Causeway

China: Valuation is the Lure

> JULY 2012
> NEWSLETTER

China's financial flexibility will mitigate the decline in demand from Western trading partners and the drag from a maturing industrial base.

According to an old Chinese proverb, "When the wind of change blows, some build walls while others build windmills." Many market pundits would argue that China should make a few more windmills in anticipation of an aging population and a declining rate of productivity growth. Over the past decade, China has moved up the value chain, exporting goods that are increasingly complex and contain more domestically produced content. Personal computers and cell phones have displaced toys and textiles as the nation's top exports. Yet this export mix leaves the country more susceptible to external shocks. Europe's economic slump already has begun to weigh on Chinese gross domestic product (GDP) growth, as demand sags for these higher value Chinese-manufactured goods. The Chinese economy faces challenges from a generation of rapid industrialization and urbanization, and will incur a further shift downward in the trajectory of capital formation and fixed asset investment. This slower pace implies a sustained tempering of China's demand for metals and for the most polluting sources of energy. We do not expect an abrupt decline (e.g., a drop below 6% per annum) in China's real GDP growth in the next several years, yet the days of 10% annual growth are likely gone. To its credit, China has sizable fiscal and monetary resources, and its debt-to-GDP ratio of 49% (2011 official data, which includes local government debt) is around half that of the major developed countries. This financial flexibility will mitigate the decline in demand from Western trading partners and the drag from a maturing industrial base. China's leaders have already

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China: Valuation is the Lure

Despite its deceleration, China (and much of Asia) offers relatively better economic expansion potential than just about any other region.

demonstrated a commitment to spend on such fiscal windmills as social welfare solutions and productivity-enhancing and environmentally friendly technologies and industries.

A year ago, we argued that the economic resilience of developing countries, especially China, would help offset the global drag from Europe's credit crisis. That resilience is waning. In fact, the vast majority of emerging markets—especially the dominant BRIC markets, Brazil, Russia, India and China—lost an average of 22% in the year to June 30, with considerable damage occurring in the second quarter. Furthermore, the energy and materials sectors stand out as the worst performers in MSCI World Index for the first half of 2012. This uneven performance highlights the need for careful and deliberate stock selection. Despite its deceleration, China (and much of Asia) offers relatively better economic expansion potential than just about any other region. How do we implement our view of China in in both our developed and emerging markets portfolios? We spoke to Causeway's quantitative portfolio managers, Arjun Jayaraman and MacDuff Kuhnert, as well as fundamental co-portfolio manager and energy specialist, Kevin Durkin, about these trends.

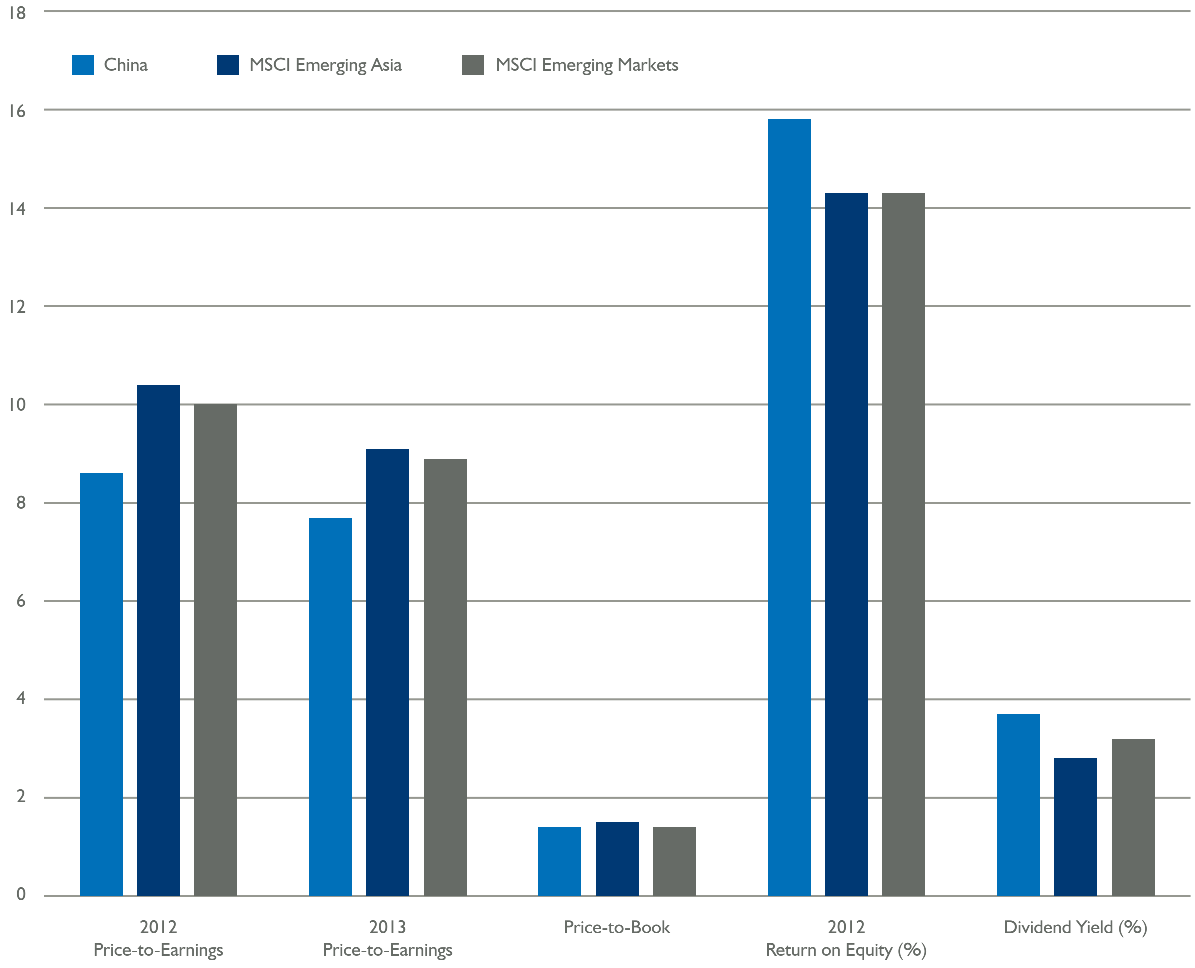
Arjun, what is Causeway's China exposure in the emerging markets strategy?

AJ: We are overweight China and emerging Asia, in aggregate, compared to the MSCI Emerging Markets Index ("EM Index") in Causeway's emerging markets portfolio. Our quantitative process looks for attractive top-down indicators such as GDP growth and current account surplus, and juxtaposes those measures against aggregates of bottom-up metrics such as valuation and earnings growth. China looks attractive to us from a top-down growth perspective, given the analyst consensus (Bloomberg) estimates of 8.3% real GDP growth in 2012 and 8.7% in 2013, versus 2012 and 2013 estimates of less than 5% for the emerging markets in aggregate.

DK: And you're getting this superior growth at a discounted valuation based on just about every metric. Not only does China trade at discount valuation versus emerging Asia, it also trades at a discount to the averages for the EM Index.

AJ: Admittedly, not all of the top-line growth in Chinese companies translates into bottom-line growth, presumably due to cost pressures such as rising wages, although currently we don't see inflation as a near-term problem. Forecasted earnings growth rates

CHINA PROVIDES SUPERIOR GROWTH AT A DISCOUNTED VALUATION
AS OF JUNE 30, 2012



Source: FactSet, Citigroup

for China in 2012 and 2013 are lower than those for both emerging Asia and the EM Index. We should acknowledge that some of the lackluster forecasted earnings per share (EPS) growth for China is due to the base effect, as China's EPS growth in 2011 outpaced that of both emerging Asia and the EM Index.

Which Chinese companies appear most attractive?

AJ: Our emerging markets portfolio exposure in China has a cyclical bias. Cyclical holdings look undervalued (almost all valuation z-scores are 1 or greater), but are not particularly compelling in terms of earnings growth or technicals, except for stocks in the real estate and information technology sectors. With the exception of information technology stocks, on average these equities trade at forward price-to-earnings ratios below 7x and have dividend yields greater than 4%. We believe cyclical stocks—in China and globally—have incurred excessive share price declines, beyond their moderating earnings growth.

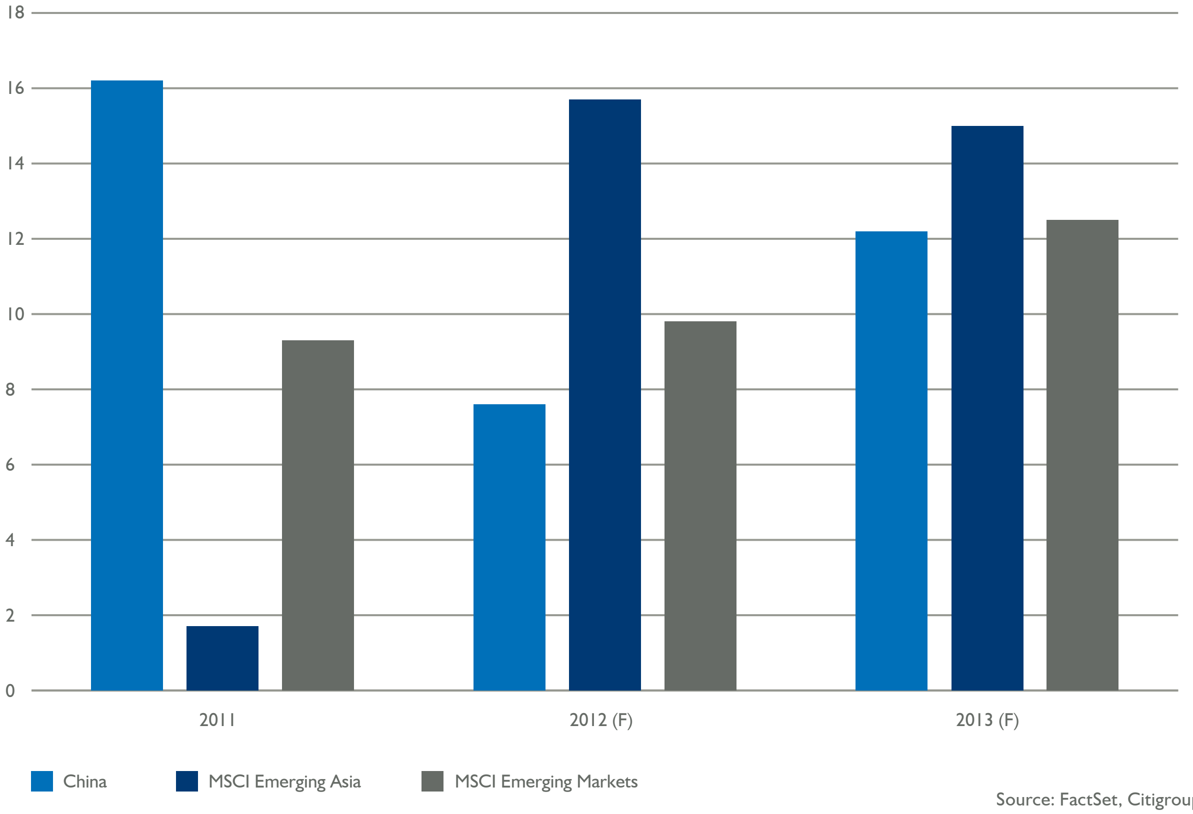
The Chinese government plays a critical role in shaping economic development. How might government policy influence the outlook for China?

DK: We believe that China will use monetary policy tools to ameliorate any significant economic slowdown. Chinese inflation is low: the June (year-over-year) consumer price index rose only 2.2%, and the producer price index fell 2.1%. Economic research firm ISI Group expects that the People's Bank of China will reduce interest rates and lower the required reserve ratio for banks twice over the next few months.

Kevin, how much of Causeway's quantitative output drives the fundamental team's analysis of China, particularly shares of Chinese mainland companies that trade on the Hong Kong exchange?

LACKLUSTER EPS GROWTH FORECASTS ARE PARTLY DUE TO STRONG 2011 EPS GROWTH

EARNINGS PER SHARE GROWTH AS OF JUNE 30, 2012



Source: FactSet, Citigroup

VALUATION DRIVES THE CYCLICAL BIAS OF CHINA EXPOSURE IN CAUSEWAY'S EMERGING MARKETS PORTFOLIO

CHINA EQUITIES	(%) Portfolio Weight	(%) Active Weight vs. EM Index	Z-Scores Valuation	Z-Scores Earnings Growth	Z-Scores Technical	Price-to-Earnings NTM	Price-to-Book-Value	(%) Dividend Yield NTM
CYCLICAL								
Construction & Engineering/Materials	2.2	1.2	1.0	-0.8	0.3	6.3	1.6	4.0
Real Estate Management & Development	1.8	0.8	1.5	0.7	1.1	6.3	1.3	5.8
Commercial Banks	5.0	0.8	1.3	-1.1	-0.3	5.1	1.3	6.4
Chemicals	0.9	0.8	2.9	-0.6	-0.4	3.9	0.7	6.1
Auto Components	0.9	0.5	1.9	0.1	-0.1	4.2	0.9	4.3
Energy	3.0	-0.1	1.3	-1.0	-0.6	7.0	1.5	4.7
Information Technology	0.8	-0.3	0.8	0.7	1.4	10.2	3.1	3.1
DEFENSIVE								
Wireless Telecommunication Services	3.1	1.1	0.2	0.4	1.1	10.9	2.7	4.1

Source: Causeway Analytics based on a representative portfolio;
NTM=next twelve months; a z-score measures distance from the mean in units of standard deviation

We believe cyclical stocks—in China and globally—have incurred excessive share price declines, beyond their moderating earnings growth.

KD: Signals from Causeway's quantitative research corroborate what we are learning from interviews with multi-national companies operating in emerging Asia. The softness in Chinese earnings foreshadows an even greater opportunity in our fundamental strategies for us to add companies at low valuations from this more rapidly growing part of the world. We also have found oil & gas stocks selling off with expectations of lower demand, and that weakness has extended to Chinese energy companies. We are taking advantage of this Chinese energy sell-off to gradually accumulate exposure to profitable companies in the sector.

In addition, structural changes to the Chinese economy present opportunities for many of our developed market companies. One of our Europe-listed pharmaceutical holdings is the leading provider of diabetes treatments for China's aging population. And for our portfolio holdings in the industrial automation industry, Chinese labor inflation and the need to enhance productivity will be a substantial growth engine.

It sounds as if fundamental and quantitative research analysts at Causeway compare notes regarding Chinese companies exposed to the global economy. What positions have you taken, in particular in financials and materials?

DK: We have tempered our overweight to Chinese banks in response to our fundamental colleagues' negative opinion of loan losses in the years ahead. Both fundamental and quantitative research groups at Causeway recognize that there's a price for that (potentially long-term) balance sheet risk. Chinese banks trade at historical trough valuations based on price-to-earnings and price-to-book-value criteria. Adding the Chinese banks to our emerging markets portfolio reduces tracking error, as we are underweight financials in general. As for materials, we have not constrained the weighting. We review the materials sector in our weekly portfolio management meetings and recognize, both in fundamental research and in our quantitative models, that mining costs have escalated while metals prices have declined. That's an unpleasant combination for companies in this sector. We are underweight metals & mining in every Causeway strategy because poor earnings growth and momentum have more than offset the attractive valuations.

We can't discuss China without a mention of property/real estate. Why such bullishness from a quantitative perspective, yet no direct exposure in Causeway's fundamental portfolios?

AJ: From a quantitative perspective, Chinese property companies have appeared inexpensive for quite some time. Net earnings upgrades by sell-side analysts (where upgrades exceed downgrades) have become a recent catalyst for us to overweight these stocks. Much of our bullishness is due to the easing of monetary policy, as well as the relaxation of regulations that were implemented to curb property price appreciation in previous years.

KD: A few Chinese property (and related construction) companies appeared in our fundatmental screens several months ago. Recognizing the positive industry signals from our quantitative models, we looked more carefully at the prospects for some of these firms. With the exception of one of Hong Kong's prestigious property companies, the valuations were not low enough to compete with investment candidates from other industries in our global value strategies. Reflecting monetary easing, Chinese property transactions have recovered in the past quarter, but questions remain: Has the property cycle reversed, and will construction activity accelerate? A reversal may not materialize, but at a low-enough valuation for property stocks, even a tepid recovery can lead to satisfying share price performance. As data for housing affordability and inventories become available, we will make adjustments both quantitatively and fundamentally to our expectations for stocks in this industry.

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

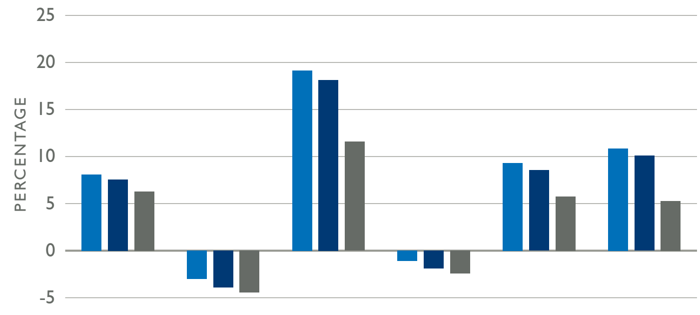
Process Highlights
- 25 developed markets (United States, EAFE, Canada, South Korea)
- 3,000 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

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

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year

GLOBAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	8.10	-2.99	19.16	-1.09	9.33	10.87
Net of Fees	7.57	-3.90	18.12	-1.89	8.55	10.08
MSCI World	6.29	-4.41	11.58	-2.40	5.74	5.26

*Inception: September 30, 2001

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

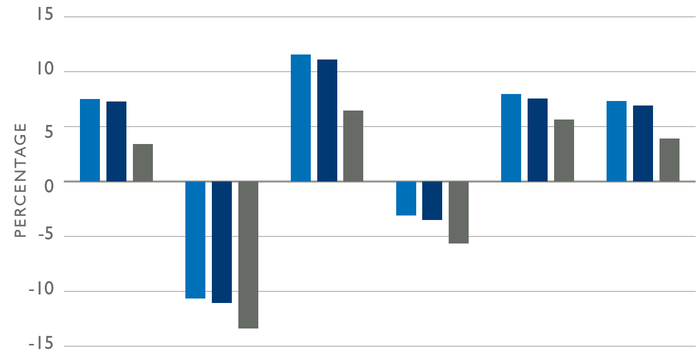
Process Highlights
- 24 developed markets (EAFE, Canada, South Korea)
- 1,500 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

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

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year

INTERNATIONAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	7.50	-10.64	11.56	-3.08	7.97	7.33
Net of Fees	7.28	-11.03	11.08	-3.50	7.52	6.90
MSCI EAFE	3.38	-13.38	6.45	-5.63	5.62	3.90

*Inception: June 11, 2001

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

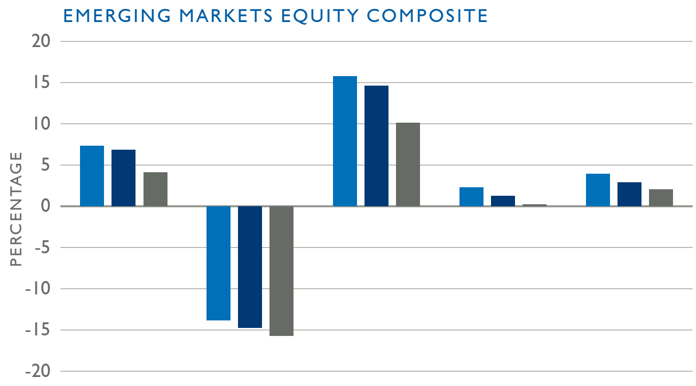
- 24 emerging markets
- 1,200 stock universe
- Employ stock ranking and risk models designed for emerging markets
- Use optimization to maximize expected return per unit of risk

Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	INCEPTION*
Causeway gross	7.34	-13.83	15.76	2.30	3.93
Causeway net	6.81	-14.73	14.60	1.27	2.89
MSCI EM	4.12	-15.67	10.10	0.21	2.05

*Inception: April 30, 2007

Causeway Global Absolute Return

STRATEGY HIGHLIGHTS

Philosophy

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

Process Highlights

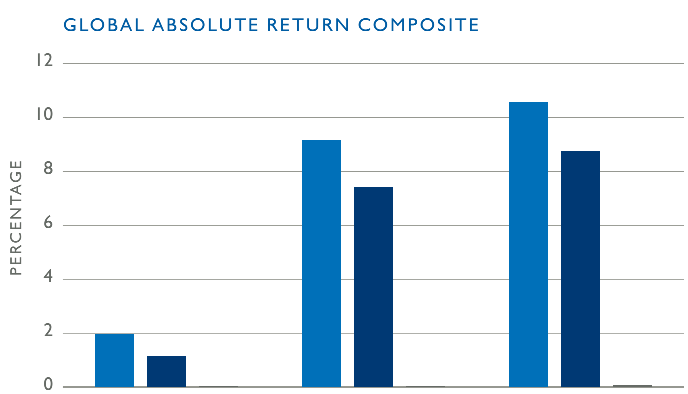
- Global developed market value equity (long/short)
- Fundamental long (typically 35-55 exposures), 2-3 year time horizon
- Quantitive short (typically 50-125 exposures), 3-6 month time horizon
- Dollar value of longs approximately equals dollar value of shorts
- Typically low or no correlation to the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

Portfolio Managers

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

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year



	YTD	1 YEAR	INCEPTION*
Causeway gross	1.96	9.14	10.55
Causeway net	1.16	7.42	8.75
BofAML 90 T-Bills	0.03	0.05	0.09

*Inception: February 28, 2011

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

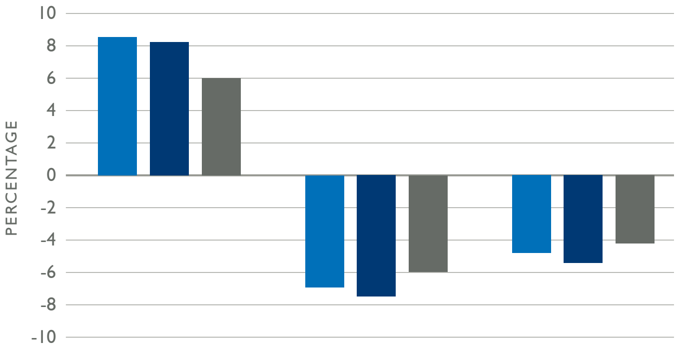
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year

GLOBAL OPPORTUNITIES COMPOSITE



	YTD	1 YEAR	INCEPTION*
Gross of Fees	8.55	-6.91	-4.80
Net of Fees	8.23	-7.48	-5.41
MSCI ACWI	6.01	-5.96	-4.22

*Inception: Feburary 28, 2011

Causeway International Opportunities

STRATEGY HIGHLIGHTS

Philosophy

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

Process Highlights

- Uses a quantitative 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

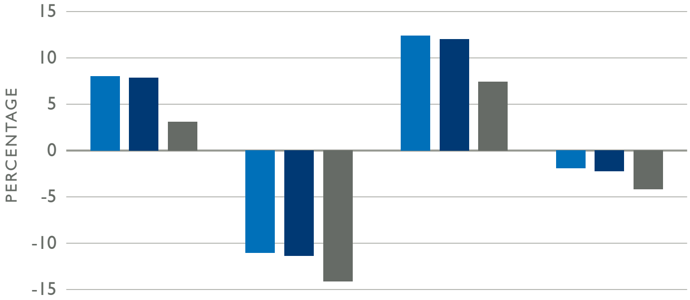
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2012)*

Annualized for periods greater than one year

INTERNATIONAL OPPORTUNITIES COMPOSITE



	YTD	1 YEAR	3 YEARS	INCEPTION*
Causeway gross	8.04	-11.06	12.42	-1.93
Causeway net	7.84	-11.38	12.05	-2.24
MSCI ACWI Ex US	3.13	-14.15	7.43	-4.17

*Inception: June 30, 2007

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 U.S. Dollar denominated, discretionary accounts in the international value equity strategy, which do not apply a minimum market capitalization requirement of $2.5 billion or higher ($5 billion or higher prior to November 2008), permit 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 U.S. Dollar denominated, discretionary accounts in the global value equity strategy, 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 U.S. Dollar denominated, discretionary accounts in the emerging markets equity strategy. 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 U.S. dollar denominated, discretionary accounts in the international opportunities strategy. 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 "GAR Composite" includes all discretionary accounts in the global absolute return 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. 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. 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 6/30/12 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.