

December 12, 2022

James P. Cullen
Chairman & CEO

Special Report

The Case for Small Cap Value

In the mid-1960s, when I started in the business, almost every individual and many institutional investors had a portion of their portfolios in small cap stocks. Why? Performance! **What history shows is that when the small cap stocks do well, they tend to outperform everything else. Over the last fifty years, we see that in some years small caps were up over 60% -- in 1975 +62%, in 2003 +67%, and 2009 +85%. Meanwhile, the S&P 500 over that same fifty-year span was never up more than 37% in any one year.**

Less Risk: Small Cap Value vs. Growth

There is a perception that small caps are riskier than other stocks. **However, neither investors nor the financial press recognize the big difference in performance between small cap value and small cap growth.** What we have seen throughout market history over the last 50+ years is the most speculative small cap stocks (growth) become increasingly popular with investors and the media and eventually reach outrageous levels. History also shows this usually ends badly, thus giving small cap stocks a bad reputation. **Meanwhile, the advantages of a small cap value strategy tend to get overlooked.**

A reason for the strength of small cap value stocks is many of the companies in the group become acquisition candidates. This is especially true in challenging markets like the present. For instance, in our small cap value portfolio over the last two years, we have had one-third (12) of the 35 stocks in the portfolio taken over.

SCV Companies Taken Over Since 2020

Domtar Corp	Cimerax	Sykes Enterprises
First Horizon Corp	Natus Medical	United Community Bank
Great Western Bancorp	Bonanza Creek	Iberia Bank
Magellan Health	CenterState Bank	Spirit of Texas Bancshares

Market Recognition

Small cap stocks in general, like value stocks, have been out of favor for the last ten years. However, the group has quietly started to show better performance. **An example is our Cullen Small Cap Value composite. As of October 31, 2022, the year-to-date performance was in the top 4% of the Morningstar universe of 119 managers. The composite was up +1.5% during the period versus -8.4% for the Morningstar US Separate Account Small Value peer group and -17.7% for the S&P 500.**

The Studies

At the end of the report, in Appendix I, we present the bottom 20% of stocks in the S&P 500 on a market cap weighted basis compared to the S&P 500 itself over the last 50+ years. In Appendix II, we show performance for all the rolling five-year periods over the same period.

Long Term Investing

We invest in our small cap strategy using a five-year time horizon, just as we do with all our investment strategies. This helps to dramatically address year-to-year performance unpredictability. This is also highlighted in Appendix II, where one sees how the five-year time horizon consistently reduces the asset class's volatility. In the few cases where we see negative returns, the subsequent five years performance was dramatically higher.

Difficult 5-Year Performance		Following 5-Year Periods	
2004-2008	-4.33	2009-2013	+31.11
1970-1974	-3.23	1975-1979	+34.62
1969-1973	-7.19	1974-1978	+22.40

Past performance does not guarantee future results. Investors cannot invest directly in an index. S&P 500 tracks the stock performance of 500 large companies and is widely regarded as the best single gauge of large-cap US equities.

Source: Bloomberg/SCCM

Oversold

The chart below, which compares small cap versus large cap, shows that we are as oversold now as we were back in 2000 and that the recovery period after the low was dramatic, as seen in the table below the chart.

Small Caps Remain Historically Oversold vs. Large Caps

Relative Forward P/E: Russell 2000 vs. Russell 1000, 1985-10/31/2022



Source: BofA US Equity & Quant Strategy, Factset

	S&P 500	Small Cap
2000	-9.1%	8.6%
2001	-11.9%	20.3%
2002	-22.1%	-16.0%
2003	28.7%	67.9%
2004	10.9%	19.2%
Total Change	-11.0%	119.6%
Annualized	-2.3%	17.0%

Past performance does not guarantee future results. Investors cannot invest directly in an index.
 S&P 500 tracks the stock performance of 500 large companies and is widely regarded as the best single gauge of large-cap US equities.
 In this example, Small Cap is represented by the bottom 20% of the S&P 500 on a market cap weighted basis.

Source: Bloomberg/SCCM

Valuations

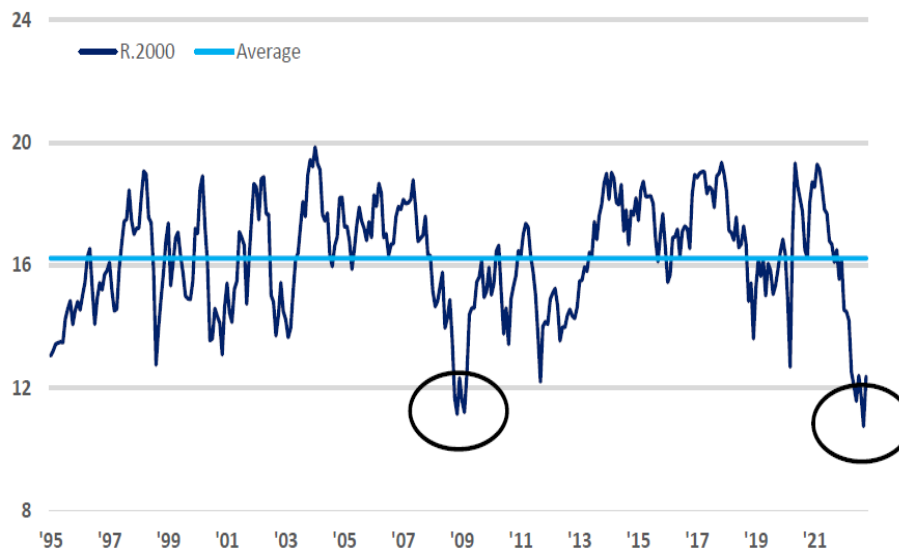
The table below compares the valuations for our Small Cap Value portfolio against the large cap S&P 500. **It shows the small caps are as attractive on a valuation basis now as they were back in 2009.** The period of recovery after 2009 was dramatic, as seen in the table below the chart.

	P/Earnings	P/Book	Div Yield	Debt/Equity
S&P 500	20.70x	3.88x	1.78%	65.00%
Schafer Cullen Small Cap Value	11.06x	1.94x	2.60%	24.45%

Source: Bloomberg/SCCM

Small Cap Forward P/E Well Below the Long-Term Average

Russell 2000 Forward P/E 1995-10/31/2022



Source: BofA US Equity & Quant Strategy, Factset

	S&P 500 (Large cap)	Small Cap
2009	26.5%	85.5%
2010	15.1%	24.1%
2011	2.1%	-1.0%
2012	16.0%	19.7%
2013	32.4%	42.1%
Total Change	128.3%	287.6%
Annualized	18.0%	31.1%

Source: Bloomberg/SCCM

Conclusion

For long term investors, we believe this could be an interesting time to invest in small cap value because of the combination of recovery potential and attractive valuation levels of the portfolio.

If you have any questions, please give us a call.

Happy Holidays!

Jim Cullen

APPENDIX I

Value & Small Cap Stocks Outperform

Years	S&P 500	Bottom 20% by Size	Years	S&P 500	Bottom 20% by Size
1968	11.0	74.2	1996	23.0	20.6
1969	-8.4	-27.9	1997	33.4	26.6
1970	3.9	3.3	1998	28.6	2.1
1971	14.3	14.3	1999	21.0	16.4
1972	18.9	5.9	2000	-9.1	8.6
1973	-14.7	-23.6	2001	-11.9	20.3
1974	-26.5	-11.5	2002	-22.1	-16.0
1975	37.2	62.8	2003	28.7	67.9
1976	23.9	52.8	2004	10.9	19.2
1977	-7.2	9.0	2005	4.9	3.5
1978	6.6	14.5	2006	15.8	19.2
1979	18.6	42.4	2007	5.5	-7.2
1980	32.4	30.6	2008	-37.0	-41.3
1981	-4.9	17.4	2009	26.5	85.5
1982	21.5	41.9	2010	15.1	24.1
1983	22.6	48.2	2011	2.1	-1.0
1984	6.3	1.2	2012	16.0	19.7
1985	31.7	19.8	2013	32.4	42.1
1986	18.7	11.4	2014	13.7	12.2
1987	5.3	7.1	2015	1.4	2.5
1988	12.5	22.6	2016	12.0	19.2
1989	31.7	20.5	2017	21.8	15.1
1990	-3.1	-22.3	2018	-4.4	-6.4
1991	30.5	40.9	2019	31.5	20.7
1992	7.6	21.5	2020	18.3	0.23
1993	10.1	15.7	2021	28.7	30.9
1994	1.3	2.9	Compound Annualized Returns		
1995	37.6	25.2	1968-2021	10.7%	14.6%

Source: S&P Corp, FactSet Research, SCCM 2022

APPENDIX II

S&P 500 Rolling Returns by Bottom 20% of Market Cap

1968-1972	9.46%	1993-1997	17.88%
1969-1973	-7.19%	1994-1998	14.96%
1970-1974	-3.32%	1995-1999	17.82%
1971-1975	5.89%	1996-2000	14.52%
1972-1976	12.22%	1997-2001	14.47%
1973-1977	12.87%	1998-2002	5.45%
1974-1978	22.40%	1999-2003	16.49%
1975-1979	34.62%	2000-2004	17.05%
1976-1980	28.83%	2001-2005	15.94%
1977-1981	22.22%	2002-2006	15.71%
1978-1982	28.83%	2003-2007	18.05%
1979-1983	35.65%	2004-2008	-4.33%
1980-1984	26.69%	2005-2009	4.51%
1981-1985	24.50%	2006-2010	8.37%
1982-1986	23.20%	2007-2011	4.41%
1983-1987	16.45%	2008-2012	9.87%
1984-1988	12.12%	2009-2013	31.11%
1985-1989	16.10%	2010-2014	18.57%
1986-1990	6.47%	2011-2015	14.12%
1987-1991	11.60%	2012-2016	18.45%
1988-1992	14.45%	2013-2017	17.52%
1989-1993	13.14%	2014-2018	8.13%
1990-1994	9.64%	2015-2019	9.74%
1991-1995	20.61%	2016-2020	9.17%
1992-1996	16.91%	2017-2021	11.24%

**Past performance does not guarantee future results.
Index returns do not reflect any fees or expenses associated with a separately managed account.**

Source: SCCM Research, 2022

Small Cap Composite Performance

Based on Total Returns As of 11/30/22	Since Inception (June 1992)	1 Year	5 Year	10 Year
Gross of Fees	11.98%	11.95%	11.85%	9.50%
Net of Fees	11.11%	11.30%	11.15%	8.77%
Russell 2000 Value Index	9.86%	-4.74%	5.35%	9.66%
Morningstar Percentile Rank	-	7/61	2/54	91/48

© 2022 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. A subscription fee is paid to Morningstar to access research, ratings, rankings and other investment tools.

Morningstar percentile rankings are based on the total return percentile rank that includes reinvested dividends and capital gains within each Morningstar Category. The highest (or most favorable) percentile rank is 1 and the lowest (or least favorable) percentile rank is 100. Rankings and ratings are calculated by Morningstar using a performance calculation methodology that differs from that used by Schafer Cullen Capital Management. Differences in the methodologies may lead to variances in calculating total performance returns, in some cases this variance may be significant, thereby potentially affecting the rating/ranking of the portfolio.

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. 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.

Past performance is no guarantee of future results. 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. The value of an investment may move up or down, sometimes rapidly and unpredictably, and may be worth more or less than what you invested. Investing in small cap companies tends to be riskier than large cap companies. Dividends are subject to change and are not guaranteed.

Cullen Capital Management, LLC. (CCM) is an independent investment advisor registered under the Investment Advisers Act of 1940 and is doing business as Schafer Cullen Capital Management, Inc. (SCCM). The Cullen Funds Trust (CFT), SCCM and CCM are affiliates. 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. A list of all recommendations made by SCCM within the immediately preceding period of not less than one year is available upon request. Holdings are subject to change at any time.

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.

The views and opinions expressed are for informational and educational purposes only as of the time of the writing/production and may change at any time. The material may contain "forward-looking" information that is not purely historical in nature. Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability, or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such. 20221213.59252