High Dividend Value
Q1 2022 Commentary

Market Review:

The 1st quarter of 2022 was tumultuous for US equities, marked by global geopolitical tension, accelerating inflation, ongoing supply chain disruptions, rising interest rates, and lingering challenges from the Covid pandemic. The S&P 500 declined 4.6%, while the Russell 1000 Value was down 0.7%. The indices were down significantly more during quarter; at its lowest point the S&P 500 was down approximately 13% before rallying in the final weeks of March.

In late February, Russia launched a military attack in Ukraine following months of threats and failed diplomatic attempts at de-escalation. Beyond the devasting human toll it has taken on Ukraine, the invasion raised geopolitical tensions, resulting in several rounds of economic sanctions against Russia, price shocks across commodity complexes, and further supply chain complications. The extreme price moves in oil and gas markets, precious metals such as nickel, and soft commodities such as wheat, contributed significantly to inflation, resulting in higher costs for consumers and corporations. The normalization of prices will depend on how quickly the Ukraine invasion is resolved, production responses to supply shocks, and how quickly alternatives can be deployed.

The Consumer Price Index (CPI) reached a 7.4% annual rate in February, a four-decade high.[1] The Fed's preferred measure of inflation, the core personal consumption expenditures (PCE) index, rose 5.4% in February, the sharpest 12-month increase since 1983.[2] In response, the Federal Reserve raised the federal funds rate by 25 basis points, ending the accommodative rate policy begun at the onset of the Covid pandemic in 2020. Chairman Jerome Powell indicated the Fed is prepared to raise rates by 50 basis points at a time to combat inflation, which he described as much too high. Long-term bond yields also appreciated, with the 10-year Treasury yield increasing to 2.4% from 1.5% at the start of the year. The rate increases have already resulted in higher borrowing costs for consumers, including mortgage rates at their highest levels since 2018.

Higher multiple Growth stocks significantly underperformed lower multiple Value stocks, largely due to the prospect of rising interest rates and slowing economic growth. In the quarter, the Russell 1000 Growth returned -9.0% while the Russell 1000 Value returned -0.7%. Energy (+39.0%) was by far the top performing sector, as the WTI oil benchmark increased 30%, ending the quarter at $100 per barrel after reaching $123 in early March. Prices spiked following the imposition of sanctions against Russia, which is the world's third-largest oil producer. Utilities (+4.8%) and Consumer Staples (-1.0%) were the next best performing sectors, driven by a flight to safety and higher-yielding areas of the market. Communication Services (-11.9%) was the worst performing sector, hit by a substantial decline in the shares of media and entertainment companies. Consumer Discretionary (-9.0%) was the second worst performer, due in part to an anticipated pullback in demand for consumer goods. Information Technology (-8.4%) also lagged as high multiple stocks saw significant multiple contraction.

[1] https://www.bls.gov/news.release/cpi.nr0.htm
[2] https://www.bea.gov/news/2022/personal-income-and-outlays-february-2022

Performance Analysis:

The High Dividend Value Equity strategy composite returned -0.4% (gross of fees) and -0.5% (net of fees) for the first quarter of 2022 versus -0.7% for the Russell 1000 Value and -4.6% for the S&P 500.

Figure 1: High Dividend Value Equity Returns vs. Benchmark

March 31, 2022	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
High Dividend Value Equity (gross)	-0.4	-0.4	13.8	10.6	10.2	11.1	10.5
High Dividend Value Equity (net)	-0.5	-0.5	13.4	10.2	9.7	10.7	9.9
Russell 1000 Value Index	-0.7	-0.7	11.7	13.0	10.3	11.7	9.7
S&P 500 Index	-4.6	-4.6	15.7	18.9	16.0	14.7	10.5

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

The 1st quarter of 2022 marked the first negative quarter of returns since Q1 2020 as the market digested a number of headwinds and the Fed began to tighten monetary policy from the flood of liquidity initiated at the onset of the pandemic. Decades-high level inflation readings were met with a firmly hawkish Fed stance. The downturn in pockets of the most speculative corners of the market, first experienced in mid-2021, spread to other "long duration" Growth stocks as relentless inflation and higher rates became a key market concern. The initial concerns surrounding the impact of Russia's invasion in Ukraine led to further market weakness, but equities staged a strong mid-March relief rally to end the quarter. On a relative basis, it was the strongest start for Value over Growth in decades with the Russell 1000 Value (-0.7% total return) outperforming the Russell 1000 Growth (-9.0% total return) by 830 basis points in the quarter.

The shift towards Defensive equities in late 2021 continued into 2022 as mounting macro concerns drove a rotation into high dividend and low beta sectors. Energy, the highest yielding sector in the market, was the strongest performer while Utilities also outperformed in the quarter. However, nuances began to emerge as Consumer Staples, a classic Defensive sector, underperformed in March driven by the impact of spiking oil prices likely pressuring top-line growth and margins. The highest dividend yielding quintile of stocks outperformed the lowest yielding quintile by 1,710 basis points in the quarter. In conjunction, low beta outperformed high beta stocks in the quarter.

Figure 2: Performance by Dividend Quintile

S&P Dividend Yield Quintiles				Q1	BofA Adj Beta	Weight in S&P 500	Forward P/E Ratio	Dividend Yield
Low Yield	0.00	To	0.00	-8.8	1.21	26.3	25	0.0
↓	0.00	To	0.97	-6.1	1.06	25.1	28	0.6
	0.97	To	1.83	-7.8	1.03	14.9	18	1.4
	1.83	To	2.78	-4.5	0.93	18.7	17	2.3
High Yield	2.78	To	8.87	8.3	0.88	15.1	13	3.7

Source: BofA Research, US Performance Monitor, 4/1/2022.

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

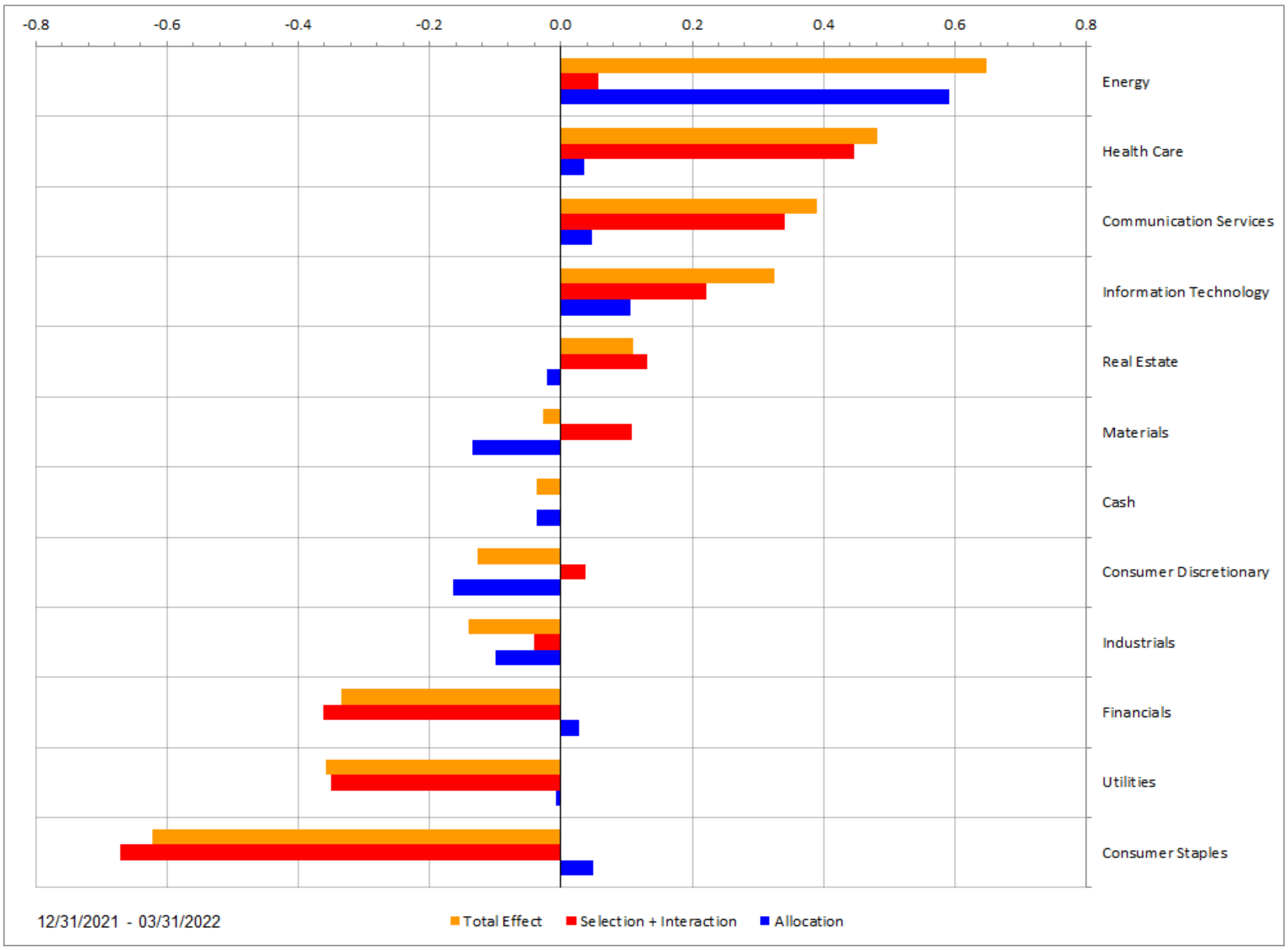
- **Low Price/Earnings Valuation Discipline**: The strategy's P/E is 15.3x 2022 earnings versus 20.6x for the Russell 1000 Value and 21.8x for the S&P 500 (Q1). The 10-year average valuation spread between the strategy and the Russell 1000 Value and the S&P 500 is 180 and 320 basis points respectively; the current valuation spread is 530 and 650 basis points respectively.

- **High Absolute Dividend Yield**: The strategy's dividend yield is 3.1% versus 2.0% for the Russell 1000 Value and 1.4% for the S&P 500 (Q1).

- **Strong Dividend Growth**: In the first quarter of 2022, 16 out of 43 portfolio companies (37%) raised their dividend payments with an average increase of 8.8%.

Portfolio Attribution:

Attribution Effects – High Dividend Value vs. Russell 1000 Value 12/31/2021-3/31/2022



Source: SCCM/Bloomberg, 3/31/2022.

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

Our overweight allocation and strong stock selection made ***Energy*** the largest contributor to relative performance for the quarter. Energy was by far the top performing sector, as global supply and demand dynamics remained favorable, leading to higher oil and gas prices. Prices spiked following the imposition of sanctions against Russia, which is the world's third-largest oil producer. Chevron (+40.2%), ConocoPhillips (+39.6%), and ExxonMobil (+36.5%) all reported strong cash flows enabling them to strengthen their balance sheets, cover capital expenditures, and pay their dividends. Our underweight allocation and strong stock selection made ***Healthcare*** the next largest contributor to performance. Healthcare slightly underperformed, weighed down by declines in high multiple biotech and specialty pharmaceutical companies. Merck (+8.0%) posted solid quarterly results, with strong sales growth for its leading immuno-oncology drug Keytruda, as well as its HPV vaccine Gardasil. Medtronic (+7.9%) outperformed as management said they are seeing a rebound in elective surgical procedures following a delay brought on by the Omicron variant of Covid. Our underweight allocation and strong stock selection within ***Communication Services*** contributed to relative performance. Communication Services was the worst performing sector, hit by a substantial decline in the shares of high multiple media and entertainment companies. BCE (+8.0%) continued to outperform, driven by gains in its wireless, wireline and media businesses. The Canadian telecom firm reported particularly strong internet subscriber growth, helped by its ongoing fiber network upgrades. Our underweight allocation and strong stock selection within ***Information Technology*** contributed to relative performance. The sector lagged as many high P/E stocks experienced significant multiple contraction in the quarter. Intel (-3.0%) outperformed as CEO Pat Gelsinger continued to reaffirm his multi-year plan to transform the company, with an aggressive expansion in the foundry business as well as a bid to regain leadership status in process node technology. Broadcom (-4.7%) also outperformed with strong quarterly results driven by growing networking demand and enterprise data center spending.

Stock selection detracted from relative performance in ***Consumer Staples***. Unilever (-14.4%) declined sharply following Russia's invasion of Ukraine. While Russia and Ukraine only comprise just over one percent of Unilever's sales, fears of the war's impact on commodity prices and the European economy weighed on its share price. However, Unilever reported strong organic sales growth in 2021, and announced organizational changes in January aimed at further improving sales growth and cost savings. Stock selection within ***Financials*** detracted from relative performance. JPMorgan Chase (-13.4%), Citigroup (-10.9%), and Morgan Stanley (-10.4%) declined on global economic growth concerns related to inflation and the Ukraine crisis; however, rising interest rates could boost banks' profits in 2022 and 2023, and continued capital markets volatility should aid investment banking revenues. Our overweight allocation and stock selection within ***Consumer Discretionary*** detracted from relative performance. Consumer Discretionary was the second worst performing sector, due in part to an anticipated pullback in demand for consumer goods. Shares of Lowe's (-21.5%) declined after posting outsized gains in 2020 and 2021. Home improvement trends have been particularly positive since the onset of Covid, with a strong housing market and stimulus funds fueling sales. While concerns have grown over how long these trends can continue, Lowe's is making continued gains in the professional contractor sales channel and increasing margins through improved operational efficiency. Finally, stock selection within ***Utilities*** detracted from relative performance. Utilities outperformed, driven by a flight to safety and higher-yielding sectors of the market. NextEra (-8.8%) had an unusually volatile quarter, as the stock sold off on the announced retirement of its highly respected CEO Jim Robo, but partially recovered in the closing weeks. NextEra's leading solar and wind generation businesses position the company to deliver consistent earnings growth over the long term.

Portfolio Changes:

Purchases / Additions

Boston Properties (BXP) was purchased in the strategy during the quarter. The company is the largest office REIT in the US, owning over 200 properties with approximately 53 million rentable square feet of space. The portfolio consists of high-quality, Class A office buildings in large US metropolitan areas, including Boston (34% of net operating income), New York (29%), San Francisco (20%), Washington, DC (15%), and Los Angeles (3%). The REIT also owns limited retail, hotel, and residential properties. With the onset of Covid in 2020, BXP's building occupancy rates declined as workers around the country transitioned to remote work and office buildings. Importantly, the company's funds from operations were not significantly disrupted, declining just 7% in 2020, as normal tenant roll-overs were not backfilled given the uncertain environment. However, with the deployment of vaccines, BXP's occupancy rates began to recover in 2021 and should continue to recover in 2022 as the country moves past the pandemic. Longer-term, some investors remain concerned about structural shifts in the workplace as work-from-home dynamics reduce overall demand for office space. Demand for high-quality, Class A office space is expected to remain high and grow over time as tenants seek newly constructed assets with premier amenities in transit-oriented locations. In addition, the shift to hybrid working models will still rely upon in-person collaboration and the need for physical locations. BXP's substantial development pipeline and land bank support the long-term construction of additional assets across its coastal US footprint. The company has a track record of disposing of older, lower-return properties while deploying capital into new, high-return assets, driving substantial growth in net operating income over time. BXP has a strong balance sheet, its credit rating is among the strongest in the real estate industry, and its access to capital gives it scale advantages versus smaller peers. While BXP's share price has partially recovered from the 2020 lows, it was purchased in the strategy 20% below its pre-pandemic high and could continue to gain as occupancy rates and operating income rebounds. BXP was purchased at 15.7x 2022 FFO with a 3.4% dividend yield (60% payout ratio).

The positions in **Cisco Systems (CSCO)**, **Healthpeak Properties (PEAK)** and **Medtronic (MDT)** were added to in the quarter.

Sales / Reductions

The position in **Welltower (WELL)** was sold out of the strategy during the quarter. The company owns senior housing and healthcare-related assets in the US, Canada and the UK. Welltower's historically resilient business has been significantly impacted since the onset of Covid-19 with unfortunately higher levels of mortality at its senior housing facilities coupled with a meaningful decline in new resident move-ins. The company's operations have rebounded as vaccinations increased, safety precautions were enacted, and US Covid-19 cases have declined. Occupancy has steadily risen over the past year and the stock has made new highs, above pre-Covid levels. A significant improvement in its operating cash flow is already being discounted in the stock, which trades at 23x 2022 FFO. There are risks ahead as labor costs, a large expense item for the company, has risen dramatically and home health innovations present a longer-term threat for the industry.

The positions in **Chevron (CVX)**, **ConocoPhillips (COP)** and **Exxon Mobil (XOM)** were reduced in February and March after oil prices spiked to multi-year highs.

Dividend Summary:

In the first quarter of 2022, 16 out of 43 portfolio companies (37%) raised their dividend payments with an average increase of 8.8%:

- United Parcel Service (UPS) raised its dividend payment by +49.0%
- Eli Lilly (LLY) raised its dividend payment by +15.3%
- Siemens (SIEGY) raised its dividend payment by +14.3%
- NextEra Energy (NEE) raised its dividend payment by +10.4%
- Genuine Parts (GPC) raised its dividend payment by +9.8%
- Chevron (CVX) raised its dividend payment by +6.0%
- General Dynamics (GD) raised its dividend payment by +5.9%
- BCE (BCE) raised its dividend payment by +5.1%
- Diageo (DEO) raised its dividend payment by +5.0%
- Intel (INTC) raised its dividend payment by +5.0%
- Novartis (NVS) raised its dividend payment by +3.3%
- Johnson Controls (JCI) raised its dividend payment by +2.9%
- Cisco (CSCO) raised its dividend payment by +2.7%
- Pfizer (PFE) raised its dividend payment by +2.6%
- Kimberly-Clark (KMB) raised its dividend payment by +1.8%
- 3M (MMM) raised its dividend payment by +1.0%

This builds on the strength of 2021 where 37 of out 43 companies (86%) raised their dividend payments with an average increase of +10.5%.

Market Outlook:

After an exceptionally strong three-year return for US equities through 2021, macroeconomic headwinds and geopolitical shocks fueled greater market volatility and a weak start for both bonds and equities in the first quarter of 2022. Decades-high broad-based inflation levels driven initially by supply chain constraints and subsequently economic re-opening spending (Figure 3) are forcing the Fed to normalize monetary policy through a series of planned interest rate hikes and the eventual implementation of its balance sheet run-off. The Russian invasion of Ukraine has created a tragic humanitarian crisis across the region and is further propelling inflation. Despite the current inflation and rate angst, longer-term inflation expectations remain within recent historical levels between 2-3% (Figure 4). The market believes inflation will normalize naturally over time -or- the Fed can successfully engineer a soft landing. Inflation readings and expectations will be key factors in how aggressive the Fed intends to follow-through with its intended policy actions; if inflation does not subside in the near-term, a faster tightening cycle restricting financial conditions and lowering liquidity will be downside risks to markets. Another factor likely to influence market performance is the US Presidential cycle - 2022 is a midterm election year, historically the weakest in the four-year cycle and exhibiting above-average volatility as policy uncertainty is elevated.

Figure 3: Inflation Waves: "Episodic Drivers

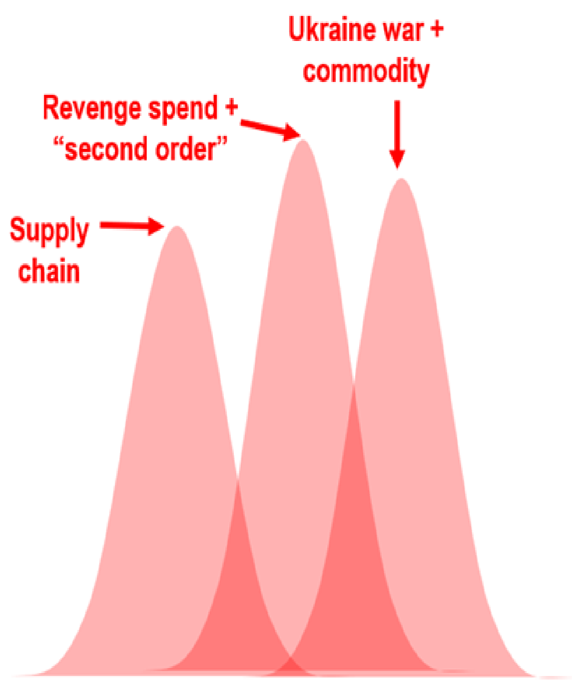
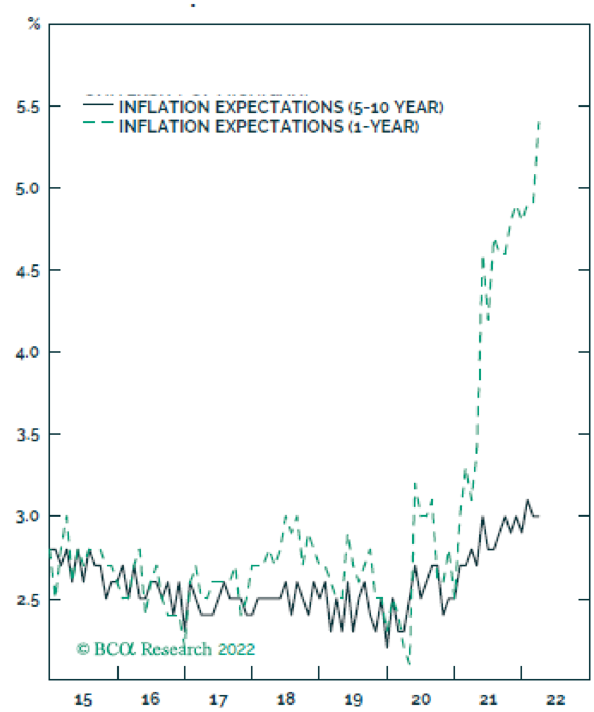


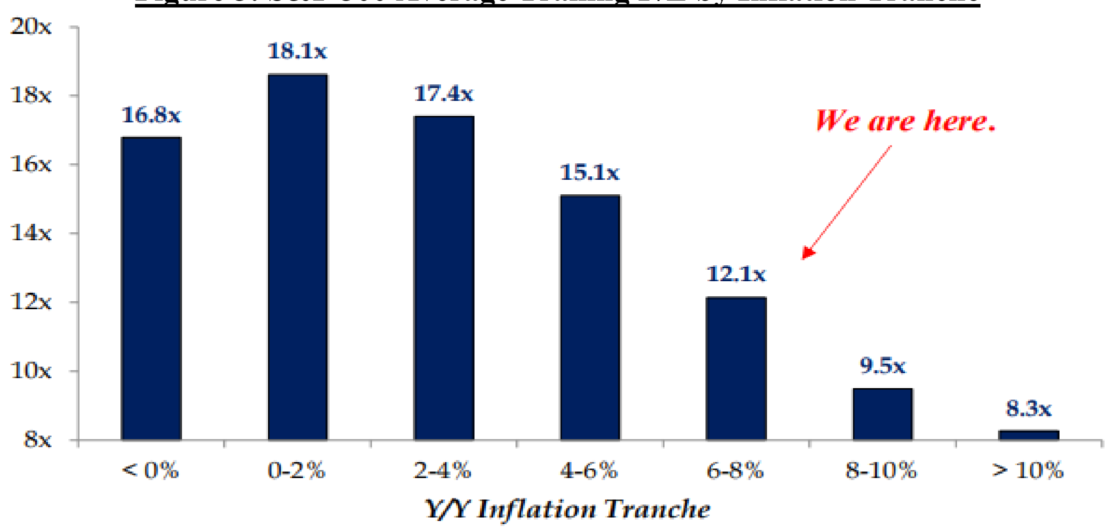
Figure 4: Inflation Expectations



Source: *Figure 3*: Fundstrat Strategy, 03/29/2022. *Figure 4*: BCA Research Sector Chart Pack Commentary, 4/4/2022.

Despite these numerous headwinds, equity markets appear to have digested the negative news flow and bounced back strongly from recent lows. The intra-quarter 13% drawdown in the S&P 500 from its peak into correction territory was worse at the individual stock level. The average US stock reached bear market or recession-levels by mid-March - the average stock drawdown from its 52-week high was -21% for the S&P 500, -40% for the Russell 2000 and -47% for the Nasdaq Composite. These periods of broad-based price consolidation can act to productively shake out market excesses and correct elevated valuation multiples. While valuations on US equities have declined, aided by strong earnings growth, the current S&P 500 forward P/E stands at 21.8x 2022 earnings, an elevated level especially given the rise in inflation (Figure 5).

Figure 5: S&P 500 Average Trailing P/E by Inflation Tranche



Source: Strategas, Quarterly Review in Charts, 04/04/2022.

The normalization of US monetary policy and the Fed's resolution to combat inflation is a momentous change that is beginning to disrupt trends that have been in place since 2009 and the start of the Quantitative Easing (QE) era. Importantly, Q1 reflected several large shifts:

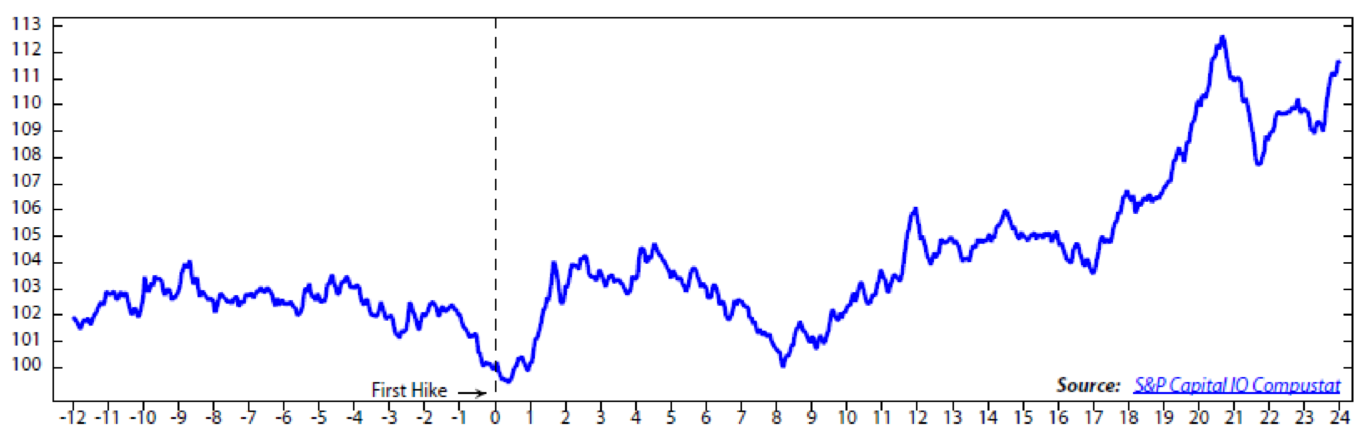
- It was the first time since 2009 that bond yields have gone up during a market correction and failed to act as a hedge for stocks in market sell-offs. Notably, during the inflation years (1965-1982), stocks and bonds regularly declined together.
- Tech stocks (QQQ) did not act defensively as in the past.
- "FANG" was not treated as an asset class. There were wide performance divergences in large-cap technology stocks.
- Oil hit its highest level since 2014 and stocks are underperforming commodities.

Source: Strategas, Technical and Macro Research, 2/7/2022.

These indicate a transition where new long-term opportunities emerge as the market shifts focus away from past "winners" into areas that have lagged for the past decade.

When the market transitions away from speculation and beta, it has favored Value, Quality and High-dividend stocks. Historically, in Fed rate hike cycles, High dividend equities deliver strong relative performance. In the past fifty years, dividend payers have outperformed non-payers after the first rate hike and 1-year later in 75% of the cycles by a median 6.6%. The low-beta nature of high dividend payers is rewarded as the market gravitates towards quality and income. 2-years into a tightening cycle (Figure 6), the highest dividend-yielding quartile of stocks have outperformed the lowest dividend-yielding quartile of stocks in 75% of cycles by an average of 12%. Importantly, the current valuations of high dividend payers are extremely appealing in an expensive market.

<u>Figure 6: Performance of High Dividend Yielders / Low Dividend Yielders in Tightening Cycles</u>



Source: Ned Davis Research, "Dividend stocks during tightening cycles", 2/15/2022.

Given the incredibly strong equity returns generated this past decade combined with near record absolute valuation levels, forward market returns are expected to be muted, and 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.

The Case for Long-Term Value Investing

A guide to the data and strategies that drive stock market success

By Jim Cullen

Release Date: 12th April 2022

"The purpose of this book is to help investors deal with the challenge of successfully investing in the stock market by using a value discipline."
Jim Cullen
The Case For Long-Term Value Investing

Value investing moves in and out of favour, but the data doesn't lie. It has always worked, and will continue to work — as long as investors apply a value discipline and invest for the long term.

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The Case for Long-Term Value Investing is intended for the average investor, who has historically been at a big disadvantage in dealing with the stock market.

Many investors feel an irresistible temptation and herd instinct to buy stocks when they are very popular and at highs, and sell them when they are out of favor and at their lows. ***The Case for Long-Term Value Investing*** will help the investor overcome that temptation.

Cullen also includes a concise history of the last 100 years of market history — showing just how crazy the market can be — with a review of bear markets, recessions, bubbles, melt-ups, interest rates, and much, much more.

The Case for Long-Term Value Investing is the ultimate introductory guide to how and why value investing works, how to understand the markets, and how to be a successful investor.

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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. The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the US equity universe. The **Russell 2000 Value Index** measures the performance of the small-cap value segment of the US equity universe. The **Russell 2000 Growth Index** measures the performance of the small-cap growth 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.

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