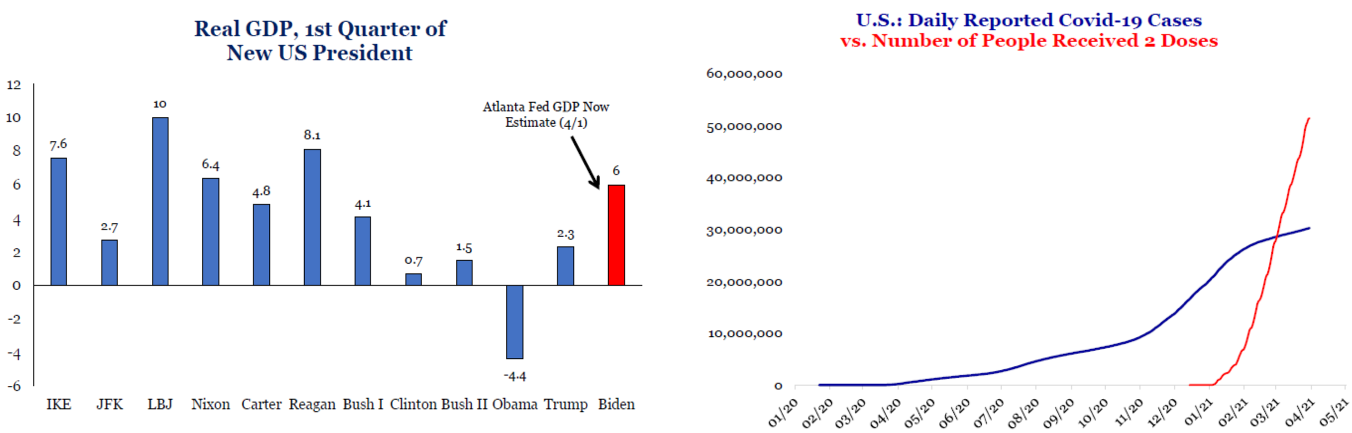
SCHAFER | CULLEN
CAPITAL MANAGEMENT

Small Cap Value Equity
Q1 2021 Commentary

Market Review:

The US small-cap equity market posted strong gains in the 1st quarter of 2021, as the Russell 2000 returned 12.7% while the Russell 2000 Value was up 21.1%. The sharp rotation within equities that began in November of 2020 continued throughout the 1st quarter, as stocks perceived to benefit from a reopening of the world economy gained while the stay-at-home beneficiaries lagged. Small capitalization stocks delivered their strongest start to a bull market since 1936 with the 12-month return +118% from the March 23, 2020 low. After plummeting in March 2020, US economic activity has been steadily recovering, particularly as Covid vaccinations have accelerated. It was the largest rotation into Value stocks for any quarter in 20 years, with the Russell 2000 Value Index outperforming the Russell 2000 Growth Index by 16.3%.

Figure 1: Economic Activity Recovering with Covid Vaccinations



Source: Strategas Research, Quarterly Review in Charts, 4/5/2021.

Beyond reopening prospects, equity market performance has been driven by unprecedented monetary and fiscal stimulus. Throughout the quarter, Fed Chair Jerome Powell reiterated the central bank's commitment to accommodative monetary policy. President Biden and Congress passed a $1.9 trillion stimulus bill in March, which was followed by the announcement of a $2 trillion infrastructure plan.

Performance Analysis:

The Small Cap Value Equity strategy composite returned 19.1% (gross of fees) and 19.0% (net of fees) for the first quarter of 2021 versus 21.1% for the Russell 2000 Value and 12.7% for the Russell 2000.

Figure 2: Small Cap Value Equity Returns vs. Benchmark

March 31, 2021	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
Small Cap Value (gross)	19.1	113.4	16.7	12.8	7.6	12.2
Small Cap Value (net)	19.0	112.2	15.9	12.1	6.8	11.4
Russell 2000 Value Index	21.2	97.1	11.6	13.6	10.1	10.6

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

The strong performance of Value stocks continued in Q1 with the Russell 2000 Value outperforming the Russell 2000 Growth Index by 16.3 percentage points in the quarter and 26.4 percentage points since November 9, 2020 (Pfizer vaccine announcement). The reopening of global economies has lifted 2021 growth estimates and steepened yield curves. Value stocks (low Price/Earnings) in cyclical industries are increasingly expected to deliver the strongest overall earnings growth while Growth stocks (high Price/Earnings) languished due to broadening growth prospects and rising yields pressuring valuations.

Figure 3: Performance by P/E Quintile: Cheaper was Better

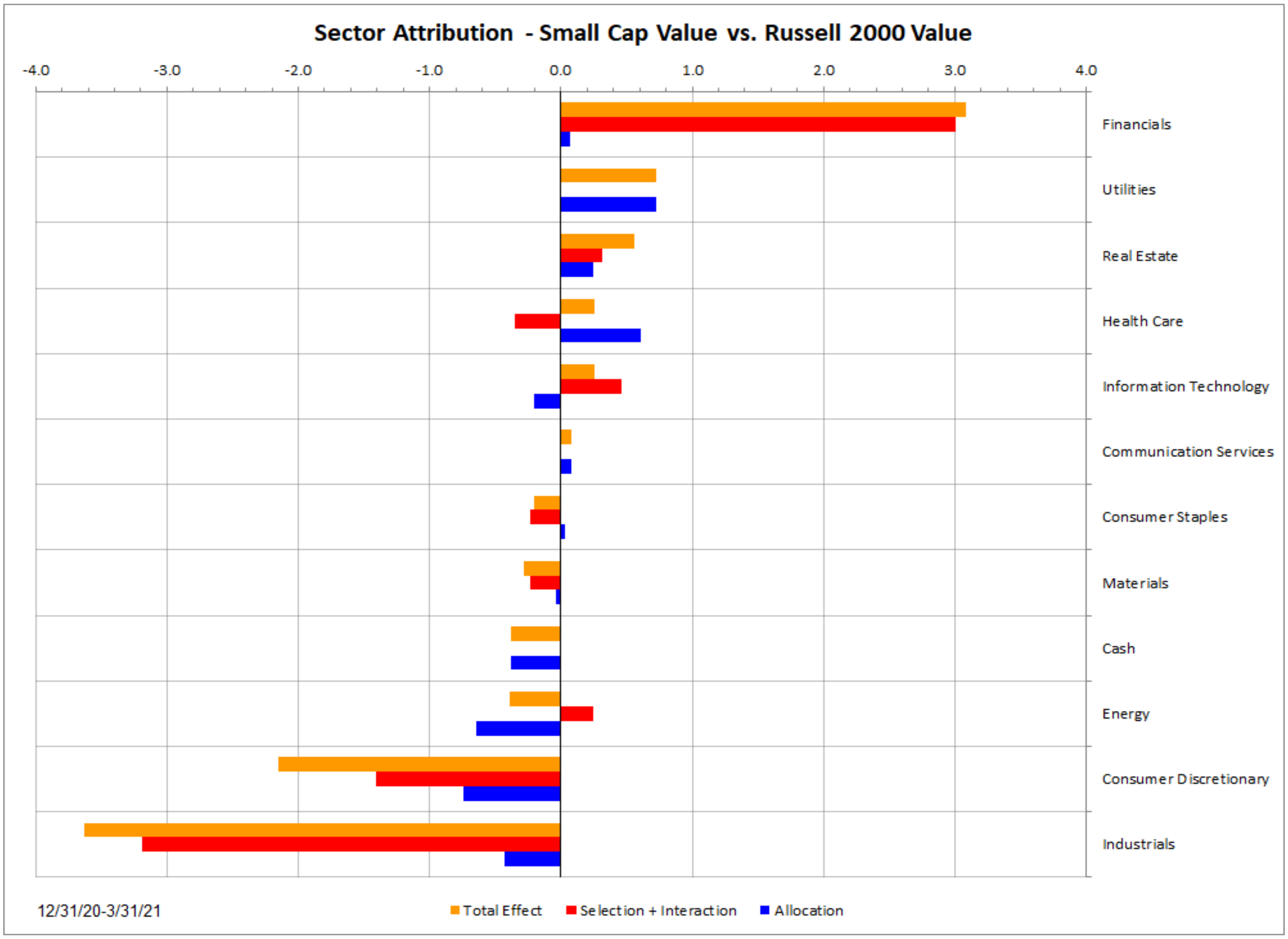
	First Quarter 2021								
	Russell 2000			Russell 2000 Growth			Russell 2000 Value		
P/E Quintile (FY1)	Absolute	Contrib	Relative	Absolute	Contrib	Relative	Absolute	Contrib	Relative
Q1 (Lowest)	29.75	2.37	17.05	29.86	1.67	24.99	30.42	3.50	9.25
Q2	21.60	2.55	8.91	9.81	1.03	4.93	22.17	3.55	1.00
Q3	15.94	2.28	3.24	16.04	1.87	11.17	19.89	3.41	-1.27
Q4	12.18	2.07	-0.52	7.35	1.15	2.48	14.41	2.41	-6.75
Q5 (Highest)	3.52	0.59	-9.17	-1.17	-0.29	-6.04	10.93	1.84	-10.23
Non	7.10	2.82	-5.60	-3.23	-0.55	-8.10	26.07	6.45	4.91

Source: Jefferies, 4/1/2021.

Past performance is no guarantee of future results. Investors cannot invest directly in an index.

Portfolio Attribution:

Attribution Effects – Small Cap Value Equity vs. Russell 2000 Value 12/31/2020 – 03/31/2021



Source: SCCM/Bloomberg, 3/31/2021.

Our overweight allocation and stock selection within ***Financials*** contributed to relative performance as expectations for the yield curve to steepen and economic data to improve helped the sector to outperform. Our bank stocks including Premier Financial (+45.8%), Great Western Bancorp (+45.0%), and Enterprise Financial (+42.0%) significantly outperformed. Our underweight allocation made ***Utilities*** the second-largest contributor to relative performance for the quarter. Utilities underperformed as defensive, non-cyclical sectors lagged. Our underweight allocation and stock selection within ***Real Estate*** contributed to relative performance. Real Estate lagged as more cyclical sectors were more favorably viewed by market participants. Jones Lang LaSalle (+20.7%) and Host Hotels (+15.2%) outperformed. Our underweight allocation within ***Healthcare*** also contributed to relative performance. Healthcare lagged as concerns about potential drug price regulation weighed on shares of pharmaceutical stocks.

Our overweight allocation and weak stock selection within ***Industrials*** detracted from relative performance. Industrials outperformed as cyclical sectors benefited from reopening prospects and stimulus measures. Copa Airlines (+4.6%), BGSF (+4.6%), and Barret Business Services (+1.4%) underperformed. Our underweight allocation and weak stock selection within ***Consumer Discretionary*** detracted from relative performance. Consumer discretionary outperformed as retailers and consumer services companies benefited from reopening of the economy. Finally, our underweight allocation within ***Energy*** detracted from relative performance.

Portfolio Changes:

Purchases

Cimarex (XEC), an energy company devoted to oil and gas exploration and production, was purchased in the strategy in the quarter. Its operations are focused on developing assets in two regions - the Mid-Continent and the Permian Basin. The company has proved reserves of nearly 620 million boe (barrels of oil equivalents, including gas, oil, and natural gas liquids). Cimarex's daily production averages about 280,000 boe. Cimarex has maintained a strong balance sheet, which had insulated the company during the downturn in 2020. The company's cost structure continues to improve and its well productivity in the Delaware Basin is above average. Cimarex is well-positioned to generate strong free cash flow, which should help to support its dividend growth. We purchased shares at 8x forward earnings.

Helmerich & Payne (HP), an oil and gas contract driller, was purchased in the strategy in the quarter. The company operates land and platform rigs and provides contract drilling of oil and gas wells in the Gulf of Mexico and South America. One of H&P's key competitive strengths is its proprietary drilling platforms, which have helped the company to gain significant market share. H&P has proven it is able to benefit from the unfolding drilling demand recovery and we believe is well positioned to add more active rigs as its large customers need to increase activity. The company has a strong balance sheet and opportunities to meaningfully expand its profit margins. We purchased shares at 0.85x book value.

HollyFrontier (HFC), a refiner, was purchased in the strategy in the quarter. The company refines crude oil to produce gasoline, diesel, and jet fuel as well as lubricants and asphalt, selling its products to customers in the Southwest US, the Rocky Mountains, and Plains states. The company's access to premium, niche product markets should allow the company to strengthen its margins as the economy reopens. While its free cash flow generation was subdued in recent years because of investments into its lubrication business, free cash should start to accelerate as its capital allocation normalizes. A recovery in its lubrication business and better operating expense management should help shares to rerate. We purchased the stock at 1.0x book value.

Sales

Magellan Health (MGLN), a behavioral health company, was sold in the quarter after it was announced that the company would be acquired by Centene Corp.

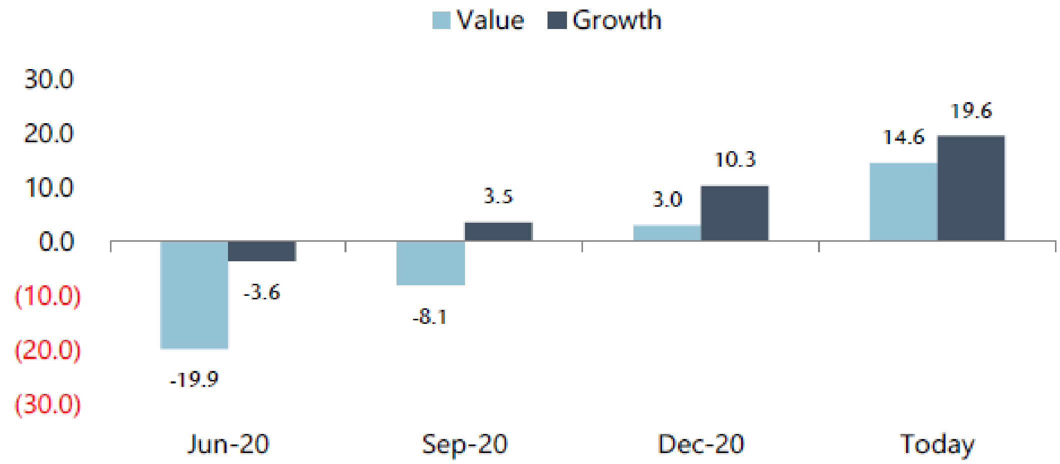
Sanmina (SANM), a technology and industrial contract manufacturer, was sold in the quarter based on valuation grounds and increasing competitive risks.

Market Outlook:

The Russell 2000 just delivered its best one-year performance in 80 years following a bear market low, with a return of +118% through March 23, 2021. The global pandemic, triggering the fastest bear market in history, was met with an unprecedented surge in global monetary and fiscal stimulus. In the US alone, money supply grew 25% year-over-year in 1Q21 and the cumulative effect of three fiscal stimulus packages total 25% of GDP.

The case for a secular turn to Value investing has significantly strengthened. The reopening of economies globally along with the historic level of stimulus is pushing GDP growth to levels not experienced in decades with forecasted growth of 6% in 2021. Small-cap value stocks are expected to be the larger beneficiary - earnings growth estimates for the Russell 2000 Value (2021 vs. 2019) are accelerating faster than growth estimates for the Russell 2000 Growth (Figure 4).

Figure 4: Earnings Growth (Russell 2000 Value vs. Russell 2000 Growth)

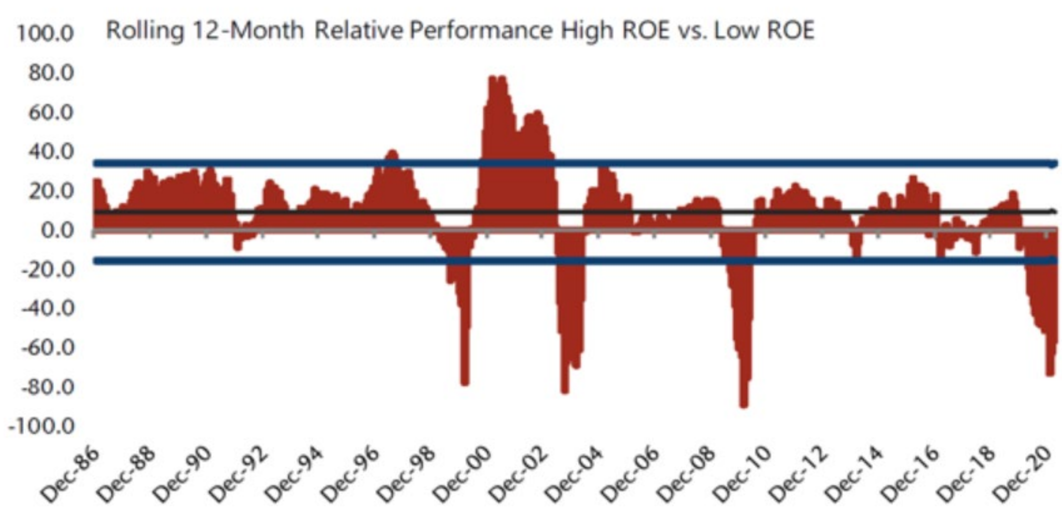


Source: Jefferies, 4/19/2021.

Past performance does not guarantee future results. Investors cannot invest directly in an index.

Lower quality small-caps stocks defined by those with lower returns on equity, negative earnings, and highly levered balance sheets have only started to underperform recently. High quality small-cap stocks could start to outperform as GDP accelerates, the yield curve steepens, and inflation rises.

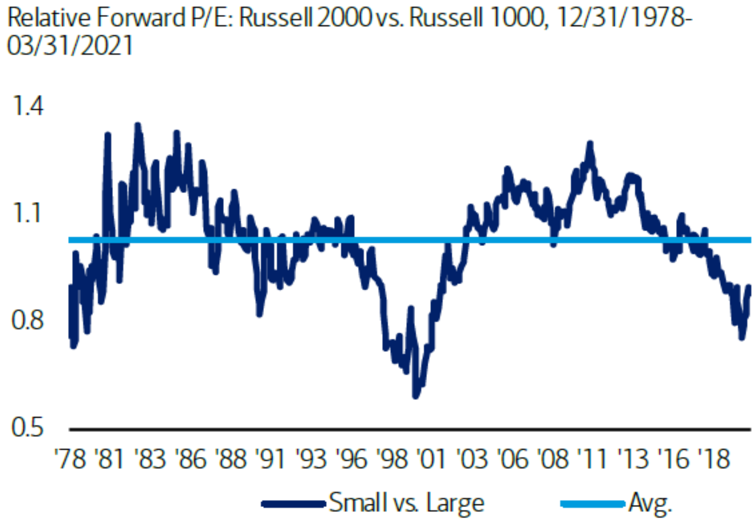
Figure 5: High ROE vs. Low ROE for Russell 2000



Source: Jefferies, 4/1/2021.

US equities, led by Growth stocks and pandemic beneficiaries, have reached record price and valuation levels as multiples expanded dramatically despite a collapse in earnings for 2020. Small-caps remain historically cheap vs. large-caps. According to BofA Securities, the relative multiples between small and large-caps suggests small-caps could outperform over the next ten years. Historically, small-cap value tends to outperform both in the early-cycle and mid-cycle of an economic cycle. As the economy reopens and transitions from early-cycle to mid-cycle, small-caps should see a bigger improvement in earnings versus large-caps.

Figure 6: Small-Caps Remain Cheap vs. Large-Caps



Source: BofA Securities, 4/13/2021.

Earnings are expected to stage a significant recovery in 2021, with a strong rebound anticipated for Value and Cyclical stocks. Given their extreme relative underperformance and inexpensive valuations, we believe Value stocks should present an attractive opportunity in an otherwise expensive market. As economic uncertainty begins to fade, valuation extremes are expected to narrow, which could benefit Value stocks. Historically, in a year when small-cap value significantly underperforms small-cap growth, the following year is often promising for Value.

Figure 7: Performance after Bear Market Recoveries (Value vs. Growth)

Year	R2000 Value Rolling 12-months	Subsequent Performance Next 3	Next 6	Next 12
Mar-21	**97.1**	**?**	**?**	**?**
Jul-83	89.6	-3.9	1.6	-7.8
Jun-83	88.2	0.3	0.2	-4.5
May-83	76.4	0.7	4.2	-3.4
Aug-83	70.2	3.4	-0.8	4.1
Sep-83	69.0	0.0	-1.9	2.5
Feb-10	65.9	6.1	-4.0	28.9
Mar-10	65.1	-10.6	-1.9	20.6
Mar-04	64.5	0.8	1.0	9.8
Feb-04	64.0	-2.7	-1.5	13.6
Apr-83	62.3	9.7	5.3	7.5
Average	**73.8**	**0.4**	**0.2**	**7.1**

Year	R2000 Growth Rolling 12-months	Subsequent Performance Next 3	Next 6	Next 12
Jun-83	106.8	-9.9	-16.7	-28.3
Jul-83	99.3	-13.5	-15.7	-28.8
Mar-21	**90.2**	**?**	**?**	**?**
May-83	87.4	-5.3	-9.0	-26.9
Feb-00	84.1	-26.6	-16.2	-40.8
Mar-81	81.5	0.7	-20.7	-24.9
Aug-83	75.8	-3.9	-17.1	-14.9
Nov-80	75.6	-8.7	5.2	-12.1
Oct-80	74.7	2.5	11.7	-4.0
Apr-81	73.8	-3.9	-14.1	-21.7
Sep-83	70.3	-7.6	-18.0	-17.7
Average	**83.6**	**-7.6**	**-11.1**	**-22.0**

Source: Jefferies, 4/1/2021.

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Central banks have begun explicitly targeting higher inflation levels and government authorities continue efforts in passing large fiscal spending packages as populist strength seeks to address income inequality through wealth redistribution. Global supply chains, disrupted during the pandemic, are now localizing, further raising the prospect of higher inflation. Recent surveys of corporate analysts show a growing percentage of companies expect to raise prices due to stronger demand and because of higher costs (BofA Research, The Case for Real Assets, 3/25/21). Rising inflation levels have historically led to lower Price/Earnings multiples, favoring Value stocks. Inflation levels above the historical median have also favored small-caps.

Figure 8: Higher Inflation Supports Small-Caps

Inflation Buckets	Larger Small	Smaller Small	Smaller vs. Large
Above Median	16.3	16.8	0.5
Accelerating	8.6	8.6	0.0
Between 2% and 4%	13.5	15.0	1.5
Overall	**15.1**	**15.2**	**0.2**

Source: Jefferies, 4/19/2021.

In the current market environment, we believe investors should be more mindful of risk, not less. We believe the most effective way to manage risk is to adhere to an investment discipline focused on valuation and quality, which is the core tenet of our investment approach. Relative to fixed income and equity benchmarks, we feel the valuation of our portfolio remains attractive. The strategy trades at 13.9x forward earnings versus 20.2x for the Russell 2000 Value.

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 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 **Russell 2000 Value Index** is a broadly diversified index predominantly made up of value stocks of small U.S. companies. **The Russell 2000 Growth Index** is a broadly diversified index predominantly made up of growth stocks of small U.S. companies. 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. 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.

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Downside Capture Ratio** represents the degree to which a strategy outperformed or underperformed the benchmark in periods when the benchmark return was negative. The lower the downside capture ratio, the better.

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