

# Sustainable Investing: Finding the Right Balance

> NOVEMBER 2012  
NEWSLETTER

*We have a record of demanding better treatment for shareholders, such as the return of surplus capital, and expect our portfolio companies to operate at the highest level of integrity and disclosure.*

Recently, clients have asked us how we evaluate companies from an environmental, social, and governance (ESG) perspective, and how this affects our decision making. The call for a focus on sustainability has become even more prevalent overseas. Some foreign plan sponsors have suggested that investment managers embed ESG requirements in the investment process, perhaps through explicit factor screens. In a show of support, many of the world's largest investment management firms have signed the United Nations-backed Principles for Responsible Investment. These firms vow to incorporate ESG criteria into just about every aspect of their work, with the Principles as the overall investing compass. Once signed, an asset management firm wears the halo of a "responsible" investor. Unsurprisingly, signers are proliferating, pens poised. Who wants to be labeled "irresponsible"? Sounds terrible. Causeway considers ESG factors that we think will affect a company's stock price when we are selecting stocks for client portfolios in our international and global value investment strategies. Yet, we have not signed the broadly-drafted Principles. Instead, we continue to take a subjective approach to evaluating ESG criteria as part of our intensive, bottom-up research process. That being said, if a particular client of Causeway desires to apply explicit ESG guidelines and restrictions to its portfolio, we can design customized screens or abide by restricted stock lists. We do this regularly for our socially-responsible-investing client mandates, which have been successful for our clients over long-term periods.

ESG principles and the entire concept of sustainable investing make sense. We believe the markets reward corporate responsibility over the long term. From our beginnings as a research team, we have habitually shunned companies with inadequate corporate governance, unethical practices, and any other corporate behavior we believe interferes with the best interests of shareholders. Our team makes these decisions case-by-

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# Sustainable Investing: Finding the Right Balance

*If a company avoids costly operational mistakes, the fundamental risk of the stock over time is going to be lower than the risks of peers less oriented to sustainability.*

case in the context of the industry, region, and maturity of the company, and any cultural, political, and societal reasons that may explain management's decisions. The utility of comprehensive ESG screens applied on an absolute basis is still up for debate. For example, the FTSE4Good Global Index, endowed with the longest track record of any of the ethical-company benchmarks, has struggled to keep pace with the MSCI World Index. Over the past decade, \$100 dollars invested in the World Index, without any constraints, would have grown to \$133, versus \$119 for the sustainable benchmark.

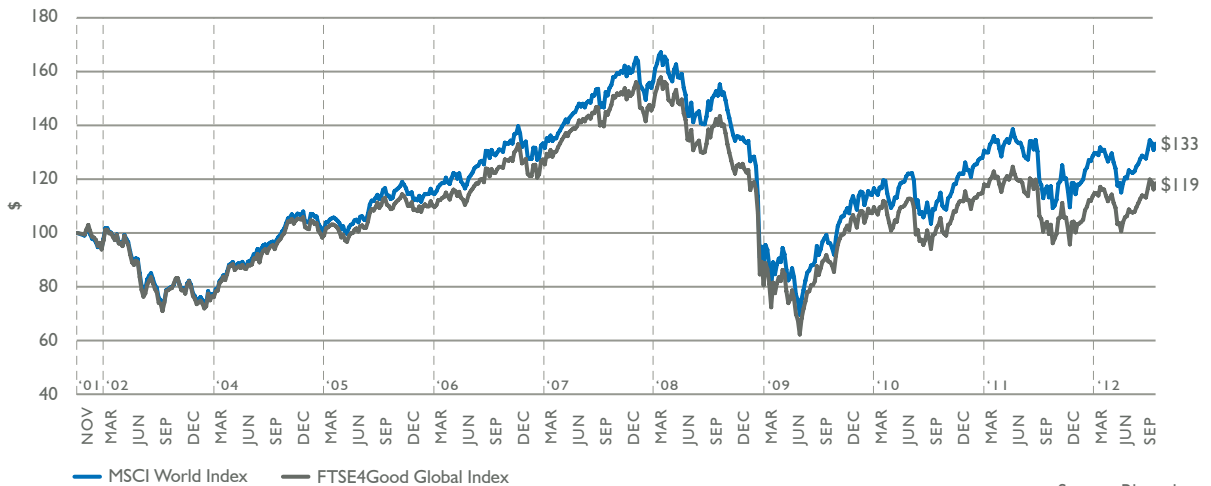
We have a record of demanding better treatment for shareholders, such as the return of surplus capital, and expect our portfolio companies to operate at the highest level of integrity and disclosure. We spoke to Causeway fundamental portfolio managers Jamie Doyle and Jonathan Eng about their experiences with ESG criteria.

*Jamie, clients increasingly ask if Causeway's ESG processes and policies are documented. They also want to know how Causeway measures adherence to ESG criteria.*

JD: In the corporate governance category, we have detailed and documented proxy voting policies and procedures. Many of the corporate governance transgressions I've seen in my career are buried in the proxy. Causeway uses an experienced third party advisory firm, ISS, as a resource for proxy research to assist us in voting. Also, before our team can include a stock in client portfolios, we must convince ourselves that management is working for shareholders. This sounds simple, but assessing management's focus on shareholders takes a lot of effort. Where a client gives us the right to vote the proxy on its behalf, we cast votes consistent with responsible governance principles. Furthermore, our portfolio managers communicate regularly with senior management of portfolio companies. The following principles underpin both our conversations with management and our proxy voting policy:

- Increasing shareholder value
- Maintaining or increasing shareholder influence over the board of directors and management
- Establishing and enhancing a strong and independent board of directors
- Maintaining or increasing the rights of shareholders
- Aligning the interests of management and employees with those of shareholders, especially in areas such as executive compensation and shareholder dilution

**THE FTSE4GOOD GLOBAL INDEX STRUGGLES TO KEEP PACE WITH THE MSCI WORLD INDEX**  
**GROWTH OF \$100: MSCI WORLD INDEX VERSUS FTSE4GOOD GLOBAL INDEX**



Some of our Japanese companies seem more reticent than their Western peers to respond to shareholder requests. My colleagues and I have sent letters to boards of directors over the past few years. Typically, we ask the company to return more surplus capital to shareholders and avoid dilutive acquisitions.

***What is your commitment to encourage environmental awareness in the companies identified by your fundamental research?***

JE: Let me take the chemicals industry as an example. Companies that have significant pollution problems normally don't make it through our research process. This is because we use strict financial strength criteria, and the dark cloud of potential (or ongoing) litigation, reputational damage, and community backlash can set the stage for a poor investment. We are on the alert for reputed problems that may (or may not) lead to societal and environmental damage that will hurt share prices. Our 360-degree analysis of businesses reveals all the information we can obtain from the company and its customers, suppliers, and competitors, not to mention local regulators, if applicable. We often interview former employees, whose livelihood no longer rests on the company's reputation. I think it's our job to find the right balance between ESG and superior investment performance. For example, one of our large European holdings, a paints and coatings manufacturer, has ranked in the top three in the chemicals supersector of the Dow Jones Sustainability World Index since 2007. The company's Sustainability Director stated its corporate

ethos succinctly, “For us, business is sustainability and sustainability is business.” We like that quote, and we find it useful to keep in mind in our research meetings.

### How can you determine if the company’s integration of sustainability efforts in its operations has reduced the risk of the stock?

JD: It’s very difficult to quantify how much a company’s cost of capital has benefitted from its efforts to be a model corporate citizen. If a company avoids costly operational mistakes, the fundamental risk of the stock over time is going to be lower than the risks of peers less oriented to sustainability. At the same time, we also expect a more stable share price pattern from consistent and shareholder-friendly corporate governance. Our weekly value screens bring us undervalued candidates. Then the work really begins, as we determine the quality of the company and balance sheet and earnings recovery, and engage with management to review any issues we see, including ESG risks.

## Causeway International Opportunities

### STRATEGY HIGHLIGHTS

#### Philosophy

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

#### Process Highlights

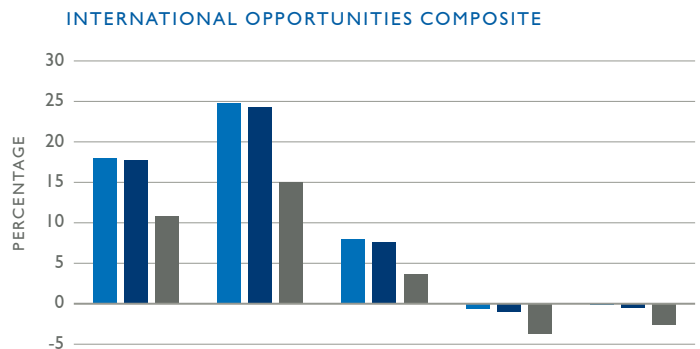
- Uses a quantitative asset allocation strategy to determine exposures to developed and emerging markets
- Meticulous fundamental research
- Active, bottom-up stock selection
- Disciplined quantitative approach with fundamental underpinnings
- Proprietary risk models developed in-house

#### Portfolio Managers

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

### PERFORMANCE (as of 9/30/2012)

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	INCEPTION*
■ Causeway gross	18.01	24.74	7.91	-0.63	-0.18
■ Causeway net	17.68	24.28	7.54	-0.95	-0.49
■ MSCI ACWI Ex US	10.86	15.04	3.63	-3.67	-2.65

\*Inception: June 30, 2007

# 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

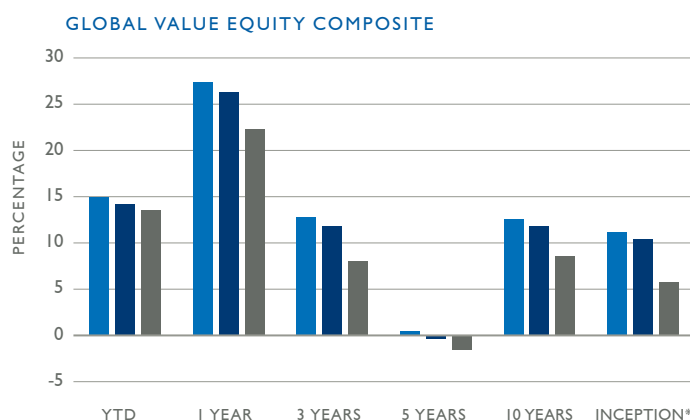
- 25 developed markets (United States, EAFE, Canada, South Korea)
- 3,000 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

### Portfolio Managers

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

## PERFORMANCE (as of 9/30/2012)

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
■ Gross of Fees	14.94	27.37	12.75	0.47	12.59	11.22
■ Net of Fees	14.21	26.27	11.79	-0.34	11.79	10.44
■ MSCI World	13.56	22.32	8.07	-1.58	8.61	5.77

\*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

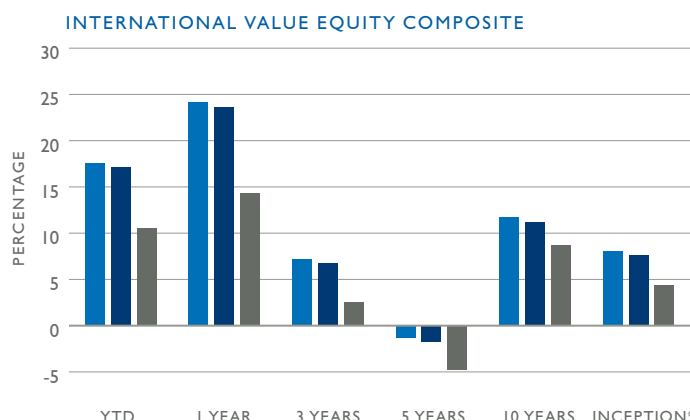
- 24 developed markets (EAFE, Canada, South Korea)
- 1,500 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

### Portfolio Managers

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

## PERFORMANCE (as of 9/30/2012)

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
■ Gross of Fees	17.54	24.17	7.18	-1.32	11.70	8.01
■ Net of Fees	17.18	23.64	6.72	-1.75	11.23	7.57
■ MSCI EAFE	10.59	14.33	2.59	-4.77	8.69	4.43

\*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

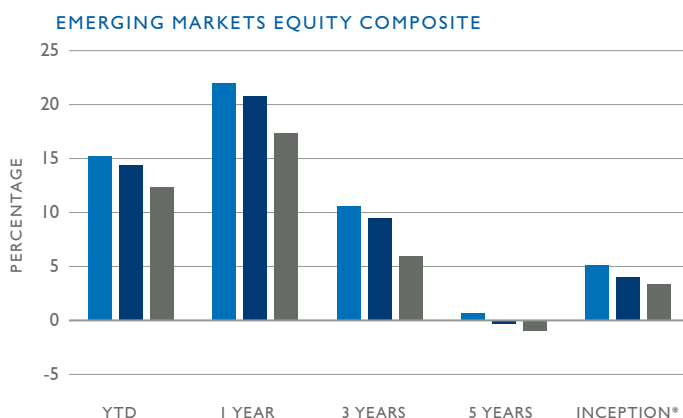
- 24 emerging markets
- 1,200 stock universe
- Employ stock ranking and risk models designed for emerging markets
- Use optimization to maximize expected return per unit of risk

### Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert

## PERFORMANCE (as of 9/30/2012)

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	INCEPTION*
■ Causeway gross	15.21	21.98	10.61	0.69	5.11
■ Causeway net	14.36	20.76	9.49	-0.31	4.06
■ MSCI EM	12.33	17.33	5.96	-0.98	3.39

\*Inception: April 30, 2007

# Causeway Global Absolute Return

## STRATEGY HIGHLIGHTS

### Philosophy

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

### Process Highlights

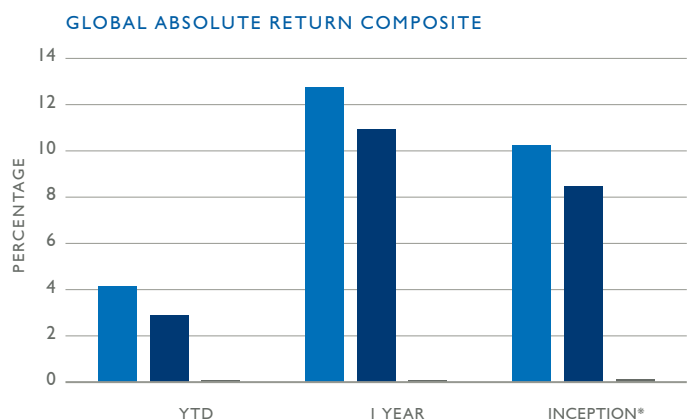
- Global developed market value equity (long/short)
- Fundamental long (typically 35-55 exposures), 2-3 year time horizon
- Quantitative short (typically 50-125 exposures), 3-6 month time horizon
- Dollar value of longs approximately equals dollar value of shorts
- Typically low or no correlation to 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 9/30/2012)

Annualized for periods greater than one year



	YTD	1 YEAR	INCEPTION*
■ Causeway gross	4.14	12.73	10.26
■ Causeway net	2.90	10.92	8.47
■ BofAML 90 T-Bills	0.07	0.07	0.10

\*Inception: February 28, 2011

## 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, global, 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 discretionary and non-discretionary 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 regularly experience daily 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 discretionary accounts in the global opportunities strategy. 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 takes long and short positions in 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. The firm’s policies for valuing portfolios, calculating performance, and comparing compliant presentations are 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. Causeway’s basic management fee schedules are described in its firm brochure pursuant to Part 2 of Form ADV.

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 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. Accounts in the Composites may invest in countries not included in their benchmark indices.

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Contact Sarah Van Ness at 310-231-6127 or [vanness@causewaycap.com](mailto: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 10/31/12 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.