SCHAFER | CULLEN
CAPITAL MANAGEMENT

High Dividend Value
Q2 2022 Commentary

Market Review:

The US equity market posted sharp declines in the 2nd quarter, as the S&P 500 was down 16.1% and the Russell 1000 Value was down 12.2%. Following a difficult 1st quarter, it was the worst 1st half of a year for the S&P 500 in sixty years, since 1962, and the second worst 1st half since 1935. It was a particularly difficult quarter for high-multiple Growth stocks. The Nasdaq Composite was down 22.3%, the worst quarterly loss for the index since the depths of the Financial Crisis in 2008. More speculative areas of the market that thrived during the Covid pandemic, including various cryptocurrencies and SPACs, also suffered substantial losses. The 1st half also marked the first time since 2001 that both stocks and bonds fell, as government and corporate bond prices declined sharply. The yield on the 10-year US Treasury began the quarter at 2.3%, increased to 3.5%, before ending the quarter at 3.0%.

From a global macroeconomic perspective, the dominant themes in the quarter were persistent inflation and the response from central banks. In the US, the Consumer Price Index eased slightly in the month of April to 8.3%, down from the 8.5% reading in March, leading many observers to surmise that inflation had peaked. However, this narrative was upended with a May reading of 8.6%, the highest level since 1981.[1] The Federal Reserve responded with a 75-basis point hike in the federal funds rate, following earlier hikes in the year of 50 and 25 basis points. The Fed also began its program of quantitative tightening, only three months after ending its program of quantitative easing. Chairman Powell said he sees inflation as the chief economic risk facing the US and controlling it as the central bank's top priority even if the process proves painful to consumers and businesses. Powell also said he could not guarantee a so-called soft landing for the US economy, with many economists and investors eyeing a potential recession.

All eleven market sectors finished the quarter in negative territory. Consumer Staples (-4.6%) and Utilities (-5.1%) were the best-performing sectors, as Defensive stocks led. Several prominent Staples companies reported better than expected ability to implement price hikes with minimal impact on volumes. Energy (-5.2%) was the next best performing sector, continuing a remarkable run that began in late 2020. The WTI oil benchmark increased sharply in the quarter, peaking at $122 per barrel, before finishing the quarter at $105. Consumer Discretionary (-26.2%) was the worst performing sector, as major retailers reported a sharp rise in expenses as well as a pullback in demand for discretionary goods. Communication Services (-20.7%) and Information Technology (-20.2%) were the next worst performers, as high P/E, long-duration equities saw substantial multiple contraction in the quarter.

[1] https://www.bls.gov/news.release/cpi.nr0.htm

Performance Analysis:

The High Dividend Value Equity strategy composite returned -9.6% (gross of fees) and -9.7% (net of fees) for the second quarter of 2022 versus -12.2% for the Russell 1000 Value and -16.1% for the S&P 500. Year-to-date, the strategy returned -10.2% (net of fees), outperforming the Russell 1000 Value and S&P 500 which returned -12.9% and -20.2%, respectively.

Figure 1: High Dividend Value Equity Returns vs. Benchmark

June 30, 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
High Dividend Value Equity (gross)	-9.6	-10.0	-2.7	6.4	7.3	9.6	10.0
High Dividend Value Equity (net)	-9.7	-10.2	-3.1	6.0	6.9	9.2	9.4
Russell 1000 Value Index	-12.2	-12.9	-6.8	6.9	7.2	10.5	9.1
S&P 500 Index	-16.1	-20.0	-10.6	10.6	11.3	13.0	9.7

Figure 2: Performance by Price/Earnings Quintile

S&P Relative Forward P/E Quintiles		Q2	YTD	BofA Adj Beta	Weight in S&P 500	Forward P/E Ratio	Dividend Yield
High P/E	7.47 To 1.55	-23.2	-31.1	1.08	18.6	36	0.8
	1.55 To 1.15	-16.4	-20.1	0.90	32.8	22	1.2
	1.15 To 0.88	-11.9	-19.2	1.01	19.1	17	1.6
	0.88 To 0.60	-14.0	-12.9	0.98	16.2	12	2.3
Low P/E	0.60 To -3.86	-11.1	-8.0	1.21	13.2	8	3.1
S&P 500		-16.5	-20.6	1.01	100.0	16	1.6

Source: BofA Research, US Performance Monitor, 7/1/2022.

*12/31/1993. Performance for periods greater than 1 year is annualized. **Past performance is no guarantee of future results***

The broad-based second quarter market selloff left few winners - inflation beneficiaries including the Energy sector delivered positive returns YTD while Defensives (Utilities, Consumer Staples, and Healthcare) declined significantly less than the market. Though Cyclicals (Financials, Materials, and Industrials) were weak, they outperformed long-duration Growth sectors (Information Technology, Communication Services, and Consumer Discretionary). It was the strongest first half for Value over Growth in decades with the Russell 1000 Value (-12.9% total return) outperforming the Russell 1000 Growth (-28.1% total return) by 15.2 percentage points for the year and by 8.7 percentage points in the second quarter. The lowest Price/Earnings quintile outperformed the highest Price/Earnings quintile by 23.1 percentage points for the year (Figure 2).

High Dividend stocks have significantly outperformed the market in 2022 driven in part by the high concentration of Energy and Defensives stocks in the category. The highest dividend yielding quintile of stocks outperformed the lowest yielding quintile by 18.6 and 33.0 percentage points for the quarter and year respectively. Despite this relative outperformance, few areas of the market were immune to the indiscriminate selling late in the quarter as deleveraging, broad-based ETF selling pressure and systematic/algorithmic programs liquidating long equity positions overwhelmed markets.

As we look ahead to market opportunities and risks, we evaluate past tightening cycles, bear markets and recessions in the Market Outlook section of the commentary.

The overall valuation and dividend yield of the High Dividend strategy are attractive on an absolute and relative basis. At quarter-end:

- **Low Price/Earnings Valuation Discipline**: The strategy's P/E is 13.5x 2022 earnings versus 16.6x for the Russell 1000 Value and 18.3x for the S&P 500 (Q2). The 10-year average valuation spread between the strategy and the Russell 1000 Value and the S&P 500 is 180 and 320 basis points respectively; the current valuation spread is 310 and 480 basis points respectively.

- **High Absolute Dividend Yield**: The strategy's dividend yield is 3.6% versus 2.3% for the Russell 1000 Value and 1.7% for the S&P 500 (Q2).

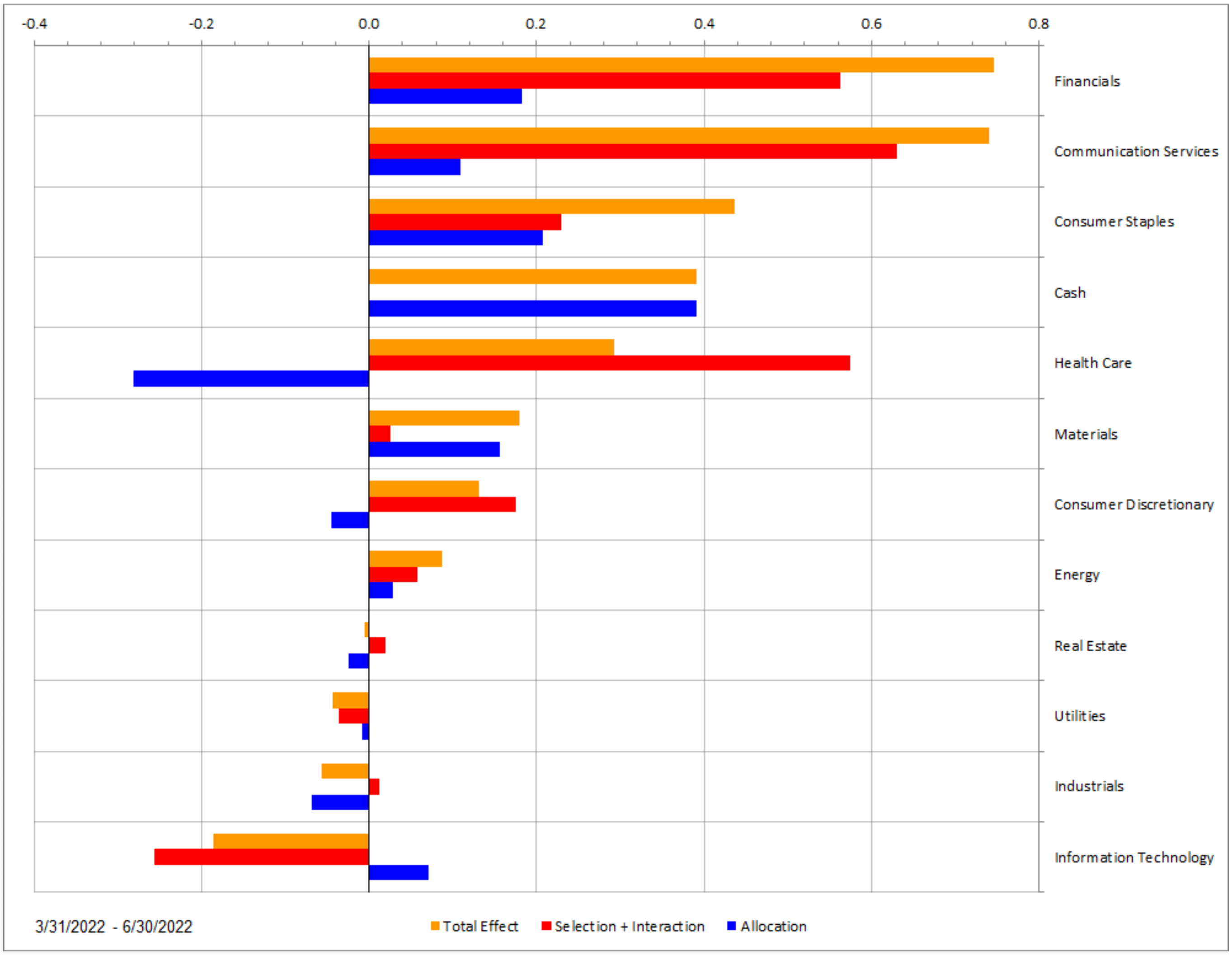
- **Strong Dividend Growth**: In the second quarter of 2022, seven out of 44 portfolio companies raised their dividend payments with an average increase of 11.9%:

    - Lowe's (LOW) raised its dividend payment by +31.3%
    - Target (TGT) raised its dividend payment by +20.0%
    - Medtronic (MDT) raised its dividend payment by +7.9%
    - Raytheon (RTX) raised its dividend payment by +7.8%
    - Johnson & Johnson (JNJ) raised its dividend payment by +6.6%
    - Travelers (TRV) raised its dividend payment by +5.7%
    - Chubb (CB) raised its dividend payment by +3.8%

  Year-to-date, 23 out of 44 portfolio companies have raised their dividend with an average increase of 9.7%.

Portfolio Attribution:

Attribution Effects – High Dividend Value vs. Russell 1000 Value 3/31/2022 – 06/30/2022



Source: SCCM/Bloomberg, 6/30/2022.

The following attribution analysis of the High Dividend Value Equity portfolio is compared to the Russell 1000 Value benchmark.

Our underweight allocation and strong stock selection made ***Financials*** the largest contributor to relative performance for the quarter. Bank stocks sold off significantly in anticipation of a slowdown in the economy or a potential recession. However, Travelers (-6.9%) and Chubb (-7.7%), the two property & casualty stocks in the portfolio, outperformed as insurers have exhibited strong pricing trends to combat inflationary pressures. Morgan Stanley (-12.2%) outperformed other banks, strengthened by its recent acquisitions of Eaton Vance and eTrade, and Citigroup (-12.3%) outperformed with its meaningfully discounted valuation. Our overweight allocation and strong stock selection within ***Consumer Staples*** contributed to relative performance. Consumer Staples was the best performing sector as defensive stocks were more resilient in the down market. Kimberly-Clark (+10.7%) reported particularly strong quarterly results, as the company exhibited strong pricing power in an environment of sharply higher input costs. The company raised prices on average 8% with volumes still up 2%. Philip Morris International (+6.4%) outperformed as the company announced the acquisition of Swedish Match, a leading manufacturer of products in the fast growing oral nicotine category, with the acquisition anticipated to be accretive to earnings. The purchase adds to PMI's already leading portfolio of next generation, reduced risk products. Unilever (+1.6%) outperformed as demand for the company's personal care and packaged foods brands is expected to be resilient in a potential recession. An underweight allocation and strong stock selection within ***Communication Services*** aided relative performance. Our sector holdings outperformed the index as high P/E media and entertainment stocks saw significant multiple contraction in the quarter. AT&T (+19.2%), now a pure-play telecom company following the spin-off of WarnerMedia, outperformed given the defensive nature of traditional telecom companies and its discounted valuation and high dividend yield. Comcast (-3.0%) also outperformed with its deeply discounted valuation following a sell-off in cable company stocks in the 2nd half of 2021 and early 2022. Our strong stock selection in ***Healthcare*** also contributed to relative performance. Eli Lilly (+13.6%) outperformed as the company posted strong quarterly results and raised its earnings outlook, fueled by strong sales in the treatment of diabetes, psoriasis, and Covid-19. Separately, the company reported surprisingly positive results for its diabetes drug, tirzepatide, in aiding weight loss. Merck (+12.0%) also posted strong results, driven by its Covid antiviral treatment as well as continued growth in its leading immuno-oncology drug, Keytruda.

Stock selection within ***Information Technology*** detracted from relative performance. Broadcom (-22.2%) and Intel (-23.9%) declined along with a broad selloff in semiconductor stocks, with ongoing supply chain disruptions as well as an anticipated pullback in consumer demand. Despite their recent underperformance, chip stocks are expected to benefit from multiple long-term demand drivers. Broadcom announced the acquisition of VMWare, a leader in enterprise software that will significantly increase Broadcom's software division and subscription-based, recurring revenue streams. Intel reported solid 1st quarter results, with Data Center revenue up 22%. Cisco (-23%) declined after lowering full year guidance as sales were negatively impacted by supply chain disruptions stemming from the war in Ukraine and Covid lockdowns in China. However, Cisco's total product sales increased 3% year-over-year while its product backlog increased by 130% from last year to more than $15 billion. Our underweight allocation and stock selection within ***Utilities*** detracted from relative performance as defensive sectors outperformed. NextEra (-8.1%) declined as an investigation by the Commerce Department halted shipments of solar panels from Southeast Asian suppliers. However, the Biden administration subsequently paused tariffs on China solar imports that were the cause of the investigation. NextEra held an investor day in June highlighting long-term growth opportunities in its ongoing expansion of solar and wind power and reiterating its long-term commitment to 10%+ annual dividend growth. Finally, our overweight allocation to ***Real Estate*** detracted from relative performance. REITs and other real estate equities sold off in the quarter on rising interest rates. However, while rising rates have historically led to an initial, brief decline in REITs, rising rates and inflation have historically benefitted REIT performance over time.

Portfolio Changes:

Purchases / Additions

Comcast (CMCSA) was purchased in the High Dividend Value Equity strategy in 2Q22. Comcast is a global media and technology company based in Philadelphia with three primary business segments: Cable (55% of revenue), NBCUniversal (27% of revenue), and Sky (18% of revenue). The company's core cable business owns networks that provide television, internet, and phone services to over 60 million households in 40 states in the US. NBCUniversal, acquired by Comcast in 2011, owns cable networks including NBC, CNBC, MSNBC, and USA, offers a streaming service Peacock and operates theme parks including Universal Studios. Comcast acquired Sky in 2018, a leading entertainment and communications provider in the U.K. and Europe with roughly 23 million customers.

The Roberts family, led by CEO Brian Roberts, has built Comcast into a leading cable provider in the US with a growing content business in NBC and Sky. The Cable business has invested for years in building out leading distribution infrastructure enabling it to offer a differentiated video product and leading broadband speeds and for many years its triple-play bundle was growing at a solid rate. Increasing competition in the cable TV business with strong streaming competitors have led to subscriber losses for cable companies; however, given the lower profitability level of the cable TV product due to high content costs, these subscriber losses have been more than offset by strong subscriber growth in broadband. Recently, lower household movement and increasing competition from telco competitors have led to lower subscriber growth for Comcast. This has been an overhang on the stock for several quarters leading to a 34% decline from its 52-week high and a 20% decline in 2022. Management is investing in its own streaming platform, Peacock, which has delivered strong subscriber growth but is not expected to be profitable for years as the company spends to broaden distribution and expand content. The return of corporate advertising spending and visitors to its global network of theme parks is expected to boost earnings in 2022. Lastly, the opportunity to grow subscribers in the US wireless market through a network leasing agreement with Verizon will be another growth driver for the company.

The historical resilience of the Comcast's business model is evidenced by its operating performance in recessions: in 2009, Comcast EPS increased 30%, while in 2020, Comcast EPS declined 17% mainly due to the decline in advertising revenue and theme park attendance given the unprecedented US shutdowns during the pandemic. The Roberts family owns 1% of total Comcast shares but all of the Class B super-voting shares giving it an un-dilutable 33% voting power over the company. The company has delivered strong, consistent profitability with EBIT margins of 18%, a ROE of 15% and a ROIC of 8.2% and has a strong balance sheet with Net Debt/EBITDA of 2.8x and Net Debt/Capital of 51%. With the stock sell-off in 2022, the valuation is extremely attractive: at purchase, the stock traded at 11x 2022 EPS, 7x EV/EBITDA with a 9% free cash flow yield. The dividend yield is 2.7% (30% payout ratio) and the 3-year annual dividend growth is nearly 10%.

Sales / Trims

Warner Brothers Studios (WBD) was sold out of the High Dividend Value strategy. Warner Bros. Discovery was formed in April 2022 via the spin-off of WarnerMedia from AT&T and the combination of that business with Discovery Communications. Shares of WBD were received in April 2022 with an average position size of 40-50 basis points in the High Dividend portfolio. The company's media assets include HBO, TBS, TNT, Discovery Channel, Food Network, HGTV, CNN, Eurosport, and the Warner Brothers film and television studios, among others. WBD has more than ten direct-to-consumer (DTC) streaming services, the most prominent of which are HBO Max and discovery+, which are expected to be consolidated into a single offering. While the company owns more than 200,000 hours of programming and a number of iconic franchises in scripted and unscripted series, the DTC streaming landscape has become highly competitive with a large number of offerings competing for consumers' subscription dollars. Moreover, WBD does not pay a dividend and will use excess free cash flow to invest in content and reduce its sizeable debt load over the next few years.

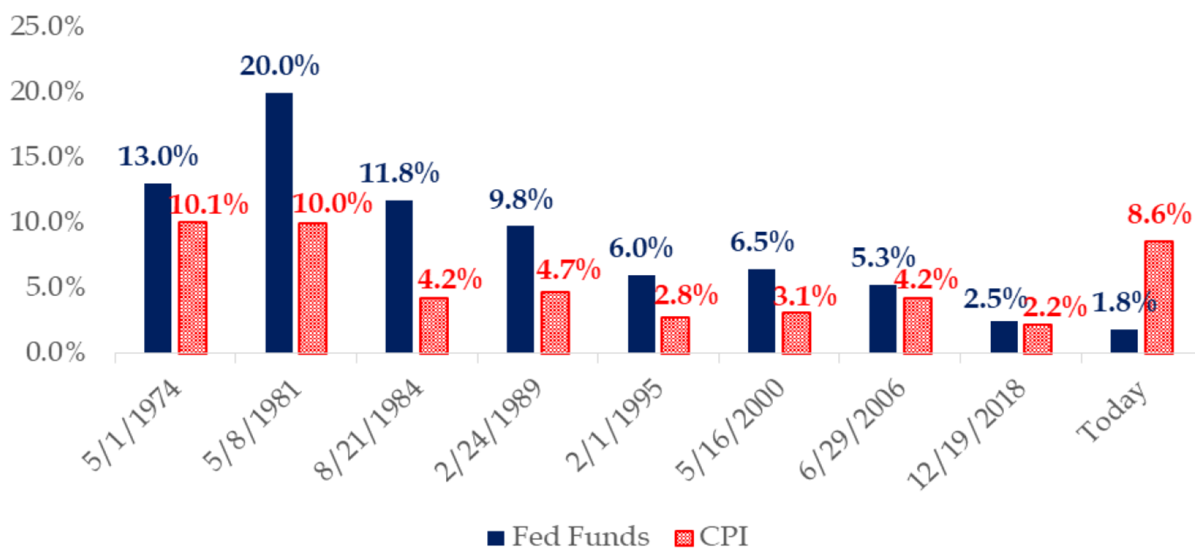
Eli Lilly (LLY) was trimmed in the strategy during the quarter based on strong performance year-to-date and valuation.

Market Outlook:

The equity market downturn that began in January 2022 hit bear market territory in the 2nd quarter as decades-high inflation, expected to peak by mid-year, has remained persistently high. As a result, global central banks accelerated rate hikes throughout the quarter serving to withdrawal liquidity and tighten financial conditions, pressuring almost all asset classes. All the while, the surging US dollar, widening credit spreads and increasing pockets of economic weakness have further raised alarm. Fears of a potential recession driven by a combination of monetary tightening and weakening growth soon shifted to concerns that the Federal Reserve will not be aggressive enough to bring inflation down. This view rests on the belief that a prolonged period of inflation will lengthen the Fed tightening cycle, increasing the odds of recession.

The track record of the Fed engineering a soft landing while raising interest rates is poor. That coupled with a multi-decade paradigm shift at the Fed clearly prioritizing price stability (inflation) over growth, suggests that the Fed will continue raising interest rates until inflation has broken convincingly low. Over the past half century of Fed rate hike cycles, the Fed Funds rate has ended at levels higher than CPI (Figure 3). There has only been once instance, during the 1994-1995 cycle, when the Fed tightened above the neutral rate that didn't result in recession. Today, given the wide spread between the Fed Funds rate and CPI, either inflation will need to fall significantly, or Fed tightening has a way to go. That being said, a recession could be short and shallow in nature given the strength of consumer finances, a well-capitalized banking system and market excesses that have already corrected considerably.

Figure 3: Fed Funds Rate and CPI at the End of Prior Tightening Cycles



Source: Strategas Research, Historical Tightening Cycles, 6/27/2022.

The current bear market at 6 months in duration with a 24% drawdown at its low point has digested the growing macro concerns and discounts a probable risk of a recession. Examining the historical profile of bear markets over the last half century (bear markets since 1968) in terms of duration and magnitude can aid investors in how far we are in the current cycle (Figure 4). Half of the bear markets over this time period (5 out of 10) have been relatively short at less than 6 months in duration while the other half of bear markets have lasted between 18-21 months. The median drawdown in these ten bear markets has been 34%, with the Price/Earnings multiples contracting by an average 18% and EPS declining by 18% (Figure 5). In this cycle, Price/earnings multiples have contracted by 24% as consensus S&P 500 EPS estimates call for positive year-over-year growth this year.

Figure 4: US Equity Bear Markets – Magnitude and Duration, 1968-2022

PEAK		TROUGH		BEAR MAGNITUDE	BEAR DURATION
DATE	CLOSE	DATE	CLOSE		
11/29/68	108.37	5/26/70	69.29	-36.1%	18 mos.
1/11/73	120.24	10/3/74	62.28	-48.2%	21 mos.
11/28/80	140.52	8/12/82	102.42	-27.1%	20 mos.
8/25/87	336.77	12/4/87	223.92	-33.5%	3 mos.
7/16/90	368.95	10/11/90	295.46	-19.9%	3 mos.
3/24/00	1527.46	9/21/01	965.80	-36.8%	18 mos.
1/4/02	1172.51	10/9/02	776.76	-33.8%	9 mos.
10/9/07	1565.15	3/9/09	676.53	-56.8%	17 mos.
2/19/20	3386.15	3/23/20	2237.40	-33.9%	1 mo.
1/3/22	4796.56	6/16/22	*3666.77*	*-23.6%*	*5 mos.*
			MEAN	**-36.2%**	**12.2 mos.**
			MEDIAN	**-33.9%**	**17 mos.**

Source: BCA Research, A Difference of Opinion, 6/27/2022.

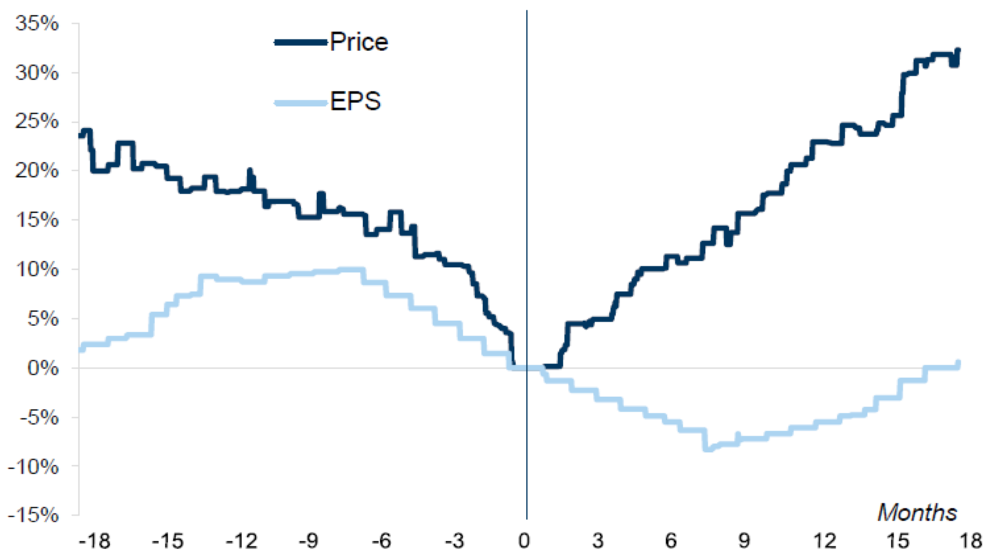
Figure 5: US Equity Bear Markets – Price/Earnings and EPS Contraction

BEAR MARKET DATES		DURING BEAR MARKET			PEAK TO TROUGH	
		INDEX DECLINE	TRAILING/FWD* 4-QTR EARNINGS	TRAILING/FWD* 4-QTR MULTIPLE	TRAILING/FWD* 4-QTR EARNINGS	TRAILING/FWD* 4-QTR MULTIPLE
11/29/68	5/26/70	-36.1%	-0.5%	-35.7%	-12.9%	-26.6%
1/11/73	10/3/74	-48.2%	41.9%	-63.5%	-16.0%	-38.3%
	MEAN	**-42.1%**	**20.7%**	**-49.6%**	**-14.5%**	**-32.5%**
11/28/80	8/12/82	-27.1%	-0.4%	-26.8%	-11.6%	-17.6%
8/25/87	12/4/87	-33.5%	4.8%	-36.5%	**N/A*** **	**N/A*** **
7/16/90	10/11/90	-19.9%	-0.2%	-19.8%	-7.5%	-13.5%
3/24/00 1/4/02	9/21/01 10/9/02	-49.1%	-8.7%	-44.3%	-18.0%	-38.0%
10/9/07	3/9/09	-56.8%	-36.2%	-32.2%	-39.9%	-28.1%
2/19/20	3/23/20	-33.9%	-3.1%	-31.8%	-21.3%	-16.1%
1/3/22	6/16/22	-23.6%	7.9%	-29.2%	**N/A*** **	**N/A*** **
	MEAN**	**-36.7%**	**-7.3%**	**-31.9%**	**-19.6%**	**-22.6%**
	MEDIAN**	**-33.7%**	**-1.7%**	**-32.0%**	**-18.0%**	**-17.6%**

Source: BCA Research, A Difference of Opinion, 6/27/2022.
Note: Separate dot-com bear markets consolidated for clarity. *Trailing metrics for the '68-'70 and '73-'74 bear markets.
**Summary statistics exclude current bear, which may not be over. ***Marked N/A if earnings did not decline.

When do bear markets turn? Typically, the market troughs one to two quarters before GDP bottoms and two to three quarters before EPS troughs (Figure 6). The bottoms in GDP and EPS are notoriously difficult to call but given leading economic indicators and S&P 500 earnings estimates are just starting to decelerate suggests we may not be near the bottom. Moving into 2023, however, markets could be supported by the several rate cuts being discounted into Fed futures as a result of higher recession probabilities and a likely shift in focus back to growth in a pre-election year.

Figure 6: Bear Market Price vs. EPS



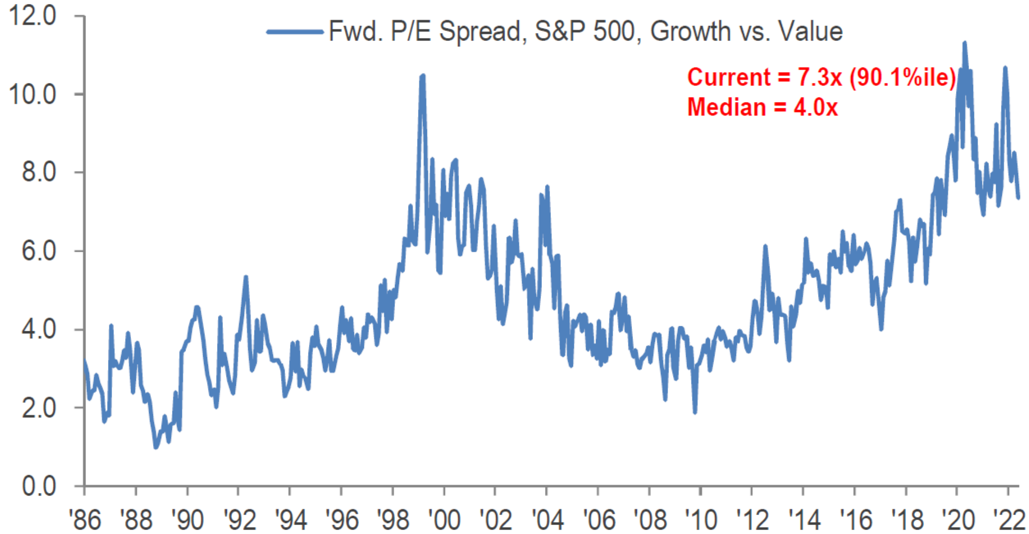
Source: Goldman Sachs Research, The Recession Manual for US Equities, 5/18/2022.
Time 0 = Bear market low, time in months (US bear markets since 1903).

The current environment where risks abound even as we move to an eventual market bottom, favors Value and High Dividend stocks.

- Considering the increasing odds of a US recession, Value stocks have historically led the market coming out of a recession - outperforming in all 14 out of 14 recessions since 1929. The outperformance of Value stocks over the S&P 500 has averaged +28% over approximately 12 months (BofA/ML, US Equity Strategy in Pictures, 4/29/2022).
- In the first year of Fed rate hike cycles, Value has been one of the best performing factors, outperforming the market by an average 7.0 percentage points (BofA/ML, US Equity Strategy in Pictures, 4/29/2022).
- Two years into a rate hike cycle, High Dividend stocks have outperformed non-Dividend stocks by an average 12% (Ned Davis Research, Dividend stocks during tightening cycles, 2/15/2022). The low-beta nature of high dividend payers is rewarded as the market gravitates towards quality and income.

And despite the recent relative outperformance of Value stocks, the valuation spread between Growth and Value is still wide at 7.3x (90% percentile) vs. the long-term historical median of 4.3x (Figure 7).

Figure 7: Valuation Spread between Growth and Value stocks



Source: JPM Research, US Equity Strategy, 5/27/2022.

Given the incredibly strong equity returns generated this past decade combined with still elevated valuation levels, we believe dividends will likely be a more important contributor to total returns.

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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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. **Correlation** is a statistic that measures the degree to which two variables move in relation to each other.

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