Causeway

European Sovereign Crisis: Revenge of the Mummy

> OCTOBER 2011 NEWSLETTER

Our job is to gain in-depth knowledge of the European situation, understand the options available to policymakers and to companies, then form our base, best, and worst case estimates of valuation.

With daily volatility in the MSCI World Index in September 2011 twice the level of a year ago, investors may soon succumb to exhaustion. Who wants to invest in an asset class where the floor falls out beneath your feet? Not even Universal Studios could invent such horrors. As we have commented before, equities may have some disconcerting bouts of risk-off, but where else can we go for inflation-protected returns, especially with developed bond markets yields at historically low levels? Gold and other precious metals do not generate earnings and cannot pay dividends. Only equities, no matter how they twist and turn, can fill that role.

As of the end of the third quarter 2011, investors discarded Europe, as evidenced by the gap in valuation between the S&P 500 Index and the Europe-heavy MSCI EAFE Index:

	S&P 500	MSCI EAFE
P/BV	2.4x	1.2x
DIV YIELD	2.6%	3.9%
FY2 P/E	10.2x	9.0x

As of September 30, 2011 Source: FactSet

Facing the nightmare scenario head-on, we adhere to our long-standing premise that the euro zone will remain intact, primarily because the costs of a breakup would greatly exceed the costs of funding peripheral sovereign debt. Breakup costs for both strong and weak countries consist of: 1) sovereign default, 2) corporate default, 3) collapse of international trade, and – for the weak countries – 4) collapse of the banking system. Economist Stephane Deo at UBS recently estimated that the cost of a weak country leaving the euro area would be €9,500-11,500 per person in the exiting country in the first year, with an estimated €3,000-4,000 per capita cost in

INSIDE THIS ISSUE

CONTACT INFORMATION

Sales and marketing
Mark Cone
email: cone@causewaycap.com
phone: 310-231-6108

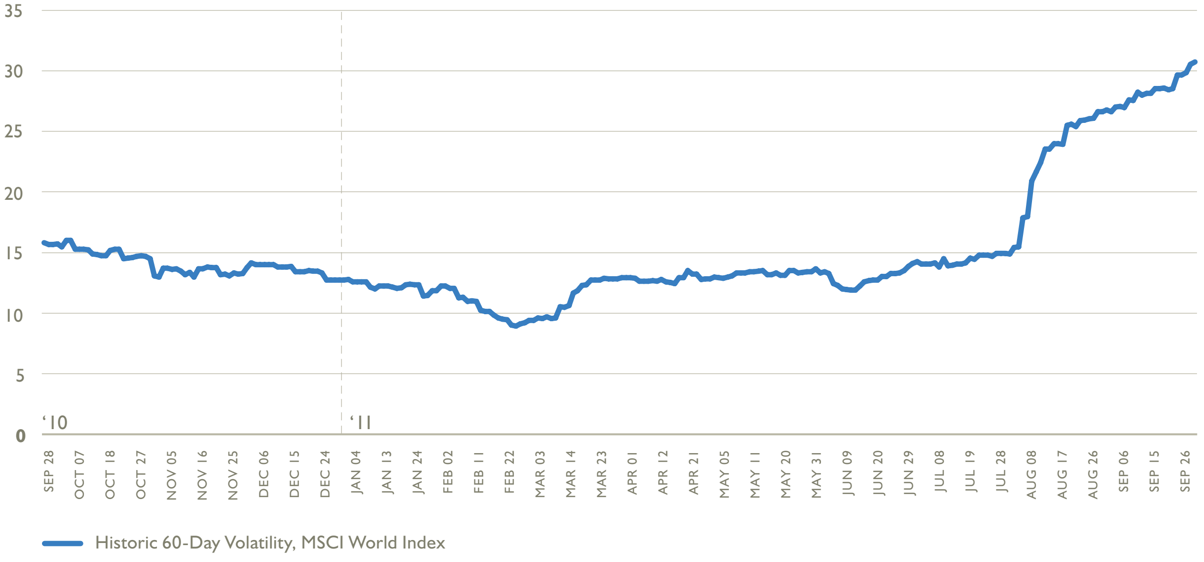
Client service
Eric Crabtree
email: crabtree@causewaycap.com
phone: 310-231-6145

European Sovereign Crisis: Revenge of the Mummy

Even the best-in-class, higher-priced companies fall into our value net when selling becomes indiscriminate.

subsequent years. A stronger country (such as Germany) leaving the euro area might incur a cost for every German adult and child of €6,000-8,000 and approximately €4,000 per person thereafter. In contrast, the cost for Germany to fund a defaulted Greece, Ireland, and Portugal entirely would amount to a one-time per person charge of €1,000. Andrew Garthwaite, macro strategist for Credit Suisse, recently noted that a euro area break up would likely lead to a depreciation of the new peripheral currencies (in past sovereign crises, the real effective exchange rate typically has fallen about 50%). This massive devaluation would make net foreign liabilities of peripheral Europe balloon from around 100% of gross domestic product (GDP) to 200-250%, assuming these governments cannot re-denominate their public debt in the devaluing currency (Greek drachmas, Portuguese escudos, etc.). Economists have also mentioned the political cost for a newly fragmented Europe, whose power and influence would diminish considerably. The economic shock from

EQUITY VOLATILITY HAS DOUBLED OVER THE PAST YEAR



Source: Bloomberg

a disintegration of the euro zone would also, according to UBS, lead to a freezing of deposits for as much as a year (see Argentina, 2001). Legal contracts would become uncertain (in what currency would they settle?), and the stronger countries (with relatively stronger currencies) would likely revert to protectionism, causing a trade war. Germany's economy could suffer incalculable damage as the deutsche mark appreciates 40% against the currency of the remaining euro member states, while peripheral currencies depreciate 35-50%. Overall, UBS concludes that a break-up of the euro zone would cause a 5% plunge in euro zone GDP, as well as a 4% decline in US GDP. According to International Monetary Fund data, in the year following sovereign defaults, the average fall in GDP was 6% with a 48% increase in inflation (Argentina's GDP declined 11% post-12/01, Russia's GDP declined 5% post-8/98, Mexico's GDP declined 3% post-8/82 and following Mexico's near-default of 12/94, the economy shrank by 6%).

As value investors, we believe that there is a price that discounts the most likely negative scenario. For the financials, the epicenter of the European sovereign crisis, as well as for cyclical companies caught in the contagion, we believe we have found that price. We spoke to Causeway portfolio managers, Harry Hartford, Conor Muldoon, Kevin Durkin, and Jamie Doyle on the extraordinary valuations of some of the world's most enviable franchises.

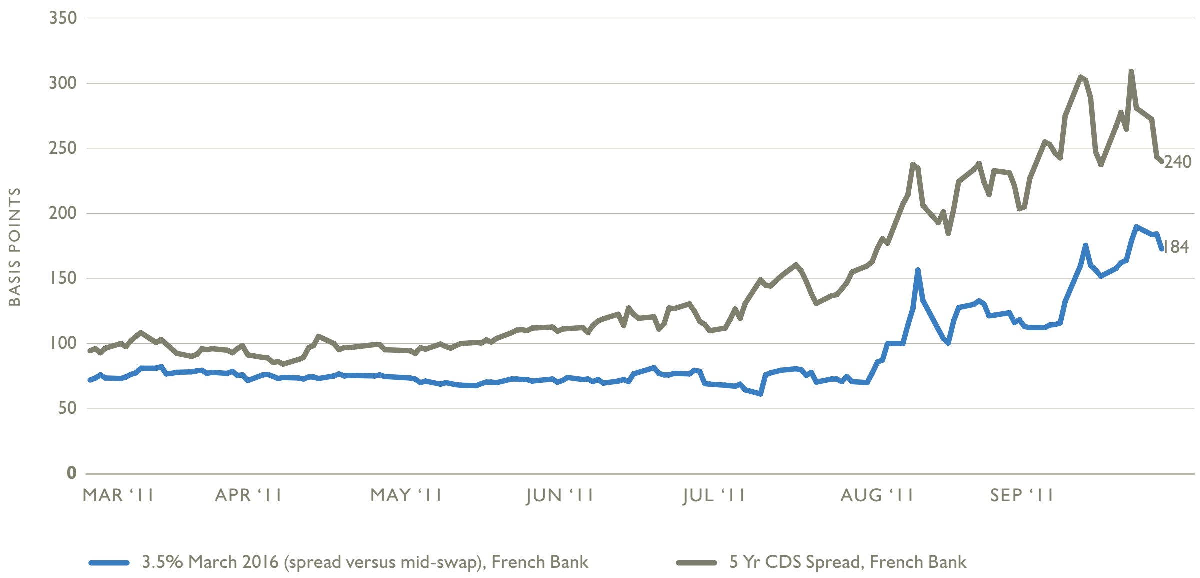
How much emphasis has Causeway placed on European financials?

HH: Given the volatility that these stocks add to client portfolios, we closely monitor the European financials weight, which represents about 14% of our international portfolios and 5% of our global portfolios. Euro zone banks and insurers currently represent about 5% of international portfolios, with other European (United Kingdom, Switzerland etc.) financials amounting to 9%. Globally, we have an even lower allocation in this area because we have double the investable universe. To put this in perspective, these aren't far from benchmark weights; we certainly are not staking the future of the portfolios on a rapid improvement in the European credit crisis. Our job is to gain in-depth knowledge of the European situation, understand the options available to policymakers and to companies, then form our base, best, and worst case estimates of valuation.

Give me an example of a euro zone bank holding that you have modeled.

HH: Of the euro zone trouble spots in the international portfolios, one of the most newsworthy is located in France. We have a stake in the best capitalized of the big three French banks, which is AA-rated by S&P and has seen extraordinary share price volatility this year. The bank's shares plunged 47% in local terms year-to-date through September 23, only to recover 23% by the time of this

CDS SPREADS HAVE SPIKED, BUT BANK FUNDING COSTS ARE NOT PROHIBITIVE



Source: Bloomberg

interview. At recent lows, the share price touched its 2008/9 troughs, reflecting concerns over funding, sovereign debt haircuts, and possible recapitalization. Although the bank can obtain funding – albeit at a higher cost than a year ago – the credit default swap spreads indicate a worsening condition (in other words, the CDS market implies a higher risk profile than that of the cash market). Trading at half of tangible book (book value minus goodwill), the bank's valuation discounts considerable shareholder dilution and a permanently higher cost of funding. Admittedly, the bank has €4 billion of Greek sovereign exposure in its banking assets, but this represents a mere 7% of tangible equity. In our financials research, we sat around the table and listed the hurdles we would have this company jump.

CM: And those hurdles were very high. Our banks team assumed defaults across the distressed European sovereign bond markets, with the French bank suffering large haircuts on its holdings. We also made the bank achieve the highest required equity standard immediately – with no time to pad equity with earnings. We embedded in our assumptions a dilutive capital raise, implying that the French government takes an equity stake, shutting out current shareholders. Assuming the euro zone does not unravel, this seemed to us like the ultimate stress case. According to Causeway research, this stock has a roughly 20% downside under the stress scenario, 50% potential upside in a partial recovery, and could appreciate further if confidence is restored to Europe and its banks.

That sounds reassuring. So why aren't you buying more euro zone banks today?

HH: We already have exposure, and our clients will benefit from rallies. We are prepared to add exposure as the probabilities we assigned to the more negative scenarios shrink. We had to convince ourselves that we should even hold these volatile stocks – much less buy them. Europe faces a de-leveraging headwind, and we will have many opportunities to buy more European financials. Keep in mind, the axe has fallen equally as hard on deeply cyclical, non-finance sector companies. They, too, are candidates for purchase as prices swoon. Any effective policy coordination in Europe will lift the cyclical stocks globally.

In industrial land, where are the best opportunities?

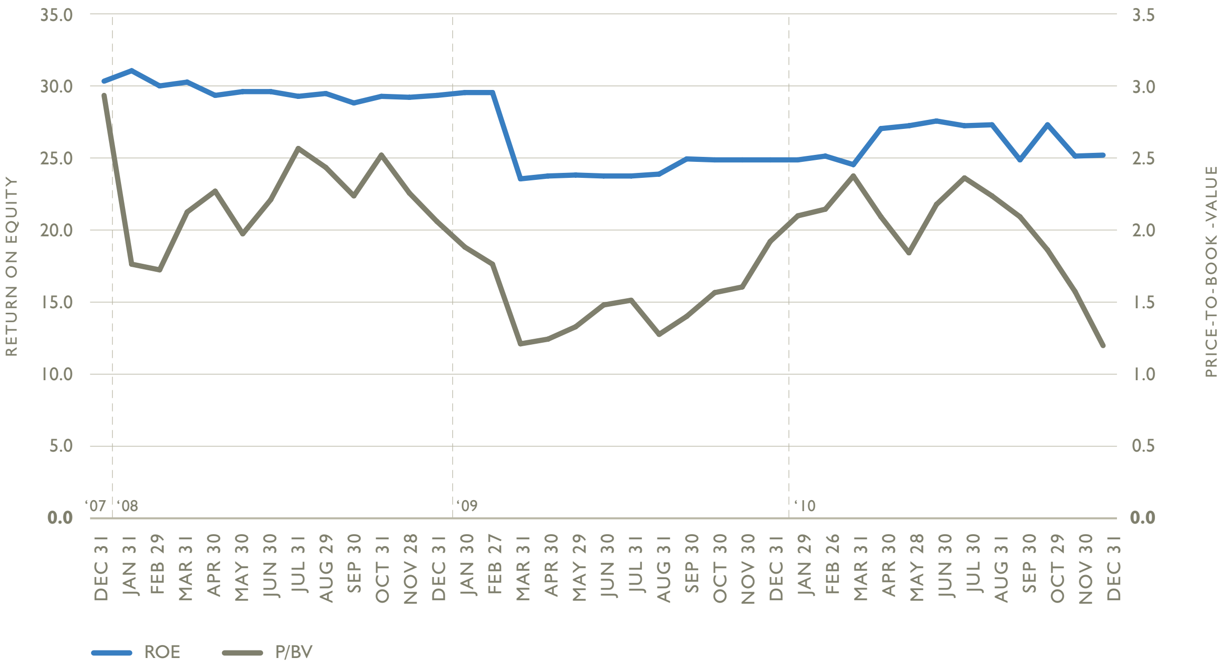
KD: Investors have run from stocks in transportation, energy, shipping, and other highly cyclical areas, abandoning even those companies with superior financial strength. The euro zone's mid-to-small cap companies have taken a beating. One of the greatest mispricings I have seen in this European crisis is in transportation, specifically the mail business in the Netherlands. We bought the dominant Dutch mail and parcel delivery business at a very low price. Investors don't seem to recognize that the company's stake in both real estate and the recently spun-off express delivery business exceeds the company's market capitalization. In other words, the mail delivery, albeit on the wane, generates plenty of cash, yet none of the cash flow is in the price. The parcel delivery business (made more popular with the rise of internet shopping) has growth potential well in excess of local GDP, yet the valuation is zero. If I had €1.3 billion, I'd buy the entire company myself.

Our stake in a $19 billion market capitalization South Korean shipbuilding and engineering firm is a good example of how we actively manage our industrial stock exposures amid price volatility. Many of these cyclical stocks have high expected returns, but also add volatility to the portfolio. We bought this company in mid-2008 and used share price weakness later in the year to add to our position. We sold nearly 40% of the position in early 2011, when outperformance and the stock's volatility made the risk/return profile less attractive. Since June, the share price has fallen 45%, and is now at a similar

As a team, we have the discipline to weather bear markets, and we use price weakness to upgrade client portfolios to the companies we've always wanted to own.

valuation to 2008, but with a much larger order book, a strong balance sheet, returns on capital well ahead of peers, a 3% dividend yield, and impressive management. Unlike other Korean shipbuilders, this company is diversified across business segments, with the bulk of its businesses in industrial plants, engines and machinery, and power infrastructure. The engines business is particularly attractive, providing essential technology to energy firms at high margins. The South Korean shipbuilders have considerable experience and use it to their competitive advantage. Of course, the health of the global economy weighs heavily in the demand for containerships. Overall, the fortunes of these companies depend on the continuing economic expansion of the emerging economies such as China, India, and Brazil. The company has proven its ability to perform through economic cycles, having grown sales organically at a double-digit compound annual growth

DESPITE STRONG RETURNS ON EQUITY, SHARE PRICES OF SOUTH KOREAN SHIPBUILDERS HAVE FALLEN



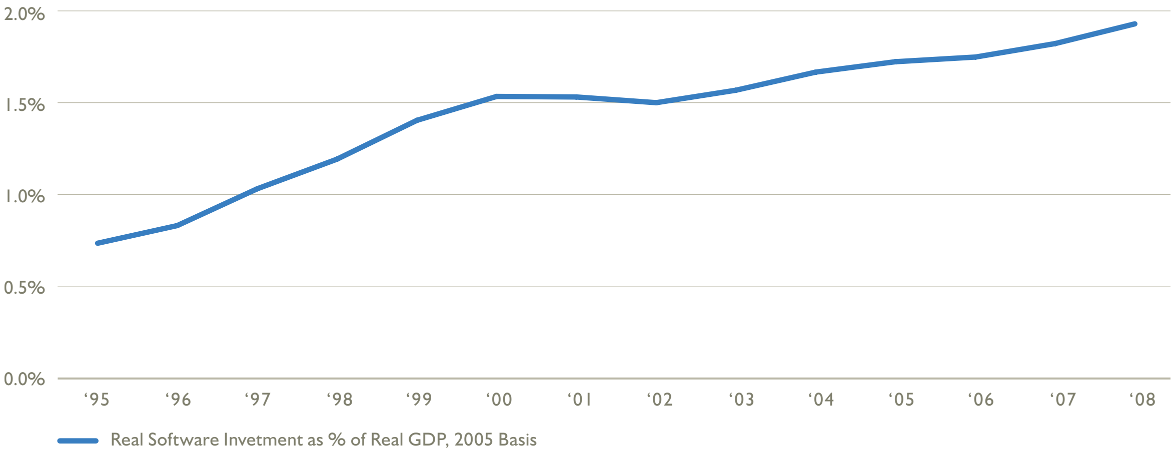
Source: FactSet

rate for the past 15 years. We continue to monitor our exposure to this stock, evaluating not only the expected return from our fundamental price target, but also the marginal contribution to portfolio risk. As the stock's ranking improves on a risk-adjusted basis, we will add to the position accordingly.

We have talked about the roller coaster stocks, but have you found any candidates in the lower risk category?

JD: Even the best-in-class, higher-priced companies fall into our value net when selling becomes indiscriminate. In 2010, we bought a US-listed, dominant global provider of corporate information technology in our global portfolios, but had no chance – until recently – to own the international equivalent. This past August, we accumulated shares in one of the world leaders in application software, then trading at the lowest price-to-earnings ratio on record relative to its peers. This German-listed, $50 billion market capitalization company has 170,000 customers across 120 countries, with very broad and diverse exposure to enterprise information technology spending. Enterprises have become more data dependent, and software expenditures have grown

SOFTWARE INVESTMENT AS % OF GDP HAS GROWN STEADILY



Source: US Bureau of Economic Analysis

consistently as a percentage of GDP. The growth in software has come at the expense of hardware. We like the demand characteristics of the industry, and will wait patiently for a lower entry price to add to our existing position in this well-managed company.

With such turbulent markets, patience becomes even more critical. As a team, we have the discipline to weather bear markets, and we use price weakness to upgrade client portfolios to the companies we've always wanted to own. We believe these world-class franchises should perform well versus peers over the next market cycle. Portfolio "upgrading" is the silver lining to extreme stock market volatility – and we make the best of it.

Causeway Global Value Equity

STRATEGY HIGHLIGHTS

Philosophy

- Active, bottom-up stock selection
- Fundamental research
- Focus on controlling risk – defined as volatility of returns
- Team approach

Process Highlights

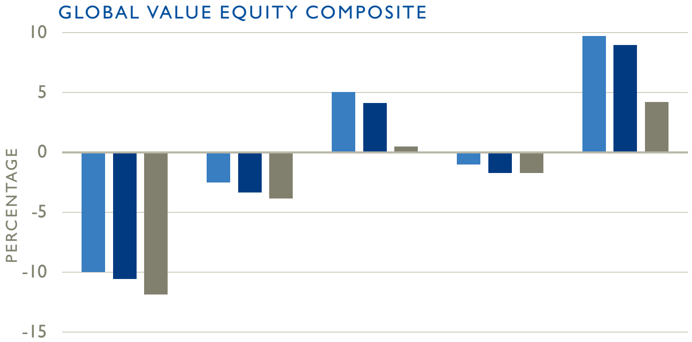
- 25 established markets (United States, EAFE, Canada, South Korea)
- 3,500 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	INCEPTION*
Causeway gross	-9.9	-2.4	5.0	-0.9	9.7
Causeway net	-10.5	-3.3	4.1	-1.7	8.9
MSCI World	-11.8	-3.8	0.5	-1.6	4.2

*Inception: September 30, 2001

Performance is preliminary.

Causeway International Value Equity

STRATEGY HIGHLIGHTS

Philosophy

- Active, bottom-up stock selection
- Fundamental research
- Focus on controlling risk – defined as volatility of returns
- Team approach

Process Highlights

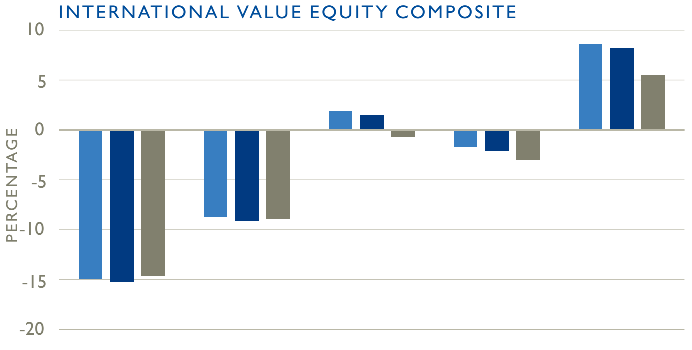
- 24 established markets (EAFE, Canada, South Korea)
- 1,500 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS*
Causeway gross	-14.9	-8.7	1.8	-1.7	8.6
Causeway net	-15.2	-9.1	1.4	-2.1	8.1
MSCI EAFE	-14.6	-8.9	-0.6	-3.0	5.4

*Inception: June 11, 2001

Performance is preliminary.

Causeway Emerging Markets Equity

STRATEGY HIGHLIGHTS

Philosophy

- Actively managed, tracking-error oriented, quantitative emerging markets strategy
- Combines bottom-up and top down factors in security selection
- Risk control
- Constrain country/sector weights versus benchmark
- Use proprietary quantitative tools

Process Highlights

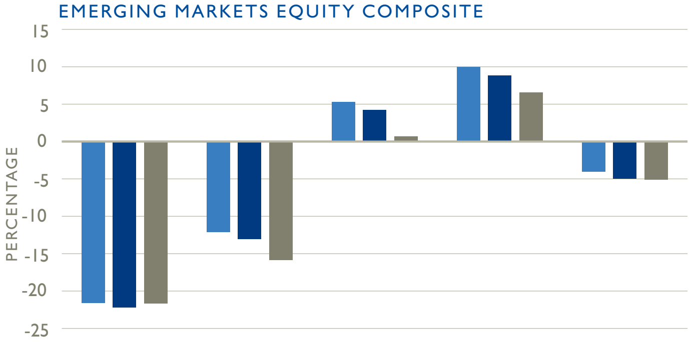
- 24 emerging markets
- 1,200 stock universe
- Employ stock ranking and risk models designed for emerging markets
- Use optimization to maximize expected return per unit of risk

Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	YTD	1 YEAR	2 YEARS	3 YEARS	4 YEARS*
Causeway gross	**-21.5**	**-12.1**	**5.3**	**9.9**	**-4.0**
Causeway net	**-22.2**	**-13.0**	**4.2**	**8.8**	**-4.9**
MSCI EM	**-21.6**	**-15.8**	**0.6**	**6.5**	**-5.0**

*Inception: April 30, 2007

Performance is preliminary.

Causeway Global Absolute Return

STRATEGY HIGHLIGHTS

Philosophy

- Combines separate investment processes: fundamental (long) and quantitive (short) sources of alpha

Process Highlights

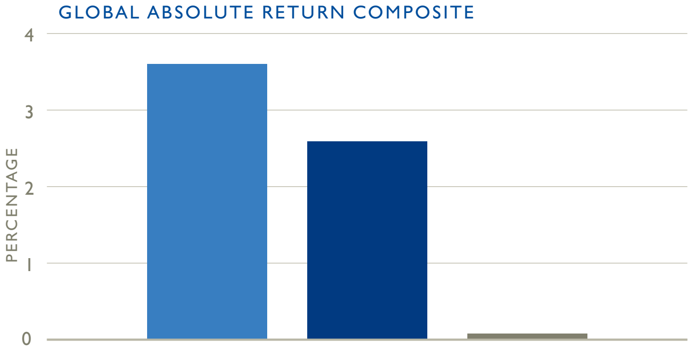
- Global developed market value equity (long/short)
- Fundamental long (typically 35-55 exposures), 2-3 year time horizon
- Quantitive short (typically 50-125 exposures), 3-6 month time horizon
- Dollar value of longs approximately equals dollar value of shorts
- Typically low or no correlation to the MSCI World Index

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	INCEPTION
Causeway gross	**3.6**
Causeway net	**2.5**
BofAML 90 T-Bills	**0.0**

*Inception: February 28, 2011

Performance is preliminary.

Causeway Global Opportunities

STRATEGY HIGHLIGHTS

Philosophy

- Combines active fundamental global developed markets strategy with active quantitative emerging markets strategy

Process Highlights

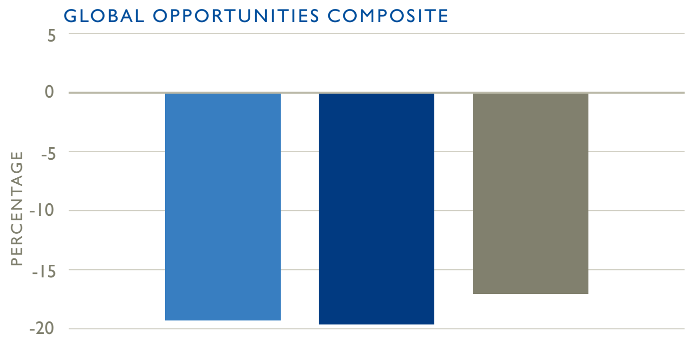
- Uses a quantitive asset allocation strategy to determine exposures to developed and emerging markets
- Meticulous fundamental research
- Active, bottom-up stock selection
- Disciplined quantitve approach with fundamental underpinnings
- Proprietary risk models developed in-house

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	INCEPTION*
Causeway gross	-19.2
Causeway net	-19.6
MSCI ACWI	-17.0

*Inception: Feburary 28, 2011

Performance is preliminary.

Causeway International Opportunities

STRATEGY HIGHLIGHTS

Philosophy

- Combines active fundamental international developed markets strategy with active quantitative emerging markets strategy

Process Highlights

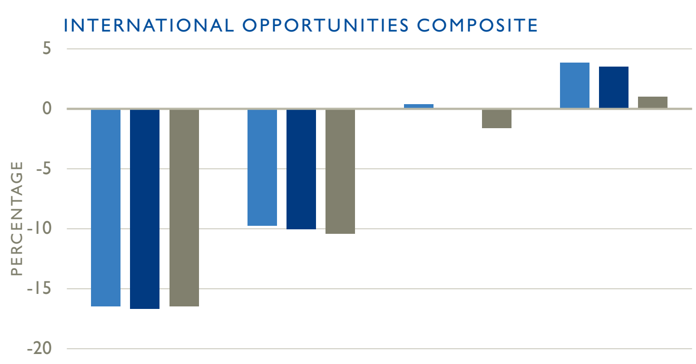
- Uses a quantitive asset allocation strategy to determine exposures to developed and emerging markets
- Meticulous fundamental research
- Active, bottom-up stock selection
- Disciplined quantitative approach with fundamental underpinnings
- Proprietary risk models developed in-house

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2011)*

Annualized for periods greater than one year



	YTD	1 YEAR	2 YEARS	3 YEARS*
Causeway gross	-16.4	-9.7	0.3	3.8
Causeway net	-16.6	-10.0	0.0	3.4
MSCI ACWI Ex US	-16.4	-10.4	-1.6	0.9

*Inception: June 30, 2007

Performance is preliminary.

Important Disclosures

The Firm, Causeway Capital Management LLC ("Causeway"), is organized as a Delaware limited liability company and began operations in June 2001. It is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. Causeway manages international value, global value and emerging markets equity assets for corporations, pension plans, public retirement plans, Taft-Hartley pension plans, endowments and foundations, mutual funds, charities, private trusts and funds, wrap fee programs, and other institutions. The firm includes all accounts managed by Causeway.

Causeway claims compliance with the Global Investment Performance Standards (GIPS®).

The International Value Equity Composite ("International Composite") includes all international value equity, U.S. Dollar denominated, discretionary accounts, which contain typically 50 to 80 holdings, do not apply a minimum market capitalization requirement of $2.5 billion or higher ($5 billion or higher prior to November 2008), include investments in South Korean companies after October 2003, do not experience significant regular external cash flows, and are not constrained by socially responsible investment restrictions. The international value equity strategy seeks long-term growth of capital and income through investment primarily in equity securities of companies in developed countries located outside the U.S. From June 2001 through November 2001, the International Composite included a non-fee-paying account with total assets of approximately $2 million. This was the sole account in the International Composite from June through September 2001. The account was included in the International Composite at account inception because it was fully invested at inception. The benchmark is the MSCI EAFE Index.

The Global Value Equity Composite ("Global Composite") includes all global value equity, U.S. Dollar denominated, discretionary accounts, which are not constrained by socially responsible investment restrictions. Through March 30, 2007, Causeway managed the Global Composite using research and recommendations regarding U.S. value stocks from an unaffiliated investment advisory firm under a research services agreement for an asset-based fee. The global value equity strategy seeks long-term growth of capital and income through investment primarily in equity securities of companies in developed countries located outside the U.S. and of companies located in the U.S. The benchmark is the MSCI World Index.

The Emerging Markets Equity Composite includes all emerging markets equity, U.S. Dollar denominated, discretionary accounts, which contain typically 70 to 120 holdings, and apply a minimum market capitalization requirement of generally $500 million or higher at the time of initial investment. The emerging markets equity strategy seeks long-term growth of capital through investment primarily in equity securities of companies in emerging markets using a quantitative investment approach. The benchmark is the MSCI Emerging Markets Index.

The International Opportunities Composite includes all International Opportunities, U.S. dollar denominated, discretionary accounts. The International Opportunities strategy seeks long-term growth of capital through investment primarily in equity securities of companies in developed and emerging markets outside the U.S. using Causeway's asset allocation methodology to determine developed and emerging weightings, and using Causeway's international value equity strategy or Causeway International Value Fund for the developed portion of the portfolio and Causeway's emerging markets strategy or Causeway Emerging Markets Fund for the emerging markets portion of the portfolio. The benchmark is the MSCI All Country World Index ex U.S.

The Global Opportunities Composite includes all global opportunities, U.S. dollar denominated, discretionary accounts. The global opportunities strategy seeks long-term growth of capital through investment primarily in equity securities of companies in developed and emerging markets outside the U.S. and of companies located in the U.S. using Causeway's asset allocation methodology to determine developed and emerging weightings, and using Causeway's global value equity strategy or Causeway Global Value Fund for the developed portion of the portfolio and Causeway's emerging markets strategy or Causeway Emerging Markets Fund for the emerging markets portion of the portfolio. The benchmark is the MSCI All Country World Index.

The Global Absolute Return Composite includes all discretionary accounts in the global absolute return ("GAR") strategy. The GAR strategy seeks long-term growth of capital with low or no correlation to the MSCI World Index through investment in long and short exposures to common and preferred stocks of companies in developed countries located outside the U.S. and of companies located in the U.S. The benchmark is the BofA Merrill Lynch 3-Month U.S. Treasury Bill Index. The GAR strategy obtains long and short exposures to securities directly and/or using swap agreements. The strategy will use leverage up to four times total assets. 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 strategy involves significant expenses including financing charges and transaction costs which will reduce investment returns and increase investment losses. To the extent swap agreements are used, the strategy risks loss of the amount due under a swap agreement if the counterparty defaults. To the extent assets are held by a prime broker, recovery will be limited in the event of the prime broker's insolvency. The strategy involves liquidity risks since a portfolio may not be able to exit security exposures immediately, particularly during periods of market turmoil.

New accounts are included in the Composites after the first full month under management, except as noted for the International Composite above. Terminated accounts are included in the Composites through the last full month under management. Account returns are calculated daily. Monthly account returns are calculated by geometrically linking the daily returns. The returns of the Composites are calculated monthly by weighting monthly account returns by the beginning market values. Valuations and returns are computed and stated in U.S. dollars. Returns include the reinvestment of interest, dividends, and any capital gains. Returns are calculated gross of withholding taxes on dividends, interest income, and capital gains. Additional information regarding the firm's policies for valuing, calculating and reporting returns is available upon request. Gross-of-fees returns are presented before management, performance-based and custody fees, but after trading expenses. Net-of-fees returns are presented after the deduction of actual management fees, performance-based fees and all trading expenses, but before custody fees.

Past performance is no guarantee of future performance. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation 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 MSCI EAFE Index is an arithmetical average weighted by market value of the performance of approximately 1,000 non-U.S. companies representing 22 stock markets in Europe, Australasia, New Zealand and the Far East. Portfolios in the International Composite invest in Canada and South Korea, which countries are not included in the MSCI EAFE Index. The MSCI World Index is a free float-adjusted market capitalization index, designed to measure developed market equity performance, consisting of 24 developed country indexes, including the U.S. Portfolios in the Global Composite invest in South Korea, which is not included in the MSCI World Index. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index, designed to measure equity market performance in the global emerging markets. The MSCI All Country World Index ex U.S. is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets excluding the U.S. The MSCI All Country World Index benchmark is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond 3 months from, the rebalancing date. The Treasury Bills comprising the Index are guaranteed by the U.S. government as to the timely payment of interest and principal. While accounts in the GAR strategy may invest a portion of their assets in Treasury Bills, accounts will primarily be exposed to securities that will not be similarly guaranteed by the U.S. government. The Indices are gross of withholding taxes, assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. It is not possible to invest directly in these indices.

Contact Sarah Van Ness at 310-231-6127 or vanness@causewaycap.com to request a complete list and description of firm composites and/or a presentation that adheres to the GIPS® standards.

Market Commentary

The market commentary expresses the portfolio managers' views as of 09/30/11 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.