MAY 2009

CAUSEWAY CAPITAL MANAGEMENT LLC
NEWSLETTER

Drill, Baby, Drill:

Finding Value in Energy Services

Although global economic recovery is inevitable, the multi-trillion dollar question remains: "When?" As credit markets stabilize, economies will fare considerably better. During this volatile market, our value investment approach has discovered stocks that we believe should respond positively to economic recovery, trade at inexpensive valuations, and also have more resilient earnings than their industrial and manufacturing counterparts. With supplies shrinking, and steady demand, we are bullish on companies that can benefit from growing capital expenditures by oil & gas producers. In a recent conversation, Causeway portfolio manager Kevin Durkin explained why the leaders in oil field services have such a promising earnings recovery trajectory under all but the most dire of economic scenarios.

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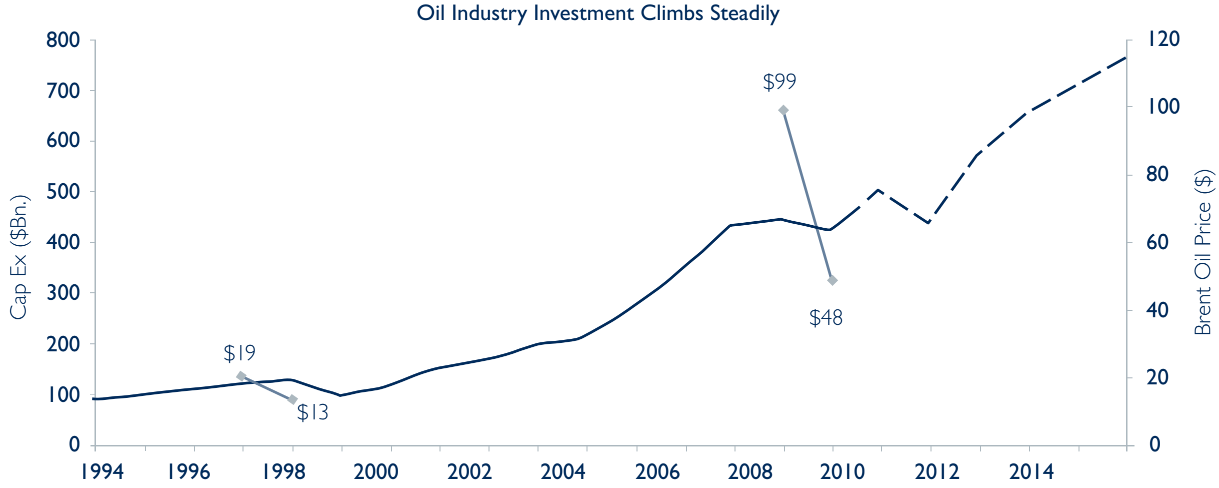
Q: Why are you so bullish on oil field services companies?

KD: The most attractive stocks in the energy sector (and possibly across the entire non-financials investable universe) are the specialists in deepwater and harsh environment engineering and development. The world is not running out of oil & gas, but the era of cheap, easy to extract resources is over. As we noted in our letter to clients a year

Oil Industry Investment Climbs Steadily



Source: Bloomberg, Causeway Analytics based on historical and forecast data from AllianceBernstein and Spears & Associates

- Global Oil Industry Upstream Capital Expenditures (Ex. Acquisitions)
- Forecast (Spears)
- Annual Average Brent Oil Price

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ago, we have muted expectations for oil demand, and have similarly low expectations for oil supply. We attribute the supply constraints to a lack of access to attractive resources, and underinvestment by oil & gas producers. The declining production rates of mature fields exacerbate this supply shortage. The International Energy Agency forecasts that production from existing oil wells is declining at a rate of 7-9% per annum. In a world of approximately 80 million barrels per day of oil demand, the oil & gas industry needs roughly six million barrels per day of additional annual production just to stay even. As a result, global oil & gas capital expenditures will likely remain sizable and steady, with $440 billion spent in 2008 alone. Producers are consistent in their spending on exploration and development. From 1994 to present, oil industry capital expenditures have not declined more than 2% over a three-year period.

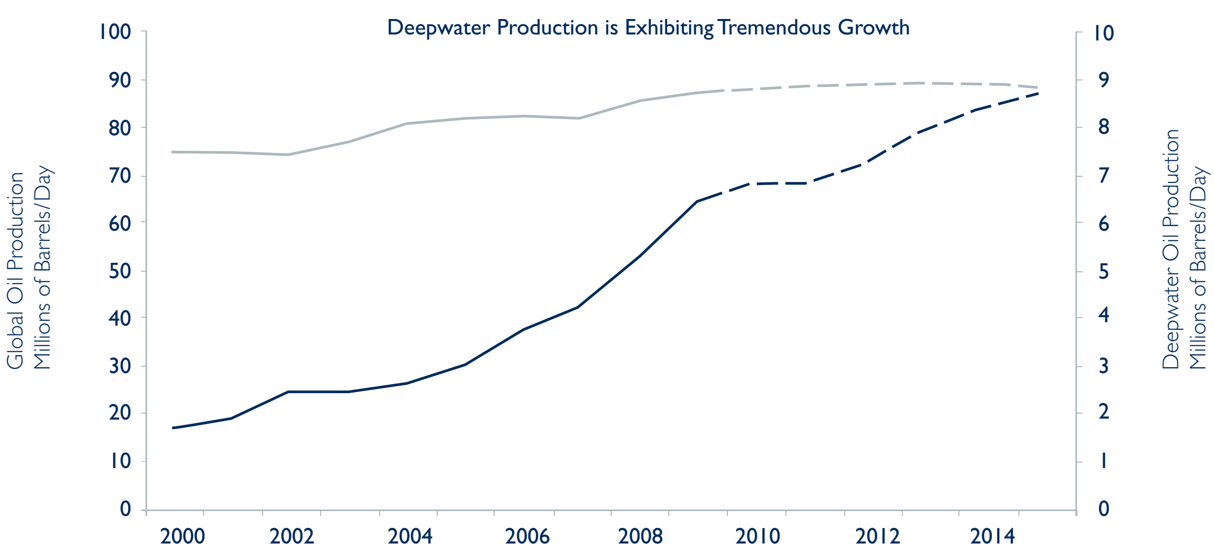
We expect a favorable environment for a select group of oil service companies that can differentiate themselves with technology and experience.

The oil services industry has structural growth, especially outside North America, and is stable. We expect much of the good news for oil services companies will occur one or two years from now. In the meantime, oil services companies must reduce expenses, and pass on lower steel and other commodity costs to their customers, the energy producers. Energy companies tell us that cost deflation is expected to be most severe in the more commodity-like equipment and services. In the highest value-added sections of deepwater spending, particularly subsea, oil field services companies will likely incur negligible price pressure. In contrast, the most speculative new entrants, suffering from escalating costs, spending delays, and lack of credit, will disappear. We expect an environment that will be favorable for a select group of oil services companies that can differentiate themselves with technology and experience.

The vast amounts of oil and gas resources the world can tap are contained in smaller deposits. Accessing these resources will require enormous expense, and require projects of long duration.

Q: Who are the largest owners of oil & gas resources, and how important is Brazil's latest find in your expectation for oil services industry growth?

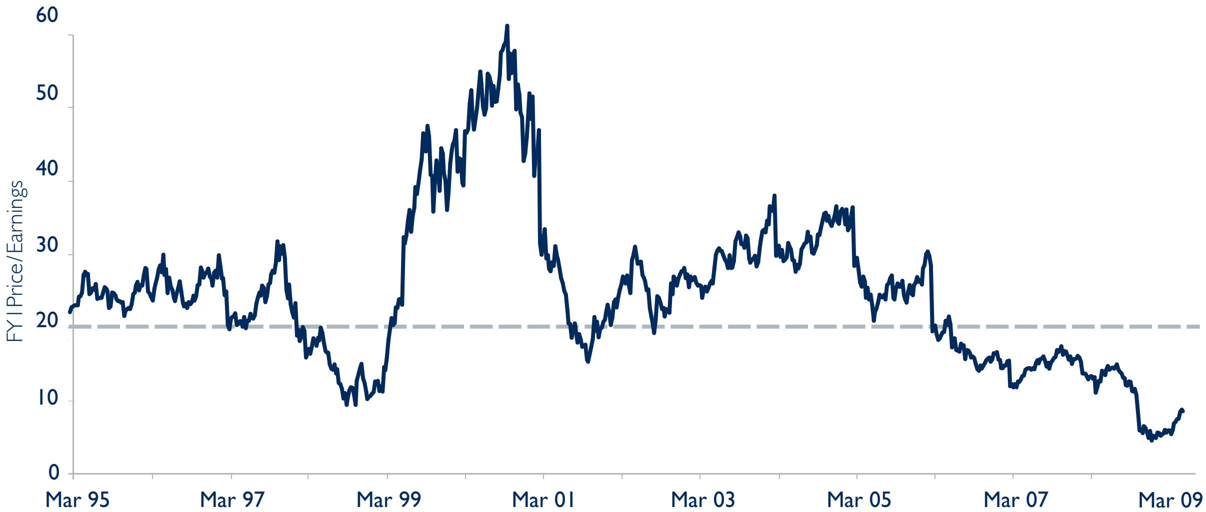
KD: The national oil companies (NOCs) currently control an estimated 70% of the world's oil and gas reserves. Some of these NOCs, especially in partnership with the supermajors, like Exxon Mobil, BP, Royal Dutch/Shell, and Total, are well-placed to spend considerable sums on exploration and development. One of the most newsworthy NOCs is the Brazilian state-controlled oil giant, Petrobras. The Company recently announced a $174 billion capital spending plan over the next five years, an amount greater than the entire economy of its neighbor Chile. Petrobras and its partners keep finding significant hydrocarbons, suggesting that this rate of spending will be maintained well into the next decade. All this expansion should



Source: Causeway Analytics, based on historical and forecast data from Deutsche Bank and Wood Mackenzie

Finding Value in Energy Services continued

Oil Services Companies are Trading at Historically Low Multiples



Source: FactSet

PHLX Oil Service Sector Index (OSX) FY1 Price-to-Earnings

Average

allow Petrobras to exploit some of the biggest oil discoveries of this century, including the Tupi oil reservoir, deep below the seabed. Given the colossal technical challenges, very few oil services firms have the proven expertise to develop fields five to seven kilometers under the sea, beneath a thick layer of unstable salt.

Q: What companies benefit from all this exploration and production spending?

KD: The industry's dominant firms will continue to take market share. Size does matter, especially for drilling services contractors such as Canada's Precision Drilling Services, and for the leaders in deepwater engineering such as Norway's Aker Solutions and France-listed Technip, one of Europe's largest oil services companies. In our global investment strategy, we hold the US-listed company, Transocean, operator of the world's largest offshore drilling fleet. Transocean also dominates the ultra-deepwater market.

Q: How similar are these companies?

KD: Precision Drilling Services, Aker Solutions, and Technip all benefit from inexorable structural growth in unconventional resource development. However, not all of them have current financial strength. The most undervalued of them all, Precision Drilling (PD), has seen its share price collapse from both falling natural gas prices as well as a heavy debt burden resulting from a recent strategic purchase. PD made a strategically sound acquisition, of Grey Wolf, a drilling firm, at a tough time in the credit markets. With the high cost of debt, PD's shareholders must bear some of the financing burden. The Grey Wolf combination makes PD the second-largest land driller in North America, with considerably greater scale and geographic diversification. PD's stock trades at less than 3x cash flow per share, 50% of book value, and at a large discount to its US peers. We expect the North American rig count to reach a low in the next quarter or two, then rise gradually, returning to a more normal situation. We will closely monitor PD's ability to benefit from the recovery.

Q: Why invest in Technip, Aker and Transocean?

KD: Technip and Aker have strong balance sheets, and that boosts our confidence in the stock price performance. Both companies pay no more than about 30% of their earnings in dividends, yet the yields are high and stable.

For Aker, a 4% dividend yield, resilient from cuts, seems like a solid down payment on the total return on the stock. We also find the order backlog reassuring, not to mention the company's excellent reputation in deepwater and harsh environment technology. We think of this engineering expertise as a near insurmountable barrier to entry for aspiring competitors. Aker trades at 20% of its estimated 2009 revenues, a mere 4x projected earnings in 2010. The Company is also well situated for deepwater contracts in Brazil, an area of immense development. Overall, the future appears bright for Aker, and shareholders should be rewarded.

Finding Value in Energy Services continued

Technip takes the prize for balance sheet strength, as the Company has cash that exceeds its debt by more than 1 billion euros. The stock yields over 4% with plenty of room to raise the dividend payout. Our discounted cash flow model suggests this stock continues to be a solid long-term investment, despite already experiencing strong performance year-to-date. The Company earns over 70% of its profits from subsea contracts, through engineering and installation services as well as providing equipment that can withstand extreme pressure and temperatures. Although listed in France, Technip's business is the most global of the three companies I've mentioned, with some of its largest geographic exposure to the Middle East and Africa.

Size does matter, especially for drilling service contractors and the leaders in deepwater engineering.

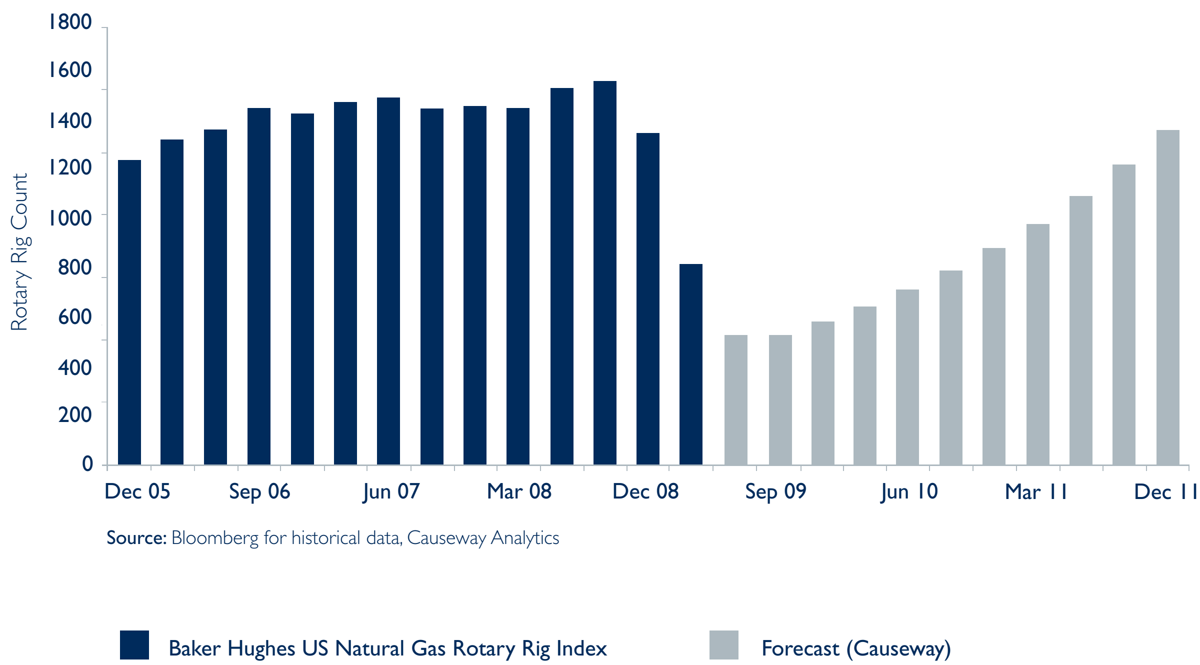
Transocean has a solid order backlog and some of the most consistent earnings growth in the oil services industry. Transocean maintains the largest fleet of ultra-deepwater assets in the world, and is well positioned for the industry's growth in long-term capital expenditures. Rig utilization may wane this year and part of next, but we expect improvement as the global economic cycle turns upward. The stock trades at 7x our earnings estimate for 2010, and a near 50% discount to our two-year target price. Transocean generates over $3 billion in free or surplus cash each year, enough to repay 100% of its debt by 2012.

Q: What's your anticipated holding period for these stocks from today?

KD: It will take two to three years for these oil services stocks to exhibit earnings growth that attracts considerable investor attention. Companies such as Technip will likely earn a higher return on capital from the subsea Brazilian developments than the actual owners of those resources, including Petrobras. Technip may deliver rewards to shareholders over an even longer time period than its peers thanks to the Company's local presence in many important energy regions. For example, Technip owns the largest flexible pipe plant in Brazil (and globally). Many national oil companies have local content restrictions, requiring only locally-manufactured equipment.

For all our oil services holdings, the companies have each built a reputation for trustworthiness, vast experience and superior technology. Even if we are wrong about a near-term global economic rebound, we believe these high quality companies will not only survive, but thrive.

US Natural Gas Drilling Should Gradually Normalize



Source: Bloomberg for historical data, Causeway Analytics