

Special Note
Enhanced Equity Income
Outlook: Better Than Ever

Last year at this time, we sent an update on our Enhanced Equity Income strategy, pointing out that for long term investors **call writing** on the High Dividend strategy should be an attractive alternative to bonds. A year later the rally in bonds continued and the yield on the five year Treasury bond is now 0.5% versus 2.5% a year ago. **Bonds are now at all-time highs and stocks after a major correction are more attractive than they have been in years.**

With fixed income rates now at historic lows, more investors are again starting to look to **dividends for income**. We are big believers in dividends but have also seen the benefit from covered call writing for even more income potential. In our Enhanced Equity Income strategy, we use selective, short-dated covered call writing which has allowed us to essentially **double the “income”** by generating consistent call premiums on top of the dividends. Between dividends and call premiums (see below) we’ve been able to historically generate **over 7% income every year** since the strategy started. The strategy is especially attractive for tax-exempt accounts.

Gross Annual Income since Inception

Year	Total Income	Dividend Income	Premium Income
2019	7.7%	3.8%	3.9%
2018	7.3%	3.5%	3.8%
2017	7.5%	3.5%	4.0%
2016	8.3%	4.0%	4.3%
2015	7.3%	3.3%	4.0%
2014	7.7%	3.8%	3.9%
2013	8.4%	3.8%	4.6%
2012	7.3%	3.8%	3.5%
2011	8.3%	4.1%	4.2%
AVERAGE	7.8%	3.7%	4.0%

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Source: SCCM, 2020*. This does not represent the performance of the strategy. Please see last page for performance of the Enhanced Equity Income Strategy.

The Risk of Equities

One of the biggest hurdles for the strategy has been that equities are considered riskier than bonds. **However, for the long term investor, if one is investing for at least a five year time period, that tends to smooth the volatility and risk of equities.** This can be seen in the table below which shows all the five year returns for our High Dividend strategy going back to 1994 when we initiated the strategy.

Schafer Cullen High Dividend Portfolio Five Year Returns

1994 – 1998	+19.6	2005 – 2009	+2.2
1995 – 1999	+17.1	2006 – 2010	+3.1
1996 – 2000	+14.1	2007 – 2011	+1.1
1997 – 2001	+10.6	2008 – 2012	+2.3
1998 – 2002	+3.8	2009 – 2013	+14.4
1999 – 2003	+7.1	2010 – 2014	+14.8
2000 – 2004	+11.1	2011 – 2015	+12.2
2001 – 2005	+9.0	2012 – 2016	+11.8
2002 – 2006	+13.4	2013 – 2017	+13.0
2003 – 2007	+15.7	2014 – 2018	+7.3
2004 – 2008	+2.8	2015 – 2019	+9.0

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. *Source: SCCM, 2020.**

Interestingly, any time that a five-year period was flat or up less than 5%, the next five year period turned out to be phenomenally strong. This is because earnings tend to double approximately every ten years, so if there is a five year period where performance is flat, history shows that in the next five year's performance will catch up. This can be seen in the table below.

PERFORMANCE FOLLOWING DIFFICULT 5 YEAR PERIODS

Poor 5-Year Periods	Bottom 20% by P/E	Following 5-Year Periods	Bottom 20% by P/E
1998 – 2002	+3.8%	2003 – 2007	+18.2%
2004 – 2008	+2.8%	2009 – 2013	+25.3%
2005 – 2009	+2.2%	2010 – 2014	+17.7%
2006 – 2010	+3.1%	2011 – 2015	+13.7%
2007 – 2011	+1.1%	2012 – 2016	+17.2%
2008 – 2012	+2.3%	2013 – 2017	+18.0%

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Based on the High Dividend Value Equity composite for the period of 1998 to 2017. *Source: SCCM, 2020.**

Ten Year Returns

The ten year rolling performance as seen below, like the one for the five year, is very consistent, even while including the “Dead Decade” of 2000-2010. During that ten year period, the S&P 500 was actually down 5%.

Schafer Cullen High Dividend Portfolio Annualized 10-Year Returns

1994 – 2003	+13.16
1995 – 2004	+14.05
1996 – 2005	+11.54
1997 – 2006	+11.98
1998 – 2007	+9.56
1999 – 2008	+4.91
2000 – 2009	+6.54
2001 – 2010	+6.01
2002 – 2011	+7.07
2003 – 2012	+8.75
2004 – 2013	+8.45
2005 – 2014	+8.29
2006 – 2015	+7.55
2007 – 2016	+6.30
2008 – 2017	+7.48
2009 – 2018	+10.82
2010 – 2019	+11.85

PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Source: SCCM, 2020*

Timing

With Interest rates at historic lows, the risk-reward advantage of the Enhanced Equity Income strategy vs. bonds would seem to be especially attractive.

If you have any questions please give us a call.

James Cullen
Chairman & CEO

*Please see “www.schafer-cullen.com/managed-accounts” for complete performance information for the Schafer Cullen High Dividend Value Strategy, Enhanced Equity Income Strategy and important performance disclosures.

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Enhanced Equity Income Returns vs. Benchmark

March 31, 2020	MTD	QTD	1 Yr	3 Yr	5 Yr	Since Incept*
SCCM Enhanced Equity Composite (gross)	-13.6	-25.3	-19.1	-3.3	1.5	5.9
SCCM Enhanced Equity Composite (net)	-13.6	-25.5	-20.0	-4.3	0.5	4.8
S&P 500 Buy-Write Index (BXM)	-14.9	-22.2	-15.7	-2.4	1.4	4.1
SPDR Barclays High Yield Bond ETF (JNK)	-10.9	-12.8	-7.1	0.4	1.5	3.8

*12/31/2010. Performance for periods greater than 1 year is annualized. **Past performance is no guarantee of future results.**

High Dividend Value Equity Returns vs. Benchmark

March 31, 2020	MTD	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
High Dividend Value Equity (gross)	-14.6	-25.3	-18.8	-0.9	3.4	8.3	9.2
High Dividend Value Equity (net)	-14.6	-25.4	-19.1	-1.3	2.9	7.8	8.6
Russell 1000 Value Index	-17.1	-26.7	-17.2	-2.2	1.9	7.7	8.2
S&P 500 Index	-12.4	-19.6	-7.0	5.1	6.7	10.5	8.9

*12/31/1993. Performance for periods greater than 1 year is annualized. **Past performance is no guarantee of future results**