FIRM UPDATE
4th Quarter 2009

2009 was a great year for Huber Capital, our clients and their consultants and brokers who support us. As we bid adieu to 2009 we reflect on some of our accomplishments.

Highlights from our organization and performance include:

- A consistent and dedicated team
- A consistent, repeatable, and unbiased process that has served well through many market cycles
- A 100% employee owned firm
- Principals with experience exceeding 65 years
- A firm with a well capitalized balance sheet
- For the quarter ending 12/31/09, our Small Cap Value product outperformed its benchmark by 354 basis points gross of fees, and by 326 basis points net of fees[1]
- For the quarter ending 12/31/09, our Equity Income product outperformed its benchmark by 80 basis points gross of fees, and by 41 basis points net of fees[2]
- For 2009, our Small Cap Value product outperformed its benchmark by 6540 basis points gross of fees, and by 6354 basis points net of fees[1]
- For 2009, our Equity Income product outperformed its benchmark by 4363 basis points gross of fees, and by 4130 basis points net of fees[2]
- Beta for both products less than 1.0

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the winter of despair, we had everything before us, we had nothing before us."
-- A Tale of Two Cities

As the Auld Lang Syne's reverberate into the distance, and we close the book on the first decade of the new millennium, we reflect on the decade that wasn't. Just ten years ago at the height of the dot-com bubble, I spent my days arguing that things were not as good as they seemed, and by the end of the decade I spent my time arguing that things weren't as bad as they seemed. For just the first time since the 1930's, the U.S. equity market provided negative returns for the decade.

"Real Knowledge is to know the extent of one's ignorance."
-- Confucius

Going into 2009, we did not know how the year would progress. Several things seemed apparent: the risk of a complete financial meltdown had passed, many assets on bank balance sheets were difficult if not impossible to value, and there was a vast amount of fear in the marketplace. Everything else was clear as mud. One of the main tenets of investing that I follow is that if you cannot figure out what a stock is worth, you should not put your client's capital at risk in the security. At Huber Capital we utilize a very sophisticated model for valuing banks, using 29 on and off balance sheet factors. There is only one *a prior* premise with this model: namely, that the assets and liabilities are marked properly. Most banks lever their balance sheet assets and liabilities at over 90% debt-to-cap (or, to use bank lingo, < 10% equity-to-assets). When one considers off-balance sheet assets, such as hedged derivatives, structured investment vehicles ("SIVs"), home equity lines, letters of credit, and credit lines, this leverage approached 97% to 98% leverage of stated values. This means that as little as a 2% swing in asset values can mean insolvency for the banks and their shareholders. Because much of this credit is cross-collateralized between banks, the failure of one can affect the value of the assets of another, thereby causing a domino effect of insolvency. In most markets, these asset prices are known and well hedged, and the variation in aggregate asset values is very small, which allows for large leverage.

As we started 2009, it was clear that although the domino insolvency risk had abated, the uncertainty of asset pricing on banks' balance sheets remained. We were faced with the dilemma that the largest industry in both the Russell 1000 Value Index and Russell 2000 Value Index was difficult to value. It would have been easy to solve had it been clear if the industry was either vastly overvalued or vastly undervalued. As we told one potential client, we were sure it was one of the two, we just did not know which.

Therefore, we created a portfolio of assets that looked and acted like a bank without the risk of the extreme leverage inherent in the banks. We did this by investing in non-bank companies that replicated one or more of the factors that exist in our bank model. When we combined several insurance companies, diversified financials, real estate businesses, and homebuilders, we were able to replicate the exposure that a bank investment provides without the leverage. That way, if real asset values fell substantially (more than 2%), we were protected and if they rose, we would participate. At no point in 2009 did we own any banks in our Small Cap Value product and we heavily underweight them in our Equity Income product throughout the year. While we entered the year rather ignorant from a macro perspective, each of our products outperformed during the early downturn through March 9th and in the subsequent upturn thereafter.

"There are worse things in life than death. Have you ever spent an evening with an insurance salesman?"
-- Woody Allen

XL Capital was a standout performer for us in 2009. While we generally do not discuss specific investments because they are simply outputs of our investment process, we highlight it to demonstrate one of the ways that we believe our process is unique and adds value. XL Capital is one of 5 major global reinsurance companies (along with ACE Ltd, Munich Re, Swiss Re, and Berkshire Hathaway). They underwrite long tail (long duration liabilities) business, collect premiums and pay out claims. The premiums they collect become float (investment returns between the time they collect the premiums and pay out claims). Most of XL's assets are invested in corporate bonds.

During the fall of 2008, corporate bond spreads widened dramatically. The Citigroup High Grade Corporate Bond Index hit a peak spread of 630 basis points on December 5th; the Citigroup High Yield Index hit a record spread of 2157 basis points 11 days later. As a result, XL had to mark down their portfolio by about $4 billion by the end of 2008. This caused concern on the part of rating agency AM Best about XL's ability to pay claims. According to our analysis, however, it appeared as if XL's capital cushion stood at roughly $4 billion dollars.

During the first quarter of 2009, XL traded as low as 20% of book value. Since much of the balance sheet consisted of corporate bonds that appeared very cheap at the time, we had the opportunity to essentially buy these bonds at as much as an 80% discount to an already marked down price through the equity in XL Capital, assuming XL didn't go insolvent first. This was a critical assumption.

As XL had about a $4 billion capital cushion, we needed to examine the risks of breaching it. For a reinsurer, there are 3 key risks: catastrophes (e.g. hurricanes), the underwriting, and the investment portfolio. For XL, most of their catastrophe exposure was during hurricane season, which was 6 months away. That said during 2006, the worst hurricane season by far on record (Katrina and Wilma), their total catastrophe losses added up to $3 billion. Therefore, we had time as well as a cushion. That left us with the other two variables to analyze.

One of the key drivers of our investment process is that we delve much deeper into a corporation's balance sheet than the data provided in the 10-K and 10-Q filings. Insurance companies are required to file yellow books (also known as statutory blanks) with the department of insurance in each of the states in which they do business. This is public information that can be obtained via the internet. The statutory blanks contain a vast amount of data concerning the inner workings of an insurance company's balance sheet. The liabilities primarily consist of the reserves the insurers attribute to the risks they underwrite. These reserves are aggregated on the statutory blanks in the form on reserve triangles. Reserve triangles show how well the underwriting estimates fared to actual cash disbursements to policyholders over time for each type of insurance underwritten. Positive developments (reserve releases) mean the underwriting was conservative. Conversely, negative developments (reserve additions) mean the company would further erode the capital base of the company. Underwriting trends tend to possess positive auto correlation, which is a fancy way of saying that good trends in one period will be likely followed in the next (and vice-versa). Upon careful analysis of XL's reserve triangles, we were able to determine that XL's liabilities were very conservative. They had been consistently releasing reserves and were accretive to its capital base. Another nugget of information that can be found in the statutory blanks is the type of investments on the asset side of the balance sheet. Given that XL had already written down $4 billion of investments on its balance sheet, it appeared unlikely given how cheap the assets were being priced that they would have another $4 billion in write-downs. That said, we wanted to be ahead of the curve with respect to any changes in their portfolio, so we took the investment data provided by the company and valued any changes on a daily basis. One thing that we observed was that as the second quarter progressed our estimate of the book value of XL grew by 25% and the capital cushion widened to $5.44 billion. It became clear that the market was unaware of the changes in the balance sheet, which we took advantage of by making it our largest position in the portfolio. When the company finally announced earnings in July the stock outperformed materially and the investment community got to see what we already knew.

We have spoken often in the past about the behavioral psychology of our investment approach. Fear creates opportunity. It requires a willingness to act quickly on investor misperceptions as emotionally charged markets are often driven by fear and greed, rather than by careful analysis of the fundamentals. Often, the right portfolio action is also the most difficult one to take. We believe that we are capitalizing on many of the opportunities that have arisen and hope that they lead to great investments for our clients.

"Performance is the output of a consistency of process, people, philosophy, and product."
-- Joe Huber

Happy New Year,

Joe Huber
CEO/CIO
Huber Capital Management LLC
10940 Wilshire Blvd. #925
Los Angeles, CA 90024
(310) 694-8105
www.hubercap.com
joe@hubercap.com

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.

FOOTNOTES

[1]Returns for our Small Cap Value Product vs. its benchmark:

	Gross of Fees	Net of Fees	Russell 2000 Val
2007*	-16.23%	-17.02%	-13.08%
2008	-46.03%	-46.63%	-28.92%
2009	85.98%	84.12%	20.58%
4th Qtr 2009	7.17%	6.89%	3.63%
ITD Annualized*	-6.70%	-7.84%	-11.11%

*Inception date of composite returns is 07/01/07. ITD composite returns are ending 12/31/09.

[2]Returns for our Equity Income Product vs. its benchmark:

	Gross of Fees	Net of Fees	Russell 1000 Val
2007*	5.94%	5.16%	-6.03%
2008	-52.97%	-53.72%	-36.85%
2009	63.32%	60.99%	19.69%
4th Qtr 2009	5.02%	4.63%	4.22%
ITD Annualized*	-7.92%	-9.30%	-12.79%

*Inception date of composite returns is 07/01/07. ITD composite returns are ending 12/31/09.

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Compilation (composite) performance for both products reflects performance returns of multiple accounts managed by Huber Capital Management in that particular investment style during that particular investment period, commencing 7/1/07. These compilations, prepared by a third party vendor and believed to be accurate, consist of two accounts in the small cap style and one account in the equity income style, and are not GIPS compliant. Compilations may exclude certain accounts for certain periods of time to the extent such accounts deviate significantly from the particular investment style.

From time to time the portfolios may invest in shares of companies through initial public offerings (IPOs). IPOs have the potential to produce substantial gains. There is no assurance that the portfolios will have continued access to profitable IPOs and as a portfolio's assets grow, the impact of an IPO investment may decline. Therefore investors should not rely on these past gains as an indication of future performance.

Gross performance returns are time-weighted rates of return based on the Daily Valuation Method, and are presented before advisory fees, but after custodial fees and brokerage commissions. Performance returns include cash, cash equivalents, accrued income and reinvestment of dividends and income. A client's return will be reduced by the advisory fees and other expenses incurred as a client. Our fees are described in Part II of our Form ADV. Advisory fees will have a compounding effect, over a period of years, on the value of a client's portfolio. For example, an annual fee of 50 basis points charged quarterly for 5 years will result in a compounded aggregate investment advisory fee of 252.5 basis points.

The S&P 500 Index is a broad based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general. The Russell 2000 Value Index (RV2000) consists of the small-cap value segment of the U.S. equity universe. The Russell 1000 Value Index (RV1000) consists of the large-cap value segment of the U.S. equity universe. Performance of these indexes does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the indexes.

Additional information is available upon request.