SCHAFER | CULLEN
CAPITAL MANAGEMENT

International High Dividend ORD
Q3 2021 Commentary

Market and Economic Review:

Global equity markets were range-bound in the latest quarter after having risen sharply in the first half of the year. While the ongoing rollout of multiple effective COVID-19 vaccines has led to a gradual reopening of various economies and higher commodity prices, this has been counteracted by regulatory uncertainty in China and the likely start of normalization of monetary policy in the United States. Companies are posting strong growth in earnings and dividends and we see a good case for continued economic normalization over the next eighteen months. In this environment, equities outperformed fixed income, long-term interest rates were mostly range-bound and international currencies depreciated against the US Dollar. Commodity markets were largely mixed during the quarter: natural gas prices nearly doubled, crude oil prices continued to rebound, ending the quarter at nearly $80 a barrel, while base metals, except for iron ore which suffered a significant correction, and precious metals were range-bound. Currently, markets appear to be grappling with the combination of elevated valuations, especially in pockets of the Information Technology and Consumer Discretionary sectors globally, which may be in the late stages of a full-fledged mania, and improving prospects for corporate earnings, especially in more cyclical sectors that could benefit from economic normalization.

By sector, cyclical sectors such as Energy, Information Technology, Financials and Industrials outperformed, whereas non-cyclical sectors such as Utilities, Communication Services and Consumer Staples underperformed. By region, Developed Asia outperformed Western Europe and Developed Markets outperformed Emerging Markets. With the pace of the recovery propelling cyclical sectors ahead of the more defensive parts of the market, the breadth of the overall market narrowed somewhat, with only five out of a total of eleven market sectors outperforming in the quarter.

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:

This quarter, we underperformed MSCI EAFE and MSCI EAFE Value while performing in-line with MSCI ACWI ex US Value as Japan outperformed and Emerging Markets underperformed. 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 Yr	3 Yr	5 Yr	10 Yr	Since Incept*
SCCM Intl High Div ORD (gross)	**-2.1**	**7.8**	**24.8**	**6.9**	**6.6**	**7.0**	**6.6**
SCCM Intl High Div ORD (net)	**-2.2**	**7.4**	**24.2**	**6.4**	**6.0**	**6.3**	**5.9**
MSCI EAFE	-0.5	8.3	25.7	7.6	8.8	8.1	6.2
MSCI EAFE Value	-1.0	9.6	30.7	3.0	6.0	6.0	4.8
MSCI ACWI ex US Value	-2.3	9.1	31.4	3.8	6.4	5.5	5.5

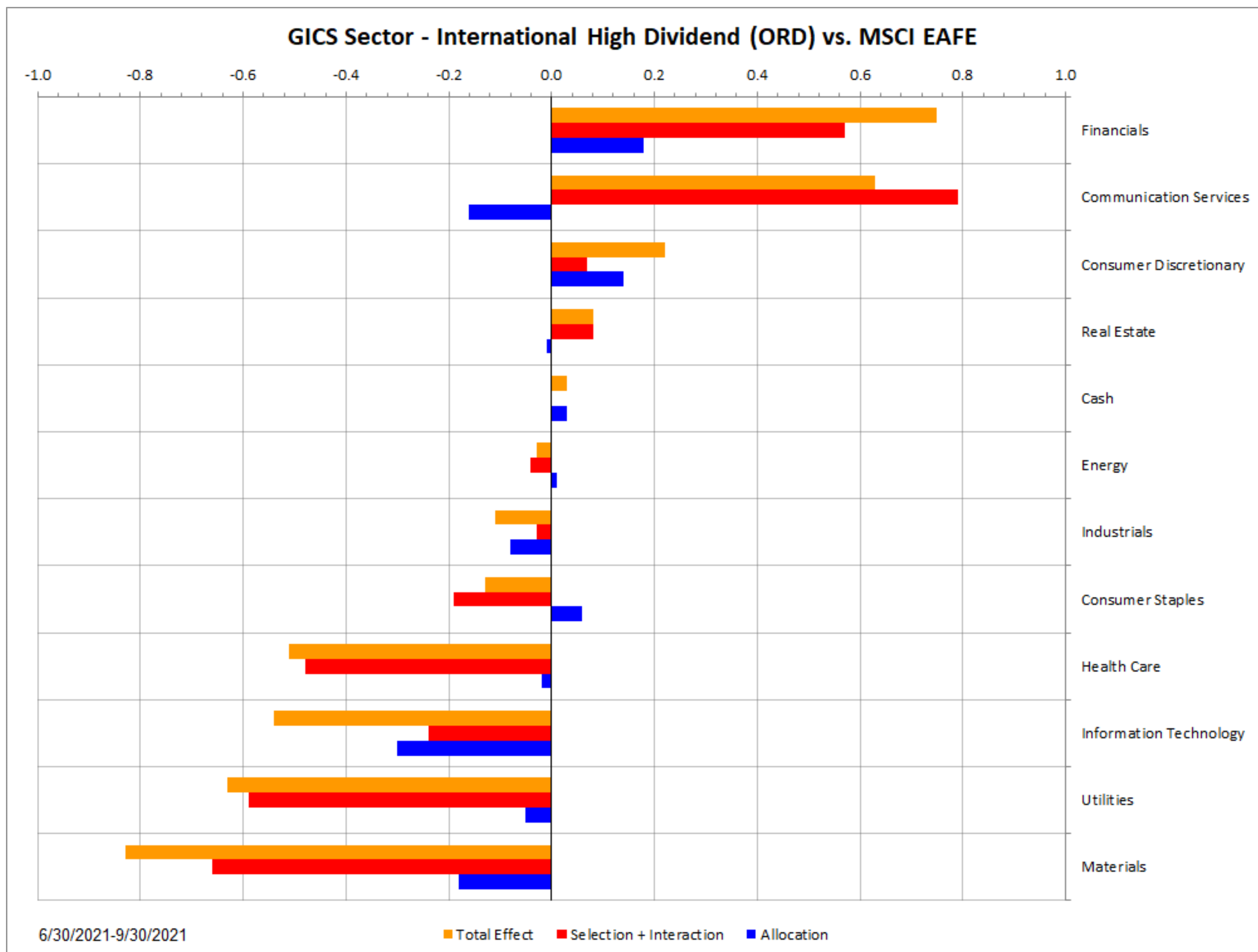
*8/31/2004. Performance for periods greater than 1 year is annualized. ***Past performance is no guarantee of future results.***

Portfolio Attribution:

Sector Attribution

The largest contributor to relative performance was our overweight allocation to ***Financials*** and ***Energy*** and our underweight allocation to ***Consumer Discretionary*** and ***Consumer Staples***. Within the ***Financials*** sector, performance was led by some of our largest positions in this sector, including NN Group, Tokio Marine and BNP Paribas, which benefited from market- and company-specific tailwinds. Further contributing to relative performance was our stock selection across a mix of defensive and cyclical sectors, including ***Communication Services*** and ***Financials***. Within the ***Communication Services*** sector, we benefited from our positions in Nippon Telegraph & Telephone, Softbank Corp and BCE, which operate in countries with stable regulatory environments and whose earnings are supplemented by consumer-facing businesses and enterprise solutions. Cash aided performance this quarter.

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

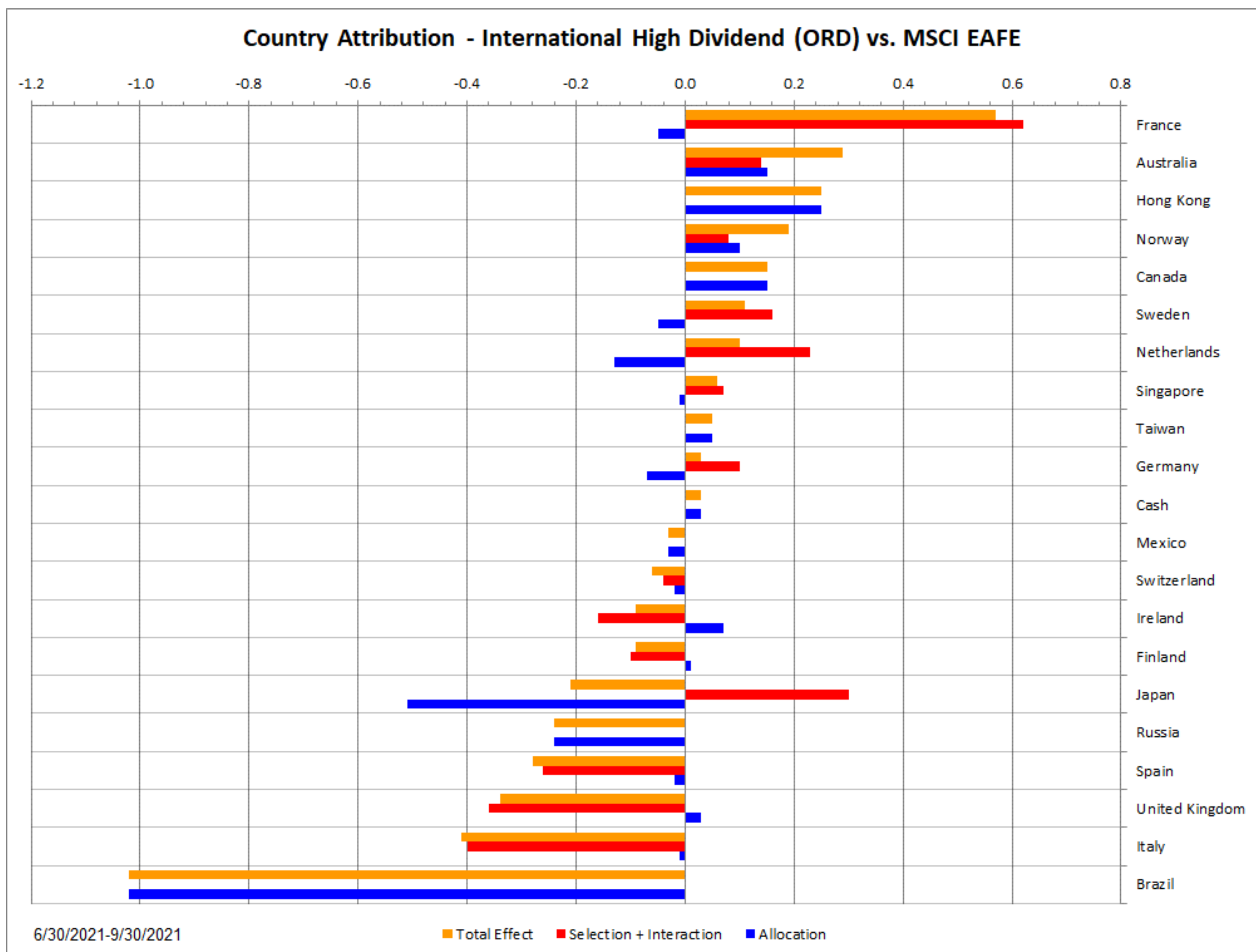


Source: Bloomberg, 09/30/2021

Country Attribution

The largest contributor to relative performance was our stock selection in ***France***, ***Japan***, ***Netherlands*** and ***Sweden***, where our portfolio holdings benefited from strong commodity markets and capital allocation towards long-term decarbonization goals (TotalEnergies, Saint-Gobain, Volvo) and growing expectations for strong shareholder returns (BNP Paribas, NN Group, Svenska Handelsbanken). Our relative performance also benefited from our underweight allocation to ***Hong Kong*** and ***Australia*** and our overweight allocation to ***Canada***, ***Norway*** and ***Ireland***. Across these countries, performance was led by a group of high-quality companies with long-term drivers of earnings growth, including Sonic Healthcare and DNB Bank. Cash aided performance this quarter.

The largest detractor from relative performance was our overweight allocation to ***Brazil*** and ***Russia*** and our underweight allocation to ***Japan***. 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 ***Italy***, ***the United Kingdom***, ***Spain*** and ***Ireland.*** Across these countries, performance was primarily impacted by temporary headwinds for a subset of our portfolio holdings.



Source: Bloomberg, 09/30/2021

Portfolio Changes:

Purchases

DNB Bank ASA (Norway, Financials) – DNB Bank (DNB) is Norway's largest financial services group and one of the largest in the Nordic region in terms of market capitalization. The bank is the Norwegian market leader in retail and corporate banking and life insurance and also active in investment banking and asset management. DNB benefits from a dominant domestic presence and commands leading market share across several core business lines, which presents a strong structural advantage to the group. DNB also competes internationally in certain niche businesses, including energy, shipping and seafood. The Norwegian government is the largest shareholder of the bank, which we believe strengthens the stability of its operations and thus limits downside risk. The bank has historically shown a strong track record of underwriting discipline and earnings growth, generating double-digit return on equity across a range of economic environments and despite having a somewhat cyclical lending profile. DNB is also a leader in digital banking and well ahead of its competition across the European landscape. Consequently, the bank runs a lean branch network, benefits from greater cost efficiencies across its footprint and generates strong customer engagement via its digital presence, such as with its mobile payment app Vipps. Relative to other Nordic peers, DNB has lower reliance on trading income and has a higher proportion of its funding reliant on wholesale funding. Moreover, the bank is well positioned to provide financing for several clean energy initiatives, which remain a public policy priority in Norway. As economic conditions recover from the pandemic-induced slowdown, we believe that DNB is leveraged to the Norwegian economy and the upcoming interest rate tightening cycle, initiated by Norges Bank in September 2021. Benefitting from a robust capital position and strong organic capital generation, with a core equity tier 1 ratio of 19.1% that is currently 320 basis points above regulatory requirements, we believe the DNB presents an attractive opportunity for growing shareholder returns. Shares of the company are valued at 12.2 times forward earnings, 1.2 times book value and offer a 5.3% dividend yield.

Aktiebolaget Volvo (Volvo) (Sweden, Industrials) – Volvo is one of the world's largest manufacturers of heavy-duty trucks, construction equipment, buses and heavy-duty combustion engines as well as a leading supplier of marine and industrial engines. The company was founded in 1927 and currently operates production facilities in 20 countries and sells its products in more than 190 countries globally under its main brands consisting of Volvo, UD Trucks, Terex Trucks, Renault Trucks, Prevost Nova Bus and Mack. Through a series of acquisitions and divestitures, the company has gradually transitioned away from the passenger vehicle market and established itself as a world leader in heavy machinery (trucks, buses and construction equipment). In its Trucks division, where Volvo maintains a number two position globally, the company has benefitted from secular trends in e-commerce as the velocity of goods sold has continued to ramp up at the expense of traditional brick-and-mortar operations, leading to a dramatic rise in logistics demand. This ubiquitous transition has resulted in greater utilization, expedited fleet replacement, fleet expansion, and ultimately, sales growth for Volvo. In the Construction Equipment division, Volvo benefits from resilient infrastructure spending from fast-developing economies like China and Latin America, while the largest infrastructure bill in American history continues to be a looming catalyst over the coming years. Perhaps the company's most attractive competitive positioning is owed to its first mover advantage in next-generation technology. As environmentally friendly solutions and sustainability have risen to the forefront of both investor activity and government initiatives, Volvo has emerged as the clear market leader in heavy-duty vehicle electrification. The company has been both the first to market and the first to monetize its technology and is best positioned for an upcoming wave of demand for low-emissions fleet upgrades. Shares of the company are valued at 11.8 times forward earnings while offering a 6.6% dividend yield.

Sales

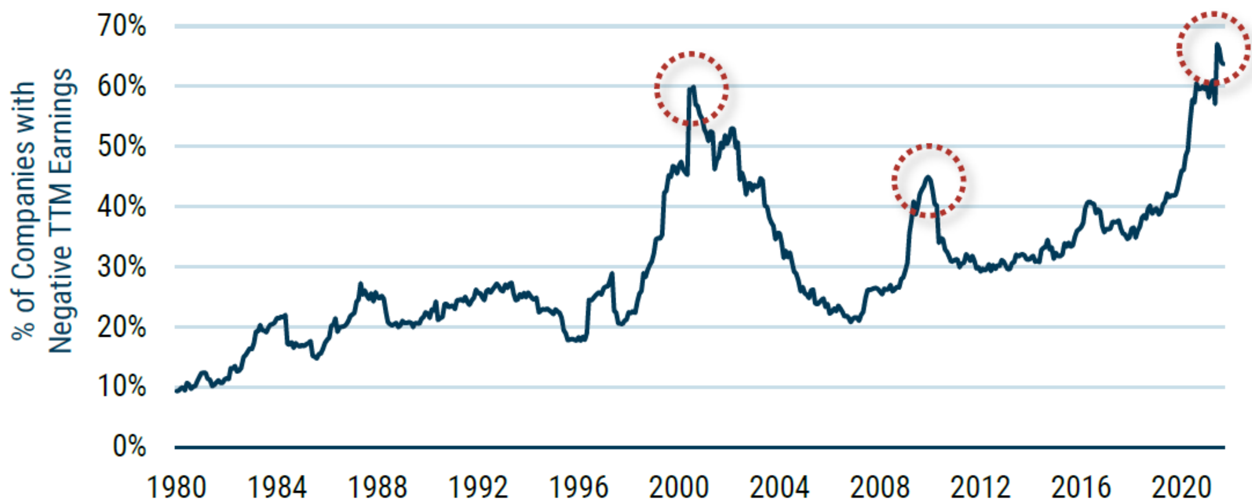
Las Vegas Sands (United States, Consumer Discretionary) – We sold our position in Las Vegas Sands (LVS) during the quarter as mounting concerns have continued to cloud the company's earnings outlook as well as its dividend resumption potential. While LVS continues to maintain its position as the premier integrated resort operator globally, the outbreak of the Delta variant has challenged its reopening efforts while China's "zero-tolerance" coronavirus policy has been particularly constraining on visitations. Furthermore, while many industry players have benefitted from a proactive transition to online products, LVS has lagged its peers in the development of virtual offerings. As such, we decided to take the opportunity to allocate to higher yielding names with greater earnings clarity.

Manulife Financial Corp (Canada, Financials) – We sold our position in Manulife Financial (Manulife), one of the largest providers of insurance and wealth management products to individual and corporate clients in North America and Asia. We continue to believe that this is a high-quality franchise with long-term growth potential in Asia, but we believe further management action would be required to crystallize that value for shareholders. Moreover, we believe investors would welcome further safeguards around the company's North American legacy exposures, but we recognize the limit to how much management can reasonably accomplish on this front. Consequently, we decided to reallocate capital to new ideas in this sector, where we believe the value and dividend growth case to be stronger.

Outlook:

Global equity markets presently appear to be grappling with elevated valuations, especially in pockets of the Information Technology and Consumer Discretionary sectors, which may be in the late stages of a full-fledged mania. Many of these companies have disproportionately benefitted from a one-time pandemic-induced disruption though we believe that this is more than adequately reflected in their current valuations. In this regard, the speed with which the Chinese Information Technology companies, which until recently were stock market darlings, have corrected by over 40% from their recent highs, highlights the importance of staying alert to complacency regarding high valuations. As seen below, over 60% of growth companies in the Russell 3000 index currently are losing money, which is near an all-time high for this measure. Past episodes of a similar nature have marked a major top in speculation and subsequently led to major declines such as in 2000 and 2008. While every period of market excess is different, some common underlying themes include a) easy monetary conditions, b) price momentum which leads to performance chasing, c) some form of innovation or disruption which is difficult to precisely measure, d) extremes in valuations and e) a belief that the good times will roll on forever. Thus, while predicting exactly when the current growth mania will subside is nearly impossible, using the price disciplines of low price-earnings and high dividend yield, as a safety net, while navigating through a potentially choppy period for markets ahead, will likely be essential.

% of Russell 3000 Growth Stocks with Negative Earnings



Source: GMO, 9/30/2021.

The 1,100 basis points outperformance of international value versus growth since Pfizer's positive COVID-19 vaccine announcement on November 9 2020 is encouraging and may indicate that we are in the early stages of a turn towards value. This rotation is taking place in an environment of stronger economic growth and rising commodity prices, which should be positive for value stocks. In the last two quarters, however, value stocks lagged somewhat as concerns grew regarding the spread of the more infectious delta variant of COVID-19 and that the rate of change in the economic recovery may be peaking. While these developments create some near-term uncertainty, we believe that the combination of effective vaccines, which meaningfully lower the rate of hospitalizations and deaths, and powerful pent-up demand should support the long-term economic outlook. In this context, it is also important to note how historically oversold value remains from a long-term perspective. Currently, on a trailing ten-year basis, the performance of MSCI EAFE Value is 375 basis points a year below that of MSCI EAFE Growth, whereas over the last nearly-47 years MSCI EAFE Value has outperformed MSCI EAFE Growth by 208 basis points a year. This current extreme 583 basis points annualized performance deficit versus historical

averages, which translates into a greater than two standard deviation event, shows that value is more out of favor today versus at the height of the Tech Bubble of 2000 following which MSCI EAFE Value returned 95% over the next 7 years (April 2000 – March 2007) while MSCI EAFE Growth returned only 8%.

Determining whether expected higher inflation will be structural or transitory in nature is quite difficult given the multitude of variables which could influence this outcome including, among others, changes in the money supply, the size of government deficits, future expectations of pricing, the rate of globalization, the degree of innovation-led productivity improvements, commodity prices, supply chain disruptions and demographics. Currently, the consensus on Bloomberg forecasts consumer price inflation will average 3.2% and 2.0%, respectively, in the United States and European Union from 2021 through 2023, which is roughly double the average rates of 1.5% and 1.0% over the last seven years. Our ownership of a portfolio of attractively valued, well positioned companies with growing demand for their products and the ability to raise prices helps ensure that we are well positioned largely irrespective of the inflation outlook. Given recent higher inflation readings, several central banks including in the United States, Canada, United Kingdom, Norway, Australia, New Zealand and Singapore are expected to begin to normalize their interest rate policies in the next twelve months. A gradual increase in long-term interest rates closer to the rate of inflation would appear healthy to us as it would be driven primarily by expectations for somewhat higher prices and normalized economic growth. Such an environment should be supportive for value stocks globally which have outperformed historically during periods of rising long-term interest rates.

Looking at major international markets, we remain confident in the current intermediate-term outlook which is bolstered by the faster than expected recovery in earnings and dividends in regions such as Europe. We had earlier assumed that it would take at least three years for dividends in international markets to fully recover from the COVID-19 recession and we are pleased to note that our portfolio companies have already seen their dividend payments fully recover in under two years. Many of our portfolio holdings are also buying back their stock as valuations remain attractive and this is further enhancing total shareholder returns. Two other developments in the quarter which give us confidence in the ongoing recovery include the ongoing normalization in international travel and continuing progress towards low cost and effective antiviral pills to treat COVID-19. During the quarter, we increased our exposure to companies in Consumer Staples, Financials and Industrials while reducing our exposure to companies in Consumer Discretionary, Utilities, Materials and Information Technology. We chose to add to leading companies with a more cyclical profile and/or which were impacted over the near-term by COVID-19 and chose to reduce our exposure to companies which either have seen their valuations rise and/or in our judgment may see somewhat of a reduction in their long-term earnings growth.

We believe that in this environment our portfolio of attractively valued, high dividend paying international equities offers the patient long-term investor the potential ability to compound wealth over time across several macroeconomic and interest rate environments. Our portfolio is valued at 12.2 times forward earnings which is around a 25% and 50% discount to the MSCI EAFE and S&P 500 indexes, respectively. In addition, our current forward twelve-month dividend yield (gross) at 5.0% is at among the highest spreads since the inception of our strategy versus yields offered on fixed income securities. Thus, discounted valuations and a high absolute dividend yield offer us a margin of safety especially if interest rates were to rise and normalize, whereas the ability of our companies to grow earnings and dividends allows for potential long-term capital appreciation.

After a more subdued year for dividends in 2020, driven by pandemic-related uncertainties, we anticipate a very strong recovery in dividend growth in 2021. Thus far this year, 78% of our portfolio companies which have declared dividends have raised their dividend payments and across our entire portfolio, dividend income, as measured by a 10% trimmed mean, has grown by around 17% YoY. Our portfolio dividend income this year has already exceeded the 2019 pre-COVID level, highlighting the sustainability

of our income stream. We believe that our companies have strong balance sheets and robust business models and we anticipate that this trend for dividend growth will continue over the long-term.

Best Regards,

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

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Risk Disclosure: Market conditions can vary widely over time and can result in a loss of portfolio value. Investing in the stock market involves gains and losses and may not be suitable for all investors. Investors have the opportunity for losses as well as profits. Investing in equity securities is speculative and involves substantial risk. Schafer Cullen invests in foreign securities which may involve greater volatility and political, economic and currency risks and differences in accounting methods.

The strategy depicted in this report has been managed in accordance with the investment objectives of the strategy as determined by the Adviser. The Adviser has selected benchmarks, which in their opinion closely resemble the style of the securities held in the composite or model portfolio of the strategy (e.g. large cap value, small cap value, international, etc.). The securities held in the composite or model are actively managed while the benchmark index is not. Investors should be aware that the Adviser makes no attempt to match the portfolio securities, or the security weightings of the benchmark. The composite or model's performance will be affected greater by the price movements of individual securities as the composite or model is more concentrated, generally less than 100 securities, while a comparative benchmark will generally have between 500 and 2,500 securities where individual security price movements have a lesser affect. An individual cannot invest directly in an index.

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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All opinions expressed constitute 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 09/30/2021

Portfolio Exposure

Sectors	% Asset	Regions	% Asset
Communication Services	9.5	Developed Asia Pacific	19.4
Consumer Discretionary	7.4	Developed Continental Europe	54.0
Consumer Staples	9.1	United Kingdom	11.2
Energy	3.5	North America	3.4
Financials	24.8	Asia Pacific Emerging	3.5
Health Care	9.2	Latin America	3.7
Industrials	12.4	EMEA	1.8
Information Technology	3.5		
Materials	10.2		
Real Estate	3.2	Developed Markets	88.0
Utilities	4.1	Emerging Markets	9.0
Cash	3.0	Cash	3.0
Total	100.0	Total	100.0

Top 10 Countries		Top 10 Holdings	
France	13.5	Softbank	3.6
Japan	13.1	BNP Paribas	3.5
Switzerland	11.5	TotalEnergies	3.5
United Kingdom	11.2	Toyota Motor	3.3
Germany	10.7	Cie de Saint-Gobain	3.2
Sweden	4.4	NN Group	3.1
Singapore	4.1	Nippon Telegraph & Telephone	3.0
Canada	3.4	Smurfit Kappa	2.9
Netherlands	3.1	Svenska Handelsbanken	2.8
Ireland	2.9	Novartis	2.8

Portfolio Characteristics

	Forward Price / Earnings	Forward Dividend Yield	Q3 21 LT Debt / Capital	Est. LT DPS Growth	Est. LT EPS Growth	Q3 21 Market Cap ($B)
SCCM Intl High Div ORD	12.2	5.0	33.7	8.4	10.0	$84.9
MSCI EAFE Index	16.5	3.0	30.8	7.5	10.1	$80.5

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.