International High Dividend Equity Strategy
Q3 2018 Commentary

Market and Economic Review

International equity markets rebounded somewhat in the quarter from oversold levels against a mixed backdrop consisting of normalizing interest rates in the United States, continued healthy corporate profitability, some political noise in Europe and weakness across select Emerging Markets. On the trade front, there was positive news with progress made in renegotiating NAFTA and with the US and EU agreeing, for now, to not introduce any new tariffs on each other. 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.

In the quarter, Energy, along with non-cyclical sectors such as Healthcare and Communications, outperformed, whereas cyclical sectors such as Consumer Discretionary and Information Technology, and bond-proxy sectors, such as Real Estate and Utilities, underperformed. By region, Developed Asia Pacific outperformed Western Europe and Developed Markets outperformed Emerging Markets. By country, Sweden, Switzerland, Finland, Japan, France and Taiwan outperformed, whereas China, South Africa, India, Belgium, Italy and Spain underperformed. 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 as international earnings and dividend growth accelerates.

Portfolio Performance

We outperformed our benchmarks this quarter despite higher dividend paying equities being under pressure globally against the backdrop of rising interest rates in the United States. We continue to believe that our strategy, which invests in high-quality companies at reasonable valuations, 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	10 Year	Since Incept*
SCCM Intl High Div (gross)	**1.7**	**-3.3**	**-1.4**	**6.9**	**3.2**	**3.8**	**6.5**
SCCM Intl High Div (net)	**1.5**	**-3.8**	**-2.0**	**6.3**	**2.5**	**3.1**	**5.8**
MSCI EAFE	**1.4**	**-1.4**	**2.7**	**9.2**	**4.4**	**5.4**	**5.9**
MSCI ACWI ex US	**0.7**	**-3.1**	**1.8**	**10.0**	**4.1**	**5.2**	**6.4**

*August 31, 2004. Performance for periods greater than 1 year is annualized.

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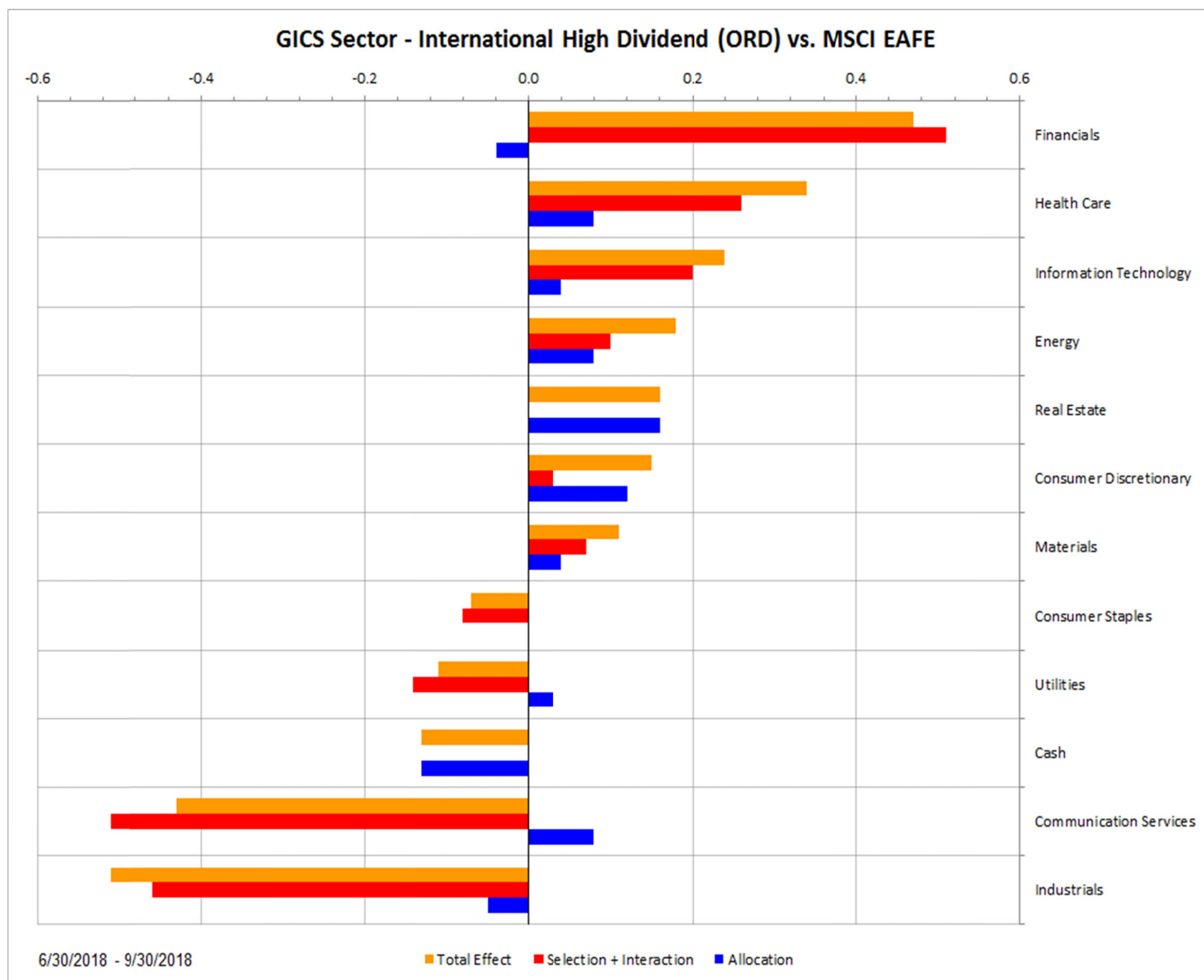
Sector Attribution

The largest contributor to relative performance was our overweight allocation to ***Communication Services, Energy*** and ***Healthcare*** our underweight allocation to ***Real Estate, Consumer Discretionary, Information Technology*** and ***Utilities.*** We made these allocation decisions based on valuations and the visibility and sustainability of future dividend streams while looking to avoid companies with high levels of financial and/or operating leverage. Stock selection aided us in ***Financials***, ***Information Technology***, ***Healthcare, Materials*** and ***Energy*** where a diverse set of leading companies outperformed, including NN Group, Investor AB, ASE Industrials, Novartis, Norilsk Nickel and China Petroleum & Chemical.

The largest detractor from relative performance was our stock selection in ***Communication Services***, ***Industrials***, ***Utilities*** and ***Consumer Staples***. In many cases our portfolio companies in these sectors were held back by negative short-term factors though we see limited, if any, meaningful impact to the long-term earnings power of these companies. Our overweight allocation to ***Financials*** and ***Consumer Staples*** and our underweight to ***Industrials*** hurt performance. Cash hurt performance during the quarter.

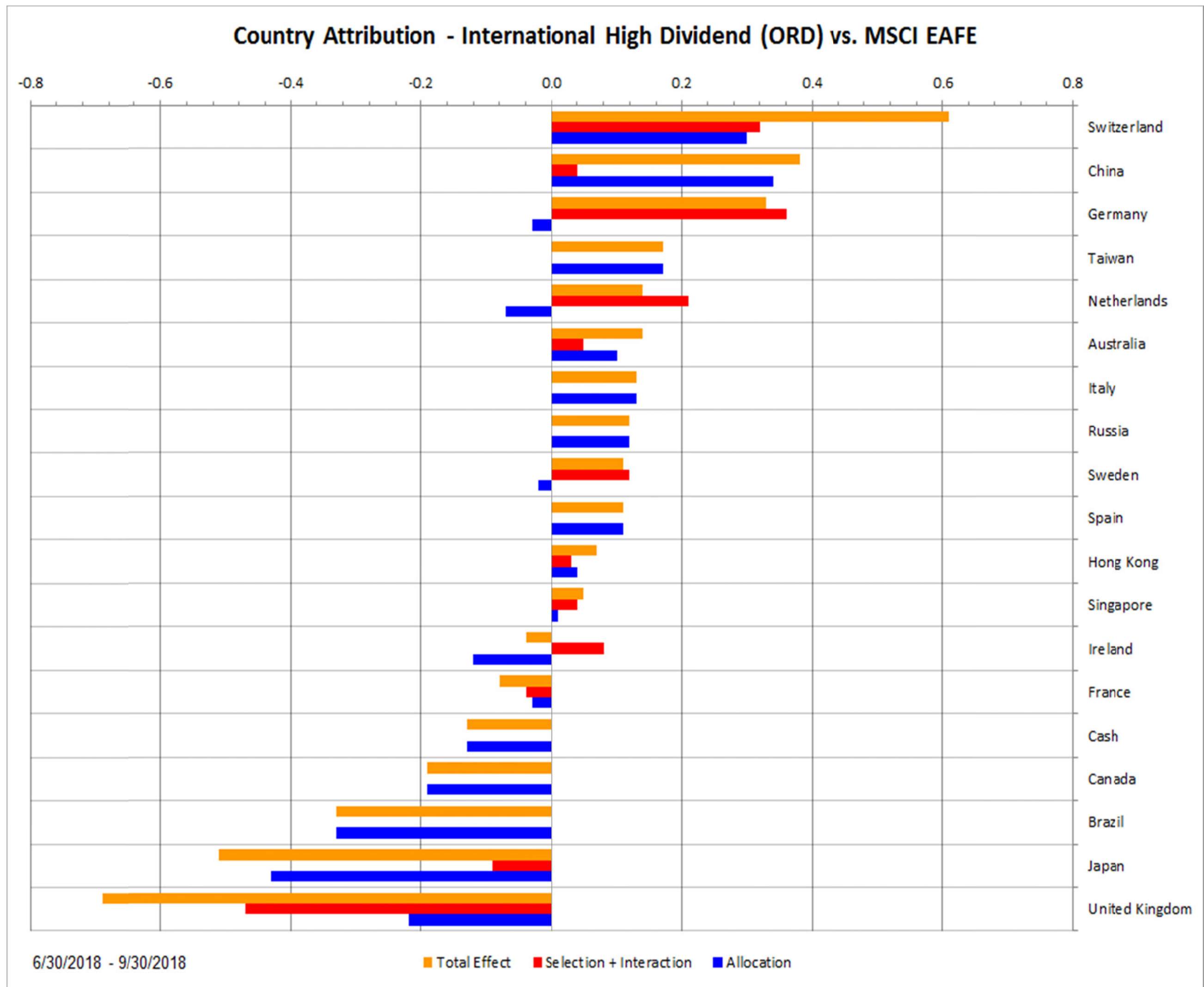


Source: Bloomberg, 09/30/2018

Country Attribution

The largest contributor to relative performance was our superior stock selection in Germany, Switzerland, Netherlands, Sweden, Ireland and Australia. Outperformers here include Allianz, Novartis, NN Group, Investor AB, Smurfit Kappa and Sonic Healthcare. Our overweight allocation to Switzerland and Singapore and our underweight allocation to Italy, Spain and Belgium aided performance.

The largest detractor from relative performance was our underweight allocation to Japan, Finland and France and our overweight allocation to the United Kingdom, Ireland and Netherlands. Stock selection hurt us in the United Kingdom, Japan and France as value investments underperformed growth investments though we believe that this trend should normalize over the long-term. Cash hurt performance during the quarter.



Source: Bloomberg, 09/30/2018

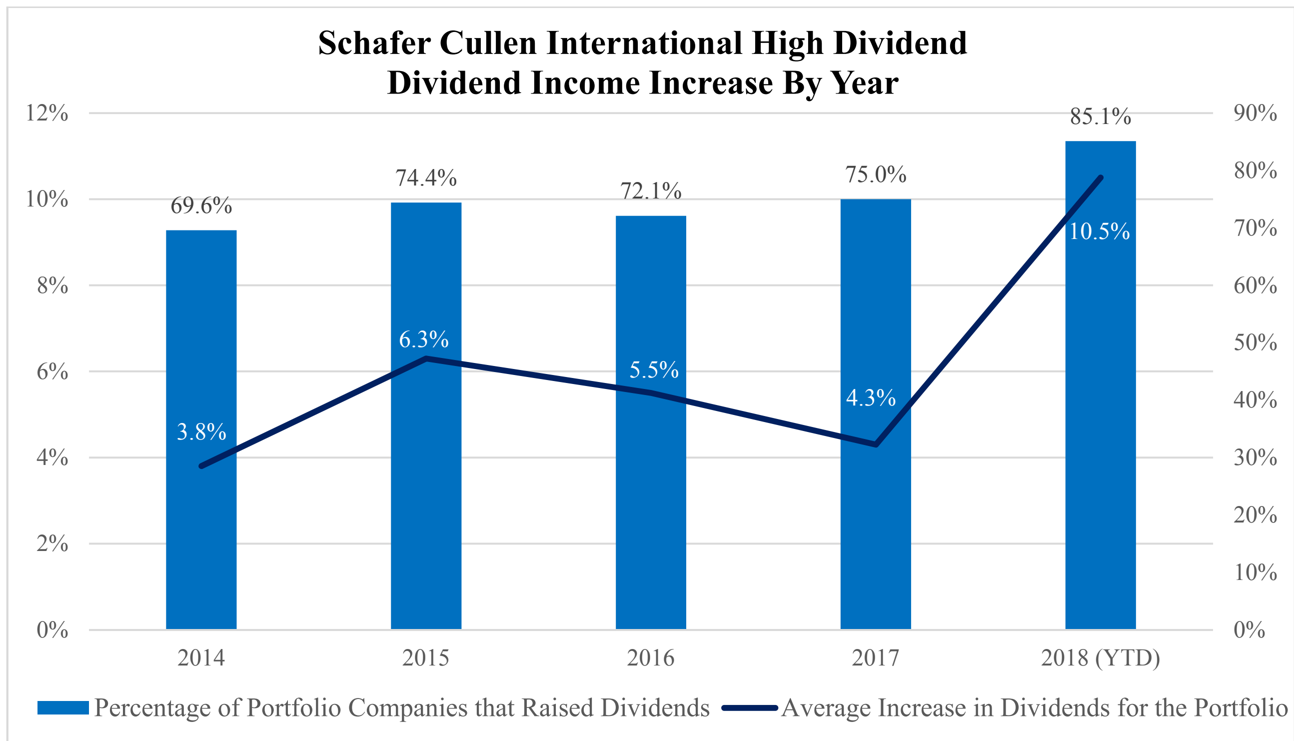
Purchases and Sales:

None.

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. 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.

Our international value strategy offers the patient long-term investor with the ability to benefit from the normalization of two major discounts of meaningful proportion, all the while collecting an attractive near 5.0% dividend payment. Importantly, while markets can be volatile over the short-term, it is encouraging to note, as seen below, that 2018 has been the best year in five years for dividend growth in our international high dividend strategy. This year, 40 out of out 47 of our holdings have grown their dividend payments by an average of 12.6% YoY with income across the strategy growing by 10.5% YoY. The ability and willingness of our portfolio companies to accelerate dividend payments against a backdrop of weakening investor sentiment may thus indicate that long-term business conditions are better than what consensus expectations imply.



Source: SCCM Research/Bloomberg; 09/30/2018

The recent rise in US interest rates after nearly a decade of negative real interest rates has put some pressure on global asset prices. 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.

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 example is Japanese growth stocks, which aided by ultra-low interest rates, have nearly tripled the returns of MSCI EAFE over the last five years. This is an important consideration as Japan is the largest international market presently with a weight in MSCI EAFE of 24.6%. 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, 4.9% dividend yield and a faster and more sustainable dividend growth profile relative to the benchmark MSCI EAFE. Thus far in 2018, 85% of our portfolio companies which have declared dividends have raised their dividend payments by an average of 12.6% YoY. In this regard, strong dividend increasers include Sinopec, Norilsk Nickel, United Overseas Bank, Lloyds Banking, British American Tobacco, Telefonica Brasil, Nippon Telegraph & Telephone, Daimler, BNP Paribas, Smurfit Kappa, BOC Hong Kong and Imperial Brands. With strong balance sheets and continued earnings growth, we anticipate that this trend will continue in 2018 and beyond.

Best Regards,

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

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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.

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All opinions expressed constitute Schafer Cullen Capital Management's judgment as of the date of this report and are subject to change without notice.

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

Portfolio Exposure

Sectors	% Asset	Regions	% Asset
Communication Services	9.0	Developed Asia Pacific	12.8
Consumer Discretionary	6.1	Continental Europe	47.9
Consumer Staples	11.4	United Kingdom	21.9
Energy	10.2	North America	4.7
Financials	27.8	Asia Pacific Emerging	5.7
Health Care	13.8	Latin America	1.4
Industrials	9.5	EMEA	1.7
Information Technology	2.5		
Materials	4.3		
Real Estate	0.0	Developed Markets	87.3
Utilities	1.7	Emerging Markets	8.8
Cash	4.0	Cash	4.0
Total	100.0	Total	100.0

Top 10 Countries		Top 10 Holdings	
United Kingdom	21.9	China Petroleum & Chemical	3.3
Switzerland	16.6	Novartis	3.2
Germany	10.6	Zurich Insurance Group	3.1
France	9.0	NN Group	3.0
Netherlands	6.7	Roche Holding	3.0
Japan	5.2	Nestle	3.0
Canada	4.7	Nippon Telegraph & Telephone	2.9
Singapore	3.4	ABB	2.9
China	3.2	United Overseas Bank	2.8
Ireland	2.6	Allianz	2.8

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Q3 18 LT Debt / Capital	Est. LT DPS Growth	Est. LT EPS Growth	Q3 18 Market Cap
SCCM Intl High Div	11.9	4.9	29.4	8.1	9.7	82.7
MSCI EAFE Index	14.4	3.2	27.9	7.5	10.1	63.3

Source: SCCM Research, BCA Research, Bloomberg