SCHAFER | CULLEN
CAPITAL MANAGEMENT

Small Cap Value Equity
Q1 2022 Commentary

Market Review:

The 1st quarter of 2022 was tumultuous for US small-cap equities, marked by global geopolitical tension, accelerating inflation, ongoing supply chain disruptions, rising interest rates, and lingering challenges from the Covid pandemic. The Russell 2000 declined 7.5%, while the Russell 2000 Value was down 2.4%. The indices were down significantly more during the quarter; at its lowest point the Russell 2000 was down approximately 14% before rallying in the final weeks of March.

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.

Performance Analysis:

The Small Cap Value Equity strategy composite returned 2.8% (gross of fees) and 2.7% (net of fees) for the first quarter of 2022 versus -2.4% for the Russell 2000 Value and -7.5% for the Russell 2000.

Figure 1: Small Cap Value Equity Returns vs. Benchmark

March 31, 2022	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
Small Cap Value (gross)	2.8	9.1	19.3	11.7	8.4	12.1
Small Cap Value (net)	2.7	8.5	18.6	11.0	7.6	11.3
Russell 2000 Value Index	-2.4	3.3	12.7	8.6	10.5	10.3

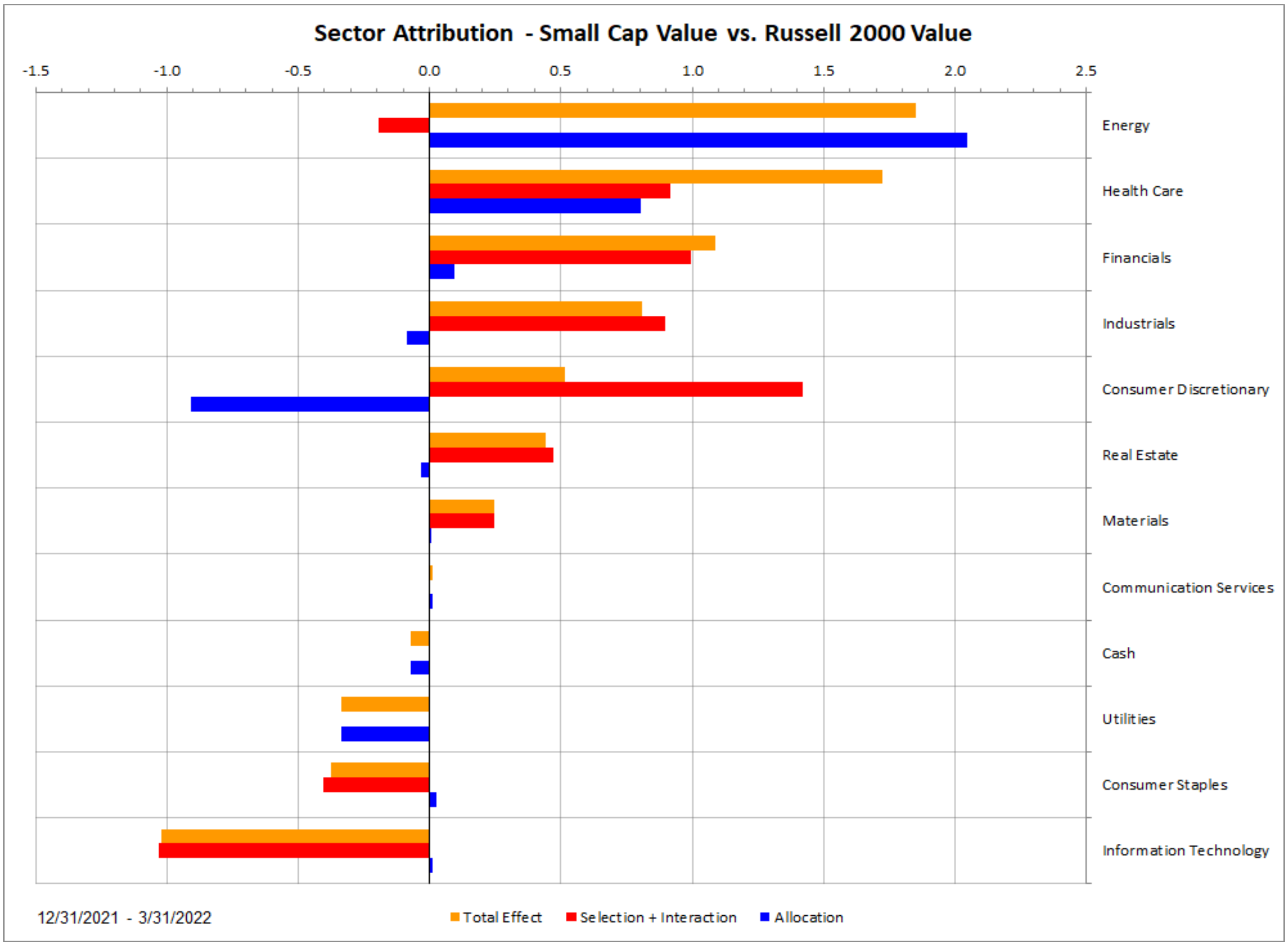
June 1992. Performance for periods greater than 1 year is annualized.* ***Past performance is no guarantee of future results.*

Higher multiple small-cap 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 2000 Growth returned -12.6% while the Russell 2000 Value returned -2.4%. 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.

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

Portfolio Attribution:

Attribution Effects – Small Cap Value Equity vs. Russell 2000 Value 12/31/2021-3/31/2022



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

Our overweight allocation within ***Energy*** contributed to relative performance 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. Helmerich & Payne (+81.9%) and Corterra Energy (+45.0%) both reported stronger than expected earnings enabling them to strengthen their balance sheets, cover capital expenditures and pay their dividends. Our strong stock selection and underweight allocation made ***Healthcare*** the next largest contributor to performance. Haemonetics (+19.2%) outperformed as one of its key customers extended its contract for the company's plasma device. Our underweight allocation and stock selection within ***Financials*** contributed to relative performance. While many of the banks declined on global economic growth concerns related to inflation and the Ukraine crisis, First Horizon (+44.8%) outperformed on its announcement of an all-cash sale to Toronto-based TD Bank for a 37% premium to its prior closing price. The deal is expected to close in the first quarter of 2023 and creates a top-6 US bank with $614 billion in assets and more than 1,560 branches.

Stock selection detracted from relative performance within ***Information Technology.*** Comtech Telecommunications (-33.5%) declined after the company reported weaker than expected earnings and guidance as it is experiencing negative impacts from the supply chain and the Russia/Ukraine conflict. Our stock selection within ***Consumer Staples*** detracted from relative performance. Coca-Cola Consolidated

(-19.7%) declined after the bottler's margins were impacted by higher transportation, raw materials and labor costs. Finally, our underweight allocation within ***Utilities*** detracted from relative performance. Utilities outperformed, driven by a flight to safety and higher-yielding sectors of the market.

Portfolio Changes:

Purchases

There were no purchases in the quarter.

Sales

Encore Wire (WIRE) was sold in the strategy during the quarter based on valuation grounds and concerns over supply chain issues disrupting its customers in the residential and commercial buildings industry.

Jones Lang LaSalle (JLL) was sold in the strategy during the quarter based on valuation grounds.

Market Outlook:

Decades-high broad-based inflation levels driven initially by supply chain constraints and subsequently economic re-opening spending (Figure 2) 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 3). 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 2: Inflation Waves: "Episodic" Drivers

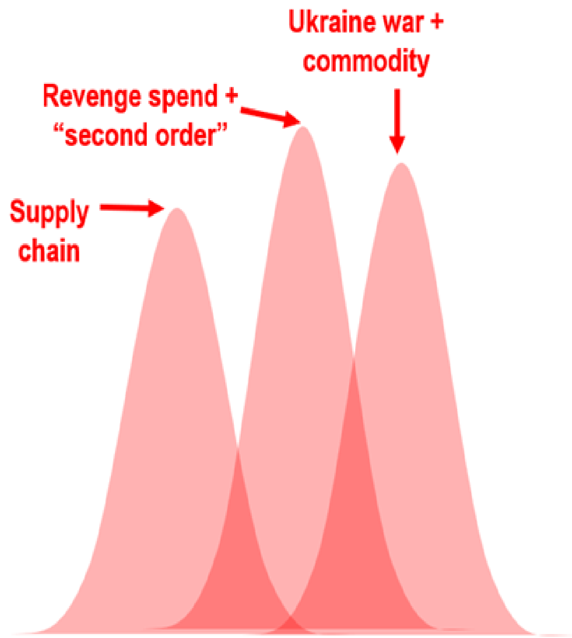
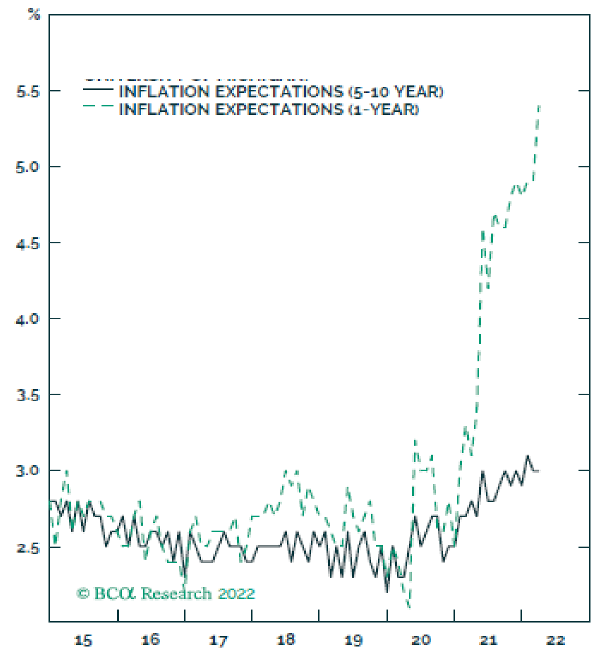


Figure 3: Inflation Expectations

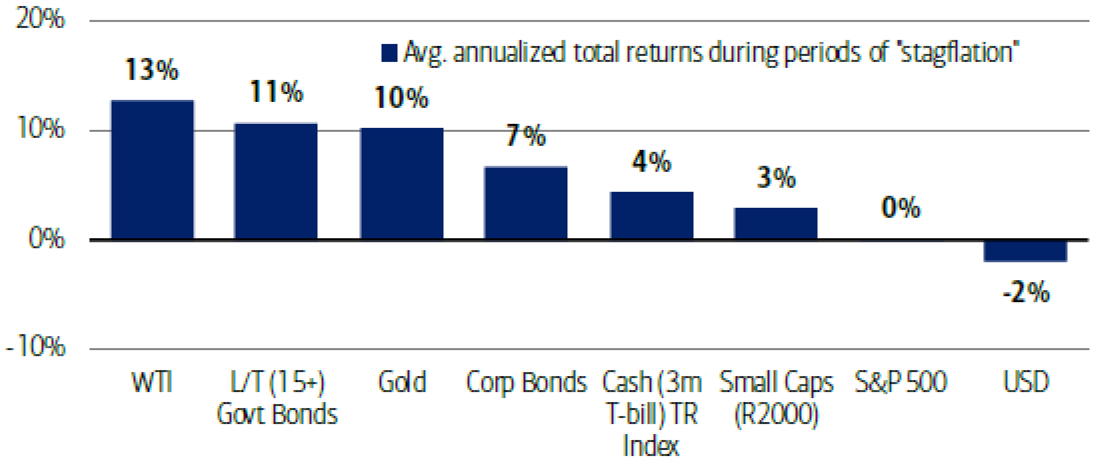


Source: *Figure 3*: Fundstrat Strategy, 03/29/2022. *Figure 4*: BCA Research Sector Chart Pack Commentary, 4/4/2022.

Despite these numerous headwinds, equity markets appear to have digested the negative news flow and bounced back strongly from recent lows. The average US stock reached bear market or recession-levels by mid-March - the average stock drawdown from its 52-week high was -40% for the Russell 2000, -21% for the S&P 500, 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. Small-caps remain the only size segment that is inexpensive vs. history, with the Russell 2000's forward P/E 7% below average. The Russell Midcap P/E is 14% above average while the Russell 1000 P/E is 27% above average.

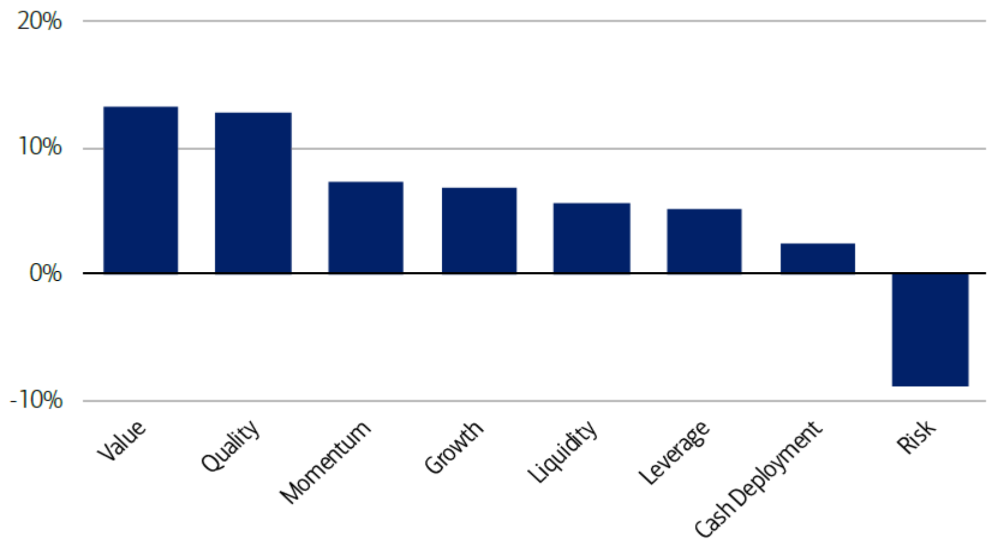
In addition to the Russell 2000's P/E trading below average, we see small-caps benefiting from a services and domestic capital expenditures recovery. Moreover, small-caps tend to be better equipped to adjust prices in periods of high inflation partly because of the group's pricing power and ability to make quick changes. Small-caps have outperformed large-caps in secular inflationary periods including the 1960's, the late 70's, and the early 80's. Even in periods of stagflation, small-caps have outperformed large-caps (Figure 4). Also, Value and Quality within small-caps tend to outperform during Fed hiking cycles since 1989 (Figure 5). By the end of the second quarter of 2022, it's estimated the Fed will have hiked rates three times. Historically, the outperformance for small-caps over large-caps after the third rate hike is strong in favor of the smaller size segment. Since 1954, the six months after the third rate hike, small caps were up on average 10.6% vs. 6.0% for large caps.

Figure 4: Average Annualized Total Returns During Stagflation



Source: BofA Securities, 4/4/2022.
Past performance does not guarantee future results. You cannot invest directly in an index.

Figure 5: Russell 2000 Factor Group During Fed Hiking Cycles Since 1989



Source: BofA Securities, 1/21/2022. Median top-bottom quintile (Q1-Q5) annualized returns of each Russell 2000 factor group during Fed hiking cycles since 1989.
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The current valuation of our portfolio remains attractive – the strategy trades at 10.9x 2022 earnings versus 17.9x for the Russell 2000 Value (Q1).

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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