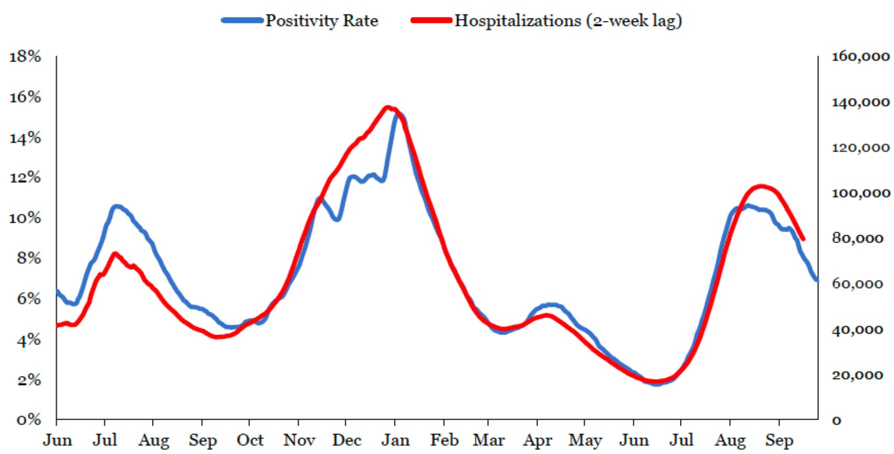
Small Cap Value Equity
Q3 2021 Commentary

Market Review:

US small-cap equities experienced a volatile 3rd quarter as the Russell 2000 declined -4.4% while the Russell 2000 Value declined -3.0%. Stocks pulled back in September on concerns regarding the Delta variant of Covid-19, continued supply chain disruptions and the impact on global growth, and shifting Fed policy, among other uncertainties. At the beginning of the quarter, the US economy appeared to be on track for a strong reopening in the fall. Although the Delta variant quickly altered that reality, new cases and hospitalizations began to roll over in August, which bodes well for a recovery and reopening as we enter 2022 (Figure 1).

Figure 1: US Covid Trends



Source: Strategas, Quarterly Review in Charts, 10/4/2021.

On the policy front, Fed Chair Jerome Powell indicated the central bank may begin tapering its monthly bond buying program by year end. Powell also said the economy has much ground to cover before reaching maximum employment, so despite elevated levels of inflation, interest rate increases are not imminent. On Capitol Hill, the Senate passed a roughly $1 trillion infrastructure package and a separate $3.5 trillion budget proposal. Both policy measures, if passed, will further lift inflation expectations and potentially drive interest rates higher.

Performance Analysis:

The Small Cap Value Equity strategy composite returned 0.1% (gross of fees) and 0.0% (net of fees) for the third quarter of 2021 versus -3.0% for the Russell 2000 Value and -4.4% for the Russell 2000.

Figure 2: Small Cap Value Equity Returns vs. Benchmark

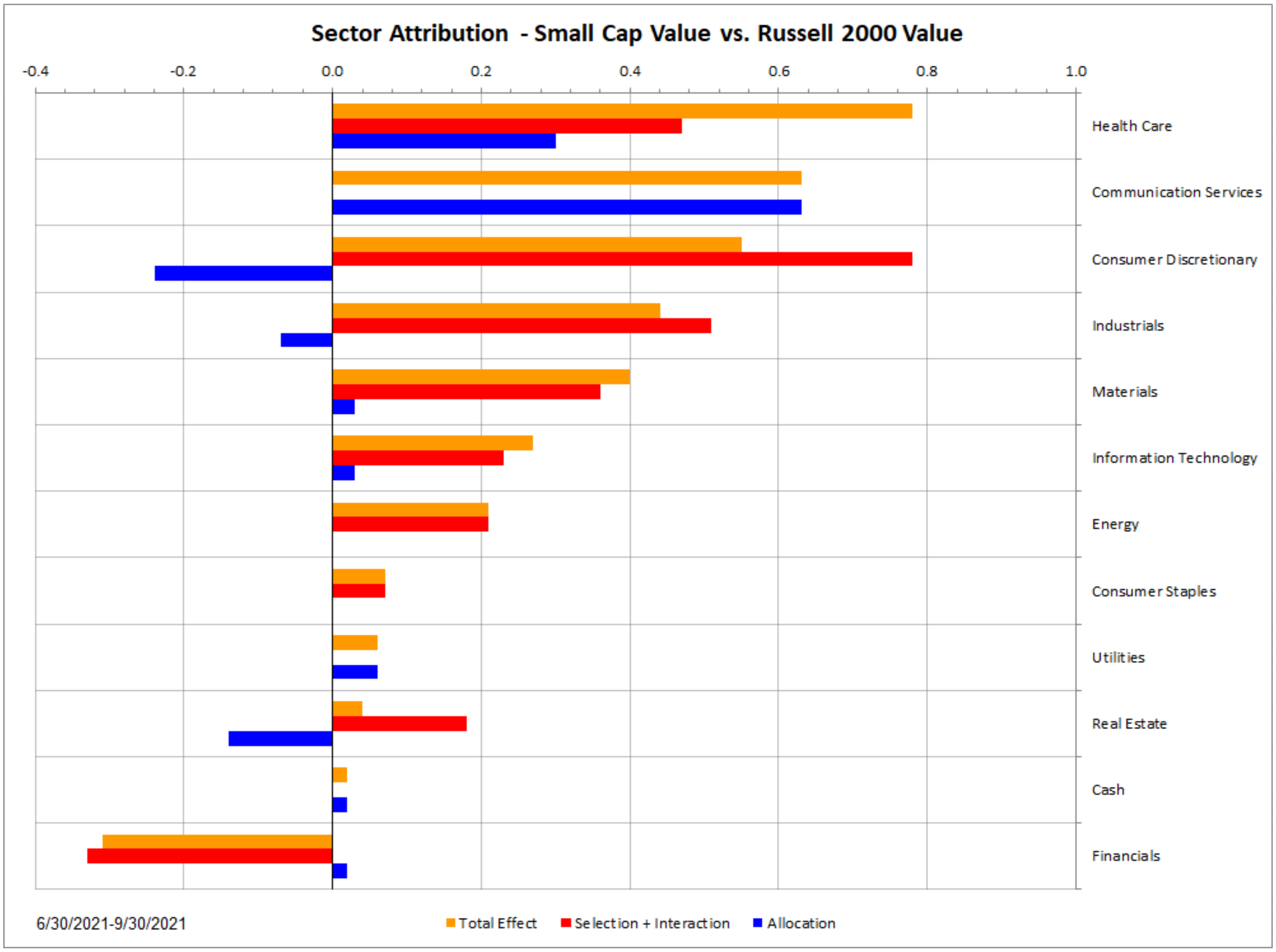
September 30, 2021	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
Small Cap Value (gross)	0.1	23.8	76.0	15.3	13.7	10.8	12.2
Small Cap Value (net)	0.0	23.2	75.0	14.6	13.0	10.1	11.3
Russell 2000 Value Index	-3.0	22.9	63.9	8.6	11.0	13.2	10.4

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

Small-Cap Value stocks continued to outperform Growth as the Russell 2000 Value (-3.0%) outperformed the Russell 2000 Growth (-5.7%) in the quarter. Year-to-date the Russell 2000 Value Index is beating the Russell 2000 Growth Index by 20%. Although small-caps outperformed large-caps in September, small suffered its first losing three-month period since the first quarter of 2020. The strong US equity market returns this year have been broad-based with most style and capitalization indices participating in the rally. Within the Russell 2000 Value, the top-10 contributors to performance this quarter were not as impactful to the Index's return as they were in the first two quarters.

Portfolio Attribution:

Attribution Effects – Small Cap Value Equity vs. Russell 2000 Value 6/30/2021 – 9/30/2021



Source: SCCM/Bloomberg, 9/30/2021.

Our strong stock selection and underweight allocation within ***Healthcare*** made it the largest contributor to relative performance for the quarter. Haemonetics (+5.9%) benefited from the increased volume of elective medical procedures and demand for its blood and plasma donation technology. Our underweight allocation within the ***Communication Services*** made it the next largest contributor to relative performance. Our strong stock selection within ***Consumer Discretionary*** benefited performance. Select retailers and consumer services companies such as Ruth's Hospitality (+1.1%), Denny's (-0.9%), and Columbia Sportswear (-2.3%) benefited from the economy's reopening.

Our stock selection within ***Financials*** detracted from relative performance. SouthState (-8.1%) and First Horizon (-4.8%) both lagged because of concerns over slowing loan growth. Our underweight allocation in ***Real Estate*** detracted from relative performance. As the economic recovery gained momentum in the second quarter, real estate outperformed as the more cyclical sectors benefited from the reopening.

Portfolio Changes:

Purchases

Ruth's Hospitality (RUTH), is the largest operator of fine dining steakhouses in the US with over 150 systemwide units, more than half of which are owned and operated by franchisees. The company's real estate strategy of operating in both urban and suburban markets has allowed it to create a diversified customer profile. Ruth's is well-positioned to benefit from the economic reopening as both corporate and leisure customers return to its restaurants. Additionally, the company sees an opportunity to accelerate unit growth in several markets. The stock is likely to rerate once issues such as the Covid Delta variant, labor shortages, and food cost inflation subside. We purchased shares at 15x forward earnings.

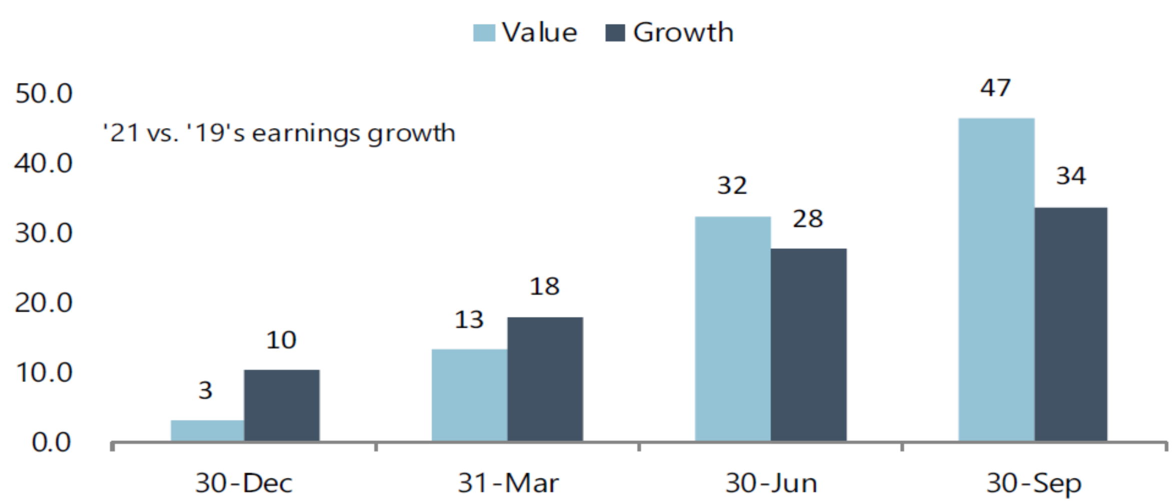
Sales

There were no sales in the quarter.

Market Outlook:

With valuation spreads between Small-cap Growth and Value stocks back to record wide levels and the economic outlook still strong, the Value cycle has considerable room to run. After a historic rally from the March 2020 lows, small-caps paused and consolidated gains as the market digested the impact of decelerating US growth, the surge of the Delta Covid-19 variant, new financial and regulatory concerns in China and Washington DC funding uncertainty along with heightened inflation and supply chain disruptions. Despite these issues, robust financial market liquidity and easy monetary policy conditions continue to provide downside support to markets. Moreover, 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 for the Russell 2000 Growth (Figure 3).

Figure 3: Earnings Growth (Russell 2000 Value vs. Russell 2000 Growth)



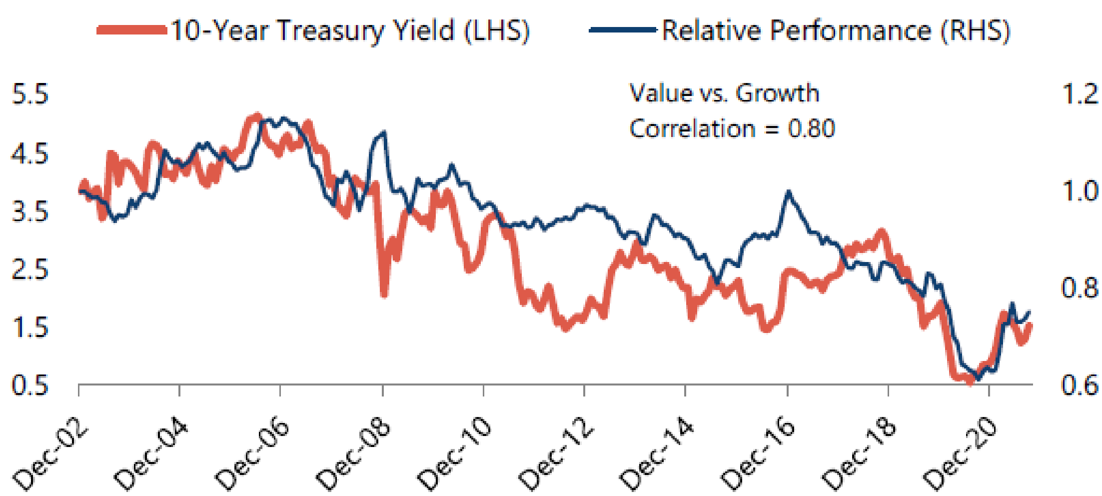
Source: Jefferies, 10/05/2021.

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

Small-Cap Value stocks should see a lift as economic headwinds are now turning to tailwinds, potentially ushering in sustained global growth. The rise of the Delta variant, hampering full reopening, appears to have peaked and as the pandemic lingers on, world populations will increasingly be immunized via vaccinations or antibodies eventually bringing more permanency to the recovery. The deceleration in US economic data, in part caused by rising Covid cases, has set the proverbial "bar" lower for positive surprises.

The direction of interest rates, which had steadily declined due to economic concerns, institutional flows into Treasuries and record short positioning reversing, continues to drive equity style factor performance. Not to be ignored, algorithmic trading, which accounts for over 60% of US equity trading volume, now drives an estimated 50% of US Treasuries trading volume. Falling interest rates, driving flows into long-duration Growth assets, began to reverse at the end of Q3. Improving economic data, declining Covid cases and higher energy prices are but a few catalysts that could drive rates higher, bringing the herd-like momentum traders to reverse bullish Treasury positions. The chart below (Figure 4) shows the relationship of the 10-year treasury yield and the relative performance of the Russell 2000 Value vs. the Russell 2000 Growth.

Figure 4: Rising Rates and Relative Performance of Small-Cap Value vs. Small-Cap Growth



Source: Jefferies, 10/20/2021.

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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 13.3x forward earnings versus 18.4x for the Russell 2000 Value and 26.0x 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. Investing in small cap companies tends to be riskier than large cap companies. Dividends are subject to change and are not guaranteed.

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 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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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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