International High Dividend Equity Strategy
Q2 2019 Commentary

Market and Economic Review

Global equity markets continued to move higher in Q2 2019 against a backdrop of historically wide equity risk premiums, more range-bound trends in near-term corporate profitability and lingering uncertainties on trade tariffs. Aiding the recovery in asset prices this year, following a more challenging period for performance in 2018, are renewed signs that monetary policy near-term is likely to be more accommodative than was earlier expected. Markets also welcomed news that China and the US reached some concessions and agreed to resume trade negotiations following a stalemate at the beginning of the quarter. In this environment of renewed risk-taking, equities and fixed income both appreciated, junk bonds underperformed investment grade bonds, long-term interest rates fell and the US Dollar remained largely range-bound.

In the quarter, performance was led by cyclical sectors including Information Technology, Consumer Discretionary, Industrials, Financials and Materials. By region, Western Europe outperformed Asia Pacific and Developed Markets outperformed Emerging Markets. By style class, we experienced a mix of headwinds and tailwinds as value underperformed growth 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.

Portfolio Performance

We outperformed the MSCI ACWI ex US and MSCI EAFE Value indices this quarter while underperforming the MSCI EAFE index as value stocks underperformed growth stocks by a wide margin of over 400 basis points. 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.

	Q2	YTD	1 Year	3 Year	5 Year	10 Year	Since Incept*
SCCM Intl High Div (gross)	**3.6**	**12.6**	**2.1**	**5.5**	**1.0**	**6.4**	**6.2**
SCCM Intl High Div (net)	**3.5**	**12.4**	**1.5**	**4.9**	**0.3**	**5.7**	**5.5**
MSCI EAFE	**3.7**	**14.0**	**1.1**	**9.1**	**2.3**	**6.9**	**5.6**
MSCI ACWI ex US	**3.0**	**13.6**	**1.3**	**9.4**	**2.2**	**6.5**	**6.1**

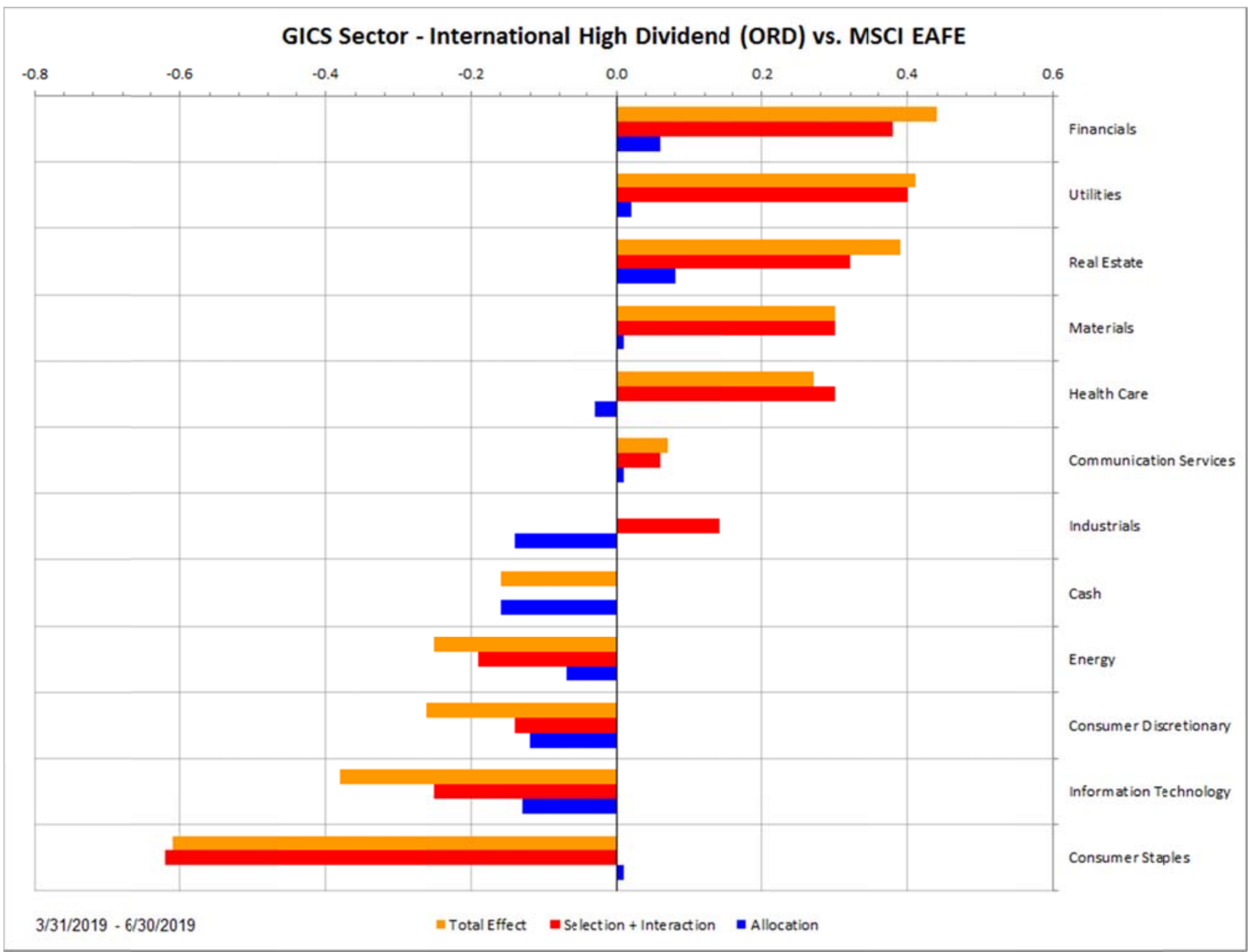
*August 31, 2004. Performance for periods greater than 1 year is annualized.

645 Fifth Avenue ⬩ New York, NY 10022 ⬩ Tel 212.644.1800 ⬩ Fax 212.593.4275 ⬩ www.schafer-cullen.com

Sector Attribution

The largest contributor to relative performance was our stock selection across a mix of both cyclical and non-cyclical sectors, including ***Utilities***, ***Financials***, ***Real Estate***, ***Materials***, ***Health Care***, ***Industrials*** and ***Communication Services***. Performance was led by a group of world-leading companies with strong balance sheets, proven track records of innovation and portfolio optimization initiatives, including Iberdrola, Zurich Insurance, Allianz, Ascendas REIT, Norilsk Nickel, Novartis and Siemens. Our relative performance also benefited from our underweight allocation to ***Real Estate*** and ***Materials*** and our overweight allocation to ***Financials*** and ***Utilities***. We made these allocation decisions based on the visibility and sustainability of future dividend streams while looking to avoid companies with high levels of financial and/or operating leverage.

The largest detractor from relative performance was our underweight allocation to ***Industrials***, ***Information Technology*** and ***Consumer Discretionary*** as well as our overweight allocation to ***Energy*** and ***Health Care***. Given our portfolio's non-cyclical bias, our performance in the quarter lagged as cyclical high-beta sectors led the way higher. We remain comfortable with these allocation decisions based on valuations and the long-term outlook for our portfolio companies and continue to find new, attractively valued investment opportunities across a number of sectors. Also detracting from relative performance was our stock selection in ***Consumer Staples***, ***Information Technology***, ***Energy*** and ***Consumer Discretionary***. Cash detracted from relative performance during the quarter.

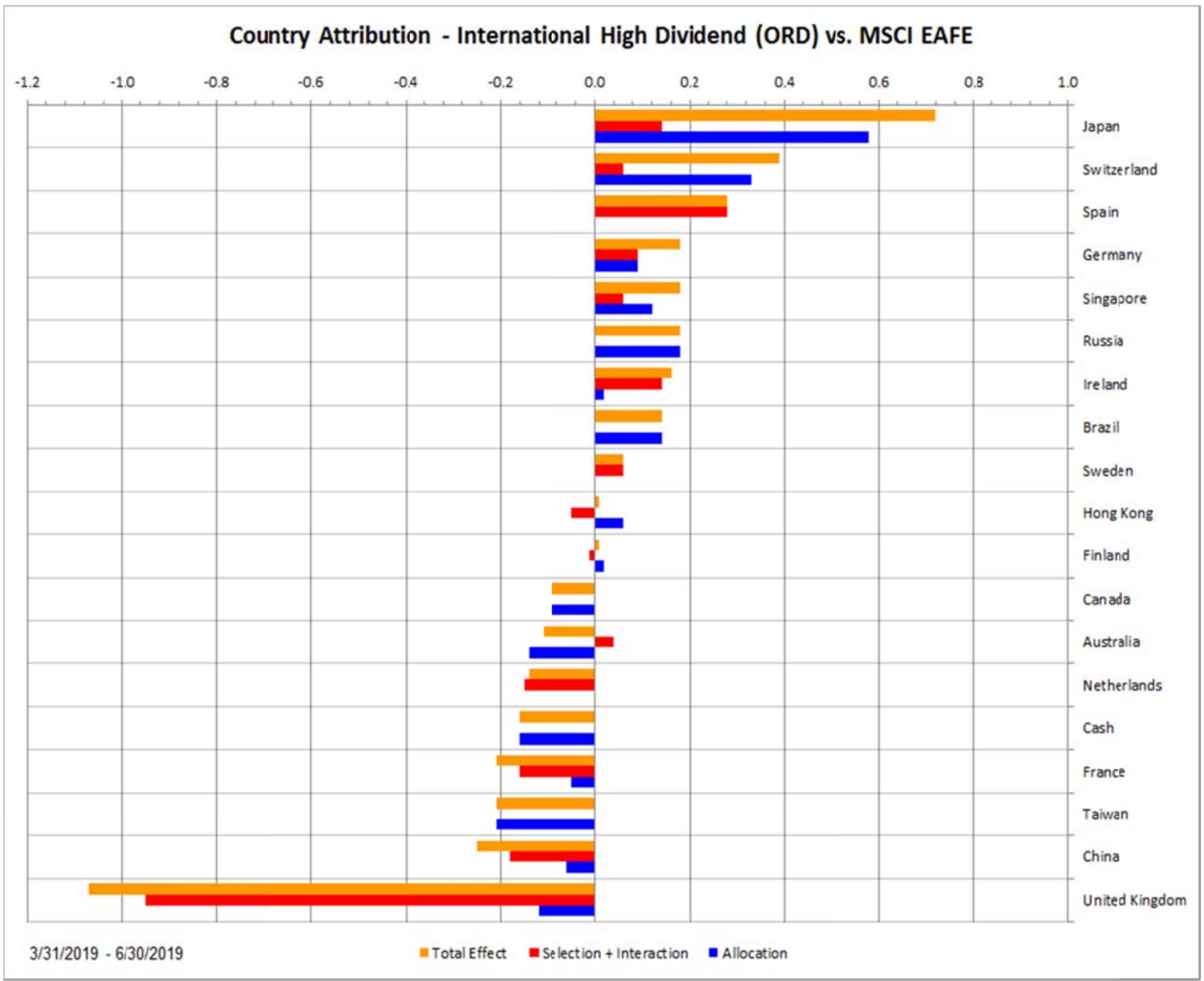


Source: Bloomberg, 06/30/2019.

Country Attribution

The largest contributor to relative performance was our underweight allocation to ***Japan*** and our overweight allocation to ***Switzerland***, ***Russia*** and ***Singapore***. Across these countries, strong performers were high-quality companies trading at reasonable valuations across both cyclical and non-cyclical sectors, including Zurich Insurance, Nestle, Norilsk Nickel, Ascendas REIT and United Overseas Bank. Stock selection aided relative performance in ***Spain***, ***Japan*** and ***Ireland***, where we benefited from our exposure to companies positioned within well-structured markets with unique stock-specific catalysts, including Iberdrola, Nippon Telegraph & Telephone and Smurfit Kappa.

The largest detractor from relative performance was our stock selection in the ***United Kingdom***, ***China***, ***France*** and the ***Netherlands***, where a subset of our portfolio holdings was impacted by sector-level headwinds and transient stock-specific developments; nevertheless, we expect the affected companies to continue generating a stream of growing earnings and dividends over the long term. Our relative performance was also impacted by our underweight allocation to ***Australia*** and ***France*** and our overweight allocation to the ***United Kingdom*** and ***Canada***. We retain confidence in our allocation decisions based on valuations and the long-term outlook of our portfolio companies. Cash detracted from relative performance during the quarter.



Source: Bloomberg, 06/30/2019.

Purchases:

UPM-Kymmene Oyj **Finland** **Materials**

UPM-Kymmene Oyj (UPM) is a Finnish global forest products company with core businesses in printing papers, label materials (raflatac), wood products and pulp. While the company has historically been seen as a pulp producer, UPM has since evolved into a cutting-edge, renewables, recyclable, emission-efficient, bio-products integrated supplier. Management has done an exceptional job taking costs out from its declining paper business and improving margins in its pulp business by expanding into lower-cost production bases in South America that should translate into meaningful earnings growth over the coming years. Additionally, as the second largest supplier of raflatac globally, UPM has exposure to structurally growing markets as e-commerce and packaging needs expand and diversify. The company is also a global leader in sustainable solutions given its exposure to biofuels and bio-chemicals that can be used in the production of biodiesel and bio-degradable plastics. This represents a source of incremental demand for UPM's products, as increasing environmental regulations and carbon-conscious consumers drive changes in consumption habits in the energy, hygiene, food packaging, retail and other industries. While the company operates within a cyclical industry, UPM offers a relatively more defensive exposure given its diversification into divisions that are less cyclical and more profitable relative to its traditional graphic and printing paper business. We believe that industry consolidation and the company's more diversified exposure can translate into above-average margins through the cycle, supported by limited anticipated capacity expansions in the global pulp market. In addition, the company's balance sheet strength in terms of a near-net-cash position and a free cash flow yield of nearly 10%, supports its progressive dividend policy. Despite these long term catalysts and leading market positions, shares of UPM trade at a discount to both global peers and its own history. Shares of the company are valued at 11.0 times forward earnings and offer a 5.9% forward dividend yield.

Sales:

Alcon **Switzerland** **Healthcare**

We sold our position in Alcon, a vision care provider that was spun out of Novartis, one of our core portfolio holdings. Alcon's assets encompass both ophthalmic surgical equipment, intraocular lenses, contact lenses and other ocular health products. While the company is in a stronger position following a restructuring program initiated by Novartis and has several promising pipeline assets, we believe that Novartis has retained the more profitable vision care pharmaceutical assets. Moreover, Alcon does not pay a dividend, so we decided to reallocate capital to more attractive alternatives in the space.

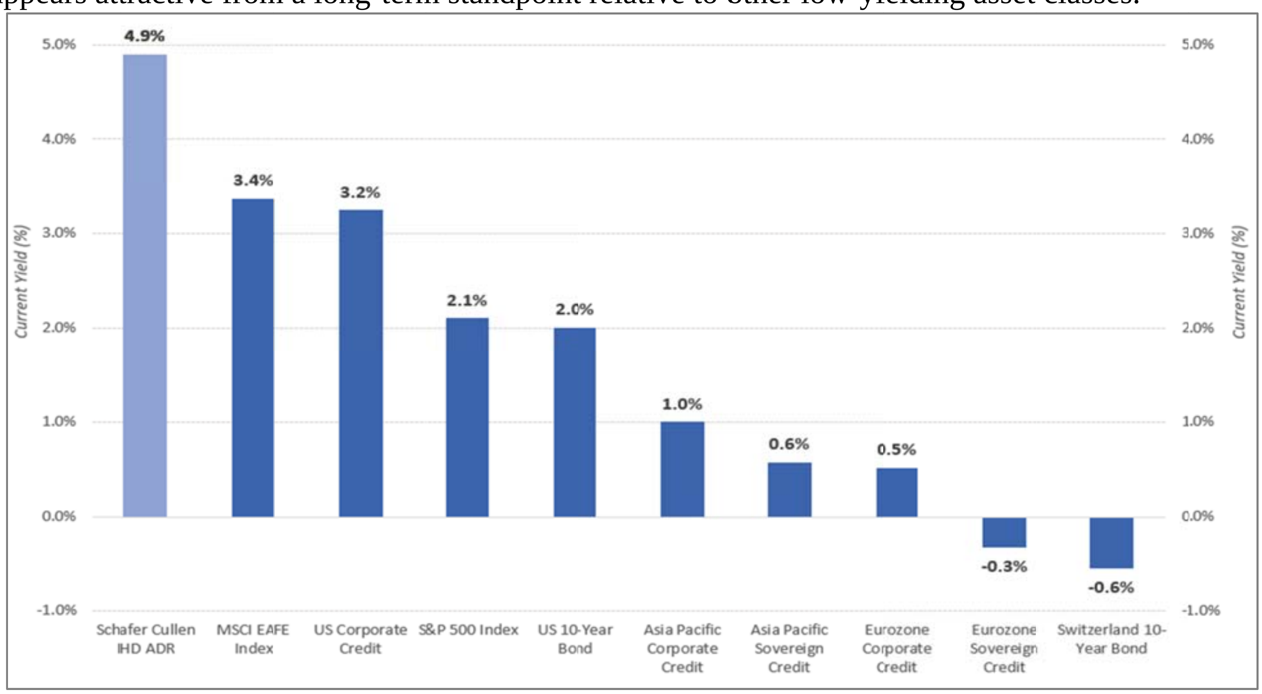
Vodafone **United Kingdom** **Communication Services**

We sold our position in Vodafone, a British mobile telecommunications operator, following the company's decision to rebase its dividend. While the forward dividend yield remains above 6%, we believe that the company's ability to return to dividend growth will be challenged going forward. Moreover, we find a better combination of dividend yield and growth among other names in our portfolio and have consequently decided to reallocate this capital into more attractive alternatives.

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 among the lowest weight in the MSCI World Index in 40 years, at 37.3% versus their long-term average weight of 51.4%, as the performance of world equities is being dominated by a narrow group of US-domiciled large capitalization growth stocks. Notably, 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. 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. Thus, our international value 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 near 5.0% dividend payment.

In much of the developed world, extensive monetary policy interventions by central banks have led to over $10 trillion of bonds globally having a negative yield, with this figure more than doubling when considering bonds with a negative real yield, defined as a yield lower than the rate of inflation. As the figure below illustrates, the average dividend yield on our portfolio far exceeds the yield offered by passive US and international equity benchmarks as well as several sovereign and corporate fixed income products. In fact, the average dividend yield on our portfolio companies is currently over four times as high as the yield available on bonds issued by these same companies. Additionally, our portfolio companies have meaningfully grown their dividends over the long-term, whereas yields on fixed income do not grow, which makes the comparison even more dramatic. It is interesting to note that several of our well positioned holdings with low balance sheet leverage have been taking advantage of the current low interest rates. Thus, a portfolio of high-quality value equities like ours, with a sustainable and growing dividend yield and low balance sheet leverage, appears attractive from a long-term standpoint relative to other low-yielding asset classes.



Source: Bloomberg, SCCM Research, 6/30/2019.

We currently are experiencing the third episode of an earnings slowdown since the global economic recovery began in 2009. The first two such episodes in 2011-2012 (US and EU government debt crises) and 2015-2016 (China slowdown and crude oil at $26/barrel) turned out to be buying opportunities as earnings growth resumed after a few quarters of stagnation. Presently, earnings are weak in early-cycle industries such as autos, materials, construction, capital goods, retailing, semiconductors, banks and life insurance. These industries, in many cases, are being held back by a combination of cyclical and structural factors including rising trade tensions, falling interest rates, slowing economic growth and technological disruption. While a short-term truce in the trade war between the United States and China would be positive, it may come at a cost to the operating margins of companies with complex global supply chains as they look to onshore some of their production to insulate themselves from future such disruptions. Brexit, which also largely relates to trade, is difficult to model and thus, in making our long-term investment decisions, we are not relying on any key assumptions here. Though it is tempting to forecast that near-record low interest rates must at some point mean-revert, there is no certainty of if and when this may occur. Thus, we tend to prefer investments which can perform well irrespective of the interest rate environment and this, in part, explains our long-standing overweight allocation to property & casualty insurers, which rely on underwriting results as opposed to banks in Europe which largely depend on interest rates. On technological disruption, much judgement is required as not every so-called disrupted company may be truly disrupted and most disruptors may not be worthwhile investments, particularly in light of their current valuations. While we remain meaningfully underweight companies which are experiencing several of these near-term earnings headwinds, we continue to patiently analyze potential investment opportunities in this space using our disciplined value approach.

It is worth noting that the best periods for equity returns have usually followed challenging environments as valuations tend to become more attractive and earnings have room to recover. Conversely, equity returns tend to struggle after periods of euphoria and high valuations, including in the case of internet/technology companies in 2000 and commercial/investment banks in 2007. Currently, this set of conditions appears present in highly-valued concept stocks in the consumer discretionary and information technology sectors globally which have significantly outperformed over the last seven years. Historically, when one sector majorly outperforms, this leads to higher valuations, elevated expectations and a flow of capital which tends to drive down prospective returns. A case in point here is the high valuations ascribed to many innovative companies in currently fast-growing areas such as cannabis, cryptocurrencies, space tourism, digital marketing and the sharing economy. These companies continue to generate substantial losses more than ten years after their founding and this raises the question of whether they have sound business models which will allow them to survive an economic downturn and/or a more difficult environment for venture capital funding. Liquidity conditions across various investments is another concern. The recent meaningful outflows at some prominent fund management firms which chose to invest in private or less liquid securities that came under sudden and unexpected pressure are a clear indicator that risks remain in several more exotic passive investment vehicles, which may have similar exposures and have hitherto not been tested by a meaningful market dislocation. 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. Hence, as always, we look to tune out the popular fads of the day while remaining committed to applying our disciplined value approach to investing over the long-term, with the goal of generating robust absolute and risk-adjusted returns.

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 are well positioned with a higher 4.9% dividend yield and a more sustainable dividend growth profile relative to the benchmark MSCI EAFE. After an exceptionally strong year of dividend growth in 2018, the trend has continued so far in 2019, with 86% of our portfolio companies which have declared dividends having raised their dividend payments by an average of 9.5% YoY. In this regard, strong dividend increasers include Norilsk Nickel, United Overseas Bank, Nippon Telegraph & Telephone, NN Group, Manulife Financial, BOC Hong Kong, Telefonica Brasil, Allianz, Smurfit Kappa, Honda Motor and Imperial Brands. With strong balance sheets and continued earnings growth, we anticipate that this trend will continue in 2019 and beyond.

Best Regards,

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

Appendix: Portfolio Exposure and Characteristics as of 06/30/2019

Portfolio Exposure

Sectors	% Asset	Regions	% Asset
Communication Services	8.6	Developed Asia Pacific	14.1
Consumer Discretionary	5.4	Continental Europe	52.9
Consumer Staples	10.8	United Kingdom	17.6
Energy	7.1	North America	4.4
Financials	26.1	Asia Pacific Emerging	3.0
Health Care	15.7	Latin America	1.9
Industrials	7.4	EMEA	2.0
Information Technology	1.4		
Materials	6.2		
Real Estate	0.0	Developed Markets	89.0
Utilities	4.3	Emerging Markets	6.9
Cash	4.1	Cash	4.1
Total	100.0	Total	100.0

Top 10 Countries		Top 10 Holdings	
United Kingdom	17.6	Novartis	4.0
Switzerland	17.1	Nestle	3.5
Germany	11.5	Roche Holding	3.4
France	10.1	Zurich Insurance Group	3.4
Singapore	5.5	Sonic Healthcare	3.2
Netherlands	4.8	Allianz	3.0
Canada	4.4	Iberdrola	2.9
Japan	4.0	Ascendas REIT	2.9
Australia	3.0	United Overseas Bank	2.9
Spain	2.8	Total SA	2.7

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Q2 19 LT Debt / Capital	Est. LT DPS Growth	Est. LT EPS Growth	Q2 19 Market Cap
SCCM Intl High Dividend	13.1	4.9	31.4	8.0	9.6	$85.1
MSCI EAFE Index	15.2	3.6	29.4	7.5	10.1	$67.0

Source: SCCM Research, BCA Research, Bloomberg