HGK All Cap Value

As of 6/30/10

Firm Overview

- Founded in 1983
- 100% employee owned
- Low professional turnover
- Located in Jersey City, NJ
- Approximately $4 Billion AUM

Equity Discipline

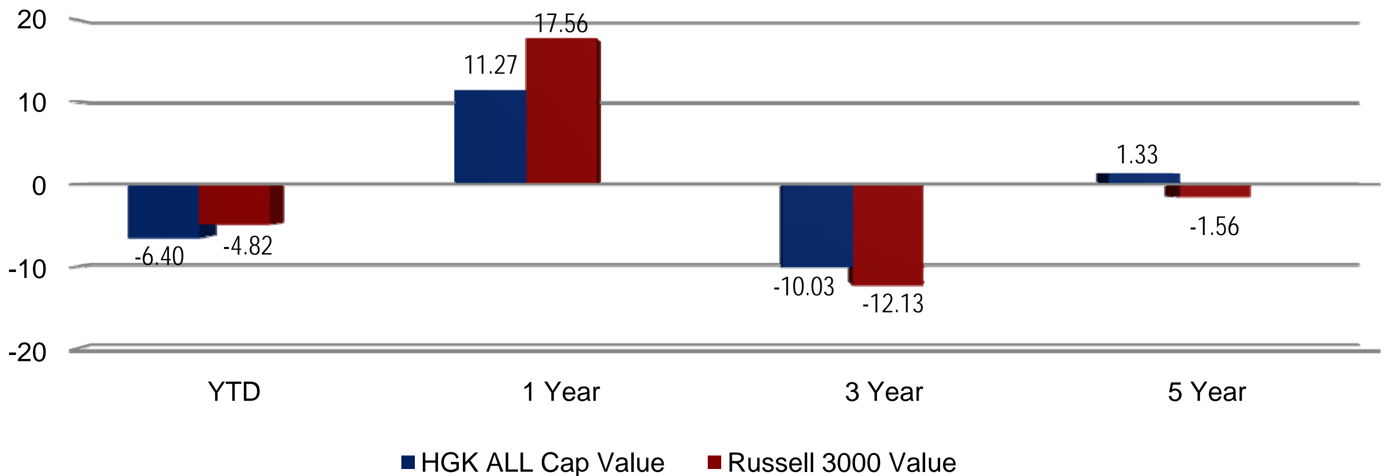
- Focus CFROI & economic performance
- Strong value orientation
- Fundamental analysis
- High quality companies
- Strict sell discipline

Strategy Characteristics

- 50% average annual turnover
- 55-65 Holdings
- Fully invested at all times

Calendar Year End Performance

	2009	2008	2007	2006	2005	2004
HGK All Cap Value	24.11	-35.51	9.35	20.48	10.76	13.43
Russell 3000 Value	19.74	-36.25	-1.02	22.34	6.85	16.94



Portfolio Characteristics

	HGK ACV	Russell 3000 Value
Wtd. Avg. Market Cap	$53.70 bil	$54.90 bil
Median Market Cap	$24.62 bil	$.71 bil
P/E Ratio FY1	10.6	12.2
Price/Book	1.53	1.36
Price/Sales	1.1	1.1
5 Yr EPS Growth	7.5	4.7
ROE 5 Year	19.0	15.2
Number of Holdings	61	1,968
Dividend Yield	2.26	2.12
Beta (vs. R3000)	0.93	1.06

Sector Weightings

	HGK ACV	Russell 3000 Value
Consumer Discretionary	8.03	7.34
Consumer Staples	10.68	9.83
Energy	12.00	10.26
Financials	20.22	26.68
Health Care	14.76	12.77
Industrials	8.87	9.11
Information Technology	8.65	5.69
Materials	4.30	3.00
Telecom Service	3.85	4.60
Utilities	6.44	7.30

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HGK
Asset Management, Inc.

Outlook

During the second quarter of 2010, we recognized a shift in the complexion of the domestic equity market. Investors became increasingly concerned about the possibility of a sluggish recovery only two months after the majority of investors had dismissed this scenario. While the United States is in the midst of a multiple quarter economic recovery, leading economic indicators are beginning to show signs of a slowdown. Unemployment claims, the ISM index, new home sales, and consumer confidence have been among the most prominent indicators to lose steam and raise concerns about the possibility of a double dip recession, precipitating a correction that caused the S&P 500 to decline by more than 11%. We are beginning to see a change in market leadership from stocks with high growth expectations, expensive cyclicality, and high beta to previously overlooked high-quality, low leverage companies which have historically prospered in difficult economic environments. At present, companies exhibiting these characteristics have both relatively and absolutely inexpensive valuations. We expect these securities to assume a position of strong market leadership in the coming quarters.

For some time our contention has been that developed global economies will be faced with certain structural impediments that will limit the vitality of a normal recovery. While we do not foresee a "double dip" secondary recession, we believe that high government and consumer debt levels, a murky employment picture, financial regulation, and an inevitable increase in taxes will impede the rate and magnitude of economic recovery. Increased debt levels have typically been a catalyst for recovery cycles, enabling spending growth ahead of income and revenue gains. However, with debt loads already near all time highs, it is difficult to foresee how federal and municipal governments as well as consumers will be able to borrow enough to significantly aid capital investment and consumer spending. This is evident in the employment picture, as we are currently experiencing the slowest post-recession employment growth in more than half a century. The winding down of economic stimulus and extended unemployment benefits may exacerbate the problem. An additional structural impediment to robust recovery is gross federal debt as a percent of GDP and the inevitable increase in taxes that will occur in order to generate revenue as an offset. TARP and stimulus spending have dramatically increased the federal debt obligation. Estimates going forward predict a further escalating debt load as government entitlement programs balloon. Federal tax brackets will follow this upward trend as individuals will have less disposable income, resulting in a slowdown in the rate of consumer spending and economic growth. Finally, by increasing capital and liquidity requirements, federal banking regulation is depressing the economy of much needed lendable funds. Although money supply as measured by M1 is growing at a healthy rate (7% yoy), funds are coming out of small time deposits, large CDs, and money market mutual funds. These fund flows are plunging at the highest rate in 25 years. Consequently, M2 is growing at 1.7% and forecasts call for M3 to fall by the highest rate since 1959, 5.9%. This legislature initiative has the potential to reverse a growing recovery.

While the aforementioned structural impediments will serve to reign in growth, we do not foresee a return to a recessionary economic environment on the horizon. Inflation is benign and the Federal Reserve has telegraphed its intention to keep interest rates very low for a prolonged period of time. These factors should serve to provide a floor for equity markets. Equity securities appear fairly valued on recent earnings reports. Corporate cash balances are at an all time high. In fact, cash as a percentage of total capitalization is above 10%. Over the past two years, CFOs have been through a long, painful process of slashing costs and raising capital in order to shore up balance sheets. These actions should support increased dividends, buybacks, mergers and acquisitions, and may offset governments' abilities to stimulate capital spending. Additionally, there is a large amount of investable cash on the sidelines that should find its way into the equity markets, supporting the case for positive returns. Near-term, it does appear that the economy is settling into a lower growth mode. Inventory restocking and the waning effects of the first time homebuyer tax credit, which provided temporary increases demand, have tapered off.

As mentioned earlier, investor expectations heading into 2010 were ahead of reality, resulting in a correction phase for the market. Sectors, industries, and companies which are the most leveraged to a strong economy should lag as earnings expectations are readjusted. Meanwhile, high quality and defensive companies, which have underperformed in the past twelve months, should experience relative outperformance. HGK has been and continues to be defensively positioned, emphasizing companies and industries which are less dependent on economic growth and consumer spending. Larger, high quality securities with strong balance sheets and low leverage are attractively valued, pricing in conservative expectations. The inherent strength of these types of companies will enable them to gain a competitive advantage versus financially weaker companies. They will have the ability to access capital, undertake expansion, and supplement their organic growth through acquisition. HGK favors the Consumer Staples, Healthcare and Utilities sectors. All three sectors are supported by attractive valuations and dividend yields, relatively inelastic demand, and low correlation to a weak economy.

Top 10 Holdings

	Symbol	Description	Sector	%		Symbol	Description	Sector	%
1	AEP	American Electric Power	Utilities	2.39%	6	MET	MetLife	Financial	2.26%
2	CVX	Chevron	Energy	2.38%	7	CL	Colgate-Palmolive	Consumer Staple	2.25%
3	JNJ	Johnson & Johnson	Healthcare	2.38%	8	ETR	Entergy	Utilities	2.23%
4	DHR	Danaher	Industrials	2.31%	9	PEP	PepsiCo	Consumer Staple	2.22%
5	TRV	Travelers	Financial	2.30%	10	CVS	CVS Caremark	Consumer Staple	2.21%
								Total	22.94%

Disclaimer:
HGK Asset Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®)
*Calculations are gross of fees. The effect of fees on a compounding basis will affect net returns as follows: $1000 compounded annually at a gross return of 10% per year. Over a 5-year period will return $1610.51. $1000 compounded annually at a gross return of 10% per year over a 5-year period net of a 50 basis point annual fee will return $1574.25. Past performance does not guarantee future results.
To receive a complete list and description of HGK Asset Management, Inc.'s composites and/or a presentation that adheres to the GIPS standards, contact Adam Gerentine at 201-659-3700 or email him at Performance@hgk.com