



CAUSEWAY CAPITAL MANAGEMENT LLC
NEWSLETTER

The World as One

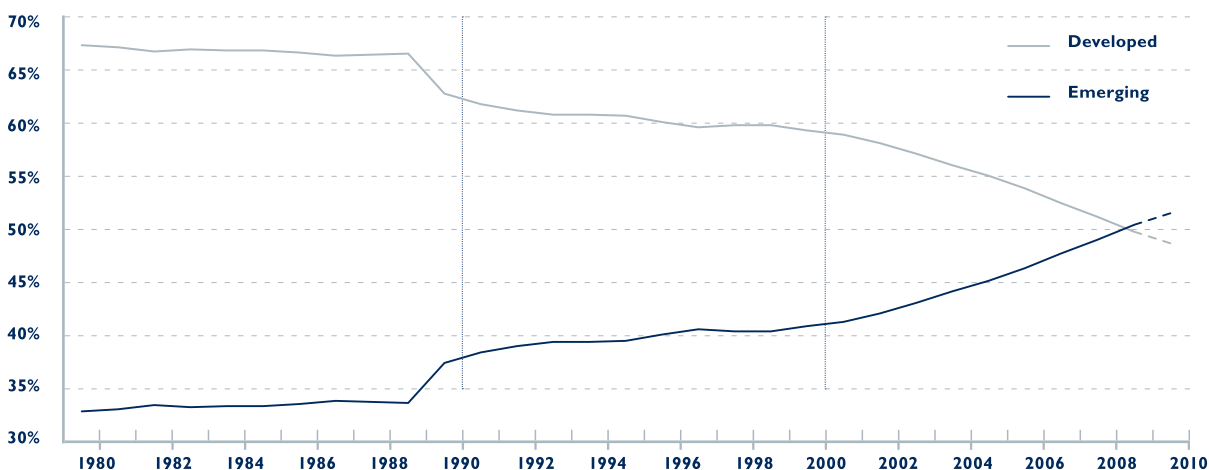
Equities Without Borders

Sovereign risks have become newsworthy once again – this time in the mature countries. Europe, the United States and Japan have a debt mountain to scale, while China and Brazil face inflation. In this volatile era, understanding portfolio geographic risk exposure has become acutely important. But where is the risk? Whether equities are “domestic” or “international” is becoming less relevant, as companies often have geographic ties that extend far beyond the country of listing. Causeway has built and deploys an array of sophisticated multi-factor risk models to identify what is not obvious from country listings.

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We also have taken a closer look at where companies actually generate their revenues. We see a rapidly changing landscape: one that is consistent with shifts in global growth from developed to emerging countries. According to the economists at ISI Group, emerging economies’ nominal gross domestic product (GDP) growth, based on purchasing power parity (in effect, adjusting for price differences) has recently surpassed GDP of the developed economies. The world’s multinational companies already know this. And they are racing to take full advantage of that faster growth rate in the developing countries.

Emerging Markets are Driving Global Growth
% Global Nominal Gross Domestic Product (based on Purchasing Power Parity)



Source: ISI Group

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Equities Without Borders continued

We talked with Causeway fundamental portfolio manager, Kevin Durkin, and quantitative portfolio manager, Arjun Jayaraman, to get more insight into assessing a portfolio's regional economic risk.

Q: Arjun, you and colleagues mapped the revenues of a huge number of companies. How did you take heterogeneous reporting of sales in geographic regions and make some sense of it?

AJ: The data coverage is quite good. As of end-December, we have access to geographic revenue data for 98% (1,625 of 1,660) of the companies in the MSCI World Index. These names represent 99% of the weight of the index. For the MSCI EAFE® Index, we have geographic revenue data for 98% (946 of 969) of the companies representing 98% of the weight of the index.

Of course, some companies simply don't cooperate. Our senior quantitative research specialist, Joe Gubler, carefully sifted through the companies whose geographic definitions did not match the four major regions (North America, Europe, Asia Pacific, and Emerging). A few companies report revenues from "Oceania," for example. We found that those sales were mainly attributable to the Asia Pacific region. We used FactSet, Bloomberg, and our own internal analytics for the sorting process. Where not

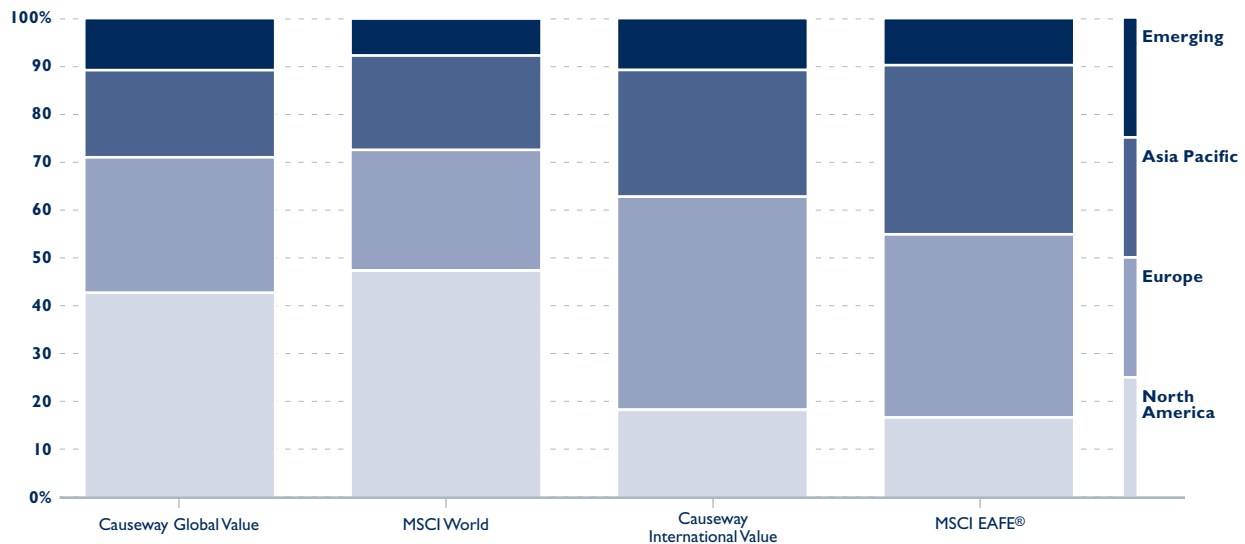
immediately apparent, we estimated revenue regions based on company information. We included those revenues explicitly identified by each company as emerging, and added to the figure roughly 10% of the "Other" category. This 10% represents the index overall economic exposure to emerging. We likely understated the revenues from emerging countries, as many companies have swept those sales into an "Other" classification.

Q: What were the results?

AJ: With 2009 revenue data, we found that both our clients' portfolios – and the benchmarks – have significant direct economic exposure to emerging countries. These faster-growing regions of the world account for at least 8-10% of the sales of companies in the global and international equity benchmarks (such as World and EAFE®). We see this percentage rising rapidly.

KD: With the single largest sector weight in industrials, our value equity portfolios have an even greater percentage of regional economic risk in emerging countries than

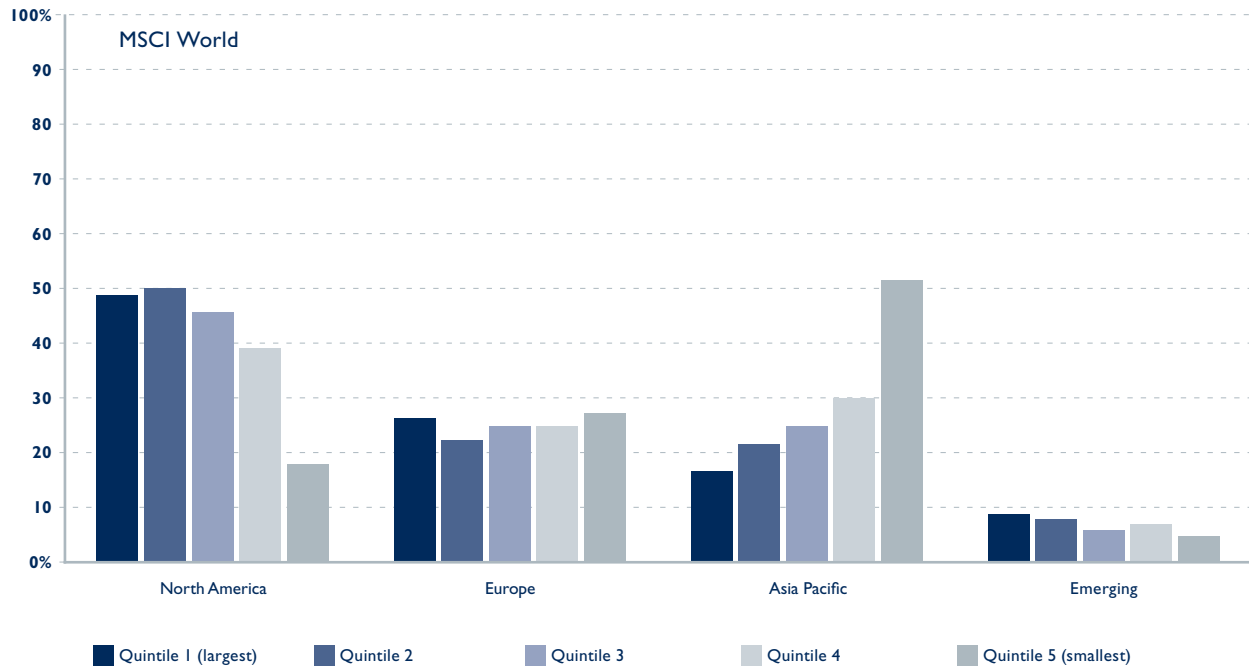
Developed Market Portfolios Have Economic Exposure to Emerging Markets
Geographic Exposure By Company Revenues



Source: FactSet, Bloomberg, Causeway Analytics. Causeway estimates based on latest available revenues reported by companies in the portfolio on 12/31/10, proportionate to holding weights. Israel is classified as an emerging country.

Equities Without Borders continued

Regional Economic Exposure by Market Capitalization



we found in the benchmarks. I think it's important to note that there is no listed emerging markets exposure in either our developed markets portfolios (other than South Korea, which we consider developed) – or in the EAFE® and World indices. Our clients need to understand that in a “developed” markets equity portfolio, what you see isn't always what you get. Assuming economic growth remains more robust in the emerging markets than in the mature regions, expect to see the contribution to total portfolio sales from emerging countries rise fairly quickly.

Q: Is there more of a skew in regional risk based on market cap?

AJ: You'd think that the larger the company, the more geographically diverse its revenues. In the World Index, we found that small cap companies (with market capitalizations under \$2.5 billion) had significantly less North American exposure and more developed Asia, partly due to the preponderance of small cap Japanese stocks in the indices. The larger companies with

over \$8 billion in market cap, did in fact have more emerging markets revenues. We can extrapolate from the market cap charts that US companies earn sizable revenues from Europe – and it is mutual. The Europeans – and many others – have sizable sales in North America.

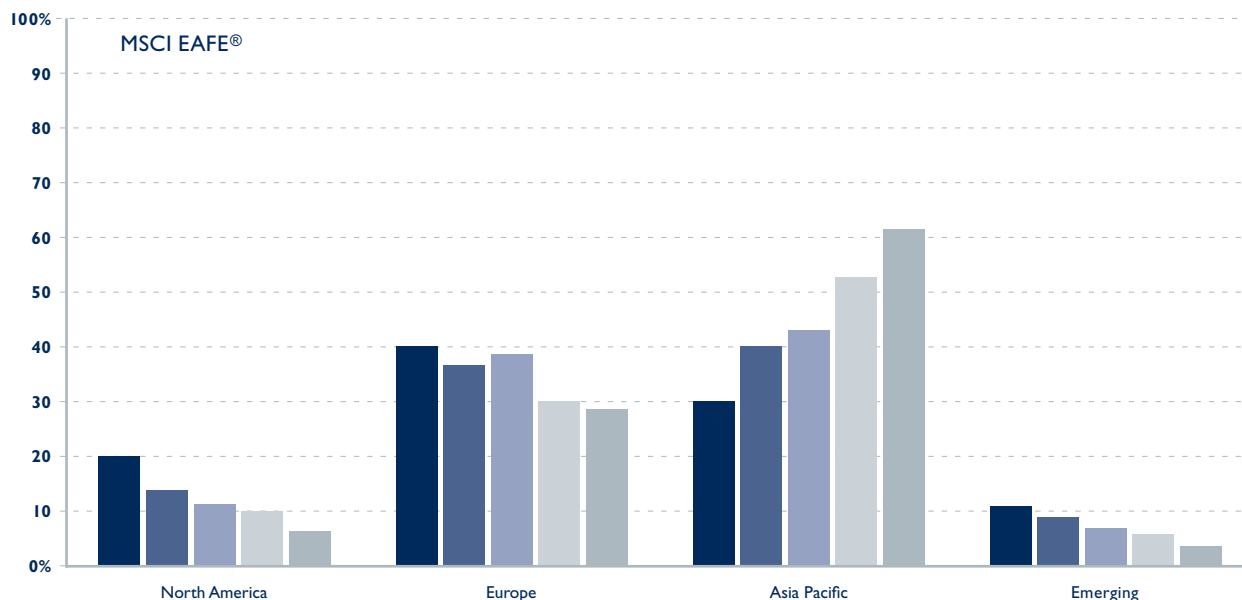
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Q: Kevin, you mentioned industrial companies in the Causeway portfolios with global operations. What are some examples?

KD: One of my most admired companies in the oil services industry is listed in the US, but earns at least 25% of its revenues in emerging counties. And the 28% of the company's sales in the “Other” category also may have a sizable emerging component. Another world class energy-related industrial company, listed in Japan, provides engineering services to companies all over the world in oil & gas, refining, liquid natural gas, and chemical production projects. Japan represents only 11% of company sales; at least another 70% comes from emerging markets. This firm has much more at

Equities Without Borders continued

Regional Economic Exposure by Market Capitalization



Sources: FactSet, Bloomberg, Causeway Analytics. Causeway estimates based on latest available revenues reported by companies in the portfolio on 12/31/10, proportionate to holding weights. Israel is classified as an emerging country. MSCI EAFE® Market Cap. Range: \$0.8B-\$199.3B; MSCI World Market Cap. Range: \$0.7B-\$379.6B

stake in the Middle East and Africa than in its home market. Outside the industrials category, I can think of many examples of companies whose market of listing has little to do with the company’s economic risk. In the most admired category, I would also cite a UK-listed tobacco company. We estimate the company derives over 65% of its sales and profits from developing countries, and doesn’t sell its products in Great Britain.

Q: OK, so there are lots of global companies. How should investors think about their regional exposure?

KD: From a fundamental, bottom up stock selection process, the resulting country weights (measured by where a company is listed) have limited usefulness. I advise clients to take portfolio country weights and toss them out the window. The gold standard in measuring regional economic risk is a combination of a solid in-house multi-factor risk model, combined with a thorough analysis of where companies actually sell their products and services.

Even domestic equities need to prove they are really “domestic,” or are something altogether different.

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Q: How does Causeway manage the regional risk of client portfolios?

AJ: We look at regional risk from several different dimensions. Our proprietary multi-factor global risk model helps us quantify regional risk both explicitly and implicitly. Explicitly, we look at the region of domicile and currency of domicile. Implicitly, we measure the sensitivity of a business to its local currency. We use this data to forecast portfolio volatility and monitor risk exposures at both

the stock and portfolio levels.

We are confident that the Causeway value equity portfolios have access to an optimal combination of growth drivers, with emerging markets playing a big role currently, and diversification of risks by a multitude of factors, including size, currency, sector, industry, and geography.

Market Commentary

The market commentary expresses the portfolio managers' views as of 12/31/10 and should not be relied on as research or investment advice regarding any stock. These views and portfolio holdings and characteristics are subject to change. There is no guarantee that any forecasts made will come to pass. Any portfolio securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.