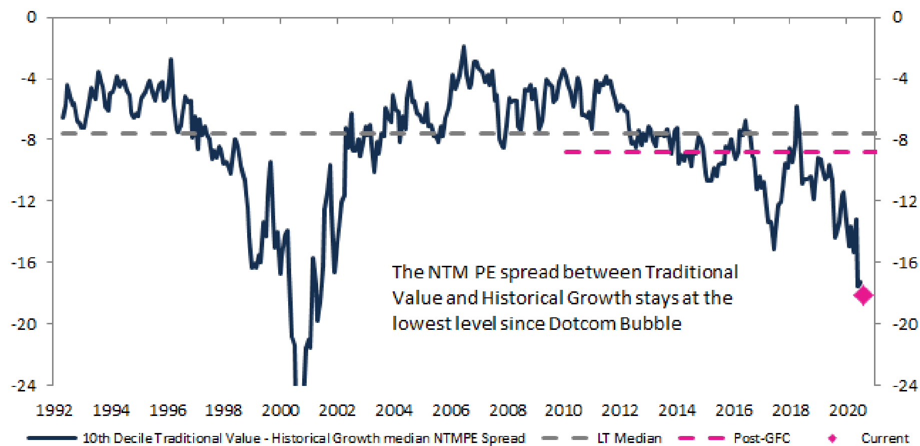
We are returning to a "question and answer" format for the summer-time newsletter. We have tried to answer the questions posed most frequently by our clients and business partners over the last few months.

Performance

Equity Performance

The Hamlin Equity Composite increased 17.69% during the second quarter, lagging the S&P 500 Index's 20.54% quarterly return[1], but finishing ahead of the Russell 3000 Value's 14.55% return and the Dow Jones U.S. Select Dividend Index's 10.82% return. The stock market rallied for most of the quarter, digesting a surprisingly positive jobs report and better than expected housing data indicating the recession may have been one of the briefest in history. The pandemic news was mixed but generally positive as New York and New Jersey showed it is possible to get the virus under control. In addition, progress made on therapeutic treatments and vaccines gave investors confidence that life might someday regain a semblance of normalcy. Throughout the volatile first half of the year, value stocks continued to lag growth stocks. In fact, we believe the massive monetary policy reaction by the Federal Reserve - holding interest rates to the floor and compressing credit spreads - drove investors ever more into long duration growth stocks.

Figure 1: Value vs. Growth: PE Differential

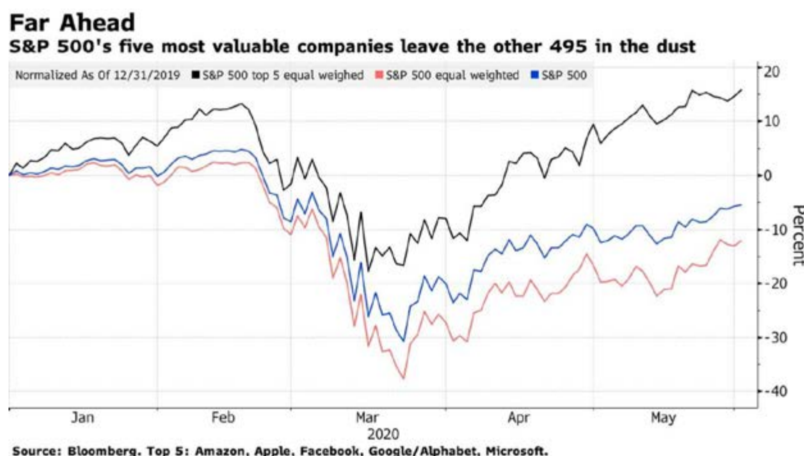


Source: Evercore ISI.

[1] The performance provided is a preliminary estimate as Q2 performance has not yet been examined by ACA Performance Services and may be subject to change. Individual accounts vary.

Investors realized that the powerful advancements and investments in cloud infrastructure, security and virtual technology enabled the work from home protocols adopted by corporate America in response to the virus. You can see the dramatic impact that a handful of large cap tech stocks are having on the movements in the S&P 500.

Figure 2: S&P 500 Gains Driven by 4 Stocks



Source: Wall Street Journal

As a result of this imbalance in market movements, the Russell 3000 Growth Index is positive on the year climbing 8.98% through the end of June, miles ahead of the Russell 3000 Value Index's -16.74%. Hamlin's return year-to-date of -12.57% compares well to the Russell 3000 Value Index and the Dow Jones U.S. Select Dividend Index's -21.82%.[2] We believe our outperformance relative to these value and dividend benchmarks reflects our healthy weighting to the pharmaceutical sector, a relatively lighter weighting to financials, and a portfolio transition in March to a more cyclical group of stocks that performed well during the Q2 market rally. Our lag to the S&P 500 clearly reflects our underweight in high growth, low yielding or non-dividend paying technology stocks. Please remember that we are not managing your account to track or beat any index. We don't select securities to align your portfolio with any index's sector weightings or holdings. We aim to construct a quality portfolio with high current income. Our goal is to preserve client capital, while protecting against inflation with future dividend increases and long-term capital appreciation.

As stock market volatility remains, we hope that you find comfort in knowing that Hamlin stocks pay a compensatory and growing cash return. We believe that our holdings are managed by executives who demonstrate a commitment to increase future dividend payouts. We are investing in businesses with high dividend yields, manageable debt, attractive returns on equity, and ample free cash flow-to-dividend coverage ratios. We are happy to report that 27 of Hamlin's holdings have announced dividend hikes so far

[2] Hamlin Capital 1, 3, 5 and 10-year performance: -5.94%, 3.11%, 4.41%, 10.58%. Russell 3000 Value 1, 3, 5 and 10-year performance: -9.42%, 1.41%, 4.41%, 10.23%. Dow Jones U.S. Select Dividend Index 1, 3, 5 and 10-year performance: -15.54%, -0.83%, 5.02%, 10.39%.

this year, with an average year-over-year boost of 5.2%.[3] This welcome action validates our research analysis, increases your portfolio cash flow, and reminds us that your dividend stream is not fixed.

Figure 3: Equity Performance

	HAMLIN EQUITY COMPOSITE (Net of Fees)	Cumulative	S&P 500 (No Transaction Costs or Fees)	Cumulative
2001	0.99	100.99	(11.93)	88.07
2002	0.90	101.90	(22.06)	68.64
2003	30.40	132.87	28.68	88.33
2004	22.80	163.17	10.88	97.94
2005	20.80	197.11	4.91	102.75
2006	7.90	212.69	15.79	118.97
2007	3.97	221.13	5.49	125.50
2008	(28.57)	157.95	(37.00)	79.07
2009	20.98	191.09	26.46	99.99
2010	20.65	230.55	15.06	115.05
2011	10.16	253.98	2.11	117.47
2012	11.03	281.99	16.00	136.27
2013	32.72	374.26	32.39	180.41
2014	10.93	415.16	13.69	205.10
2015	(4.54)	396.32	1.38	207.93
2016	14.93	455.49	11.96	232.80
2017	15.84	527.63	21.83	283.62
2018	(6.97)	490.86	(4.38)	271.20
2019	21.54	596.59	31.49	356.60
YTD 2020	(12.57)	521.60	(3.08)	345.62
19.50 Years Annual Compound	**8.84**		**6.57**	

Source: Hamlin Capital Management. YTD 2020 performance has not yet been examined by our independent verification service provider ACA Performance Services. Individual accounts vary. See GIPS disclosure at the end of this report.

Equity Q&A

Q: Can you describe HCM Equity portfolio return prospects?

Even with the Hamlin equity portfolio having risen by 34.68% since the March 23rd market bottom, our dividend discount model and earnings power analysis project average upside of 22.90%.[4] At 15.2x consensus next-twelve-month earnings estimates, your portfolio trades at a 30% discount to the S&P 500's 21.6x P/E.[5] The portfolio's free cash flow yield of 7.6% not only looks attractive relative to the S&P 500 company's 5.4% yield but also covers a generous 4.3% average dividend yield. As we discuss in the next

[3] This includes companies added to the portfolio that raised their dividend prior to being added to the Hamlin portfolio. 21 companies increase dividends while in the portfolio at an average rate of 5.2%.

[4] Please note that potential upside to Hamlin's price targets are not guaranteed.

[5] Data is provided for the Hamlin Equity Composite. Individual accounts vary.

question, our resilient dividend income stream helps keep our current yield above 4%, well above the S&P 500's 1.8% dividend yield. Debt levels are manageable with an average 27.3% net debt-to-capital ratio compared to the S&P 500's 38.6%, and should allow many of our companies to acquire assets at attractive prices in the coming months. Five-year average return on equity (ROE) is attractive at 27.3% compared to the S&P 500's 14.8%.[6]

One key theme for the portfolio will be the recovery in auto traffic that is already well underway. With businesses slowly reopening across the country, those who have the choice to commute via public transit may now decide that driving to work is the safest option.[7] Meanwhile, back at home, we expect road trips to be the vacation of choice this summer given lower gasoline prices and fears of virus transmission on airplanes, aboard cruise lines, and in hotels.[8] Further supporting the idea of an auto traffic renaissance in the US is the 50% year-over-year increase in Beijing peak hour traffic even as of early May[9] (China entered the pandemic first and their path out of it may echo here), and RV dealers in the US struggling to keep up with demand.[10] Your investments that benefit from increased auto traffic include Genuine Parts, whose NAPA auto parts will be needed to repair vehicles; Snap-on Tools, whose tools and diagnostics will be used by technicians on those repairs; Chevron and Valero Energy's crude oil and gasoline; and Lamar Advertising, whose billboard space will be in greater demand with more cars on the road.

While we expect that rising auto traffic and an improving economy will be helpful for the portfolio, we are also mindful that many of HCM's steadiest contributors this year have been healthcare companies. Should there be any further volatility – perhaps resulting from additional waves of COVID-19 infections or anxiety around the November elections – we expect they will continue to be our ballast. This comes as no surprise, as people take their medicine even in recessions. But pharmaceutical companies have a unique role to play this time given the disease-driven nature of this recession. These companies have risen to the occasion by marshalling vast financial and R&D resources toward a COVID-19 pipeline for the industry that now stands at 161 vaccines and 238 therapeutics.[11] Gilead – one of Hamlin's current holdings – has received Emergency Use Authorization for Remdesivir, the highest profile therapeutic currently available. Roche provides high-volume testing equipment for coronavirus and its resulting antibodies, along with a potential treatment with its rheumatoid arthritis drug Actemra. Johnson & Johnson and Sanofi are among the leaders in the race for a vaccine. While we viewed the biopharmaceutical industry as attractively valued with strong metrics even before this year – the main reason we entered 2020 with 16% of the portfolio invested

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[6] All metrics are as of 6/30/2020. P/E calculated on a harmonic mean basis. S&P 500 ROE on a median basis, Hamlin ROE on a weighted average basis. Hamlin net debt to capital calculated on a weighted average basis, S&P 500 net debt to capital calculated on an average basis.

[7] IBM conducted a survey of 14,000 people in April that showed 20% of regular public transit users plan to avoid public transit in the future, while 28% said they will use it less frequently. Source: https://www.caranddriver.com/news/a32343158/pandemic-transportation-future-problems/

[8] AAA projects just a 3% decline in summer road trips this year compared to last, versus a 74% decline in airline travel. Source: https://newsroom.aaa.com/2020/06/aaa-forecasts-americans-will-take-700-million-trips-this-summer/

[9] Source: https://about.bnef.com/blog/gridlock-in-beijing-as-commuters-shun-public-transport/

[10] Source: https://www.weau.com/2020/06/27/rv-sales-on-the-rise-nation-wide/

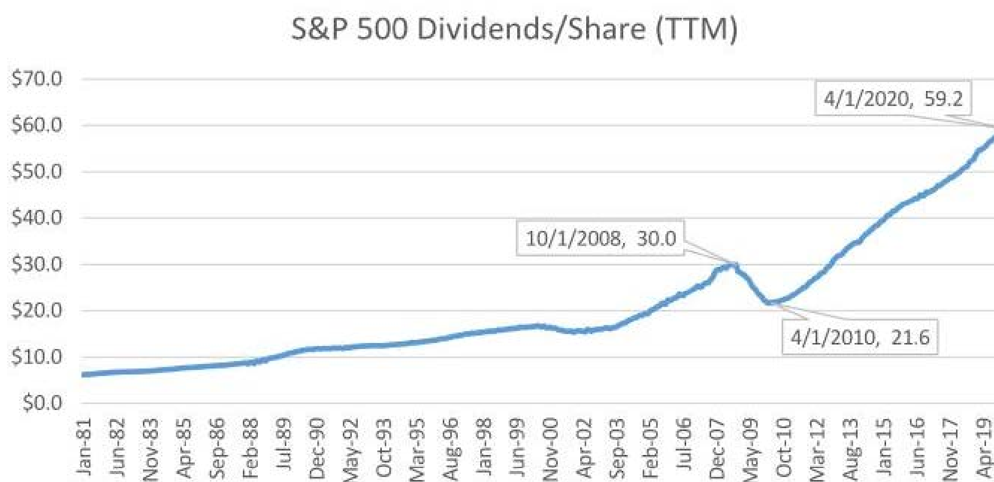
[11] Source: Johnson & Johnson head of pharmaceuticals at a Goldman Sachs conference, June 10, 2020.

in the sector – the pandemic will provide a much-needed dose of public goodwill, reminding us all that drug innovation is critical to society.

Q: How sustainable is my dividend stream?

The S&P 500 dividend stream has been quite stable over time. Dividends have grown by an average of 6.47%[12] year-over-year since 1977 even through a slight period of interruption during the Global Financial Crisis.

Figure 4: S&P 500 Dividend Per Share Growth



Source: Bloomberg and Raymond James Research

Unlike previous recessions, 2020 was not a slowdown in economic activity; it was a complete stoppage, the likes for which Corporate America was ill prepared. The term "dividend suspension" entered the equity income lexicon for the first time as many industries sought government assistance to bridge the gap to business resumption. Year to date, 62 companies within the S&P 500 have cut or suspended their dividends. We are pleased to report that the Hamlin portfolio income stream has been steady through this period of dividend disruption. The strong dividend growth we experienced in 2019 and the first half of 2020 has pushed client income up year over year. Most of the year to date dividend increases were announced before March but we still heard from five companies that raised their dividends in the second quarter. Johnson & Johnson, Procter & Gamble, Flowers Foods, People's United Financial, and Target all sent a strong signal of confidence that their businesses models can operate through the most severe economic conditions.

While we expected the vast majority of Hamlin portfolio stocks could maintain or grow their dividend payments during the pandemic, we immediately concluded that Cracker Barrel, Cinemark and General

[12] Howard Silverblatt, S&P Dow Jones Indices.

Motors were at risk of a cut. Although the suspension in their businesses did not impact our long term investment thesis, we made the difficult decision to sell the stocks and redeploy the proceeds into new positions in the portfolio. (Cinemark and General Motors were sold prior to their suspension). A dividend suspension is not an automatic reason to sell for Hamlin, but we have to believe that the company will resume payments to shareholders within a reasonable time frame. Given the slow progression of this virus, and our inability to predict with any confidence when Americans will return to movie theaters or restaurants, we felt your capital would be better served elsewhere. In the case of General Motors, the severity of the business interruption could significantly delay their investment in auto electrification and autonomous vehicles, which may lead to a lengthy delay in dividend re-initiation. GM had rebuilt their business to specifically handle a recession and contraction in auto sales, but the timing of the pandemic - just 6 months after the UAW strike disrupted production - proved to be too much stress on the company's balance sheet.

The pace of economic recovery and virus spread will dictate the stability of dividend payments over the next twelve months. At a yield of 4.3%, the Hamlin portfolio offers a healthy level of income in an income starved investment world. We are closely monitoring a few select names including two banks in the portfolio. However, the Fed's latest CCAR results and subsequent dividend confirmation announcements by our banks suggest to us that this is not an imminent risk. Our senior living REIT National Health Investors has maintained its dividend due to its net lease structure, but the operators of their properties need to be able to bring new residents in at a faster pace in order to avoid a disruption of rental payments.

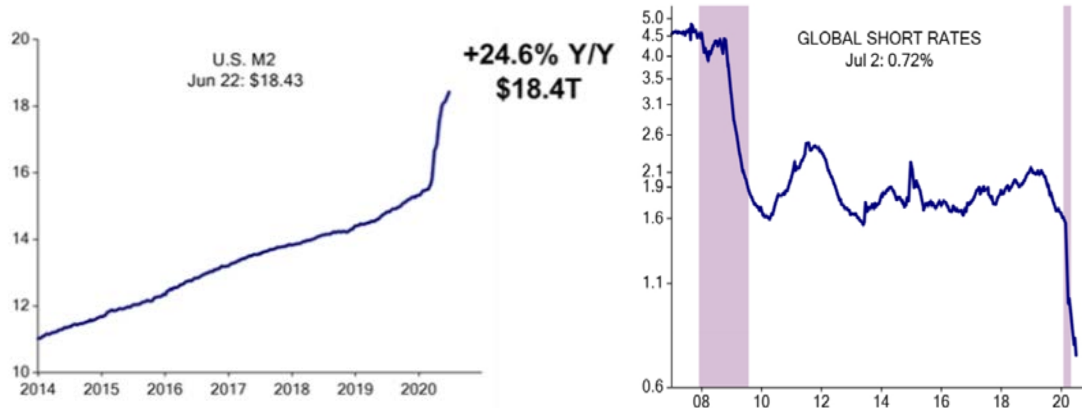
Q: What is the stock market doing way up here?

Record daily COVID-19 case counts and 1.5 million new weekly requests for unemployment insurance seem inconsistent with equities trading within a whisker of the early 2020 all-time highs. Yet the stock market's strength makes some sense to us. Investors are discounting a brighter future at very low discount rates. Unprecedented fiscal and monetary policy stimulus is taking hold just as states begin, albeit haltingly, to re-open for business. Flush with supplemental unemployment insurance and eager to get out and about, consumers are spending. An eye-popping 23% savings rate suggests that the eagerness to spend has legs. Two consecutive months of four million new jobs imply that we are well on our way towards replacing the 18 million jobs lost earlier this spring. We suspect that the market anticipates further jobs momentum on the back of vaccine progress and additional stimulus spending later this fall.

Investors predict an earnings rebound, and we agree. The charts below imply that earnings could be worth more than they were earlier this year. Global short rates are at a record low and US money supply is soaring. The value of future cash flows increases exponentially as discount rates decline. Financial assets also increase in value as the amount of money available to buy them grows. A number of technical indicators also support higher stock prices.[13]

[13] The RenMac Bullish Thrust indicator shows the amount of S&P 500 issues that are making 20 day highs and is in bullish territory when above 60% (latest reading was 75%). Above this 60% threshold, there is a 92% probability of higher returns 12 months out and a 75% probability of higher returns 3 months out, based on history (1959-2020).

Figure 5: US Money Supply Growth & Global Short Rates



Source: Evercore ISI

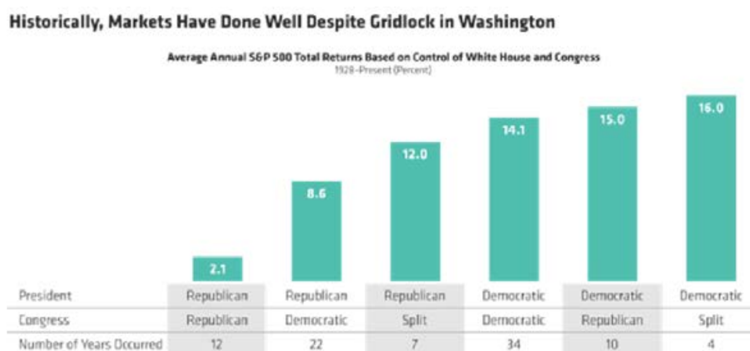
While we expect the bulls to shrug off all COVID-19 headlines short of a sustained increase in death rates, election uncertainty may pose problems. Joe Biden, whose election odds have been steadily improving, has proposed higher taxes on corporate, individual and passive income. His corporate tax rate, if passed by Congress, would reduce earnings by approximately 9%.[14]

In favor of increased regulation on multiple sectors of the economy, Biden's platform is decidedly business unfriendly. Perhaps the market knows that Biden will tack towards the right in the months ahead or that Trump will prevail. The chart below reminds us that equities have done quite well under Democratic presidents, even when Republicans have lost both the House and Senate. One thing we do know is that the direction of the S&P 500 historically predicts the election. If the S&P 500 is up in the three months leading up to the election, the incumbent generally wins the election, and in the case of losses during those three months, the incumbent typically loses the White House. Based on this pattern, the S&P500 has had an 86.4% success rate in forecasting the election.[15]

[14] If we assume a 28% tax rate on S&P 500 earnings of $162 relative to a 21% tax rate, pre-tax earnings decline by nearly 9%.

[15] In the 22 president elections since 1928, 14 were preceded by gains in the three months prior. In 12 of those 14 instances, the incumbent won the White House. In 7 of the 8 instances where the market suffered losses in the three months prior, the incumbents left office. Exceptions to this occurs in 1956, 1968 and 1980. According to Stack, the S&P 500 has an 86.4% success rate in forecasting the election.

Figure 6: Stocks Should be Fine Longer Term Regardless of Election Outcome



Source: Bank of America Merrill Lynch, FactSet, S&P and AB.

Fixed Income Performance

The Hamlin Capital Management Municipal Bond Composite was up 0.98% for the first half of 2020.[16] Faced with a historically volatile market driven by a global pandemic, we sought to first protect client capital and then opportunistically deploy cash where possible. We have outperformed many of our peers and we owe this outperformance to several factors:

- Years of disciplined construction of the existing portfolio. During years of positive mutual fund flows and tight credit spreads, we maintained our absolute return and spread discipline while never sacrificing credit quality or covenant requirements. We did fewer but (we believe) better deals. This also meant we had dry powder to invest when others did not.

- Using that dry powder, we opportunistically entered the primary and the secondary armed with client cash to purchase what we believe to be higher quality projects at attractive yields. The ensuing upside as the market rallied has boosted client performance.

- Project and Sector selection. While our sectors have occasionally been news fodder, they continue to serve essential and necessary needs in the near and long term. In our view, Hamlin projects have generally shown themselves to be best in class.

We believe the existing portfolio, augmented with recent additions has served clients well during the unprecedented volatility in 2020. As always, we will emphasize protection of capital and work to add opportunistically to help drive performance going forward.

[16] The performance provided is a preliminary estimate as Q2 2020 performance has not yet been examined by ACA Performance Services and may be subject to change. Individual accounts vary.

Figure 7: Fixed Income Performance

	HAMLIN BOND COMPOSITE (% Net of Fees)	Cumulative	BARCLAYS HIGH YIELD MUNICIPAL INDEX (% No Transaction Costs or Fees)	Cumulative
2001	4.54	104.54	4.45	104.45
2002	7.22	112.04	1.97	106.51
2003	9.14	122.20	13.22	120.59
2004	8.27	131.37	10.52	133.27
2005	7.94	141.81	8.58	144.71
2006	6.81	151.47	10.74	160.26
2007	4.27	157.93	-2.28	156.60
2008	-16.73	131.51	-27.01	114.31
2009	16.35	153.00	32.73	151.72
2010	7.06	163.81	7.80	163.56
2011	6.13	173.86	9.25	178.68
2012	7.43	186.78	18.14	211.10
2013	2.48	191.42	-5.51	199.47
2014	7.18	205.16	13.84	227.07
2015	4.80	214.97	1.81	231.18
2016	3.84	223.24	2.99	238.09
2017	8.22	241.59	9.69	261.17
2018	4.25	251.85	4.76	273.60
2019	8.69	273.74	10.68	302.82
2020 YTD	0.98	276.42	-2.64	294.82
19.50 Years Annual Compound	5.35		5.70	

Source: Hamlin Capital Management. The performance provided is a preliminary estimate as Q2 2020 performance has not yet been examined by ACA Performance Services and may be subject to change. Individual accounts vary.

Fixed Income Q&A

Q: Can you share a brief synopsis of what happened in the muni market between March and June?

As we first covered in our Q1 letter, in a reversal of a years-long placid municipal market, the muni market was thrown into disarray when it became caught in the COVID-19-driven frenzied selling. The sell-off affected everything from equities to Treasuries as investors sought cash in the middle of March. The initial March crisis in munis was a liquidity driven crisis – not a credit crisis. A tidal wave of cash poured out of the muni fund complexes and interest rates for municipals spiked. However, after the Fed put a backstop in place at the end of March, the massive outflows from open ended municipal mutual funds abated and

interest rates in Muni-land plunged closer to pre-COVID levels. In April and May, the broader High Grade market returned to a semblance of normal. Subsequently certain sectors across the municipal landscape have come under fire as market participants began assessing the damage the pandemic and ensuing lockdown would have on individual projects.

While the market has been moving at a frenetic pace, your managers at Hamlin have been focusing on protecting principal and responsibly investing capital in quality credits in our core sectors. Before we get into the details on market opportunity, we would like to discuss the existing portfolio and how our projects are protecting client capital. As COVID-19 sweeps across the country, we have spoken with a great many of you throughout the quarter and, given many of the questions and conversations, we thought answering the following questions would be helpful.

Q: How is COVID-19 affecting client projects in the Senior Living and Education sectors?

There is almost no major industry or aspect of daily life that has not been affected by this pandemic. The senior living and education sectors are certainly no exception. However, our portfolio has come through this incredibly volatile time with no new defaults due to COVID-19 related issues and no new payment interruptions for 7/1 payments. We are also not currently expecting any payment interruptions for the 12/1/20 or 1/1/21 payment cycles. Many of you have called with good questions on these sectors over the past few months and we think taking a deeper dive into each one is important.

Senior Living

There is no shortage of articles published in the press on the prevalence of COVID-19 and associated fatalities at nursing homes (especially in the Tri-State area). It is important to remember there is a significant structural difference between for-profit Skilled Nursing Homes and the non-profit Independent and Assisted Living facilities which are the primary focus of the Hamlin Senior Living Portfolio. The two main things that put Skilled Nursing residents at such high risk from COVID-19 are the following:

1) The type of resident – these residents are generally the oldest and frailest of any senior living cohort. They can be suffering from multiple other illnesses and often have very weak immune systems. According to a large-scale study done on almost 2,000 seniors who died in nursing homes, the median length of stay (before passing) was 5 months.[17] Nursing homes are very often providing end of life care. Sadly, it is not surprising residents of this age and nature fall sick in the face of this terrible virus.
2) The care provided – due to the multiple health issues many of these individuals face, the residents require extensive physical contact with staff (hence the term “nursing”). Residents often require help with their medications, eating and drinking, using the facilities, bathing/cleaning etc. In the broader Senior Living world, it is often the staff that bring viruses (of all types) into facilities.

[17] https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1532-5415.2010.03005.x

They have constant touch points with many different residents and can spread germs very easily from resident to resident in a rapid manner.

These two factors together create an unfortunate scenario where the frailest residents are least able to isolate/protect themselves from the virus. **Neither** of those factors is significantly at play within the Hamlin Portfolio. The majority (approximately 85% of the units) of the Hamlin Senior Living Portfolio is invested in the Independent Living/Assisted Living ("IL/AL") Sector within the broader Senior Housing sector, not Skilling Nursing. These residents are generally younger and more robust than their counterparts in Skilled Nursing. Almost as importantly, many of them take care of themselves. Many lower acuity projects are essentially age-restricted apartment/townhouse living with various amenities (dining, gyms, pools, etc) available to the residents. Early on in this pandemic, most facilities closed the common amenity areas and the residents have been quarantining in their units – much like the rest of us. We have very little exposure to stand-alone higher acuity facilities and those with higher acuity exposure generally provide a broad range of services.

This crucial difference between Hamlin client projects (Independent Living vs Skilled Nursing focused) is important to note and hopefully corrects some broader misconceptions about the industry. Hamlin projects differ from other long-term care senior living projects in the general High Yield market:

- We generally work with 501(c)(3) non-profit borrowers which have a very different time horizon than for-profit companies and work to serve a mission rather than a bottom line.
- Often the project has significant liquidity on hand or is backed by an entity that provides it. This liquidity comes in many forms -- from large obligated group balance sheets to supporting foundations. Having these sources of liquidity provides a crucial margin of safety and is key to weathering any temporary occupancy and cost issues arising from COVID-19. We evaluate forward operations on existing (and potentially reduced) occupancies to ensure properties continue to operate successfully for years.
- We have been very careful in project selection. We have not put the many no-equity stretch deals in the portfolio which one might find elsewhere. Our projects generally have equity, liquidity support agreements, and real teeth to the documents that allow us to affect change if something is wrong.

These requirements all speak to the long-term Hamlin model of controlling ownership on projects with borrowers we know and trust.

As a result, we have not seen a rash of deaths in our facilities and we do not expect a rash of defaults. Our projects are generally well operated and well capitalized. While it is unavoidable that we have had COVID-19 at various facilities, it has generally been an operational problem rather than an existential problem for our borrowers. This is a time to be thankful for the due diligence and deal sourcing that is a key part of the Hamlin investment model. We are not buying small slices of large "Street deals" and hoping they pay. We are primarily working with borrowers we have known and trusted for years – this should see the Hamlin Senior Living Portfolio through this difficult time. Meanwhile, we continue to position ourselves for

opportunity in the space as less well capitalized/managed projects that default could incite outflows from fearful mutual fund investors. We would look to take advantage of any future capital exodus from the space as we did in March and April.

Education

While there has been plenty of physical disruption in the K-12 public education sector in the U.S/ (closed schools, virtual learning, uncertainty about going back to school, etc.), there has not yet been disruption in the funding of these public schools. It important to remember our public charter schools are a part of the public education system – funded by state and local budgets across the U.S. They are not private pay and there is no tuition – it is no different cost-wise than sending a child to the local district school. As required by statute, charter schools will be funded alongside other public education this year and we are already seeing that as states pass budgets. There will be pain as municipal revenues are down and states are forced to cut budgets but as the elected politicians of our great county argue over the budget, education looks to be faring well in the battle for limited resources (as it usually does). Some of this is noble:

- These dollars educate the future of America and the kids deserve to have a quality education – it has always been an important and well-funded part of state budgets.
- Full or part time virtual learning increases costs of providing the same education. They may be able to streamline costs moving forward but costs jumped for schools in the spring as they were forced to implement new systems and procedures almost overnight.
- Given the "home-schooling" this spring, many students are behind and will need increased resources to catch up.

Some perhaps not so noble but potentially more salient reasons:

- Roughly 55% to 65% of every district schools budget goes towards the salaries and benefits of a politically motivated and unionized block of teachers that **always** "turns out" – they vote.
- Parents are another motivated group of individuals that vote. They want to see schools operating and education funded over other political pet projects.

Consequently, politicians generally do not want to be responsible for draconian cuts to education funding.

To the extent that there are cuts, we should continue to get paid as the senior secured lender. Many of the projects (in states with strong charter laws) are set up with an irrevocable pledge of Department of Education dollars – the funds are sent first to a corporate trustee who pays principal and interest before sending the balance to the school. This means bondholders get paid first. While states are in the process of putting together budgets as we write, some of our larger states have already passed budgets and initial indications point largely to slight decreases or flat budgets. Having been long-term investors in the space since the early 2000's, we have been through this before: after the 2008 Global Financial Crisis, education budgets faced this type of stress. Then, as we expect now, we saw some small reductions in funding but none that caused outright default. And now, as we did then, we are stress testing our largest schools with

contingency budgets and funding reduction scenarios to ensure they have the liquidity on hand to deal with any short-term deficits. Our charters are more entrepreneurial and nimbler than large school districts and, as with the challenges presented to our senior living borrowers, these are operational not existential issues.

Q: How has Hamlin taken advantage of the volatility and how has the opportunity set evolved since March?

As we discussed in the previous newsletter, the initial extreme liquidity crisis, mutual fund outflows, and subsequent rise in interest rates in the middle of March created a wave of selling from ETFs and mutual funds. This created a significant opportunity for our clients armed with the cash and unfunded commitments which we approached in a few different ways.

We generally sought to uptick the credit quality and liquidity of the portfolio. While the majority of our portfolio will likely remain Hamlin-sourced deals that we own substantially all of, we like to step into rated credits owned by mutual funds that are forced to sell to meet redemptions when the Street is selling en masse at a discount. This gives us natural buyers for the bonds when they recover in price should we want to harvest gains. **We focused on two distinct opportunities:**

1. First, we were able to purchase cheap pre-refunded bonds on the very short end. “Pre-res” are old bonds that are still outstanding but have been refunded with U.S. Treasury bonds that are funded into escrow – meaning that the remaining interest and principal payments (until the call date) are invested in Treasuries until they are used to make those payments. There was a massive dislocation in this market in March – however that opportunity largely dried up when the Fed entered the market in late March.

2. The second (and greater volume) strategy was to buy longer maturity bonds on good projects (often investment grade) in our core sectors at discounts. This allows for an attractive cash yield as well as potential capital appreciation on the bond once markets normalize. The opportunity via this avenue continued into April and May as funds bled out of mutual funds. Many of the bonds we purchased at a discount subsequently moved up in price as the market rallied. Discounts from par also inherently mean you are purchasing the underlying collateral at a price which we believe provides downside protection.

In total we have purchased more than $200 million bonds in the secondary this year. As the market has rallied through much of the second quarter, we have seen both of those strategies pay off for clients – we have locked in some of those gains via sales in June and early July. We will continue to do so while mutual fund inflows continue and the market accommodates what we feel is a return to aggressive pricing.

We also continue to see opportunity in the primary market. We have historically been active in the primary markets in periods of dislocation, buying quality credits at attractive yields. This includes purchasing at original issue discounts on primary market bonds which allow for yield as well as capital appreciation.

Q: Are there going to be further opportunities?

We are committed to opportunistically deploying capital during this time of dislocation in places that we feel will benefit clients for years to come. However, our primary focus, as ever, is to protect capital. The March/April dislocation was one of the best buying opportunities we have had in years. While the current environment is not quite as exciting, there are still opportunities to be had. We also feel that there are significant defaults that may still occur in the municipal market which could turn flows negative and once again present us with opportunity.

While defaults in the broader municipal market have been up year-over year, the market has not seen the type of pain many expected. Sometimes it takes a while for projects to capitulate – plenty of "Street deal" projects have the reserves to hold on for the near, but not the longer, term. Projects in the Convention Center/Hotel and Student Housing/Higher Education sectors will likely see increased stress this fall. Any project backed by rental car or airport taxes, as well as other large consumer usage projects (think Virgin Trains in Florida or The American Dream Mall in New Jersey) could also see significant issues as they struggle to generate revenue. While we feel our projects are in a good spot, we do think projects in other spaces will suffer. We are hopeful this will create additional opportunity for Hamlin clients in our core sectors.

We look forward to shepherding the portfolio and our clients through this volatile environment which we expect to continue into the near future. We will do so with same thoughtful management you have come to expect from your money managers at Hamlin that guided us through 2008, 2011, and 2013 and events thus far in 2020.

As a reminder, Hamlin manages client assets based on the individual needs of each client. Please contact us if there have been any changes in your financial situation or investment objectives, or if you wish to impose any reasonable restrictions on the management of your account or reasonably modify existing restrictions.

Thank you sincerely for your trust and confidence. Please call (212) 752-8777 with any questions or suggestions.

Joe Bridy • Chris D'Agnes • Deborah Finegan • Charlie Garland • Mark Stitzer

Benjamin Kaufman • Parker Stitzer • Michael Tang

IMPORTANT DISCLOSURES:

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Investing, particularly in equities, involves the risk of a loss of principal. Any projections, targets, or estimates in this report are forward looking statements and are based on Hamlin Capital Management, LLC ("HCM")'s research, analysis, and incorporate assumptions made by HCM. All expressions of opinion are subject to change without notice and HCM undertakes no obligation to update the statements presented herein. While HCM believes the sources of all data provided in this presentation are reliable, HCM does not guarantee accuracy, reliability or completeness. Data is presented as of the date indicated and HCM does undertake any duty to update the information presented here.

This document is provided for information purposes only and does not pertain to any equity security or bond product or service and is not an offer or solicitation to buy or sell any product or service. Due to rapidly changing market conditions and the complexity of investment decisions, supplemental information and other sources may be required to make informed investment decisions based on your individual investment objectives and suitability specifications. Clients should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report. Please refer to the attached Equity Only and Bond Only Composite Annual Disclosure Presentations for further information regarding any performance results or comparisons shown in this letter.

DEFINITIONS

- *The S&P 500 Index is a market capitalization-weighted index consisting of 500 stocks chosen for market size, liquidity, and industry group representation, with each stock's weight in the Index proportionate to its market value.*
- *The Russell 3000 Growth Index is a market capitalization-weighted index of the growth segment of the 3,000 largest U.S. public companies.*
- *The Russell 3000 Value Index is a market capitalization-weighted index of the value segment of the 3,000 largest U.S. public companies.*
- *Dow Jones U.S. Select Dividend Index is an index composed of relatively high dividend paying companies.*
- *AAA MMD Curve is a proprietary yield curve that provides the offer-side of "AAA" rated state general obligation bonds, as determined by the MMD analyst team.*
- *Dividend yield is the ratio of a company's annual dividend compared to its share price.*
- *Free Cash Flow represents the cash a company can generate after required investment to maintain or expand its asset base.*
- *Return on equity is a measure of financial performance calculated by dividing net income by shareholders' equity.*
- *PE: The Price-to-Earnings Ratio or PE ratio is a ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio can be calculated as: Market Value per Share / Earnings per Share.*
- *CCAR or Comprehensive Capital Analysis and Review is an annual exercise administered by the Federal Reserve aimed at stress testing large bank holding company capital levels*
- *Net debt to capital ratio is calculated by dividing the outstanding debt less cash by a company's total capital and is a measure of balance sheet strength.*

Hamlin Capital Management, LLC
Equity Only Composite
Annual Disclosure Presentation
January 1, 2001 through March 31, 2020

Year	Total Firm Assets (mm)	Composite Assets (mm)	Number of Portfolios	Composite Net Return	S&P 500 Return	Internal Dispersion	Composite 3-Yr St Dev	S&P 500 3-Yr St Dev
*YTD 2020	4,057	1,136	579	-25.71%	-19.60%	N.A.	N.A.	N.A.
2019	4,706	1,610	646	21.54%	31.49%	0.55%	9.45	11.93
2018	4,253	1,504	688	-6.97%	-4.38%	0.64%	10.37	10.80
2017	4,553	1,772	683	15.84%	21.83%	1.29%	10.27	9.92
2016	3,617	1,623	679	14.93%	11.96%	1.26%	11.05	10.59
2015	3,186	1,373	725	-4.54%	1.38%	0.66%	9.91	10.48
2014	3,077	1,414	704	10.93%	13.69%	0.51%	8.57	8.97
2013	2,703	1,234	624	32.72%	32.39%	1.04%	10.19	11.94
2012	2,029	798	480	11.03%	16.00%	1.12%	12.39	15.09
2011	1,623	584	388	10.16%	2.11%	0.71%	14.11	18.71
2010	1,033	191	220	20.65%	15.06%	2.22%		
2009	714	30	51	20.98%	26.46%	2.69%		
2008	584	12	30	-28.57%	-37.00%	4.45%		
2007	734	18	31	3.97%	5.49%	2.86%		
2006	869	29	48	7.90%	15.79%	5.93%		
2005	716	31	42	20.80%	4.91%	4.90%		
2004	501	19	26	22.80%	10.88%	7.67%		
2003	130	8	24	30.40%	28.68%	9.87%		
2002	49	5	29	0.90%	-22.06%	6.15%		
2001	21	6	34	0.99%	-11.93%	10.69%		

* Performance represents a non-annualized partial period return ending on March 31, 2020.

Equity Only Composite consists of fully discretionary accounts that are comprised of any amount of common stocks and cash. There is no minimum account size or time period to be included in the composite. Returns include the effect of foreign currency exchange rates. The exchange rate source for the composite is IDSI/IDC – FT Interactive Data Corporation. The S&P 500 index is provided solely as a widely recognized index. The index is in no way indicative of the strategy employed in this composite. It is the position of Hamlin Capital Management, LLC ("Hamlin") that a meaningful benchmark is not available for this strategy due to the frequent and customized changes in allocation in individual accounts. Benchmark returns are not covered by the report of independent verifiers.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. Investing entails the risk of loss of principal. The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and includes the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign dividend withholding taxes, where applicable, for the period prior to October 1, 2016, and gross of foreign dividend withholding taxes thereafter. Composite performance accrues dividends starting October 1, 2016. The management fee schedule is as follows: 1.00% on all assets. Actual investment advisory fees incurred by clients may vary. Composite performance is shown net of custodial fees for the period prior to January 1, 2018, and gross of custodial fees and other charges that may occur as a result of a client's choice of service providers thereafter. Beginning 10/1/19, a significant number of accounts in the composite are custodied with a broker that does not charge trading expenses. Accounts custodied with other brokers may incur trading expenses which may reduce returns. As of 03/31/20 date, these accounts represent 23.17% of composite assets.

Hamlin is an independent registered investment advisory firm. Hamlin invests in fixed income and equities for separately managed accounts, as well as funds. In January 2004, Hamlin merged with RRH Capital Management Inc. and the performance returns are linked. The firm maintains a complete list and description of composites, which is available upon request. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

The Equity Only Composite was created April 1, 2006. Hamlin claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Hamlin has been independently verified for the periods January 1, 2001 through December 31, 2008 by Ashland Partners & Company LLP. ACA Performance Services began verification for Hamlin on January 1, 2009 through March 31, 2020. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Equity Only Composite has been examined for the periods beginning January 1, 2001 through March 31, 2020. The verification and performance examination reports are available upon request. The policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Hamlin Capital Management, LLC

Bond Only Composite

Annual Disclosure Presentation

January 1, 2001 through March 31, 2020

Year	Total Firm Assets (mm)	Composite Assets (mm)	Number of Portfolios	Composite Net Return	BHYMBI Return	Internal Dispersion	Composite 3-Yr St Dev	BHYMBI 3-Yr St Dev
*YTD 2020	4,057	793	257	-3.62%	-6.88%	N.A.	N.A.	N.A.
2019	4,706	814	260	8.69%	10.68%	0.99%	2.02	3.02
2018	4,253	789	245	4.25%	4.76%	0.64%	3.04	4.91
2017	4,553	733	234	8.22%	9.69%	1.67%	2.82	5.42
2016	3,617	634	219	3.84%	2.99%	0.76%	2.54	5.96
2015	3,186	758	193	4.80%	1.81%	0.77%	0.99	6.35
2014	3,077	538	138	7.18%	13.84%	1.03%	1.14	6.22
2013	2,703	546	190	2.48%	-5.51%	0.84%	1.44	5.90
2012	2,029	474	172	7.43%	18.14%	1.39%	1.52	4.17
2011	1,623	442	173	6.13%	9.25%	0.86%	2.67	7.81
2010	1,033	314	124	7.06%	7.80%	0.84%		
2009	714	220	90	16.35%	32.73%	1.64%		
2008	584	181	67	-16.73%	-27.01%	1.80%		
2007	734	173	50	4.27%	-2.28%	0.96%		
2006	869	153	55	6.81%	10.74%	1.14%		
2005	716	86	53	7.94%	8.58%	1.84%		
2004	501	53	33	8.27%	10.52%	1.61%		
2003	130	18	27	9.14%	13.22%	2.19%		
2002	49	17	29	7.22%	1.97%	2.63%		
2001	21	17	31	4.54%	4.45%	15.07%		

* Performance represents a non-annualized partial period return ending on March 31, 2020.

Bond Only Composite consists of fully discretionary bond only accounts that are comprised of any amount of bonds and cash. There is a 1 year waiting period to be included in the composite. There is no minimum account size for inclusion in the composite. The Bloomberg-Barclays High Yield Municipal Bond Index (BHYMBI) is provided solely to allow for comparison to a widely recognized index. The index is in no way indicative of the strategy employed in this composite. It is the position of Hamlin Capital Management, LLC ("Hamlin") position that a meaningful benchmark is not available for this strategy due to the frequent and customized changes in allocation in individual accounts. Benchmark returns are not covered by the report of independent verifiers.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. Investing entails the risk of loss of principal. The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and includes the reinvestment of all income. Net of fee performance was calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The management fee schedule is as follows: 1.00% on all assets. Actual investment advisory fees incurred by clients may vary. Composite performance is shown net of custodial fees for the period prior to January 1, 2018, and gross of custodial fees and other charges that may occur as a result of a client's choice of service providers thereafter.

Hamlin is an independent registered investment advisory firm. Hamlin invests in fixed income and equities for separately managed accounts, as well as funds. In January 2004, Hamlin merged with RRH Capital Management Inc. and the performance returns are linked. Hamlin maintains a complete list and description of composites, which is available upon request. A copy of our current written disclosure statement discussing our advisory services and fees continues to remain available for your review upon request.

The Bond Only Composite was created April 1, 2006. Hamlin claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Hamlin has been independently verified for the periods January 1, 2001 through December 31, 2008 by Ashland Partners & Company LLP. ACA Performance Services began verification for Hamlin on January 1, 2009 through March 31, 2020. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Bond Only

Composite has been examined for the periods beginning January 1, 2001 through March 31, 2020. The verification and performance examination reports are available upon request. The policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.