Global High Dividend ADR Strategy

Q3 2018 Commentary

Market and Economic Review

The third quarter of 2018 marked a continuation of the divergence that began earlier in the year, with developed markets outpacing emerging markets. For US markets – now in the longest-running bull market in history – momentum was fueled by a host of positive economic data, including strong GDP growth, low unemployment and the highest consumer confidence in 18 years. Outside of the US, developed markets rebounded somewhat in the quarter as healthy corporate profitability was offset by political uncertainty in Europe, while emerging markets traded down amid escalating trade tensions. Against a positive economic backdrop, the Federal Reserve (Fed), the Bank of England (BOE) and the Bank of Canada (BOC) each raised rates by a quarter percentage point in the quarter, with the Fed telegraphing its intentions for continued policy tightening for the foreseeable future. Furthermore, while the US, Mexico and Canada reached a last-minute compromise to revamp NAFTA, the Trump administration remains in conflict with China over trade disputes. In this environment, equities outperformed fixed income in most developed countries, long-term interest rates rose and the US Dollar reversed its losses from last year to appreciate against most currencies. Meanwhile, commodity markets were mixed, with Brent crude oil prices ending the quarter above $82 a barrel as global compliance with US sanctions on Iranian crude oil exports effectively tightens supply, and most precious and base metals, with the exception of iron ore, underperforming.

By region, U.S. markets outperformed Developed Markets, which, in turn, outperformed Emerging Markets. Within Developed Markets, outperformance in Norway, Sweden and Switzerland were offset by market declines in Belgium, Italy and Spain. Gains in Emerging Markets, led by Thailand, Qatar and Poland were offset by declines in Turkey, China and South Africa. By sector, a mix of cyclical and defensive sectors dominated the performance landscape, as gains in Health Care, Information Technology and Industrials were offset by declines in Real Estate and Materials. Health Care outperformed on news that the Trump administration is considering policies to reduce rebates for pharmacy benefit managers, which could potentially benefit pharmaceutical firms. Momentum in the Information Technology sector continued and Industrials rebounded after being among the worst performers last quarter as several leading capital goods firms posted strong earnings. Meanwhile, bond-proxy equities in the Real Estate sector struggled against a backdrop of rising interest rates and Materials lagged, partly due to declining commodity prices. By style class, growth outperformed value and large caps outperformed small caps.

The investment discipline core to our strategy focuses on the long-term factors that drive superior risk-adjusted returns – investments in high quality companies with attractive relative valuations, sustainable and growing dividends and catalysts to drive earnings growth and improving sentiment. We believe that this approach has become all the more important in generating attractive risk-adjusted returns, especially once momentum tilts back in favor for high-dividend value equities globally. Committing to this process over a full market cycle has rewarded clients with solid long-term gains and down-market protection.

Portfolio Performance

The strategy underperformed its benchmarks during the quarter as value investments remained out of favor, with MSCI World Value underperforming MSCI World Growth and international equities, a relative overweight in our portfolio, underperforming US equities. Furthermore, Emerging Markets extended their losses from earlier this year, which impacted some of our direct Emerging Market investments. We continue to believe that our strategy is well positioned to outperform over a full market cycle while taking on less risk as measured by beta, standard deviation and/or down-market capture.

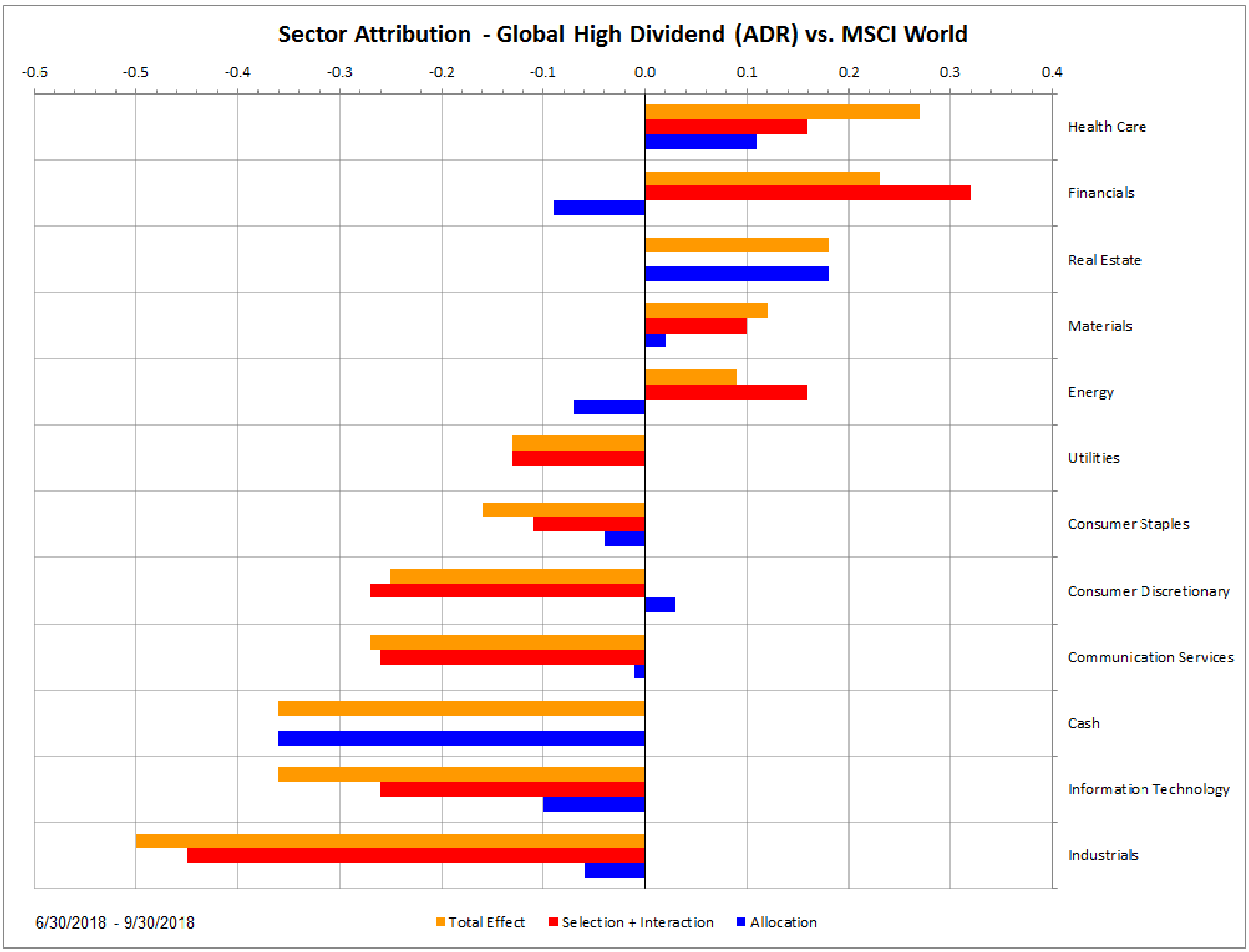
	Q3	YTD	1 Year	3 Year	5 Year	7 Year	Since Incept*
SCCM Global ADR	**3.9**	**0.9**	**4.5**	**10.6**	**8.6**	**11.6**	**6.2**
SCCM Global ADR (net)	**3.8**	**0.6**	**4.1**	**9.8**	**7.7**	**10.6**	**5.2**
S&P Global 1200 Index	**5.1**	**5.4**	**11.4**	**14.5**	**9.9**	**13.1**	**6.2**
MSCI World Index	**5.0**	**5.4**	**11.2**	**13.5**	**9.3**	**12.5**	**5.5**

*March 2007. Performance for periods greater than 1 year is annualized.

Sector Attribution

The largest contributor to relative performance during the quarter was our overweight allocation to and stock selection in the **Health Care** sector, which outperformed during the period. Stock selection in the **Financials** and **Materials** sectors was a significant contributor to relative performance, with NN Group and Norilsk Nickel outpacing the rest of the sector, fueled by strong operating results amid a rotation towards more defensive positioning in the sector and strong dividend growth, respectively. Within the **Energy** sector, our Integrated Oil & Gas positions outperformed, led the way higher by Sinopec after the company released some of its excess capital in the form of higher dividends.

The largest detractor from relative performance was our underweight allocation to and stock selection in the **Industrials**, **Information Technology** and **Consumer Discretionary** sectors, largely due to escalating trade tensions between the United States and its major international trading partners. Further detracting from relative performance was our overweight allocation to and stock selection in the **Communication Services** sector, where our position in Telefonica Brasil declined partly in sympathy with the broader Brazilian market and currency. We retain confidence in these allocation decisions based on valuations and the long-term outlook for our portfolio companies. Cash detracted from performance during the quarter.

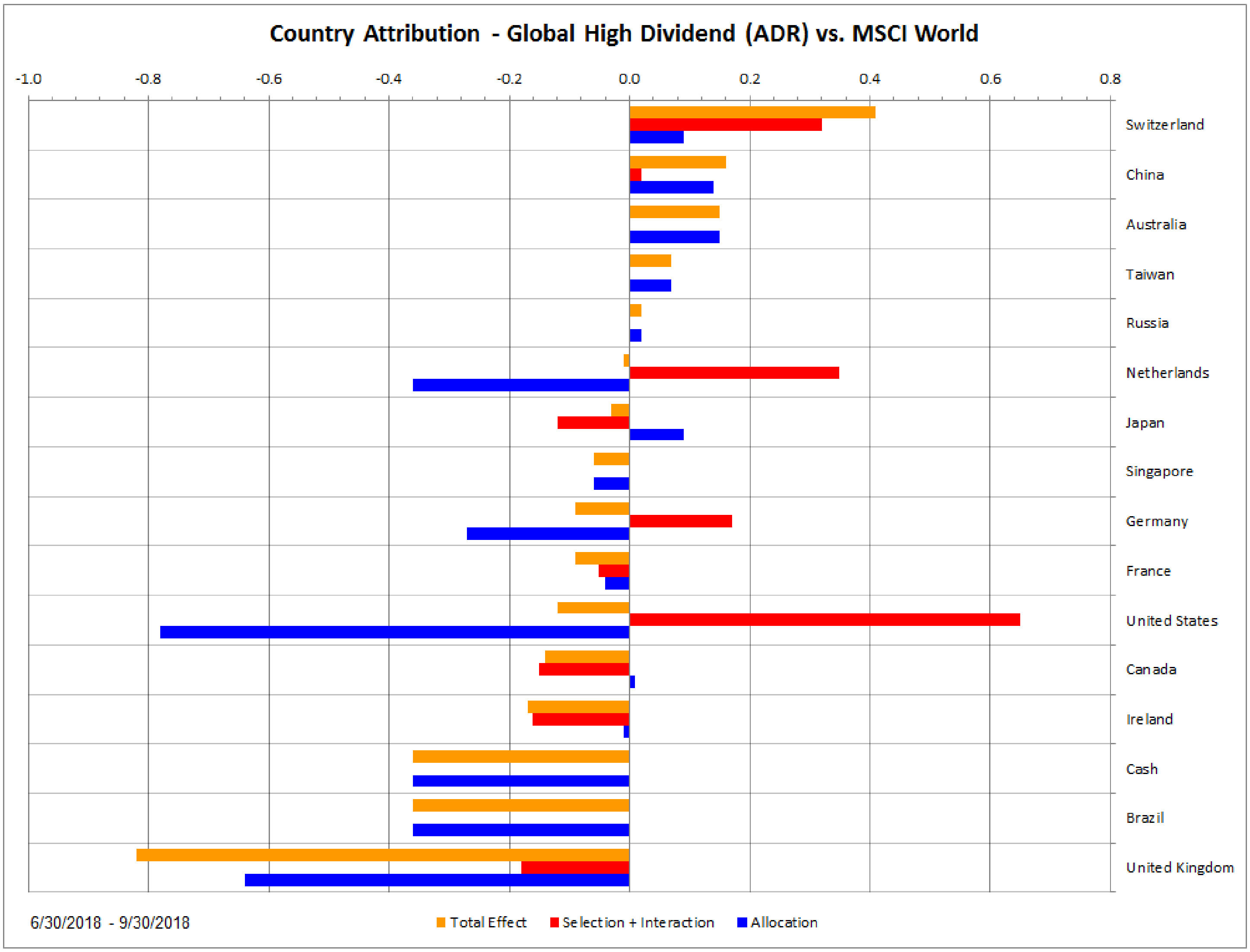


Source: SCCM/Bloomberg, 09/30/2018

Country Attribution

The largest contributor to relative performance during the quarter was our overweight allocation to and stock selection in **Switzerland**, where our pharmaceutical positions, Novartis and Roche, led the way higher following news that the US administration is seeking a regulatory path that would not significantly alter pharmaceutical industry profits. Novartis also announced its intention to spin off Alcon, its eye care division, which should translate into a more streamlined operating model focused on its innovative pharmaceutical business. Further contributing to our relative performance was our overweight allocations to **China** and **Taiwan** and **Russia** via our positions in Sinopec, ASE Industrial Holdings and Norilsk Nickel, respectively.

The largest detractor from relative performance was our overweight allocation to and stock selection in the **United Kingdom**, with British American Tobacco struggling to convince investors that its strategy around next generation products will effectively compete against existing alternatives. Further detracting from relative performance was our overweight allocation to **Ireland** and **Brazil**, where our holdings reacted to negative headlines regarding European and Brazilian politics and the prospect of slower economic growth. Our stock selection in **Canada** also hurt relative performance, as shares of Vermilion traded down following hedging-related losses in the second quarter. Cash detracted from performance during the quarter.



Source: SCCM/Bloomberg, 09/30/2018

Portfolio Strategy and Changes

Purchases:

NextEra Energy **United States** **Utilities**

NextEra Energy is one of the largest electric power utilities in North America, consisting of two primary businesses: the Florida Power & Light regulated utility and NextEra Energy Resources, a deregulated generator of wind, natural gas, nuclear and solar powered assets. The company is well positioned for the upcoming changes in the electric power generation industry, as pricing for both renewables and battery storage systems will decline to levels that are competitive with conventional gas-, coal- and nuclear-fueled electricity. NextEra stands out relative to its peers for its sizable commitment to renewable energy development, with an extensive pipeline of renewables projects through 2020, which should translate into meaningful earnings growth over the long term. Management also expects the company to be a net beneficiary of the US federal tax reform, which should mitigate the impact of any future reductions to renewable production tax credits, for which there is currently no support in the Senate. Furthermore, owing to the visibility into future contracted cash flows, management has guided to a dividend growth rate between 12% and 15% annually through at least 2023. Moreover, owing to its advantaged tax position, NextEra projects that dividends will be a tax-free return of capital to investors for at least eight years. The stock trades at 10.1x forward cash flow with a 2.7% dividend yield.

Welltower **United States** **Real Estate**

Welltower is a fully integrated and self-administered REIT with an extensive portfolio of health care assets. The company has ownership interests in nearly 1,400 properties in high-growth markets in the US, the UK and Canada across senior housing, skilled nursing and post-acute medical facilities. The company should be well positioned to serve the baby boomer generation as it enters its senior years; the population subgroup above the age of 80 spends more than four times on healthcare per capita than the national average. Despite the increase in senior housing supply, we are encouraged by the recent normalization of the supply increase and believe that Welltower can differentiate itself via its competitive value- and efficiencies-based approach to the industry. The company's long-standing relationships with the best operators in the industry – those with a track record of high-quality care and cost-control efficiencies – should translate into more demand for Welltower's facilities from healthcare systems looking to manage costs. Over the long term, the company also has a natural pipeline of acquisitions and development opportunities that it can leverage to meet the needs of its growing partners. Moreover, the company's management team is forward-thinking and is focused on creating value by promoting best practices and forming accretive partnerships across the healthcare spectrum. The stock trades at 15.3x forward funds from operations with a 5.6% dividend yield.

Sales:

ING Groep **Netherlands** **Financials**

We used the opportunity to consolidate our Financials exposure by liquidating our position in ING Groep, a leading Benelux bank with an innovative approach to mobile banking. While the company is taking steps to improve efficiencies and compliance across its footprint, we decided to reallocate this capital across more attractive alternatives in the sector. The stock trades at 0.9x forward book value with a 6.5% dividend yield.

SSE **United Kingdom** **Utilities**

We liquidated our position in SSE, an integrated utility company in the United Kingdom. As the company demerges from a large integrated group, the sustainability of the dividend becomes less certain, so we decided to reallocate this capital across more attractive alternatives in the sector. The stock trades at 12.8x forward earnings with an 8.6% dividend yield.

Outlook

We continue to believe that our strategy is well positioned from a long-term perspective given the strong outperformance potential from a reversal of the historically extreme multi-year underperformance of 1) international versus US equities and 2) value versus growth equities. In this regard, international equities currently have the lowest weight in the MSCI World Index in 40 years, at 37.8% versus their long-term average weight of 49.4%, as the performance of world equities is being dominated by a narrow group of US-domiciled large capitalization growth stocks. Thus, many investors who look to simply match the exposure of broad global indices are currently underweight international equities despite their meaningfully more attractive valuations at a time when the profitability of international companies has room to rise and international currencies, which are oversold and cheap on a purchasing power parity basis, have room to normalize. Further, value as a style remains the most out of favor since the Tech Bubble, following which MSCI World Value returned 75% over the next 7 years (March 2000 – Feb 2007) while MSCI World Growth posted negative returns. It remains to be seen whether the extreme performance differential between US and international equity markets will persist, similar to the Growth versus Value disparity that is now approaching a record length.

The recent rise in US interest rates after nearly a decade of negative real interest rates has put some pressure on global asset prices. As the study below shows, higher-yielding quintiles of the MSCI World index have meaningfully underperformed lower- and non-yielding sectors of the market on both a trailing 12-month and year-to-date basis. What is somewhat atypical in this cycle is the lack thus far of a normalization in interest rates in other major developed economies, which has led to a stronger US Dollar and to a major outperformance of international growth versus value equities. As in prior interest rate hike cycles, dividend-paying equities experience pressure from multiple compression in the initial stages of the cycle, following which, attractively-valued companies with growing streams of earnings and dividends have tended to outperform. In this regard, we continue to remain committed to our balanced and disciplined approach to investing, which seeks out the best combination of 1) attractive valuations on a price/earnings basis, 2) strong and defensible high current dividend yields and 3) robust long-term earnings/dividend growth as backed by superior business fundamentals and a management team committed to maximizing shareholder returns. When economic growth and long-term interest rates pick up such as now, criteria 1) and 3) above tend to drive our returns. The flexibility afforded by our approach serves us well through a number of different economic and market environments.

Yield Sectors	Weight in MSCI World Index	12 Month Performance (USD)	YTD Performance (USD)
0.00 - 0.94	18.04	18.25	10.79
1.00 - 1.81	16.65	10.92	1.84
1.82 - 2.62	23.29	10.21	2.12
2.63 - 3.77	22.96	3.97	-0.55
3.78 - 12.95	19.06	-0.06	-1.83

Source: SCCM Research; As of 9/30/2018

In the United States, the bull market leadership has clearly been led by the Information Technology sector; at current levels, the market capitalization of the five largest S&P 500 stocks – all technology stocks: Amazon, Apple, Facebook, Google and Microsoft – have a combined valuation larger than the market capitalization of the smallest 281 members of the S&P 500. The sector has thrived, in part, due to relatively low levels of regulation and antitrust oversight; the Technology and e-commerce sector has ~27K regulations, among the least-regulated sectors, especially relative to the Manufacturing and Finance sectors, which are subject to ~215K and ~128K regulations, respectively.[1] However, Technology faces increasing risks from federal regulation as US agencies and legislative bodies, following in the steps of the European Union, are now examining technology firms' anti-competitive behaviors, consumer privacy lapses and allegations of bias

[1] Bank of America, Merrill Lynch, Sector Focus Point, 10/01/18

behavior. While it is difficult to predict whether federal action will be taken, increased scrutiny is likely to rein in the overt competitive ambitions of targeted companies. We believe that our lack of exposure to the richly-valued FANG stocks will safeguard returns going forward, in-keeping with our commitment to building a safety net by being disciplined about price and cognizant of risks. Historically, quality, valuation and dividend disciplines have provided the strongest risk-adjusted returns, in part due to superior downside protection.

Within Europe, pockets of clear value can be found though these tend to be in the most cyclical areas of the market including in financials and consumer discretionary and some judgement is required here to discern the sustainability of future earnings and dividends. Within Emerging Markets, the outlook is varied and, in some cases, positive given the wide diversity of countries and companies which fall under this umbrella term, with some countries and companies far better positioned than others. Across all international equity markets, we remain focused on using our disciplined approach to identify inefficiencies, whereby we are looking for attractively valued companies introducing new and innovative products in attractive and growing industries and led by management teams with an above-average ability to allocate capital efficiently. Markets dislike uncertainty and thus the recent sell-off on the back of negative news headlines regarding tariffs and trade wars is understandable. Across our portfolio holdings, we remain underweight investments which would be most adversely impacted in such a scenario, including the manufacturers and retailers of industrial and consumer goods which may be vulnerable to trade disruptions.

Following several years of rising asset prices and accommodative monetary policies, investors need to carefully balance the requirements of risk and reward in making prudent investment decisions and not merely chase what is working over the near-term. For some quarters now, we have mentioned that select pockets of froth and excess have developed across world markets which have no real valuation support and are instead being driven by momentum and fund flows. A prime example of this phenomenon is the until recently popular cryptocurrencies which subsequently have declined in value by 70-90%. Another glaring case is of peripheral European bonds, which despite having meaningfully lower credit quality and higher credit risk, offer lower yields than on US treasuries. Investors need to be aware of growing pricing anomalies of this nature and to ensure that they avoid inadvertently gaining exposure to them when using indexed products such as ETFs. We believe that over the long-term, fundamentals-driven active value investing could potentially deliver meaningful outperformance relative to passive, less attractively valued, technically-driven momentum ETFs.

With equity price multiples having recovered to historical norms, going forward we believe that the bulk of returns will be generated via the components of dividend yield and earnings/dividend growth, which is in line with the long-term norm of equity markets globally. On both these measures we consider our portfolio to be well positioned with a higher, 4.2% dividend yield and a faster and more sustainable dividend growth profile relative to the MSCI World. Thus far in 2018, 91% of our portfolio companies which have declared dividends have raised their dividend payments by an average of 13.2% YoY. This year has been one of the strongest years historically for dividend growth in our global high dividend ADR strategy, which indicates that long-term business conditions are better than what consensus expectations imply. In this regard, strong dividend increasers include Sinopec, Norilsk Nickel, United Overseas Bank, British American Tobacco, Altria, Telefonica Brasil, JP Morgan, Nippon Telegraph & Telephone, Daimler and Cisco. With strong balance sheets and continued earnings growth, we anticipate that this trend will continue in 2018 and beyond.

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

Best Regards,

Schafer Cullen Capital Management, Inc.

Appendix: Portfolio Exposure and Characteristics as of 09/30/2018

Portfolio Exposure

Sectors	% Assets
Communication Services	8.3
Consumer Discretionary	4.3
Consumer Staples	9.3
Energy	8.7
Financials	19.7
Healthcare	14.9
Industrials	5.9
Information Technology	14.0
Materials	3.8
Real Estate	0.0
Utilities	2.4
Cash	8.7
Total	100.0

Regions	% Assets
Developed Asia Pacific	5.7
Europe	44.1
North America	34.9
Asia Pacific Emerging	4.0
Latin America	1.2
EMEA	1.3
Developed Markets	84.7
Emerging Markets	6.6
Cash	8.7
Total	100.0

Top Country Exposure	Top Ten Holdings
United States	Cisco Systems
Switzerland	Microsoft
United Kingdom	JP Morgan Chase
Germany	Intel
France	Johnson & Johnson
Netherlands	Novartis
Japan	Royal Dutch Shell
Canada	NN Group
Ireland	Smurfit Kappa
Taiwan	NextEra Energy

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Est. LT EPS Growth	Ave. Market Cap ($B)
SCCM Global High Dividend ADR	13.3	4.2	9.4	172.0
MSCI World Index	18.3	2.6	9.4	170.0

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