

## Emerging Markets High Dividend SMA

Q1 2021 Commentary

### Market Review:

Emerging market (EM) equities continued their positive run in Q1 2021 as expectations of sustained economic recoveries and benefits from the ongoing global vaccination drives pushed markets higher. However, the overall performance for the quarter was somewhat dented by weakness in the Chinese market and concerns around rising cases in major EM countries such as Brazil and India. While the government-backed stimulus packages did translate into improving economic indicators across most EM countries in Q1, concerns around their sustainability and inflation also impacted EM equities performance, particularly in the ASEAN region. As a result, EM equities (MSCI EM Index) returned 2.29% for the quarter, underperforming their US (S&P 500 Index) and DM ex-US (MSCI EAFE Index) counterparts, which gained 6.17% and 3.61% respectively. In the US, economic recovery remained upbeat as the manufacturing and services PMI readings remained on an uptrend during the first three months of the year. During the quarter, the US market was also supported by additional stimulus package approved by the Biden government to the tune of 9% of its GDP. Elsewhere in DM markets, especially the Eurozone, economic activity improved with the manufacturing PMI crossing the 60 mark for the first time in several months. EM underperformance was largely a result of a weak Chinese market driven by concerns around moderation in its fiscal and monetary policy support and tighter regulations for the technology sector. Despite the rising cases in other major EM economies such as Brazil and India, the Indian market returned positive for the quarter while Brazilian equities also trended up towards the latter part of Q1. Inflation in both economies firmed up indicating recovering economic activity. Other EM economies in Latin America and Eastern Europe also recovered towards end of the three-month period, backed by improving commodity prices and export-led recoveries. As a result, Europe, Middle East, and Africa (up 7.61%) outperformed Asia (2.42%) and Latin America (-5.83%) during Q1 2020. Within EM, Value (up 4.35%) outperformed Growth (0.48%) as rising oil and commodities helped, while Growth strategies were impacted by the sell-off witnessed in Chinese technology and consumer discretionary names. Despite the quarter-end volatility, the strong start to the year implied global commodities ended the quarter with significant gains. Brent crude oil ended Q1 up 32.51% to close the quarter at \$63.54/barrel, backed by both demand and supply factors, while the S&P Industrial Metals Index gained 9.47%, supported by gains in base metals such as copper, zinc, and aluminum.

The top performers in Q1 2021 among major EM countries were Chile, Saudi Arabia, and the UAE. Chilean equities outperformed as the country's central bank revealed expectations of a 6-7% GDP growth in 2021, higher than previously estimated. The country also saw a relatively successful start to its vaccination drive compared to its other regional peers. Saudi Arabia and UAE equities outperformed largely on account of less-than-anticipated weakness in their respective financial services sectors for 2020 despite the pandemic, further helped by the sharp gains seen in oil during Q1. The bottom EM country performers were Turkey, Colombia, and Peru. All three countries underperformed on account of sharp weakness in their local currencies, with rising cases in Colombia and Peru also adding to concerns around domestic recovery. The top EM sectors in Q1 were Materials, Real Estate, and Communication Services. The bottom performers were Consumer Staples, Consumer Discretionary, and Health Care.

**Performance:**

The strategy appreciated 6.7% (gross) and 6.4% (net) in the first quarter of 2021, outperforming the benchmark by 4.4%.

**Emerging Markets High Dividend Returns vs. Benchmark**

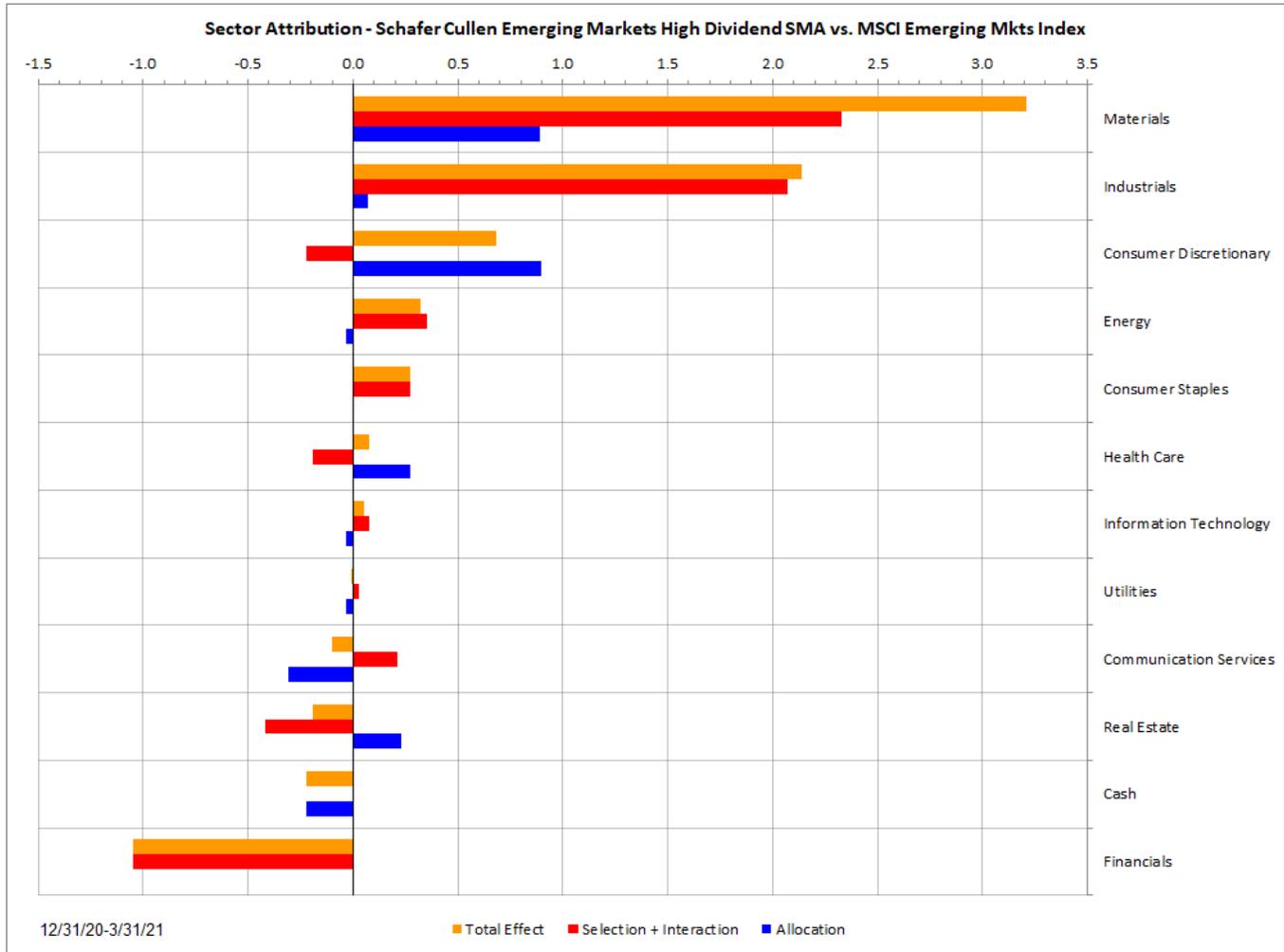
<b>March 31, 2021</b>	<b>QTD</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception*</b>
SCCM EM High Dividend (gross)	6.7	53.5	3.9	8.2	4.5	8.6
SCCM EM High Dividend (net)	6.4	52.0	2.9	7.1	3.2	7.2
MSCI Emerging Markets Index	2.3	58.4	6.5	12.1	3.7	6.6
iShares MSCI Emerging Markets ETF (EEM)	2.1	57.3	5.9	11.4	3.0	5.9
MSCI Emerging Markets Value Index	4.1	52.6	2.6	8.4	1.0	5.5

*\*Since Inception Date: 12/31/2005. Performance for periods greater than 1 year is annualized.*

***Past performance is no guarantee of future results.***

**Portfolio Attribution:**

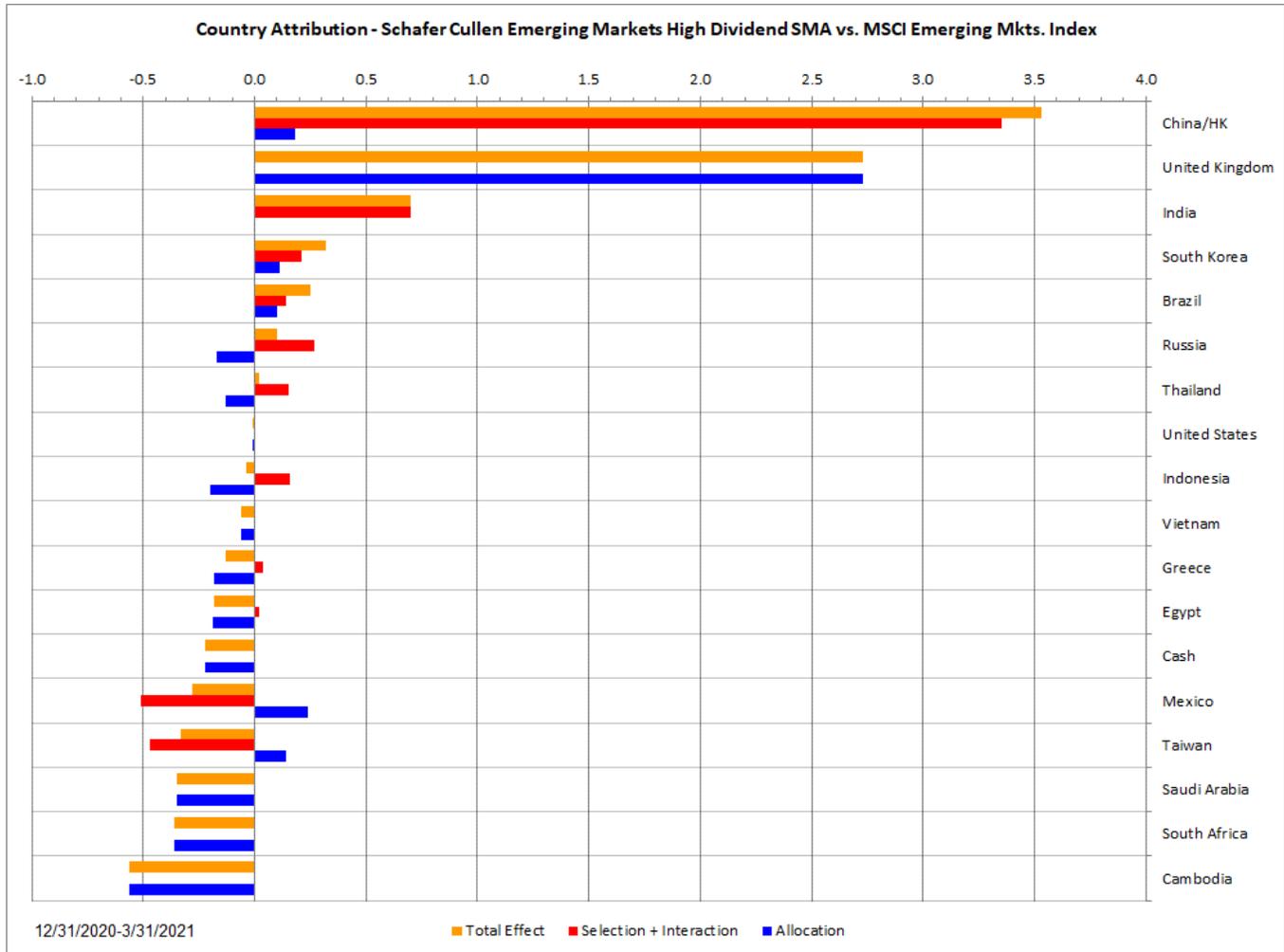
**Sector Attribution (%)**



Source: SCCM Research, 3/31/2021.

On a sector basis, the strategy’s top contributors were its stock selection in Materials and Industrials, while the strategy’s overweight allocation to Materials and underweight allocation to Consumer Discretionary versus the benchmark also helped. Stock selection within Financials and Real Estate was the main detractor. Additionally, the strategy’s underweight allocation to Communication Services versus the benchmark also impacted its relative performance during the quarter.

## Country Attribution (%)



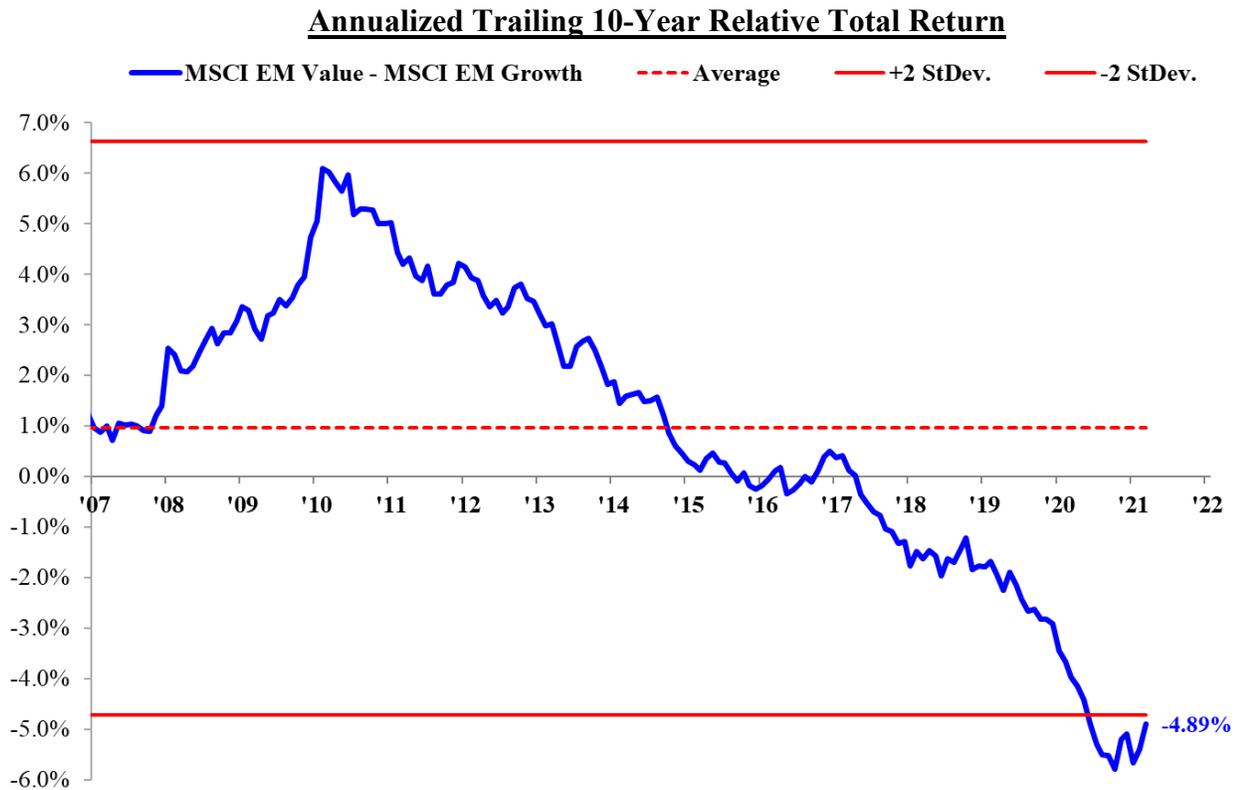
Source: SCCM Research, 3/31/2021.

On a country basis, the strategy's stock selection in China/Hong Kong and India was the main contributor. Additionally, the strategy's overweight allocation to the United Kingdom versus the benchmark also helped. The top country detractors were Cambodia, South Africa and Saudi Arabia. The strategy's overweight allocation to Cambodia and underweight allocation to Saudi Arabia and South Africa versus the benchmark was the main detractor. Top contributors in the quarter were Anglo American Plc (United Kingdom, Materials), BOC Aviation (China/Hong Kong, Industrials), Ascendas India Trust (India, Real Estate), and Zijin Mining Group (China/Hong Kong, Materials). Top detractors in the quarter were Nagacorp Ltd. (Cambodia, Consumer Discretionary), Itau Unibanco (Brazil, Financials) and Ping An Insurance (China/Hong Kong, Financials).

## Portfolio Positioning and Outlook:

With the economic environment resulting from the novel coronavirus pandemic continuing to improve as a result of the continued rollout of vaccines, we remain optimistic about the outlook for Emerging Market (EM) equities. While we retain a positive overall outlook, we continue to observe a large disparity in how well certain Emerging Markets have managed to contain the spread of the virus. Countries like Taiwan, China, South Korea, Vietnam, Russia, Chile and Middle Eastern countries have contained the virus and rolled out vaccinations in a far better manner than countries like Brazil, Mexico, Eastern European countries, the Philippines and India that continue to face challenges in managing the pandemic. We anticipate that the countries that have managed the pandemic best will continue to lead EM equity performance over the near term, while those that have struggled may need more time to recover but will, at some point, offer strong performance as their economies reopen and they inevitably manage to contain the pandemic over time.

We are also pleased to finally see the meaningful outperformance of Emerging Market value equities, which have benefited from a modest rotation out of growth stocks, the reopening of select economies, an anticipated increase in global spending on infrastructure, as well as global reflation and higher interest rates. These trends have historically benefited cyclical value stocks in the Financials, Materials, Energy, Industrials, Consumer Discretionary and other sectors. While there has been a notable pickup in these trends, which has served as a catalyst for value stocks, these catalysts appear to still be in their infancy and thus, we remain optimistic that the outperformance in value stocks may also be in its early innings. In fact, EM value stocks can outperform by a considerable amount even if their relative performance compared to EM growth stocks just mean reverts back to the historical average:



Source: Bloomberg & Strategas Research, 3/31/2021. Relative performance is measured as the difference (value-growth) in annualized trailing 10-year total return for each index. **Past performance does not guarantee future results.** You cannot invest directly in an index. Standard deviation is a statistical measure of the historic volatility of a portfolio.

Similarly, while we have finally seen overvalued EM growth stocks begin to roll over, these stocks have still massively outperformed over the past decade and their valuations remain quite elevated. The increase in interest rates since August 2020 has likely been a catalyst for the underperformance of EM growth stocks as their valuations become even more absurd as their future cash flows are discounted at higher rates. In addition to this headwind, many of these growth stocks, particularly internet companies in China, are also facing increased regulatory and competitive risks, while also being less exposed to the aforementioned positive catalysts for EM value stocks. Unlike various ETFs, indices and competitors, we have remained strict, as ever, with our investment discipline and have not drifted into owning these overvalued growth stocks. Consequently, we tend to perform very well on a relative basis during periods when growth stocks underperform. Accordingly, our portfolio continues to provide unique diversification to investors that may be over-exposed to these stocks, particularly to Emerging Market and US growth stocks. It is also encouraging to see EM stocks fare well despite a rising US Dollar (which has historically been a headwind for EM stocks) and we view this resilience of EM stocks as an additional positive aspect of our investment thesis. An additional positive attribute is the strong dividend growth prospects for EM stocks, with analyst estimates forecasting EM stocks to post the strongest growth of any MSCI region through the end of 2022 and at 3x the dividend growth forecasted for US stocks.

Portfolio activity has continued to focus on implementing our investment discipline by adding exposure to value stocks that benefit from the aforementioned catalysts. We established a position in Lundin Mining (Canada, Materials), a Canadian listed mining company whose assets are primarily in South America and whose undervalued copper assets stand to benefit from a sustained increase in demand for the metal as it is integral to the production of electric vehicles, transmission infrastructure and solar and wind farms. We bought shares in Shinhan Financial Group (South Korea, Financials), which is positively leveraged to rising interest rates and whose return on equity is twenty times higher than its price to book ratio, an extreme undervaluation that is rarely seen among global bank stocks. We sold our position in Qiwi plc (Russia, Information Technology), as unexpected changes in the domestic regulatory environment are set to permanently impair the company's long term earnings growth potential. We also sold positions in Singapore Telecommunications (Singapore, Communication Services), Telefonica Brasil (Brazil, Communication Services) and Power Assets (China/HK, Utilities) in order to increase exposure to better positioned and more attractively valued telecom and utility stocks within the portfolio. We anticipate our portfolio positioning to benefit, if we are correct about the market trends described above.

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

Best Regards,

Schafer Cullen Capital Management, Inc.

Emerging Markets High Dividend Strategy is also referred to as “SCCM EM High Dividend” throughout this document.

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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. Investments in foreign securities which may involve greater volatility and political, economic and currency risks and differences in accounting methods. Dividends are subject to change and are not guaranteed.**

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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. The **MSCI EAFE Index** is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The **iShares MSCI Emerging Markets ETF (EEM)** seeks to track the investment results of an index composed of large- and mid-capitalization emerging market equities. One cannot invest directly in an index. 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. The **MSCI EM Asia Index** captures large and mid-cap representation across 9 Emerging Markets countries. The **MSCI EM Latin America Index** captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America. The **MSCI EM Europe Middle East and Africa Index** is a free float-adjusted market capitalization index that is designed to measure equity-market performance in the emerging market countries of Eastern Europe, the Middle East, and Africa. The **S&P Industrial Metals Index** is a measure of industrial metals price movements within the commodity markets. The **Dollar Index (DXY)** is a measure of the value of the U.S. dollar relative to the value of a basket of currencies of the majority of the U.S.’s most significant trading partners. The **MSCI Emerging Markets High Dividend Yield** reflects the performance of equities in the MSCI EM Index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

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All opinions expressed constitute Schafer Cullen Capital Management’s judgment as of the date of this report and are subject to change without notice.

## Portfolio Exposure and Characteristics as of 3/31/2021

Sectors	SCCM EM (%)	MSCI EM (%)	Top 10 Countries	SCCM EM (%)	MSCI EM (%)
Communication Services	3.9	11.7	China / Hong Kong	27.0	38.0
Consumer Discretionary	13.3	17.7	South Korea	12.6	13.4
Consumer Staples	5.4	5.6	Taiwan	12.3	13.7
Energy	4.4	4.8	Russia	9.7	3.0
Financials	20.9	18.2	Mexico	6.6	1.7
Health Care	2.0	4.5	India	5.9	9.6
Industrials	3.0	4.3	South Africa	5.5	3.7
Information Technology	15.6	20.9	Brazil	5.1	4.4
Materials	18.1	8.1	Thailand	2.8	1.9
Real Estate	12.2	2.1	Greece	2.3	0.1
Utilities	1.3	2.0			

Regions	SCCM EM (%)	MSCI EM (%)	Top 10 Holdings	SCCM EM (%)
Asia Pacific	66.5	79.9	Lukoil	4.2
EMEA	18.9	11.6	Taiwan Semiconductor	3.6
Latin America	14.6	7.2	Vale	3.6
Other	0.0	1.3	SK Telecom	3.4
			Anglo American	3.4
			ASE Technology	3.1
			Xinyi Glass	3.0
			AIA Group	2.9
			Ping An Insurance Group	2.9
			China Yongda Automobiles	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	11.4	4.6	9.0	11.5	68.5
MSCI EM Index	15.5	2.5	8.0	11.0	173.6

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

**Dividend Yield** refers to the dividend per share divided by the price per share. **Forward Price-to-earnings ratio (P/E)** refers to the price of a stock divided by its estimated forward 12-month earnings per share. **Earnings per Share (EPS)** is the portion of a company's profit allocated to each share of common stock and can serve as an indicator of a company's profitability. **Long-term EPS** is the net income less dividends paid on preferred stocks divided by the number of outstanding shares. **Long-term Dividend per Share (LT DPS)** is the sum of declared dividends issued by a company for every ordinary share outstanding. **Basis points (BPS)** refers to a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1% and is used to denote the percentage change in a financial instrument.