HAMLIN
CAPITAL MANAGEMENT, LLC

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Fourth Quarter 2017 Update

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Overview

Hamlin equity accounts increased in value over the last three months as the S&P 500 jumped 6.6% in the fourth quarter, celebrating the eventual lowering of corporate tax rates and improving global growth. Treasury yields backed up modestly as bond investors discounted pending fiscal stimulus and a well-telegraphed December Federal Funds rate increase. Hamlin high-yield tax exempt municipal portfolios increased in value over the final quarter of 2018.

Equity Market Outlook

Wall Street strategists are calling for a run to 3000 for the S&P 500 Index in 2018, implying a 14% total return including dividends. Hamlin math suggests that these seemingly euphoric predictions are conceivable. Our optimistic scenario assumes fourth quarter earnings end up a bit better than expected, with full-year 2017 S&P 500 Index EPS around $132/share. High single digit core earnings growth in 2018 – feasible as U.S. personal income growth accelerates and global growth continues to improve – gets to about $144/share. We estimate that the new lower effective corporate tax rate should add approximately 8% to S&P earnings. As a result, investors could be thinking about $155/share as a run rate exiting 2018. Five percent growth the following year implies $163.30/share, oddly not far from the 2019 strategist consensus of $163/share. Should 10-year Treasury yields climb at a measured clip towards 3%, then the market could sustain its current next twelve months' PE of 18.2x, driving a 2972 S&P 500 Index target for year-end 2018.[1] The absence of clear investment alternatives to equities and accommodative central banks abroad could support this seemingly elevated multiple assumption.

Dividend yield math supports the bullish scenario at first glance. Assuming a reacceleration of distribution growth to 10%, perhaps assisted by repatriation of foreign cash, implies a $54/share S&P 500 Index dividend in 2018. Maintaining the market's 1.83% yield at year-end 2017 delivers a 2950 target. While the implied payout ratio of 35% based on our 2018 dividend and earnings estimates may be conservative in the context of a 57% long-term average,[2] we also see ample room for the market's dividend yield to move back towards (or above) its 30-year average of 2.21% as interest rates rise. A back-up in dividend yield to just 2% suggests fair value at 2700, just below today's levels.

Unfortunately, a 15% correction for the S&P 500 Index to 2275 would not surprise us. Earnings could easily come in below current analyst expectations. If pre-tax earnings grew at a respectable 5% pre-tax clip while a significant portion of corporate tax savings were invested in wages or prices, 2018 S&P 500 earnings could come in around $145/share. Higher inflation and monetary policy anxiety could drive the market PE down to the 15.7x average since 2000. Note that in both scenarios, we do not envision further PE expansion. Figure 1 below shows that multiples have historically declined when inflation increases. While optimistic about the business environment, your Hamlin portfolio managers are mindful that our

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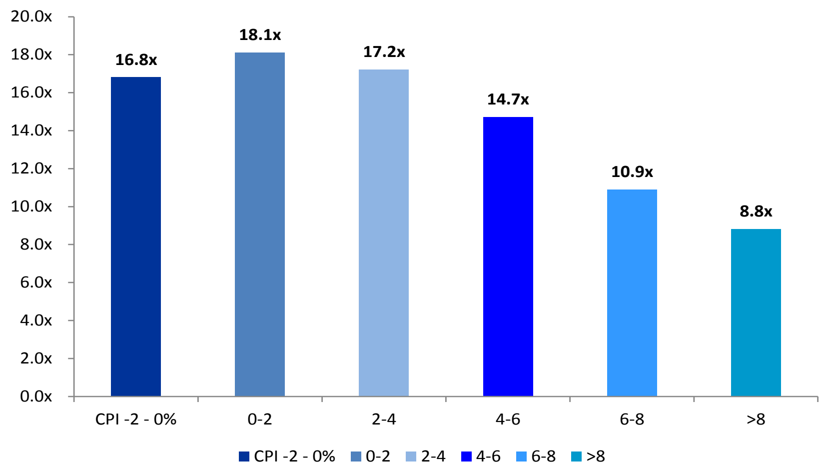
[1] The "Rule of 20," developed by CJ Lawrence's Jim Moltz decades ago, states that the stock market is fairly valued when the price / earnings ratio equals 20 minus the inflation rate. The Financial Times.

[2] Payout ratio based on 92 years of data. Source: Ned Davis Research.

market upside and downside targets are symmetrical. Cash balances may remain above historical levels as existing holdings approach our target prices.

Figure 1: LTM PE Multiple Sensitivity to Inflation

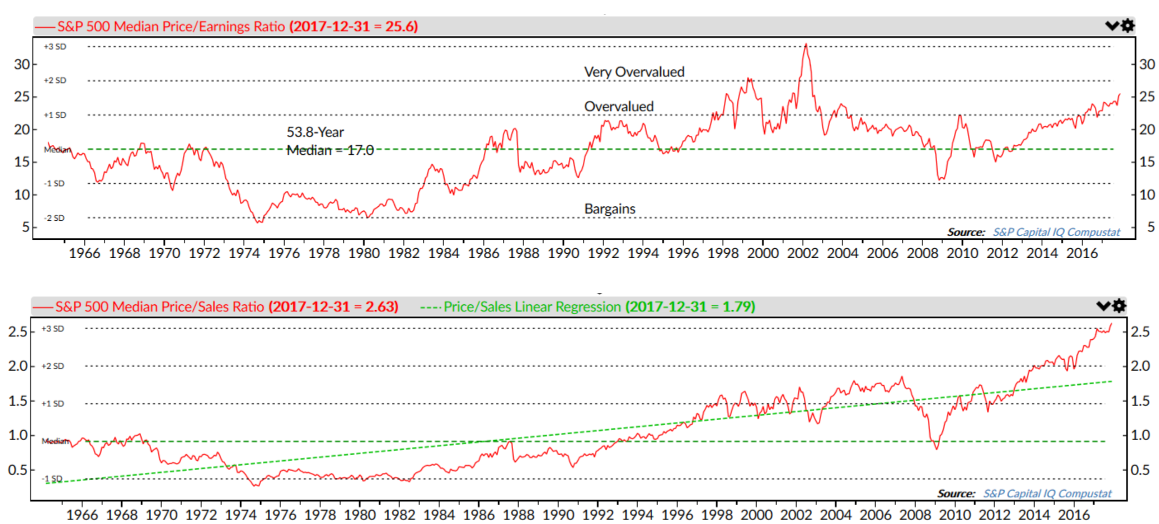


Source: Barron's.

What We Worry Most About

Valuations are elevated. As of year-end, 106 months have passed since the last 20% correction. The average bull market since World War II lasts 54 months, and only the 1990-2000 bull lasted longer. Multiples have expanded a bit faster than earnings, and valuations are no longer compelling. The current S&P 500 Index forward 18.2x PE is 16% higher than the average since 2000, cash flow multiples appear even further extended, and price to sales ratios are in record territory.

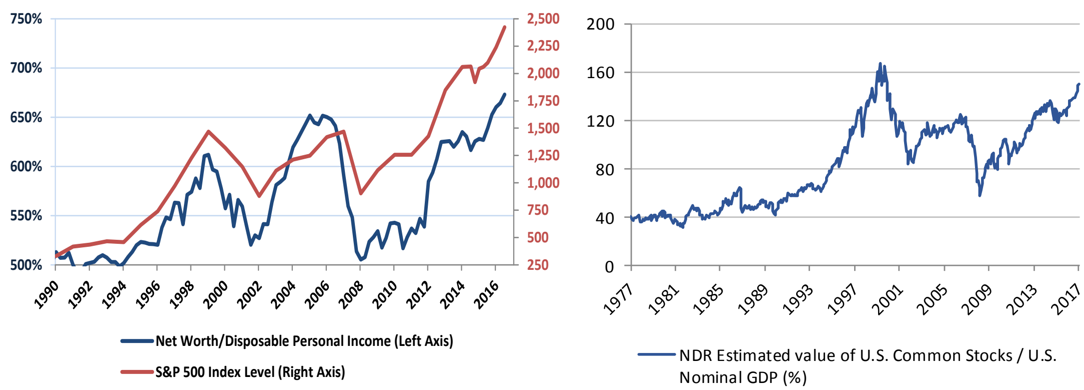
Figure 2: S&P 500 Median Price/Earnings and Price/Sales



Source: The PE median of 25.6x in chart exceeds the 18.2x PE mentioned twice above because the Median is a trailing PE and does not market cap-weight component company PE's.

We are mindful that multiples often rise when margins expand and interest rates are low. Lower corporate taxes and global central bank bond buying have delivered both powerful multiple expanders. However, history shows that valuation multiples contract either when inflation increases or when the Fed raises rates. Should consensus expectations for three Fed Funds increases in 2018 hold true, we should prepare for lower PE's and hope that earnings growth can compensate. The ratio of household net worth to disposable income is also historically high, raising questions as to the sustainability of the buying power that has driven the increase in stock and housing prices and suggesting that QE has inflated asset prices. Let's hope that rising incomes can correct the ratio**.** Finally, the simple ratio of equity market capitalization to U.S. GDP gives us pause.

Figure 3: Net Worth / Disposable Personal Income and Stock Market Value-to-GDP



Source: Federal Reserve, FactSet.

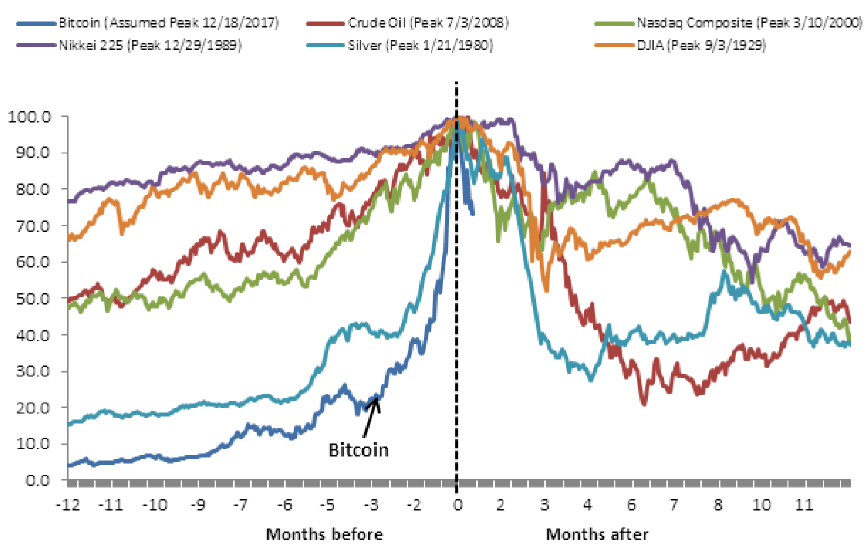
Increasingly bullish sentiment. We sense complacency. 2017 has been described as the "perfect year" for the S&P 500. Every month delivered a positive total return for the first time in history. The index posted 62 new closing highs, second only to 77 in 1995. In terms of volatility, there were only eight days with a 1% + move, the fewest since 1963. For a little perspective, the market moved at least 1% a day *199 times* in 1932. As a result, the CBOE Volatility Index (VIX) is probing generational lows. And nobody expresses a need to catch their breath! All ten strategists profiled in the Barron's in late December expect the market to rise in 2018, with an average forecast of 2,840. The Association of American Individual Investors reported stock allocations rose to 72%, the largest equity exposure in 16.5 years. Their 13% cash allocation is the *lowest since 1999*. Margin loans in brokerage accounts have increased materially.[3]

Will the market really accommodate this consensus "all clear" opinion? Global QE has flooded the system with money, and excesses are developing. The crown prince of Saudi Arabia paid $450 million for a Da Vinci painting of dubious pedigree, 50% more than any painting price in history (Paul Gauguin's "When Will You Marry?", valued at $300 million, was the former most expensive painting ever sold). Although we are partial to Satoshi Nakamoto's desire for a currency that cannot be manipulated by profligate central bankers, we suspect greed and the fear of missing out have inflated the Bitcoin bubble. Investor confidence

[3] Margin debt as a percent of GDP is currently at a record 3.0%, well above the 0.9% average since 1947. Source: Ned Davis Research.

will surely ebb one day. How will financial advisors and money managers handle an inevitable bout of market fluxion? Too many investment professionals have never experienced a secular increase in interest rates. Some decision makers have yet to even experience a bear market. The pervasiveness of exchange traded funds will exacerbate the situation, as market exposure can be trimmed by selling one ticker as opposed to thinking about individual companies' ability to navigate a more difficult operating environment.

Figure 4: Relative Bitcoin Bubble



Excessive Leverage. America's 104% Federal Debt-to-GDP ratio, well above the 36% level at the time of President Reagan's tax cut, could prevent us from consistently expanding at potential. Debt service and deleveraging necessitate austerity and often higher taxes. US state pension plans were 31% underfunded as of 2016 despite a nine-year bull market,[4] reflecting poorly timed under-exposure to U.S. equities and over-exposure to under-performing hedge funds. Taxpayers will have to shell out more to fund these under-water retirement plans or government retirees will have to make do with reduced benefits; both choices lower consumption. Total non-financial debt has taken out the 2007 highs at 250% of GDP, perhaps explaining the low 3% savings rate and tempering forward consumption growth.

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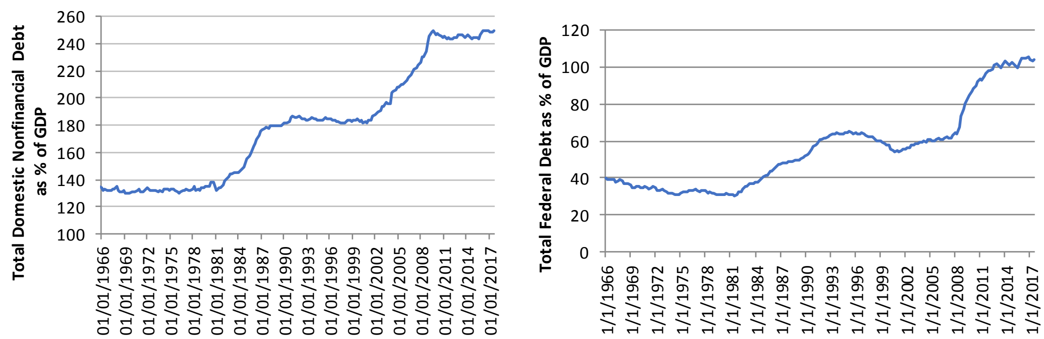
[4] Source: Bloomberg.

Figure 5: Total Domestic Nonfinancial Debt and Total Federal Debt as % of GDP

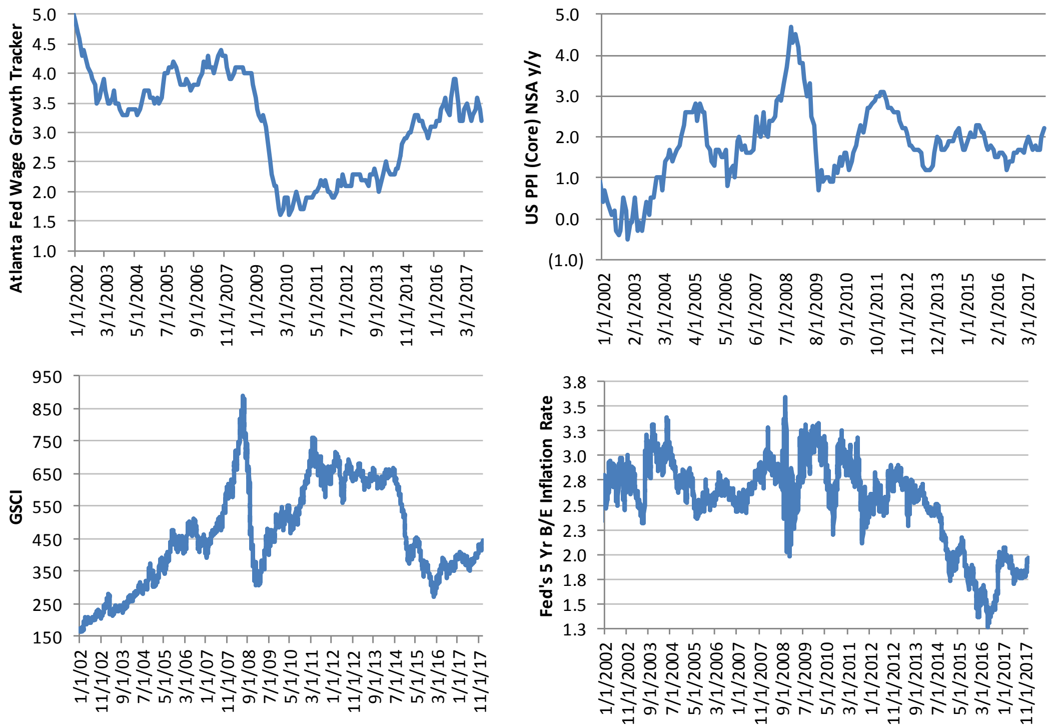


Inflation and Interest Rate Cycle Risk. Bear markets often develop around the end of the business cycle with the Fed raising rates to cool inflation. In fact, the low 4.1% unemployment rate may itself be a contrarian signal to prepare for the next recession.[5] Although mindful of the powerful deflationary forces of technology and globalization, we see signs of inflation. Labor costs are increasing, as shown below, and the trend should continue as eighteen states and twenty cities hike minimum wages this month. Commodity prices and producer prices are all also rising. The current uptick for these critical inflation markers occurs as GDP growth finally eclipses potential GDP growth—a first for this cycle.[6] Importantly, Treasury Inflation Protected Securities' (TIPS) "break evens," the implied forward inflation rate expected by holders of Treasury bonds, have moved sharply higher. The weaker dollar also renders imported goods more expensive, enabling domestic producers to raise prices. We suspect that newly minted Fed Chair Jerome Powell will be particularly vigilant in the context of a pending dose of fiscal stimulus this late in the economic cycle. Corporate and personal income taxes are dropping materially at a time when the national unemployment rate plumbs historic lows. We may be adding gasoline to the fire.

[5] Since 1948, the one-year forward return of the S&P 500 has averaged just 6.8% when unemployment is 5% or less, compared to an average return of 15.7% when unemployment is above 5% (Source: Bloomberg).

[6] Potential GDP, the Congressional Budget Officer's estimate of the maximum sustainable output of the economy, is derived from population growth and productivity estimates. When actual GDP exceeds the economy's potential output, inflation may accelerate as demand for labor and productive capacity exceeds available supply.

Figure 6: Atlanta Fed Wage Tracker, Core PPI, Commodities (GSCI), Fed's Inflation Breakeven



Source: Bloomberg.

Short term interest rates are rising; if history repeats, business activity should eventually decelerate in response. Stocks and the business cycle care about both the speed and duration of future rate hikes. Should inflation accelerate, investors will anticipate more aggressive tightening. Although Fed Funds have risen five times to a still-miniscule 1.50%, the reversal of quantitative easing means that the tightening process may be longer in the tooth than apparent.[7] At some point higher rates will compete more effectively against stocks in the asset allocation process, and analysts will be obliged to lower the value of equities' future discounted cash flows. Further complicating matters, the European Central Bank has tapered purchases and will eventually stop buying bonds. We believe that nearly non-existent European bond yields are anchoring U.S. Treasury and corporate bond yields. Higher European bond yields, as the ECB ends purchases, should translate to higher U.S. yields.

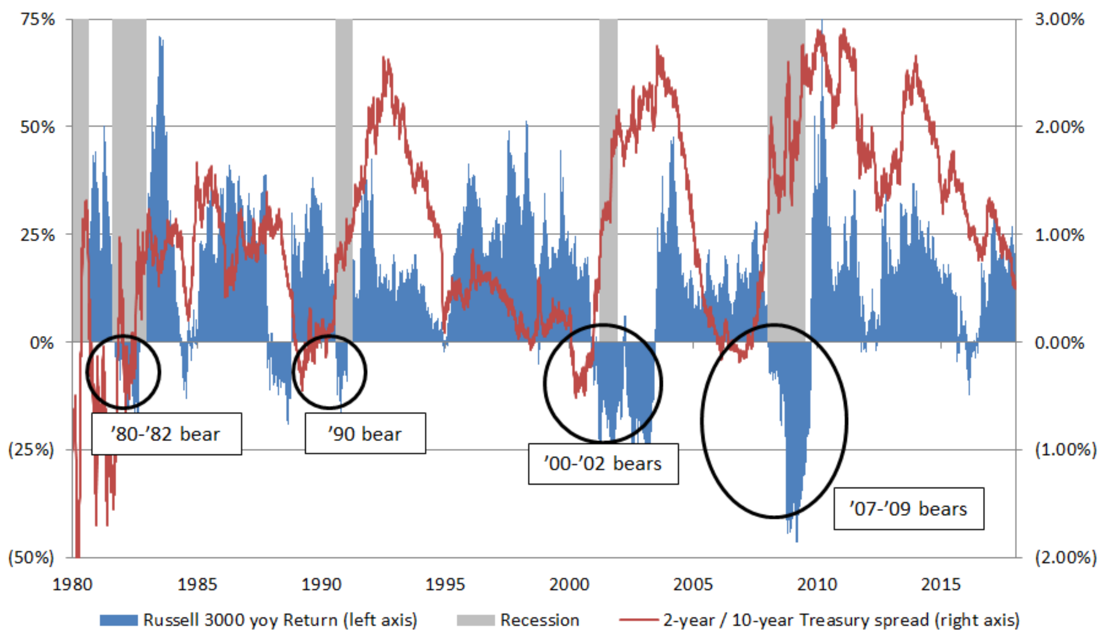
Bond market dynamics pose other risks to equity investors. Should the yield curve move further towards inversion as Fed Funds rise, a reliable recession indicator, an earnings growth scare could easily ensue.[8]

[7] In fact, the Fed has already hiked short-term interest rates by 450bps since mid-2014, according to the Wu-Xia Shadow Fed Funds Rate. This compares with trough-to-peak Fed Funds increases of 350bps ahead of the 2000-2002 bear market and 425bps ahead of the financial crisis. The shadow rate reflects the effective Fed Funds rate by using the Treasury Yield curve and accounts for unconventional monetary tools (e.g. quantitative easing). The shadow rate bottomed at negative 3% in May 2014 and has increased to 1.5% today (it is identical to the Fed Funds rate when Fed Funds is above zero). Source: Federal Reserve Bank of Atlanta.

[8] An inverted yield curve both (a) predicts a recession, as "risk off" bond investors accept lower returns for longer term certainty, and (b) contributes to the recession, as banks – who typically borrow short-term and lend longer-term – confront compressing margins and become less willing to lend.

Longer term, we worry about the massive inflows of investor capital into bond mutual and exchange-traded funds since the Great Recession.[9] These funds often own illiquid securities while offering owners daily liquidity. We suspect that many bond fund holders believe their principal is not at risk and could sell aggressively into unexpected weakness. While we understand that the unaffordability of higher debt service could mean that the System cannot "allow" rates to move meaningfully higher, battling a new generation of Bond Market Vigilantes may prove difficult for government authorities.

Figure 7: U.S. Yield Curve over Time



Source: Federal Reserve Bank of St. Louis. Copyright 2018 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/.

Why The Glass May Be Half Full

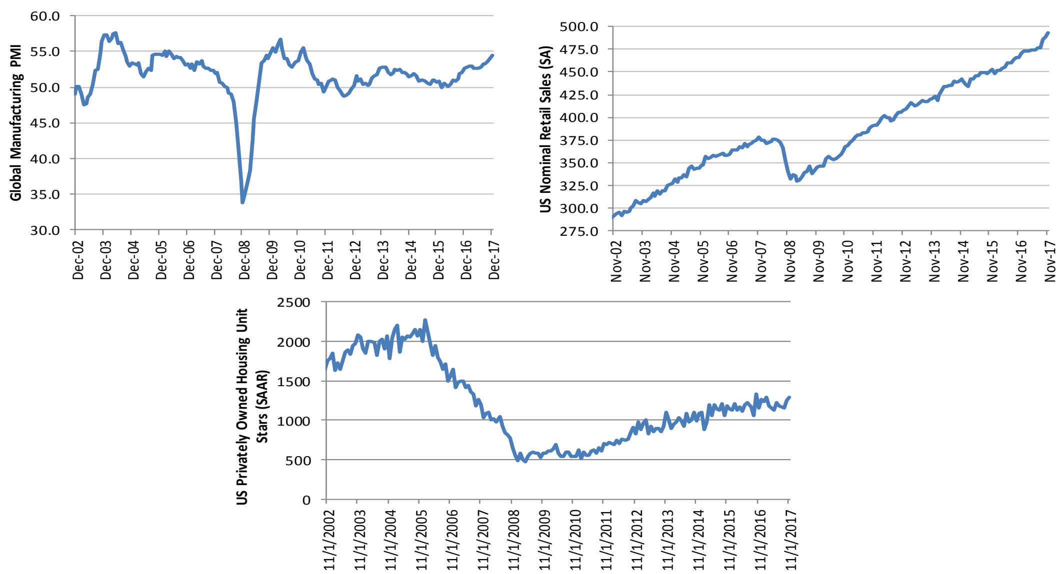
The global economy appears to be improving. Personal income growth appears ready to accelerate. Thanks to steady job growth, the Labor Department reported that December hours worked in the U.S. increased 2.2% from a year ago. Add that to the Atlanta Fed's wage tracker increase of 3.2% for November cited above, and consumer nominal income appears to be growing at a 5.4% clip. As a result, holiday sales grew 4.9%, the highest growth since 2011.[10] Future take home pay is growing at an even faster clip as the middle class taxpayer should save approximately $750 thanks to lower income taxes in 2018 and

[9] According to ICI, $950 billion has moved into bond mutual and exchange traded funds since 2012. WSJ, Jan 4 2018.

[10] Source: Mastercard SpendingPulse.

corporations announce tax-cut related bonuses.[11] At some point, interest rate increases may increase retiree confidence to spend as yields on money market funds, savings accounts and CD's finally climb above 1%.[12] Millennials, those 25-34 years old and the largest demographic cohort, are finding jobs. Their economic participation should help offset the Baby Boomers' propensity to spend less during retirement. Millennial household formation should also help sustain growth in housing. New housing starts remain well below the longer term average, especially when adjusted for population growth. The chart below implies that housing starts could increase from the current 1.3 million annual rate all the way back to the 2 million peak if we returned to 1% of the nation's 210 million 16-64 year olds buying newly constructed homes annually.[13] Business confidence is historically strong. While executives are wary of unpredictable tweet missiles, they welcome a less hostile regulatory environment. Global manufacturing is rebounding. Higher oil prices and the rebound in the oil and gas drilling rig count have helped U.S. manufacturing, and all major geographic theaters are growing simultaneously for the first time in a decade.[14]

Figure 8: Global PMI, Retail Sales, Housing Starts



Source: Bloomberg

Earnings Growth is Accelerating. Consensus estimates call for 12.7% growth in earnings this year, the fastest since 2011. 4.7% nominal global GDP growth over the last two quarters is driving corporate

[11] Institute on Taxation and Economic Policy; Over 100 companies have announced bonuses following passage of the tax reform bill. The list includes $1000+ per employee from AT&T, American Airlines, Bank of America, BB&T, Comcast, Fifth Third Bancorp, Nationwide Insurance, PNC, and Southwest Airlines. Source: Washington Examiner.

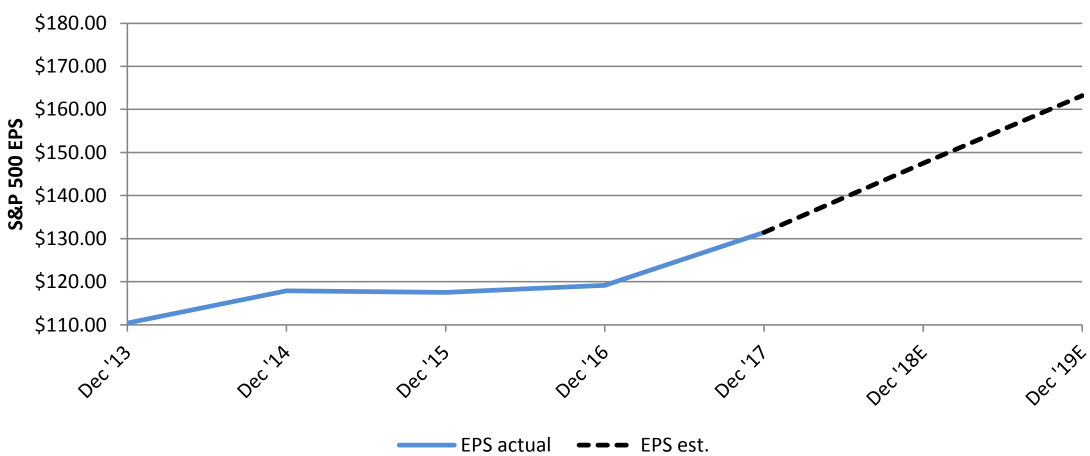
[12] With $9 trillion of savings deposits and $265 billion in money market funds in the US, a 1% increase in rates would generate $93 billion for America's savers. If half of this is spent, that would be an additional $47 billion in consumer spending. Source: Federal Reserve Bank of St. Louis.

[13] Population growth since the 2007 housing peak gives us comfort with our forecast for a bumpy climb to 1.5 million starts over the next few years.

[14] All 45 OECD countries are expected to grow GDP in 2017, the first time since 2007. Source: Wall Street Journal.

revenues, and the corporate tax cut boosts net margins. We assume that the average U.S. company derives approximately 60% of earnings domestically, where the tax rate could drop from 35% to 21%, and that the rest-of-world earnings continues to be taxed at 19%. Importantly, repatriation tax obligations, write downs on deferred tax assets, and the Base Erosion Anti-Abuse Tax (BEAT) on multi-national companies[15] should prevent full flow-through of the corporate tax cut. Still, the effective corporate rate could drop from 28% to around 22%, increasing net income by approximately 8%. Stocks follow earnings. Combined with repatriation of some portion of Corporate America's $2 trillion overseas cash hoard, chief financial officers should have significant incremental cash to return to shareholders and invest. We envision a combination of: growth-enhancing research and capital expenditure; accretive acquisitions; dividend growth; debt pay-down; and share buyback. While excited about these earnings and stock price-friendly actions, *we are preparing for the possibility that the tax offsets above for multi-nationals, higher wages, and re-investment decisions could lead to lower than expected 2018 earnings outlooks.*

Figure 9: S&P 500 EPS Historical and Estimates



Source: FactSet

Technicals are supportive. Financial conditions are quite favorable with tight credit spreads, a weaker dollar, and accommodative foreign central banks. The data suggest that credit is readily available to sustain economic and earnings growth. For the time being, we see few alarming divergences as the strong uptrends for the advance/decline line, the Dow Jones Transportation Average and the broader Value Line Geometric Composite Index all appear to confirm the S&P 500's advance. The scarcity of stocks to buy, as merger activity and stock buybacks have dwarfed new issuance for years, also serves as stock price tailwind.[16]

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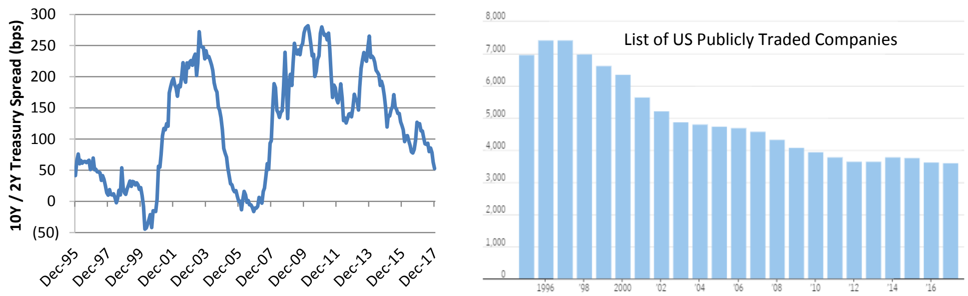
[15] BEAT is designed to penalize American companies who have off-shored intellectual property, research/engineering departments, and other expenses (including intra-company interest payments) to reduce domestic tax liabilities.

[16] Between year-end 1996 and 2016 the number of publicly traded stocks had dropped nearly 50% from 7,322 to 3,671, according to Credit Suisse. Mergers, private equity buyouts, and tepid initial public offerings explain the contraction. During the same time frame, the pool of professionally managed assets (mutual funds, index funds, hedge funds, and private equity funds) has grown from $2 trillion to $12.4 trillion. Near term: more money chasing fewer stocks. Longer term: active managers suffer from a smaller investable universe.

Figure 10: Credit Spread & De-Equitization



Source: Bloomberg, Center for Research in Security Prices at University of Chicago's Booth School of Business

Hamlin Equity Strategy

While mindful of the macro-economic investment climate, we spend most of our time on security-specific research. Recall that Hamlin stocks should pay us a compensatory and growing cash return, and they should be managed by executives who demonstrate a commitment to increase future dividend payouts. We invest primarily in businesses with high dividend yields, manageable debt, attractive returns on equity, and ample free cash flow-to-dividend coverage ratios. We still believe that miniscule money market interest rates are confounding income-hungry retirees. We think that aging Americans and their investment advisors will favor some of the very same high-income stocks that we are purchasing for you, particularly in light of today's favorable tax treatment of qualified dividend income.

Importantly, your dividend stream is not fixed. We are happy to announce that 33 of Hamlin's holdings announced dividend hikes in 2017, with an average increase of 6.7%. This welcome action validates our research analysis and increases your portfolio cash flow. We expect our companies, on average, to increase their cash payouts faster than the rate of inflation in 2018 and beyond. Hamlin's equity composite holdings, on average, pay a 4% dividend yield and trade at 15.3x 2018 earnings estimates. By comparison, the S&P 500 Index yields approximately 1.9% and sells for 18.3x 2018 estimates. Our portfolio companies' 3-year average return on equity is an attractive 19% and their balance sheets are healthy with an average debt-to-capital ratio of 43%.

Equity Performance

Hamlin's equity composite increased 6.3% in the final three months of the year,[17] trailing the S&P 500 Index's 6.6% advance. Our 15.8% Composite return for the full year exceeded our expectations while lagging the S&P 500 Index's 21.2% total return. Hamlin's value-oriented investment process was no match for this year's growth stock-driven rally. In fact, 2017 marked the widest dispersion between value and

[17] Performance is a preliminary estimate as Q4 performance has not yet been verified by ACA Performance Services, and may be subject to change.

growth since the tech bubble, with the S&P 500 Growth Index vaulting 25.4% while the S&P 500 Value Index gained 12.6%. Hamlin's composite return compared favorably to the Russell 3000 Value Index's 13.2% total return, an all-capitalization index that may be more representative of our style. Finally, we were pleased to catch the Dow Jones U.S. Select Dividend Index's 14.8% advance, as that dividend-focused exchange traded fund's high utility sector weighting shifted from contributor to detractor in the home stretch.

The performance table below suggests that an actively-managed dividend portfolio delivered attractive returns over a volatile period. Clients with us for our entire seventeen-year history have compounded at 10.3%, net of fees, well above the S&P 500's 6.3% annual return for the same period. We believe that income stocks outperform over the long haul because dividend policies act as a governor on the corporate capital allocation process and smooth investor returns in down markets.

We remind you that we are not managing your account to track or beat the S&P 500 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 help our institutions and individual clients meet their spending objectives. We aim to preserve financial security and lifestyles by protecting against inflation with future dividend increases and long-term capital appreciation.

Figure 11: Equity Performance

	HAMLIN EQUITY COMPOSITE (Net of Fees)	Cumulative	S&P 500 (No Transaction Costs or Fees)	Cumulative
2001	1.0	101.0	(11.9)	88.1
2002	0.9	101.9	(22.1)	68.6
2003	30.4	132.9	28.7	88.3
2004	22.8	163.2	10.9	98.0
2005	20.8	197.1	4.9	102.8
2006	7.9	212.7	15.8	119.0
2007	4.0	221.1	5.5	125.5
2008	(28.6)	157.8	(37.0)	79.0
2009	21.0	190.9	26.5	99.9
2010	20.7	230.3	15.1	115.0
2011	10.2	253.7	2.1	117.5
2012	11.0	281.7	16.0	136.3
2013	32.7	373.9	32.4	180.4
2014	10.9	414.8	13.7	205.1
2015	(4.5)	395.9	1.4	207.9
2016	14.9	455.1	12.0	232.8
2017	15.8	527.2	21.8	283.6
17.00 Years Annual Compound	**10.27**		**6.32**	

Source: Hamlin Capital Management. 4Q17 performance has not yet been audited by our independent verification service provider ACA Performance Services. See GIPS disclosure at the end of this report.

Fixed Income Commentary

The fourth quarter proved to be an exciting finish to the year for the municipal market as potential tax reform created significant uncertainty. Until November, the year had been a repeat of recent years—a relatively slow issuance calendar and a market laden with mutual fund inflows enabling continued low rates to prevail in the high yield muni space. However, when news initially broke that the proposed tax reform bill may remove the Private Activity Bond ("PAB") tax exemption under which 501(c)3 borrowers issue debt, uncertainly reigned.

While we now know the final bill did not remove the exemption for PABs it was a significant proposed change that blindsided the market. Most universities, hospitals, and other not for profits (including the types of projects in our portfolio such as senior living facilities and charter schools) as well as many large infrastructure related projects issue bonds under the PAB exemption—together making up approximately 20% of all muni issuance. The original House bill would have stopped all new PAB issuance. If lawmakers had denied these borrowers access to the municipal market, their cost of capital for future projects would have materially increased. They would have been forced into the high yield corporate market which generally demands higher rates because the interest on the bonds is taxable (i.e. a revenue stream for Uncle Sam).

For once, common sense prevailed. Raising the cost of capital on hospitals, schools, and other non-profits to pay for a corporate tax cut is not politically feasible. For our investors, the net result is that nothing has changed and the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") ended up having no direct effect on either our strategy or the bonds in the existing portfolio. Many of you contacted us throughout the tax bill's amendment process and we thank you for being patient with us as this made its way through Congress. While there will be ancillary effects to our business from other changes in the final bill, **our core bond business of purchasing unrated tax exempt bonds remains unchanged.**

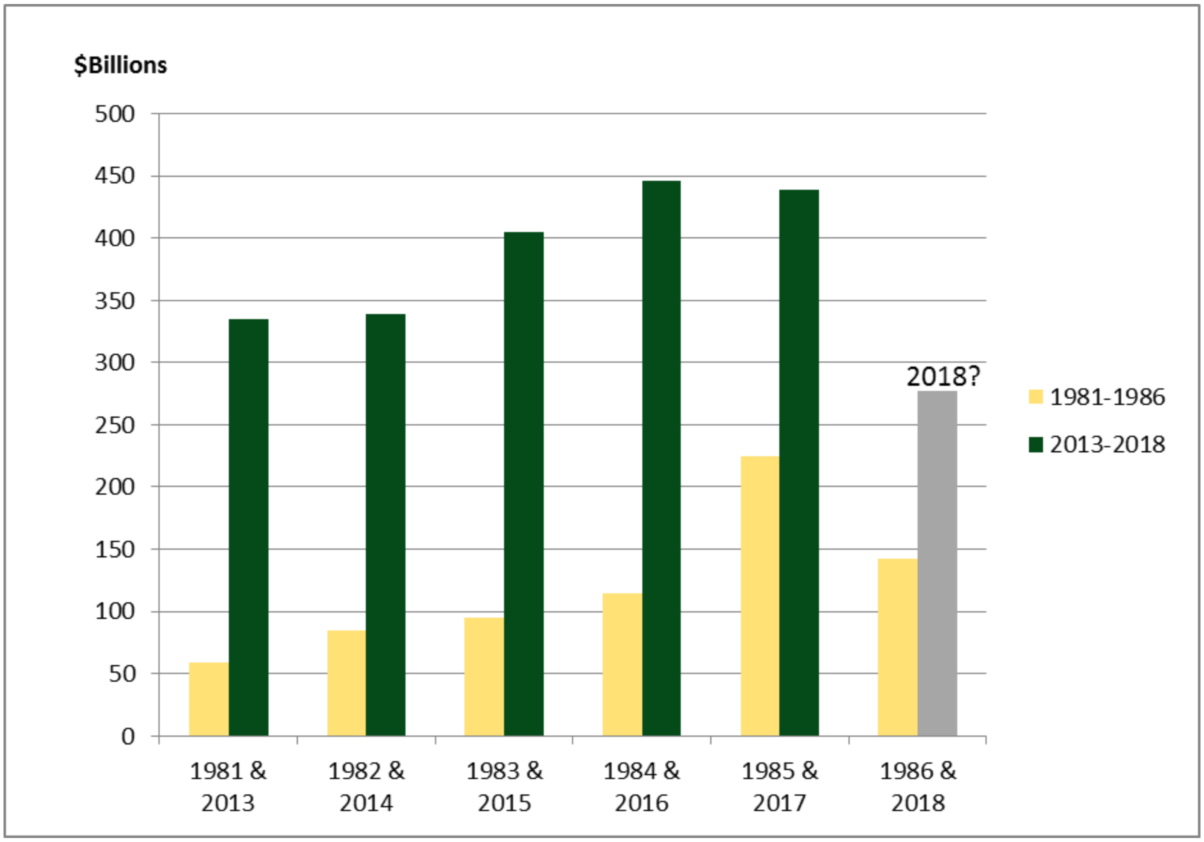
The uncertainty created by tax reform pulled billions of issuance from 2018 into the final months of 2017, with issuance in December alone going from under $20 billion last year to over $60 billion this year.[18] We were hopeful that this massive issuance wave would create opportunities for buyers if demand failed to match supply; unfortunately, demand kept up. Flows into high yield muni mutual funds for December were almost $1 billion, and sensing opportunity, broker/dealer desks stepped into the market, adding another buyer. Yields did move during the month but we continued to see large muni high yield deals (both in our sectors and outside of them) with yields below our purchase threshold, much like the first 3 quarter of the year. It wasn't all bad news, however, as we had several large deals come to fruition in the 4th quarter that offered attractive buying opportunities for clients despite the broader Street's pricing. We have doubled down on our strategy of sourcing, structuring, and buying offerings away from the market. Hamlin bond clients continue to buy bonds with attractive absolute yields at above-market spreads.

The proposed tax changes and resulting issuance wave in December means that January and February may be quiet months in terms of issuance. Looking back to a previous comparable scenario, the Tax Reform Act of 1986 similarly impacted municipal market issuance. After a record year of issuance in 1985 in advance

18 Source: The Bond Buyer

of tax reform, issuance fell by more than 33% in 1986. The 2017 Tax Act also included a provision removing the ability for PAB issuers to advance refund bonds[19] which could drive a similar slowdown in issuance. While a negligible part of Hamlin's portfolio, advance refunding financings have made up between 20% and 30% of the total muni market in recent years due to falling rates. Below you can see how municipal market issuance slowed in the year after the major tax reform of 1986. It remains to be seen if the same slowdown will occur in 2018.

Figure 12: Municipal Market Issuance – Before and After Tax Reform



Source: 1981-1986 data from the IRS; 2013-2017 data from SIFMA. The 2018 figure shown represents Hamlin's estimate based on an equivalent year over year decline as that seen in 1986.

Despite potentially lower supply, there is reason to think rates could be on the rise. The Fed has indicated a continued willingness to hike rates into mostly positive economic data and anticipates hiking rates 3 times in the next year. In addition, the long awaited downsizing of the Fed's $4.5 Trillion balance sheet was officially announced in September. After years of loose monetary policy, these two actions at the same time will have a tightening effect and we might see rates creep up, although money from the rest of the world

[19] Advance refunding allows issuers to lower their cost of capital prior to the expiration of a bond's call protection.

(Europe and Japan – where they are still easing) may flow into the U.S and keep a lid on rates. Net fund flows into municipals alone this year totalled $25 Billion with $7 Billion in High Yield.[20]

Until the market reacts in a meaningful way to the possibility of higher rates (and fund flows reverse), we expect a continuation of the status quo in our corner of the muni market. This fall and winter (even with the volatility from tax reform), we have seen deals in our space priced at absolute rates that don't compensate investors appropriately. We have also seen maturities extended past 30 years to fit growing debt loads, an imprudent practice. This is nothing new but its widespread nature, coupled with the general relaxation of certain loan covenants we consider standard, makes us wary.

In summation, while we don't yet know the long term consequences of tax reform, we do know this:

1. **The volatility created by the uncertainly provided a short term window to put some money to work, but it was not as significant as we might have expected.**
2. **There has been no change to the tax treatment of your existing Hamlin tax exempt portfolio.**
3. **There is no prohibition going forward against 501(c)3s (e.g. senior living facilities, charter schools, etc.) issuing tax exempt bonds.**

Fixed Income Performance

The Hamlin Capital Management Municipal Bond Composite returned 8.22% in 2017.[21] While in the long run we expect the majority of our performance to come from clipping outsized coupons, the portfolio had a few legacy correctional facility positions that experienced significant price appreciation in the first quarter. Performance was also helped as some older school/senior living positions were advance refunded. As the market bounces around, we strive to continuously deliver a robust stream of tax exempt income to clients. As the Fed continues with their slow and steady position on hiking rates, we believe that we have positioned the portfolio in a way that will capture value for clients regardless of the direction interest rates take for the remainder of the year.

We remain dedicated to our fundamental credit analysis and research. In general, our portfolio holdings in essential social service projects in the Education and Senior Living sectors continue to perform well. Hamlin clients should rest assured that their bonds are generally secured by a first mortgage on property, plant, and equipment, not a pledge of *ad valorem* tax revenue. As always, we are committed to capital preservation and income generation.

[20] Source: Lipper Thomson Reuters

[21] Performance is a preliminary estimate as Q4 performance has not yet been verified by ACA Performance Services, and may be subject to change.

Figure 13: Fixed Income Performance

	HAMLIN BOND COMPOSITE (% Net of Fees)	Cumulative	BARCLAYS HIGH YIELD MUNICIPAL INDEX (No Transaction Costs or Fees)	Cumulative
2001	4.5	104.5	4.5	104.5
2002	7.2	112.0	2.0	106.5
2003	9.1	122.2	13.2	120.6
2004	7.5	131.4	10.5	133.3
2005	7.9	141.8	8.6	144.7
2006	6.8	151.5	10.7	160.3
2007	4.3	157.9	-2.3	156.6
2008	-16.7	131.5	-27.0	114.3
2009	16.4	153.0	32.7	151.7
2010	7.1	163.8	7.8	163.6
2011	6.1	173.9	9.3	178.7
2012	7.4	186.8	18.1	211.1
2013	2.5	191.5	-5.5	199.5
2014	7.2	205.2	13.8	227.1
2015	4.8	215.0	1.8	231.2
2016	3.9	223.3	3.0	238.1
2017	8.5	242.2	9.7	261.2
17 Years Annual Compound	**5.34**		**5.81**	

Source: Hamlin Capital Management. 4Q17 performance has not yet been audited by our independent verification service provider ACA Performance Services. See GIPS disclosure at the end of this report.

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 Charlie Garland Vivian Pan 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. 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 Value Index is a market capitalization-weighted index of the value segment of the 3,000 largest U.S. public companies.*
- *The U.S. Dollar Index is an index of the relative value of the U.S. Dollar versus a basket of foreign currencies.*
- *The S&P 500 Value Index is a market capitalization-weighted index of the value segment of the S&P 500.*
- *The Barclays High Yield Municipal Index is an index of high yield, non-investment grade municipal bonds.*
- *Dow Jones U.S. Select Dividend Index is an index composed of relatively high dividend paying companies.*
- *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.*
- *EPS: Earnings per Share.*
- *CBOE Volatility Index is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.*
- *Advance/Decline Line is a breadth indicator based on the number of advancing stocks less the number of declining stocks.*
- *Dow Jones Transportation Average is a U.S. stock market index of the transportation sector.*
- *Value Line Geometric Composite Index is an equally weighted index using geometric averages of returns companies listed on the American Stock Exchange, the NASDAQ, the New York Stock Exchange, and the Toronto Stock Exchange.*

Hamlin Capital Management, LLC
Bond Only Composite
Annual Disclosure Presentation
January 1, 2001 through September 30, 2017

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 2017	4,285	694	226	6.58%	7.72%	N.A.	N.A.	N.A.
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 September 30, 2017.

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 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 custodial and 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.

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 September 30, 2017. 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 September 30, 2017. 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
Equity Only Composite
Annual Disclosure Presentation
January 1, 2001 through September 30, 2017

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 2017	4,285	1,723	683	8.98%	14.24%	N.A.	N.A.	N.A.
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 September 30, 2017.

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 custodial and 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.

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.

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