

December 21, 2018

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Chairman & CEO

2018 Year-End Review (Part II)  
International & Emerging Markets

**The Turn?**

Our 2018 year-end review was called “The Turn to Value”. It highlighted how our High Dividend strategy, for the last three months, has dramatically outperformed the S&P 500, the Value Manager Universe and especially the FANG stocks. **The performance has surprised clients and even us, and has been completely ignored by the financial press.**

We received a few calls from clients who have the international portfolio as well as the high dividend, or they just have the international and emerging market portfolio. **The question is where is the turn for international and emerging markets?** We have separate market letters for both of these strategies even though our firm’s market letters discuss value in general, I think it is worth making a couple points here from an international perspective.

**1) The Turn for Value**

The US market is different in that the FANG stocks got especially extended and have corrected. This not only affects them, but the S&P 500 because of the FANG’s heavy weighting in the index and also the value managers who have over-weighted these stocks. This doesn’t even address the ETF portfolios , which are also over-weighted in FANG.

International markets are not impacted by this FANG influence and are more affected by other factors like country dynamics and currency swings. **However, similar to the US market, the most overpriced stocks have been the strongest performers.** For instance, the most attractively priced stocks by P/E (bottom 20%) of the MSCI EAFE were -14.9% for the last year while the highest priced stocks (top 20%) were up +9.0%, so the valuation discrepancy is similar to the US market.

So despite the fact that the international and emerging market portfolios are more oversold than the US and have higher dividend yields, strong dividend growth, and strong balance sheets, it will take a different dynamic to turn these markets. **But, turn they will, and if history is any guide, the recovery will be much more dramatic than for the US.**

## 2) Dividends

The long term strategy of the international and EM portfolios is dividend yield and dividend growth. **While on a short term basis dividends tend to be somewhat irrelevant, if you take a five-year period, or better yet, a ten-year period, dividends are what give you downside protection and drive the performance.**

When we started managing the international (2004) and EM (2005) portfolios, we pointed out then that these international markets had more potential than the US but were also much more volatile. **Therefore, having a dividend discipline for these portfolios is the key to long term performance.**

What we showed in our last mid-year comments- Part II on international, was the impressive ten-year dividend growth rate for international stocks (attached).

## 3) The Wall Street Quilt

**The quilt (enclosed), which measures sector performance annually, has shown that when the international sectors are the worst performers for a year or two, they wind up being the best performers a year or two later.** So in our opinion, you want to avoid selling these stocks when they are in the worst performing sector.

History shows that during the 1980-2000 period, international and EM were the best performers eight years and the worst performer nine years (85%). From 2000 to 2016 international and EM were best seven years and worse eight years (94%).

## A Final Note

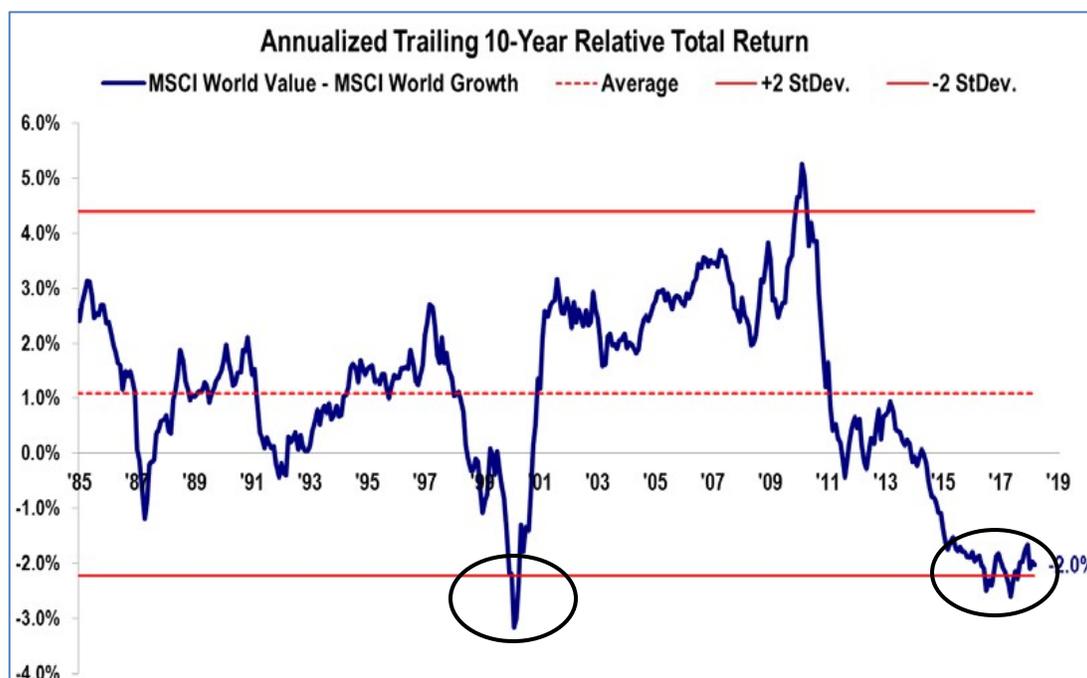
An ad being run by a competitor, which I wish were ours, keeps showing how global GDP is 24% US and 76% the rest of the world. **This statistic and the superior long term growth potential is why we started managing money in this area.**

**An underrated part of our job as portfolio managers is to help clients not make the wrong decisions in challenging markets.**

Jim Cullen

(Enclosed: oversold chart, recovery from oversold sample, dividend increases for international, the 2000-2018 quilt)

## Oversold Chart



Source: Strategas Research, March 31, 2018

## Recovery from Oversold

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%

Source: SCCM, December, 2018

## Dividend Increases for International

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%

Source: SCCM, December, 2018

## 2000-2018 Quilt

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (YTD)
Bonds	+11.63%	+8.43%	+10.26%	+5.82%	+25.55%	+34.00%	+32.17%	+33.38%	+5.24%	+78.51%	+26.85%	+7.84%	+18.23%	+38.82%	+14.89%	+5.52%	+21.31%	+37.88%	+5.21%
US Value	+6.08%	+2.49%	-6.16%	+47.25%	+13.54%	+26.34%	+11.17%	-33.78%	+31.78%	+18.88%	+4.65%	+17.68%	+12.36%	+32.75%	+17.40%	-0.55%	+17.40%	+27.44%	-1.00%
Small Cap	-3.02%	-2.61%	-15.94%	+38.59%	+5.82%	+20.81%	+9.13%	-34.92%	+31.57%	+15.10%	-0.46%	+17.52%	+17.52%	+31.99%	+5.97%	-0.81%	+11.19%	+25.03%	-4.53%
International	-14.17%	-11.71%	-20.48%	+31.79%	+4.55%	+18.37%	+6.97%	-39.22%	+27.17%	+15.05%	-4.18%	+16.35%	+16.35%	+22.78%	+4.88%	-3.13%	+6.89%	+15.39%	-5.13%
US Growth	-22.08%	-12.73%	-20.85%	+25.66%	+4.00%	+11.01%	+1.99%	-43.38%	+21.17%	-7.75%	-12.14%	+14.61%	+14.61%	-2.02%	-2.19%	-4.41%	-2.65%	+14.65%	-12.86%
EI	-30.71%	-21.44%	-23.59%	+4.34%	+2.43%	+4.33%	-1.57%	-53.33%	+5.93%	+6.54%	-18.42%	+4.21%	+4.21%	-2.60%	-4.90%	+1.00%	+1.00%	+3.54%	-14.87%

Source: SCCM, December, 2018

**Past performance is no guarantee of future results.** Market conditions can vary widely over time and can result in a loss of portfolio value. Individual account performance results will vary and will not match that of a composite or model used by the Adviser. Schafer Cullen Capital Management, Inc. makes no representation that the use of this material can in and of itself be used to determine which securities to buy or sell, or when to buy or sell them; SCCM makes no representation, either directly or indirectly, that any graph, chart, formula or other device being offered herein will assist any person in making their own decisions as to which securities to buy, sell, or when to buy or sell them. All opinions expressed constitute Schafer Cullen Capital Management's judgment as of the date of this report and are subject to change without notice. 20181221.30637