Small Cap Value Equity
Q4 2019 Commentary

Market Review:

Small-cap stocks advanced sharply in the 4th quarter of 2019, with the Russell 2000 finishing up +9.9% and the Russell 2000 Value up +8.5%. The quarter capped off a remarkable year for stocks, as the Russell 2000 returned +25.6% for the year, the best performance for the index since 2013. Two key themes that propelled stocks higher throughout the year continued in the 4th quarter, including accommodative policy by the Federal Reserve ("Fed") and progress in the US-China trade war. After the Fed cut interest rates in October for a third time in 2019, the Trump and Xi administrations in December agreed to a phase one trade deal.

Healthcare and Information Technology were the best-performing sectors in the Russell 2000, finishing the quarter up +22.2% and +11.7%, respectively. While the strong quarter merely extended the banner year for Technology, which finished up +41.0% for 2019, Healthcare had been significantly lagging the broad market coming into October. The rally in Healthcare stocks appeared to be driven in part by the increased number of biotech acquisitions and the political landscape, as candidates advocating for sweeping changes in the healthcare system dipped in polls for the Democratic Presidential primary. Materials (+11.5%) benefitted from the risk-on sentiment and Consumer Discretionary (+8.6%) advanced on the back of consumer spending. Defensive, higher-yielding sectors lagged in the quarter. Utilities (-1.6%) was the only sector with negative returns, while Real Estate was up +3.4%.

With widespread concerns about a potential slowdown in the economy earlier in the year, the Fed responded with its third rate cut in the 4th quarter, bringing interest rates to a range of between 1.5% and 1.75%. Following the announcement, Fed Chair Jerome Powell said "the current stance of policy is likely to remain appropriate," as long as the economy expands moderately and the labor market stays strong. In addition to the rate cuts, the Fed injected further liquidity into financial markets through overnight repurchase agreements, following significant dislocation in the repo market in September. The accommodative policies from the Fed come at a time when the US economy appears to be strong. The Commerce Department reported US GDP growth of 2.1% for the 3rd quarter, compared with 2.0% in the 2nd quarter.

It was a historic quarter on the geopolitical front. The US-China phase one trade deal rolled back certain US tariffs and cancelled new tariffs on roughly $156 billion in Chinese imports that were set to take effect on December 15th. Chinese concessions included increased purchases of farm goods and other US exports. The US, Mexico and Canada signed an amended USMCA trade deal to replace NAFTA, which included provisions aimed at creating manufacturing jobs in the US. Amidst all the trade developments, the House of Representatives voted to impeach President Trump for abuse of power and obstruction of Congress, only the third impeachment in US history. Senate Majority Leader Mitch McConnell is thus far insisting on a quick Senate trial, while Democrats in the House and Senate have demanded witnesses and further documents. Finally, the UK's Boris Johnson secured a historic general election victory as his Conservative Party won 364 of 650 seats in the House of Commons. The win sets the stage for the long-awaited Brexit on January 31st.

Performance Analysis:

The Small Cap Value Equity strategy composite returned 5.76% (gross) and 5.60% (net) for the fourth quarter of 2019 and 24.59% (gross) and 23.88% (net) for the full year 2019.

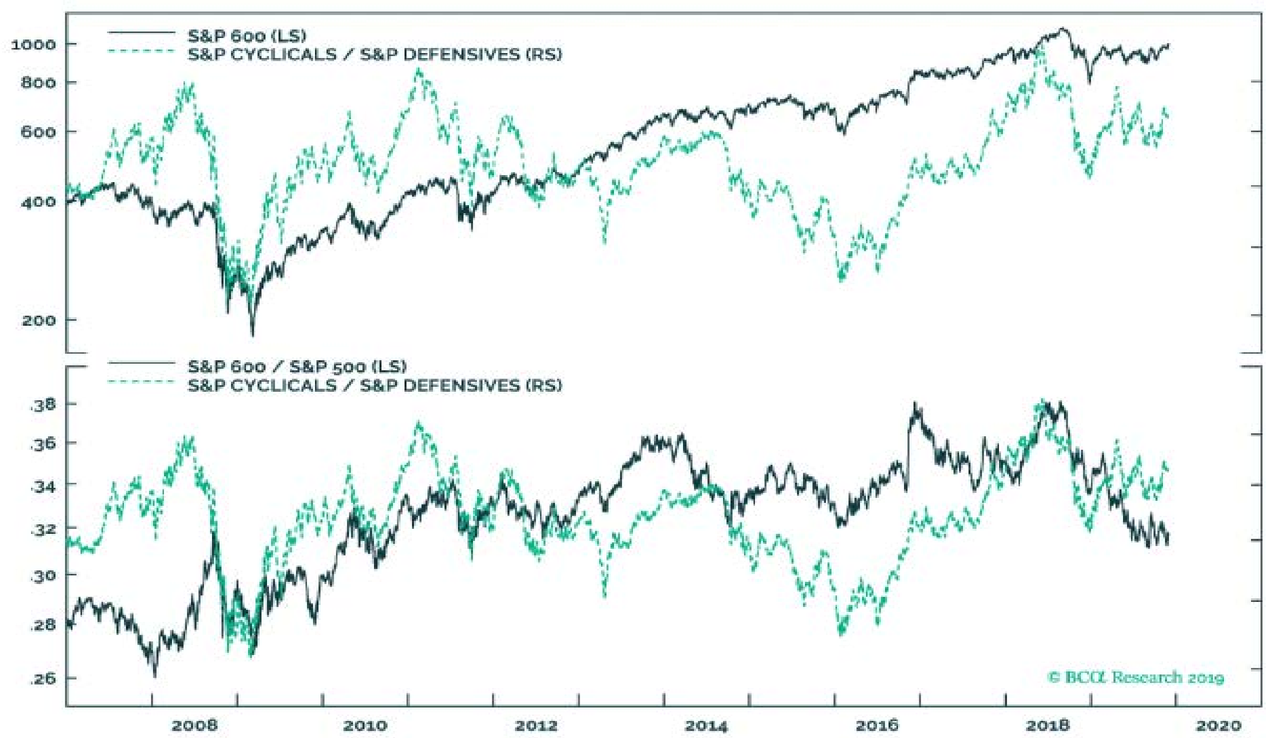
Figure 1: Small Cap Value Equity Returns vs. Benchmark

	Q4	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
Small Cap Value Equity (gross)	5.8	24.6	24.6	4.6	4.6	7.7	11.5
Small Cap Value Equity (net)	5.6	23.9	23.9	3.9	3.9	6.9	10.6
Russell 2000 Value Index	8.5	22.4	22.4	4.8	7.0	10.6	10.1
Russell 2500 Value Index	7.1	23.6	23.6	6.1	7.2	11.3	11.0

June 1992. Performance for periods greater than 1 year is annualized.* ***Past performance is no guarantee of future results.*

The Russell 2000 return of 25.5% for 2019 marked the 11th best year in the history of the index. US small-cap equities decisively broke out in the fourth quarter from the range-bound territory it had traded in since early 2018. The fourth quarter boosted returns for the year by 10% as lower quality, high beta, and cheaper valuation small-cap equities outperformed. Renewed balance sheet expansion by the Fed and increasing certainty on a US-China phase one trade deal fueled markets higher. The reflationary narrative that global growth will strengthen drove yield curve steepening and market rotation further into Growth and increasingly into Cyclicals.

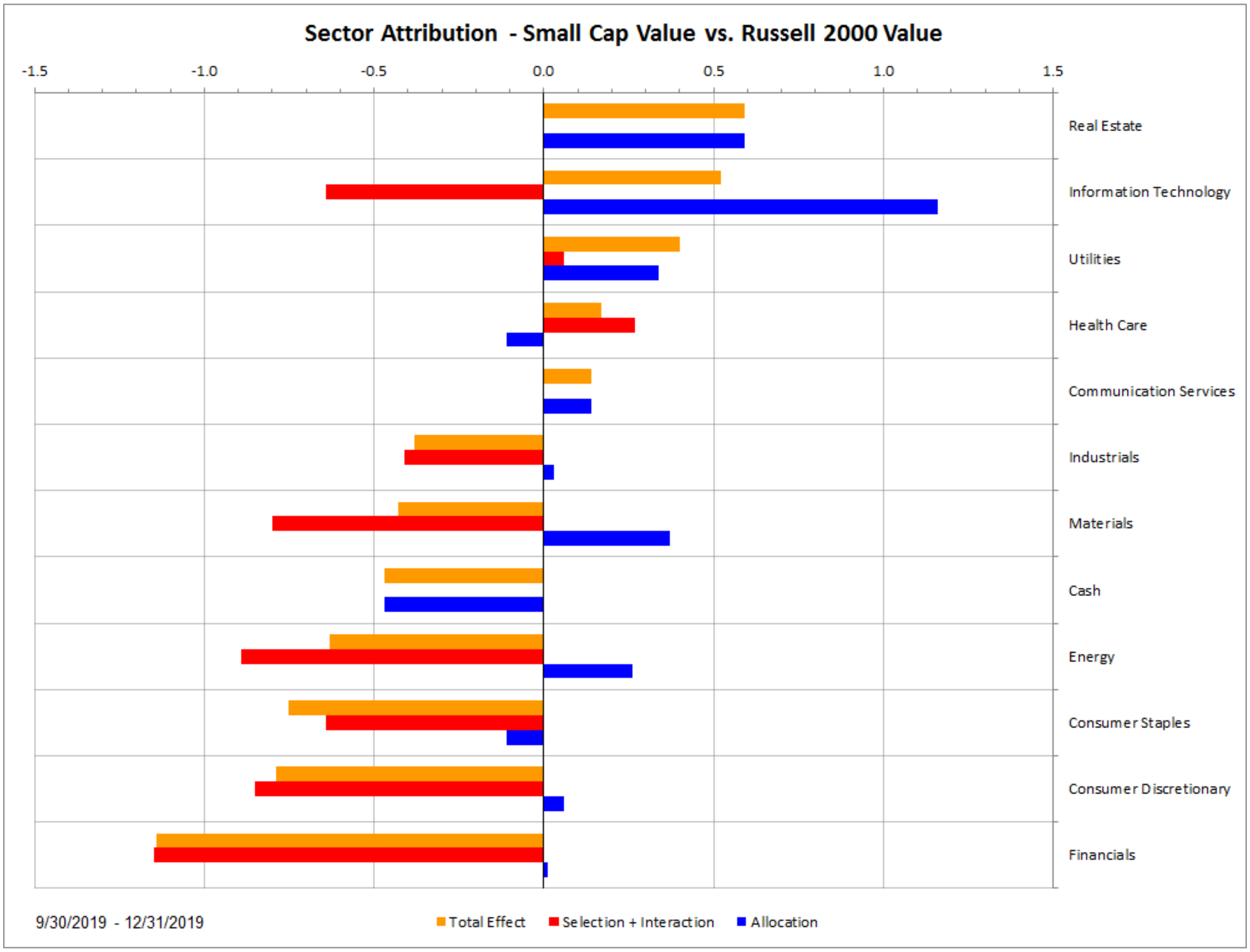
Figure 2: Cyclical/Defensive vs. S&P 600 Small Cap



Source: BCA Research 12/9/2019.

Portfolio Attribution:

Attribution Effects – Small Cap Value vs. Russell 2000 Value 9/30/2019 – 12/31/2019



Source: SCCM/Bloomberg, 12/31/2019.

The following attribution analysis of the Small Cap Value Equity portfolio utilizes the Russell 2000 Value Index as the benchmark of comparison for the fourth quarter of 2019.

Our underweight allocation to ***Real Estate*** made it the largest contributor to relative performance for the quarter. Our overweight allocation to ***Technology*** also benefited relative performance. Lumentum Holdings (+48.0%) reported a stellar quarter of results on the back of strong 3D sensing, and benefited from positive news related to the phase one trade deal with China. Our underweight allocation to ***Utilities*** also aided relative performance. Stock selection within ***Healthcare*** benefited relative performance as well. Magellan Health (+26.0%) outperformed after the company reaffirmed its net margin goal for next year, and reported strong results in its PBM division.

Stock selection within ***Financials*** detracted from relative performance in the quarter. Financials, and particularly bank stocks, benefited from the risk-on sentiment and a slight steepening in the Treasury yield curve. United Insurance (-9.4%) declined after the company reported an adverse reserve development largely stemming from legacy losses related to previous storm damage. As it works through this period of elevated losses, the company is responding with substantial price increases, which should improve underwriting performance longer term. Stock selection within ***Consumer Discretionary*** detracted from performance, as Taylor Morrison (-15.8%) declined on concerns over its recently announced acquisition of William Lyon Homes. We remain confident in Taylor Morrison's ability to outperform and feel the acquisition will provide the company with increased scale and synergies. Finally, our overweight allocation and stock selection within ***Consumer Staples*** also impacted relative performance. Village Super Market (-10.5%) underperformed after the company announced weaker than expected earnings results.

Portfolio Changes:

Purchases

Ameris Bancorp (ABCB) – Ameris Bancorp, headquartered in Moultrie, Georgia, is a well-positioned commercial bank with operations in several high growth markets in the Southeast, notably Atlanta and Florida. The bank's organic growth should remain strong and drive increased profitability. The company recently increased its scale in Atlanta through its acquisition of Fidelity Southern, and we are optimistic Ameris will achieve its deal related synergies to enhance its positive operating leverage. As the bank executes on its integration of the two companies, we expect its shares to experience multiple expansion. Additionally, we see Ameris as an attractive takeout candidate because of scarcity value for Atlanta and Florida banks of its size. We purchased shares of Ameris at 11 times forward earnings.

CenterState Bank Corp (CSFL) – CenterState Bank, headquartered in Winter Haven, Florida, is a commercial bank with operations in Florida and Georgia. The bank was the acquirer of choice in Florida during the financial crisis, which helped it to leverage its expense base and grow its profitability. The bank is well-positioned to grow its mortgage business, which should help to increase its fee income. CenterState could be an attractive acquisition candidate because of scarcity value and the quality of its franchise. We purchased shares of CenterState at 12 times forward earnings.

Crane Co. (CR) – Crane Co., headquartered in Stamford, Connecticut, manufactures highly technical engineered industrial products, and also provides payment and merchandising technologies such as currency validation. For the aerospace industry, Crane makes fiberglass reinforced plastic as well as seats, pumps, and landing gear components. The company has strong market positions in both its Aerospace and Payments divisions. We believe Crane is well-positioned to benefit from secular growth in the developed markets as stores move from attended to unattended payment options. Additionally, the developing markets provide a long-term trajectory to service the un-banked billions around the world. We purchased shares of Crane at 13 times forward earnings.

Enterprise Financial Services (EFSC) – Enterprise Financial, headquartered in Saint Louis, Missouri, provides a full line of commercial banking and related services through several branches in St. Louis and Kansas City. The bank is positioned to benefit from its strong deposit base, accelerating loan growth, and discounted valuation. Approximately, 25% of its deposits are non-interest bearing. Additionally, the management team has built a focused business model that targets local markets and specialty niches. We purchased shares of Enterprise at 11 times forward earnings.

NexTier Oilfield Solutions (NEX) – NexTier, headquartered in Houston, Texas, is a pressure pumping company, which offers drilling and other related solutions such as wireline, coiled tubing, cementing, and well servicing. NexTier benefits from having dedicated service agreements and a strong balance sheet. We believe the company is well-positioned to generate strong free cash flow as the industry consolidates. While U.S. upstream capital spending is expected to decline in the near-term, NexTier should be able to offset this through completion efficiencies it has put into place. We purchased shares of NexTier at 4 times EBITDA.

Spirit of Texas Bancshares (STXB) – Spirit of Texas, headquartered in Conroe, Texas, is a commercial bank with branches in the Houston metropolitan area. The company has strong fundamentals and should experience above average growth. Shares are attractively valued and should rerate toward peer levels as it deploys its excess capital into accretive M&A. Spirit could be an attractive acquisition candidate itself because of the quality of its franchise. We purchased shares of Spirit at 13 times forward earnings.

Sales

Stamps.com (STMP) – We exited our position in Stamps.com based on concerns over potential changes by the US Postal Service that would have negative implications for the company.

Team Inc (TISI) – We exited our position in Team Inc based on valuation grounds.

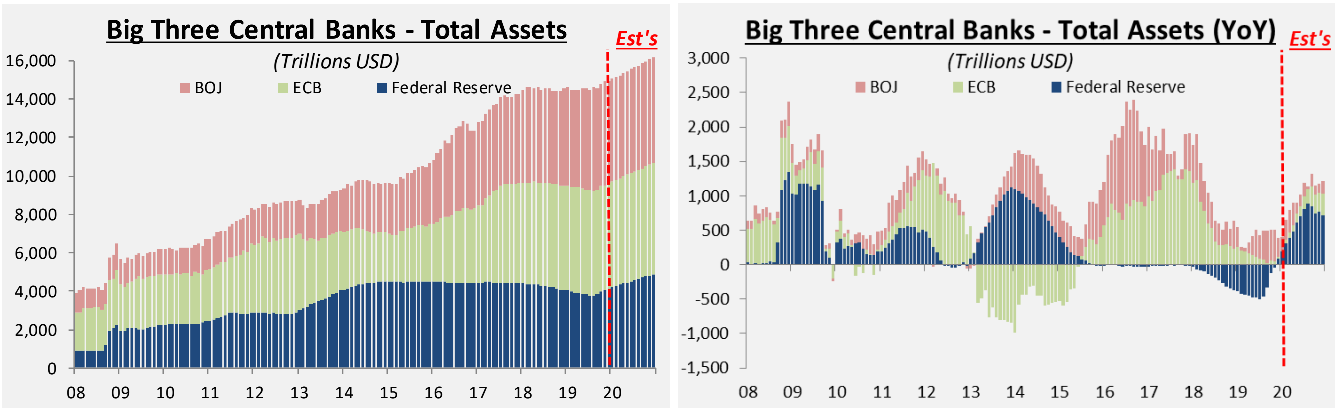
Weis Markets (WMK) – We exited our position in Weis based on increasing competitive pressures.

Market Outlook:

The Russell 2000 posted the fourth best year of returns in 2019 since the financial crisis as markets began to price in an economic rebound in 2020. Wall Street consensus expects further gains as global central banks collectively continue to expand their balance sheets and the US-China phase one trade deal serves to reduce the economic impact of tariffs and improve business confidence. Moreover, election years have historically delivered above-average market returns. In addition, analysts are optimistic, with corporate earnings expected to rise 15% year-over-year in 2020. Bullish views are also supported by the shift in Fed communication stating the committee is willing to let inflation run above target levels, reducing the risk of rate hikes and tighter liquidity.

The late 2019 market rally was in part driven by the resumption of global central bank balance sheet expansion which began in earnest in October 2019. The three largest central banks (Federal Reserve, ECB, and BOJ) continue to expand their balance sheets at the rate of $100B per month, which has served to suppress volatility. The low volatility environment has driven quantitative and systematic strategies to rebalance out of fixed income and into riskier assets, driving equity prices higher. The impact of renewed Fed balance sheet expansion can be seen in the significant acceleration in money supply growth with US M2 growth accelerating from 3.8% year-over-year in April 2019 to 7.6% in December 2019.

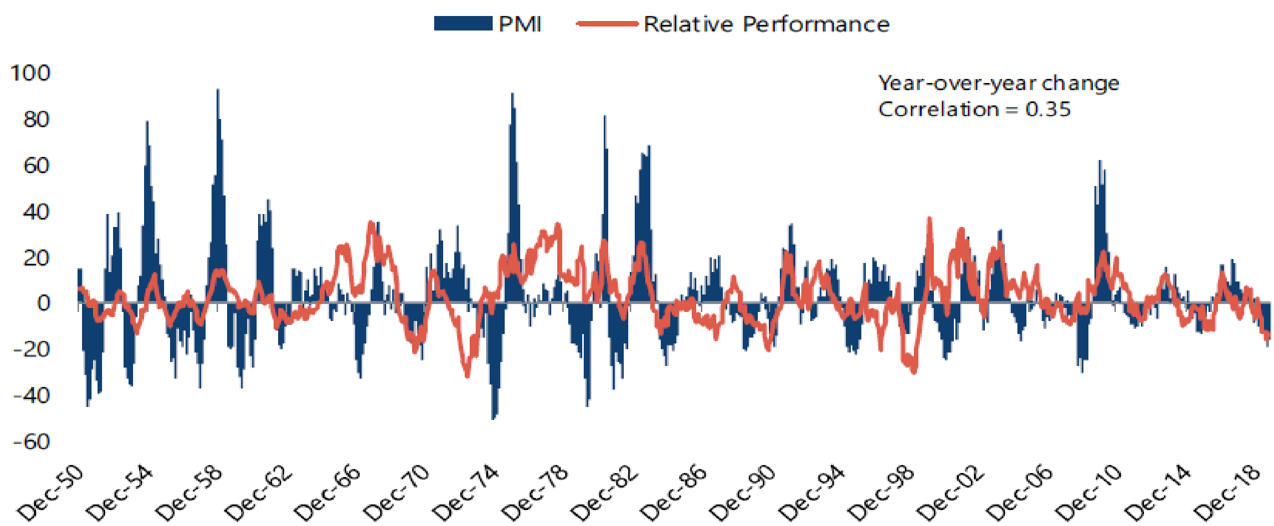
Figure 3: Central Bank Balance Sheets



Source: Wolfe Research, 2020 Outlook, 12/16/2019.

Elevated market valuation and bullish investor sentiment are challenges for the equity markets ahead. The Russell 2000 Price/Earnings ratio is 21.5x. These heightened levels have been partially justified by low inflation, low rates and global monetary stimulus. While valuation levels can remain elevated and can further expand, earnings will likely be an increasingly important factor for returns. We expect cyclicals to outperform defensives as the ISM (Institute for Supply Management) and PMIs (Purchasing Managers' Index) improve. Although capex was down on a year-over-year basis in 2019, we believe it bounces back in 2020.

Figure 4: PMI & Small-Cap Relative Performance



Source: Jefferies, 01/09/2020.

We continue to believe that our strategy is well positioned from a long-term perspective. Valuations for small-cap stocks relative to large-cap are at the lowest level in over seventeen years. History suggests that when small-cap equities trade at such a large discount to large-cap, small-cap should outperform over the next decade.

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,
Schafer Cullen Capital Management, Inc.

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The Russell 2500 Value Index is designed to measure the performance of the mid-sized and small capitalization companies in the United States equities market. The index is a composite of roughly 2,500 securities with a median market capitalization value of $1 billion. The Russell 2000 Index is a market-cap weighted index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. The S&P 500 Index is a market capitalization-weighted index of 500 companies in leading industries of the US economy. The index is unmanaged and has no fees. The **Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. **Institute for Supply Management (ISM)** index monitors changes in production levels from month to month. Comparisons to indices are inherently unreliable indicators of future performance. The strategies used to generate the performance may vary from those used to generate the returns depicted in the indices. An individual cannot invest directly in an index.

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