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## First Quarter 2010 Update

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*Please refer to the Disclosure page for important information*

## Overview

Hamlin portfolios increased in value over the last three months as the economy continued to improve, driving moderate spread compression and higher stock prices. We suspect that the tax-advantaged nature of our bond and equity investments has attracted incremental investor interest as healthcare legislation and government deficits at all levels necessitate higher taxes.

## Equities

Figure 1	
Stock Market Headwinds	Stock Market Tailwinds
<ul style="list-style-type: none"> <li>• M2 Growth Rate Already Meaningfully Slowing</li> <li>• Eventual Increase in Fed Funds &amp; Removal of Credit Market Support</li> <li>• Bond Market Vigilantes Will Take Equity-unfriendly Action if the Fed is Slow to Act</li> <li>• Looming Tax Rate Hikes on Income, Corporate Overseas Income, Capital Gains and Dividends as Federal Deficit Soars</li> <li>• Expiring Housing Tax Credit</li> <li>• Looming Commercial Real Estate Debt Roll-Over as Vacancy Rates Increase</li> <li>• Increasing US Consumer Savings Rate Could Pressure Consumption</li> <li>• Chinese Already Raising Rates and Reserve Requirements Following Astronomical Loan Growth</li> <li>• Protectionist Tendencies of current Administration and Congress</li> <li>• Low Volatility Indicator (VIX) May Signal Investor Complacency</li> <li>• Valuation, While Not Rich, No Longer Compelling</li> </ul>	<ul style="list-style-type: none"> <li>• Improving Economic Data—LEI, ECRI, PMI in Clear Uptrends</li> <li>• Inventory-to-Sales Ratios Imply Inevitable Boost to Industrial Production</li> <li>• Steepening Treasury Yield Curve Implies Improving Economic Data Sustainable</li> <li>• Federal Stimulus Spending Just Beginning</li> <li>• US Corporate Cash Hoards Enable Business Investment and Support Equity Valuation</li> <li>• US Corporate Margins Improving and Could Reach Record Levels with Minimal Revenue Growth</li> <li>• SP500 Earnings Could Grow 35% in 2010</li> <li>• Tax Receipts May Surprise Favorably, Improving the Deficit Picture by Year End</li> <li>• Record Levels Cash on the Sidelines with Few Alternatives Given Low Rates</li> <li>• Investor Skepticism Remains as Investors Withdrew \$40.3 billion from US Equity Funds in 2009</li> <li>• Negative 10-Year Returns for SP500 Index are Rare and Imply Future Equity Gains</li> </ul>
Source: Hamlin Capital Management	

In January's newsletter we provided this table of stock market tailwinds and headwinds, and concluded that the lists of favorable catalysts and potential threats for the year ahead seemed well-balanced. In 2010's first quarter, a rate hike in India, tighter Chinese bank credit, a US Federal Reserve Discount Rate hike, and a Greek sovereign debt crisis confronted improving economic data and a very strong Q4 2009 corporate earnings season. The Dow Jones Industrial Average climbed 4.1%. The path towards this solid advance included a three-week 8% correction in prices, epitomizing the *tug of war* for stocks in 2010 that we discussed in our last letter.

Brisk earnings growth and low money market and treasury rates should attract investor cash from the sidelines. These same dynamics should encourage corporate management teams to invest their record cash hoards in capital projects, stimulating job growth. Meanwhile, uncertainty over global monetary tightening should compress PE multiples. Our outlook is largely unchanged, with growing confidence in our

holdings' earnings power tempered by decelerating money supply growth, increasing 10-Year US Treasury yields, and a recent downturn in the ECRI's index of leading economic indicators. March delivered two missing ingredients to the economic recovery: job growth to the tune of 162,000 payroll additions and double-digit same-store retail sales growth. While very positive developments, these reports also mean that stock prices have less future good news to anticipate. Valuation remains acceptable at 15x Wall Street's mean earnings estimate of \$78.25 for 2010. The implied 6.7% earnings yield that compares very favorably to a 3.9% 10-Year US Treasury yield. The 15x PE multiple is also 8% below the S&P 500 Index's ten-year average PE of 16.3x, not bad given expectations for 37% earnings growth in 2010.

While mindful of the macro-economic investment climate, we spend most of our time on security-specific research. Recall that *Hamlin stocks must pay us a compensatory and growing cash return, and they must be managed by executives who demonstrate a commitment to increase future dividend payouts. We are investing in businesses with high dividend yields, low debt, above-average returns on equity, and ample free cash flow-to-dividend coverage ratios.* We are happy to report that nine of your holdings have announced dividend hikes so far this year, with an average year-over-year boost of 6.8%. This welcome action validates our research analysis, increases your portfolio cash flow, and reminds us that your dividend stream is not fixed. In fact, we expect our companies, on average, to increase their cash payouts faster than the rate of inflation annually. Client equity portfolios currently yield approximately 5.4% and trade at 14.3x 2010 earnings estimates. By comparison, the S&P 500 Index yields 1.95% and sells for 15x 2010 estimates. Our portfolio companies' average return on equity is an attractive 20% and their balance sheets are healthy with an average debt-to-capital ratio of 34%.

While we are pleased to report that the Hamlin Equity Composite edged out the broader stock market with a 5.5% return in Q1 2010, remember 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 preserve your lifestyle and wealth, while protecting against inflation with future dividend increases and long-term capital appreciation.

Figure 2: Hamlin Equity Returns, %

	<b>HAMLIN EQUITY COMPOSITE</b> (Net of Fees)	<b>CUM</b>	<b>S&amp;P 500 TOTAL RETURN</b> (No Transaction Costs or Fees)	<b>CUM</b>
<b>2001</b>	0.99	100.99	-11.91	88.09
<b>2002</b>	0.90	101.90	-22.12	68.61
<b>2003</b>	30.40	132.88	28.56	88.21
<b>2004</b>	22.80	163.17	10.92	97.83
<b>2005</b>	20.80	197.11	4.90	102.63
<b>2006</b>	7.90	212.68	15.77	118.82
<b>2007</b>	3.97	221.12	5.48	125.33
<b>2008</b>	-28.57	157.95	-37.03	78.92
<b>2009</b>	20.49	190.31	26.50	99.83
<b>1Q 2010</b>	5.49	200.75	5.41	105.23
<b>9.25 Years Compounded</b>	<b>7.83</b>		<b>0.55</b>	

Source: Hamlin Capital Management

## Fixed Income

In the high yield municipal bond market we are witnessing a wave of capital inflows. We believe this trend will persist as tax increases associated with the Health Care and Education Reconciliation Act of 2010 and the planned sunset of The Bush Administration's tax cuts in 2011 create continued demand for tax exempt income. At Hamlin, we have been saying for some time that future tax increases make our tax-free income strategy even more attractive.

The Healthcare law contains a new Medicare payroll tax of 3.8% on unearned taxable revenue that will take effect on January 1, 2013. This provision will affect individuals with adjusted gross income (AGI) above \$200,000 and joint filers with AGI above \$250,000. In addition to the new healthcare tax bill, The Bush Administration's tax cuts sunset on January 1, 2011, causing the top marginal income tax rate to revert from 35% back to 39.6%. Together, these provisions push the top marginal tax rate to 43.4% in 2013. Investors in high tax states such as New York and California may see their combined federal and state investment income tax rate reach rates of 50% or more. **However, the new tax does not apply to the interest income earned from tax-exempt municipal bonds.**

We still believe that controlling interests in revenue-backed, tax-free municipal bonds are sound investments. The pending tax hikes mean that the *relative* benefits of tax-free income, in direct comparison to taxable income, will become increasingly clear to top tax-bracket investors. The current taxable equivalent yield of our 7.5% tax-exempt bond equals 11.54% (i.e.  $7.5/0.65$ ). As the marginal tax rate increases to 43.4% starting in 2013, Hamlin's taxable equivalent yield will rise to 13.25% (i.e.  $7.5/0.57$ ). See Figure 3. Furthermore, higher marginal tax rates also magnify yield spreads on a taxable equivalent basis. For instance, a tax-exempt credit risk spread of 250bps now translates to a 385bps taxable spread. Starting in 2013, this new marginal tax rate of 43.4% equates the same tax-exempt credit risk spread to 442bps on a taxable bond. We contend that our tax-exempt bonds secured by a first-mortgage on plant, property and equipment offer superior risk-adjusted return opportunities relative to most taxable unsecured credits that trade at 440bps plus credit spreads.

Figure 3: Taxable Equivalent Yields at Various Marginal Tax Rates

		Marginal Tax Rates			
		35.0%	39.6%	43.4%	50.0%
Tax Exempt Yields	4.0	6.15	6.62	7.07	8.00
	4.5	6.92	7.45	7.95	9.00
	5.0	7.69	8.28	8.83	10.00
	5.5	8.46	9.11	9.72	11.00
	6.0	9.23	9.93	10.60	12.00
	6.5	10.00	10.76	11.48	13.00
	7.0	10.77	11.59	12.37	14.00
	7.5	11.54	12.42	13.25	15.00
	8.0	12.31	13.25	14.13	16.00
	8.5	13.08	14.07	15.02	17.00

Source: Hamlin Capital Management

While future tax hikes make tax-exempt municipal bonds a very attractive investment, there are important underlying credit issues to consider. The majority of bonds outstanding in the \$2.8 trillion municipal bond market are general obligation bonds, backed by the tax revenues of a state or local municipal government. Therefore, the health of these bonds is directly affected by the perceived fiscal conditions of the issuing state or municipality. Currently, many states face serious fiscal difficulties in the form of unfunded public employee pension obligations, with aggregate shortfall estimates ranging from \$500 billion to \$2 trillion. In addition, they face the potential risk that unemployment persists above 7% for the near term, increasing the possibility of tax shortfalls. The double threat of unfunded liabilities and declining tax revenues has caused increased fear of subsequent general obligation debt default at the state and municipal level.

We remind clients that Hamlin does not purchase general obligation bonds backed by tax receipts. We invest in *essential service project revenue bonds that derive revenues from public, private and federal sources*. The tax-exempt interest payments that our bonds pay come from revenues that schools, senior living facilities, and correctional facilities earn. They are secured by real estate collateral and have covenant features to protect investors. We do not invest in unsecured loans to politicians, otherwise known as general obligations. Our approach has worked well for Hamlin clients during periods of lower marginal tax-rates and we suspect it will work even better in the years ahead.

The first quarter of this year brought about slight spread compression in Hamlin's non-rated municipal bonds. In general, credits are still attractively priced at roughly 350bps above the high-grade MMD benchmark. Hamlin's municipal bonds gained 2.69% for the first quarter, providing for a total return of 17.64% over the last twelve months. See Figure 4.

Figure 4: Hamlin Bond Returns, %

	HAMLIN BOND COMPOSITE (Net of Fees)		BARCLAYS HIGH YIELD MUNICIPAL INDEX (No Transaction Costs or Fees)	
		CUM		CUM
2001	4.56	104.56	4.45	104.45
2002	7.08	111.96	1.97	106.51
2003	8.26	121.21	13.22	120.59
2004	7.01	129.71	10.52	133.27
2005	7.65	139.64	8.58	144.71
2006	6.51	148.73	10.74	160.26
2007	4.33	155.17	-2.28	156.60
2008	-16.02	130.31	-27.01	114.31
2009	16.12	151.32	32.73	151.72
1Q 2010	2.69	155.39	4.07	157.90
<b>9.25 Years</b>				
<b>Compounded</b>	4.88		5.06	

Source: Hamlin Capital Management

## Core Sectors Highlights

**Charter Schools:** Public charter schools continue to attract national attention as our nation addresses the failing traditional public school system. The Federal Government now offers incentive programs such as “Race to the Top” to encourage a stronger presence of charter schools in all states. At the same time failing traditional public schools are being closed or consolidated. The 2009 National Alliance for Public Charter Schools’ Annual Report tells an exciting growth story:

- From 1999 through 2009 the number of charter school students has tripled
- Currently 3% of all public school students are enrolled in charter schools
- Charter schools account for roughly 5% of all public schools

While many studies have shown mixed results regarding academic performance comparisons, these statistics indicate that students and parents want a free educational option separate from traditional public schools. We continue to see opportunity in this space in 2010, as the credit crisis created a backlog of charter school facility financing needs. In 2007 charter school bond issuance peaked at over \$600 million before dropping 85% in 2009 to \$87.5 million. In the first three months of this year we have already seen over \$100 million in charter school bond issuance. As market interest rates continue to become more affordable for charter schools we expect this trend in issuance to continue.

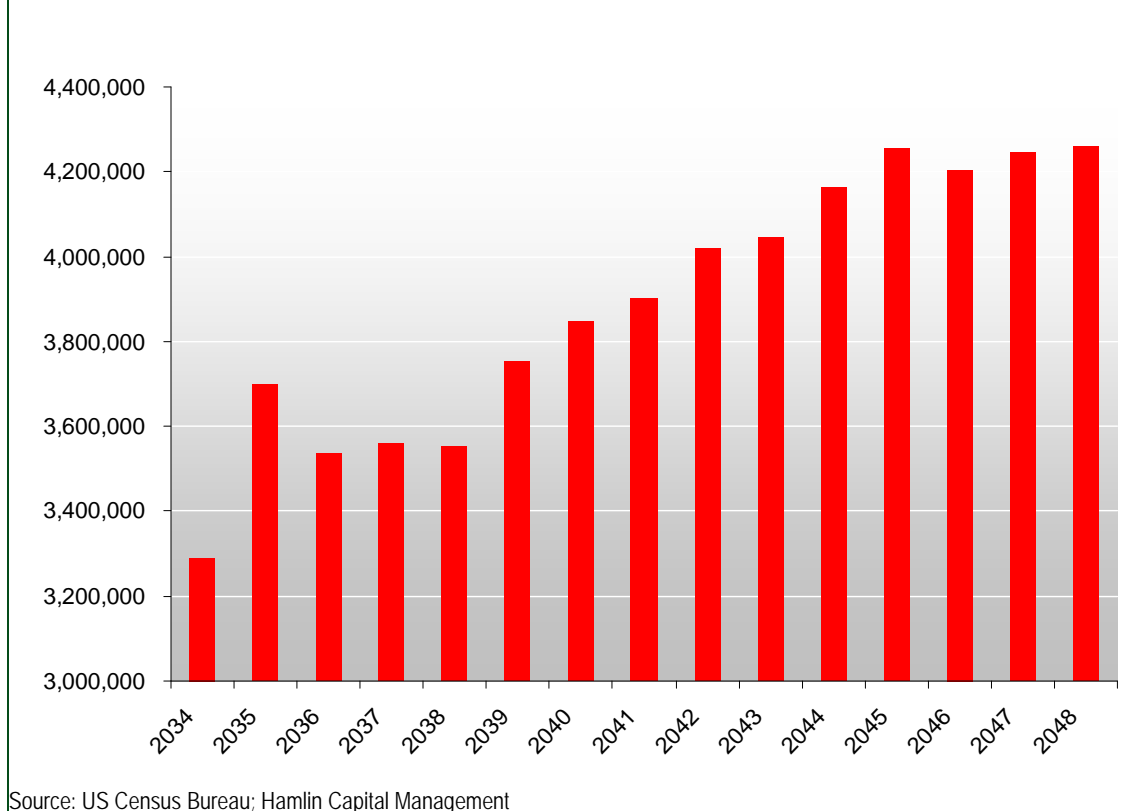
**Correctional:** Correctional facility occupancy remains robust as both the federal government and states now embrace the cost benefits provided by privately-operated, publicly-owned facilities. Privately-operated, publicly-owned correctional facilities are able to offer the same services as state-run, unionized facilities at a fraction of the cost. Currently, states with high incarceration costs and mounting fiscal deficits, such as California, are for the first time considering allowing private operators to run correctional facilities in their states.

Furthermore, over the last 10 years this country’s prison population has averaged annual growth of 2%. This has culminated with the grim statistic that, on any given day, 1 in every 100 adults in this country is incarcerated. With approximately 160 privately-operated correctional facilities in the United States accounting for less than 7% of the total incarcerated population, we see a strong need for expansion in this sector given the affordability advantage. We remain constructive on this sector and expect greater financing opportunities in the near future.

**Senior Living:** Senior living facility occupancy continues to improve in 2010. This is due in part to the stabilizing housing market enabling seniors to sell their homes and move into senior living facilities. While the overall housing market remains weak, the supply/demand profile for senior living is attractive.

Projections for senior living units coming online in 2010 show about 1% growth from 2009 and the 85+ senior population is expected to grow annually at 3% through 2012. This data indicates both additional short term demand and room for longer term increases in supply to meet increasing demand. The very long-term demand picture is even brighter. Approximately 3.5 million to 4 million American Baby Boomers turn 88 years old (the average age for assisted living patients) every year starting in 2035. See Figure 5.

Figure 5: Baby Boomers Turning 88 Years of Age



The above trends support existing facility occupancy and future facility construction and financing. From our standpoint though, the best risk/reward lies in the potential to restructure facilities financed during the late-2006 and 2007 time period. During this time period many senior living projects came to market at relatively low costs of capital with high per unit debt burdens. Bonds issued by these facilities at that time now trade at steep discounts in the secondary market. Purchasing and subsequently restructuring this debt all the while collecting tax-exempt income has the potential to offer what we believe to be very attractive risk-adjusted returns.

## Hamlin Firm Update

We are pleased to report that your investment manager remains in sound financial shape. We have recently hired an additional analyst, reinforcing our commitment to rigorous securities analysis. We can accommodate this investment thanks to growth in assets under management. We are currently over-seeing approximately \$800 million, due to existing client capital additions, brand new mandates and healthier markets. We are especially grateful to those of you who have made recent referrals.

Thank you for your confidence, and please call (212) 752-8777 with any questions.

## Disclosure

### EQUITY ONLY COMPOSITE ANNUAL DISCLOSURE PRESENTATION

Year End	Total Firm (millions)	Composite Assets	Annual Performance Results			
		USD (millions)	Number of Accounts	Composite Net	S&P 500 Index	Composite Dispersion
2009	714	30	51	20.49%	26.50%	6.27%
2008	584	12	30	-28.57%	-37.03%	4.45%
2007	734	18	31	3.97%	5.48%	2.86%
2006	869	29	48	7.90%	15.77%	5.93%
2005	716	31	42	20.80%	4.90%	4.90%
2004	501	19	26	22.80%	10.87%	7.67%
2003	130	8	24	30.40%	28.69%	9.87%
2002	49	5	29	0.90%	-22.12%	6.15%
2001	21	6	34	0.99%	-11.91%	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 amount 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 widely recognized indices. They are no way indicative of the strategy employed in this composite. It is Hamlin’s position that a meaningful benchmark is not available for this strategy due to the frequent and customized changes in allocation in individual account.

Hamlin Capital Management, LLC has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Hamlin Capital Management, LLC 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 Capital Management, LLC, 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.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Composite performance is presented net of foreign withholding taxes, where applicable. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented net of management fees and include 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. Additional information regarding policies for calculating and reporting returns is available upon request.

The management fee schedule is as follows: 1.00% on all assets. Actual investment advisory fees incurred by clients may vary.

The Equity Only Composite was created April 1, 2006. Hamlin Capital Management, LLC's compliance with the GIPS standards has been verified for the period January 1, 2001 through December 31, 2008 by Ashland Partners & Company LLP. Beacon Verification Services began verification for Hamlin on January 1, 2009 through December 31, 2009. In addition, a performance examination was conducted on the Equity Only Composite beginning January 1, 2001 through December 31, 2009.

**BOND ONLY COMPOSITE  
ANNUAL DISCLOSURE PRESENTATION**

Year End	Total Firm (millions)	Composite Assets	Annual Performance Results			
		USD (millions)	Number of Accounts	Composite Net	Barclays High Yield Municipal Bond Index	Composite Dispersion
2009	714	297	151	16.12%	32.73%	1.85%
2008	584	208	100	-16.06%	-27.01%	2.06%
2007	734	221	76	4.47%	-2.28%	0.95%
2006	869	171	67	6.56%	10.74%	1.52%
2005	716	115	69	7.56%	8.58%	1.64%
2004	501	80	55	7.02%	10.52%	1.74%
2003	130	44	38	8.26%	13.22%	2.10%
2002	49	19	37	7.08%	1.97%	2.50%
2001	21	19	36	4.56%	4.45%	13.90%

*The Bond Only Composite* consists of fully discretionary bond only accounts that are comprised of any amount of bonds and cash. There is no minimum account size or time period to be included in the composite. The Barclays High Yield Municipal Bond Index is provided solely as widely recognized indices. They are in no way indicative of the strategy employed in this composite. It is Hamlin Capital Management, LLC's ("Hamlin") position that a meaningful benchmark is not available for this strategy due to the frequent and customized changes in allocation in individual accounts.

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