Value Equity
Q2 2019 Commentary

Market Review:

US equities had a volatile second quarter, but the S&P 500 finished up 4.3% and the Russell 1000 Value returned 3.8% to end the month of June at near record price levels. The S&P 500 also posted its best first half in 22 years (1997), up 18.5%. The quarter saw an extension of the major themes that sparked volatility over the past three quarters, namely the US-China trade dispute and the Federal Reserve's shifting interest rate policy. Stocks were up significantly in April, extending the rally that began at the end of December when the Fed began shifting to a more accommodative stance on interest rates. However, the market retreated sharply in the month of May when trade negotiations deteriorated and concerns grew over a lengthened dispute. Stocks recovered quickly with the best month of June for the S&P 500 since 1955, largely on hopes of interest rate cuts by the Fed.

Returns in the quarter were broadly distributed, with 10 of the 11 sectors finishing in positive territory. Financials (+8.0%) was the best-performing sector, driven by optimism for a global cyclical recovery in back half of the year and finished the quarter strong with the Fed's approval of large capital return plans for most of the largest banks. Materials (+6.3%) was the next best performing sector, as gold stocks soared on increasing Fed rate cut expectations. Information Technology was up +6.1%, with software and IT services companies outperforming. Energy was the only sector that posted a negative return (-2.8%), as the WTI oil benchmark declined on concerns of reduced demand from slowing global growth. Health Care (+1.4%) was also a laggard, impacted by increasing political rhetoric on health care reform and various drug pricing initiatives.

Concerns grew on US-China trade when Treasury Secretary Steven Mnuchin announced that talks had gone "substantially backward," and the Trump Administration soon levied a new 25% of tariffs on $200B of Chinese imports while threatening additional measures. China President Xi Jinping retaliated with tariffs on $60B of US imports; furthermore, the Xi administration appeared to take a much harder long-term stance on trade, indicating through several statements and other actions that the country is prepared to negotiate for an extended period if necessary. Concurrently, President Trump threatened to levy tariffs on Mexico unless the Mexican government took action to deter the flow of Central American migrants passing through its borders. Ultimately, The Trump administration reached an agreement with Mexico, and on the final day of the quarter Trump and Xi reached some concessions and an agreement to restart talks.

Yields on US government bonds continued to decline, reflecting concerns over slowing global growth and increased demand for safe haven assets. Although the US economy surprised with 3.1% GDP growth for the 1st quarter, the IMF lowered its projection for global growth to 3.3% in 2019, down from 3.6% in 2018. The 10-year US Treasury yield dipped below 2% and has fallen by more than a full percentage point over the past three quarters. Notably, the 10-year yield also dipped below the yield on short-term Treasurys, resulting in an inverted yield curve; however, most economists dismissed the likelihood of an impending recession.

Performance Analysis:

The Value Equity strategy composite returned 3.9% (gross) and 3.8% (net) for the second quarter of 2019. The strategy underperformed the S&P 500 and outperformed the Russell 1000 Value for the quarter.

Figure 1: Value Equity Returns vs. Benchmark

	Q2	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Value Equity (gross)	3.9	14.4	11.9	12.3	8.7	13.2
Value Equity (net)	3.8	14.2	11.4	11.9	8.1	12.6
Russell 1000 Value Index	3.8	16.2	8.5	10.2	7.5	13.2
S&P 500 Index	4.3	18.5	10.4	14.2	10.7	14.7

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

The quarter saw several narrative changes with an initial “risk-on” environment in April led by Growth and Cyclicals, followed by a “risk-off” rotation into Defensives in May and finally a euphoric June back into high beta sectors. Growth continued its outperformance over Value by 80 basis points in the quarter (Russell 1000 Growth – Russell 1000 Value) and 525 basis points for the year.

Portfolio Changes:

Purchases / Additions

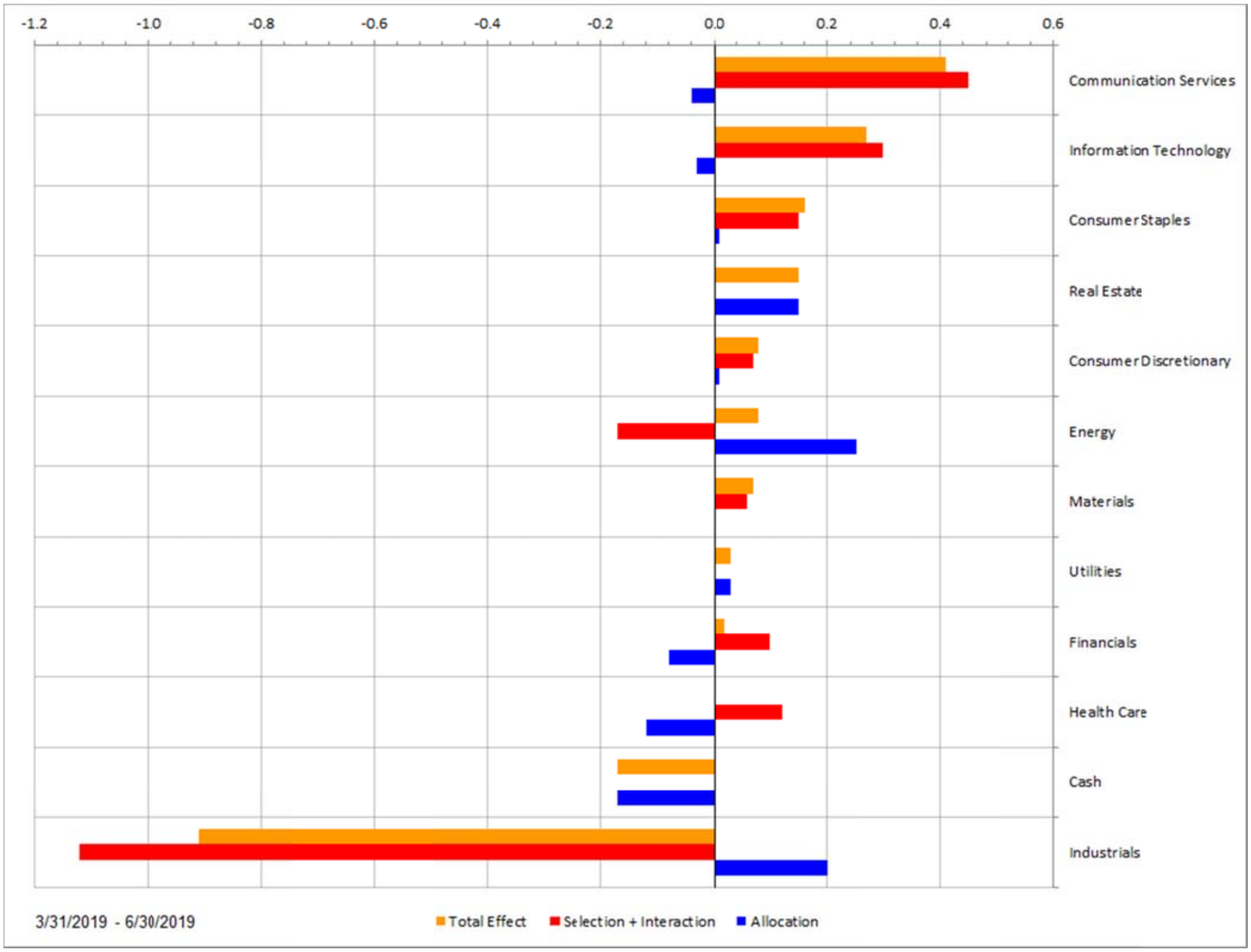
Comcast (CMCSA) was added to the Value Equity strategy. Comcast, a media and broadcast services company, offers cable TV, high speed internet, video streaming, TV programming, and communication services in the US and Europe. The company’s broadband platform continues to grow subscribers and increase prices as it upgrades service offerings and consumers move towards increasing bandwidth. While the Cable TV subscriber base continues to decline as streaming competitors increase market share, the rate of erosion has stabilized. NBC Universal has tailwinds for growth including a strong film state, theme park openings and a new streaming service to be launched. Lastly, Comcast’s acquisition of Sky, a video distributor in Europe, has potential profit improvement from increasing video penetration and raising prices in underpriced markets. The company is focused on deleveraging back to 2.0x Net debt/Adjusted EBITDA by 2021 and will generate strong free cash flow growth over this period. At purchase, the stock was trading at 14.3x 2019 earnings with a 2.0% dividend yield.

Sales / Reductions

Alcon (ALC), a spin-off from Novartis, was sold in the quarter. Alcon, a leading supplier of eye care products including surgical equipment, contact lenses and refractive technology products, has solid growth prospects after a multi-year turnaround phase including R&D investments. However, the stock trades at an expensive valuation: 31x 2019 EPS with a 0.2% dividend yield.

Portfolio Attribution:

Attribution Effects –Value Equity vs. Russell 1000 Value 3/31/2019 – 6/30/2019



Source: SCCM/Bloomberg, 6/30/2019.

The following attribution analysis of the Value Equity portfolio utilizes the Russell 1000 Value Index as the benchmark of comparison for the second quarter of 2019.

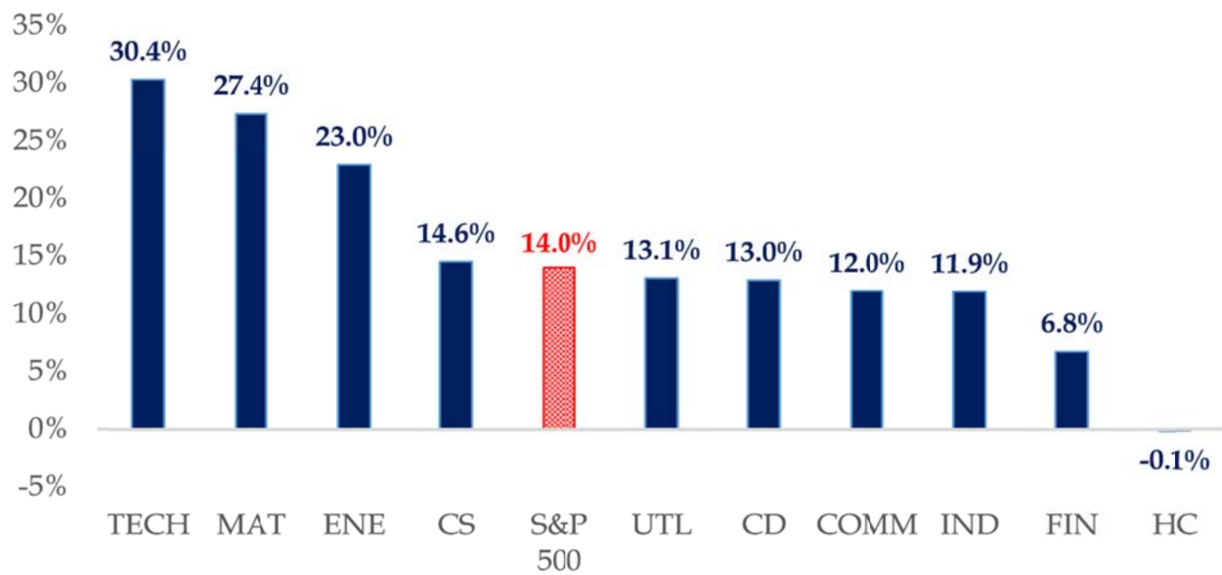
Our stock selection made ***Communication Services*** the largest contributor to relative performance for the quarter. Walt Disney (+25.8%) appreciated substantially after management outlined plans for its Disney+ video streaming service, which is scheduled to launch in November and include Disney's most popular television and movie franchises. AT&T (+8.6%) gained in the quarter, as the company appears on track to meet key goals management set for 2019, including deleveraging its balance sheet, generating improved free cash flow, and stabilizing earnings in its Entertainment Group segment. Strong stock selection also made ***Information Technology*** a contributor to relative performance. Microsoft (+14.0%) continued to outperform as its Azure cloud computing service grew revenue 73% year-over-year, while its Office 365 sales increased 31%. Oracle (+6.5%) also reported strong quarterly results, as its infrastructure ecosystem revenue increased 7%, while its software licensing unit grew 12% year-over-year. Our underweight allocation and strong stock selection in ***Consumer Staples*** contributed to relative performance. Mondelez Int'l (+8.5%) reported strong organic growth as its snack sales increased particularly in international and emerging markets. Our underweight allocation to ***Real Estate*** also aided relative performance, as defensive sectors lagged in the quarter.

Industrials was the lone detractor from relative performance. 3M (-15.9%) declined on lower-than-expected earnings stemming from weakness in the automotive and electronics industries in China and Japan. Boeing (-4.0%) underperformed on continuing uncertainty surrounding the 737 MAX; however, the company received an order from International Airlines Group for 200 737 MAX aircraft at the Paris Air Show. Finally, Raytheon (-4.0%) declined slightly after it announced an all-stock merger of equals with United Technologies (UTX). The new company, to be named Raytheon Technologies Corp., will trade under the ticker symbol RTX. The transaction is anticipated to close in the first half of 2020, following the previously announced spin-offs of UTX's Otis elevator division and Carrier building systems segment. The deal gives Raytheon shareholders the potential to capture earnings growth from UTX's commercial engine business as cash flows from the Geared Turbo Fan (GTF) program improve.

Market Outlook:

The equity market rally to record highs by the end of the second quarter was driven by a significant turn in global central banking policy with the Federal Reserve now expected to cut interest rates this year, as a result of weakening US economic data and macro uncertainties including the outcome of the US-China trade war and the impact of the tariffs on the economy. The current state of "bad news is good news" for the market is evidenced by the flattening yield curve alongside peak equity levels. Valuation expansion has accounted for nearly all of the rally year-to-date as earnings expectations have continued to decline throughout the year.

Figure 2: S&P 500 Change in Price/Earnings Ratio (1/1/2019 - 7/1/2019)

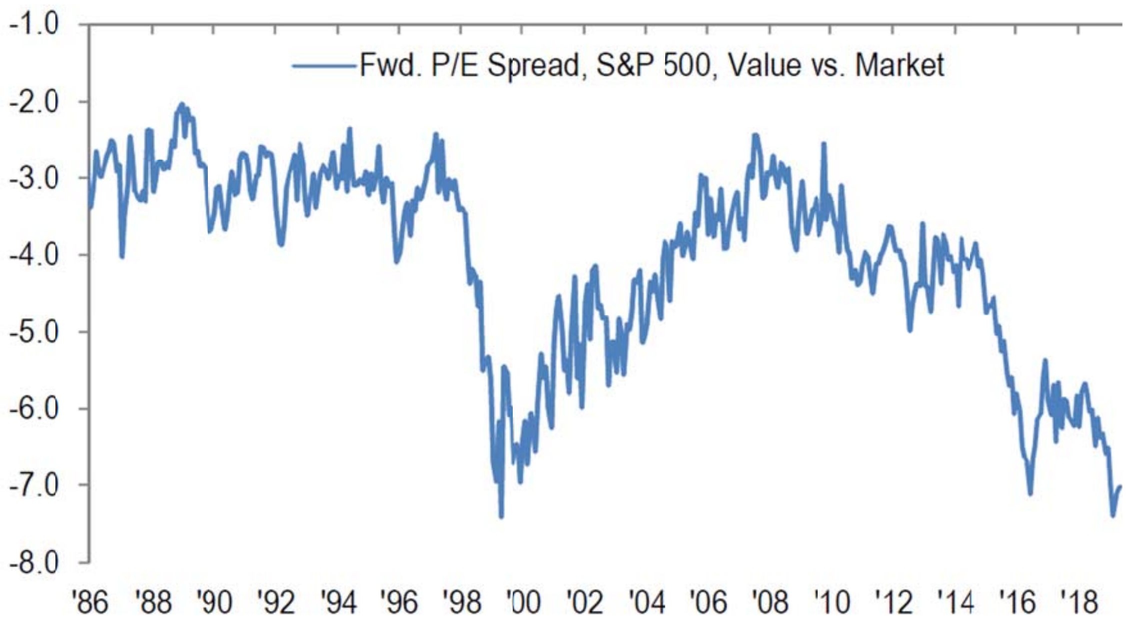


Source: Strategas, Quarterly Review in Charts, 7/1/2019. The graph is for illustrative purposes only and does not reflect information about any fund or other account managed or serviced by Schafer Cullen Capital Management.

At this juncture, the global slowdown may simply be a "soft patch" or a deeper mid-cycle slowdown. This uncertainty caused US yields to fall precipitously in the quarter and the S&P equity risk premium (Earnings Yield less 10-year Treasury Yield) rose to 320 basis points, 1 standard deviation above the long-term average. However, with overall growth expectations declining, the current increase in the ERP may be justified. Since January 2019, S&P 500 consensus earnings estimates for 2019 have declined nearly 6% to +8% year-over-year (Ned Davis Research, June 2019). Meanwhile, equity markets have been relatively range-bound over the past 18 months as "risk off" (Growth and Defensive) outperforms on the slowdown narrative while "risk on" (Financials and Cyclicals) outperforms on a recovery narrative. With markets now pricing in an imminent recovery, the question is whether renewed monetary easing will be enough to offset broadly slowing global growth.

A key feature of this record bull market is the persistent outperformance of Growth over Value. By almost any measure, Growth is trading at a historic valuation premium to Value and fund flows into Growth and Technology funds are at extreme levels. Value is trading at its largest discount to the market and offers the largest premium over the last 30 years. The median P/E of the cheapest portfolio relative to the S&P 500 is trading at a 7x discount (99% percentile) (JPM, The Value Conundrum, 6/7/19). Flows into the SPDR Technology ETF reached 95% percentile levels by the end of Q2 (Strategas, Technical Strategy, 6/26/19).

Figure 3: Forward Price/Earnings Spread – Value vs. Market

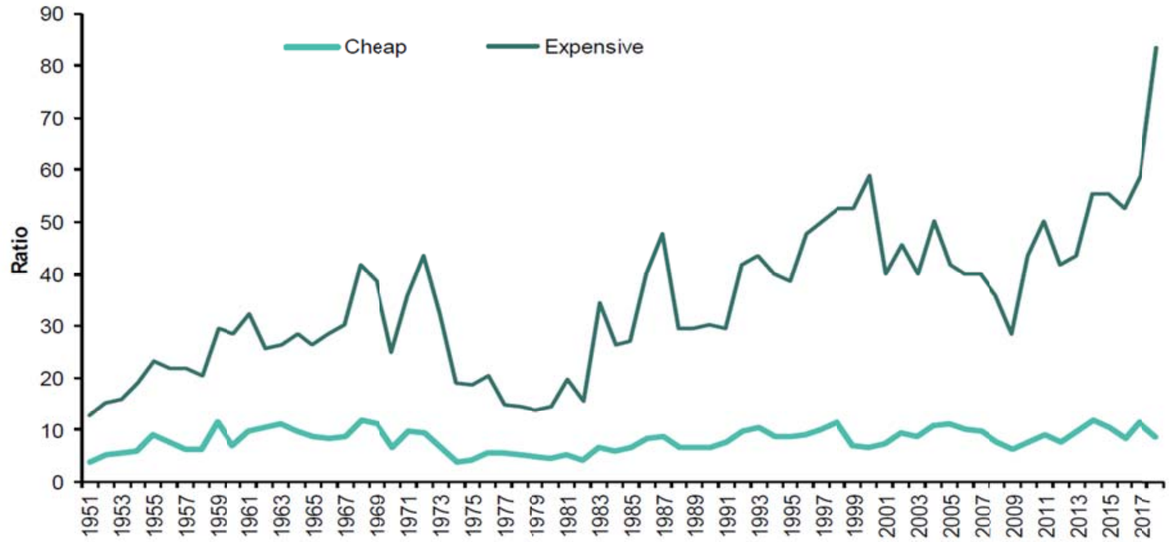


Source: JP Morgan, The Value Conundrum, 6/7/2019. Past performance is no guarantee of future results.

The considerable outperformance of Growth over Value has been attributed to the indexation and saturation of passive products which are pro-momentum, the perception that disruptive technologies have impaired wide swaths of companies in the Value space, and unconventional monetary policy (negative interest rates, quantitative easing). A number of events could trigger a reversal, including a market decline resulting in the liquidation of passive vehicles, increasing technology regulation or a reversal of the extreme crowding in Growth stocks.

With multiple expansion the major contributor to returns this market cycle, the underperformance of Value can partially be attributed to the greater benefit Growth has experienced from multiple expansion. Valuation dispersion within the S&P 500 is at cycle highs, marking a significant hurdle for future returns on the most richly valued part of the market.

Figure 4: Trailing P/E of the S&P 500's Highest and Lowest Quintiles



The lines show the market cap weighted trailing PE ratio of the most expensive and cheapest quintiles of the US market.
Source: Bernstein Research, Global Quantitative Strategy, 6/19/2019. Data as of the end of 2018.

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 15.0x forward earnings versus 19.2x for the S&P 500 and 17.4x for the Russell 1000 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.

Disclosure: Schafer Cullen Capital Management (SCCM or the "Adviser") is an independent investment advisor registered under the Investment Advisers Act of 1940. This information should not be used as the primary basis for any investment decision nor should it be considered as advice to meet your particular investment needs. The portfolio securities and sector weights may change at any time at the discretion of the Adviser. It should not be assumed that any security transactions, holdings or sectors discussed were or will be profitable, or that future recommendations or decisions will be profitable or equal the investment performance discussed herein. Investing in equity securities is speculative and involves substantial risk.

Past performance is no guarantee of future results. Market conditions can vary widely over time and can result in a loss of portfolio value. Individual account performance results will vary and will not match that of the composite or model. This variance depends on factors such as market conditions at the time of investment, and / or investment restrictions imposed by a client which may cause an account to either outperform or underperform the composite or model's performance. There is no guarantee that any historical trend illustrated in this report will be repeated in the future, and there is no way to predict precisely when such a trend might begin. A list of all recommendations made by SCCM within the immediately preceding period of not less than one year is available upon request.

Risk Disclosure: 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.

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 S&P 500 Index is an unmanaged index of 500 large-capitalization publicly traded U.S. stocks representing a variety of industries. The Russell 1000 Value Index measures the performance of the large-cap value segment of the US equity universe. 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. Schafer Cullen Capital Management makes no representation as to the methodology used to generate the returns of any indices mentioned.

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.

Schafer Cullen Capital Management, Inc. makes no representation that the use of this material can in and of itself be used to determine which securities to buy or sell, or when to buy or sell them; SCCM makes no representation, either directly or indirectly, that any graph, chart, formula or other device being offered herein will assist any person in making their own decisions as to which securities to buy, sell, or when to buy or sell them.

All opinions expressed constitute Schafer Cullen Capital Management's judgment as of the date of this report and are subject to change without notice.