SCHAFER | CULLEN
CAPITAL MANAGEMENT

International High Dividend Equity Strategy
Q4 2019 Commentary

Market and Economic Review:

International equity markets performed strongly in the fourth quarter given growing expectations for a recovery in economic activity and corporate profitability. This is against the backdrop of continued accommodative monetary policy measures from central bankers globally, combined with a near-term reduction in lingering geopolitical risks given prospects for a phase one trade deal between the United States and China and greater clarity in the United Kingdom following a clear majority achieved by the Conservative party in the latest parliamentary election. This latter development is expected to set the stage for the United Kingdom's long-awaited exit from the European Union over the coming months and strengthen the country's negotiating position as it begins discussions with major trading partners. In this positive environment, equities outperformed fixed income, long-term interest rates rose and the international currencies appreciated against the US Dollar.

By sector, performance was primarily led by cyclical sectors with Information Technology, Healthcare, Materials and Industrials outperforming, whereas Consumer Staples, Energy and Real Estate underperformed. By region, Western Europe outperformed Developed Asia and Emerging Markets outperformed Developed Markets. By style class, our strategy faced headwinds as growth outperformed value and small caps outperformed large 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:

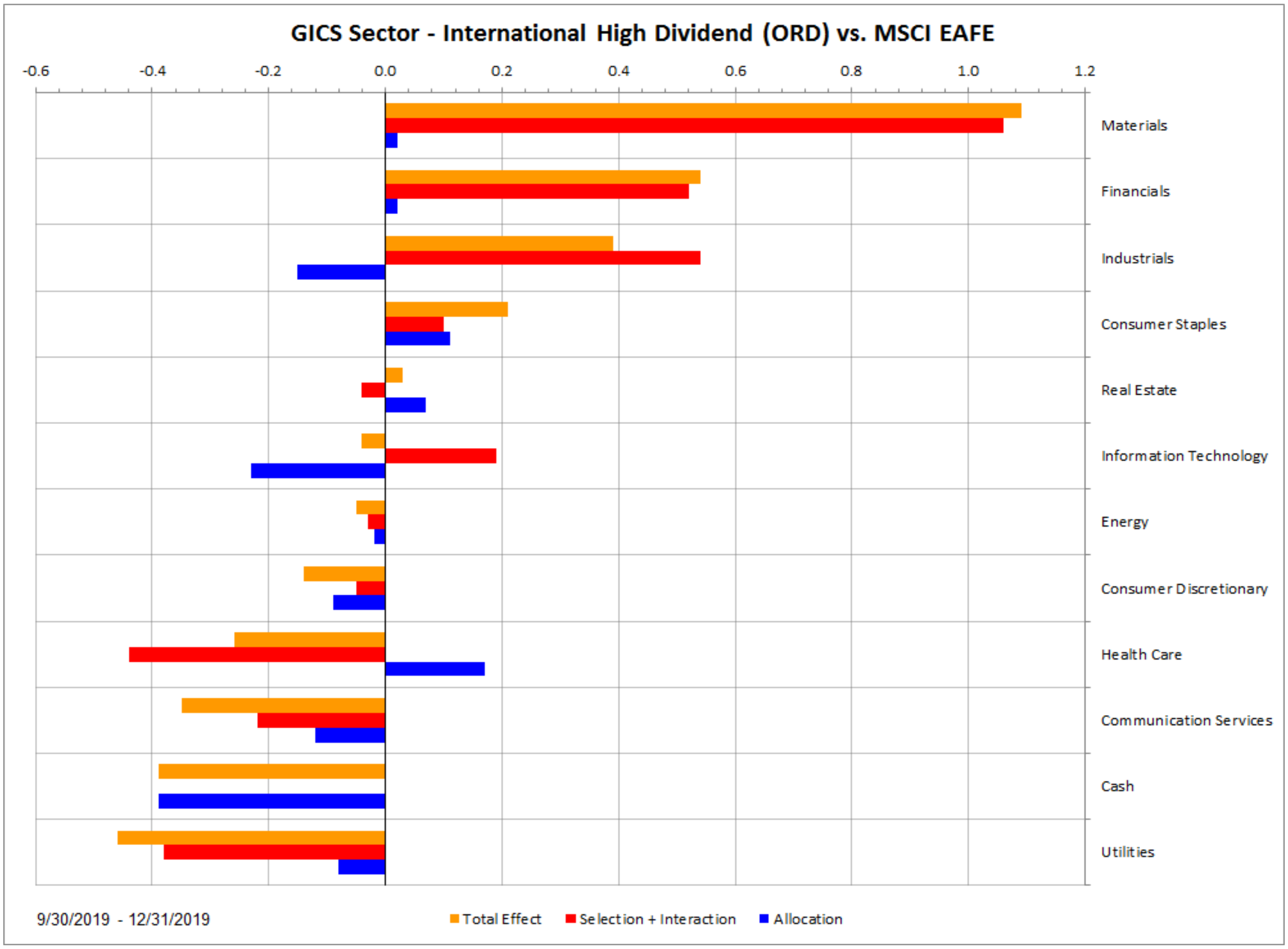
We outperformed our benchmarks, MSCI EAFE, MSCI EAFE Value and MSCI ACWI ex US Value this quarter, driven by strong stock selection. We continue to believe that our strategy, which invests in high-quality companies at reasonable valuations, is well positioned to outperform over a full market cycle while taking on less risk as measured by beta, standard deviation and/or down-market capture.

	Q4	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
SCCM Intl High Div (gross)	**8.8**	**22.9**	**22.9**	**8.2**	**5.2**	**5.2**	**6.6**
SCCM Intl High Div(net)	**8.6**	**22.2**	**22.2**	**7.6**	**4.6**	**4.5**	**5.9**
MSCI EAFE	8.2	22.0	22.0	9.6	5.7	5.5	5.9
MSCI EAFE Value	7.8	16.1	16.1	6.3	3.5	4.0	4.9
MSCI ACWI ex US Value	8.2	15.7	15.7	6.9	3.7	3.6	5.5

*Aug 31, 2004. Performance for periods greater than 1 year is annualized. *Past performance is no guarantee of future results.*

Portfolio Attribution:

Sector Attribution

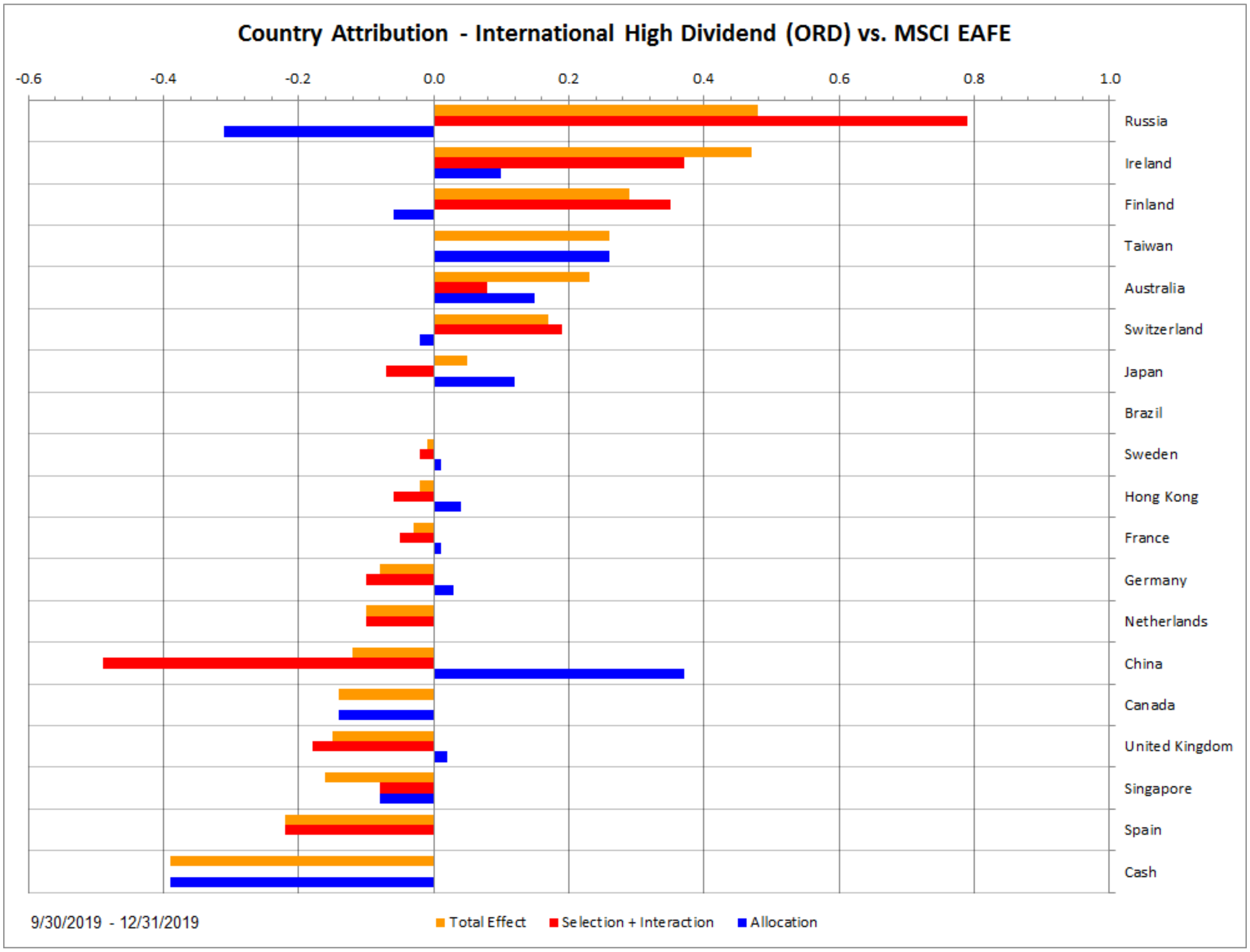


Source: Bloomberg, 12/31/2019

The largest contributor to relative performance was our stock selection across mostly cyclical sectors, including ***Materials***, ***Industrials***, ***Financials***, ***Information Technology*** and ***Consumer Staples***. Performance was led by a group of world-leading companies that benefited from exposure to emission-control end-markets and sustainable packaging solutions, including Norilsk Nickel and Smurfit Kappa, ongoing portfolio restructuring initiatives, including ABB and Siemens, and an improvement in the geopolitical backdrop, including Lloyds Banking Group, BNP Paribas and ASE Technology Holding. We also benefited from our position in British American Tobacco, which outperformed amid an improving regulatory environment. Our relative performance also benefited from our overweight allocation to ***Health Care*** and ***Materials*** and our underweight allocation to ***Consumer Staples*** and ***Real Estate***.

The largest detractor from relative performance was our underweight allocation to ***Information Technology*** and ***Industrials*** as well as our overweight allocation to ***Communication Services*** and ***Utilities***. In many cases, our portfolio companies in these sectors were held back by negative short-term factors, including sector-level headwinds, but we see limited, if any, meaningful impact to the long-term earnings power of these companies. We generally remain comfortable with these allocation decisions based on valuations and the long-term outlook for our portfolio companies. Also detracting from relative performance was our stock selection in ***Health Care***, ***Utilities*** and ***Communication Services***.

Country Attribution



Source: Bloomberg, 12/31/2019

The largest contributor to relative performance was our stock selection in ***Russia***, ***Ireland***, ***Finland***, ***Switzerland*** and ***Australia***. Across these countries, strong performers were high-quality companies trading at reasonable valuations across mainly cyclical sectors, including Norilsk Nickel, Smurfit Kappa, UPM-Kymmene, ABB and Sonic Healthcare. Our relative performance also benefited from our overweight allocation to ***Taiwan***, ***Ireland*** and ***Germany*** and our underweight allocation to ***Australia***, ***Japan*** and ***Belgium***. Across these countries, strong performers were high-quality companies with below-average cyclical risk, including ASE Technology Holding, Siemens, Munich Re, Nippon Telegraph & Telephone and Toyota Motor.

The largest detractor from relative performance was our overweight allocation to ***Canada***, ***Singapore*** and ***Finland*** and our underweight allocation to ***Denmark*** and ***New Zealand***. 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. Stock selection further detracted from relative performance in ***China***, ***Spain***, the ***United Kingdom*** 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.

Portfolio Changes:

Purchases

None

Sales

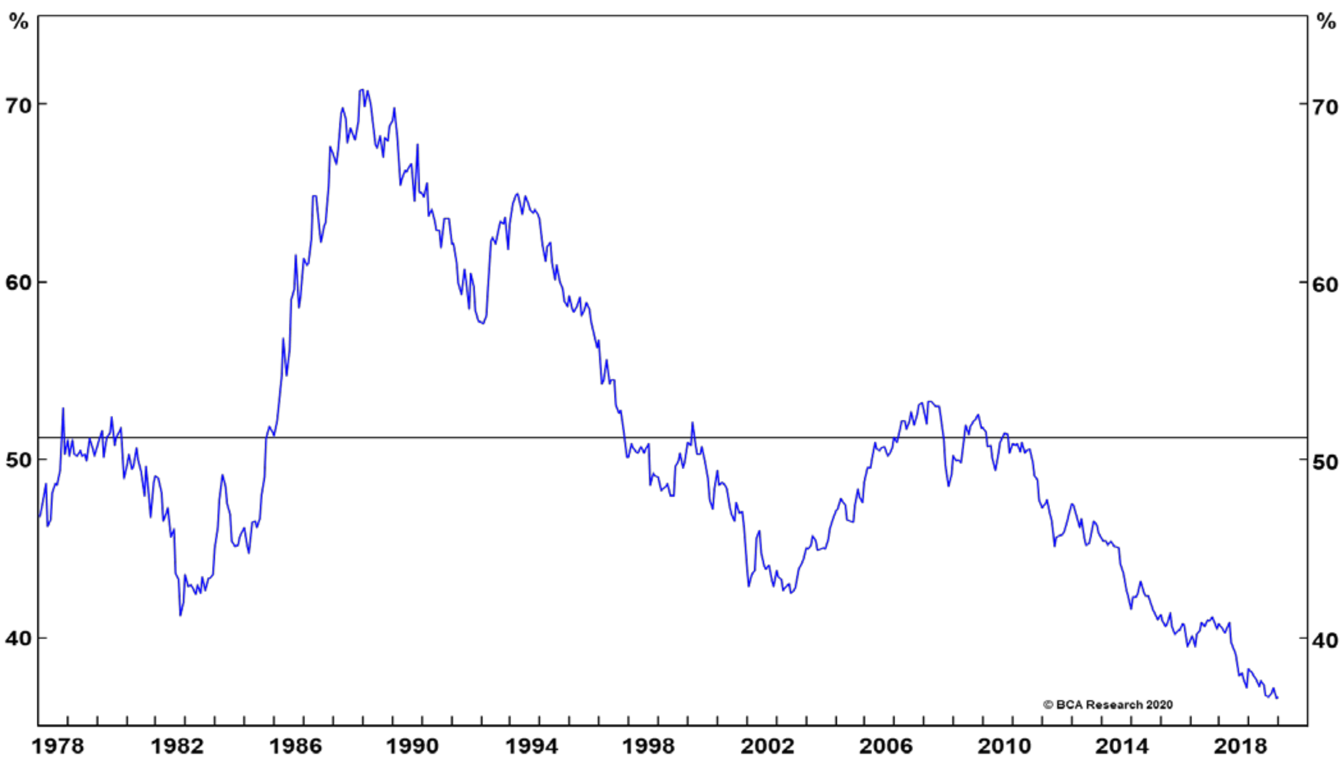
Daimler (Germany, Consumer Discretionary) – We sold our position in Daimler, which is the largest manufacturer globally of premium automotive vehicles, vans, buses and trucks. Given the growing threat of disruption in the automotive sector with a move towards the electrification of cars we are upgrading our exposure in this industry to focus on two better positioned companies, Toyota Motor and Michelin. These companies have more sound business models in this new environment while also being better managed and more shareholder-friendly, all of which should translate into better trends for earnings and dividend growth over the long-term.

Honda Motor (Japan, Consumer Discretionary) – We sold our position in Honda, which is a global automotive manufacturer with a leading position in motorcycles in emerging markets. Given the growing threat of disruption in the automotive sector with a move towards the electrification of cars, we are upgrading our exposure in this industry to focus on two better positioned companies, Toyota Motor and Michelin. These companies have more sound business models in this new environment while also being better managed and more shareholder-friendly, all of which should translate into better trends for earnings and dividend growth over the long-term.

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, as seen below, international or ex-US equities currently have the lowest weight in the MSCI World Index in 40 years, at 36.6% versus their long-term average weight of 51.2%, as the performance of world equities is being dominated by a narrow group of US-domiciled large capitalization growth stocks. On the previous two occasions when the weight of ex-US equities fell below 45%, this was followed by a period of strong outperformance by international equities. Thus, after being out of favor in the early 1980s, international equities represented by MSCI EAFE rebounded sharply and provided an annualized return of 31.4% from June 1983 to December 1988 versus only 9.5% for the S&P 500. In the second such incident, after lagging behind US equities in the dot-com mania of the late 1990s, international equities came back to favor and retuned an annualized 12.1% from March 2002 to June 2008 versus only 3.7% for the S&P 500. Further, 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. 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 4.6% dividend payment.

World ex-US Market Cap as a % of MSCI World



Source: BCA Research, December 31, 2019

We live in a world where many major buyers of assets have increasingly become price and valuation insensitive and this has contributed to value as a style remaining out of favor for an extended period of time. Michael Burry of Scion Asset Management, chief protagonist of the award winning book and movie, *The Big Short*, compares current flawed pricing of indexed assets to that seen in the run-up to the subprime crises with CDOs (Collateralized Debt Obligations)*. While some value-insensitive buyers have always existed, such as banks and insurance companies looking to match assets to liabilities, the scale and scope of what we are seeing presently is unprecedented. Within fixed income, where this is most prevalent, central banks are continuing to purchase bonds to add to their already record-large balance sheets with an aim to support economic growth. Thus, negative interest rates, which were once thought of as a temporary phenomenon, have now been with us for an extended multi-year period. This has led to a loss of true price discovery in the fixed income space and in some cases to absurd outcomes. Take for instance Greece, which is a country with a high debt load, history of past defaults and non-investment grade sovereign credit rating of BB-. The current 1.4% yield on its 10-year government bonds is considerably lower than the 1.9% yield available on AAA-rated US treasuries of the same maturity and appears staggeringly low versus the +35% peak yield on these same Greek bonds before the ECB (European Central Bank) stepped in to purchase them from 2012 onwards.

Within equities, price discovery is also gradually being chipped away at by the increasing popularity of indexed products such as ETFs (Exchange Traded Funds). Such valuation-agnostic products are often bought either passively/programmatically or for an actively sought-out exposure to a particular region, country, sector, industry or style class. This trend has likely begun to influence equity markets in the United States and Japan the most. In the United States, by some measures, over 50% of all equity investors now use indexed products, while in Japan, the Central Bank has widened its mandate to include the direct purchase of domestic equities to support economic growth. It is thus no coincidence that these two equity markets have been among the strongest performers over the last five years and each now provides less attractive valuations including sub-2.5% dividend yields.

Interestingly, the market cap weighted forward 12 month price/earnings ratio for the MSCI World index presently is 20.7x versus 17.9x five years ago, which equates to a 16% valuation increase. Looking just at the ten largest holdings in this index, the current market cap weighted forward 12 month price/earnings ratio is currently 26.8x versus 15.9x five years ago, for a much larger 63% valuation increase. Thus, the largest and most overrepresented companies in indices and ETFs which are passively being bought and bid up appear to be among the most richly valued areas of the market presently. For now, these index funds and companies most represented in them have enjoyed a self-fulfilling positive momentum-led feedback loop, which is a version of the greater fool's theory - the reason why people buy them is that this strategy has recently worked and the hope is that the trend continues irrespective of valuation considerations. When and if this trend reverses, meaningful losses of a more permanent nature could occur, as such momentum-led investments offer no real valuation support or margin of safety. Given our disciplined value approach to investing, we have avoided such hotspots of momentum-filled overvaluation and euphoria.

As aggregate equity market valuations have moved up this year, this has also had some impact on select portfolio holdings, which after recent gains, are less attractively valued. We are in the process of selling or pairing back such companies which are more highly valued and offer less attractive dividend yields while reallocating capital to companies with more attractive valuations and improving outlooks for profitability. While remaining committed to our large cap value mandate, we would note that we lately are finding a large number of mid-cap companies make it to our investment screens. This is partly as the valuations of these companies have not been pushed up by the fund flows effect from ETFs. For investment candidates here, we are looking for idiosyncratic, off-benchmark companies which are clear leaders in profitable and growing niches which are not fully understood or appreciated by other investors. While small- and mid-cap companies in some cases can be higher-risk investments, this is not always the case as valuations remain a crucial consideration. A clear case in point here is the bear market of March 2000 to September 2002 when small caps outperformed broad market indices by 40%. An additional merit for the investment case in Europe is the growing global leadership of European companies from an ESG (Environmental, Social and Governance) perspective and this is well reflected in our portfolio holdings which have an impressive average ESG score of A when using the methodology provided by MSCI, the market-leader in this space

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 4.7% 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 in 2019, with 88% of our portfolio companies having raised their dividend payments by an average of 8.4% YoY. In this regard, strong dividend increasers include Norilsk Nickel, Nippon Telegraph & Telephone, NN Group, BOC Hong Kong, Telefonica Brasil, Allianz, Smurfit Kappa, United Overseas Bank and Imperial Brands. We continue to believe that our strategy offers the rare ability to generate a defensive, high and growing income stream at a time when few other asset classes and strategies are able to offer this combination. With strong balance sheets and continued earnings growth, we anticipate that this trend will continue in 2020 and beyond.

Best Regards,

Jim Cullen – Portfolio Manager
Rahul Sharma – Portfolio Manager
Pravir Singh, CFA – Portfolio Manager
Anuca Laudat, CFA – Analyst

*Please refer to the Q3 2019 Schafer Cullen Emerging Markets High Dividend Commentary for more on Michael Burry's thoughts.

Appendix: Portfolio Exposure and Characteristics as of 12/31/2019

Portfolio Exposure

Sectors	% Asset	Regions	% Asset
Communication Services	8.4	Developed Asia Pacific	14.5
Consumer Discretionary	4.6	Continental Europe	55.3
Consumer Staples	10.1	United Kingdom	16.4
Energy	4.9	North America	4.4
Financials	27.1	Asia Pacific Emerging	2.4
Health Care	16.0	Latin America	1.8
Industrials	7.4	EMEA	2.5
Information Technology	1.8		
Materials	8.5		
Real Estate	2.7	Developed Markets	90.5
Utilities	5.6	Emerging Markets	6.7
Cash	2.8	Cash	2.8
Total	100.0	Total	100.0

Top 10 Countries		Top 10 Holdings	
Switzerland	17.3	Novartis	3.5
United Kingdom	16.4	Zurich Insurance Group	3.5
France	13.1	Roche	3.4
Germany	9.6	Nestle	3.2
Singapore	5.3	BNP Paribas	3.1
Japan	5.2	GlaxoSmithKline	3.1
Canada	4.4	Sonic Healthcare	3.0
Netherlands	4.0	Smurfit Kappa	3.0
Australia	3.0	UPM-Kymmene	3.0
Ireland	3.0	Nippon Telegraph & Telephone	2.9

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Q4 19 LT Debt / Capital	Est. LT DPS Growth	Est. LT EPS Growth	Q4 19 Market Cap
SCCM Intl High Dividend	13.5	4.7	30.8	8.1	9.9	$90.7
MSCI EAFE Index	16.4	3.4	30.8	7.5	10.1	$68.7

Source: SCCM Research, BCA Research, Bloomberg