CAUSEWAY CAPITAL MANAGEMENT LLC
NEWSLETTER

Scouring the Globe:

The Advantage of Investing Globally

If we define risk as volatility of return, then which index, the MSCI EAFE® Index or the MSCI World Index, produced the lowest risk in the past 30 years? Which produced the best performance? The answer is the same: World.

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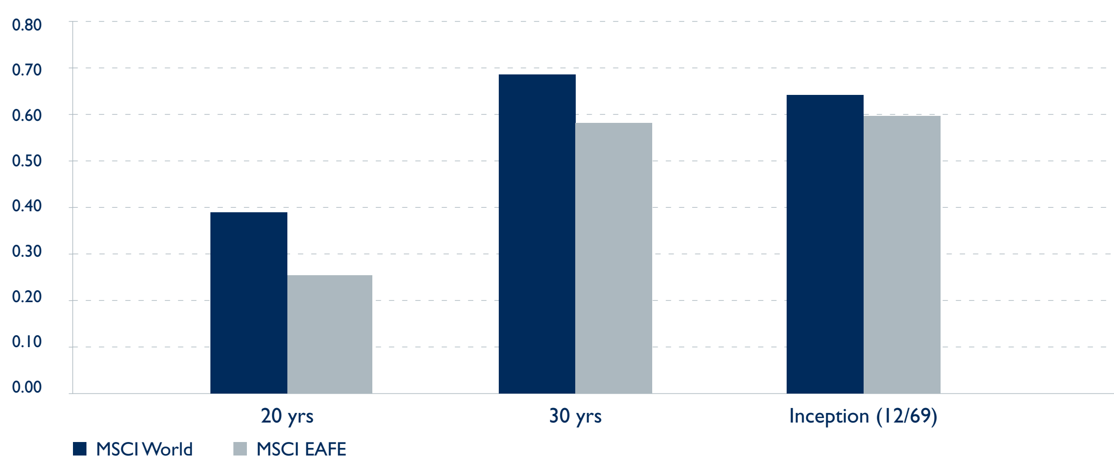
The MSCI World Index consists of EAFE markets plus the United States and Canada. It makes sense that a broader opportunity set of geographies and companies would be lower risk, thanks to its additional diversification. The 20-year average non-US weight in the World Index is 53%, indicating a large proportion of the Index is invested outside the US. Less clear, however, is the reason for the performance gap in favor of World, which is greatest over longer time periods. For the past 20 years, the US dollar declined in value versus the basket of EAFE currencies. Therefore, the currency advantage lies with non-US investments, and currency cannot explain the 150 basis point average annual return advantage for World since 1989.

Historically, the risk/return trade-off has unequivocally favored World. This may explain the penchant by US investors for increasing non-US equity exposure. Perhaps this legacy of having first invested in one's home market, and then ventured abroad explains the division

The Risk/Return Tradeoff Has Favored World

Annualized Return/Annualized Risk as of 12/31/2009



Source: Bloomberg

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The Advantage of Investing Globally continued

of labor between types of mandates. A skilled equity manager, well-seasoned in foreign markets, should be just as effective investing at home as abroad. Increasing transparency of reporting and international accounting standards have brought a level of homogeneity to the World markets. The organization of Causeway's bottom-up research process along global industries results in advantageous asset allocations to US and non-US equities in developed markets. Other than currency effects, we cannot make a case for any sustained period of either US or non-US developed market performance gaps. The larger listed companies operate and compete globally. Barring a retreat to protectionism, companies in the World Index will likely experience an even greater geographic spread of profits over the ensuing years—not less. At Causeway, we built our fundamental research and portfolio management skills in global industries, not countries. In future years, we believe clients will increasingly hire us for equity mandates unconstrained by geography. They will ask us to scour the globe and find the upside potential. Our team honed its skills in the complex, multi-currency environment abroad, and then extended research coverage to stocks in the granddaddy of transparent, shareholder-focused markets: the United States. We asked Causeway's portfolio managers, Sarah Ketterer and Harry Hartford, to make the case for global equities.

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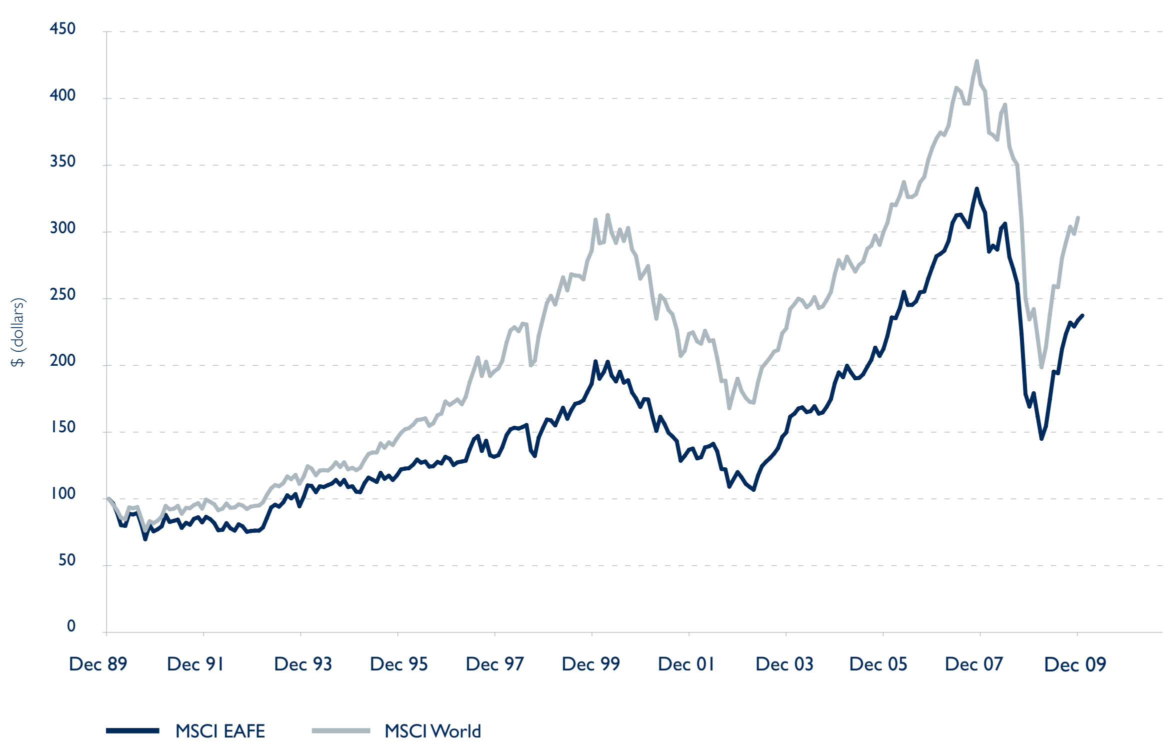
Q: Why are you so confident that a global equity mandate can enhance your clients' risk-return profiles?

SK: Not only has World beaten EAFE, but our experience also bears the same result. Eight and a half years ago, at the founding of Causeway, we received our first client assignment to invest globally, despite having a track record from investing in stocks listed in Europe, Australia, the Far East, and Canada. Adding the US market to the 22 developed international markets (now 23, as South Korea graduated to developed market status in 2003), doubled our investable universe and roughly doubled the number of undervalued stocks coming through our screens. A broader opportunity set led to

Global Equities Outperformed International Equities
Growth of $100, 20 years to December 31, 2009

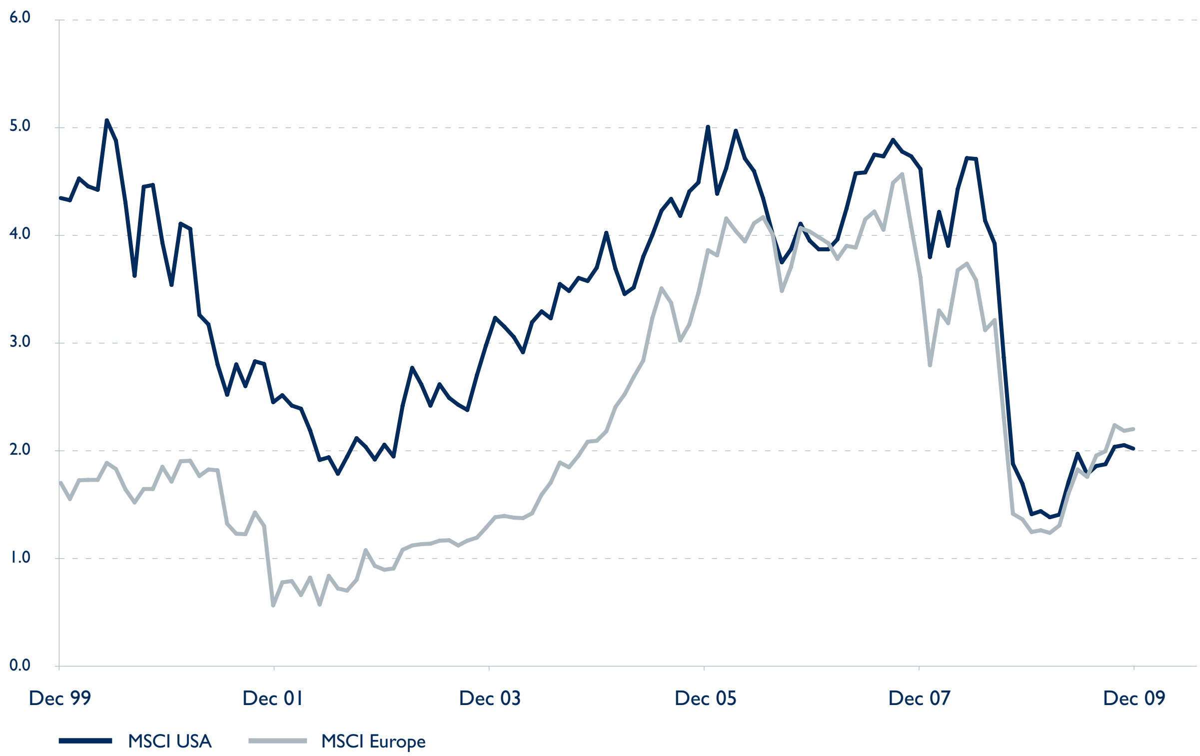


Source: FactSet

The Advantage of Investing Globally continued

Energy Multiples Converged Globally

Energy Equipment & Services Price-to-Book-Value



Source: FactSet

better performance. In the last four years, our team's detailed knowledge of both US and non-US companies in every major industry took our investment research to a higher level of competence.

HH: A recent example of capturing global performance is in the energy sector. As noted in our newsletter of May 2009, Causeway's portfolio manager, Kevin Durkin, identified oil services as an extremely undervalued industry in late 2008. His research showed us the potential for superior performance was not limited to the European leaders in offshore drilling and deep water engineering. Some of the greatest upside appeared in US competitors. Both the European and US listed oil services companies boasted very resilient balance sheets with plenty of financial flexibility to weather the economic storm. Our ability to own both the US and non-US companies in oil services gave our global clients exposure to the industry-leading firms and an index-beating return.

SK: Our portfolio manager, Jamie Doyle, found a global opportunity in technology in 2008 that was even more extreme than the 2001 technology bear market. World class technology hardware and software companies traded at reduced market premiums across borders. Even the Japanese technology giants traded in a range similar to their western peers. This illustrated a trend we are seeing of converging valuations within industries, regardless of nationality. Having so many great firms to choose from, we produced more alpha (returns above the World Index) from holdings in this sector than in our clients' international-only portfolios.

Q: How much thought do you give to geographic exposure to profits for your portfolio companies? How important is country of domicile?

HH: Our proprietary multifactor risk model flags any significant geographic concentration for portfolio candidates. We rely heavily on our quantitative tools to ensure diversification. Causeway's research analysts also evaluate the company's standing with the local regulator (if applicable) and the company's currency hedging, if any. Aside from major disruption, such as the bursting credit bubble, we are much more interested in the competitive nature of the industry, rather than the country of listing and domicile.

Q: How does knowledge obtained in one region of the world shed light on events in other regions?

The Advantage of Investing Globally continued

SK: This happens all the time. Our latest example is in telecommunications. We watched the penetration of mobile data cards in Australia and saw a large telecommunications service provider invest heavily in a new technology network that provides very fast data speeds. The investment paid off, and the average revenue per user (ARPU) rose for this Australian telco. With the introduction of the iPhone and other smart phones in the United States, data usage in this country has soared, leading to network congestion. To alleviate the traffic, US telcos must spend more on capacity, and likely will price data to reflect higher usage. Europe has seen the introduction of smart phones about 6-12 months later than the United States. We believe that both US and European telcos will experience a rise in ARPU similar to that which occurred in Australia, and faster data speeds will encourage even more cell phone usage. Accordingly, we have a large position for client portfolios in the most undervalued of the mobile telco service providers globally in advance of this trend to higher revenues.

Q: Why do you believe broader equity mandates are optimal for clients?

SK: Since inception of our global equity track record in 2001, we have added approximately 560 basis points per annum above the World Index (gross of fees), by identifying undervaluation across borders. The pricing inefficiency of foreign stocks, and the breadth and depth of the US market, have provided expanded opportunities for us to add value for our clients.

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HH: The trend toward broader equity mandates will not end with developed markets. With the integration of Causeway's emerging markets stocks into developed markets portfolios, we are well equipped to "go anywhere." In the future, we expect our clients to demand the highest return, lowest risk portfolios in equities, with no constraints on specific markets. We are convinced that freedom to take advantage of the most compelling opportunities in all regions will bring considerable rewards.

Technology Companies Globally Traded at Reduced Premiums

Global Technology 12-month Forward Price-to-Earnings Relative to Market

Source: Credit Suisse

Important Disclosures

The market commentary expresses the portfolio managers' views as of 1/29/10 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.