

July 30, 2018

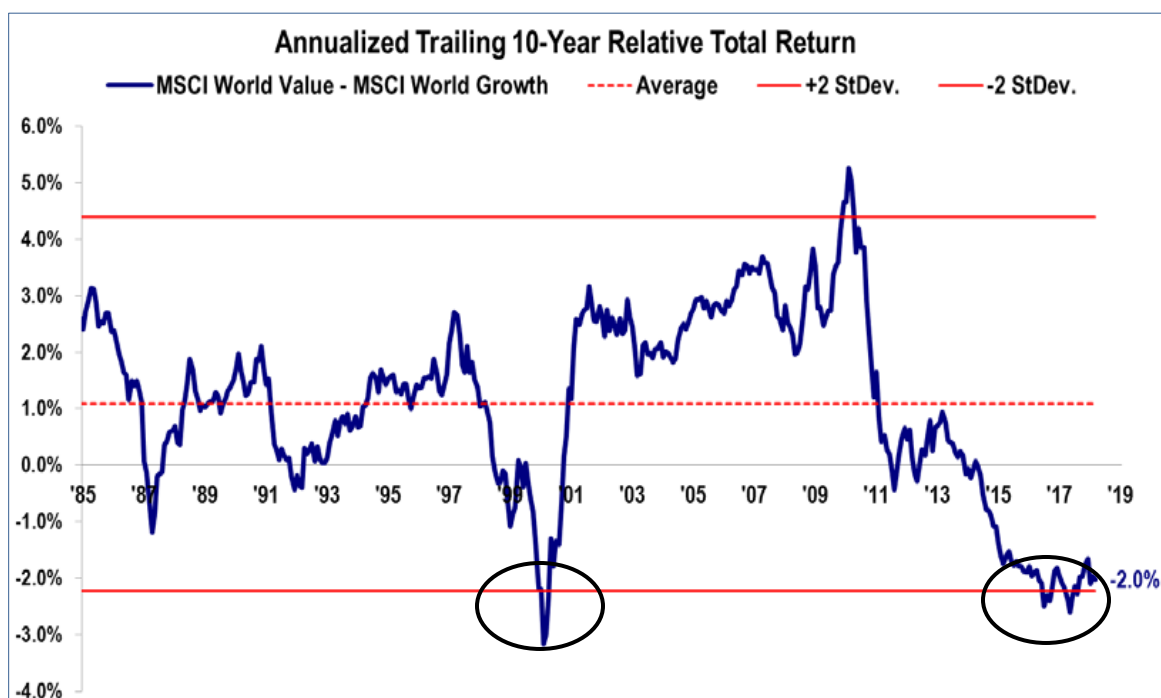
James P. Cullen
Chairman & CEO

2018 Mid-Year Comments (Part II)

International & Emerging Markets

When we started investing in the international (2005) and emerging (2006) strategies, we pointed out that we believe these international markets had better long term growth dynamics than the U.S. market. **However, we went on to emphasize that because these markets were more volatile and unpredictable, a dividend discipline was even more important for these strategies than for the U.S.**

Presently the international and emerging markets on a fundamental basis are at historic low levels both as to P/E and book value. Also, dividend yields are at very attractive global rates. Because of the strong dollar and trade concerns, these stocks have come under additional pressure on top of being out of favor. The chart below shows how dramatic the sell-off has been in value stocks globally. **The table on the next page will show how powerful the recovery was for international the last time we reached the same oversold levels - much stronger than the U.S. recovery.**



Source: Strategas Research, March 31, 2018.

Recovery

Year	Total return for MSCI EM	Total return for S&P 500	Difference
2001	-2.4%	-11.9%	+9.5%
2002	-5.9%	-22.1%	+16.2%
2003	+55.8%	+28.7%	+27.2%
2004	+26.0%	+10.9%	+15.1%
2005	+34.3%	+4.9%	+29.4%
2006	+32.5%	+15.8%	+16.7%
2007	+39.7%	+5.6%	+34.1%

Dividends

The important aspect of the dividend strategy is not only the dividend yield but also the dividend growth. In our U.S. High Dividend strategy, because of dividend growth in the Dead Decade of 2000-2010, when the market was actually down 5%, the strategy because of dividend growth was up almost 100% as dividends went from 3.5% in 2000 to 7.5% in 2010 (yield on cost).

The same dividend growth principle applies for the international and emerging market strategies. And while the dividend yield on a one year basis doesn't mean much, over a longer period of time it does. Below is a list of ten major holdings in the international portfolio showing where the dividend went from 2007 to 2017. Similar information is available for our Emerging Markets portfolio.

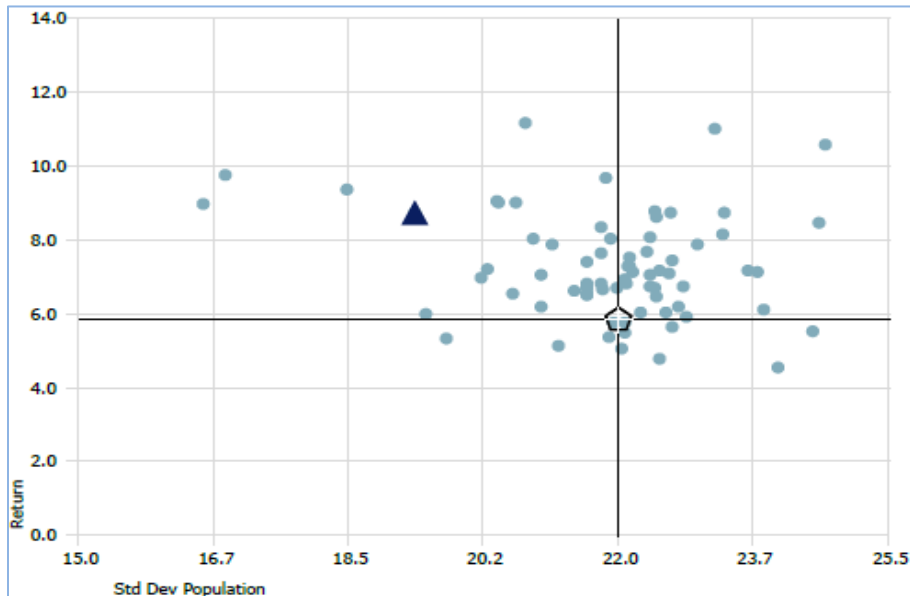
Stock	Dividend Currency	DPS Paid in 2007	DPS Paid in 2017	Percentage Gain
British American Tobacco	British Pound	0.59	2.18	+271%
ABB	Swiss Franc	0.24	0.76	+217%
Siemens	Euro	1.45	3.60	+148%
Roche	Swiss Franc	3.40	8.20	+141%
Nestle	Swiss Franc	1.04	2.30	+121%
Daimler	Euro	1.50	3.25	+117%
Novartis	Swiss Franc	1.35	2.75	+104%
Allianz	Euro	3.80	7.60	+100%
Unilever	Euro	0.72	1.40	+94%
Diageo	British Pound	0.33	0.62	+90%

Risk

One thing we have stressed in our general market letters is the importance of looking at performance on a risk adjusted basis, especially because of the long market advance. **The below charts highlight the performance first of the Emerging Market strategy versus its peer group since inception back in 2005 and following that the risk analysis for the International High Dividend strategy.**

Emerging Markets High Dividend Strategy

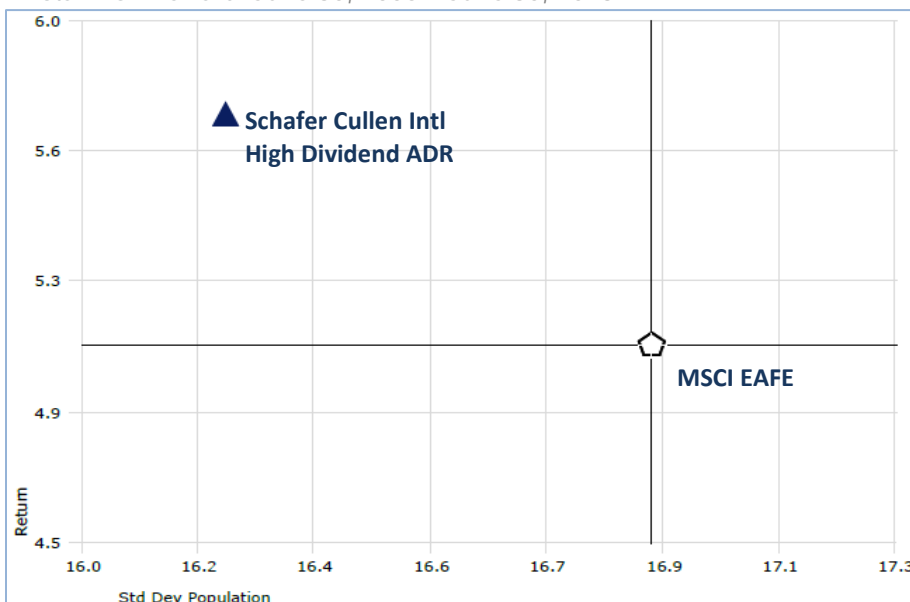
SCCM EM High Dividend vs. Peer Group Risk/Reward Since Inception*



Source: SCCM, Morningstar Direct, 6/30/2018. *Please refer to net performance. Since Inception Date: 12/31/2005

International High Dividend Value ADR

Since Inception Total Risk Reward: June 30, 2005 – June 30, 2018



Source: SCCM, Morningstar Direct, June 30, 2018

Summary

The international markets, especially emerging markets, have been weak year to date because of the strong dollar and concern over the trade talks. The result is that for the first six month of this year, emerging markets were the worst performer of all the different strategies (growth, value, small cap and bonds).

The swings from worst performer to best performer over the last twenty years had been dramatic. In those twenty years, emerging markets were best and worst performers in fifteen years (nine years the best - six years the worst). **Any time emerging has been the worst performer, a year or so later it ends up being the best performer.** Performance for international was similar but not as dramatic.

At this stage, with international value so oversold and with valuations at historically attractive levels, and with the dividend cushion for downside protection, the timing should be good for long term investors.

Jim Cullen
Chairman & CEO

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