Emerging Markets High Dividend
Q3 2018 Commentary

Market Review:

As the market enters the final quarter of 2018, emerging markets (EM) equities have lagged broader global benchmarks during the year, in contrast to the dramatic rise in the asset class during 2017. Volatility remains elevated globally amid trade and tariff tensions, with EM stocks and currencies especially impacted by these fears. As a result, EM stocks traded down by 1.09% during the third quarter, closing the year to date period down 7.68%. This compared to a quarterly decline in the Developed Markets (MSCI EAFE) index of -0.98%, whereas the United States (S&P 500) index rallied +7.71% during the quarter. Latin America (+4.01%, MSCI EM Latin America Index) outperformed both EM Asia (-2.74%, MSCI EM Asia Index) and EMEA (-2.72%, MSCI EM Europe Middle East and Africa Index). Within EM, Value (+1.94%) outperformed Growth (-5.80%), led by an ongoing selloff in internet companies. Commodities were mixed during the quarter. Brent crude rallied more than five percent amid lagging output in Venezuela, ongoing Iranian sanctions, and OPEC's supply agreement and closed in September at $82.95, hitting a new high since late 2014's price slump. Conversely, the S&P Industrial Metals index traded down 6.38%, led by weakness in lead and nickel as tariff rhetoric and trade war tensions were headwinds. The US dollar strengthened and the Dollar Index (DXY) closed up 0.70% for the quarter, amid particular weakness across markets with higher USD exposure, such as Turkey and Argentina. Key geopolitical events in the quarter included the renegotiated NAFTA agreement (renamed "USCMA"), the imposition of an additional $200bn in US tariffs on China, a third Fed rate hike in September, and ongoing tensions between Russia and the West.

The top major EM country performers in the third quarter of 2018 were Thailand, Qatar, and Poland. Thailand rallied on the royal approval of two key laws required for the long-awaited election, which indicates that an election will likely be held by May 2019. Qatar continued to benefit from the rally in the oil price, which boosts its GDP. Poland rallied particularly in July as the country saw progress in its attempts at pension reform. The bottom EM country performers were Turkey, Greece and South Africa. Turkey has seen its currency swoon almost 40% this year amid an external funding crisis, a major uptick in inflation, and increasingly populist rhetoric from incumbent president Erdogan, who handily won re-election in June. Greece traded down on a combination of contagion from Turkey and an increase in populism post the bailout exit in August. The market learned in the third quarter that South Africa officially entered an economic recession during the first half of 2018, and the country continues to deal with the contentious issues of land reform and the new mining charter amid structural issues such as high joblessness. The top EM sectors in the third quarter were Energy, Materials and Industrials. The bottom performers were Consumer Discretionary, Communication Services, and Health Care.

Our portfolio changes during the quarter were largely based on stock-specific opportunities, as is consistent with our bottom-up research process. For example, we rotated within the Chinese auto sector, selling manufacturers Great Wall and Zhenzhou Yutong Bus and buying retailer China Yongda based on its more favorable combination of valuation and margins. We increased our exposure to Thailand via Thai Beverage on the basis of the improving macro environment and expected long-term growth in regional beverage demand. We also took up our weight within South Korea through the purchase of refiner SK Innovation, which we find especially compelling on the basis of its progressive dividend policy and regulatory catalysts in the refining division.

Performance:

The strategy appreciated 2.23% in the third quarter of 2018, outperforming the benchmark by 3.32%, demonstrating the defensive nature of the portfolio. Over the long-term, we expect the strategy to participate meaningfully in up markets, such as the strong surge in January, while outperforming in down months such as we saw during this quarter.

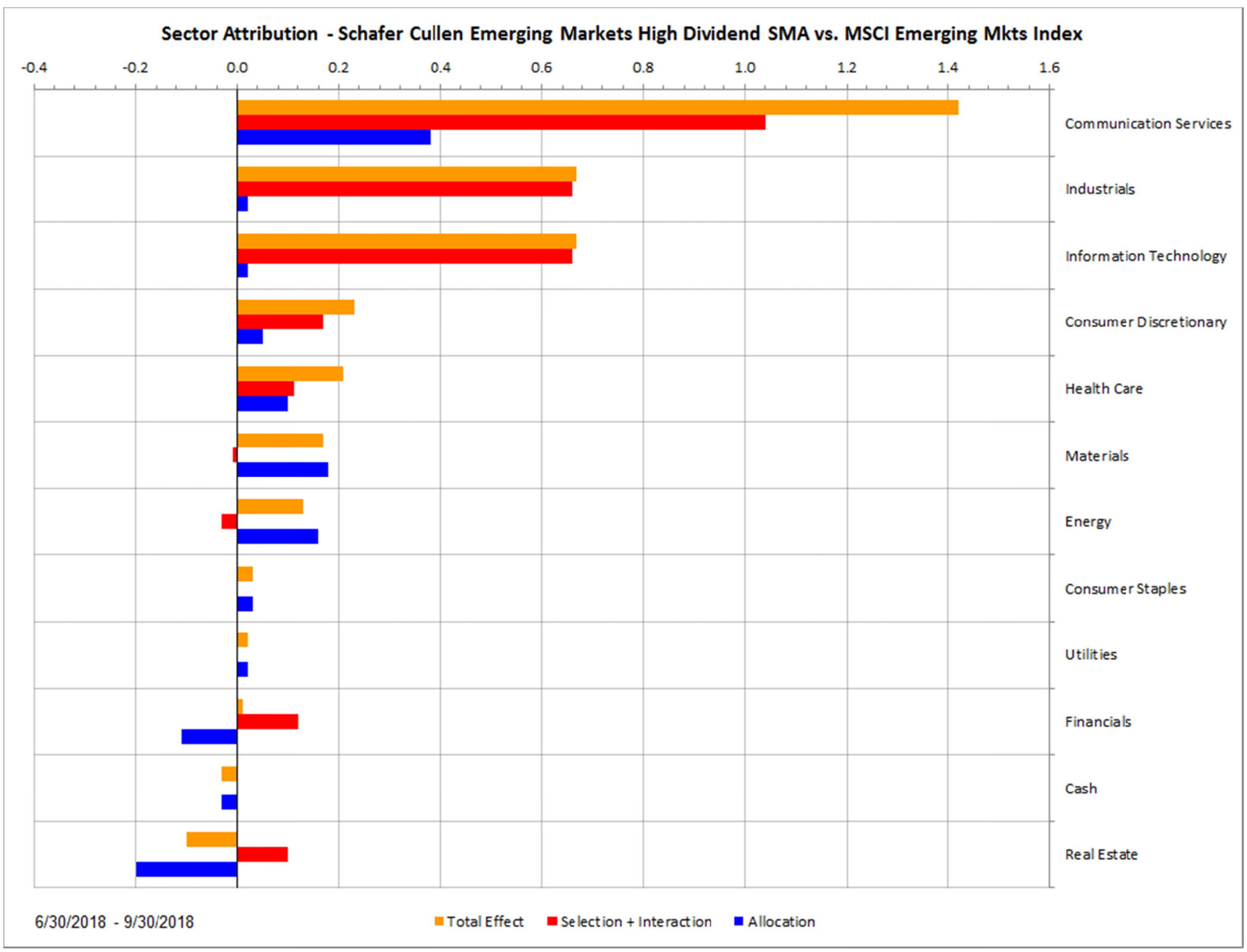
Emerging Markets High Dividend Returns vs. Benchmark

	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
SCCM EM High Dividend (gross)	2.2	-4.0	0.4	9.8	3.6	7.8	8.8
SCCM EM High Dividend (net)	2.0	-4.7	-0.6	8.7	2.4	6.5	7.3
MSCI Emerging Markets Index	-1.1	-7.7	-0.8	12.4	3.6	5.4	5.6

**December 31, 2005. Performance for periods greater than 1 year is annualized.*

Portfolio Attribution:

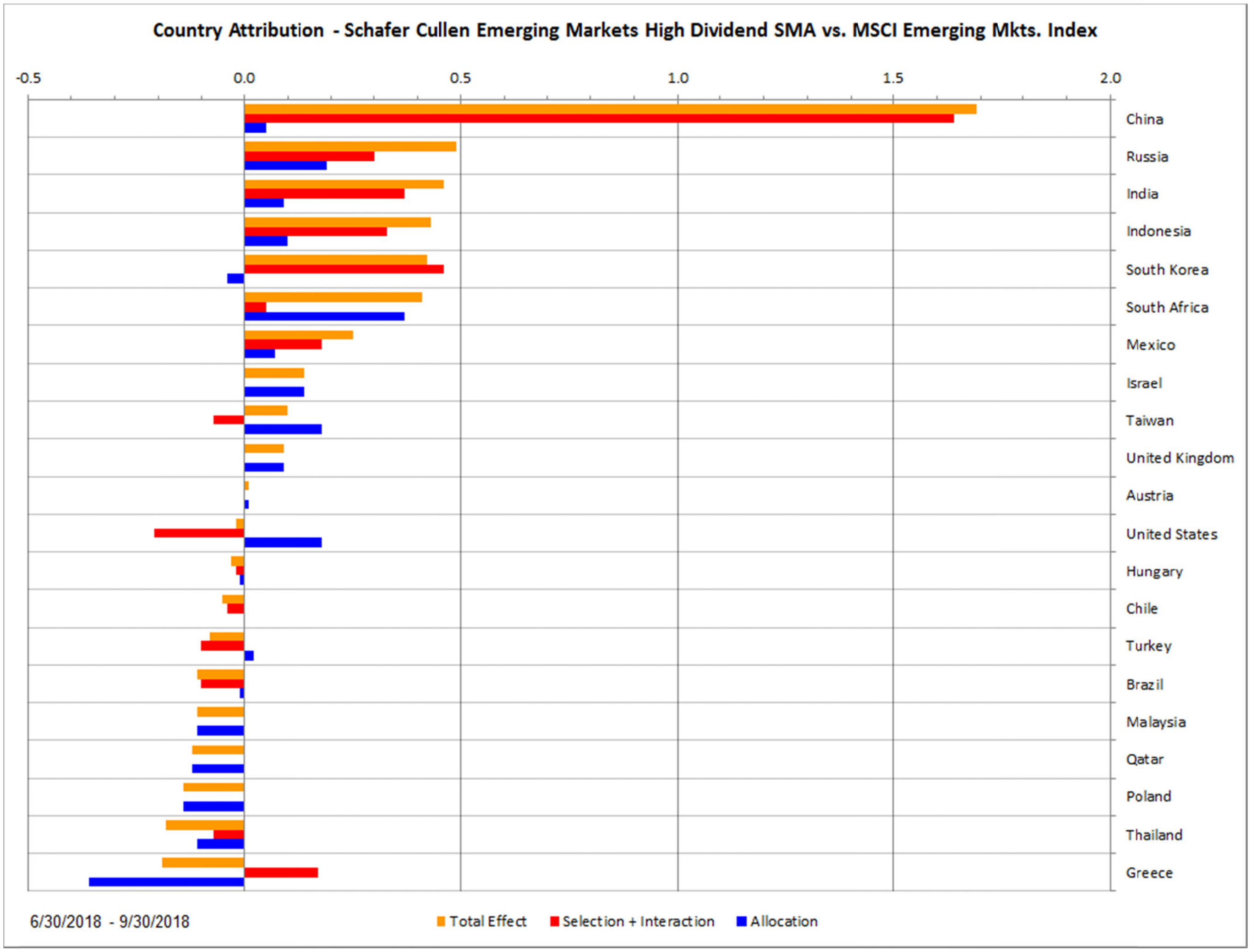
Sector Attribution



Source: SCCM Research, 9/30/2018.

On a sector basis, the strategy's top contributor was its underweight positioning to the underperforming internet stocks, which the strategy does not hold on valuation and dividend grounds. Stock selection within Industrials and Information Technology also contributed. Conversely, the strategy's overweight allocation to Real Estate was the top detractor; the strategy's Financials underweight also detracted.

Country Attribution



Source: SCCM Research, 6/30/2018.

On a country basis, the strategy's allocations to China, Russia and India were all contributors. In China, where the strategy is close to market weight, stock selection also contributed, as did it in Russia, where the strategy is overweight. In India, the strategy benefited from both an underweight allocation and supportive stock selection. The top country detractors were Greece and Thailand. An overweight to Greece was detrimental to relative performance, whereas stock selection and an underweight allocation both detracted in Thailand. Top contributors in the quarter were BOC Aviation (China, Financials), SK Telecom (South Korea, Communications Services), Lukoil (Russia, Energy) and Vale (Brazil, Materials). Top detractors in the quarter were Times China (China/ HK, Real Estate), Sands China (China/ HK, Consumer Discretionary), and Nine Dragons Paper Holdings (China/ HK, Materials).

Portfolio Positioning:

We remain optimistic about the environment for EM stocks heading into 2019, and for our dividend-focused value strategy in particular, especially in what has been shaping up to be a year of higher volatility across equities. As a reminder to our investors, the long-term time horizon we utilize in assessing investment opportunities leads to few substantive changes to our outlook on a short-term basis. So while we have been surprised by the magnitude of the relative YTD underperformance of EM equities and recognize the emergence of risks tied to the uptick in trade tensions, we remain constructive on their long-term performance potential. Our constructive outlook continues to be underpinned by EM stocks' attractive valuations and the long term structural drivers they continue to enjoy. Valuations are attractive on an absolute and relative basis with the MSCI EM Index trading at 12.3x forward P/E, which represents a 20% discount to developed markets stocks. The valuation of the index is even more compelling in the context of its constituent outliers, as the P/E of the top 20% of stocks is a whopping 36.4x. The compelling valuation of the majority of EM stocks beyond the top 20% in the index is certainly reflected in our portfolio, with our portfolio P/E of 10.2x and our portfolio dividend yield of 5.2% both more attractive than the benchmark. Indeed, our portfolio valuation levels are near the most attractive levels we have witnessed since strategy inception in 2005.

Portfolio positioning continues to reflect our positive long-term view on emerging markets while being mindful of risks, which seem to be relatively modest and more country- or industry-specific in nature. One of the especially positive long-term EM structural drivers emanates from the long-term spending potential of EM consumers, corporations and governments, particularly in Asian emerging markets. Our portfolio exposure to Asia is meant to capitalize on these long-term opportunities while remaining insulated from the potential of escalating trade tensions over the near term. While the escalation of these trade war concerns and their impact on Asia, especially China, has been worse than we had anticipated earlier in the year, we are hopeful that trade relations will not worsen much from the seemingly negative current consensus expectations. If there is no worsening beyond what has already been announced – a 25% import tariff on $250 billion worth of Chinese goods by January 2019 – namely, the potential for the US to impose fresh tariffs on another $267 billion worth of Chinese imports, then the negative impact of tariffs may already be discounted by the recent market pullback, especially since the resultant valuations are at such attractive levels. While it is difficult to imagine a rapid improvement in trade tensions over the very near term, or that new protectionist measures will go away soon, we do see potential negotiations with China as a meaningful EM catalyst late this year or early in 2019. We are also comforted by the better-than-anticipated trade negotiations the U.S has had with other countries, including Mexico, Canada, Japan and Europe, which may set a precedent for a more favorable-than-expected outcome in talks with China.

We are also pleased to see that despite the ongoing emerging markets sell-off, other meaningful drivers of EM performance appear to be stabilizing and/or improving. We are seeing an increased likelihood of a more favorable-than-anticipated geopolitical outlook in South American countries such as Brazil and Mexico. We anticipate increasing our exposure to these countries by targeting more domestically-focused stocks. Another positive development has been the stabilization of underlying risks in countries such as Turkey and Argentina that have weak external positions and that had been spiraling out of control just a few months ago. While the situation in such countries remains fluid and more evidence of stabilization is needed for us to become more positive on domestic investment opportunities, we are nonetheless encouraged by the trend and are reviewing these depressed markets for opportunities. We also continue to be encouraged by better prospects for several frontier markets relative to the past and find them to also offer good investment opportunities in the near future. From a sector perspective, we continue to retain relatively balanced exposure to cyclical and non-cyclical sectors, finding new investment opportunities in both. Non-cyclical opportunities are most apparent in the consumer staples and healthcare sectors, which both offer strong yet steady growth opportunities. Within cyclical sectors, valuations in the industrial and consumer discretionary sectors are quite attractive but come with some uncertainty surrounding a near-term slowing in growth due to the impact of currency depreciation and trade war concerns. Within technology and communications, we continue to avoid over-valued and over-owned EM internet companies, but are finding opportunities emerging within semiconductor- and hardware-related industries, which have corrected meaningfully in recent months. While the outlook for semiconductor companies may weaken over the near term, owing to a cyclical slowdown in the industry which has been exacerbated by trade uncertainties, the longer-term outlook remains quite robust. This is due to the ever-increasing use of semiconductors across a growing range of industries, which creates new demand drivers while reducing the long-term cyclicality of the industry. There is also a diverse opportunity set in the financial sector in countries with a healthy combination of attractive valuations, appealing industry structure and under-penetrated demand for financial goods and services.

While identifying these diverse opportunities, we will continue to adhere to our investment discipline, which focuses on valuation, balance sheet strength and strong dividend and quality attributes. Over the long-term, this fundamentals-driven value investing strategy should deliver meaningful outperformance to our investors while taking on less risk.

Thank you for your continued support and please do not hesitate to contact us with any questions.

Best Regards,

Schafer Cullen Capital Management, Inc.

Portfolio Exposure and Characteristics as of 9/30/2018

Sectors	SCCM EM (%)	MSCI EM (%)
Communication Services	11.0	14.1
Consumer Discretionary	9.0	10.6
Consumer Staples	7.5	6.6
Energy	9.5	8.2
Financials	16.8	23.1
Health Care	1.5	3.0
Industrials	6.3	5.4
Information Technology	15.7	15.8
Materials	14.5	7.9
Real Estate	8.2	2.8
Utilities	0.1	2.4
Total	100.0	100.0

Top 10 Countries	SCCM EM (%)	MSCI EM (%)
China / Hong Kong	32.0	30.8
Taiwan	14.6	12.3
South Korea	11.6	14.9
Russia	6.4	3.7
Brazil	5.9	6.2
Mexico	4.5	3.2
Indonesia	4.3	1.9
India	3.9	8.5
Thailand	3.5	2.5
South Africa	3.2	5.9

Regions	SCCM EM (%)	MSCI EM (%)
Asia Pacific	70.0	74.5
EMEA	17.9	13.1
Latin America	12.1	11.3
Other	0.0	1.0

Top 10 Holdings	SCCM EM (%)
AIA Group	4.0
Taiwan Semiconductor	3.8
Vale	3.8
China Petroleum (Sinopec)	3.7
Lukoil	3.5
SK Telecom	3.2
Mondi	3.2
Erste Group Bank	3.2
Xinyi Glass Holdings	3.2
ASE Technology	3.1

Portfolio Characteristics	Price/Earnings Forward	Dividend Yield NTM	LT DPS Growth	LT EPS Growth	Weighted Avg. Market Cap ($B)
SCCM Emerging Markets High Dividend	10.2	5.2	9.0	11.3	47.9
MSCI EM Index	12.3	3.2	9.5	11.0	88.6

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