

# 4Q 2019

# SCHAFFER | CULLEN

CAPITAL MANAGEMENT

## FIRM PROFILE

Independent & Registered  
Investment Advisor

36 Years of Experience as a Value  
Investment Management Firm

Approx. \$22.0 Billion<sup>1</sup>  
Assets Under Advisement

**64 Employees**  
18 Investment  
23 Client Service  
23 Operational

## STRATEGIES

### ▶ High Dividend Value Equity

International High Dividend  
Value Equity

Value Equity

## STYLE

Large Cap Value

Equity Income

## BENCHMARKS

Russell 1000 Value

S&P 500 Index

## OBJECTIVE

Long-Term Capital Growth

Current Income

## High Dividend Value Equity

### STRATEGY OVERVIEW

Schafer Cullen is a value investing firm, employing a price discipline focus with a long-term time horizon across all of its strategies. Value investing has significantly outperformed the market over the long-term, benefitting from the main drivers of equity market returns: valuation multiple expansion, earnings growth and strong dividend yields, while protecting capital in down markets.<sup>2</sup>

The High Dividend Value Equity strategy, launched in 1994, invests in large capitalization equities with low Price/Earnings and Price/Book ratios, along with High Dividend Yields; this disciplined value approach aims to deliver strong long-term capital appreciation and above-average income with significantly less volatility. The strategy's superior, risk-adjusted returns over full market cycles are driven by its strong upmarket capture and significant down-market protection. The strategy's foundation is built on three primary investment disciplines, which have remained consistent since the strategy's inception:

- ▶ LOW P/E DISCIPLINE
- ▶ HIGH DIVIDEND YIELDS
- ▶ STRONG DIVIDEND GROWTH

First, the strategy invests in equities that trade at a significant discount to the market, which provides multiple expansion potential, while also seeking to protect capital in down markets. Second, each investment in the portfolio offers a dividend yield of a least 3% at initiation. Dividends have contributed nearly 40% to total equity returns over the last 70 years and provide meaningful downside protection. Lastly, the strategy seeks to invest in companies that consistently grow their dividends - an indication that the underlying business is attractive and growing. The portfolio is concentrated, investing in 30 - 40 stocks, but also diversified with exposure to each sector of the market.

# High Dividend Value Equity

## INVESTMENT DECISION PROCESS

### INITIAL SCREEN:

Bottom up approach that begins with a universe of 2,000+ stocks with a market capitalization generally greater than \$5 billion.

### SCREEN FOR VALUE:

- Seek out companies with price-to-earnings (P/E) ratios less than the S&P 500 with long-term earnings growth in the mid-to-high single digits or higher annually
- Look for companies with high dividend yields, strong dividend growth potential and moderate payout ratios

### FUNDAMENTAL RESEARCH:

- Quantitative and qualitative analysis focused on earnings growth drivers, balance sheet strength, cash flow consistency and improving returns
- Market leaders and businesses with sustainable competitive advantages
- Identify catalysts that unlock shareholder value or drive earnings growth
- Meetings and discussions with management, industry analysts, suppliers and customers
- Management committed to disciplined capital allocation and sustaining dividend payouts

### PORTFOLIO CONSTRUCTION:

- Diversification across approximately 30-40 stocks
- Diversification across approximately 15-20 industries
- No more than 30% invested in any one sector at cost
- No more than 15% invested in any one industry at cost
- No more than 5% invested in any one stock at cost
- Up to 25% of the portfolio may be invested in ADRs

### SELL DISCIPLINE:

- Price to earnings multiple not justified by earnings growth rate
- Deteriorating fundamentals or negative change in operating environment
- Dividend cuts, negative change in dividend policy or significant decline in yield due to price appreciation

ANNUALIZED RETURNS (%) as of December 31, 2019	QTD	YTD	1 YR	3 YR	5 YR	7 YR	10 YR	Since Inception January 1994
High Dividend Value (Gross)	5.7	21.1	21.1	11.2	9.0	11.6	11.9	10.5
High Dividend Value (Net)	5.6	20.7	20.7	10.8	8.6	11.1	11.4	9.9
Russell 1000 Value Index	7.4	26.6	26.6	9.7	8.3	12.2	11.8	9.6
S&P 500 Index	9.1	31.5	31.5	15.3	11.7	14.7	13.6	9.9

\*Returns over 1 year are annualized.

ANNUAL RETURNS (%) period ending 12/31	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
High Dividend Value (Gross)	21.1	-3.3	17.4	11.8	0.0	12.2	24.9	11.5	13.7	12.2	10.5	-28.8	5.2	25.6	7.1
High Dividend Value (Net)	20.7	-3.7	17.0	11.4	-0.4	11.7	24.4	11.0	13.3	11.6	9.8	-29.3	4.5	24.9	6.4
Russell 1000 Value	26.6	-8.3	13.7	17.3	-3.8	13.5	32.5	17.5	0.4	15.5	19.7	-36.9	-0.2	22.3	7.1
S&P 500 Index	31.5	-4.4	21.8	12.0	1.4	13.7	32.4	16.0	2.1	15.1	26.5	-37.0	5.5	15.8	4.9

Past performance is no guarantee of future results.

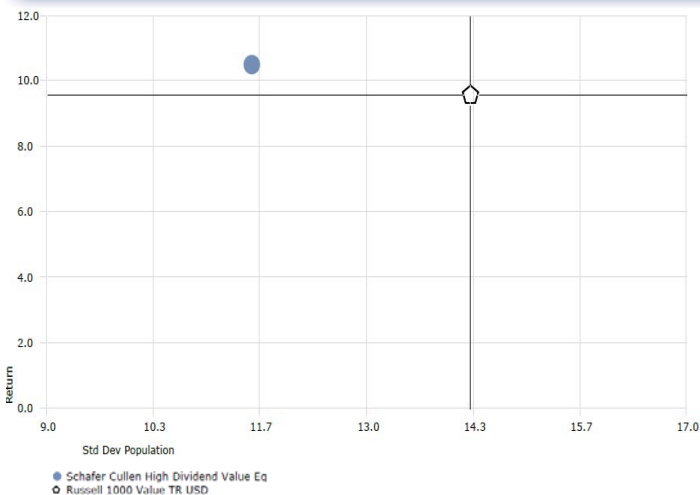
SECTOR WEIGHTS * (%)	High Dividend	Russell 1000 Value
Communication Services	6.2	8.2
Consumer Discretionary	4.7	5.9
Consumer Staples	12.4	8.9
Energy	9.7	8.2
Financials	18.6	23.9
Health Care	13.2	13.0
Industrials	11.3	9.7
Information Technology	9.8	6.3
Materials	1.7	4.3
Real Estate	4.7	5.2
Utilities	3.7	6.6
Cash	4.0	0.0
Total	100.0	100.0

PORTFOLIO * CHARACTERISTICS	High Dividend	Russell 1000 Value
P/E Ratio (Forward)	16.2	17.8
Dividend Yield	3.4	2.5
LT Debt to Capital	34.1	36.8
Weighted Average Mkt Cap. (\$B)	182.6	131.0
Median Market Cap. (\$B)	118.4	9.9

Source: SCCM, Bloomberg 12/31/19

TOP TEN HOLDINGS * (%)	
NextEra Energy Inc.	3.7
JP Morgan Chase & Co.	3.7
AT&T Inc.	3.3
Truist Financial Corp.	3.2
Chevron Corp.	3.1
Bank of America Corp.	3.1
Johnson & Johnson	3.1
Intel Corp.	3.0
Chubb Ltd.	3.0
BCE Inc.	3.0

**HIGH DIVIDEND VALUE  
SINCE INCEPTION RISK-REWARD  
ENDING 12/31/19  
RUSSELL 1000 VALUE INDEX \***



Since Inception Capture Ratio:	Up-Market ↑	Down-Market ↓
High Dividend	83.41	68.49
Russell 1000 Value	100.0	100.0

**The Goal of the High Dividend Strategy:**

To participate in the long-term upside potential of equities while simultaneously providing a substantial measure of downside protection. The following capture ratio table demonstrates our success in executing this strategy.

From the strategy's inception in January 1994 through December 31, 2019 of the 312 monthly returns for the Russell 1000 Value, 109 were negative. The High Dividend Value strategy outperformed in 82 out of these 109 down months, and of these 82 months of outperformance of the Russell 1000 Value, the strategy had a positive return in 17 months.

## INVESTMENT TEAM

**JAMES P. CULLEN**  
CEO / CHAIRMAN / PORTFOLIO MANAGER  
56 YEARS INVESTMENT EXPERIENCE

**BROOKS CULLEN**  
EXECUTIVE DIRECTOR / VICE CHAIRMAN  
30 YEARS INVESTMENT EXPERIENCE

**TIMOTHY A. CORDLE**  
MANAGING DIRECTOR / ANALYST  
27 YEARS INVESTMENT EXPERIENCE

**PRAVIR SINGH, CFA**  
MANAGING DIRECTOR / DIRECTOR OF RESEARCH  
15 YEARS INVESTMENT EXPERIENCE

**BRIAN DRUBETSKY**  
VICE PRESIDENT / ANALYST  
18 YEARS INVESTMENT EXPERIENCE

**STEPHEN O'NEIL**  
EXECUTIVE DIRECTOR / ANALYST  
35 YEARS INVESTMENT EXPERIENCE

**KAREN RAMLOGAN**  
MANAGING DIRECTOR / INVESTMENT OPERATIONS  
18 YEARS TRADING/OPERATIONS EXPERIENCE

**KRITI JAIN, CFA**  
VICE PRESIDENT / ANALYST  
6 YEARS INVESTMENT EXPERIENCE

**ERIK NORGAARD**  
ANALYST  
1 YEAR INVESTMENT EXPERIENCE

**JENNIFER CHANG, CFA**  
EXECUTIVE DIRECTOR / PORTFOLIO MANAGER  
21 YEARS INVESTMENT EXPERIENCE

**RAHUL SHARMA**  
EXECUTIVE DIRECTOR / ANALYST  
20 YEARS INVESTMENT EXPERIENCE

**MICHAEL KELLY, CFA**  
VICE PRESIDENT / DIRECTOR OF RESEARCH  
16 YEARS INVESTMENT EXPERIENCE

**MATTHEW DODDS**  
VICE PRESIDENT / ANALYST  
50 YEARS INVESTMENT EXPERIENCE

**MICHAEL GALLANT, CFA**  
VICE PRESIDENT / ANALYST  
17 YEARS INVESTMENT EXPERIENCE

**ANUCA LAUDAT, CFA**  
SR. VICE PRESIDENT / ANALYST  
8 YEARS INVESTMENT EXPERIENCE

**ERIK SCHAFFER**  
ASSISTANT VICE PRESIDENT  
13 YEARS INVESTMENT EXPERIENCE

**JASON STEINBERG**  
ANALYST  
2 YEARS INVESTMENT EXPERIENCE

**WILL BRUCE**  
ANALYST  
1 YEAR INVESTMENT EXPERIENCE

<sup>1</sup>Includes model program assets of \$11.4 billion as of 12/31/2019. SCCM provides models on the following SMA strategies: High Dividend, International High Dividend, Value Equity and Global High Dividend.

<sup>2</sup>Source: Capital IQ, Standard & Poors, SCCM Research, June 30, 2019.

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The primary benchmarks used for comparison purposes are the total return indices for the S&P 500 Index and the Russell 1000 Value Index.

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