



Causeway Capital Management LLC

European Debt Crisis Update

11/30/11

Businesses are reportedly implementing “contingency” plans for eurozone disintegration. As a result, we decided to communicate with our clients on this subject. Our thesis remains largely unchanged: we expect a cohesive eurozone, with Greece having a lower likelihood of remaining in the 17-country group. Central banks globally have realized they must do everything in their power to avert the cataclysm of a eurozone break up. The global financial system has become tightly entwined, and the specter of bank runs, frozen capital markets and collapsing financial institutions threatens every geographic region. As experienced value managers, we look beyond the crisis to the inevitable resolution. The nervousness surrounding Europe has led to one of the most advantageous buying opportunities for equities we have ever witnessed. However, what if we are wrong?

Could the Eurozone debt crisis devastate the periphery, spread to Amsterdam, Paris, and Berlin, and then roll through the UK and US en route to Asia? It is possible, but we believe unlikely. We point to the just-announced, coordinated action by several of the world’s main central banks to counter a worsening credit squeeze in Europe. We expect lowering the cost of US dollar funding heralds a more aggressive move by the European Central Bank to extend multi-year credit to commercial banks, compared to the current 13-month maximum. The central banks also agreed to bilateral swap arrangements so that liquidity could be provided in all countries covered in euro, Swiss francs, pound sterling, yen or Canadian dollars. These swap arrangements are designed to provide the necessary emergency liquidity should the need arise. In effect, these multinational central banks have begun implementing their own contingency plans – to avert a global financial system meltdown. As for Greece, we expect that no feasible amount of fiscal restraint can rectify the country’s overwhelming national debt. We have run several scenarios on Greece’s departure from the eurozone, and its implications. In short, markets have already discounted a Greek departure, and then some. For the highly cash-generative Greek companies with modest financial leverage, growth prospects brighten considerably when free of the eurozone constraints. In our view, that is interesting - and investable.

Our portfolio managers face a binary outcome. We place a remote probability on the Armageddon scenario of failed central bank coordination and a devastating loss of investor confidence. Rather, we believe it likely that there will be an improvement in confidence from sufficient monetary accommodation in Europe combined with fiscal austerity. If this crisis can be resolved, stocks are extremely undervalued and the “safe havens” of German bunds, JGB’s, US Treasuries and UK Gilts are all extremely expensive. If we are wrong, then no amount of contingency planning will salvage near-term performance. Where permitted, we have hedged a significant portion of our clients’ excess euro currency exposure (compared to their benchmark indices), but we are not hiding in cash or equivalents.

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Hold cash or gold – or whatever your haven - when stocks are expensive or financially stretched, not when companies have resilient balance sheets and their share prices have gone on sale. We are equity specialists, and our expertise resides in identifying undervalued world-class companies with superior financial strength in a variety of different sectors globally. Those opportunities remain abundant in our client portfolios.

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