High Dividend Value Equity
Q4 2015 Commentary

Market Review:

In the fourth quarter of 2015, U.S. equity markets recovered from steep third quarter declines, with the S&P 500 and Dow Jones Industrial Average delivering 7.0% and 7.7% total returns, respectively. The bulk of the gains occurred in October, when the market recorded its largest monthly advance in four years. Although the remainder of the quarter, much like the entirety of 2015, produced little change in index value from start to finish, the period was not absent volatility or consequential news.

While equity markets rallied in the quarter, U.S. economic growth decelerated. This was driven by Energy and Industrial sectors with narrowing pockets of strength in the auto and housing markets coupled with healthy labor market trends. On December 16th, the Federal Reserve raised the Fed Funds rate by 0.25%, the first rate hike since June 2006. This extended period of ultra-low interest rates has been a historical chapter in U.S. economic history and with the so-called rate liftoff behind us, the market awaits whether the Fed can successfully orchestrate a normalization of interest rates.

In the S&P 500, the Materials sector was the best performing sector in the quarter with a return of 9.8%. After having underperformed in Q3, the sector benefited from a flurry of M&A activity among agricultural companies. The Health Care sector returned 9.2% for the quarter, as pharmaceutical and biotechnology firms rebounded from a sharp third quarter selloff. Q4 also saw continued deterioration in the price of oil, down 20% in the quarter, further pressuring energy companies already reeling from the slide that began in mid-2014. Energy was the worst performing sector in Q4 returning +0.2%.

The final weeks of the year also brought significant upheaval in the high-yield bond market. Major high-yield indices experienced double-digit declines in 2015 due to rising default fears in Energy and Material companies as well as illiquidity as investor fund redemptions accelerated. This development, along with severe pricing issues with ETFs in August (in which ETF prices traded significantly below the underlying value of their securities), underscore the benefits of a long term, buy and hold strategy of high quality, attractively-priced companies.

Performance Analysis:

The High Dividend Value Equity composite returned 8.6% in the fourth quarter of 2015, net of fees, versus 7.0% for the S&P 500 and 5.6% for the Russell 1000 Value (Figure 1). The High Dividend Value Equity strategy outperformed the S&P 500 and Russell 1000 Value as the market sought high quality companies with strong balance sheets, relatively stable earnings and cash flows and the ability to self-fund. Investor concern shifted from hawkish Fed policy to weakening global markets which led investors to focus on the merits of sustainable dividends. The strategy’s high quality holdings in Materials, Energy and Industrials and the avoidance of highly cyclical, leveraged companies in those sectors drove some of the outperformance. The development of key catalysts for several portfolio holdings, Du Pont (DD), Microsoft (MSFT) and General Electric (GE), fueled 20%+ returns for each company in the quarter.

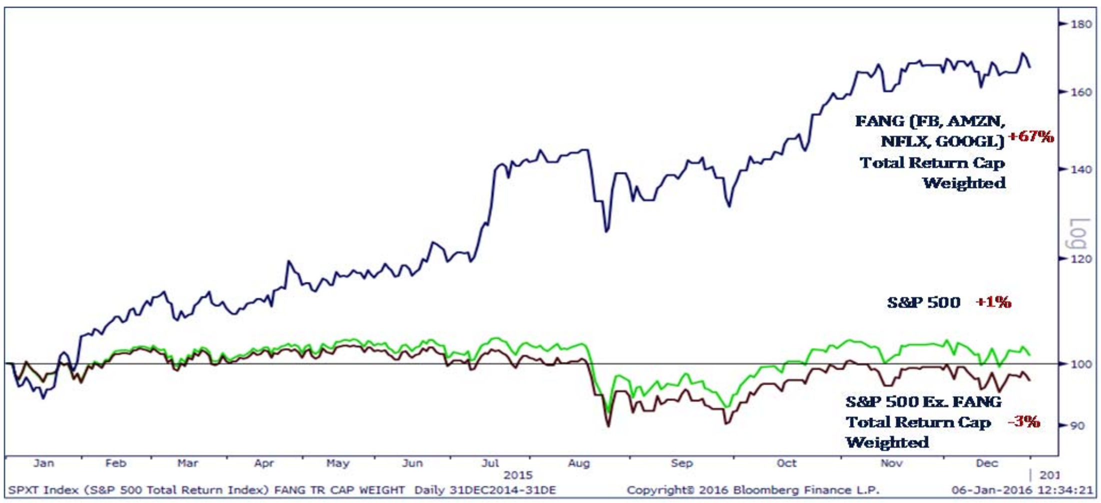
Figure 1: High Dividend Value Equity Returns vs. Benchmark

	Q4	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
High Dividend Value Equity (net)	8.6	-0.4	-0.4	11.4	11.7	7.0	9.7
S&P 500 Index	7.0	1.4	1.4	15.1	12.6	7.3	9.1
Russell 1000 Value Index	5.6	-3.8	-3.8	13.1	11.3	6.2	9.2

**December 31, 1993. Performance for periods greater than 1 year is annualized.*

For the full year, the market was led higher by a narrowing group of momentum stocks, best illustrated by the performance of FANG (Facebook, Amazon, Netflix and Google) which returned +67% in 2015 vs. +1% for the S&P 500 and -3% for the S&P 500 excluding FANG (Figure 2).

Figure 2: Total Return of FANG, S&P 500 and S&P 500 Ex. FANG



Despite improving near-term performance of high dividend stocks, for the full year 2015, the lowest quintile of dividend yielding stocks have significantly outperformed stocks paying meaningful dividends (Figure 3).

Figure 3: S&P 500 Price Performance by Dividend Yield Quintile*

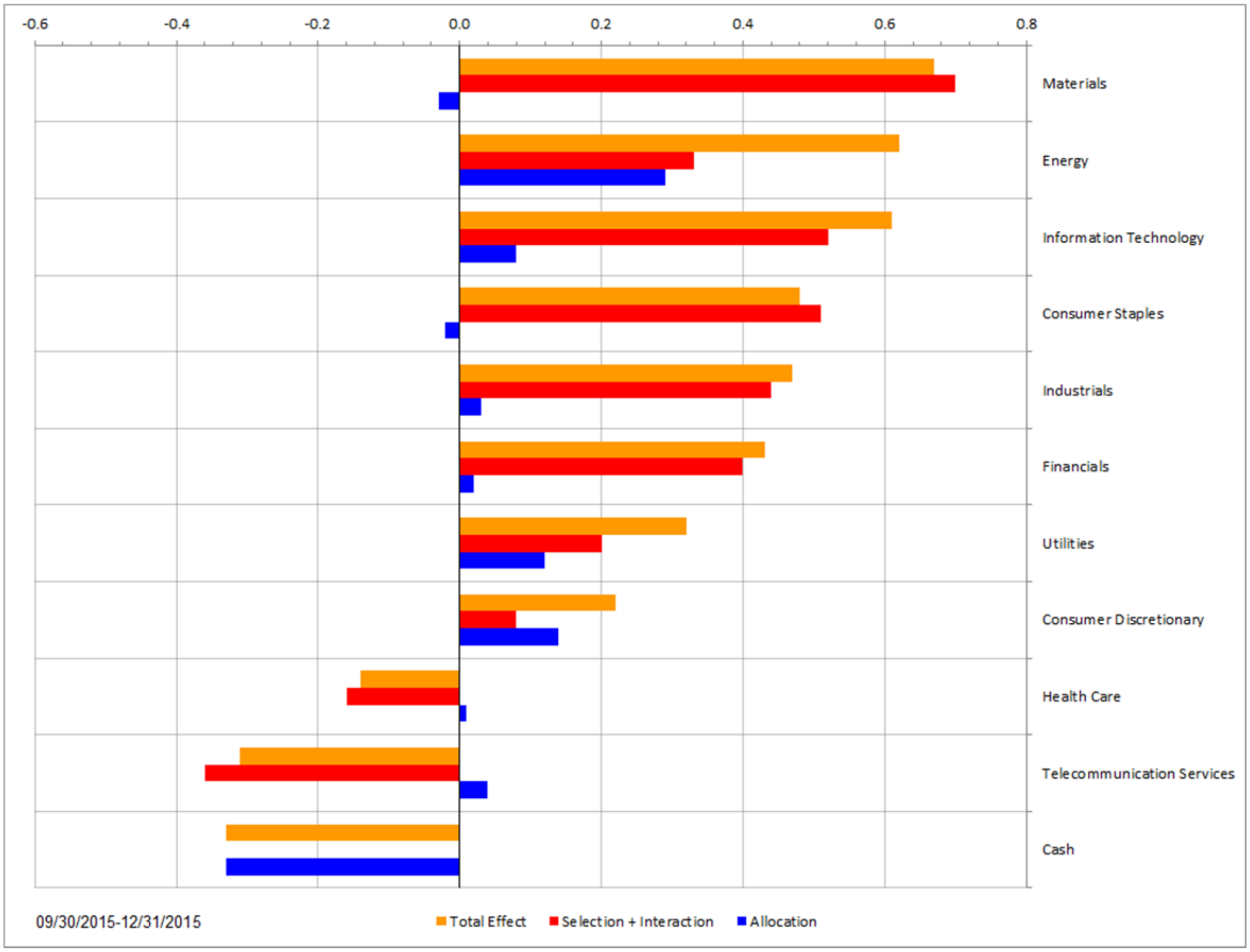
Dividend Quintile	4Q 2015 Total Return	YTD Total Return	Dividend Yield Quintile
1	+9.68%	+12.47%	0.00% to 0.22%
2	+6.40%	+0.17%	0.22% to 1.62%
3	+3.12%	-5.05%	1.62% to 2.40%
4	+8.24%	-4.53%	2.40% to 3.29%
5	+4.85%	-3.38%	3.29% to 41.92%

*Quintiles are held and re-balanced monthly

Source: Bank of America Merrill Lynch US Quantitative Strategy, December 31, 2015

Portfolio Attribution:

Attribution Effects – High Dividend Value vs. Russell 1000 Value 9/30/2015 – 12/31/2015



Source: SCCM/Bloomberg

The ***Materials*** sector was the strongest contributor to absolute and relative performance during the quarter. DuPont, our sole position in the sector, rallied +39.0% during the quarter after the company replaced its CEO with Ed Breen, the former CEO of Tyco with a strong track record as a turnaround specialist. In December, Du Pont and Dow Chemical agreed to a tax-free merger combining their best-in-class Agriculture seeds and crop protection businesses. Once completed, the merged company plans to split into three companies which can focus on gaining market share in their respective industries, realize significant cost and revenue synergies and participate in further consolidating markets.

Energy was the worst performing sector for the benchmark but a positive contributor to performance for the strategy due to our underweight allocation and superior stock selection. Chevron performed well, +15.4% in Q4, as the company announced it will further reduce capital expenditures and operating costs in 2016 to preserve margins and expects the ramp-up of several high profile projects in the next few years to boost production growth and cash flow. Exxon Mobil also outperformed the sector in the quarter (+5.8% in Q4).

Information Technology was the second best absolute performing sector for the benchmark during the quarter and the portfolio benefitted from our strong stock selection and overweight allocation. Microsoft reported strong Q3 profits in the quarter and provided increased visibility into the solid growth and cash flow generation of its cloud computing and enterprise businesses. Intel's highly profitable Data Center business is growing at a healthy pace while the company turns to new opportunities in its cloud, memory and Internet of Things businesses. Both stocks were up double digits during the quarter (Intel +15.1% and Microsoft +26.2% in Q4). The sector's strong dividend growth prospects were reinforced by Intel's 8% increase in its dividend announced during the fourth quarter, building on Microsoft's 16% increase in Q3.

The portfolio's ***Consumer Staples*** exposure was aided by our superior stock selection. Altria (+8.1% in Q4), Kimberly Clark (+17.6% in Q4), Philip Morris International (+12.1% in Q4) and Unilever (+8.6% in Q4) all posted strong returns driven by better-than-expected quarterly earnings reports and a flight to quality during the quarter. This group was also the largest contributor to absolute and relative returns for the full year 2015.

Industrials was the best performing sector for the benchmark during the fourth quarter and the strategy benefitted from strong stock selection and a slight overweight allocation. Raytheon (+14.7% in Q4) was once again a standout performer during the fourth quarter and for the full year. With heightened geopolitical tensions globally and terrorist attacks spreading, the company is experiencing strong demand for its missile defense systems. Meanwhile, General Electric (+24.4% in Q4) performed well on the news that activist investor Nelson Peltz (Trian Partners) took a meaningful stake in the company during the quarter; Trian largely supports GE management's current strategy of divesting the majority of GE Capital to focus on its attractive global industrial and health care businesses. Boeing performed well (+11.1% in Q4) driven by strong execution on its record backlog and increasing its dividend payment by nearly 20% in December.

Our ***Financials*** exposure aided relative performance due to superior stock selection. New portfolio holding ACE performed well during the quarter (+13.6% in Q4) as did our positions in Travelers (+14.0% in Q4) and JP Morgan (+9.1% in Q4) which benefitted from a flight to safety. Our Health Care REITs were a slight drag on relative returns during the quarter (+4.3% and +1.8% for HCP and Welltower in Q4) as they sold off ahead of the Fed's first rate increase in nearly ten years; however, both stocks bounced back in December.

The ***Utilities*** sector contributed to relative performance during the quarter due to our underweight allocation in an underperforming sector. NextEra Energy, the only Utility stock in the portfolio, outperformed the benchmark (+7.3% in Q4); the December release of the Congressional tax extender package continuing to support alternative energy investments in wind and solar generation is a positive for the growth prospects for NextEra.

Consumer Discretionary was the second worst performing sector for the benchmark but a positive contributor for the portfolio due to our underweight allocation and the outperformance of our sole position, Genuine Parts (+4.6% in Q4), in the quarter.

Health Care detracted from performance due to the underperformance of a single stock during the quarter. Despite strong performance from Johnson & Johnson (+10.8% in Q4), Merck (+7.9% in Q4) and AstraZeneca (+6.7% in Q4), Eli Lilly underperformed during the quarter (+1.3% in Q4) resulting in a slight drag relative to the benchmark where growth areas such as Biotechnology and Health Care Technology outperformed.

Our ***Telecommunication Services*** exposure detracted from relative performance as Bell Canada (-4.6% in Q4) and Vodafone (+3.3% in Q4) underperformed the benchmark. BCE was negatively impacted by news that Canadian cable operator Shaw Communications will acquire Wind Mobile bringing a better capitalized competitor to the Canadian wireless market. Meanwhile AT&T performed well (+7.1% in Q4) driven by the company's improving operating performance and defensive attributes.

Portfolio Changes:

Increased Positions

ACE Limited (ACE) – The position in ACE, which was initiated in 3Q 2015, was increased in the quarter. ACE is a global property and casualty (P&C) insurer providing a broad array of traditional and specialty lines of coverage. The company's planned acquisition of Chubb will allow ACE to leverage Chubb's superior brand, strong customer service culture and deep vertical expertise in the high net worth personal segment in the U.S. In an environment of slowing economic growth, the company's forecast of annual double-digit earnings accretion through 2018, if achieved, will result in significantly outpaced industry growth. Evan Greenberg, CEO of ACE, has a successful acquisition integration track record and is focused on generating profitable growth and returning capital to shareholders primarily in the form of dividends.

Decreased Positions

Altria Group (MO) – The position in Altria, a long-term portfolio holding, was trimmed in the quarter given the stock's strong performance through the third quarter and valuation. The company's wholly domestic business in a strong U.S. dollar environment, the significant acquisition premium being paid by AB InBev for SABMiller (27% owned by Altria), the decelerating growth of e-Cigarettes which had been an increasing threat to the industry and the flight to quality in Q3 all contributed to the run-up in the stock. The stock was the largest position in the portfolio at the end of Q3 and we trimmed it to an average portfolio weight. Altria is well positioned to gain market share in a consolidating domestic industry and further its strategy of gradually raising prices and reducing costs to deliver strong earnings growth.

Intel Corporation (INTC) – The position in INTC was trimmed in the quarter. Intel has navigated the difficult PC end market by offering higher specification, higher margin chips and rapidly growing its high margin data center business. Management's strategy is to focus on growth opportunities in the cloud, memory and Internet of Things segments. The company's acquisition of Altera will extend capabilities in tailored programmable logic devices in areas such as communications infrastructure. Our concerns surrounding a slowdown in the data center business and more challenging PC environment were the rationale behind trimming the position.

Dividend Summary:

In the quarter, 5 additional portfolio companies raised their dividend payments:

- Intel (INTC) raised its dividend payment by 8.3%
- Merck (MRK) raised its dividend payment by 2.2%
- Eli Lilly (LLY) raised its dividend payment by 2.0%
- Boeing (BA) raised its dividend payment by 19.8%
- Pfizer (PFE) raised its dividend payment by 7.1%

Year-to-date, 28 out of 37 portfolio companies have raised their dividends with an average increase of 6.8%. This builds on the strength of 2014 where 33 out of 36 companies raised their dividends with an average increase of 8.4%.

In 2015, with U.S. and global economic growth sluggish and corporate earnings growth decelerating, a slowdown in dividend increases from the past few years could be expected. Notably, ACE and XOM, two recent new positions in the portfolio raised their dividends in 2015 but were not included in the "raised" category since their dividend increases were prior to our purchases in Q3. Within the Energy sector, our holdings primarily consisting of Integrated Oil & Gas companies were able to maintain their dividends in this low oil price environment, a testament to their balance sheet strength and diversified business models, while companies in other parts of the Energy complex (E&Ps, MLPs) were forced to cut dividends.

Market Outlook:

The arrival of 2016 brings with it a number of important areas to follow as the year progresses including the continuing development and uncertainty in the economies of China and other emerging markets, worldwide commodities prices and whether they will finally rebound or continue to languish, the path taken by the Federal Reserve toward higher rates and, last but certainly not least, the U.S. Presidential primary season and general election in November.

In the U.S. equity markets, we believe attention should be paid to the lack of breadth in recent advances. As previously mentioned, FANG (Facebook, Amazon, Netflix and Google) accounted for a full 4.1% of the S&P 500 return in 2015 and without these four stocks, the S&P 500 (excluding FANG) declined 3%. This illustrates how isolated the positive performance was in the year, and also indicates how vulnerable the market is to an extended decline considering the elevated price multiples on these stocks, with Facebook at 47x earnings, Amazon at 339x, Netflix at 552x and Alphabet at 26x.

While Value investing outperforms Growth investing over the long-term, growth stocks significantly outperformed value stocks in 2015 with the Russell 1000 Growth index outperforming the Russell 1000 Value index by 950 basis points in the year, illustrating the extreme sentiment shift that has favored Growth investing over the past several years (Figure 4). The magnitude of Growth investing outperformance now rivals the period leading up to the March 2000 Technology bust. Historically, once these periods of extremes end, a new period of Value investing outperformance begins. With the markets still within range of all-time highs, and with weakening breadth, investors should be increasingly mindful of valuations and risk.

Figure 4: Annualized Trailing 10-Year Relative Return of Growth vs. Value

Source: Strategas Research

The High Dividend Value Equity portfolio invests in high quality companies that have strong balance sheets, generate relatively consistent cash flows and have solid long-term prospects. The valuation, dividend yield and growth of our portfolio remain attractive (quarter-end):

- The strategy's P/E is 15.0x 2016 earnings versus 17.4x for the S&P 500 and 15.9x for the Russell 1000 Value.
- The strategy's dividend yield is 3.5% versus 2.2% for the S&P 500 and 2.6% for the Russell 1000 Value.
- Dividend growth: In 2015, 28 out of 37 companies (76%) raised their dividends with the average increase being 6.8%.

Best Regards,

Schafer Cullen Capital Management, Inc.

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