SCHAFER | CULLEN
CAPITAL MANAGEMENT

Global High Dividend ADR
Q4 2019 Commentary

Market and Economic Review:

International equity markets performed strongly in the fourth quarter given growing expectations for a recovery in economic activity and corporate profitability. Within the US, the two key themes that propelled stocks higher throughout the year continued in the 4th quarter, including accommodative policy by the Federal Reserve ("Fed") and progress in the US-China trade war. After the Fed cut interest rates in October for a third time in 2019, the Trump and Xi administrations in December agreed to a phase one trade deal. Domestic themes played out in the international arena as central bankers remained dovish and investors gained greater clarity in the United Kingdom following a clear majority achieved by the Conservative party in the latest parliamentary election – a development expected to set the stage for the United Kingdom's long-awaited exit from the European Union. In this positive environment, equities outperformed fixed income, long-term interest rates rose and the international currencies appreciated against the US Dollar. Commodity markets received a boost with industrial metals, precious metals, agricultural goods and oil charging higher on the back of the phase deal signing and the OECD's October update signaling recovery indicators. China agreed to buy $50bn in US agricultural goods while crude oil grinded higher on the OPEC+ group's decision to cut its production ceiling by an additional 500,000 barrels per day through March.

By region, Emerging Markets outperformed U.S. Markets, which, in turn, outperformed Developed Markets. Within Emerging Markets, most countries witnessed positive returns in the quarter, with gains led by equities in Taiwan, Russia, China, China, Brazil, South Africa, and South Korea, modestly offset by losses in Chile, UAE, and Thailand. Within Developed Markets, outperformance in Ireland, Sweden, Denmark, the United Kingdom, Germany, France, and Japan highlighted the group with few underperformers, most notably, Belgium. By sector, positive returns were broad-based, with equities in both cyclical and non-cyclical sectors outperforming, most notably, Information Technology, Communication Services, Health Care, Utilities, Industrials and Real Estate, while the Energy and Materials sectors underperformed during the quarter. By style class, growth outperformed value and large caps outperformed small caps.

With momentum-based strategies having led markets higher on a multi-year basis, adhering to the price disciplines of low price earnings and high dividend yield has become all the more important in providing satisfactory absolute and risk-adjusted returns. We believe that our strategy of buying shares in strong companies, at attractive valuations and holding them for the long-term (i.e. 5 years) remains attractive in this environment. This is especially in light of the meaningful underperformance over several years of international value equities relative to other asset classes, which could now begin to normalize.

Performance Analysis:

The strategy outperformed its benchmarks during the quarter driven by our prudent stock selection in high-quality names despite the over 800 basis point outperformance of MSCI ACWI Growth over MSCI ACWI Value. 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.

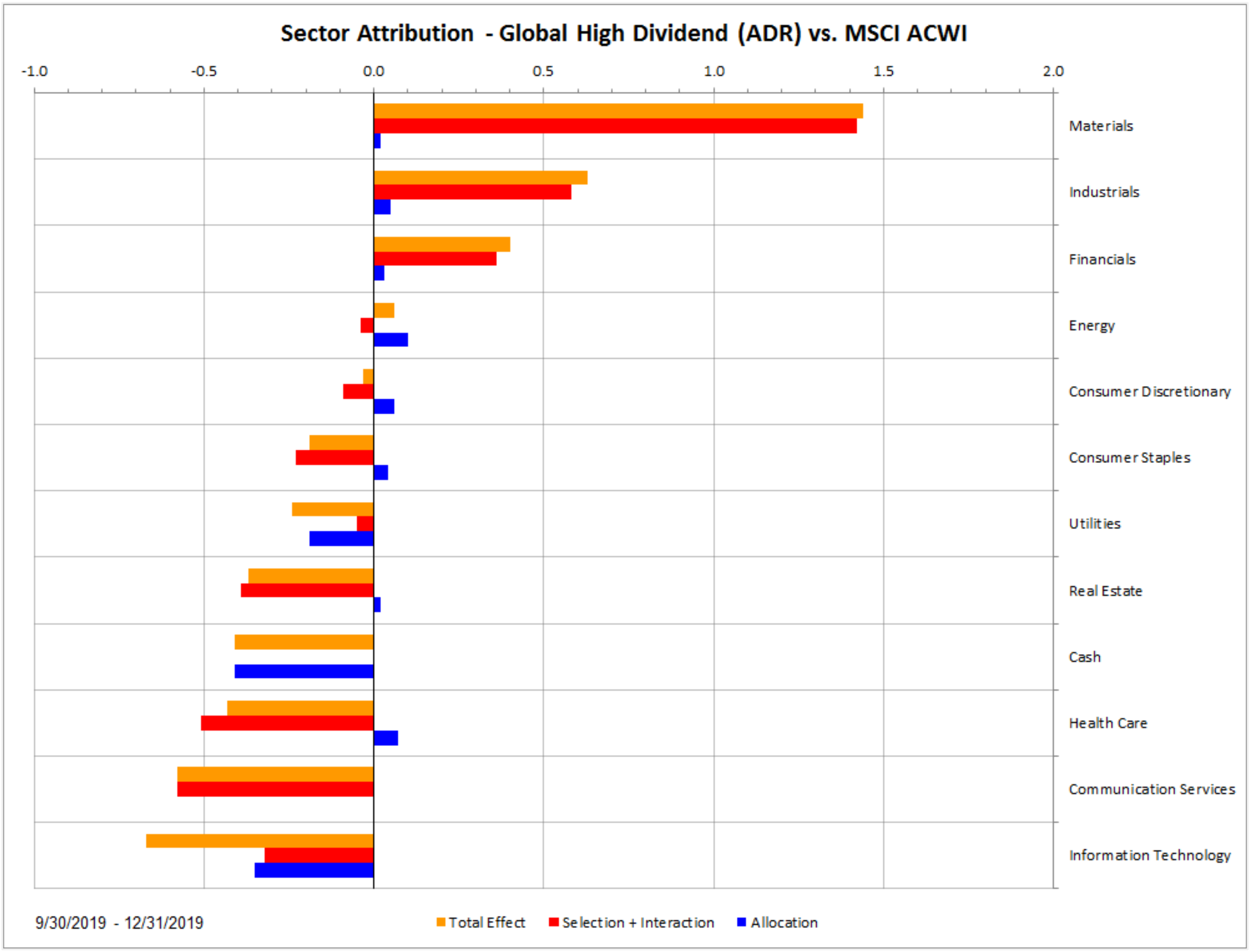
Global High Dividend ADR Returns vs. Benchmark

	Q4	1 Yr	3 Yr	5 Yr	7 Yr	Since Incept*
SCCM Global ADR (gross)	**8.3**	**24.2**	**10.1**	**7.9**	**10.0**	**6.5**
SCCM Global ADR (net)	**8.1**	**23.5**	**9.4**	**7.1**	**9.1**	**5.5**
MSCI ACWI Index	**9.0**	**26.6**	**12.5**	**8.4**	**9.7**	**5.6**
MSCI ACWI Value Index	**7.6**	**20.6**	**8.4**	**6.1**	**7.8**	**3.9**
S&P Global 1200 Index	**8.9**	**28.2**	**13.4**	**9.5**	**11.1**	**6.5**

**March 2007.*

Performance for periods greater than 1 year is annualized. ***Past performance is no guarantee of future results.***

Sector Attribution

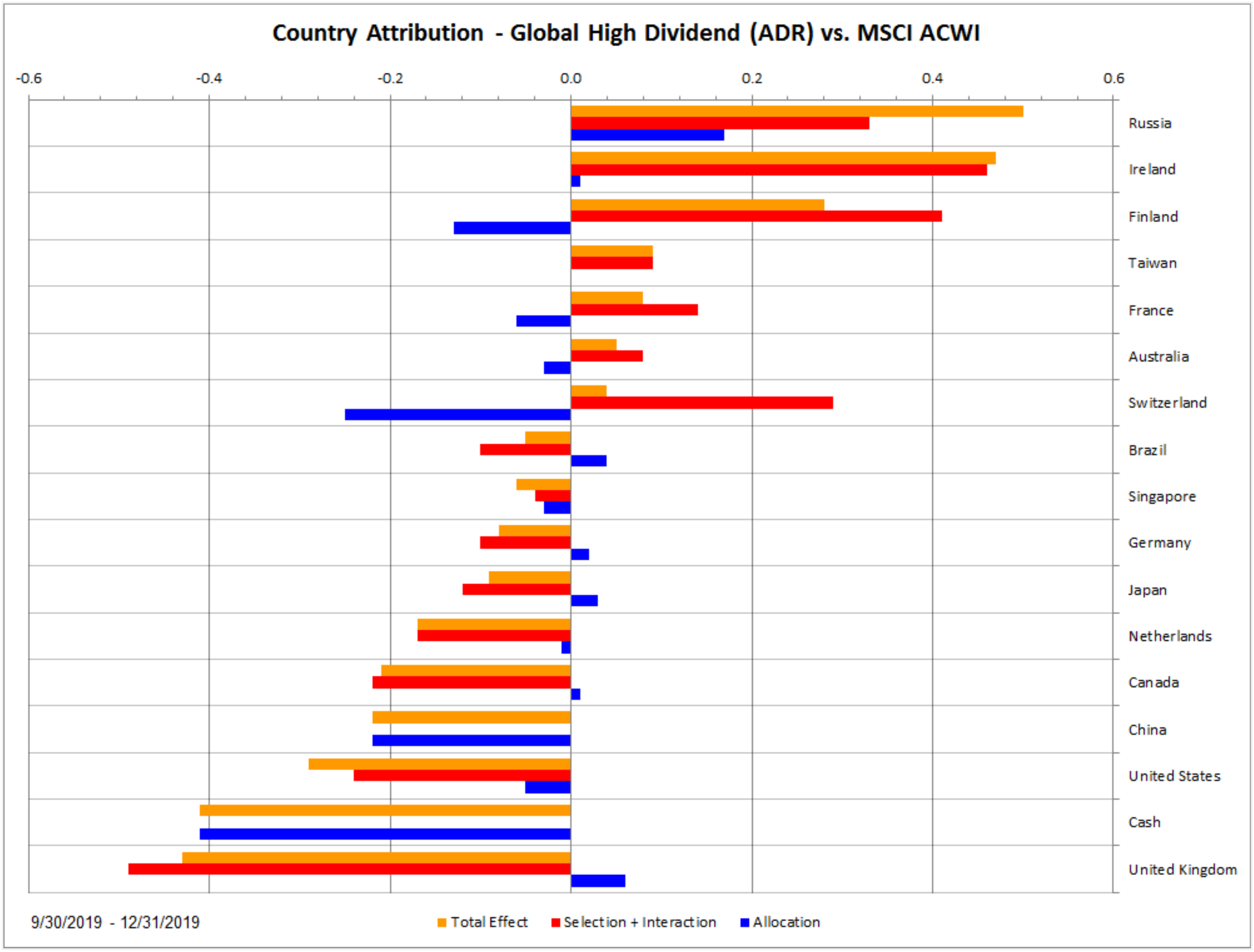


Source: SCCM/Bloomberg, 12/31/2019

The largest contributor to relative performance was our stock selection in ***Materials, Industrials,*** and ***Financials.*** The most significant proponents of relative performance were several of our high-quality and conservatively-managed companies including Norilsk Nickel, Smurfit Kappa, Dow, ABB, Siemens, JP Morgan, and BNP Paribas, among others. Norilsk Nickel, the strongest performer in the group, benefited from a strong commodity backdrop, which coincided with healthy production growth and ongoing capital management discipline. JP Morgan has benefited from its strong capital position, high-quality assets, increasing ROEs, cost controls and industry-leading technology investments. Further contributing to relative performance was our underweight allocation to ***Energy, Consumer Discretionary, Industrials,*** and ***Materials*** and overweight allocation to ***Consumer Staples*** and ***Financials***.

The largest detractor from relative performance was our underweight allocation to the ***Information Technology*** and ***Utilities*** sectors primarily driven by collateral pressures from the United States-China trade war that has weighed on Cisco Systems. We remain confident in the company's strong fundamentals and the prospect of a stage one agreement between the two countries. Our relative performance was also impacted by our stock selection in ***Communication Services, Health Care, Real Estate, Information Technology***, ***Consumer Staples, Consumer Discretionary, Utilities,*** and ***Energy***. Performance was largely defined by broad market rotation into growth and cyclicals at the expense of defensives; however, we largely remain comfortable with our selection decisions based on valuations and long-term outlook. Cash detracted from relative performance during the quarter.

Country Attribution



Source: SCCM/Bloomberg, 12/31/2019

The largest contributor to relative performance was our stock selection in ***Ireland, Finland, Russia, Switzerland, France, Taiwan,*** and ***Australia.*** Across these countries, strong performers were high-quality companies trading at reasonable valuations largely within cyclical sectors, including Smurfit Kappa, UPM-Kymmene, Norilsk Nickel, ABB, BNP Paribas, ASE Technology, and Sonic Healthcare, among others. Further contributing to relative performance was our overweight allocation in ***Russia,*** the ***United Kingdom,*** and ***Brazil*** among others, and our underweight allocation in ***India, Belgium*** and ***Japan*** where we benefited from our exposure to companies with market leading positions and unique stock-specific catalysts, including Norilsk Nickel and GlaxoSmithKline. Our strategy to identify and refrain from deteriorating markets supported our performance.

The largest detractor from relative performance was our overweight allocation to ***Switzerland, Finland*** and ***Franc***e and underweight allocation to ***China,*** the ***United States*** and ***South Korea***. Across these countries, the majority of our holdings outperformed their respective markets; however, a subset of our portfolio holdings was impacted by sector-level headwinds. Nevertheless, we retain confidence in our allocation decisions based on valuations and the long-term outlook of our portfolio companies. Our relative performance was also impacted by our stock selection in the ***United Kingdom,*** the ***United States, Canada,*** the ***Netherlands, Japan, Germany, Brazil*** and ***Singapore*** where we anticipate the supportive macroeconomic and geopolitical trends to espouse a sustainable stream of steady earnings and dividend growth over the long term for our holdings. Cash detracted from relative performance during the quarter.

Portfolio Changes:

Purchases:

None

Sales:

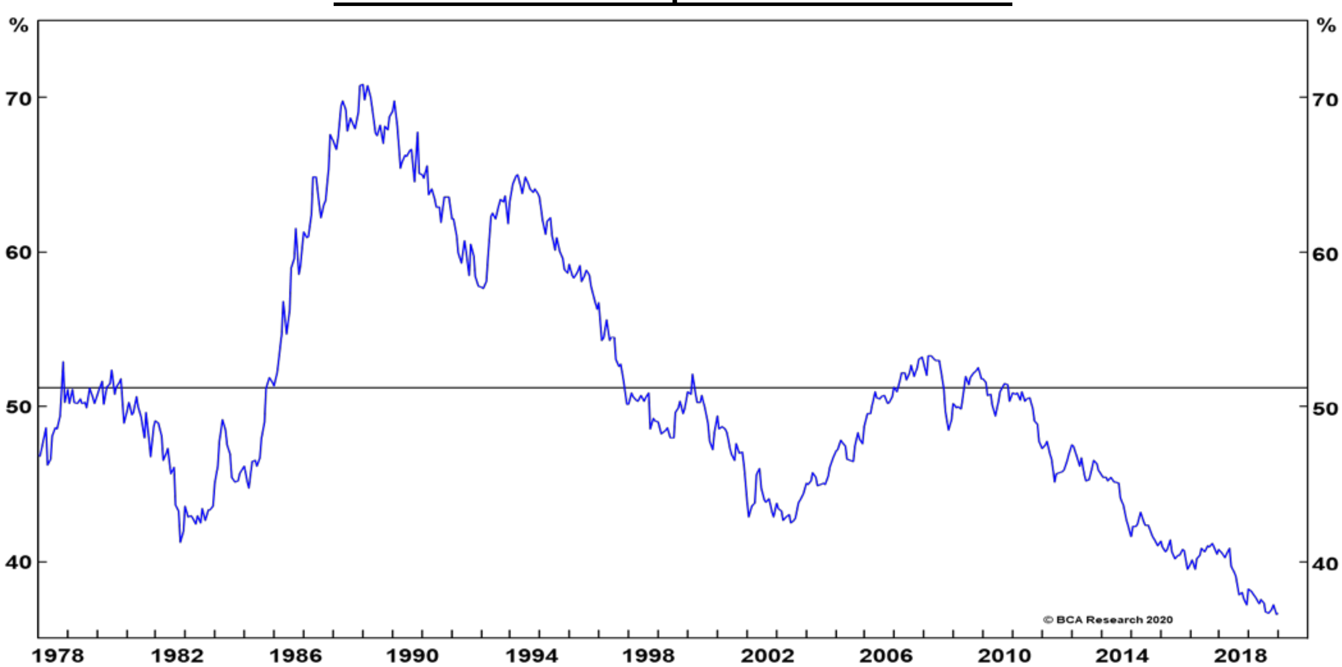
Daimler AG (Germany, Consumer Discretionary) – We sold our position in Daimler, which is the largest manufacturer globally of premium automotive vehicles, vans, buses and trucks. Given the growing threat of disruption in the automotive sector with a move towards the electrification of cars we are upgrading our exposure in this industry to focus on two better positioned companies, Toyota Motor and Michelin. These companies have more sound business models in this new environment while also being better managed and more shareholder-friendly, all of which should translate into better trends for earnings and dividend growth over the long-term.

Honda Motors Co. Ltd. (Japan, Consumer Discretionary) – We sold our position in Honda, which is a global automotive manufacturer with a leading position in motorcycles in emerging markets. Given the growing threat of disruption in the automotive sector with a move towards the electrification of cars, we are upgrading our exposure in this industry to focus on two better positioned companies, Toyota Motor and Michelin. These companies have more sound business models in this new environment while also being better managed and more shareholder-friendly, all of which should translate into better trends for earnings and dividend growth over the long-term.

Market 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, as seen below, international or ex-US equities currently have the lowest weight in the MSCI World Index in 40 years, at 36.6% versus their long-term average weight of 51.2%, as the performance of world equities is being dominated by a narrow group of US-domiciled, large capitalization growth stocks. On the previous two occasions when the weight of ex-US equities fell below 45%, this was followed by a period of strong outperformance by international equities. Thus, after being out of favor in the early 1980s, international equities represented by MSCI EAFE rebounded sharply and provided an annualized return of 31.4% from June 1983 to December 1988 versus only 9.5% for the S&P 500. In the second such incident, after lagging behind US equities in the dot-com mania of the late 1990s, international equities came back to favor and retuned an annualized 12.1% from March 2002 to June 2008 versus only 3.7% for the S&P 500. Further, international value equities are currently more favorably valued versus both international growth equities and international sovereign bonds than they have been during 95% of periods over the last 20 years. International growth equities, while having somewhat higher earnings growth, appear to be fully valued at over 20 times forward earnings. Thus, our Global High Dividend ADR strategy offers the patient, long-term investor with the opportunity to benefit from the normalization of two major discounts of meaningful proportion, all the while collecting an attractive 4.1% dividend payment.

World ex-US Market Cap as a % of MSCI World



Source: BCA Research, December 31, 2019.

In the US, equity markets posted their second best year of returns in 2019 since the financial crisis as markets began to price in an economic rebound in 2020. Wall Street consensus expects further gains as global central banks collectively continue to expand their balance sheets, the US-China phase one trade deal serves to reduce the economic impact of tariffs and improve business confidence, and election years have historically delivered above-average market returns. In addition, analysts are optimistic, with corporate earnings expected to rise 10% year-over-year in 2020. Bullish views are also supported by the shift in Fed communication stating the committee is willing to let inflation run above target levels, reducing the risk of rate hikes and tighter liquidity.

Reliable observation reveals that we live in a world where many major buyers of assets have increasingly become price and valuation insensitive and this has contributed to value, as a style, remaining out of favor for an extended period of time. Michael Burry of Scion Asset Management, chief protagonist of the award winning book and movie, *The Big Short*, compares current flawed pricing of indexed assets to that seen in the run-up to the subprime crises with CDOs (Collateralized Debt Obligations).* While some value-insensitive buyers have always existed, such as banks and insurance companies looking to match assets to liabilities, the scale and scope of what we are seeing presently is unprecedented. Within fixed income, where this is most prevalent, central banks are continuing to purchase bonds to add to their already record-sized balance sheets with an aim to support economic growth. Thus, negative interest rates, which were once thought of as a temporary phenomenon, have now become a mainstay. This has led to a loss of true price discovery in the fixed income space, and in some cases, to absurd outcomes. Take Greece for instance, which is a country with a high debt load, history of past defaults and a non-investment grade sovereign credit rating of BB-. The current 1.4% yield on its 10-year government bonds is considerably lower than the 1.9% yield available on AAA-rated US treasuries of the same maturity and appears diminutive versus the +35% peak yield on these same Greek bonds before the ECB (European Central Bank) stepped in to purchase them from 2012 onwards.

Within global equities, price discovery is also gradually being chipped away at by the increasing popularity of indexed products such as ETFs (Exchange Traded Funds). Such valuation-agnostic products are often procured either passively/programmatically or for an actively sought-out exposure to a particular region, country, sector, industry or style class. This trend has likely begun to influence equity markets in the United States and Japan, validating Mr. Burry's observations. In the United States, by some measures, over 50% of all equity investors now use indexed products, while in Japan, the Central Bank has widened its mandate to include the direct purchase of domestic equities to support economic growth. It is thus no coincidence that these two equity markets have been among the strongest performers over the last five years, and each now provides less attractive valuations including sub-2.5% dividend yields.

Interestingly, the market cap weighted, forward 12-month, price-to-earnings ratio for the MSCI World index presently is 20.7x versus 17.9x five years ago, which equates to a 16% valuation increase. Looking just at the ten largest holdings in this index, the market cap weighted, forward 12-month, price-to-earnings ratio is currently 26.8x versus 15.9x five years ago, for a much loftier 63% valuation increase. Thus, the largest and most overrepresented companies in indices and ETFs, which are passively being bought and bid up, appear to be among the most richly valued areas of the market presently. For now, these index funds and companies most represented in them have enjoyed a self-fulfilling, positive, momentum-led feedback loop, which is a version of the Greater Fool's Theory - the reason why people buy them is that this strategy has recently worked, and the hope is that the trend continues irrespective of valuation considerations. When, and if, this trend reverses, meaningful losses of a more permanent nature could occur, as such momentum-led investments offer no real valuation support or margin of safety. Given our disciplined, value approach to investing, we have avoided such hotspots of momentum-filled overvaluation and euphoria.

Globally, as aggregate equity market valuations have moved up this year, this has also had some impact on select portfolio holdings, which after recent gains, are less attractively valued. We are in the process of selling, or pairing back on, such companies which are more highly valued and offer less attractive dividend yields while reallocating capital to companies with more attractive valuations and improving outlooks for profitability. While remaining committed to our large-cap, value mandate, we would note that lately we are finding a large number of mid-cap companies qualifying for our investment screens. This is likely a consequence of these companies being excluded from the fund flows effect of ETF crowding. For investment candidates here, we are looking for idiosyncratic, off-benchmark companies which are clear leaders in profitable and growing niches, and which are not fully understood or appreciated by the broader investor community. While small- and mid-cap companies, in some cases, can be higher-risk investments, this is not always the case as valuations remain a crucial consideration. A clear case in point here is the bear market stretching from March 2000 to September 2002 when small caps outperformed broad market indices by 40%. An additional merit for the investment case in Europe is the growing global leadership of European companies from an ESG (Environmental, Social and Governance) perspective, and this is well reflected in our portfolio holdings which have an impressive average ESG score of A when using the methodology provided by MSCI, the market-leader in this space.

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 of these measures, we are well positioned with a higher 4.1% dividend yield and a more sustainable dividend growth profile relative to the benchmark MSCI ACWI. After an exceptionally strong year of dividend growth in 2018, the trend has continued in 2019, with 86% of our portfolio companies having raised their dividend payments by an average of 8.1% YoY. In this regard, strong dividend increasers include Norilsk Nickel, JP Morgan, Nippon Telegraph & Telephone, NN Group, Telefonica Brasil, NextEra Energy, Allianz, Smurfit Kappa, United Overseas Bank and Deutsche Telekom. We continue to believe that our strategy offers the rare ability to generate a defensive, high and growing income stream at a time when few other asset classes and strategies are able to offer this combination. With strong balance sheets and continued earnings growth, we anticipate that this trend will continue in 2020 and beyond.

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best regards,

Jim Cullen – Portfolio Manager
Rahul Sharma – Portfolio Manager

Appendix: Portfolio Exposure and Characteristics as of 12/31/2019

Portfolio Exposure

Sectors	% Assets	Regions	% Assets
Communication Services	10.2	Developed Asia Pacific	9.9
Consumer Discretionary	5.2	Europe	52.5
Consumer Staples	7.5	North America	27.6
Energy	4.9	Asia Pacific Emerging	1.3
Financials	18.2	Latin America	2.9
Healthcare	13.3	EMEA	1.6
Industrials	7.2		
Information Technology	10.1		
Materials	10.8	Developed Markets	90.0
Real Estate	2.6	Emerging Markets	5.8
Utilities	5.8	Cash	4.2
Cash	4.2	Total	100.0
Total	100.0		

Top Country Exposure		Top Ten Holdings	
United States	25.2	JP Morgan Chase	4.7
Switzerland	16.6	Intel Corp.	4.1
United Kingdom	10.8	Zurich Insurance	3.7
France	10.4	NextEra Energy	3.5
Germany	5.1	Novartis	3.4
Japan	5.0	Nestle	3.4
Netherlands	3.5	Roche	3.3
Finland	3.3	UPM-Kymmene	3.3
Ireland	2.9	AT&T	3.0
Russia	2.9	Smurfit Kappa	2.9

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Est. LT EPS Growth	Avg. Market Cap ($B)
SCCM Global High Dividend ADR	14.9	4.3	8.6	157.8
MSCI ACWI Index	16.9	2.6	10.0	189.8

Source: SCCM Research, BCA Research, Bloomberg

Standard Deviation (Risk) is a statistical measure of the historical volatility of a mutual fund or portfolio; the higher the number, the greater the risk. Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Downside Capture Ratio represents the degree to which a strategy outperformed or underperformed the benchmark in periods when the benchmark return was negative. The lower the downside capture ratio, the better.

Global High Dividend ADR Strategy is also referred to as "SCCM Global ADR" throughout this document.

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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.

In the case where this report displays model results, please be aware that such results do not represent actual trading and that results may not reflect the impact that material economic and market factors might have had on the Adviser's decision-making if the Adviser were actually managing clients' money.

Model and actual results reflect the deduction of advisory fees, brokerage or other commissions, and any other expenses that a client would have paid or actually paid (Net of Fee performance) and reflect the reinvestment of dividends and other earnings.

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 **Standard & Poor's Global 1200 Index** is a free-float weight index composed seven regional indices spanning 31 countries. The **MSCI ACWI** captures large and mid cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries. The **MSCI ACWI Value Index** captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets countries and 26 Emerging Markets (EM) countries. The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The **MSCI World Value Index** captures large and mid cap securities exhibiting overall value style characteristics across 23 Developed Markets (DM) countries. The **Standard & Poor's 500 Index** is the commonly used measure of the broad U.S. stock market. One cannot invest directly in an index.

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