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Q1 2023 Quarterly Newsletter

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Overview

Hamlin equity accounts increased 2.76% during the first quarter while the S&P 500 Index gained 7.50%. Decelerating inflation and expectations for a peak in the Federal Funds Rate trumped concerns about the regional banking system in the wake of Silicon Valley Bank's stunning collapse. Hamlin bond accounts gained 1.58%. The Bloomberg-Barclays High Yield Municipal Bond Index returned 2.73% as market interest rates declined meaningfully over the quarter.

Equity Performance

We underperformed the S&P 500 Index in Q1 due primarily to lower exposure to the Technology sector's impressive 22% rally.¹ Growth stocks were back in vogue as Treasury yields dropped. Some reversion against this benchmark was likely given Hamlin's 14% outperformance in 2022. We were pleased to exceed the Russell 1000 Value Index's 0.93% return in the quarter thanks largely to our lower regional bank exposure. The Dow Jones U.S. Select Dividend Index dropped 1.95% in the first quarter, lagging Hamlin due to greater exposure to bank and utility stocks.²

Figure 1: Hamlin Composite Net Returns vs. Benchmarks as of March 31, 2023

	1Q23	1-year	3-year	5-year	10-year	Inception
Hamlin Equity Composite (Net)	2.76%	-0.02%	22.63%	9.62%	9.98%	9.90%
Russell 1000 Value Index ETF (IWD)	0.93%	-6.19%	17.71%	7.31%	8.94%	6.67%
Dow Jones U.S. Select Dividend Index ETF (DVY)	-1.95%	-5.15%	21.01%	8.09%	10.03%	NA
S&P 500 Index	7.50%	-7.73%	18.60%	11.19%	12.24%	7.29%

Source: Hamlin Capital Management. Periods over 1 year are annualized. 1Q23 performance has not yet been examined by our independent GIPS verification service provider ACA Performance Services. See GIPS disclosure at the end of this report. 1/1/01 Inception. Please see additional disclosures at end.

When evaluating performance relative to benchmarks, recall that 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. Our 9.90% compound annual net return since inception indicates that an actively managed, concentrated portfolio of generous dividend paying stocks can provide attractive absolute and relative returns over time.

Equity Portfolio Discussion

Broadcom, Ares Management, and CME Group led the portfolio by contribution during Q1 – gaining 17.8% on average.³ Broadcom beat Q1 earnings expectations and raised guidance due to strong demand for broadband and storage semiconductors. Hyperscale customers' deployment of generative AI technology appears to be driving demand for the company's ethernet switch and compute offload chips. Alternative asset manager Ares took in an additional \$12 billion of capital during the final quarter of 2022, including net inflows into their private real estate fund – easing concerns related to Blackstone's high-profile BREIT outflows. A 26% dividend increase and expectations for share gain in the lending market as banks retrench also helped the stock. CME group announced a 4-5% rate per contract

¹ In addition to the Technology sector, Hamlin's underperformance relative to the S&P 500 can be attributed to hefty gains in the S&P 500 Communication Services sector, driven by META, GOOG, and NFLX increasing 42% on average. The index's Consumer Discretionary sector also drove performance, with TSLA and AMZN up 46% on average.

² The Russell 1000 Value and Dow Jones Dividend Index returns refer to the underlying ETF's, IWD and DVY, respectively.

³ M.D.C. Holdings, Inc. and United Parcel Service, Inc. were the 4th and 5th top contributors – increasing 18.6% on average.

increase when reporting solid Q4 results. The regional bank failures and related economic uncertainty likely improved investor sentiment around demand for CME's hedging and trading services.

KeyCorp, ConocoPhillips, and Johnson & Johnson were the weakest contributing performers in the quarter – declining 18.0% on average.⁴ KeyCorp dropped in the wake of the Silicon Valley and Signature bank failures, as investors envisioned deposit runs throughout the regional banking industry. While we expect Key's deposit base to remain stable, we sold the stock ahead of higher costs to maintain deposits and likely new industry regulation that could pressure return on equity. ConocoPhillips stock has slipped with the price of oil, and some investors did not welcome a \$3.3 billion increase in the annual capital expenditure budget. Johnson & Johnson suffered from rising concern over talcum powder litigation and questions about the erosion curve for Stelara, an immunology drug soon to lose patent protection.

We are happy to report that 12 of our 25 holdings have already announced dividend hikes so far this year with an average increase of 8.7%. These actions validate our research analysis and increase your portfolio cash flow. Corporate boards generally announce dividend increases only when they envision strong cash flow growth in the future. Client income has been compounding at 9.0% over the last ten years through 2022, and we aspire to grow portfolio income at a mid-single digit rate over time.

Equity Market & Portfolio Outlook

To shrinking money supply, an inverted yield curve, purchasing manager indexes hovering below 50, and the lagged effect of recent Fed tightening, we must add availability of credit to the list of economic worries. Tighter bank regulation and \$2.6 trillion of rolling commercial mortgage loans should mean that banks are less eager to lend.⁵ We believe that the odds of a recession have increased. As discussed in [last quarter's letter](#), the S&P 500 Index typically bottoms in the second half of a recession – not the year before. While we are impressed by the market's resilience, the table below shows that the rally off the October 2022 low does not yet look like the beginning of a new bull market.

Figure 2: S&P 500 Average New Bull Market Initial Rally

Bear Market Low		6-Months Later	Total Return
10/7/1966	-	4/7/1967	24.25%
5/26/1970	-	11/26/1970	25.24%
10/3/1974	-	4/3/1975	34.15%
8/12/1982	-	2/12/1983	47.93%
12/4/1987	-	6/4/1988	21.27%
9/21/2001	-	3/21/2002	20.29%
10/9/2002	-	4/9/2003	12.54%
11/20/2008	-	5/20/2009	21.84%
3/9/2009	-	9/9/2009	54.55%
3/23/2020	-	9/23/2020	46.02%
10/12/2022	-	3/31/2023	15.82%
Average Initial Bull Market Rally			30.81%

Source: Bloomberg.

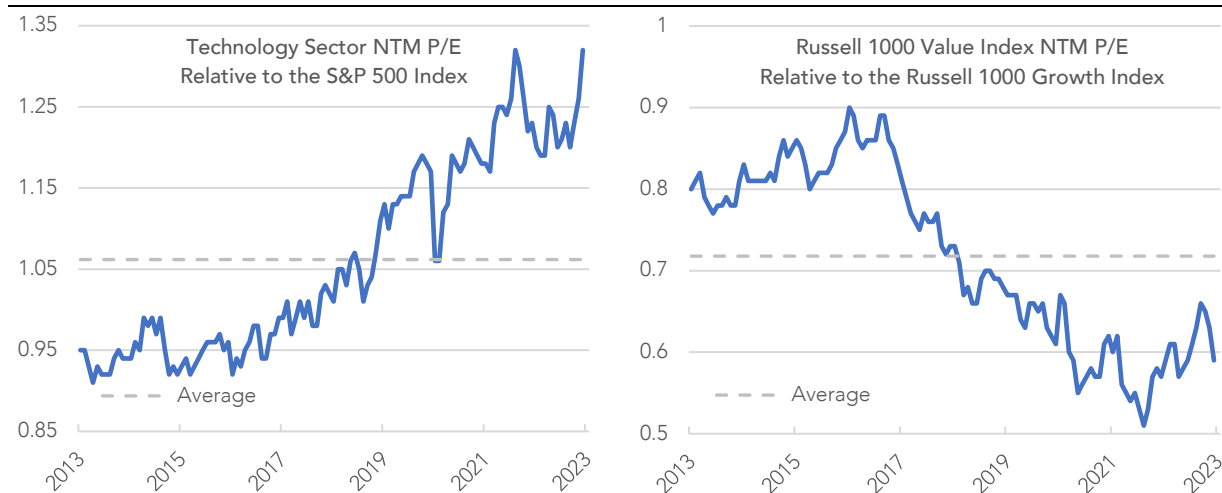
⁴ Union Pacific Corporation and Home Depot, Inc. were the 4th and 5th top detractors – decreasing 6.8% on average.

⁵ In the aftermath of Silicon Valley Bank crisis, regional banks could face more stringent liquidity coverage and capital ratios – pressuring the numerator and denominator for future industry returns on equity.

Reasons for optimism include our holdings' long-term growth prospects, pervasive predictions of recession and stock market weakness (often a contrarian indicator), and numerous *positive* crosscurrents. Housing stocks are acting well as mortgage rates decline and affordability improves after a mild correction in home prices. Automobile sales are brisk with rebounding new car supply and a dip in car loan rates. Paychex, our provider of payroll and human resource solutions to small and mid-sized companies, just confirmed broad-based growth in both aggregate number of employees serviced and wages per employee. Our Industrial company CEOs sound remarkably upbeat, perhaps thanks to Inflation Reduction Act stimulus dollars. February's core Personal Consumption Expenditure deflator data, the Federal Reserve's preferred measure of prices, suggests that inflation has already decelerated sharply to a 3.7% annual rate. While we expect Federal Funds to plateau at an elevated and possibly problematic 5% level, we think that Fed rate hikes end soon.

When we buy a stock, we are factoring in that earnings typically drop 18.7% during downturns.⁶ While our conversations with company management teams generally focus on through-the-cycle earnings power, we are trying to estimate earnings in both the soft landing and recessionary scenarios. Any purchases reflect our best assessment of earnings risk in a downturn. We remain excited about our companies' revenue growth prospects driven by product cycles and market share gain opportunities. We are equally excited about recent purchases, Watsco and Comcast, that meet Hamlin criteria and should grow free cash flow at attractive rates over the years to come. While optimistic about our holdings' prospects and valuations, choppy and even an undercut of October 2022 lows at some point would not surprise us. In an uncertain environment, we are comforted to own quality businesses with an average net debt-to-capital ratio of 36.8%, median 25.5% return on equity, and average 15.5x forward P/E multiple. Extended P/E multiples for Technology stocks, as depicted below, could prove to be a tailwind for Value-oriented equities.

Figure 3: Elevated Tech Valuation Supports Mean Reversion for Value Stocks



Source: Factset. As of 3/31/23. Technology Sector based on the underlying ETF, XLFX. Russell 1000 Index Growth and Value refer to the underlying ETF's, IWD and IWF, respectively.

⁶ Factset, National Bureau of Economic Research (NBER). Average S&P 500 peak to trough EPS change in the eight recessions since 1957, excluding the 2009 Global Financial Crisis and the 2001 technology bubble recessions, where unusual circumstances led to earnings declines of 54.0% and 91.9%, respectively. Wall Street analysts currently see 0.77% earnings growth in 2023, according to Factset as of 4/6/23.

Fixed Income Performance

The Hamlin Capital Management High Yield Municipal Bond Composite held in nicely in the first quarter of 2023, up 1.58%, after significant outperformance in 2022. The last several years of disciplined investment helped safeguard HCM client portfolios from volatility and the pronounced move up in interest rates last year. We believe continued yield discipline and credit maintenance should protect those same portfolios going forward.

Our steadfast commitment to putting money to work only at attractive absolute yields on quality projects, even during the low interest rate environment prior to 2022, put the portfolio in a good position to weather the interest rate increases last year. In addition, consistent focus on credit has helped shelter the portfolio from defaults throughout and following the Pandemic. We will continue to manage through continued rate and credit volatility with the same steady hand you have come to expect from us here at Hamlin and which guided us through 2008, 2011, 2013 and 2020.

We believe our commitment to absolute return (not just spread investing) and duration management was particularly important and evident in our 2022 outperformance. This commitment helped protect the portfolio during the extreme interest rate volatility in 2020 and did so again in 2022. For years we have focused on not only buying above market yields but also pursuing bond deals with shorter maturities or with an array of adjustable coupons – fixed for a period with a reset to prevailing rates. This is not a knee-jerk reaction: it has been a thoughtful and purposeful transition we started in 2016. This effort coupled with other variable rate securities, puts, and simply shorter maturities, has produced a portfolio that we believe has stood up to rising rates thus far.

As we look forward, we see continued opportunity, not to try and time interest rates but to deploy capital into a higher rate/spread environment for long term tax-exempt income-based returns. As we preach over and over, the key to generating sustainable returns is through the income derived from the generally tax-exempt coupons. That income is not affected by rising interest rates and the ability to reinvest principal and interest payments at prevailing interest rates is a powerful multiplier.

Market Commentary

The theme for the 2022 fixed income market – volatility – continued into 2023. A January rally in rates undid itself with a sell-off in February as inflation stayed elevated and the Federal Reserve continued its telegraphed path with another 25 basis point hike to the Fed Funds Rate. Then in March, the Silicon Valley Bank failure injected enough panic into the system to drive Treasury rates down even as the Fed followed through with another quarter point increase in March. Going forward, there is some uncertainty as to how high rates will go. A chastened regional banking system will extend less capital, potentially doing some of the work for the Fed. The Fed is planning on continued hikes but vowing to examine the data and make adjustments as needed.

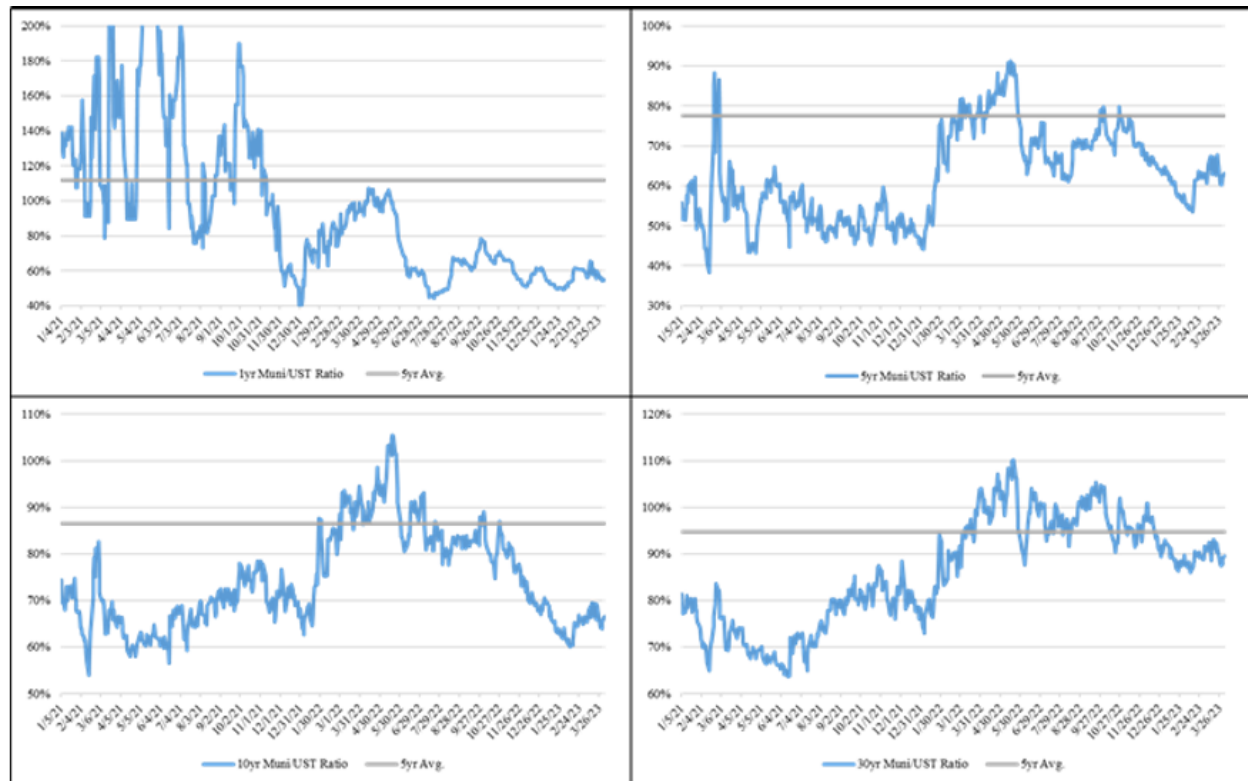
The upper bound of the Federal Funds Target Rate now stands at 5.00%, and the Fed's most recent Summary of Economic Projections implies a median target rate of 5.125% by the end of 2023 and a median target rate of 4.25% by the end of 2024.⁷

After a little bit of a round trip (hitting an intra-quarter high of 4.08%) the 10-year Treasury ended the quarter at 3.48% down from 3.79% where it started the year. Municipal bond yields followed Treasuries both up and down in the first quarter and like Treasuries came in lower to end the quarter with 10-year AAA Muni yield starting the year at 2.63% and ending March at 2.27%. Relative value in tax-exempts – as measured by the Muni/UST ratio which divides the

⁷ Per the FOMC Summary of Economic Projections (SEP) released on 3/22/2023.

MMD AAA yield by the Treasury yield of the same maturity – has continued to see a significant richening in 2023 after ratios spent the final months of 2022 grinding tighter; the 1yr, 5yr, 10yr, and 30 year Muni/UST ratios currently sit at ~54%, 62%, 65%, and 89%, respectively, as compared to their 5yr averages of 112%, 78%, 86%, and 95%.⁸ Hamlin is of the view that ratios are likely to expand towards their long-term averages over time which has the potential to pressure the relative performance of Munis.

Figure 4: Muni / UST Ratios – 1/5/21 - Present



Municipal mutual fund flows were broadly more muted to start 2023. Total Muni funds lost approximately -\$1.73 billion in the first quarter, while high yield municipal bond funds saw approximately +\$1.26 billion of inflows in the same period.⁹ New issuance in 2023 has been light thus far with just \$77.8 billion coming to market through 3/31/23, a roughly ~13% drop as compared to the 10 year average of \$89.3 billion¹⁰ as a combination of heightened interest rate volatility and elevated cost of capital weighs on issuer's willingness to tap the primary market. This below average primary supply has in our opinion depressed price discovery, with mutual fund complexes facing a diminished need to sell their existing holdings in the secondary market.

⁸ Muni/UST ratios as of 3/31/23; 5yr average measures the period from 4/4/18 – 3/31/23.

⁹ Per Lipper US Fund Flows; data as of 3/29/2023 which was the last Lipper Fund Flows data reported in Q1 2023.

¹⁰ Per Bloomberg League Tables; 10yr average refers to first quarter issuance between Q1 2013 – Q1 2022; data accessed on 4/3/23.

Market Opportunity

This dislocation in rates and reversal of fund flows last year created a significant opportunity for HCM clients in 2022. After many years of patiently sourcing and negotiating “Hamlin” deals, we saw and continue to see the broader “Street” market come back to our levels. We are taking inbound calls from bankers seeking execution on deals in the primary and brokers seeking execution on trades in the secondary. This does not mean that we will change our strict requirements for investment or our commitment to fundamental credit analysis. However, it does mean we are seeing more opportunities in the primary and secondary markets to buy quality names in our sectors at attractive yields.

We are capitalizing on the fact that we have funds to deploy when few others do and using this as an opportunity to increase credit quality and liquidity in the portfolio while simultaneously garnering what we believe are attractive total return investments, seeking higher coupons as well as capital appreciation – primarily focused on total returns in the 6% plus range with shorter duration. We are excited about the market right now and pleased with the risk/reward available for clients on new deals.

While the opportunity set is much improved, we remain disciplined on both yield and credit. As mentioned earlier, we wouldn’t be surprised to see spreads widen if/when the economy sputters and we want to ensure clients are as well protected from another potential leg down as they have been this year.

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 • Benjamin Kaufman

Mark Stitzer • Parker Stitzer • Michael Tang

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DEFINITIONS

- *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.*
- *Bloomberg High Yield Municipal Bond Index measures the return of a market value-weighted basket of non-investment grade municipal bonds.*
- *Current yield is calculated by dividing an investment’s annual income by the current price.*
- *Duration is a measure of the number of years it takes for an investor to be repaid the price of a security and is a measure of interest rate sensitivity.*
- *P/E is the price of a share divided by the earnings per share.*
- *Net Debt-to-Capital ratio is calculated by summing interest-bearing debt, subtracting cash and equivalents, and dividing by total capital.*
- *Return on Equity is calculated by dividing net income by total shareholder equity.*
- *Price / Earnings Ratio is calculated by dividing the price per share by the earnings per share.*

Hamlin Capital Management, LLC
Equity Only Composite
GIPS Report
January 1, 2001 through December 31, 2022

Year	Total Firm Assets (mm)	Composite Assets (mm)	Number of Portfolios	Composite Net Return	S&P 500 Return	Russell 1000 Value Return	Internal Dispersion (NET)	Composite 3-Yr St Dev (NET)	S&P 500 3-Yr St Dev	Russell 1000 Value 3-Yr St Dev
2022	6,350	1,766	601	-3.64%	-18.11%	-7.54%	0.53%	20.44	20.87	21.25
2021	5,841	1,891	560	31.32%	28.71%	25.16%	0.65%	18.38	17.17	19.05
2020	4,847	1,442	522	5.36%	18.40%	2.80%	1.40%	17.66	18.53	19.62
2019	4,706	1,610	646	21.54%	31.49%	26.54%	0.55%	9.45	11.93	11.85
2018	4,253	1,504	688	-6.97%	-4.38%	-8.27%	0.64%	10.37	10.80	10.82
2017	4,553	1,772	683	15.84%	21.83%	13.66%	1.29%	10.27	9.92	10.20
2016	3,617	1,623	679	14.93%	11.96%	17.34%	1.26%	11.05	10.59	10.77
2015	3,186	1,373	725	-4.54%	1.38%	-3.83%	0.66%	9.91	10.48	10.68
2014	3,077	1,414	704	10.93%	13.69%	13.45%	0.51%	8.57	8.97	9.19
2013	2,703	1,234	624	32.72%	32.39%	32.53%	1.04%	10.19	11.94	12.69
2012	2,029	798	480	11.03%	16.00%	17.51%	1.12%	12.39	15.09	15.51
2011	1,623	584	388	10.16%	2.11%	0.39%	0.71%	14.11	18.71	20.69
2010	1,033	191	220	20.65%	15.06%	15.51%	2.22%			
2009	714	30	51	20.98%	26.46%	19.69%	2.69%			
2008	584	12	30	-28.57%	-37.00%	-36.85%	4.45%			
2007	734	18	31	3.97%	5.49%	-0.17%	2.86%			
2006	869	29	48	7.90%	15.79%	22.25%	5.93%			
2005	716	31	42	20.80%	4.91%	7.05%	4.90%			
2004	501	19	26	22.80%	10.88%	16.49%	7.67%			
2003	130	8	24	30.40%	28.68%	30.03%	9.87%			
2002	49	5	29	0.90%	-22.06%	-15.52%	6.15%			
2001	21	6	34	0.99%	-11.93%	-5.59%	10.69%			

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 and Russell 1000 Value Index are provided as benchmarks. Benchmark returns are not covered by the report of independent verifiers. The Russell 1000 Value Index was added retroactively on 10/1/2020.

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 12/31/22 date, these accounts represent 22.59% 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 and pooled funds, 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 has an inception date of January 1, 2001 and 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 December 31, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedure for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Equity Only Composite has had a performance examination for the periods January 1, 2001 through December 31, 2022. The verification and performance examination reports are available upon request. The policies for valuing investments, calculating performance, and preparing GIPS reports are available upon request.

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Hamlin Capital Management, LLC
Bond Only Composite
GIPS Report
January 1, 2001 through December 31, 2022

Year	Total Firm Assets (mm)	Composite Assets (mm)	Number of Portfolios	Composite Net Return	BHYMBI Return	Internal Dispersion (NET)	Composite 3-Yr St Dev (NET)	BHYMBI 3-Yr St Dev
2022	6,350	1,462	428	-3.42%	-13.10%	1.17%	5.36	10.74
2021	5,841	1,293	370	5.43%	7.77%	0.60%	4.15	8.34
2020	4,847	1,062	324	5.17%	4.89%	0.78%	4.18	8.33
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%		

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 High Yield Municipal Bond Index (BHYMBI) is provided as a benchmark. Benchmark returns are not covered by the report of independent verifiers.

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