Emerging Markets High Dividend Research Note
February 2020

Summary Comments:

February was another month of heightened volatility for the Emerging Market (EM) equities, as concerns of a deeper economic impact resulting from the coronavirus outbreak (COVID-19) in China increased substantially. Despite some indications of a drop in new reported cases in China, the speed with which the virus appeared to spread to international countries was the major factor triggering the sell-off. Efforts to contain the outbreak and the assurance by global central banks of additional monetary support to contain the resulting economic impact had little effect on equity markets around the world. As a result, the MSCI EM index closed down 5.27% for the month. However, the index outperformed its developed market counterparts, with MSCI EAFE losing 9.01% and the United States S&P 500 index (SPX) falling 8.23% during February. The MSCI EM index outperformance can largely be attributed to the sudden spike in reported cases of the virus outside China, in countries such as South Korea, Italy, US, and France, leading to concerns around economic growth disruptions at a much larger and global scale. That said, the immediate fallout of the virus impact was much more visible in Asian emerging market economies than developed. Business activity in China continued to remain subdued on account of factory shutdowns, with coal consumption failing to rebound following the Chinese New Year. South Korea, with the most confirmed cases outside China, saw its consumer confidence fall to 96.9 in February versus 104.2 in January. In terms of policy action to mitigate economic impact, China announced a CNY 650 bn cut, albeit temporary, in social security tax to support businesses impacted from the outbreak. In terms of regions within emerging markets, EM Asia Pacific (-2.85%, MSCI EM Asia Index) was the best-performing regional index, followed by Europe, Middle East & Africa (-12.01%, MSCI EM Europe, Middle East & Africa Index) and Latin America (-12.05%, EM Latin America Index). European and Latin American EM equities were impacted on concerns that the rapid spread of COVID-19 to non-Asian countries could potentially impact tourism as well as the exports industries. The sharp sell-off in the Latin American markets was also driven by significant weakness in the local currencies. Among commodities, Oil (European Dated Brent Crude Spot) saw another month of sharp correction, ending February at $50.02 per barrel, down 11.21% and 24.70% YTD. The commodity was also impacted by lack of positive developments between Russia and the OPEC to finalize additional supply cuts. The S&P Industrial Metals index also traded down 1.14% during February largely led by weaknesses in Aluminum, Lead and Nickel.

The top country performers in February were China/Hong Kong, Taiwan and Egypt. China was the only EM stock market in the green as it recovered from the significant correction witnessed in January with the government stepping up measures to control the impact of the coronavirus. Although the Taiwanese stock market declined, the fall was limited in anticipation of controlled measures being put in place by China. Egypt’s stock market correction was also limited as economic growth and the local currency remained largely stable. The weakest countries during February were Greece, Poland and Turkey. From a sector perspective, the top EM performers were Real Estate, Communication Services, and Healthcare. Conversely, Energy, Utilities, and Materials were relative underperformers during the month.

Performance:

The strategy depreciated 5.6% during February, which represents an underperformance versus the benchmark (MSCI EM Index, -5.3%) of 0.3%.

	MTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception*
SCCM EM High Dividend (gross)	-5.6	-9.9	0.3	4.4	2.0	5.3	7.9
SCCM EM High Dividend (net)	-5.6	-10.7	-0.7	3.3	0.9	4.0	6.5
MSCI Emerging Markets Index	-5.3	-9.7	-1.9	4.9	2.7	3.2	5.0

**As of 12/31/2005 through 2/28/2020. Performance for periods greater than 1 year is annualized.*
Past performance is no guarantee of future results.

The top country contributors were South Africa, India and Thailand. Stock selection was the main contributor in India and Thailand, while the strategy's underweight allocation to South Africa versus the benchmark also contributed. Detracting countries included China/Hong Kong, Russia and Vietnam. The strategy's overweight allocation to Russia and Vietnam and underweight allocation to China/Hong Kong versus the benchmark were the main detractors. In addition, the strategy's stock selection in China/Hong Kong also detracted. On a sector basis, the top contributors were Materials, Financials, and Energy. Stock selection was the main contributor for all the three sectors. Detracting sectors included Communication Services, Consumer Discretionary and Industrials. Stock selection detracted in all three sectors, while the strategy's underweight allocation to Communication Services and Consumer Discretionary also impacted its relative performance.

Best Performers:

1. WH Group (China/HK, Consumer Staples) – Shares of WH Group outperformed during the month as investors sought out defensive stocks, which would have limited negative impact from the coronavirus outbreak. Although the company experienced some supply disruptions related to the spread of the virus, China has worked to ensure a stable supply of food necessities such as pork. Additionally, China announced the third round of tariff exemptions for approximately 700 products including pork. Over the long-term, we believe that WH Group is well positioned to benefit from several secular trends, including the growing demand for protein globally.

2. Times China Holdings (China/HK, Real Estate) – Times China outperformed during the month on the heels of a strong FY2019 which saw its stock price surge over 100% (in USD terms). Within the backdrop of the COVID-19 epidemic that has labored residential property sales sector wide with month-over-month and year-over-year declines of 48% and 43% respectively, Times China has already locked in over 50% of FY2020 forecasted sales and roughly 30% for 2021. Furthermore, the stock has benefitted from positive sentiment surrounding supportive measures such as relaxing pre-sales requirements, tax subsidies for home purchases, and deferred payments of land premiums while banks have expedited the loan approval process and borrowing costs have receded. The company continues to trade at a copious discount to NAV while offering a forward dividend yield over 5.0%.

3. Integrated Diagnostics Holdings (Egypt, Healthcare) – Shares of Integrated Diagnostics Holdings (IDHC LN) outperformed this month against the backdrop of a sharp correction across emerging and developed markets on the back of a spike in reported cases of coronavirus outside China. While Integrated Diagnostics' defensive business model acted as a support, the outlook for the company also remains healthy. Egyptian hospitals sector has structural growth tailwinds with government investments and

campaigns likely to draw volumes. Integrated Diagnostics is also expected to benefit from improving performances in its radiology division as well as its local subsidiary Wayak and operations in Nigeria. IDHC remains attractively placed on valuation and dividend yield amongst its Emerging Market diagnostics peers.

Worst Performers:

1. Vietnam Opportunity Fund (Vietnam, Financials) **–** Shares of the fund underperformed during the month amid the COVID-19 outbreak which emerged during the celebration of the Lunar New Year. When the Vietnamese stock market re-opened for trading on January 30th, a market-wide sell off ensued. VOF's largest holding, Hoa Phat Group (construction materials), felt the brunt of China's economic slowdown while its fourth largest holding, Airports Corporation of Vietnam, struggled amid travel restrictions. Prior to the black swan event, VOF has enjoyed a strong relative performance (while consistently narrowing its discount to NAV) driven by prudent public and private equity investments within the backdrop of one of the world's fastest growing economies.

2. OPAP (Greece, Consumer Discretionary) **–** Shares of the company underperformed during the month following a strong FY2019 highlighted by a nearly 50% stock price appreciation (in USD terms). Performance during the first two months of the year has been impacted by the COVID-19 outbreak that has weighed heavily on Greece's travel and tourism oriented industries where the country is particularly exposed since 20.6% of its GDP is derived from the space. Nevertheless, OPAP has continued its track of operational progress driven by strong growth in its key products (Kino and Joker), while expanding into video lottery terminals (VLTs) and positioning itself for the future of online gaming through its purchase of market leader, Stioximan.

Thank you for your continued support. Feel free to reach out to us if you have any questions.

Best Regards,
Schafer Cullen Capital Management

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Past performance is no guarantee of future results. 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. Market conditions can vary widely over time. Investing in equity securities is speculative and involves risk. Investing in foreign securities involves greater volatility and political, economic and currency risks and differences in accounting methods.

Returns are expressed in US dollars. Gross of fee performance is calculated gross of management fees and custodian fees and net of transaction costs. Net of fee performance is calculated net of actual management fees and transaction costs but gross of custodian fees. Individual account performance will not match the composite and will depend upon various factors including market condition at the time of investment. It should not be assumed that recommendations made in the future will be as profitable or surpass the historical performance of the securities in the composite. This variance depends on factors such as market conditions at the time of investment, and/or investment restrictions imposed by a client which may cause an account to either outperform or underperform the composite or model's performance. There is no guarantee that any historical trend illustrated in this report will be repeated in the future, and there is no way to predict precisely when such a trend might begin.

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The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that measures equity market performance of emerging markets. The **Standard & Poor's 500 Index** is the commonly used measure of the broad U.S. stock market. The **S&P Industrial Metals Index** is a measure of industrial metals price movements within the commodity markets. An investor cannot invest directly in an index. The **MSCI EAFE Index** is a free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The **MSCI EM Asia Index** captures large and mid cap representation across 9 Emerging Markets countries. The **MSCI EM Latin America Index** captures large and mid cap representation across 5 Emerging Markets (EM) countries in Latin America. The **MSCI EM Europe Middle East and Africa Index** is a free float-adjusted market capitalization index that is designed to measure equity-market performance in the emerging market countries of Eastern Europe, the Middle East, and Africa. The **MSCI EM Currency Index** in USD measures the total return of 25 emerging market currencies relative to the US Dollar where the weight of each currency is equal to its country weight in the MSCI Emerging Markets Index.