CAUSEWAY CAPITAL MANAGEMENT LLC
NEWSLETTER

Shrinking Beta:

Equity Risk Confined

The most successful men in the end are those whose success is the result of steady accretion. It is the man who carefully advances step by step, with his mind becoming wider and wider – and progressively better able to grasp any theme or situation.

– Alexander Graham Bell

After years of experience in both global long-only equity and quantitative long-short equity portfolios, Causeway has entered the realm of absolute return mutual funds. Innovator and scientist Bell would have agreed that our minds are very wide (and editor's note – we aren't all men!). Causeway has made steady progress developing a fundamental/quantitative absolute return strategy designed to generate considerably less volatility than broad market indices. Launched in January 2011, the Causeway Global Absolute Return (GAR) Fund's objective is to seek long-term growth of capital with low or no correlation to the MSCI World Index. As equity markets rise and fall, the GAR Fund's objective is to produce a pattern of performance that is liberated from market cycles[1]. The GAR Fund reflects Causeway's best buy ideas, namely the fundamental value stocks which we believe have the greatest upside potential. We combine those buys with a quantitatively selected group of short exposures to stocks that we expect to underperform the World Index. Leverage, obtained through total return equity swap agreements, amplifies total return.

We spoke to Causeway portfolio managers, Jamie Doyle and Duff Kuhnert, to give us some insight into the absolute return strategy and the GAR Fund.

[1] There is no guarantee that any strategy will protect against market loss.

Q: What was the genesis of Causeway's GAR Fund?

JD: Causeway's global value equity strategy has produced satisfying long-term performance, but those returns come with more volatility (standard deviation of returns) than some clients may be willing to endure. In the wake of 2008 and the global plunge in equity markets, we decided to develop a strategy that would give our clients another choice on the risk spectrum. The GAR strategy is designed to have lower volatility than our other long-only strategies. It seemed to be a natural fit: to blend our skills of managing a concentrated portfolio of undervalued global equities with proprietary quantitative tools for identifying promising short candidates.

Q: Why not manage the entire portfolio fundamentally – or all quantitatively? Why blend fundamental and quantitative?

JD: We are convinced that combining fundamental long with quantitative short adds diversification far beyond a 100% fundamental or 100% quantitative approach. Additionally, it's all about playing to our strengths. Causeway has significant experience investing in the developed equity markets globally. Through full market cycles, we have added considerable alpha (performance over the benchmark) in global equities. It seemed sensible to take full advantage of our in-house research talent and record of performance and apply that to an absolute return strategy. In our fundamental research and portfolio management, we are programmed (so to speak) for a long-only mentality, not short.

Q: OK, then why use quantitative tools and process for the short holdings?

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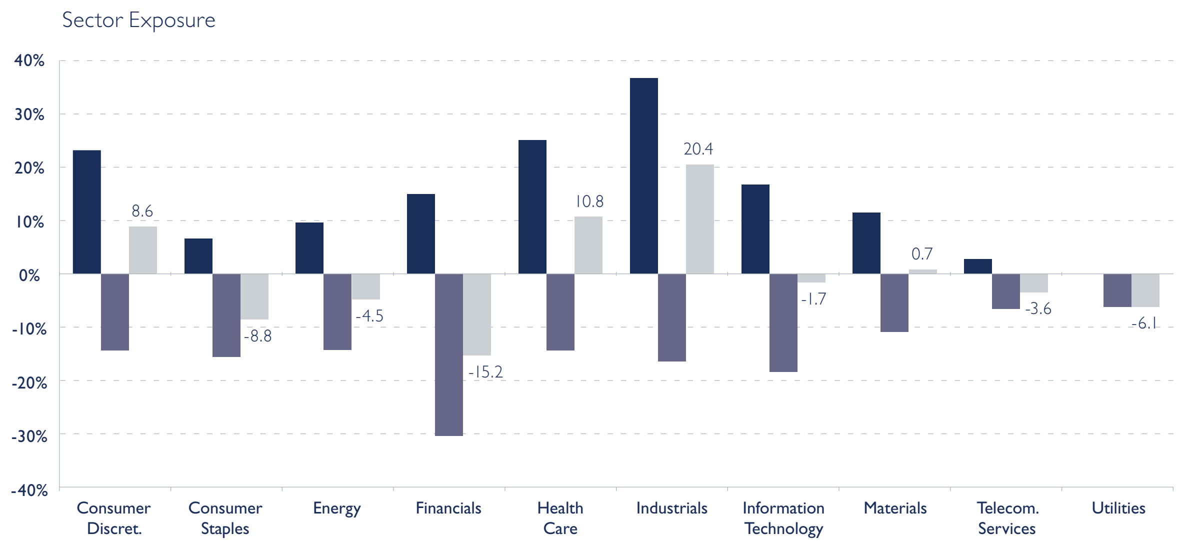
Equity Risk Confined continued

GAR Fund Allows Regional and Sector Biases While Generally Maintaining Equal Dollar Values of Long and Short Exposures



Source: FactSet

DK: Our past experience managing a private quantitative market neutral fund taught us that we needed something even more diversified – and less neutral. We understand how to identify alpha by using our quantitative models to identify short candidates from a wide universe of stocks. The key for us was becoming confident that we could find the less obvious short candidates.

Q: What do you mean by, "less obvious"?

DK: Clearly, overvalued stocks with poor financial strength appear on our list. But we also are interested in the value traps, those short candidates exhibiting undervaluation, but which are also experiencing earnings downgrades and which look poor from a technical perspective. Value traps are a nightmare for a long-only manager, and – conversely – potential sources of alpha for the short seller.

> **"Causeway has made steady progress developing a fundamental/ quantitative absolute return strategy designed to generate considerably less volatility than broad market indices."**

Q: With the potential for unlimited losses on short positions, how does Causeway manage the short risk?

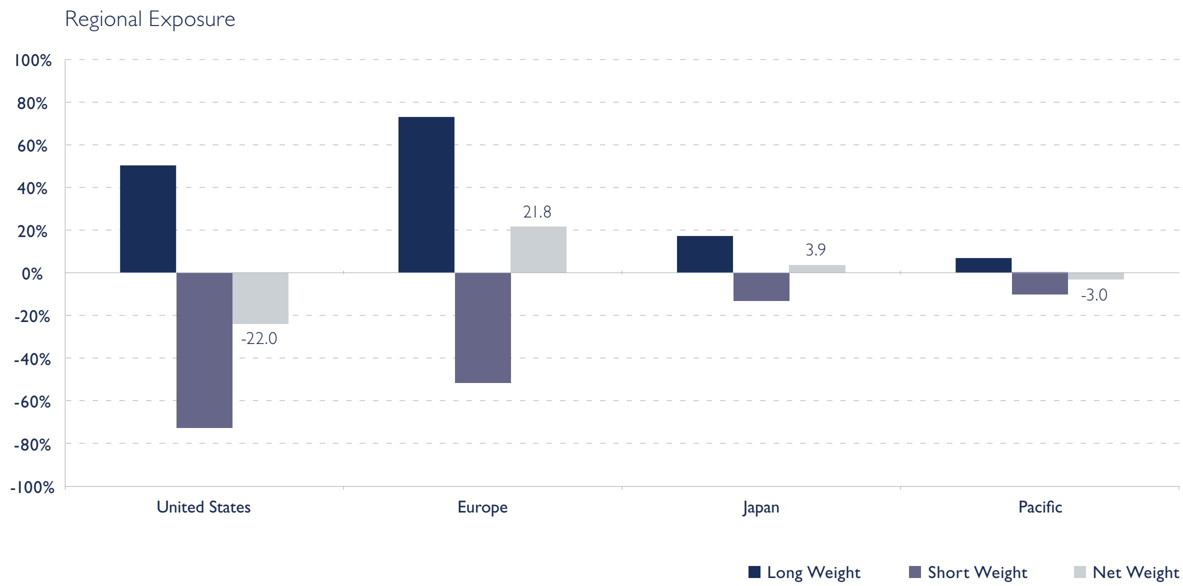
DK: A short position becomes a larger percentage of our portfolio as the share price rises. We measure our short exposure to a company by comparing the notional short position (fully levered) to the GAR Fund's total assets. We generally will not enter into a short exposure that exceeds 3% of total assets at the time of acquisition, and we generally will cover a short position before it reaches 5% of total assets. Further – and I think very importantly – our fundamental team reviews all of our short positions each week.

Q: What is an example of Causeway's fundamental research team adding valuable information to improve the short portfolio?

DK: This tends to happen when one of our proposed short candidates has just appeared on the screens used by our fundamental research team. Recently, one of our firm's fundamental analysts, Ellen Lee, informed us that a UK-listed oil and natural gas company had a potentially undervalued asset in its stake in a foreign oil field. The discovery of even more oil reserves plus rising energy prices would likely send the stock price considerably higher. Even though the stock appeared expensive, we removed it from our list of short candidates. This turned

Equity Risk Confined continued

GAR Fund Total Exposure (%): Long: 148.1; Short: -147.5; Net (Long + Short): 0.6
Weights are as of January 31, 2011 and are the total exposures divided by net assets



out well, as oil prices have climbed and the company's stock price has appreciated significantly from when we decided not to short.

Q: How would you describe the GAR Fund, long and short positions combined?

DK: Our goal is to preserve the exposures our fundamental portfolio managers take in global equities, while using the short side of the portfolio to reduce volatility, eliminate most of the beta (sensitivity to the World Index), and deliver alpha (performance over 3-Month Treasury Bills) from stock selection. It is important that investors understand we are not market neutral across all risk dimensions. We manage the GAR Fund so that the dollar amount of the long side will generally be equivalent to the dollar amount of the short side, but we allow large regional and sector biases. For example, if our fundamental portfolio managers have determined a large weight in European industrial companies is warranted, we will maintain that risk exposure in the GAR Fund. Another example is region, where Causeway's global long portfolio presently has a tilt towards stocks in the non-US markets. In the GAR Fund, we keep that regional bias. We generally retain an active currency exposure similar to that of the global long portfolio and additionally rebalance the GAR Fund to limit the exposure of any single currency.

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Q: We talked about GAR Fund construction, but let's step back and review the structure. You are using total return equity swap agreements. Why?

JD: In order to generate satisfactory returns from this low-volatility strategy, we employ leverage. Swap agreements enable us to obtain significant leverage within the mutual fund rules, although we will not leverage the Fund more than four times its net asset value. By using swap agreements, and keeping collateral with the GAR Fund's custodian instead of with a prime broker, we also limit exposure to the creditworthiness of the swap counterparty.

Q: What are the mechanics of the swap?

DK: The GAR Fund does not directly own the positions in the portfolio. Instead, the Fund's entire investment

Equity Risk Confined continued

portfolio consists of total return equity swap agreements and cash equivalents. Under the swap agreements, the GAR Fund receives, for financing and other swap fees, the net return of the longs and the shorts. The Fund's net asset value rises as the net of the longs and shorts, after swap fees and Fund expenses, is positive, and conversely falls if the net return is negative. In fact, the net asset value of the GAR Fund consists of cash equivalents plus or minus any unrealized gain or loss on the swap contract, less the Fund's expense ratio.

Q: How do you manage counterparty risk?

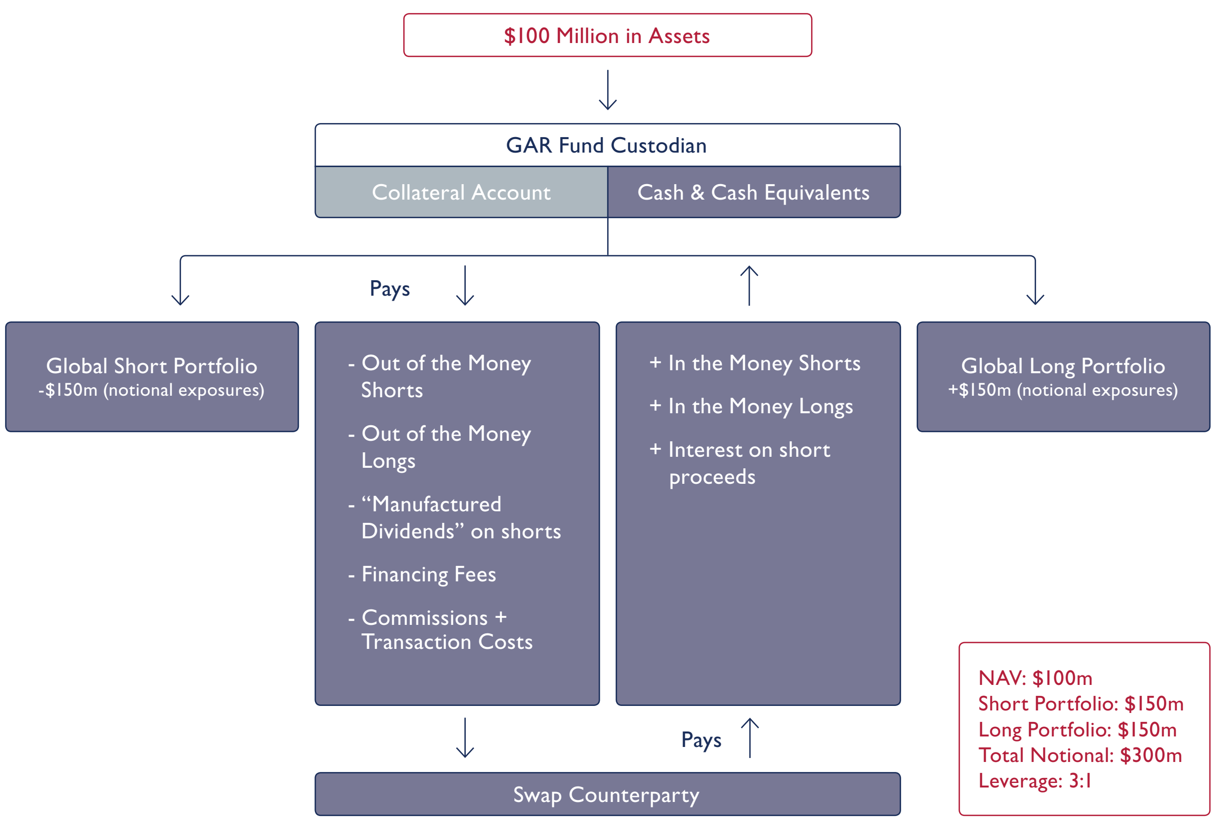
JD: To the extent that the swap counterparty owes the GAR Fund money under the swap agreements (when the swaps are "in the money") then the Fund will be exposed to the risk that the counterparty defaults and fails to pay amounts due the GAR Fund. To control for that possibility, we are limiting the amount of unrealized gain with a single counterparty to a maximum of 5% of the Fund's total assets. When the unrealized gain reaches 5%, the gain is settled in cash.

Q: You have listed the selling points, but what are the negatives of Causeway's GAR Fund?

JD: There's no escaping the fact that return and risk are closely related. This low volatility Fund is unlikely to keep pace with our Causeway Global Value Fund over the long-term. But as a tradeoff, the GAR Fund should have lower volatility, and that may appeal to many investors. A second drawback is tax. Because we intend to re-set (or exchange payments under) the swap agreements at least monthly, any performance gains will likely be short-term capital gains. When distributed to shareholders, these gains will generally be taxable to them as ordinary income rather than at lower long-term capital gains rates.

Overall, we believe that the GAR Fund is an important addition to Causeway's fund offerings. We believe that an increasing number of investors are seeking allocations to the "alternatives" asset class designed to have low or no correlation to the World Index, with transparency and daily liquidity – all for a competitive fee.

Simplified Example of the GAR Fund Total Return Equity Swap



Certain Definitions

Under a swap agreement, the Fund pays the other party to the agreement (a "swap counterparty") fees plus an amount equal to any negative total returns from stipulated underlying investments identified by the Fund's portfolio managers. In exchange, the counterparty pays the Fund an amount equal to any positive total returns from the stipulated underlying investments. The returns to be "swapped" between the Fund and the swap counterparty are calculated with reference to a "notional" amount, i.e., the dollar amount hypothetically invested, long or short, in a particular security or group of securities. The Fund's net asset value will reflect any amounts owed to the Fund by the swap counterparty (when the Fund's position under a swap agreement is, on a net basis, "in the money") or amounts owed by the Fund to the counterparty (when the Fund's position under a swap agreement is, on a net basis, "out of the money"). In a total return equity swap agreement, the stipulated underlying investments are equity securities and related dividends and income. The swap counterparty is typically a broker, bank, or other institution.

A market neutral strategy generally takes long and short positions in different securities to attempt to limit or "neutralize" the effect of general market movements on portfolio performance. As explained in this newsletter, the Fund does not seek to be market neutral and will have exposures to market risks that are not hedged.

Important Disclosures

This information must be preceded or accompanied by the current prospectus for Causeway Global Absolute Return Fund. Please read the prospectus carefully before you invest or send money. To obtain additional information including charges, expenses, investment objectives, or risk factors, or to open an account, call 1.866.947.7000, or visit us online at www.causewayfunds.com.

Mutual fund investing involves risk, including possible loss of principal. In addition to the normal risks associated with equity investing, international investing involves risk of loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund is not appropriate for all investors. The Fund uses swap agreements to obtain long and short exposures to securities. Swaps are derivatives which involve the use of leverage, and the Fund will leverage its total long and short exposures up to four times its net asset value. The use of leverage is speculative and will magnify any losses.Short positions will lose money if the price of the underlying security increases, and losses on shorts are therefore potentially unlimited. The use of swap agreements involves significant swap expenses including financing charges and transaction costs which will reduce investment returns and increase investment losses. The Fund risks loss of the amount due under a swap agreement if the counterparty defaults. The Fund intends initially to use a single counterparty, which will focus its exposure to the credit risk of that counterparty. Swap agreements involve liquidity risks since the Fund may not be able to exit security exposures immediately, particularly during periods of market turmoil. The Fund expects to re-set swap agreements at least monthly which will cause it to realize short-term capital gains which will generally be taxable to shareholders at higher ordinary income rates. While the total dollar amounts of long and short exposures are expected to be approximately equal, the global long portfolio and the global short portfolio will be managed using different styles and, as a result, will have exposures that will not be hedged. This is not a complete list of the Fund's risks. See the Fund's prospectus for additional information on risks.

There is no guarantee the Fund will meet its investment objective.

Causeway Capital Management LLC serves as investment adviser for Causeway Global Absolute Return Fund. The Fund is distributed by SEI Investments Distribution Co., which is not affiliated with Causeway Capital Management LLC.

Market Commentary

The market commentary expresses the portfolio managers' views as of 02/28/11 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.