Causeway

Global Opportunities in Technology

> APRIL 2014
NEWSLETTER

"Interesting" companies–those with enticing technology or rapid growth in new markets that drives income statement momentum and increases margins–are typically priced very aggressively.

Technology stocks have presented two related challenges for global value investors: valuation and geographic concentration. Nevertheless, Causeway has found overlooked opportunities in the sector. To shed some light on investing in information technology (IT) stocks, we spoke to Jamie Doyle, portfolio manager, and Brian Cho, technology research analyst.

Jamie, why is it so difficult to find undervalued investment opportunities in the IT sector?

JD: The valuation challenge is easy to understand. "Interesting" companies—those with enticing technology or rapid growth in new markets that drives income statement momentum and increases margins—are typically priced very aggressively. At times, this enthusiasm reaches extraordinary levels. The technology boom of the late 1990s is the most memorable incident. Other examples over the last two decades include DRAM memory, personal computers and social media. Currently, equities exposed to "cloud"–based technology, such as Salesforce.com, have reached nosebleed valuations (although some of this appears to be correcting even as we write this in April).

INSIDE THIS ISSUE

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Global Opportunities in Technology

Investors confining themselves only to international developed markets will have a paltry selection of technology companies. These international portoflios exclude the majority of the world's most innovative and fastest growing IT companies.

Technology companies with lower valuations generally have perceived structural problems, such as exposures to a legacy business or the commoditization of what was formerly a differentiated product. The current Microsoft Windows-based personal computer market is a great example. PC volumes are declining, probably on a structural basis, and products have become indistinguishable.

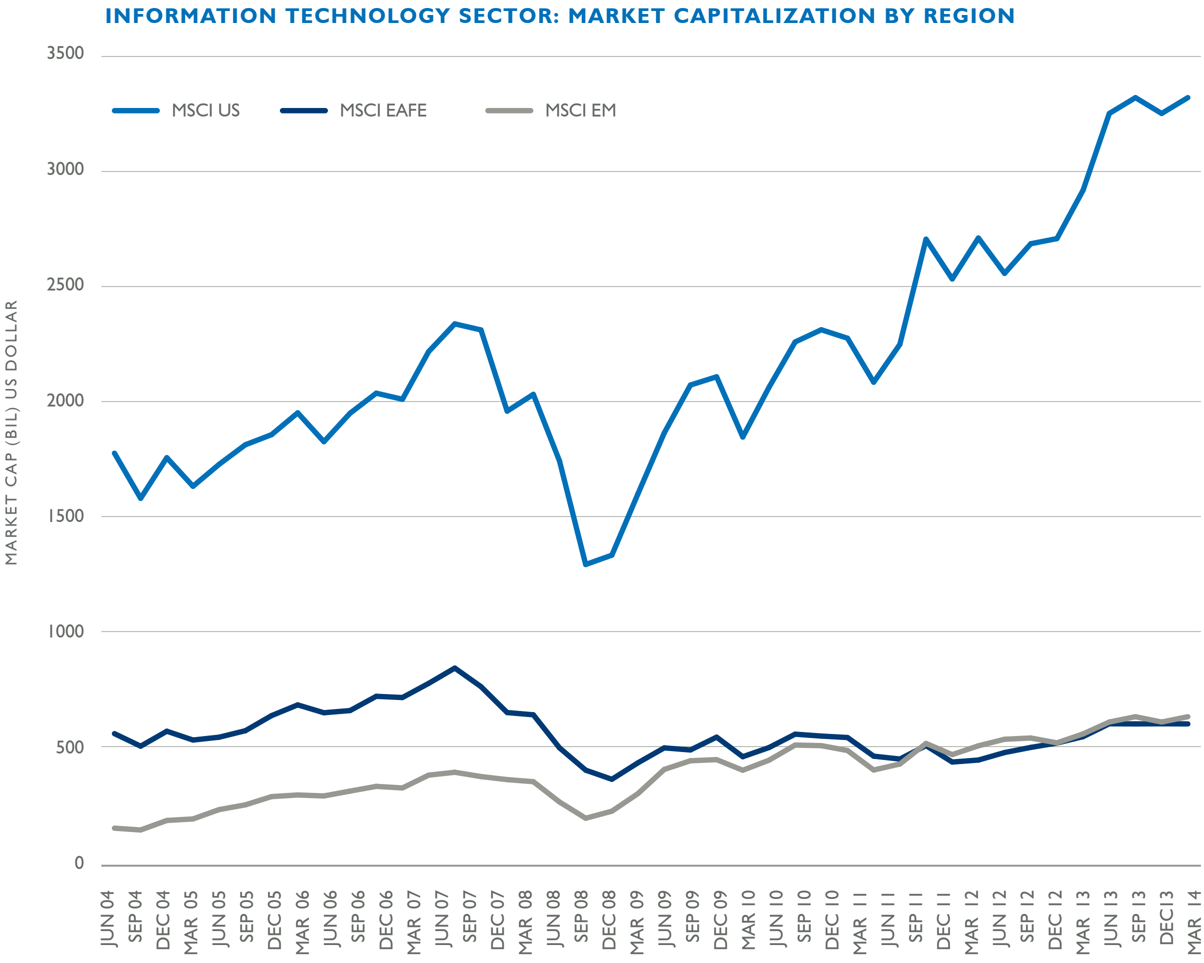
In general, across all markets, IT stocks that we want to own are often too expensive, and those with reasonable valuations are often struggling to innovate.

What is the geographic challenge?

BC: The vast majority of the most innovative technology companies, especially in software and services, are US-domiciled. We all know these names: Amazon, Google, the aforementioned Salesforce.com, as well as hundreds of other perhaps less familiar companies. On the other hand, emerging markets are home to some of the dominant, ultra cost competitive technology providers, including memory and processing semiconductor producers, contract manufacturers, and outsourced labor.

This leaves developed Europe and developed Asia (i.e., the traditional MSCI EAFE Index markets) somewhat stuck in the middle. As of March 31, 2014, IT represented nearly 19% of the S&P 500 Index. It is the single largest sector in the Index, exceeding financials

FIGURE 1: US AND EMERGING MARKETS OFFER GREATER–AND GROWING–ACCESS TO INFORMATION TECHNOLOGY COMPANIES



Source: FactSet; 10 years to 3/31/2014

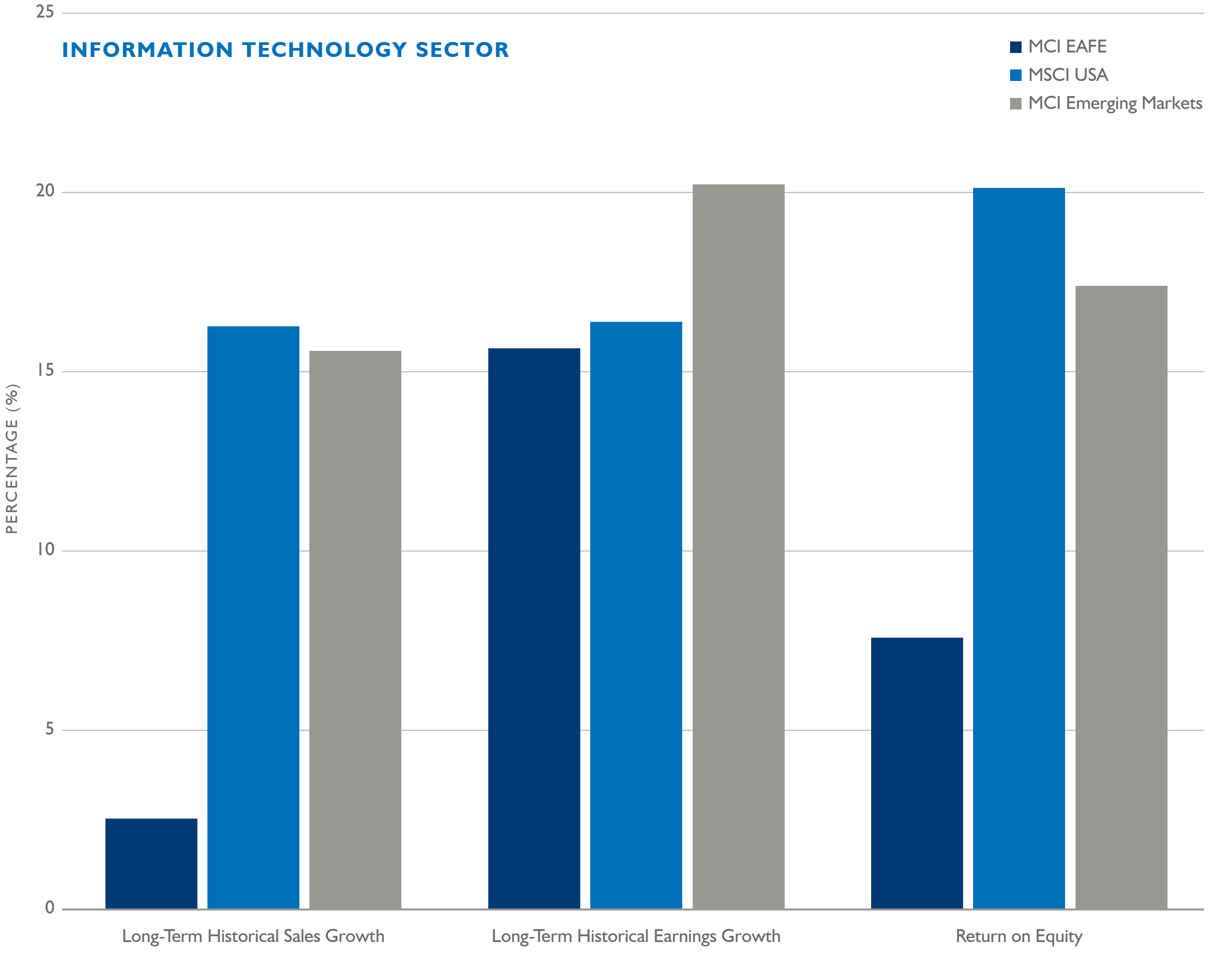
by more than 200 basis points, and growing much more quickly. Analysts forecast that US technology firms will increase earnings nearly 14% over the next three-to-five years, a growth rate 26% higher than the forecast for the financial sector. In contrast, IT represents a mere 4.5% of the EAFE Index. The MSCI Emerging Markets Index has nearly 17% in IT.

JD: Investors confining themselves only to international developed markets will have a paltry selection of technology companies. These international portfolios exclude the majority of the world's most innovative and fastest growing IT companies. To make matters worse, the handful of truly influential EAFE-listed IT companies tend to be valued even more aggressively, because of the perception of a "scarcity value." Emerging markets investors, or those blending emerging and developed markets in an international/global mandate, get the benefit of more and better options.

Given the lack of IT in developed international markets, do you ever find anything in the sector worth buying?

JD: We occasionally find a few unnoticed gems—typically cyclical technology businesses. I admit, it doesn't happen very often. For instance, over the past 13 years, we have had two opportunities (the technology bust of 2000 and the global financial crisis of 2008) to buy a world-class semiconductor equipment company, based in the Netherlands. For these cyclical opportunities, we can buy the best of the best, when valuations reflect the dismal near-term cyclical problems, and discount the dominant long-term technology and market position. We have also invested in restructuring companies like a Swedish communication equipment manufacturer, or in misunderstood technologies like "smartcards" from one of France's leading IT software companies. In fact, clients in our

FIGURE 2: INTERNATIONAL IT STOCKS LAG THE UNITED STATES AND EMERGING MARKETS IN PROFITABILITY AND GROWTH



Long-Term = Last five fiscal years. Source: FactSet; Data as of 3/31/2014

International Value Equity strategy currently own shares in a German-headquartered enterprise software powerhouse, which has historically traded at valuations too high to justify purchase. But, because of market concerns over cyclical weakness, as well as fears about threats from a new generation of competitors, the stock is now much more attractively valued. In

Cloud will deflate the long-term growth rate of the storage industry, but the massive growth in data (the advent of big data analytics) may offset much of that future shrinkage.

contrast with the rare chance internationally to buy great IT companies, we have that opportunity frequently in our global mandates.

What US enterprise software companies have you identified for clients?

JD: We have found quite a few. For our global equity clients, who are in a strategy that gives us the geographic flexibility to include the US market, we have invested in two of the world's largest software companies. One is currently transitioning its enterprise software to a whole new avenue of consumer applications. The other has built an impressive software and hardware suite to enable data management for over 400,000 enterprise customers globally. Although the revenue growth rates for these two companies have slowed over the years, they still generate growth, profit margins, return on capital levels and cash flows that most non-tech companies would envy.

Brian, how about opportunities in US tech hardware? Are the challenges cyclical or structural?

BC: We invested in a large US storage technology company trading at a record low valuation. With corporate IT budgets under pressure, enterprises are trying to reduce their capital expenditures by using data storage resources longer, and at higher utilization rates than normal. The low growth IT spending environment may not return to historical levels, but we do expect a cyclical upturn in enterprise storage spending. We have evidence that organizations are evaluating new technologies and delivery models. This evaluation period has probably elongated the sales cycle. Our expectation of a partial cyclical upturn in data storage demand stems from the drawbacks of cloud (i.e., externally provided) storage. Cloud solutions can fit many needs, but some customers won't move their mission critical data to the public cloud for reasons of perceived inferior security and inferior data management, potential problems with legal and compliance, higher cost, and reputational risk. Cloud will deflate the long-term growth rate of the storage industry, but the massive growth in data (the advent of big data analytics) may offset much of that future shrinkage.

JD: As with any sector, there is a price for everything. We will invest in technology companies that have perceived problems, but we insist that we understand the challenges, both cyclical and structural. With thoughtful analysis, we should be able to find companies with long-term, profitable franchises, supported by strong balance sheets and abundant cash flows. At the right valuation and entry price, those stocks are poised to deliver satisfying performance.

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

- 24 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

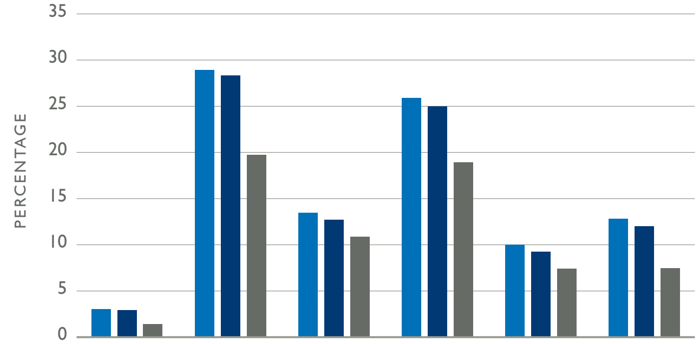
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini

PERFORMANCE *(as of 3/31/2014)*

Annualized for periods greater than one year

GLOBAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	3.05	28.95	13.45	25.90	10.01	12.80
Net of Fees	2.94	28.33	12.69	24.96	9.25	12.03
MSCI World	1.40	19.72	10.86	18.94	7.42	7.45

*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

- 23 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

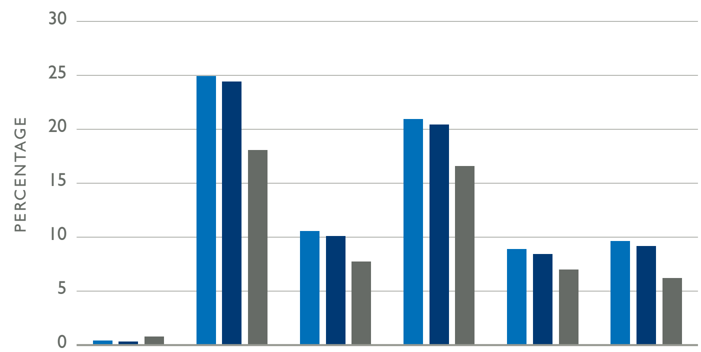
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini

PERFORMANCE *(as of 3/31/2014)*

Annualized for periods greater than one year

INTERNATIONAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	0.41	24.94	10.57	20.95	8.88	9.63
Net of Fees	0.31	24.42	10.10	20.43	8.42	9.19
MSCI EAFE	0.77	18.06	7.72	16.56	7.01	6.21

*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

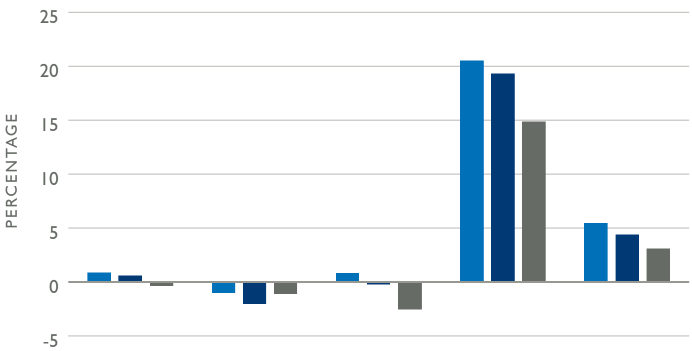
Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert, Joe Gubler

PERFORMANCE *(as of 3/31/2014)*

Annualized for periods greater than one year

EMERGING MARKETS EQUITY COMPOSITE



	YTD	1 YEAR	3 YEAR	5 YEARS	INCEPTION*
Gross of Fees	**0.84**	**-0.98**	**0.81**	**20.50**	**5.44**
Net of Fees	**0.60**	**-2.00**	**-0.23**	**19.28**	**4.38**
MSCI EM	**-0.37**	**-1.07**	**-2.54**	**14.83**	**3.06**

*Inception: April 30, 2007

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

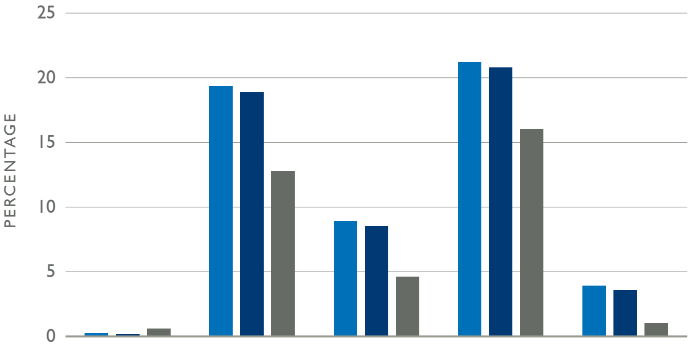
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini, Arjun Jayaraman, MacDuff Kuhnert, Joe Gubler

PERFORMANCE *(as of 3/31/2014)*

Annualized for periods greater than one year

INTERNATIONAL OPPORTUNITIES COMPOSITE



	YTD	1 YEAR	3 YEAR	5 YEARS	INCEPTION*
Gross of Fees	**0.26**	**19.36**	**8.91**	**21.22**	**3.91**
Net of Fees	**0.17**	**18.91**	**8.51**	**20.80**	**3.57**
MSCI ACWI Ex US	**0.61**	**12.80**	**4.63**	**16.04**	**1.02**

*Inception: June 30, 2007

Causeway Global Absolute Return

STRATEGY HIGHLIGHTS

Philosophy

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

Process Highlights

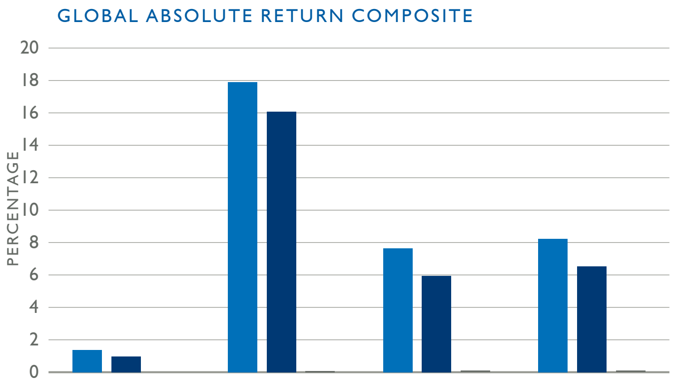
- Global developed market value equity (long/short)
- Fundamental long (typically 35-55 exposures), 2-3 year time horizon
- Quantitative short (typically 50-125 exposures), 3-6 month time horizon
- Dollar value of longs approximately equals dollar value of shorts
- Typically low or no correlation to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

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini, Arjun Jayaraman, MacDuff Kuhnert, Joe Gubler

PERFORMANCE *(as of 3/31/2014)*

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	INCEPTION*
Gross of Fees	**1.36**	**17.89**	**7.63**	**8.22**
Net of Fees	**0.98**	**16.08**	**5.94**	**6.52**
BofA/ML 90 T-Bills	**0.01**	**0.07**	**0.09**	**0.09**

*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, sovereign wealth funds, 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 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 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 4/22/2014 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.