HUBER CAPITAL MANAGEMENT UPDATE

TIMING IS EVERYTHING

July marks the one year anniversary at Huber Capital Management. I hope whoever coined the phrase, "Timing is everything" is wrong. The last year in the U.S. equity market has been miserable, to say the least. This has been especially the case for the true value investors. We were not immune to this phenomenon. For the year ended June 30, 2008 the return of our small cap product was down 23.2%, underperforming the Russell 2000V by 158 basis points gross of fees, and 281 basis points net of fees[1]. Our equity income product fared better, and its return was down 10.9%, which outperformed the Russell 1000V by 792 basis points gross of fees and 638 basis points net of fees[1]. While it appears we picked a terrible time to open our doors, we are reminded that investing is a marathon and not a sprint.

When I started Huber Capital last year, the first thing I did was to develop a core set of tenets (listed at the end) to guide the firm. I am proud to say that we have followed these values. Number 2 on the list has been particularly apropos. "The best investing styles are timeless, not timely." While it has been hard to stay grounded in a contrarian philosophy, "in the midst of one of the most powerful momentum markets ever,[2]" I am convinced that a valuation-based approach will serve our investors over the long term.

"Until You're Ready to Look Foolish, You'll Never Have the Possibility of Being Great" – Cher

I am reminded of a conversation I had with a division head of a large asset manager in the fall of 1999. We were in the midst of a momentum market where managers were crowding into a narrower and narrower set of stocks that "were working." I gave him what I thought was a rock solid argument of why we should be investing in great value opportunities like energy, commodities, and agriculture at massively depressed prices. His retort was that I was being foolish, and if the tech and telecom bubbles were to ever pop, he would not look any more foolish than the rest of the market.

As value investors, we know our inherent bias is to invest too early in securities during down cycles and tend to sell too early into their turn-around phase. We have developed risk-based tools to both explicitly and implicitly steer us away from investing too early in down cycles. This discipline has served us well versus many of the well known value-based managers over the past year, as we were underweight banks for most of this time and avoided the value traps of Countrywide, Bear Stearns, Lehman Brothers, Washington Mutual, and Wachovia (so far). However, as the second quarter of 2008 approached, the valuation of many financials became too compelling not to own. (Please see our upcoming white paper, "The Case for Large Cap Value" for specific examples). We were willing to look foolish, and the month of June provided the backdrop by taking our large-cap product, which provided positive absolute returns for the prior 11 months, down significantly for the month.

1. Compilation of performance returns of multiple accounts managed by Huber Capital Management in that particular investment style during that particular investment period. Gross performance results are presented before advisory fees, but after custodial fees and brokerage commissions. Net performance results are presented after also deducting advisory fees. "R2000V" means the Russell 2000 Value Index, which consists of the small-cap value segment of the U.S. equity universe. R2000V performance does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the index. "R1000V" means the Russell 1000 Value Index, which consists of the large-cap value segment of the U.S. equity universe. R1000V performance does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the index.
2. Source: Empirical Research, "Momentum Markets – Erode or Explode." 5/29/08

BUY THE BEST AND FORGET THE REST?

Throughout my 18 year career in the investment industry, I have often been mislabeled as someone who likes to invest in bad businesses. My argument is that for most of the last 18 years the valuation spreads between the best and the rest were unjustified. In other words, I do not like to invest in bad businesses, but I may have done so in order to take advantage of the market's love affair with the "Biggest and the Best". Well, after an 18 year absence, I am happy to say that now is the best time to invest in the biggest and the best companies that America has to offer. In our opinion, there has not been a better time to invest in companies such as MSFT, PFE, HD, GE, AMGN, ORCL, WMT, C, BAC, AIG and GE since the early 1990's[4]. The baby boom phenomenon encapsulates the entire industrialized world. As their healthcare needs grow and they move to a negative net savings rate, we believe they will utilize the goods and services of America's global franchises. At the same time, the emerging markets are growing at rates never seen before. As they grow, we believe that their healthcare, financial and consumable needs will grow as well.

Since the market peak in early 2000, the 50 largest U.S. firms in market capitalization (excluding 3 large oil companies) are down an average of 29.4% over this time period, while their earnings per share are up a whopping 177% (over 14% annually)[3]! This compares to a positive 46.2% return for the smaller 450 companies in the S&P500[5]. These "Biggest and Best" are currently sporting their lowest valuations on both an absolute and relative basis since 1990. Had you bought this group back then, you would have been rewarded with a 32% annual return through March, 2000[3]. That looks pretty attractive compared to a less than a 4% yield on the government 10 year bond today.

Table 1: Select Large Capitalization Stocks[4]

	3/24/2000				7/15/2008			
	Price	P/E	P/B	Div Yield	Price	P/E	P/B	Div Yield
AIG	$ 71.75	33.4	5.0	0.2	$ 20.64	3.8	0.6	4.3
BAC	$ 27.31	12.2	2.1	3.7	$ 18.52	5.4	0.6	13.8
C	$ 42.36	21.2	4.0	1.1	$ 14.56	6.1	0.7	8.8
DELL	$ 56.44	93.2	33.4	-	$ 22.64	12.2	11.4	-
FNM	$ 61.63	16.5	3.8	1.8	$ 7.07	9.5	0.3	14.1
GE	$ 53.02	49.4	12.3	1.0	$ 26.65	11.3	2.1	4.7
HD	$ 64.38	69.0	12.6	0.2	$ 21.46	11.7	1.9	4.2
JPM	$ 64.13	17.4	3.6	2.0	$ 31.02	9.2	0.8	4.9
KO	$ 47.00	48.1	12.2	1.4	$ 51.79	15.2	4.8	2.9
MRK	$ 58.44	25.2	10.9	2.0	$ 36.58	10.0	3.3	4.2
MSFT	$ 55.84	70.8	16.7	-	$ 26.15	10.8	3.7	1.7
ORCL	$ 43.50	180.1	72.2	-	$ 20.25	11.8	2.9	-
PFE	$ 34.88	44.4	15.5	1.0	$ 17.58	7.0	1.7	7.3
10 Year T-Bond	6.19%				3.82%			

3. Source: Huber Capital Management Internal Study. FactSet database. P/E and P/B are forward estimates.
4. The preceding list may or may not be owned by Huber Capital Management, and their inclusion is not intended to be a recommendation to purchase or sell any of these securities, but rather for illustration purposes only. See www.Hubercap.com for a recent holdings list. Source: FactSet database. P/E and P/B are forward estimates.
5. The "S&P500" means the S&P 500 Index, which is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. The S&P500 performance does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the index.

LATENT POTENTIAL

Physics 101 teaches us that there are two types of energy: kinetic and potential. Potential energy is the ball at rest at the top of a slide. Kinetic energy is the ball moving in its intended direction. While neither of our portfolios have performed in absolute terms as well as we would have hoped, we are comforted in our view that our current investors are invested in great opportunities that have not shown their kinetic returns as of yet. We believe the latent potential performance of our portfolios is tremendous. Timing may not be everything and we do not know exactly when or if the market will convert our latent potential performance into its kinetic slide. Once it does, we expect our clients to enjoy the ride.

Five of the six members of our team have been working together for over a year now. We are excited and working as hard as ever to make our products the best in the marketplace. We thank you for your support.

Sincerely,

Joe Huber

P.S. Please visit our website for our latest White Paper on the explicit and implicit trading cost advantages we believe smaller firms enjoy over their larger counterparts.

HUBER CAPITAL MANAGEMENT VALUES

10) Bigger is not necessarily better.
9) Act with honesty and integrity. Be straightforward always.
8) Be innovative, creative, and flexible.
7) Admit mistakes. Learn from them and don't repeat them.
6) Work hard. Your competitors are trying to catch up.
5) Treat others as you would like to be treated.
4) Remember that you have the onus of investing for the well-being of others.
3) Fight complacency. Your past successes are in the past.
2) The best investing styles are timeless, not timely.
1) Clients come first. Think of them and you will always be successful.