SCHAFER | CULLEN
CAPITAL MANAGEMENT

Small Cap Value Equity
Q2 2020 Commentary

Market Review:

The U.S. equity markets staged a remarkable rebound from one of its worst quarters in history. The Russell 2000 returned 25.4%, while the Russell 2000 Value returned 18.9%. For the Russell 2000, it was the best quarter since Q1 '91, and the third-best since inception. Only three months ago, investors were gripped by fear of the consequences of the coronavirus pandemic, worldwide lockdowns, record unemployment claims, and a plunge in economic growth. Yet investor sentiment reversed just as quickly as it declined, thanks in part to unprecedented fiscal and monetary stimulus from governments and central banks worldwide.

Globally, Covid-19 cases reached 10.5 million, with over 500,000 fatalities. The U.S. alone recorded 2.7 million cases, with approximately 130,000 fatalities. Weekly unemployment claims smashed the previous record at 6.9 million in March and have since declined to just under 1.5 million. In April, U.S. retail sales dropped a record 14.7%, then rose 17.7% in May, a record increase (The Wall Street Journal, 6/16/2020). The crisis facing the country was compounded with widespread protests and unrest in nearly every major city following the death of George Floyd in Minneapolis.

Every sector in the Russell 2000 finished the quarter up double-digit percentage points except for Utilities, which was down. Consumer Discretionary (+58.1%) was the top-performing sector, as retailers benefited from consumers stocking up on essential items, a gradual re-opening of non-essential stores, and an enormous surge in online shopping. Healthcare (+32.4%) was the next best performing sector as Biotech companies' shares jumped on hopes they would play a role in developing therapeutics and vaccines to fight Covid-19. Materials (29.2%) and Energy (+28.7%) were the next best-performing sectors. In April, leading oil-producing nations, including the U.S., Saudi Arabia, and Russia agreed to a record cut in daily production of 9.7 million barrels per day, a pact that was extended in June. The WTI oil benchmark nearly doubled in the quarter to $39 after an unprecedented and chaotic dive into profoundly negative territory in April. Industrials (+26.1%) also benefited from market participants' expectations that cyclicals will outperform defensives as the economy starts to recover. Technology (+25.6%) continued to benefit from the lockdown, particularly cloud computing applications related to workplace collaboration and online entertainment. Utilities (-3.7%) and Financials (+11.5%) were the two worst performing sectors, as defensive, lower volatility stocks lagged, and banks underperformed mainly due to the uncertain recovery.

Although every state began phased re-openings, with most non-essential retail and manufacturing resuming operations, investors are relying on the Federal government to help bridge the gap until the economy fully reopens. Assets on the Federal Reserve's balance sheet now exceed $7 trillion, up from $4 trillion at the beginning of the year, and the Federal budget deficit is currently forecasted to be $3.8 trillion for the 2020 fiscal year. Lawmakers are discussing a second stimulus bill for July, following the $2.2 trillion stimulus passed in March. Internationally, European Union members are discussing an $840 billion stimulus plan on top of a roughly $1.5 trillion stimulus effort from the European Central Bank.

Performance Analysis:

The Small Cap Value Equity strategy composite returned 24.2% (gross of fees) and 24.0% (net of fees) for the second quarter of 2020 versus 18.9% for the Russell 2000 Value and 20.6% for the Russell 2500 Value.

Figure 1: Small Cap Value Equity Returns vs. Benchmark

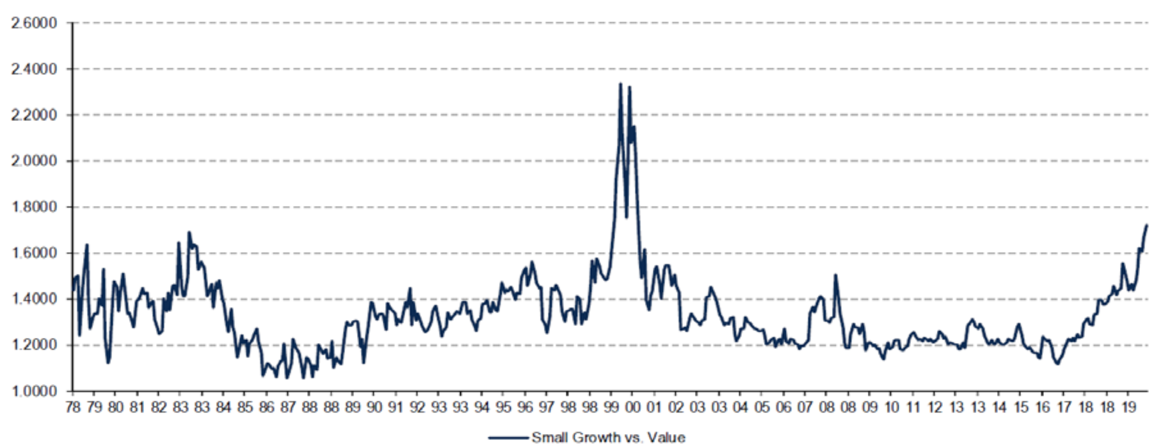
June 30, 2020	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
Small Cap Value (gross)	24.2	-19.2	-12.1	-2.6	-1.6	5.3	10.4
Small Cap Value (net)	24.0	-19.5	-12.6	-3.2	-2.3	4.5	9.6
Russell 2000 Value Index	18.9	-23.5	-17.5	-4.4	1.3	7.8	8.9
Russell 2500 Value Index	20.6	-21.2	-15.5	-2.6	1.9	8.8	9.9

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

The flattening of the Covid-19 case curve in developed markets and the re-opening of economies in the second quarter fueled markets higher. The Russell 2000 jumped 46% from the market low, which was one of the best performances since inception. High-yield spreads narrowed dramatically, and companies that experienced financing issues in the first quarter benefited from healthier capital markets in the second quarter. Growth led markets driven by stocks that tended to be less profitable and non-dividend payers. For example, the highest return-on-equity quintile for the Russell 2000 was up 43% vs. the top quintile's return of 29%. In the quarter, Growth outperformed Value (Russell 2000 Growth – Russell 2000 Value) by 1,167 basis points and 2,400 basis points for the year.

Declining Covid-19 case levels and mortality in developed markets and a broadening economic recovery in May led to a rotation into Value stocks, particularly cyclical Energy, Financials and Industrials, which collapsed in the March market sell-off. While a resurgence (second wave) of Covid-19 cases in the U.S. led to a June risk-off environment, the initial economic bounce favoring Value stocks indicates that a sustained economic recovery can lead to Value outperformance. Moreover, within small-caps, the Growth benchmark continues to trade at a historical premium to the Value benchmark, as is shown in Figure 2.

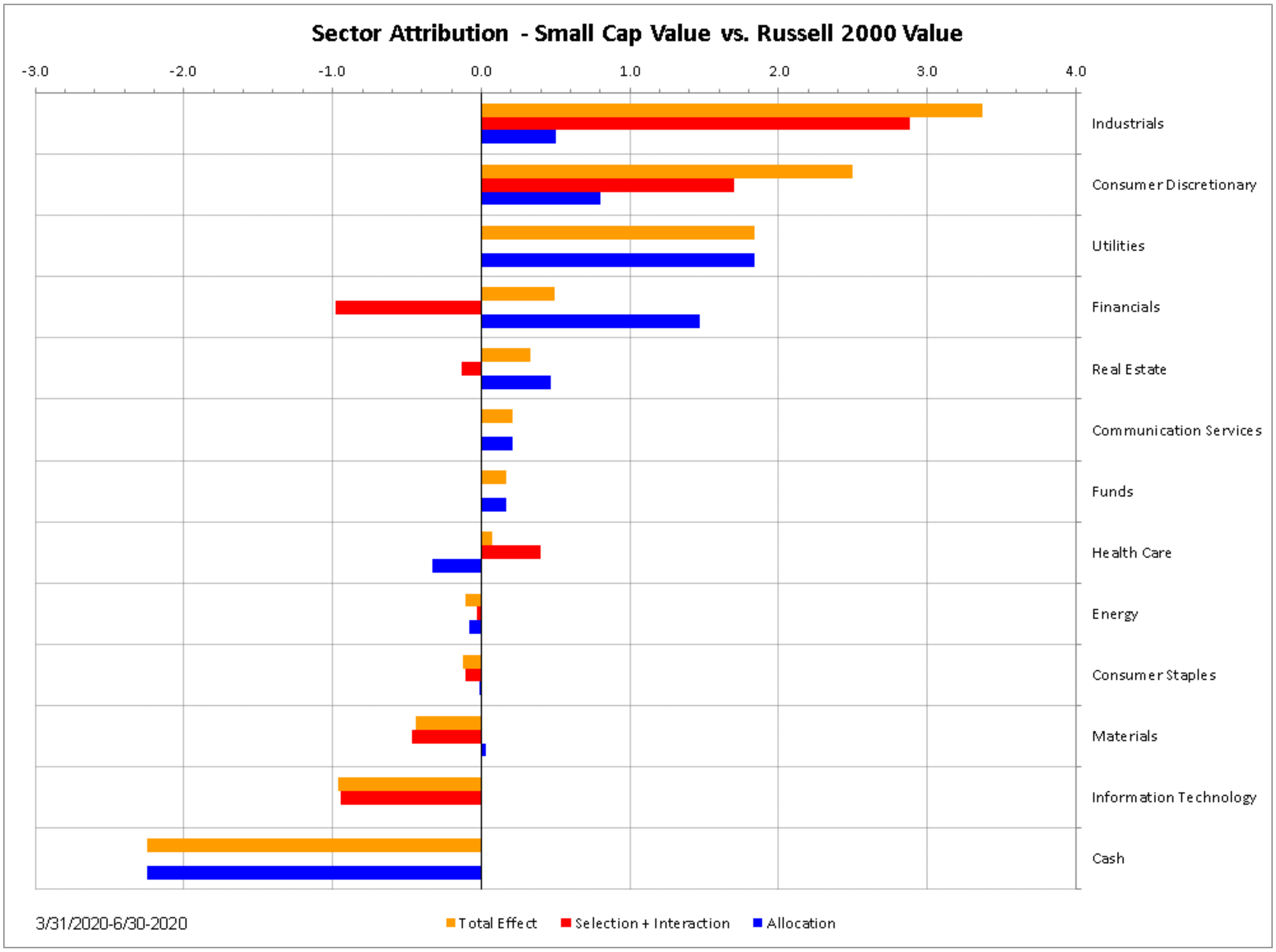
Figure 2: Russell 2000 Growth vs. Russell 2000 Relative Forward P/E



Source: BofA/ML, 7/14/2020.
Past performance does not guarantee future results. Investors cannot invest directly in an index

Portfolio Attribution:

Attribution Effects – Small Cap Value Equity vs. Russell 2000 Value 3/31/2020 – 6/30/2020



Source: SCCM/Bloomberg, 6/30/2020.

Our overweight allocation and stock selection within ***Industrials*** made it our largest contributor to relative performance. The sector benefited as cyclical stocks within the sector rebounded on optimism for re-openings. PGT Innovations (+86.9%) outperformed as revenue and orders were more resilient than expected as the company benefited from increased activity in residential new construction and remodeling. Timken (+41.6%) rebounded on optimism for a recovery in the short-cycle demand for its renewable energy, marine, and aerospace products. Our overweight allocation and stock selection within ***Consumer Discretionary*** benefited relative performance. Mastercraft Boat (+161.0%) was a strong performer in the quarter as sales of its recreational equipment benefited from the lockdown, and inventory levels were reduced as consumers sought out entertainment while socially distancing outdoors. Our underweight allocation within ***Utilities*** aided performance, as it was the worst-performing sector as defensive, lower volatility stocks lagged.

Our stock selection within ***Technology*** detracted from relative performance. Technology stocks continued to benefit from the lockdown, particularly cloud computing applications related to workplace collaboration and online entertainment. Our stock selection within ***Materials*** also detracted from performance as companies with exposure to gold and commodities tied to global growth outperformed.

Portfolio Changes:

Purchases

Comtech Telecommunications (CMTL) – Comtech, headquartered in Melville, NY, manufactures systems for advanced communication solutions. The company operates its business through two segments: Commercial Solutions and Government Solutions. Comtech's equipment is primarily used by the U.S. government and related defense contractors. Other customers include satellite systems integrators, communication service providers, and oil companies. The company's systems and services enhance satellite transmission efficiency and enable wireless communications in environments where terrestrial communications are unavailable or impractical. A significant catalyst for the stock is the increasing number of contracting opportunities with the U.S. Department of Defense. Additionally, the company will benefit from its Public Safety and Security services. We purchased shares of Comtech at 14 times forward earnings.

Great Western Bancorp (GWB) – Great Western Bancorp, headquartered in Sioux Falls, SD, operates as a bank with 20% of its loans dedicated to agri-business. The company is well-positioned to benefit from the re-opening of the Midwest economy. Great Western can conservatively grow its balance sheet, produce positive operating leverage, and earn excess returns above its cost of capital. Although the farm economy remains pressured, earnings should normalize as Ag commodity, and dairy prices continue to recover. Historically, Great Western's loss content on its Ag portfolio is low, with cumulative losses of 1.2% over the last decade. The bank benefits from a sticky deposit base and should be able to offset losses in its hotel loan portfolio as it manages credit relationships. The company's unique lending profile should allow it to capitalize on a secular growth opportunity in agriculture, and drive a re-rating of the stock. We purchased shares of Great Western at 9.5 times forward earnings.

Lazard (LAZ) – Lazard, headquartered in New York, NY, provides financial advisory and asset management services. The company is more diversified than many of its peers, and specializes in mergers and acquisitions and has a strong restructuring franchise. Its asset management business includes traditional and alternative products. While weaker economic growth prospects are likely to weigh on both its corporate advisory and asset management divisions in the near-term, we believe Lazard is well-positioned for a global recovery. Significant catalysts include market share gains in restructuring services as companies go through the bankruptcy process and accelerated improvement in Europe and Asia, resulting in higher volumes of mergers and acquisitions. We purchased shares of Lazard at 8 times forward earnings.

Spirit Aerospace (SPR): Spirit Aerospace, headquartered in Wichita, KS, manufactures aerospace structures including fuselages, propulsion systems, and wing systems for commercial and military aircraft. Approximately 80% of its revenue comes from Boeing. Shares have underperformed since the grounding of Boeing's 737 MAX, and have continued to decline as Boeing has had to repeatedly push out its timeline for the FAA's re-certification approval. Additionally, because of the coronavirus, the industry is facing a reduction in global air travel, which could lead to further deferrals of aircraft orders. We feel the market has overreacted, and Spirit shares are oversold. Importantly, shares are likely to rerate once market participants start focusing on the FAA's re-certification approval of the MAX and Spirit's ability to generate strong free cash flow once it starts ramping deliveries. We purchased shares of Spirit at 1.4 times book value.

Sales

Assured Guaranty (AGO): We exited our position in Assured Guaranty based on concerns over a weakening municipal finance market. In addition, the strategy invested in other securities in the financial sector deemed as more attractive.

Helen of Troy (HELE): We exited our position in Helen of Troy based on valuation grounds after the stock had significantly appreciated.

Lumentum (LITE): We exited our position in Lumentum based on increasing competitive pressures in 3D sensing and regulatory uncertainty related to China.

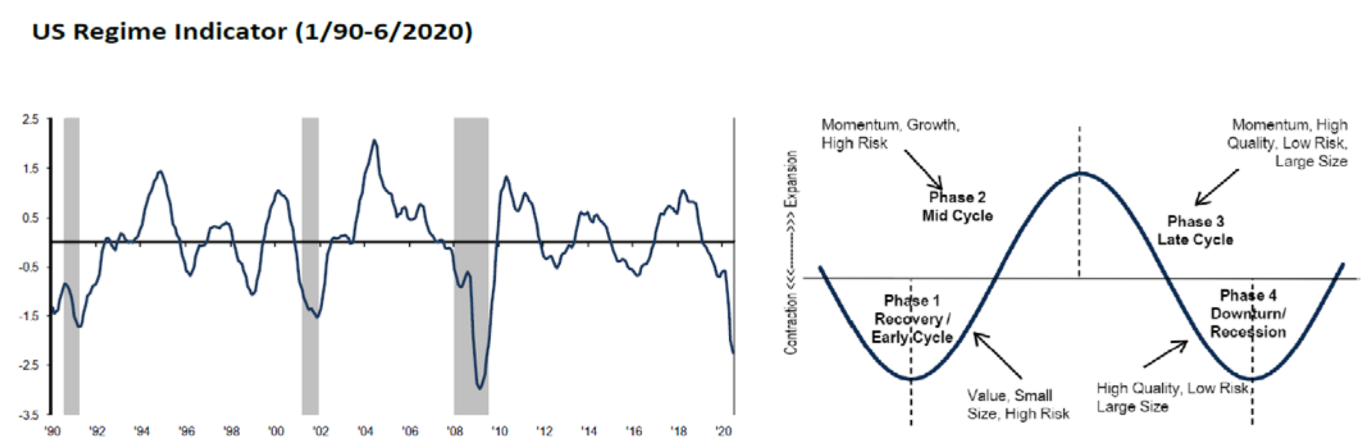
United Insurance (UIHC): We exited our position in United Insurance based on concerns that the company is likely to have fewer opportunities to write enough profitable business to grow its book value meaningfully.

Cimarex (XEC): We exited our position in Cimarex because the company faces headwinds in an energy market that is oversupplied and challenging to earn attractive returns in given its production mix of oil and gas in the Permian Basin.

Market Outlook:

The small-cap equity market rally that began off the March 18th low is one of the strongest in history with the Russell 2000 up 46% through the second quarter. While the unfolding Covid-19 pandemic and resulting global economic shut-downs triggered the fastest bear market on record, unprecedented monetary and fiscal stimulus eventually helped to stabilize capital markets. Historically, market recoveries have been led by Small Cap Value (Figure 3). In the last nine out of ten recessions, small-cap has outperformed large-cap, and coming out of the last five bear markets; small-cap value has outperformed small-cap growth four times one year after a recession ends.

Figure 3: Recovery Typically Favors Value & Small Caps

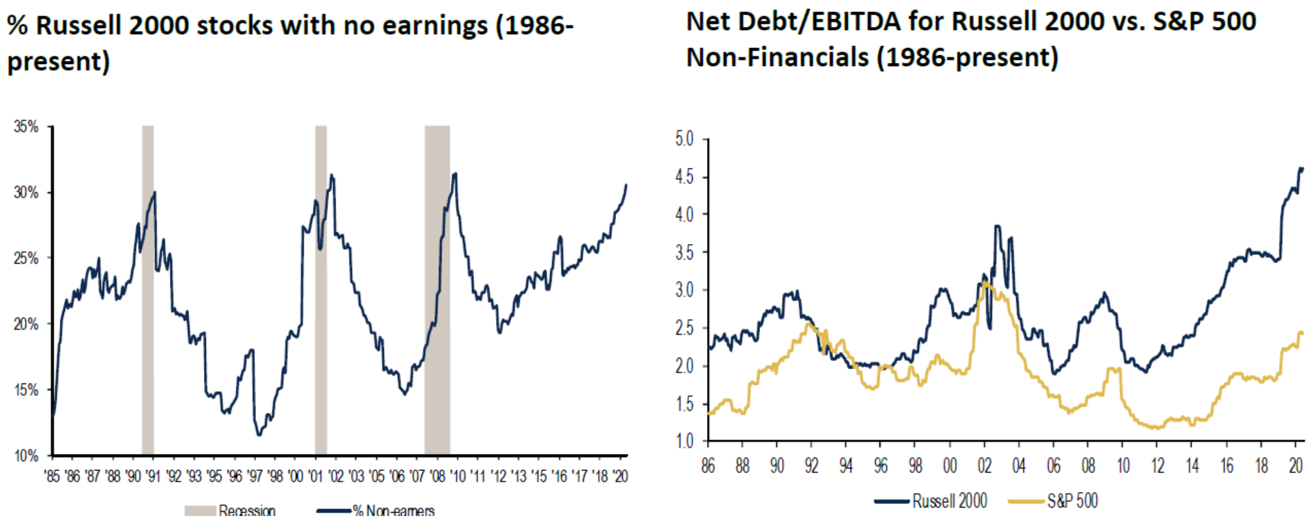


Source: BofA/ML, SMID Cap Outlook 7/14/2020. **Past performance does not guarantee future results.**

A number of positives underpin the bull case for equities. Markets can be driven higher by historically high levels of cash in money market funds (sidelines) and bond flows. While absolute valuations are high – current Price/Earnings, Price/Book, P/E to Growth, E.V./Sales, and EV/EBITDA metrics are all above 90^{th}

percentile relative to historical levels (Goldman Sachs) – relative valuations are more attractive given the low interest rate environment. While equities can continue to grind higher, risks are now building to the overall market and the most popular stocks in broad indices. As it relates to small-cap indices, the Russell 2000 is approaching a record high for the percentage of stocks with no earnings. Additionally, leverage excluding financials is already at an all-time high for the index (Figure 4).

Figure 4: Low Quality & High Leverage



Source: BofA/ML, SMID Cap Outlook 7/14/2020. **Past performance does not guarantee future results.**

Investors often believe current trends will persist – currently, that momentum and Growth could continue to outperform for the foreseeable future. However, history has proven that the largest stocks – either due to sheer size, valuation or other factors – eventually underperform as price to value revert to normalcy. Moreover, market participants ultimately reward companies that are profitable, not highly levered, and pay dividends.

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 13.2x forward earnings versus 15.3x for the Russell 2000 Value and 17.5x for the Russell 2000.

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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Risk Disclosure: Market conditions can vary widely over time and can result in a loss of portfolio value. Investing in the stock market involves gains and losses and may not be suitable for all investors. Investors have the opportunity for losses as well as profits. Investing in equity securities is speculative and involves substantial risk.

The strategy depicted in this report has been managed in accordance with the investment objectives of the strategy as determined by the Adviser. The Adviser has selected benchmarks, which in their opinion closely resemble the style of the securities held in the composite or model portfolio of the strategy (e.g. large cap value, small cap value, international, etc.). The securities held in the composite or model are actively managed while the benchmark index is not. Investors should be aware that the Adviser makes no attempt to match the portfolio securities, or the security weightings of the benchmark. The composite or model's performance will be affected greater by the price movements of individual securities as the composite or model is more concentrated, generally less than 100 securities, while a comparative benchmark will generally have between 500 and 2,500 securities where individual security price movements have a lesser affect.

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. 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.

In the case where this report displays model results, please be aware that such results do not represent actual trading and that results may not reflect the impact that material economic and market factors might have had on the Adviser's decision-making if the Adviser were actually managing clients' money.

Model and actual results reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid (Net of Fee performance) and reflect the reinvestment of dividends and other earnings.

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