Emerging Markets High Dividend
Q4 2018 Commentary

Market Review:

Emerging markets (EM) equities ended 2018 with a significant reversal in trend, versus the dramatic rise in the asset class during 2017. EM equities lagged broader global benchmarks for the best part of 2018, although recouping some of the underperformance during the last quarter. Volatility remained elevated globally amid trade and tariff tensions, exacerbated by concerns around a slowdown in global economic growth. As a result, EM stocks (MSCI EM Index) traded down again during the fourth quarter, closing the 12-month period down 14.58%. This compared to a decline in the Developed Markets (MSCI EAFE Index) of 13.36%, whereas the United States (S&P 500 Index) declined 4.38% during the period. Market-moving events during the year included mounting tariff threats and threatened retaliation, a hawkish Fed and a rally in the USD, oil price sell-off during the fourth quarter amid supply and growth concerns, and electoral news out of several major countries. Latin America (-6.21%, MSCI EM Latin America Index) outperformed Asia (-15.49%, MSCI EM Asia Index) and EMEA (-15.59%, MSCI EM Europe Middle East and Africa Index). Commodities performance in 2018 was dragged down by a sharp oil price sell-off in the fourth quarter. From a high of $86.09, Brent crude dropped over 40% to a low of $49.73, in the fourth quarter alone, amid oversupply and global growth concerns. The S&P Industrial Metals index extended its decline, trading down 18.96% led by weakness in copper, lead and aluminum as tariff rhetoric and trade war tensions were headwinds. The US dollar strengthened and the Dollar Index (DXY) ended 2018 up 4.40%, amid particular weakness across countries with higher USD exposure and weak external positions, such as Turkey and Argentina. Additional key geopolitical events during 2018 included the renegotiated NAFTA agreement (renamed “USCMA”), the imposition of a total of $250bn in US tariffs on China, Fed rate hikes in all four quarters in 2018, ongoing tensions between Russia and the West, diplomatic progress on the North Korea front and tensions between the US and Saudi Arabia over the controversial killing of journalist Jamal Khashoggi.

The top major EM country performers in the fourth quarter of 2018 were Brazil, Indonesia, and Qatar. Brazil rallied in the fourth quarter primarily as a result of the election of right wing candidate Jair Bolsonaro as the country’s new President, which proved to be a de-coupling factor from the rest of the global markets. State-run Brazilian entities were among the best performing stocks with a seemingly direct effect of the elections. Indonesia’s fourth quarter performance was largely driven by a 10.35% upswing in November on account of a surprise 25 bps hike in the 7-day Reverse Repo Rate, taking it to 6.0%. We believe an expansion in the current account deficit in Q3 and growth in imports in October were key factors behind the hike. Despite the steep decline in crude oil prices in the fourth quarter, Qatar’s non-oil sectors such as consumer goods, telecom, industrials and transport outperformed. Qatar stocks also benefited from sustained inflow of international funds as foreign ownership limits (FOLs) were increased across a number of industries. The bottom major EM country performers were Mexico, South Korea and Taiwan. Mexico ended 2018 with the worst quarterly performance in many years as concerns around the new left leaning government’s economic policies and global trade and tariff uncertainties weighed heavily on the market. South Korea saw weakness in sectors across the board largely due to the potential impact from the trade war between the US and China. Taiwan’s weakness was primarily driven by technology and petrochemical sectors. The top EM sectors in the fourth quarter were Utilities, Real Estate and Financials. The bottom performers were Healthcare, Information Technology, and Consumer Discretionary.

Performance:

The strategy depreciated 10.3% (net) in the fourth quarter of 2018, underperforming the benchmark by 2.8%. We think the modest outperformance in a down-market year in 2018 was unusual as the strategy typically outperforms by a larger margin in down-market environments. This performance is primarily attributable to our greater exposure to Asia, which was among the weaker performing EM regions. In addition, historically defensive stocks, such as dividend-paying stocks, fared worse in 2018 compared to prior down years and this was a global trend seen in both emerging and developed markets. We would still expect the strategy to outperform in the majority of down market periods in the future as has typically been the case since strategy inception.

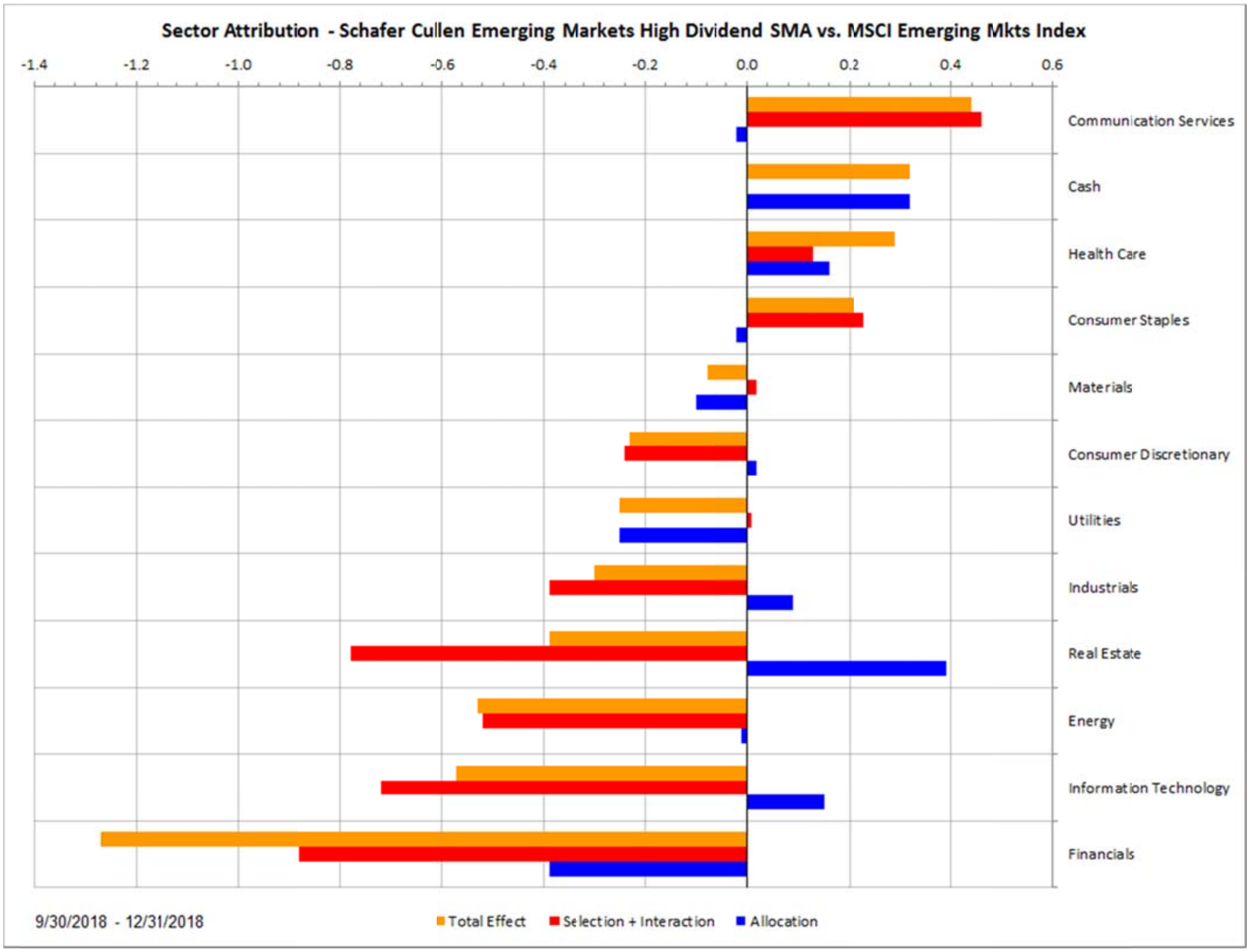
Emerging Markets High Dividend Returns vs. Benchmark

	QTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
SCCM EM High Dividend (gross)	-10.0	-13.6	5.3	0.8	9.4	7.7
SCCM EM High Dividend (net)	-10.3	-14.5	4.2	-0.4	8.0	6.3
MSCI Emerging Markets Index	-7.5	-14.6	9.3	1.7	8.0	4.9

**As of 12/31/2005 through 12/31/2018. Performance for periods greater than 1 year is annualized.*
Past performance is no guarantee of future results.

Portfolio Attribution:

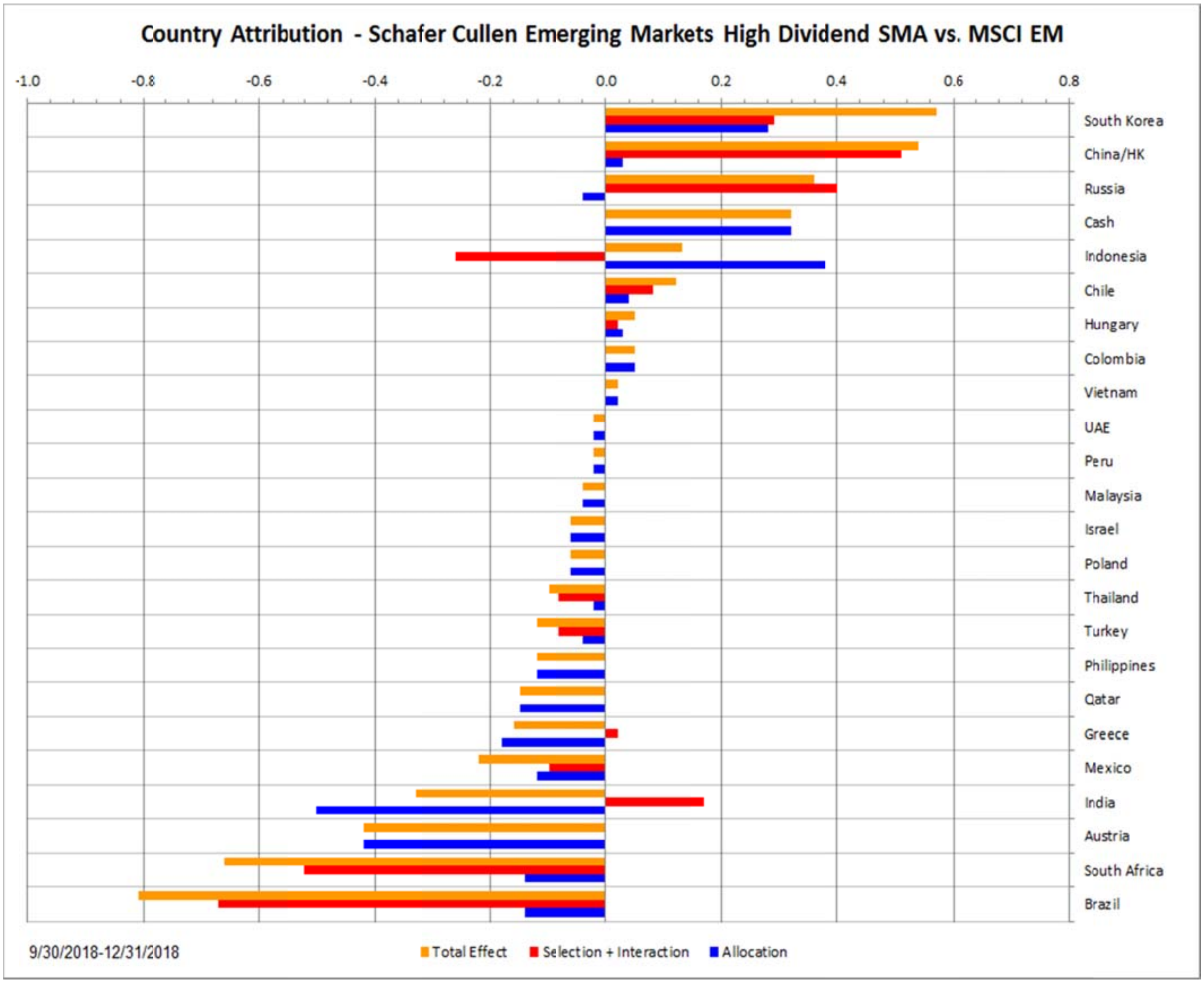
Sector Attribution



Source: SCCM Research, 12/31/2018.

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 and an underweight allocation within Health Care and stock selection within Consumer Staples also contributed. Conversely, the strategy's stock selection and allocation in Financials and stock selection in Information Technology and Energy were top detractors.

Country Attribution



Source: SCCM Research, 12/31/2018.

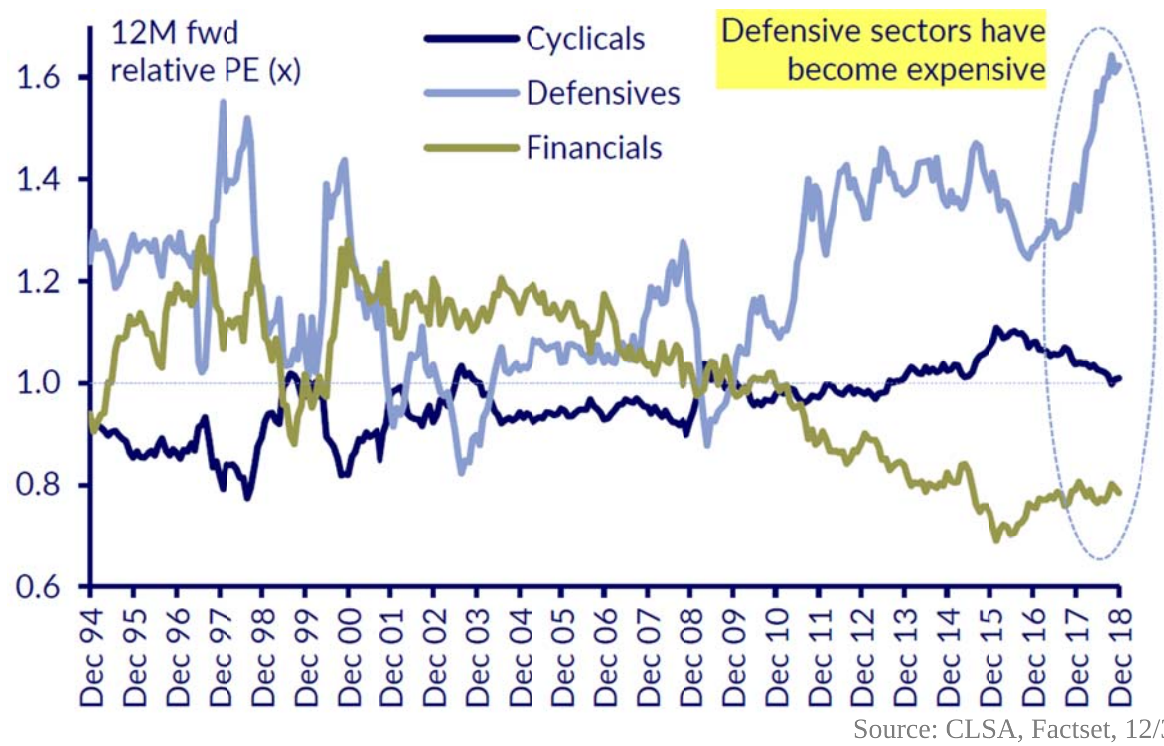
On a country basis, the strategy's stock selections in South Korea, China, and Russia were all contributors. In South Korea, where the strategy is underweight compared to the benchmark, allocation also contributed. In China and Russia, the strategy benefited from supportive stock selection. The top country detractors were Taiwan and Brazil. In Taiwan, stock selection detracted, while in Brazil, stock selection as well as an overweight allocation detracted. Telefonica Brasil (Brazil, Communication Services), IGG Inc. (China/ HK, Communication Services), MMC Norilsk Nickel (Russia, Materials), and ICICI Bank (India, Financials). Top detractors in the quarter were Sinopec (China/ HK, Energy), Silicon Motion (Taiwan, Information Technology), and Asian Pay Television Trust (Taiwan, Communication Services).

Portfolio Positioning and Outlook:

After a difficult 2018, we remain optimistic about the long-term environment for EM stocks heading into 2019, owing to their attractive valuations and long-term growth outlook. We believe EM equities continue to trade at highly attractive valuations on an absolute and relative basis, with the MSCI EM index trading at a forward P/E of approximately 10.6x, which represents almost a 25% discount to developed market stocks and is also quite attractive relative to EM historic valuation levels. Valuations are even more attractive within our portfolio, which trades at an even deeper discount to the MSCI EM index at a forward P/E of 9.5x and with a 5.5% CY 2019 dividend yield, both of which are near their most attractive valuation levels since strategy inception. These valuations exist despite the structural growth drivers present in these markets, with the spending potential of EM consumers, corporations and governments, particularly in Asian emerging markets, offering a particularly attractive long-term opportunity.

2018 was a challenging year because headline news dominated market performance and often without regard to company fundamentals. For example, markets in Asia (particularly China) were weak due to escalating trade tensions and regional stocks were penalized in a fairly indiscriminate manner as the actual earnings exposure to trade-related concerns of the majority of these stocks was relatively insignificant. In addition, dividend-paying stocks that are more cyclical in nature and that have represented a growing proportion of our valuation screens underperformed non-cyclical dividend payers by a wider margin than fundamentals would warrant. In our opinion this creates an opportunity in 2019 and beyond and is why we retain somewhat greater exposure than in the past to cyclical dividend payers. Through our research, we believe this exposure is warranted in light of the extreme valuation discount (see chart below) and strong growth prospects of these stocks compared to dividend-paying bond proxy stocks, which often have unattractive valuations and low earnings growth potential. This is especially the case since we anticipate reduced cyclicality over time in select companies within the semiconductor, basic materials and industrial sectors owing to more consolidated industry structures, increased end market applications, supply side discipline and greater secular demand for select products compared to the past. We believe this anticipated reduction in industry cyclicality should produce higher valuation multiples than in the past and these changes are occurring at a time when these companies already offer high dividend yields, historically attractive valuations and balance sheet strength, making the growth and income attributes of these stocks particularly attractive. Portfolio exposure is generally well positioned to capitalize on this opportunity and is reflected in the robust long-term earnings growth outlook of our portfolio companies, which we expect to underpin strong stock price performance in coming years.

MSCI Asia x Japan: Cyclicals vs. Defensives P/E



Source: CLSA, Factset, 12/31/2018.*

Our portfolio changes during the quarter were largely based on stock-specific opportunities that are generally consistent with our bottom-up research process and provide exposure to these long-term opportunities. For example, after following the Chinese insurance sector closely for several years, we added exposure via Ping An Insurance Group on the basis of compelling valuation, dominant market positioning and an excellent financial technology product offering. We added exposure in India to natural gas distributor, Gail India, in expectation of robust and growing natural gas demand over the foreseeable future in India, as the country reduces its dependency on coal in order to curb environmental emissions. In Brazil, we bought Bank Itau owing to its attractive valuation and growth prospects as well as its high-quality management team, which we believe should allow it to continue to earn high levels of profitability and growth relative to regional peers, especially as Brazil's economy recovers from recessionary levels and the geopolitical environment improves following recent presidential elections. In Thailand, we established a position in chemical company Vinthai which produces PVC and caustic soda used in various industrial manufacturing applications with strong long-term demand growth, particularly in Asia, where the company is well positioned to benefit from as it expands capacity. We took advantage of the steep 2018 decline of stocks in Turkey to establish a position in Koc Holdings, a holding company that trades at a significant discount to its NAV and has stakes in leading Turkish companies in the energy, automotive, household appliances and financial services industries. We sold our position in China Mobile owing to its lack of growth and unwillingness to deploy its excess capital in an efficient manner, especially with regard to increasing dividend payments. We also sold our position in CK Hutchinson Holdings due to increasing regulatory pressures on its infrastructure assets which will likely lower long term growth prospects.

While identifying diverse opportunities, we will continue to adhere to our investment discipline, which focuses on valuation, balance sheet strength, earnings growth, as well as strong dividend and quality attributes. We believe that over the long term, this fundamentals-driven value investing strategy could 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 12/31/2018

Sectors	SCCM EM (%)	MSCI EM (%)
Communication Services	9.9	14.1
Consumer Discretionary	9.7	10.4
Consumer Staples	8.4	6.7
Energy	8.5	8.0
Financials	23.1	24.8
Health Care	0.9	2.8
Industrials	8.5	5.5
Information Technology	12.2	14.3
Materials	10.3	7.7
Real Estate	7.9	3.0
Utilities	0.7	2.7
Total	100.0	100.0

Top 10 Countries	SCCM EM (%)	MSCI EM (%)
China / Hong Kong	30.4	30.3
Brazil	11.0	7.5
Taiwan	10.3	11.4
South Korea	10.3	13.8
Russia	7.5	3.7
India	5.2	9.4
Indonesia	4.8	2.3
Thailand	3.8	2.4
Mexico	3.5	2.8
Greece	2.6	0.2

Regions	SCCM EM (%)	MSCI EM (%)
Asia Pacific	66.1	73.3
EMEA	18.7	13.6
Latin America	15.2	12.2
Other	0.0	0.9

Top 10 Holdings	SCCM EM (%)
Lukoil	3.8
Vale	3.8
AIA Group	3.7
Taiwan Semiconductor	3.6
Itau Unibanco	3.6
SK Telecom	3.5
Xinyi Glass Holdings	3.1
BOC Aviation	3.0
Times China Holdings	2.9
Sinopec	2.8

Portfolio Characteristics	Price/Earnings Forward	Dividend Yield NTM	LT DPS Growth	LT EPS Growth	Weighted Avg. Market Cap ($B)
SCCM Emerging Markets High Dividend	9.5	5.5	9.0	11.3	46.1
MSCI EM Index	10.6	3.3	8.5	11.0	77.4

Additional Disclosure: Sector weights, portfolio characteristics, ten largest holdings and other information constitutes supplemental information. Please see important disclosures listed on the following page.

*Note: P/E as of 26 December 2018. Cyclicals = consumer discretionary, energy, industrials, tech, materials and real estate. Defensives = consumer staples, healthcare, telecom and utilities.

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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. An individual cannot invest directly in an index.

Returns are expressed in US dollars. Gross of fee performance is calculated gross of management fees and custodian fees and net of transaction costs. Net of fee performance is calculated net of actual management fees and transaction costs but gross of custodian fees. Past performance does not guarantee future results. Individual account performance will not match the composite and will depend upon various factors including market condition at the time of investment. It should not be assumed that recommendations made in the future will be as profitable or surpass the historical performance of the securities in the composite.

The primary benchmark used is the total return indices for the **MSCI Emerging Markets Index.** The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that measures equity market performance of emerging markets.

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