HAMLIN
CAPITAL MANAGEMENT, LLC

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First Quarter 2020 Update

Contact Information:
Mark Stitzer
640 Fifth Avenue 11th Floor
NY, NY 10019
Tel: 212.752.8777
Fax: 212.752.5698

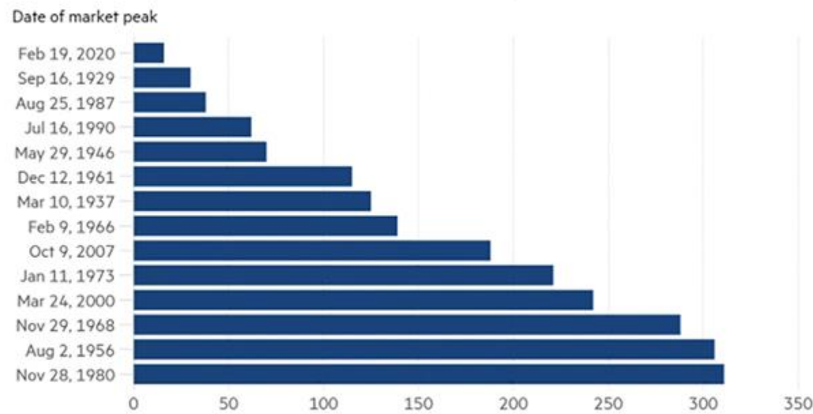
Overview

Hamlin equity accounts declined 25.70% over the last three months. The stock market fell at an unprecedented rate as Coronavirus containment efforts brought much of the global economy to a standstill. The Hamlin Bond Composite declined 3.62% as wider municipal bond spreads more than offset consistent coupon income.[1]

Equity Outlook: Bear Market Playbook

The speed and magnitude of the stock market's collapse, as shown below, eclipsed those of past bear markets. The sharp increase in exchange traded fund ("ETF") ownership and ubiquity of smartphones may have intensified retail investor response to virus-driven predictions of economic disaster. Quarantined in front of emotional CNBC anchors and guests, nervous investors found it historically easy to raise cash. With a few key strokes, instructions can be sent to sell a basket of stocks—often without even incurring commission costs or speaking with a financial advisor. Although a tragic pandemic is clearly the catalyst, we suspect that the fundamental problem for stocks is the onset of recession at a time of elevated corporate debt, rock-bottom Federal Funds rates, and an historically elevated federal budget deficit. The cascade unfolded as financial conditions tightened and market participants wondered, as they have during most recessions, if policy makers were out of ammunition.

Figure 1: Speed of Major Sell-offs



Source: Financial Times.

[1] Performance is a preliminary estimate. Q1 2020 performance has not yet been examined by ACA Performance Services and may be subject to change. Individual accounts may vary.

Analysis of past bear market declines and duration is instructive. The S&P 500 Index has dropped 20% or more from its peak on twenty-six occasions since 1929. The stock market drops 35.68% over 299 days, on average, during a bear market. The median statistics are 33.51% and 250 days, respectively. To date we have declined as much as 35.39% intra-day from the February 19, 2020 high over a period of 33 days. While we believe that the speed of central bank and Congressional response could truncate the length of today's bear market, we note that no bear market has ended sooner than sixty-two days. Bear markets have historically included fierce rallies and gut-wrenching sell-offs to test recent lows. Fear of missing out on bargain opportunities gives way to expectations for sustained weakness in corporate profitability. The S&P 500 Index's recent 20.30% rally over the three trading days through March 26th is eerily reminiscent of the market's six-day 18.52% rally from October 28 through November 5th, 2008. Many will recall that stocks went on to recover approximately 27.37% between late November 2008 and early January 2009 before plunging 28.71% to a new and ultimate low on March 9th, 2009.

Figure 2: Bull and Bear Markets

Bull Markets for the S&P 500

Low Date	Low Price	High Date	High Price	% Change	#Days
2/20/1928	16.95	9/7/1929	31.92	**88.32**	**565**
11/13/1929	17.66	4/10/1930	25.92	**46.77**	**148**
12/16/1930	14.44	2/24/1931	18.17	**25.83**	**70**
6/2/1931	12.2	6/27/1931	15.5	**27.05**	**25**
10/5/1931	8.82	11/9/1931	11.52	**30.61**	**35**
6/1/1932	4.4	9/7/1932	9.31	**111.59**	**98**
2/27/1933	5.53	7/18/1933	12.2	**120.61**	**141**
10/21/1933	8.57	2/6/1934	11.82	**37.92**	**108**
3/14/1935	8.06	3/6/1937	18.68	**131.76**	**723**
3/31/1938	8.5	11/9/1938	13.79	**62.24**	**223**
4/8/1939	10.18	10/25/1939	13.21	**29.76**	**200**
6/10/1940	8.99	11/9/1940	11.4	**26.81**	**152**
4/28/1942	7.47	5/29/1946	19.25	**157.70**	**1,492**
5/17/1947	13.71	6/15/1948	17.06	**24.43**	**395**
6/13/1949	13.55	8/2/1956	49.74	**267.08**	**2,607**
10/22/1957	38.98	12/12/1961	72.64	**86.35**	**1,512**
6/26/1962	52.32	2/9/1966	94.06	**79.78**	**1,324**
10/7/1966	73.2	11/29/1968	108.37	**48.05**	**784**
5/26/1970	69.29	1/11/1973	120.24	**73.53**	**961**
10/3/1974	62.28	11/28/1980	140.52	**125.63**	**2,248**
8/12/1982	102.42	8/25/1987	336.77	**228.81**	**1,839**
12/4/1987	223.92	3/24/2000	1,527.46	**582.15**	**4,494**
9/21/2001	965.8	1/4/2002	1,172.51	**21.40**	**105**
10/9/2002	776.76	10/9/2007	1,565.15	**101.50**	**1,826**
11/20/2008	752.44	1/6/2009	934.7	**24.22**	**47**
3/9/2009	676.53	2/19/2020	3,386.15	**347.26**	**3,999**
	Mean			**111.81**	**1005**
	Median			**76.66**	**480**

Bear Markets for the S&P 500

High Date	High Price	Low Date	Low Price	% Change	#Days
9/7/1929	31.92	11/13/1929	17.66	**(44.67)**	**67**
4/10/1930	25.92	12/16/1930	14.44	**(44.29)**	**250**
2/24/1931	18.17	6/2/1931	12.2	**(32.86)**	**98**
6/27/1931	15.5	10/5/1931	8.82	**(43.10)**	**100**
11/9/1931	11.52	6/1/1932	4.4	**(61.81)**	**205**
9/7/1932	9.31	2/27/1933	5.53	**(40.60)**	**173**
7/18/1933	12.2	10/21/1933	8.57	**(29.75)**	**95**
2/6/1934	11.82	3/14/1935	8.06	**(31.81)**	**401**
3/6/1937	18.68	3/31/1938	8.5	**(54.50)**	**390**
11/9/1938	13.79	4/8/1939	10.18	**(26.18)**	**150**
10/25/1939	13.21	6/10/1940	8.99	**(31.95)**	**229**
11/9/1940	11.4	4/28/1942	7.47	**(34.47)**	**535**
5/29/1946	19.25	5/17/1947	13.71	**(28.78)**	**353**
6/15/1948	17.06	6/13/1949	13.55	**(20.57)**	**363**
8/2/1956	49.74	10/22/1957	38.98	**(21.63)**	**446**
12/12/1961	72.64	6/26/1962	52.32	**(27.97)**	**196**
2/9/1966	94.06	10/7/1966	73.2	**(22.18)**	**240**
11/29/1968	108.37	5/26/1970	69.29	**(36.06)**	**543**
1/11/1973	120.24	10/3/1974	62.28	**(48.20)**	**630**
11/28/1980	140.52	8/12/1982	102.42	**(27.11)**	**622**
8/25/1987	336.77	12/4/1987	223.92	**(33.51)**	**101**
3/24/2000	1,527.46	9/21/2001	965.8	**(36.77)**	**546**
1/4/2002	1,172.51	10/9/2002	776.76	**(33.75)**	**278**
10/9/2007	1,565.15	11/20/2008	752.44	**(51.93)**	**408**
1/6/2009	934.7	3/9/2009	676.53	**(27.62)**	**62**
	Mean			**(35.68)**	**299**
	Median			**(33.51)**	**250**

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The recent better stock market action makes sense to us: improving ventilator and test supply, reported bio-pharma scientific advances, plateauing Chinese virus case counts, a lower Italian fatality rate, and a manageable New York state hospitalization rate all lend credibility to the Administration's prediction that America could be getting back to work by late spring. Immunity tests would be particularly helpful in allowing portions of the population to resume normal work and spending patterns. Should this bear market last as long as its predecessors, it is likely to reflect weak earnings visibility related to the pace of economic recovery. Concern over the pandemic would shift to concern about the length of the domestic and global recession. Valuation analysis suggests the possibility of a new low. Assuming earnings of $130/share for the four quarters beginning in October of this year—about 20% below the $162/share earned in pe-virus

2019—and a simple 15-year average market PE of 15x, the S&P 500 Index could easily probe the 1,950 level.

Although historic bear market guidelines are helpful, we have no idea where the current correction will fall in terms of absolute decline and time elapsed. We are, however, willing to predict that the eventual stock market recovery should be worth waiting for. By definition, bull markets have followed bear markets. On average stocks have rallied 111.81% over 1,005 days during bull markets. The median statistics are 76.66% over 480 days. The beauty of equity investing lies in the relative apportionment of gain versus pain. The table above shows that bull markets historically have gone up more over a longer period of time relative to bear markets. Importantly, trying to market time is all but impossible. Stock prices have an uncanny ability to discount bad news, often bottoming as the pundits' predictions turn from scary to disastrous.

Figure 3: S&P 500 Index Gains Off the Bottom Following 30%+ Bear Market Draw Downs

	S&P 500 Index % Gain Around the END of 30% Bear Market Returns			
End Date	+3 MONTHS	+6 MONTHS	+12 MONTHS	+2 YEARS
11/13/1929	32.28	38.28	-6.23	-39.30
7/8/1932	53.51	63.95	171.43	124.26
2/27/1933	74.32	103.98	95.48	58.95
3/31/1938	36.00	44.00	29.18	44.12
4/28/1942	15.39	24.63	53.68	58.90
5/26/1970	17.20	22.80	43.73	59.71
12/6/1974	28.73	42.26	33.55	59.30
10/19/1987	10.89	14.71	23.19	54.39
9/21/2001	18.54	19.44	-12.47	7.30
10/9/2002	19.42	11.49	33.73	44.46
3/9/2009	39.30	52.75	68.57	95.12
Events Mean:	**31.42**	**39.84**	**48.53**	**51.56**
Events Median:	**28.73**	**38.28**	**33.73**	**58.90**

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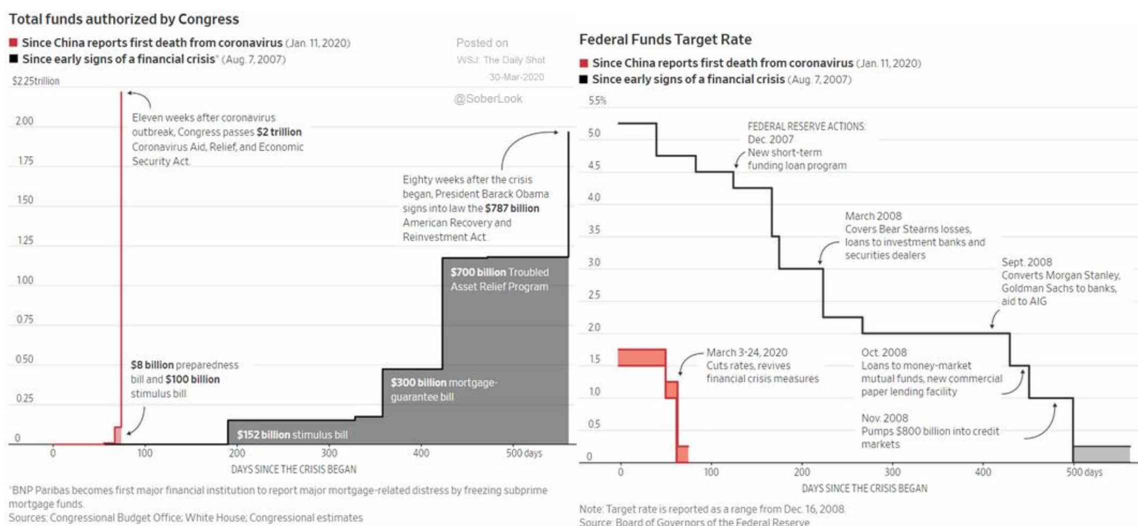
The table above shows how quickly stocks rebound off bear market bottoms. Missing the ten best days for stocks during the 1980-2018 period reduced investor returns by more than 50%.[2] While the market healing process will take time, history advises us to manage fear after significant market corrections. The pictures below show the speed and magnitude of response by policy makers. The actions taken to date by both the Federal Reserve and Congress dwarf the initiatives taken during 2008-09. While we worry about the long-term impact of corporate debt levels, profligate deficit spending and dollar debasement on aggregate demand, the government response should limit the economic contraction and raise asset prices over the medium term.

[2] Source: Fidelity and The Simple Dollar. Additionally, going back to 1930, Bank of America found that if an investor missed the S&P 500's 10 best days in each decade, total returns would be just 91%, significantly below the 14,962% return for investors who held steady through the downturns.

Figure 4: Speed of Government Response and S&P 500 Gains From End of Bear Markets



Source: WSJ Daily Shot.

Equity Strategy and Dividend Stream

As you know, we spend most of our time on company-specific research. And we have been busy. The take-no-prisoners downdraft has broadened our investable universe significantly. 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 pay-outs. We invest primarily in businesses with high dividend yields, manageable debt, attractive returns on equity, ample free cash flow, and prospects for growth. Presented with an exciting opportunity to buy higher quality companies with brighter revenue growth profiles, we added twelve new names to the portfolio in the month of March. We have also been busy making difficult decisions to harvest capital losses. We believe the combination of new purchases and position sales should improve our taxable clients' after-tax returns over the years to come.

Your Hamlin equity investment team is particularly excited about the portfolio's quality metrics and total return potential. At quarter-end, our Equity Composite had an average current yield of 5.2% and traded at 11.2x and 8.0x 2020 earnings and EBITDA estimates, respectively.[3] By comparison, the S&P 500 Index yielded approximately 2.3% and sold for 16.0x and 11.3x earnings and EBITDA estimates, respectively. Our current portfolio companies' average return on equity and invested capital over the past three years is an attractive 27.0% and 11.9%, respectively. Our balance sheets are healthy with an average net debt-to-capital ratio of 41.3% and an average net debt:EBITDA ratio of 1.6x.[4] Hamlin price targets, reflecting inputs to our dividend discount models and earnings models, are meaningfully above current price levels.

[3] Individual accounts may vary.

[4] FactSet.

While the news on dividends has been generally positive this year, we are preparing for suspensions. State and Federal "social distancing" and "shelter in place" mandates have brought many corporate revenue streams to a halt. Very few businesses were built to handle a sudden and sustained evaporation of demand, no matter how well capitalized. We have proactively suggested to the executives managing some of our consumer discretionary companies *NOT* to take on debt to pay dividends. We would rather them emerge with generous reinstatements and balance sheets that afford flexibility.

Although total return potential can be extremely enticing for any companies announcing Coronavirus-related dividend suspensions, we will only maintain a commitment to these stocks if we expect the resumption of dividend payments within the next four quarters. We expect the portfolio dividend stream to prove less volatile than the underlying stock prices.[5] One company has temporarily suspended its dividend while 21 of our holdings announced dividend hikes so far in 2020, with an average increase of 5.5%.[6] This welcome action validates our research analysis and increases your portfolio cash flow. We expect most of our portfolio companies, on average, to increase their cash pay-outs faster than the rate of inflation in a post-virus environment. Reflecting our capacity to ratchet portfolio cash flow by replacing winning stocks with new higher-yielding positions, equity client income has been compounded annually at 8.7% over the last seven years.[7] 2020 will be tougher in this department. The investment team is laser-focused on constructing a portfolio and income stream that can prove resilient during the current crisis and thrive in the aftermath.

Equity Performance

The Hamlin Equity Composite decreased 25.70% including dividends, net of fees, for the first quarter of 2020, exceeding the Russell 3000 Value Index's -27.33% return.[8] The S&P 500 Index dropped only 19.60%, including dividends, supported by a historically elevated 25% weighting in the technology sector. Tech stocks lost only 11.86% in the first quarter as many of those companies' products and services are enabling productive remote offices. Dividend-oriented benchmarks also trailed the broader market with the Dow Jones U.S. Select Dividend Index ETF ("DVY") down approximately 29.46%. Beyond the Tech sector, whose weighting in Hamlin portfolios is lower due to the relative scarcity of generous dividend

[5] Clients should keep in mind that Hamlin's 2020 dividend income will benefit from not just 2020 increases but also those in 2019, a year where we saw 35 portfolio companies raise their dividends by 7.3% on average. As of end of Q1, 2020 client income is estimated to be flat to up slightly year over year. Any extension of shelter-in-place policies or resumption of virus infections later this fall could have a negative impact on the Hamlin dividend stream.

[6] 15 of our holdings as of year-end 2019 have raised their dividends at an average 5.6%; the 21 holdings number above includes dividend increases from our recent intra-year purchases. One company so far has suspended its dividend.

[7] The 5-year CAGR of portfolio income reflects the increase in income for calendar 2012 through 2019 for the universe of accounts defined below. Future growth may be materially different and is not guaranteed. Income is net of foreign dividend withholding taxes for the period prior to 10/1/2016 and gross subsequent. Income includes dividend accruals starting 10/1/2016. The income and performance shown is for the universe of accounts that were: (1) open for the entire period; (2) present in the equity only composite; and (3) had no contributions or withdrawals over the period shown other than Hamlin's management fee. While Hamlin believes that the performance for the accounts are representative of the Equity Only Composite, some differences may exist and performance may diverge from that of the Equity Only Composite going forward. Due to the time period requirements for inclusion, a survivorship bias may be present as only a small fraction of composite accounts is included. Dividend growth represents the average dividend increase of the companies that raised their dividend while they were owned in the Equity Only Composite. Individual portfolio and the Equity Only Composite returns and dividend income vary. Please see additional disclosures at the end of this presentation; this page is not complete without these disclosures.

[8] Performance is a preliminary estimate. Q1 2020 performance has not yet been examined by ACA Performance Services and may be subject to change. Individual accounts may vary.

policies, there was virtually no place to hide. Individuals and institutions sold stocks with time-tested defensive characteristics almost as aggressively as they sold statistically expensive stocks with weak financial metrics. Over a matter of weeks we transitioned from fractional ownership of a carefully curated list of businesses to owning an *asset class* called "equities." Levered investors appear to have sold indiscriminately in response to soaring credit spreads and tightening financial conditions. Broader ETF ownership, discussed briefly above, may also explain some of the weak performance for traditionally bear market-resistant sectors. Hamlin healthcare holdings held up well as our companies worked to develop virus tests, therapeutics and vaccines. Our food companies' sales have spiked as Americans load pantries, and investors gravitated to our telecom holdings' recurring revenues. Our energy, bank, leisure and mid-capitalization companies were hit the hardest. The table below suggests that many of Hamlin's passive and active dividend-oriented peers, and the popular "low volatility" funds, experienced similar drawdowns.

Figure 5: Selected Benchmark & Peer Performance During 1Q20 Peak to Trough

Total return from 2/19/20 (S&P 500 peak) to 3/23/20 (trough)	
Index	
S&P 500 Index	(33.79)
Russell 3000 Value Index	(38.48)
Selected Low Volatility Funds	
USMV - iShares Edge MSCI Min Vol USA ETF	(33.02)
SPLV - Invesco S&P 500 Low Volatility ETF	(35.82)
XLU - Utilities Select Sector ETF	(35.33)
Selected Equity Income Passive Peers	
DVY - iShares Select Dividend ETF	(40.83)
SDY - SPDR S&P Dividend ETF	(36.41)
VYM - Vanguard High Dividend Yield ETF	(34.64)
Selected Equity Income Active Peers	
SVAIX - Federated Strategic Value Dividend Fund	(35.77)
ARIDX - AMG River Road Dividend All Cap Value Fund	(37.86)
CHDVX - Cullen High Dividend Equity Fund	(35.99)
Selected Equity Income Peers - Average	**(36.92)**
HCM Equities	(34.59)

Source: Hamlin Capital Management. This list of peers is by no means complete, and we are aware of equity income funds that have recently outperformed Hamlin. We selected these peers because of a perceived general similarity of process and philosophy to Hamlin. Please contact compliance for information on exact selection methodology. Please see the Appendix for historical performance of indices and funds discussed above.

Although prospects for better long-term absolute performance may be improving, we remind you that we are not managing your account to track or beat an 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. *When making investment decisions, we think in absolute terms.* **We are aspiring to generate a generous stream of income while compounding client capital at attractive rates over time in as tax-efficient a manner as possible.** Our goal is to preserve our individual clients' lifestyles and help our institutional clients meet their objectives while protecting against inflation with future dividend increases and long term capital appreciation.

Figure 6 below suggests that an actively-managed dividend portfolio can deliver attractive absolute and relative returns with acceptable volatility over time. While disappointed that Hamlin and the equity income asset class did not protect as much as it has in the past, we note that our long term track record remains respectable. Even after the stock market's recent shellacking, clients with us since inception have compounded at 8.04% – exceeding the S&P 500 Index's 5.62% return over the same period. We believe that high income stocks outperform over the long haul because generous dividend policies often act as a governor on the corporate capital allocation process and may smooth investor returns in down markets.

Figure 6: 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	(25.70)	443.27	(19.60)	286.71
19.25 Years Annual Compound	**8.04**		**5.62**	

Source: Hamlin Capital Management YTD 2020 performance is a preliminary estimate, subject to change, and has not yet been examined by our independent verification service provider ACA Performance Services. See GIPS disclosure at the end of this report

Fixed Income Performance

The Hamlin Capital Management Municipal Bond Composite was down 3.62% for the first quarter of 2020.[9] 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 the years of disciplined construction of the existing portfolio. Maintaining our absolute return and spread discipline while never sacrificing credit quality or covenant requirements has served clients well this quarter and we believe that it will continue to do so going forward in what will be a volatile environment. As a reminder, we price the portfolio on a monthly basis with the next pricing date on April 30th. Although we generally do not provide intra-month performance updates, please feel free to contact us with any broader portfolio questions.

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	-3.62	263.83	-6.88	281.98
19.25 Years Annual Compound	**5.17**		**5.53**	

Source: Hamlin Capital Management. The performance provided is a preliminary estimate as Q1 2020 performance has not yet been examined by ACA Performance Services, and may be subject to change. Individual accounts may vary.

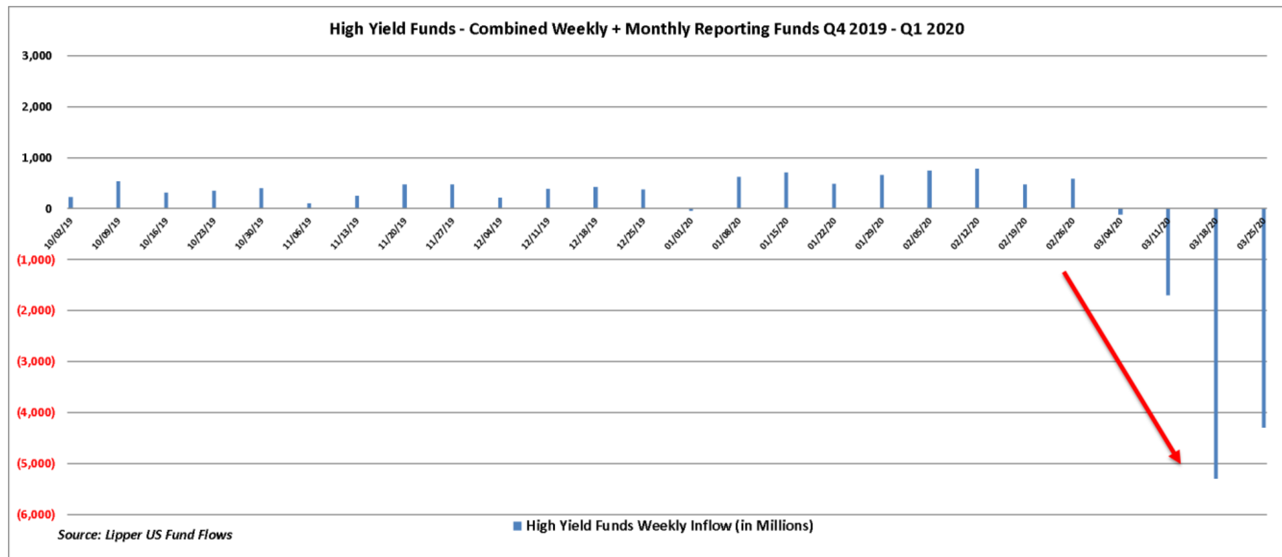
[9] The performance provided is a preliminary estimate as Q1 2020 performance has not yet been examined by ACA Performance Services, and may be subject to change. Individual accounts may vary.

Fixed Income Commentary

When things turn, it can happen quickly – and this was certainly a turn for the ages. In a stunning reversal of a years long sanguine municipal market characterized by positive fund flows and ever lower interest rates, general muni market participants were 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 volatility in the space affected municipal bonds across the credit spectrum, causing rates to shoot up before rallying strongly to end the month of March.

The March crisis in munis was a liquidity driven crisis – not a credit crisis. The fund flow numbers we cover in this quarterly column have been positive for years. As a reminder, fund flows in this context are the dollars in or out of open-ended municipal mutual funds. These dollars drive the buying and pricing of new deals in the primary market as well as the volume of secondary trades that occur as funds need to meet redemptions or put additional cash to work. Generally (in recent years), when mutual fund flows are positive, new deals in the primary price at absolute low yields and credit spreads are tight on secondary trades. 2019 saw positive flows of approximately $1.8 billion into all munis and approximately $400 million per week into high yield for annual totals of around $94 and $20 billion respectively. Unsurprisngly, in the general market for high yield and high grade municipals, rates were low and spreads were tight. This is why we were slow to call capital in 2018 and 2019 as we stayed away from Street deals. Instead, Hamlin sourced and negotiated deals away from the market at absolute rates and spreads that we believe compensated investors for the risk. While this discipline may have resulted in slower investment and higher cash balances through much of 2018 and 2019, it is contributing to 2020 performance and allowing us to deploy that dry powder now.

Figure 8: Fund Flows – 3Q 2019 through 1Q 2020



The rapid reversal of those flows in early to mid March created massive volatility and a vacuum in the space that those armed with capital were able take advantage of.

In early March, as it became clear that the COVID-19 crisis was going to broadly and dramatically affect the U.S., we started seeing cracks in the market as investors started raising cash where they could. For the week ended March 11, we saw $1.4 billion out of all municipals and $1.7 billion out of high yield munis. Over the next two weeks ending March 18th and March 25th, the dam burst as over $25 billion came out of all munis and almost $10 billion came out of high yield alone.

This historic cash grab forced rates up as funds sold at depressed levels across the municipal credit spectrum. Prior to the start of the sell-off on March 9th, the AAA MMD 30 Year rate was 1.38% - already down on the year from where it ended 2019 at 2.09%. As the liquidity crisis intensified, rates started gapping up on almost a daily basis, hitting a top of 3.37% on Friday March 20th – up more than 250% in 9 trading days. Hamlin was well prepared and excited to take advantage of this market opportunity. After peaking, rates then dropped dramatically on word that the Federal Reserve would step into the muni market and the oversold conditions in the market enticed buyers back into the space. We ended the quarter back below 2% - lower than where rates started the year (although not to pre-COVID lows). It was a round trip that destroyed value for folks that had previously piled into speculative, long dated/low coupon bonds but provided opportunity for those who had patience and were armed with cash.

While the market has been moving at a frenetic pace, your managers at Hamlin have been responsibly investing capital in quality credits in our core sectors. However, before we get into the details on market opportunity, we would like to discuss the existing portfolio. As COVID-19 sweeps across the country, we have spoken with a great many of you throughout the month (so hopefully much of this is familiar) and, given many of the questions and conversations, we thought the following would be helpful.

What HCM Clients Need to Know About Their Portfolios

1) We have been in frequent contact with all of our large senior living providers. As of Wednesday, April 1st, **none** of our major providers have had any Corona outbreaks at our facilities. While this may change, providers are taking significant precautions including but not limited to: full restriction on any outside visitors, daily testing of certain staff, and serving meals in rooms for the most vulnerable. To the extent that COVID-19 does make its way into a "Hamlin" facility, we feel our borrowers are now well prepared to handle the situation. Much of the senior living portfolio can draw on liquity support agreements from large not-for-profit parent organizations with quality balance sheets, giving these projects the ability to weather temporary disruption from the virus. As a reminder, our Skilled Nursing Providers are required to have an infectious disease protocol in place which is practiced and reviewed by regulators annually.

2) We have not had any monetary defaults in the portfolio as a result of the Corona virus. Senior Living revenues are generally secure (mostly private pay) and, from conversations with some of our large Charter School borrowers on a state-by-state basis, we understand these revenues to be secure for this school year including some of our larger states of Texas, Florida, Colorado, Maryland and Georgia.

3) Our charter schools are public schools funded by the state. 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.

4) Client projects are typically backed by a 1st mortgage on the property, plant, and equipment. If something does happen with a certain operator or management group on a project level, we generally have the ability to bring in someone else to run the asset.

5) Most of the recent price erosion in the portfolio is a mark-to-market loss. While the prices may move around as liquidity ebbs and flows, it is important to remember this is not a permanent loss. Absent a credit issue, a the price will move back closer to par s the bond approaches maturity. You will also notice that many bonds are fully amortizing (like a home mortgage). Regardless of the current market price, the borrower will continue to pay down a portion of their debt each year at par. This important feature helped bond prices recover fairly quickly from similar bouts of illiquidity in 2008 and 2011.

Market Opportunities and Deployment of Client Capital

The extreme liquidity crisis, mutual fund outflows, and subsequent rise in interest rates created a wave of selling from ETFs and mutual funds. This created an opportunity for our clients armed with the cash and unfunded commitments which we approached as follows:

- We 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 credits owned by mutual funds that are forced to sell to meet redemptions when the Street is selling en mass at drastically discounted prices. This gives us natural buyers for the bonds when they recover in price if 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 an 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. In normal times they trade to the credit of the underlying Treasury but as various funds looked to sell them simultaneously to raise cash, the market dislocated and we were able to buy them at a significant discount. Many of these trades occurred at tax exempt yields north of 2% for clients on very short paper that will allow us to reinvest if the market legs down again. We focused on NY and CA bonds due to the considerable tax advantage.

    2. The second, and larger amount of invested capital, 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. Many of the bonds we purchased at a discount moved up in price as the market rallied. It also inherently means you are purchasing the underlying collateral assets at a price which we believe provides capital protection.

- Those two strategies range from producing almost riskless returns 200 bps over comparable Treasuries to often buying collateral assets at discounted prices with mid-6% yields. Both also allow for additional capital appreciation, potentially pushing the total return north of 7%; some purchases experienced some of that immediately.

- We also continue to close deals in the primary market. The outflows and lack of mutual fund participation in the general market provides us access to additional deals we may not see in more normal markets. 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.

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. We look forward to sheparding the portfolio and our clients through this volatile enviroment 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 and that guided us through 2008, 2011, and 2013.

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.

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 • Debbie Finegan • Mark Stitzer

Ben Kaufman • Parker Stitzer • Michael Tang

IMPORTANT DISCLOSURES:

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DEFINITIONS

- *The 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.*
- *The Barclays High Yield Municipal Index is an index of high yield, non-investment grade municipal bonds.*
- *CAGR is the compound average growth rate.*
- *Current yield is the gross of fee portfolio yield divided by the price.*
- *Dow Jones U.S. Select Dividend Index is an index composed of relatively high dividend paying companies.*
- *EPS: Earnings per Share.*
- *EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization is an indicator of a company's financial performance and earning potential.*
- *Federal Funds: Balances purchased in Federal Reserve accounts for more than a single day; term Federal Funds usually have a minimum term of 90-days. The rate at which large financial institutions borrow is known as the Federal Funds rate, also known as the interest rate, that depository institutions, or banks, lend money to one another.*
- *Free cash flow: Free cash flow represents the cash a company generates after cash outflows to support operations and maintain its capital assets.*
- *Net Debt is the total debt less cash and liquid assets convertible to cash.*
- *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.*
- *A Pre-refunding bond is a type of bond issued to fund another callable bond. With a pre-refunding bond, the issuer decides to exercise its right to buy its bonds back before the scheduled maturity date. The proceeds from the issue of the lower yield and/or longer maturing pre-refunding bond will usually be invested in Treasury bills until the scheduled call date of the original bond issue occurs.*
- *ROE: Return on equity is a measure of financial performance calculated by dividing net income by shareholder's equity.*
- *ROIC: Return on Invest Capital is a measure of financial performance calculated by dividing net income less dividend by the sum of debt and equity.*
- *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 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.*

APPENDIX

	Trailing returns, annualized			
Index	**1 year**	**3 year**	**5 year**	**10 year**
S&P 500 Index	(6.98%)	5.10%	6.73%	10.53%
Russell 3000 Value Index	(18.02%)	(2.67%)	1.62%	7.47%
Selected Low Volatility Funds				
USMV - iShares Edge MSCI Min Vol USA ETF	(6.13%)	6.35%	7.74%	N/A
SPLV - Invesco S&P 500 Low Volatility ETF	(8.76%)	4.88%	6.67%	N/A
XLU - Utilities Select Sector ETF	(1.47%)	6.07%	8.13%	10.41%
Selected Equity Income Passive Peers				
DVY - iShares Select Dividend ETF	(22.01%)	(3.53%)	2.30%	8.48%
SDY - SPDR S&P Dividend ETF	(17.27%)	0.16%	4.49%	9.07%
VYM - Vanguard High Dividend Yield ETF	(14.78%)	0.03%	3.93%	9.29%
Selected Equity Income Active Peers				
SVAIX - Federated Strategic Value Dividend Fund	(18.03%)	(2.92%)	1.95%	7.39%
ARIDX - AMG River Road Dividend All Cap Value	(21.89%)	(5.61%)	(0.32%)	6.42%
CHDVX - Cullen High Dividend Equity Fund	(20.59%)	(2.26%)	2.32%	7.02%
Selected Equity Income Peers - Average	**(19.09%)**	**(2.36%)**	**2.45%**	**7.94%**
HCM Equities	**(17.21%)**	**(2.04%)**	**0.71%**	**8.19%**