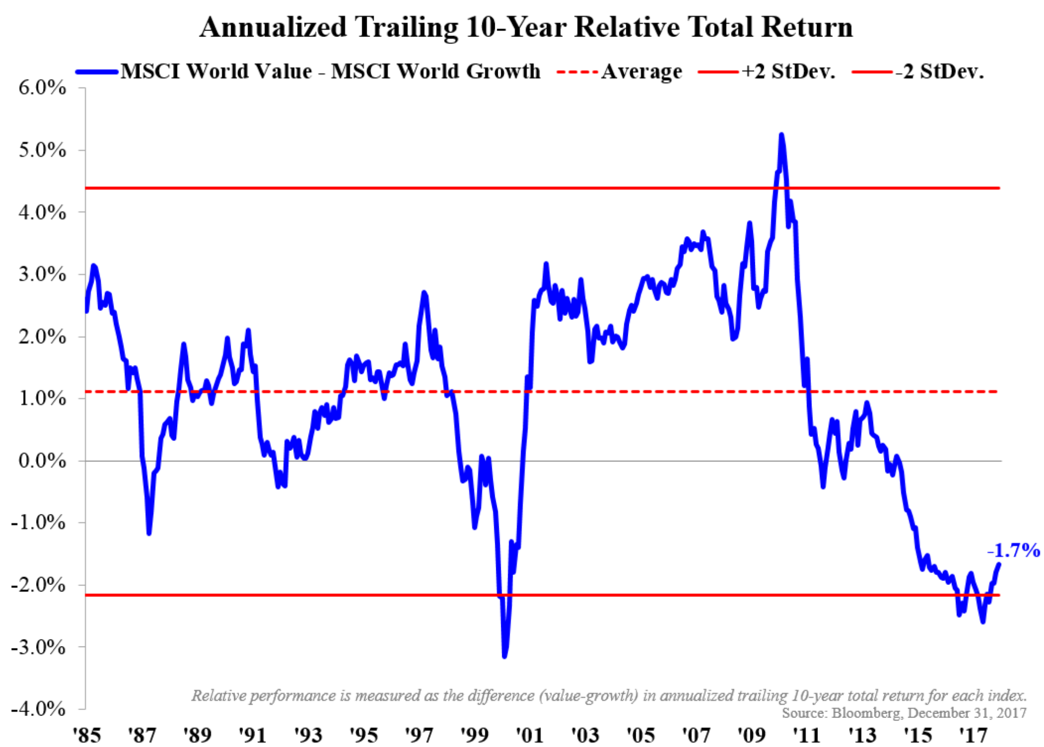
December 28, 2017

International Update

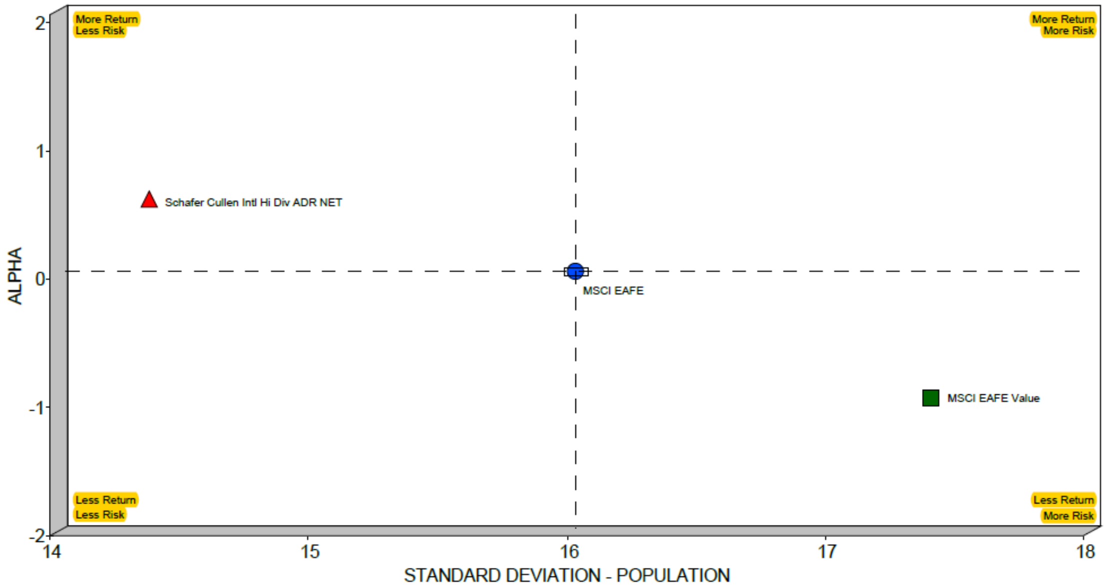
International equities, after several years of underperformance, finally came back into favor in 2017. However, value as a style is still deeply out of favor as you can see in the chart below. The last time that value was this out of favor was during the Tech Bubble, following which MSCI World Value was up 75% over the next 7 years (March 2000 – Feb 2007) while MSCI World Growth was actually down*.



The recovery we have had since 2009 is one of the longest-running recoveries in history, which tend to favor growth. However, for an investor sensitive to risk, the chart below shows how our strategy, compared to MSCI EAFE and MSCI EAFE Value, has generated greater alpha (excess return) with a lower standard deviation during this same period. Therefore, looking at the market on a risk-adjusted performance basis gives investors a completely different perspective than looking at performance only on an absolute basis.

*Bloomberg, December 2017 – MSCI World Value Index as compared to the MSCI World Growth Index March 2000 to February 2007

RISK ADJUSTED ALPHA
February 28, 2009 to September 30, 2017



	ROR	Std Dev Pop	Alpha	Beta
Schafer Cullen Intl Hi Div ADR NET	10.45	14.35	0.57	0.85
MSCI EAFE	11.46	16.00	0.00	1.00
MSCI EAFE Value	11.06	17.38	-0.98	1.07

Source: SCCM, PSN Informais 2017

Applying the P/E discipline with dividend yield and dividend growth should outperform in what may be a more challenging environment. Looking at fundamentals, the International High Dividend Value portfolio is meaningfully cheaper than MSCI EAFE – on a valuation basis it is 13.9x earnings versus 15.2x earnings; dividend yield is 4.5% versus 3.2%, and 77% of our portfolio companies raised their dividend payment in 2017 versus only 65% of companies in the benchmark.

Bull markets like we are currently experiencing tend to last a lot longer than expected and the current rally has been driven by ETFs, which are often heavily exposed to the most popular and expensive areas of the market. Many of these international ETFs currently have higher weights in overvalued internet stocks and lower-yielding markets such as Japan. SCCM has been significantly underweight these areas of the market for fundamental reasons while they have meaningfully outperformed over the past several years. Thus, our strategy offers excellent contrarian exposure especially for investors who agree with us that at the present moment being aware of risk makes more sense than usual.

Best regards,

Jim Cullen – Portfolio Manager
Rahul Sharma – Portfolio Manager
Pravir Singh, CFA – Director of International Research

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