SCHAFER | CULLEN
CAPITAL MANAGEMENT

International High Dividend ADR
Q4 2022 Commentary

Market and Economic Review:

Global asset markets rebounded sharply in the fourth quarter on tentative signs that near-term energy prices and inflation may be peaking. Further, market participants have come to believe that the worst-case economic outcomes for regions such as Western Europe and China may be avoided. While all of these are positive developments, globally there continue to be signs that aggregate demand may remain soft for some time to come given the lagged effect from tighter monetary policies. During the quarter, precious and base metals recovered some ground, buoyed by the prospects of an economic reopening in China and central banks buying gold in an effort to weather economic uncertainty and rising inflation. On the flip side, crude oil and natural gas prices fell, driven by a warmer-than-expected winter season in the Northern Hemisphere. In this environment, equities outperformed fixed income, long-term interest rates rose somewhat, and the US Dollar depreciated meaningfully on a trade weighted basis. Looking ahead, market participants will monitor the extent to which global central banks will balance combating inflation with safeguarding financial stability.

By sector, there were gains across the board, with Financials, Materials, Energy, Utilities and Industrials outperforming and Communication Services, Consumer Staples, Real Estate, Health Care and Information Technology underperforming. By region, Western Europe outperformed Developed Asia and Developed Markets outperformed Emerging Markets. Overall market breadth widened somewhat in the quarter, with six out of a total of eleven market sectors outperforming, driven by a strong rally in the more cyclical areas of the market.

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.

Portfolio Performance:

We outperformed MSCI EAFE, MSCI ACWI ex US and MSCI ACWI ex US Value this quarter while slightly underperforming MSCI EAFE Value as cyclical sectors outperformed. 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 ADR (gross)	**18.7**	**-8.9**	**-8.9**	**2.3**	**2.4**	**4.3**	**5.3**
SCCM Intl High Div ADR (net)	**18.6**	**-9.3**	**-9.3**	**1.9**	**2.0**	**3.9**	**4.7**
MSCI EAFE	17.3	-14.5	-14.5	0.9	1.5	4.7	4.4
MSCI EAFE Value	19.6	-5.6	-5.6	0.6	0.2	3.5	3.4
MSCI ACWI ex US Value	15.7	-8.6	-8.6	0.1	-0.1	2.7	3.8

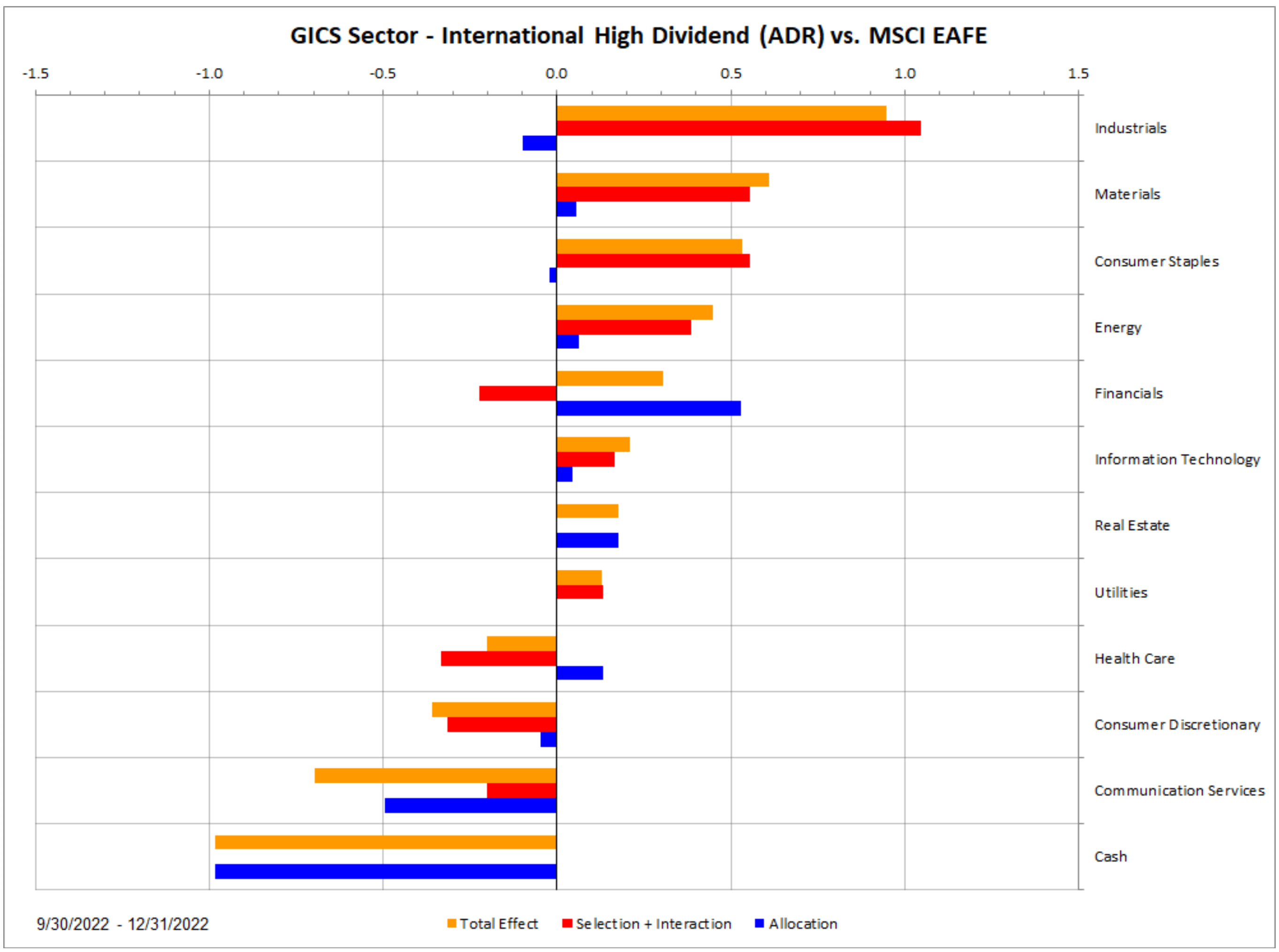
*6/30/2005. Performance for periods greater than 1 year is annualized. ***Past performance is no guarantee of future results.***

Portfolio Attribution:

Sector Attribution

The largest contribution to relative performance was our stock selection across mostly cyclical sectors, namely ***Industrials***, ***Materials***, ***Consumer Staples***, ***Energy*** and ***Information Technology***. Across these sectors, we benefited from our exposure to high-quality companies with solid drivers of long-term growth, underpinned, in part, by the push towards decarbonizing the global economy, including Siemens, Compagnie de Saint-Gobain, Volvo, Smurfit Kappa, Rio Tinto, TotalEnergies and Shell. Our performance also benefited from our overweight allocation to ***Financials*** and ***Energy*** and our underweight allocation to ***Real Estate*** and ***Health Care***. We have remained disciplined about our value- and dividend-focused investment style with respect to our positioning in the ***Financials*** sector, allocating to companies with above-average capital levels and strong market positions, including BNP Paribas, Munich Re, United Overseas Bank and DNB Bank.

The largest detractor from relative performance was our overweight allocation to the ***Communication Services*** and ***Consumer Staples*** and our underweight allocation to ***Industrials*** and ***Consumer Discretionary***. In some cases, our portfolio companies in these sectors were held back by negative short-term factors. However, we see limited, if any, meaningful impact to the long-term earnings power of these companies. We remain comfortable with these allocation decisions based on valuations and the long-term outlook of our portfolio companies. Further detracting from relative performance was our stock selection across ***Health Care***, ***Consumer Discretionary***, ***Financials*** and ***Communication Services***. Cash detracted from relative performance in the quarter.

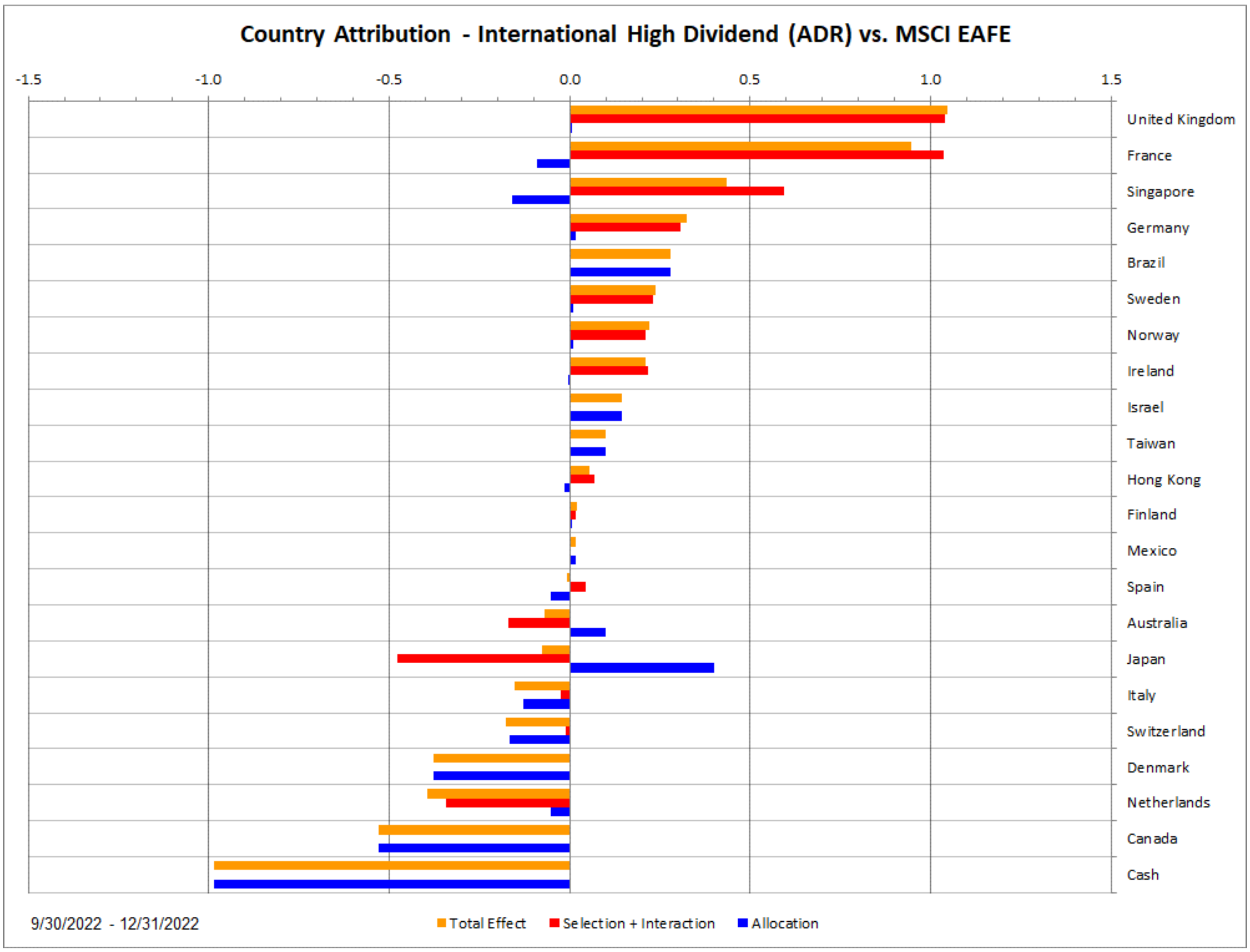


Source: Bloomberg, 12/31/2022.

Country Attribution

The largest contribution to relative performance was our stock selection across several Western European countries, including the ***United Kingdom***, ***France***, ***Germany***, ***Sweden***, ***Ireland*** and ***Norway***. Across these countries, we benefited from our exposure to leading, high-quality companies with strong positioning across several key verticals, including the global defense complex (BAE Systems), value-driven consumer spending (3i Group, Tesco) and the energy transition (Compagnie de Saint-Gobain, Siemens, Volvo, TotalEnergies). Our relative performance also benefited from our underweight allocation to ***Japan***, ***Israel*** and ***Australia*** and our overweight allocation to ***Brazil***, ***Taiwan*** and ***Mexico***.

The largest detractor from relative performance was our overweight allocation to ***Canada***, ***Switzerland*** and ***Singapore*** and our underweight allocation to ***Denmark***, ***Italy*** and ***France***. We made these allocation decisions based on our assessment of the long-term earnings and dividend growth prospects of these companies, while looking to avoid exposure to high levels of financial and/or operating leverage. Further detracting from relative performance was our stock selection in ***Japan***, ***Netherlands***, ***Australia***, ***Italy*** and ***Switzerland***. Across these countries, performance was primarily impacted by temporary headwinds for a subset of our portfolio holdings. Cash detracted from relative performance in the quarter.



Source: Bloomberg, 12/31/2022.

Portfolio Changes:

Purchases

Tokyo Electron (Japan, Information Technology) – Tokyo Electron is one of the largest providers of semiconductor production equipment (SPE) or wafer fabrication equipment (WFE) globally. The WFE industry is an oligopoly dominated by five major players (Applied Materials, Lam Research, Tokyo Electron, ASML and KLA) that have demonstrated rational competitive dynamics historically due to specialization in different parts of the wafer fabrication process. For Tokyo Electron, the core areas of expertise are in deposition, etching and cleaning – these are important processes that allow foundries, the companies that manufacture semiconductors, to design complex chip architectures on top of silicon wafers. We believe that Tokyo Electron stands at the intersection of several secular tailwinds, including advances in technologies needed for the miniaturization of logic and memory chips, growing demand for energy efficient solutions and fiscal stimulus aimed at localizing technology supply chains. As logic and memory foundries advance toward smaller nodes at the leading edge, demand for Tokyo Electron's equipment should expand due to the need to create new architectures and stacking structures that require more complex fabrication functions. Secondly, the need for energy efficient solutions is expected to accelerate as semiconductor content proliferates across a wide range of applications beyond traditional applications – to this aim, Tokyo Electron is focused on pursuing higher device performance with lower power consumption, targeting net zero emissions on a Scope 1 and 2 basis by 2040 and on a Scope 3 basis by 2050. Thirdly, the United States, China and the European Union have announced massive fiscal stimulus measures to reduce dependence on offshore technology supply chains; we anticipate that these measures will translate into a multi-year growth vertical for WFE providers. Furthermore, Tokyo Electron has one of the largest installed bases globally, at over 80,000 units, which translates into a steady inflow of maintenance and field solutions sales. It is no exaggeration to say that every leading-edge semiconductor in the world passes through one of Tokyo Electron's equipment and we believe that the company's ongoing investments in research and development should ensure that this continues for the foreseeable future. We took advantage of this year's cyclical correction to initiate a position in shares of Tokyo Electron, which are valued at 12.8 times forward earnings and offer a 3.8% dividend yield.

Veolia Environnement (France, Utilities) – Veolia Environnement (Veolia), post-acquisition of Suez, is the world's largest and leading environmental services company that offers a complete range of solutions for managing water, waste and energy. Through its three complementary business lines, Veolia is switching its focus from a resource-consumption regime to a use-and-recover approach in today's circular economy. In so doing, it is helping improve access to resources while at the same time protecting and renewing them. Despite its strong product exposure, Veolia had a tough decade given its struggles with management inefficiency, overleverage, and profitability issues. However, over the last five years, the company has refocused and strategically reoriented the business with increased focus on profitability. The company's exposure to highly cyclical, low-margin businesses has greatly decreased, while its financial discipline has improved, resulting in a healthy and resilient balance sheet. Of the company's total EBITDA, more than 10% now comes from the hazardous waste market, a high-growth segment with high margins and substantial barriers to entry, in which Veolia has a leading position in Europe, the US and China. More than 20% of the company's EBITDA is now derived from the "quasi" regulated water segment, with high margins and very little operational risk (aside from renegotiations on concessions). Management has been able to deliver on a sustainable earnings profile which offers a stable return potential. However, investors worry about business growth since it is tied to global growth and could suffer significantly in the case of a recession. Since only 10% of the company's EBITDA is exposed to cyclical sectors, we think that concern is overstated. Additionally, the complicated nature of the company dissuades investors from diving deep and allocating funds. In our opinion, Veolia is a best-in-class, global multinational pioneering ESG efforts that is undervalued by the market. Shares of Veolia Environnement trade at 13.0 times forward earnings and offer a 5.4% dividend yield.

Sales

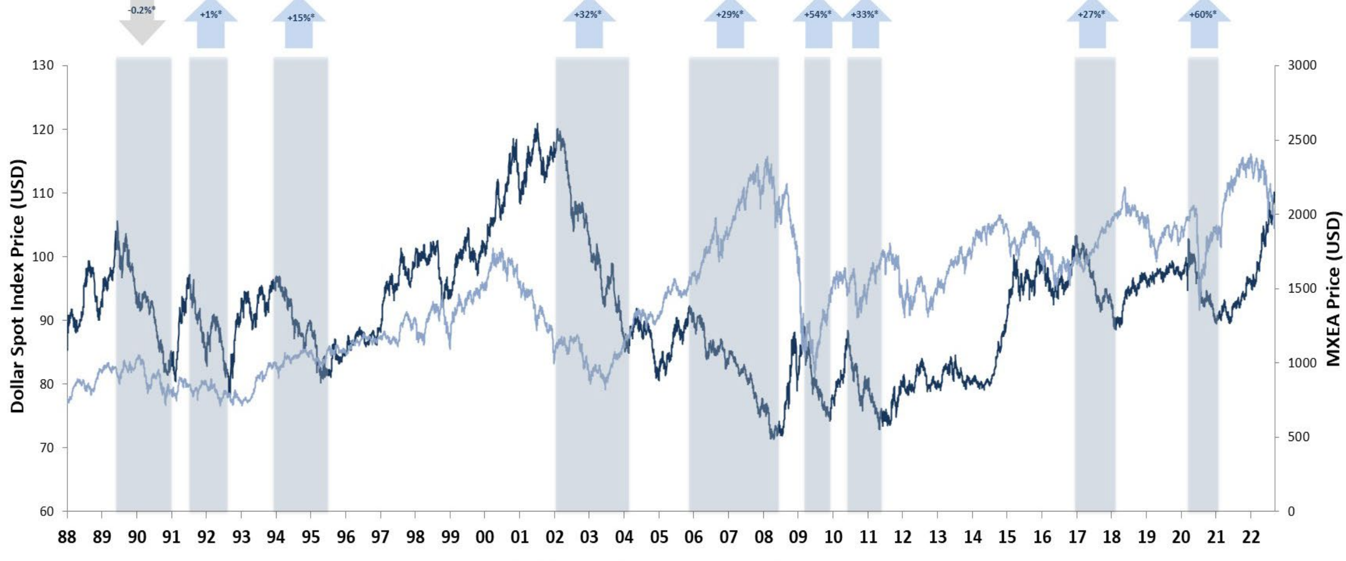
Persimmon PLC (United Kingdom, Real Estate) – During the quarter, we sold our position in Persimmon, one of the leading homebuilders in the United Kingdom, amid macroeconomic challenges that have weighted on both investor sentiment and company fundamentals. With surging inflation, UK interest rates at the highest level in fourteen years, and an impending recession, affordability constraints will likely stymie new housing starts and upgrades to existing infrastructure in the near term. Furthermore, the roll off of regulatory supports, like the Help-to-Buy scheme and the Stamp Duty holiday that were extended under the COVID-19 pandemic, will pose an additional challenge to developers going forward. As such, we took the opportunity to reallocate capital to higher-conviction names with greater earnings resilience.

Outlook:

With global equity markets recently falling by over 20%, we have officially entered a bear market, which should offer great opportunities for long-term investors given that valuations for companies have fallen and become more attractive. Looking at the last seven bear markets over the past 50 years, once a 20% decline occurs and a bear market is officially confirmed, from that point onwards the MSCI World Index on average has returned a robust +90% and +187% on a five and ten year basis, respectively. Despite economic headlines out of Europe being nothing short of atrocious since the start of the Ukrainian conflict in February 2022, Western Europe equities in full year 2022 ended up being among the best performing regions globally. The reasons for this somewhat paradoxical development include the already deeply discounted valuations for European equities, the better-than-expected ability thus far of European economies and companies to deal with a sudden increase in energy prices and the far greater, though often less discussed problems, in other areas of the globe, such as the United States, which appears to be dealing with the bursting of a series of asset bubbles.

In this regard, historically, the US Dollar has gone on to decline meaningfully in the years following the bursting of a major equity market bubble in the United States. Thus, the bear markets which lasted from 2000-2002 and 1973-1974, respectively, in the aftermath of the dotcom and nifty-fifty bubbles were followed by a 40% and 23% decline in the US Dollar from 2001-2008 and 1976-1978, respectively. This is as a major decline in US equity markets and its associated negative economic effects often make the United States a less attractive investment destination than other parts of the world for a period of time. Further, the US Dollar currently appears expensive versus most currencies on a purchasing power parity basis while the freezing of Russia's US Dollar central bank reserves in the aftermath of the Ukraine conflict appears to have cautioned other emerging market central bankers from accumulating more US Dollars. Also, a potentially premature Fed pivot to bolster weak growth may lead to lower real interest rates in the United States versus other parts of the world and this would make US bonds less attractive to foreign buyers. Thus, after rising for much of the last decade, a good case may be made that the US Dollar may now weaken. As seen below, during periods of US Dollar weakness historically, international equities as represented by MSCI EAFE have performed strongly, delivering an average annualized return of 25.7%. In this regard, returns for MSCI EAFE have been positive in eight out of the nine periods under study, indicating a high hit rate.

<u>Dollar Index Spot vs. MXEA (1988-2022)</u>



Source: SCCM Research, 12/31/2022.

While MSCI EAFE Value has outperformed MSCI EAFE Growth by over 28% since the Pfizer vaccine announcement in November 2020, if history is an accurate guide, there could be further outperformance to be had here. This is as despite recent outperformance, on a trailing ten-year basis, value has underperformed growth by 1.7% a year and thus is more oversold presently than even at the height of the dot-com mania of the early 2000s following which value outperformed by nearly 90% over the next seven years. If value were to return to its historical average performance relationship versus growth it would outperform by +43% from here onwards whereas if value were to return to the level it typically does at the end of an outperformance cycle it would outperform by around 100% from here onwards. Further boosting the case for value is the fact that equity market leadership typically undergoes a major change either during a bear market or shortly thereafter. Given the positive long-term outlook for international value equities, which benefit from the tailwinds of higher commodity prices, inflation and interest rates along with their continued oversold nature, we believe that a strong case can be made for allocating to this asset class while actively looking to avoid the overvalued and over-owned leaders of the recently concluded bull market.

The initially positive intermediate-term outlook for the global economic recovery coming out of the COVID-19 induced recession has been dampened by the Russian invasion of Ukraine, along with the impact this event has had on commodity input costs and the need for central banks to raise policy rates to dampen uncomfortably high inflation readings. The current environment of slower economic growth, combined with increased input cost pressures, has the potential to hurt profit margins of companies unless companies can also correspondingly raise their selling prices. If economic weakness continues while inflation continue to rise faster than disposable income, this is likely to dent consumer confidence and spending. Higher inflation also limits the tools available to central bankers to stimulate economic growth, as lower interest rates and/or higher asset prices are likely to exacerbate already high consumer price inflation, which, in turn, would lead to lower consumer spending and weaker overall economic growth. Against this backdrop, current consensus expectations for year-over-year earnings of 6% for global companies next year may turn out to be too optimistic.

As we look ahead, we have chosen to adopt a barbell approach with our portfolio holdings whereby we have allocated to defensive sectors which are likely to be broadly unaffected by an economic slowdown, while also investing in some more cyclical companies which we believe are better placed to either benefit from higher inflation and/or are better placed to pass on higher cost inflation to their customers. We believe that this balanced approach is prudent given the wide range of economic environments which we may experience going forward including recession, stagflation and a rebound in economic growth. In the latest quarter we increased our allocation to the Industrials, Information Technology, Materials and Utilities sectors and reduced our allocation to the Communication Services and Consumer Discretionary sectors. Our shopping list of ideas has grown of late as markets have corrected and we plan to go through these names methodically to make further portfolio changes as opportunities arise. We are looking to identify companies with durable competitive advantages and growing earnings while avoiding ones with leveraged balance sheets and weak business models.

We would like to highlight the attractive valuations of our strategy which is currently selling for at 11.1 times forward earnings with a 4.8% dividend yield. These valuations are attractive on an absolute basis, relative to history as valuations for the strategy today are more attractive than in 86% of quarterly periods since inception in 2005 on a price/earnings basis and relative to most equity indexes/ETFs against which we are valued at a 15-35% discount. The long-term earnings power of our carefully selected portfolio of international value companies remains sound, while an eventual end to the conflict in Ukraine may serve as a catalyst in narrowing the current near-record valuation discount of these companies versus global peers. Further, our portfolio companies, since the inception of our strategy in 2005, have been able to meaningfully grow their dividend payments. Hence, our strategy offers the twin benefits of attractive current income and good built-in inflation protection via our ownership of a portfolio of attractively valued, well positioned companies with growing demand for their products and the ability to raise prices to offset input cost pressures. We thus believe that the outlook for long-term investors in the strategy remains more favorable than usual from here on as our portfolio of high-quality value equities should continue to generate sustainable long-term earnings growth while our portfolio valuations are already deeply discounted.

Central banks have been forced to abandon their ultra-accommodative policies of the last decade to try and reign in higher-than-expected inflation. While equities and fixed income have begun a process of pricing in a more normalized level of interest rates, this process of valuation adjustment downward may continue unless there are credible signs that inflation is falling in a meaningful way. In this environment, government bonds have a real yield, defined as the stated yield minus the rate of inflation, which is negative and most asset prices appear somewhat richly valued in absolute terms. International dividend-paying value equities, we believe, are one of a few bright spots in this regard given their attractive valuations in both absolute and relative terms. Despite a weak equity market and a deteriorating economic environment, our strategy delivered a second consecutive year of double-digit dividend growth in 2022. For the full year, 88% of portfolio companies that declared dividends raised their dividend payments and across our entire portfolio, dividend income grew by 15% YoY on a weighted average basis. For the year ahead, we believe that the pace of dividend growth may normalize to a more sustainable long-term level. We remain committed to investing in companies that have the balance sheet strength and operational resilience to deliver progressive dividend growth over the long term.

Best Regards,

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

Appendix: Portfolio Exposure and Characteristics as of 12/31/2022

Portfolio Exposure

Sectors	% Asset	Regions	% Asset
Communication Services	10.0	Developed Asia Pacific	22.6
Consumer Discretionary	3.8	Continental Europe	48.2
Consumer Staples	11.1	United Kingdom	14.9
Energy	7.1	North America	3.8
Financials	26.5	Asia Pacific Emerging	1.3
Health Care	9.5	Latin America	5.3
Industrials	12.7	EMEA	0.0
Information Technology	2.8		
Materials	9.6		
Real Estate	0.0	Developed Markets	89.4
Utilities	2.9	Emerging Markets	6.6
Cash	4.0	Cash	4.0
Total	100.0	Total	100.0

Top 10 Countries		Top 10 Holdings	
United Kingdom	14.9	Novartis	4.0
Japan	13.4	United Overseas Bank	4.0
Switzerland	13.4	Tokio Marine	3.6
France	11.5	TotalEnergies	3.6
Germany	9.7	Nippon Telegraph & Telephone	3.5
Australia	4.3	BAE Systems	3.5
Singapore	4.0	Zurich Insurance	3.5
Canada	3.8	Shell	3.5
Sweden	3.7	Siemens	3.3
Brazil	2.8	Nestle	3.2

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Q4 22 LT Debt / Capital	Est. LT DPS Growth	Est. LT EPS Growth	Q4 22 Market Cap ($B)
SCCM Intl High Div ADR	11.1	4.8	31.9	8.5	10.1	$87.7
MSCI EAFE Index	13.2	3.6	30.0	7.5	10.1	$78.8

Source: SCCM Research, BCA Research, Bloomberg

Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. **Downside Capture** Ratio represents the degree to which a strategy outperformed or underperformed the benchmark in periods when the benchmark return was negative. The lower the downside capture ratio, the better

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The primary benchmarks used for comparison purposes are the net return indices for the MSCI EAFE Index, MSCI EAFE Value Index and the MSCI ACWI ex U.S. Value Index. The MSCI EAFE Index is a free float-adjusted market capitalization index that measures the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada. The MSCI ACWI ex U.S. Value Index captures large and mid-cap securities exhibiting overall value style characteristics across Developed and Emerging Markets countries around the world, excluding the US.

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