Paying the Piper: Economic Reform in China

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NEWSLETTER

China has set a goal for a more transparent and efficiently functioning financial system, and will likely pay a steep price for misguided policy.

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Quoted by China Daily newspaper on June 10, 2015, Goldman Sachs Chairman and CEO Lloyd Blankfein commented that "China has achieved a very high growth rate at some cost…so growth has to be absorbed, mistakes have to be corrected and bad investments have to be written off in order to have another stage of rapid growth." Easier said than done. What are the implications for a slowing Chinese economy—one that cannot absorb the world's non-food commodities at the pace of the past two decades? China needs to continue its implementation of structural reform (opening industries to foreign competition and lowering trade barriers, for example). This year, the Chinese government's attempts to rein in margin debt of mainland buyers of domestic A-shares contributed to an aggressive sell off in mid-June. The government announced drastic measures to stem the bleeding in local markets, such as suspending trading and halting IPOs, strongly encouraging companies to engage in share buybacks, and providing unlimited financing to the state agency that supplies capital to Chinese brokers. We consider this intervention to be a step backward. China has set a goal for a more transparent and efficiently functioning financial system, and will likely pay a steep price for misguided policy.

How has the deceleration in Chinese real gross domestic product growth and the government's boosting of stock markets shaped

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We recognize the importance of Chinese Hong Kong-listed "H-shares" in the EM Index, but want to lower our emerging markets portfolios' China risk.

how we have positioned client portfolios? We spoke to Causeway portfolio managers, Arjun Jayaraman and Jonathan Eng, to understand our quantitative and fundamental research view of China in 2015.

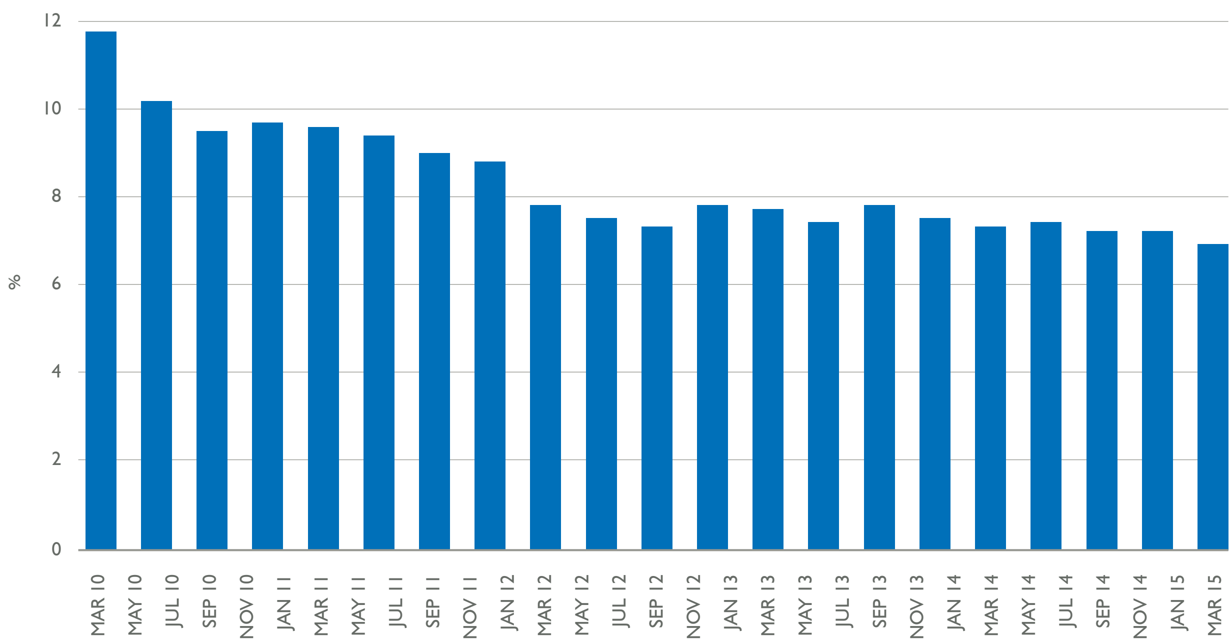
Arjun, how do Causeway's emerging markets portfolios reflect the team's expectations for China?

AJ: In order to put some level of support under the local stock market and sustain economic activity, China will probably maintain an accommodative monetary policy. Today, in our unconstrained portfolios, our overall exposure to China is roughly in-line with that of the MSCI Emerging Markets Index ("EM Index"). However, for the past two years we have maintained an underweight position in Chinese banks, a mirror image of the country's economic health. We recognize the importance of Chinese Hong Kong-listed "H-shares" in the EM Index, but want to lower our emerging markets portfolios' China risk. In addition, recently we decreased our sensitivity to the Chinese market by adding lower beta (index sensitive) Chinese stocks to our portfolios.

Jonathan, Causeway's international and global value equity portfolios have both direct H-share holdings as well as indirect Chinese exposure by investing in many companies with operations, revenues or other connections to China. As an expert in industrials, how do you view the China exposure in developed markets portfolios?

JE: Speculative booms and busts have—and will –occur in many geographies. Valuations become overextended, share prices fall, investors lose money, then retreat, and valuations

FIGURE 1: CHINA YEAR-OVER-YEAR GROSS DOMESTIC PRODUCT GROWTH



Source: Bloomberg, National Bureau of Statistics of China

return to more rational levels. Unfortunately, the Chinese government has interfered with the local stock market, one of the most important free market mechanisms. But where does intervention stop? As a research team, we are now contemplating the ramifications of "national" policy to support employment and the extent to which it drags on Chinese corporate earnings. Cutting employees may become very challenging for Chinese companies, especially those that are state-owned. Compared to 2013, we have lowered our global and international portfolios' weights in capital goods companies. Many of these multinational firms generate a sizable portion of their profits in China. They are vulnerable to deflation, particularly as Chinese demand slows for their

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products. We have placed more emphasis on spending by the Chinese consumer with holdings in such sectors as consumer discretionary and mobile telecommunications. For example, China's vehicle ownership is less than 20% the level in the United States; car penetration will likely rise with improved affordability. Furthermore, the government has accelerated the replacement cycle and wants to remove the old, dirtier vehicles from the road. We are also looking at a sanguine outcome for luxury goods demand and tourism.

With surplus capacity in basic industries, China needs a solution to absorb its years of excess fixed investment. What are you anticipating?

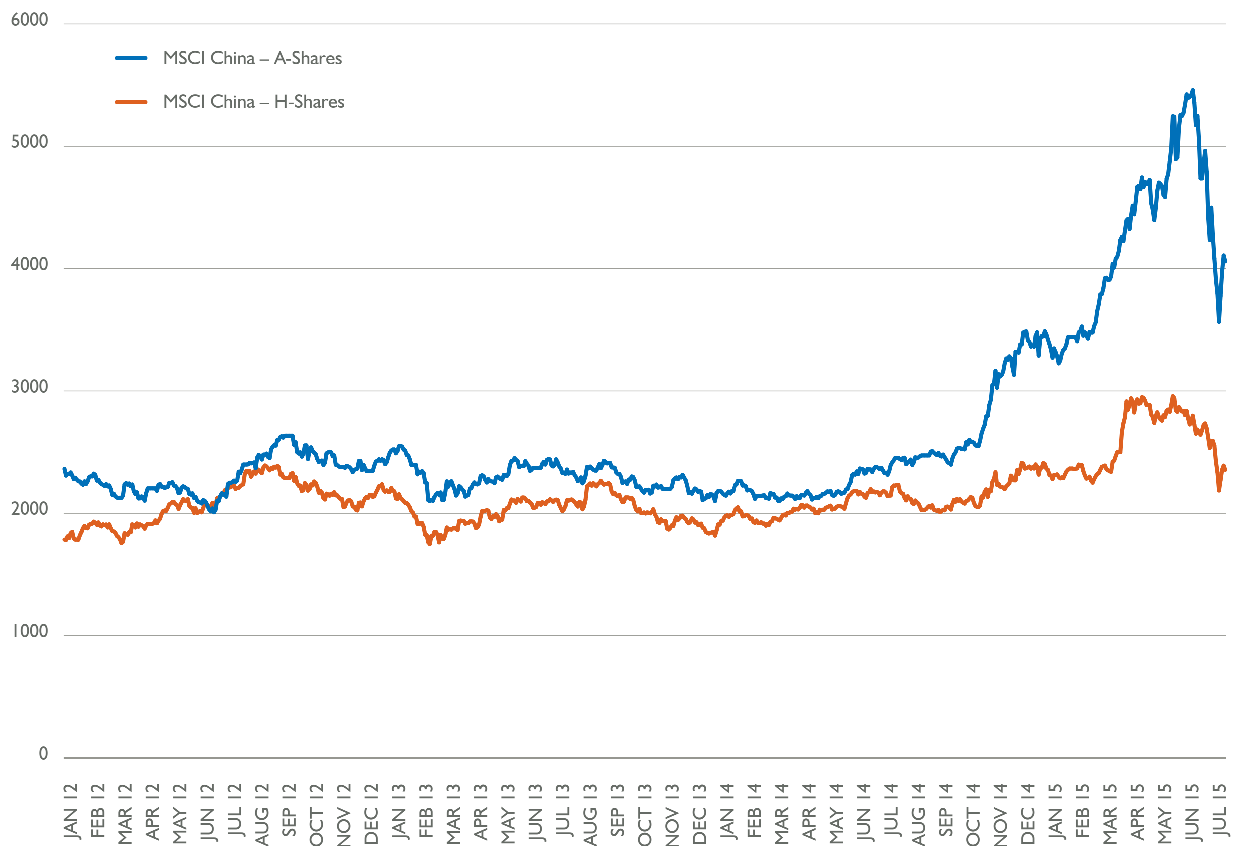
JE: I think the government has already signaled its intent to export some of its construction and industrial excess capacity, as well as newer technologies in solar panel, machinery and telecommunications equipment, via the Silk Road Economic Belt and Maritime Silk Road (aka the Belt and Road initiative). This development strategy, first announced in late 2013, is designed to boost employment in China, as well as accelerate more capital convergence and currency integration globally, lessening dependence on the US dollar.

AJ: By investing in transportation and other commercial infrastructure (highways, railways, ports, and coastal facilities) across Asia, the Middle East, and Europe, China intends to improve trade and foreign relations, and find a productive home for its massive $4 trillion of foreign reserves. In our emerging markets portfolios, we increased exposure to Chinese-listed industrials companies that we expect to benefit from the Belt and Road initiative. However, by interfering with its own stock market, China has apparently postponed its drive toward a more market-based mechanism of resource allocation.

Beyond the stock market, speculation also appears rampant in residential housing. What are the economic and portfolio implications of this housing risk?

JE: Housing remains an important store of value for the Chinese saver. We do not believe that the current overbuilt situation and vacant units are systemically dangerous, but

FIGURE 2: STOCK MARKET PERFORMANCE OF HONG KONG (H-SHARES) AND MAINLAND CHINA (A-SHARES) JULY 13, 2012 TO JULY 14, 2015



Source: FactSet

they are additional examples of oversupply. A sustained fall in house prices nationwide would likely crimp consumer spending, but not the banking system. House buyers either pay in cash or use modest levels of debt. Assuming rural-to-urban migration continues, low-end units in tier 2, 3, and 4 cities should experience rising demand. We have generally sought to avoid positions in Chinese property following the onset of speculative housing fever in 2010-11.

AJ: Ironically, weakness in the Chinese A-share market may help support local housing prices. In addition to housing, the only real investment choices for the retail investor are domestic equities, bank deposits, some wealth management products and (for those with the highest incomes) overseas investments. Volatility in the Shanghai stock market is teaching the highly-levered local investor a tough lesson about valuation. Through this year's Shanghai-Hong Kong Stock Connect program and the recently implemented mutual fund recognition initiative, the Chinese government continues its efforts to facilitate cross-border investment between foreign institutional investors and the mainland. Assuming market connectivity and capital mobility improve, the enormous premium of A-shares relative to H-shares should eventually erode. The government's market manipulation stymies this effort to bring best practices to China's undeveloped markets. Despite this setback, we are still convinced that those best practices will eventually take hold in China, to benefit all investors.

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

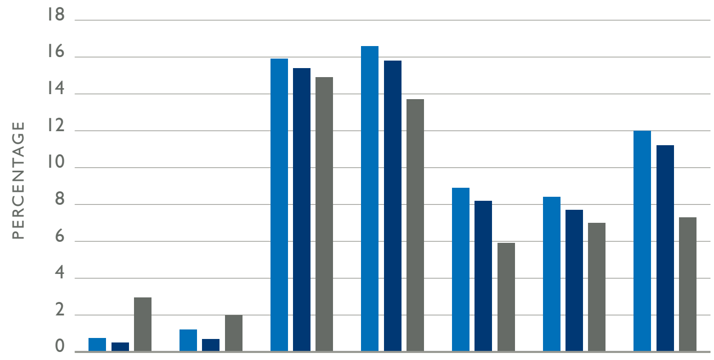
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2015)*

Annualized for periods greater than one year

GLOBAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION*
Gross of Fees	0.74	1.2	15.9	16.6	8.9	8.4	12.0
Net of Fees	0.51	0.7	15.4	15.8	8.2	7.7	11.2
MSCI World	2.95	2.0	14.9	13.7	5.9	7.0	7.3

*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

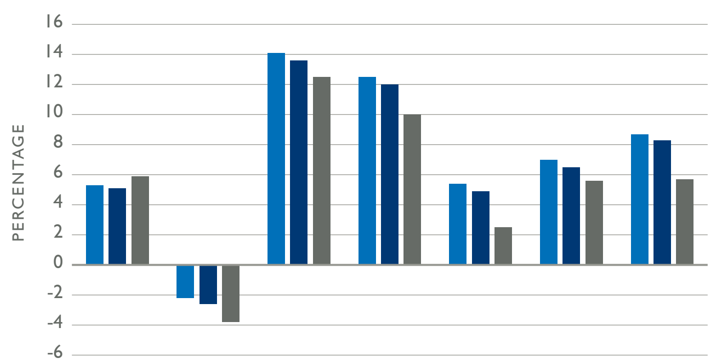
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2015)*

Annualized for periods greater than one year

INTERNATIONAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION*
Gross of Fees	5.3	-2.2	14.1	12.5	5.4	7.0	8.7
Net of Fees	5.1	-2.6	13.6	12.0	4.9	6.5	8.3
MSCI EAFE	5.9	-3.8	12.5	10.0	2.5	5.6	5.7

*Inception: June 11, 2001

Causeway International Value Select

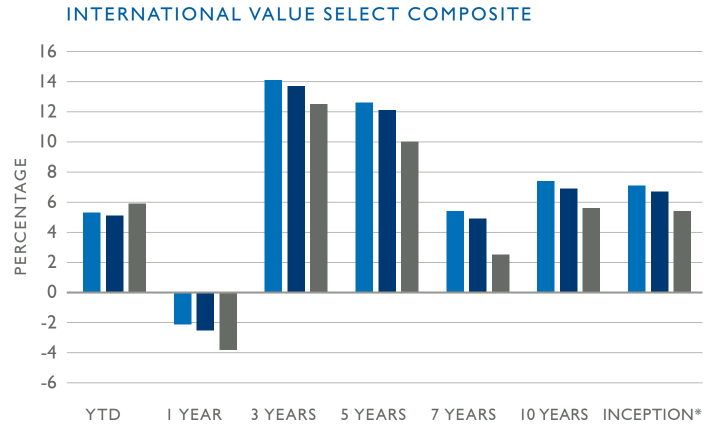
STRATEGY HIGHLIGHTS

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

Process Highlights
- 24 established markets (United States, EAFE, Canada, South Korea) 3,000 stock universe, $5B minimum market cap
- 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, Ellen Lee

PERFORMANCE *(as of 6/30/2015)*
Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	10 YEARS	INCEPTION*
Gross of Fees	5.3	-2.1	14.1	12.6	5.4	7.4	7.1
Net of Fees	5.1	-2.5	13.7	12.1	4.9	6.9	6.7
MSCI World	5.9	-3.8	12.5	10.0	2.5	5.6	5.4

*Inception: April 30, 2005

Causeway Emerging Markets Equity

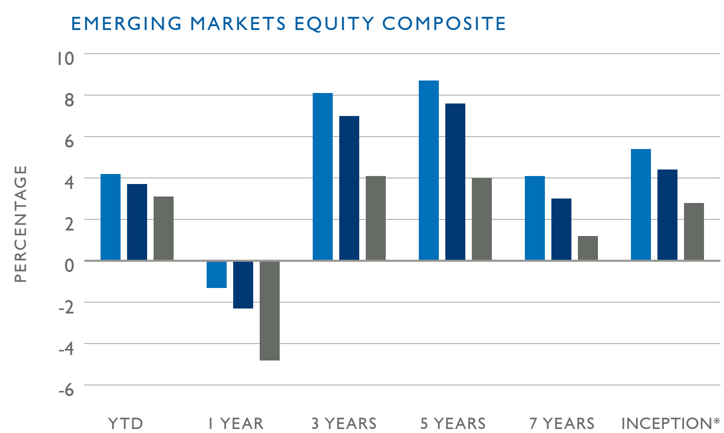
STRATEGY HIGHLIGHTS

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 6/30/2015)*
Annualized for periods greater than one year



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	INCEPTION*
Gross of Fees	4.2	-1.3	8.1	8.7	4.1	5.4
Net of Fees	3.7	-2.3	7.0	7.6	3.0	4.4
MSCI EM	3.1	-4.8	4.1	4.0	1.2	2.8

*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

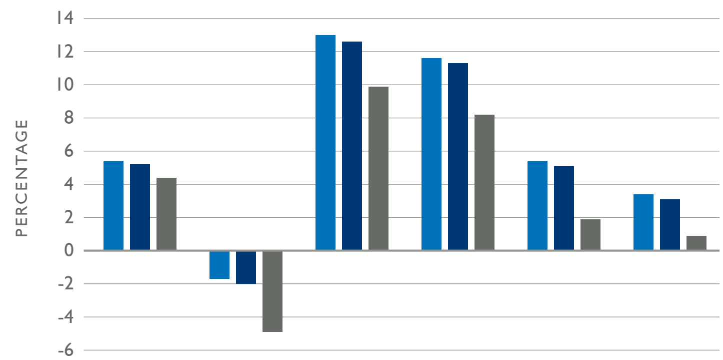
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2015)*

Annualized for periods greater than one year

INTERNATIONAL OPPORTUNITIES COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	7 YEARS	INCEPTION*
Gross of Fees	5.4	-1.7	13.0	11.6	5.4	3.4
Net of Fees	5.2	-2.0	12.6	11.3	5.1	3.1
MSCI ACWI Ex US	4.4	-4.9	9.9	8.2	1.9	0.9

*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

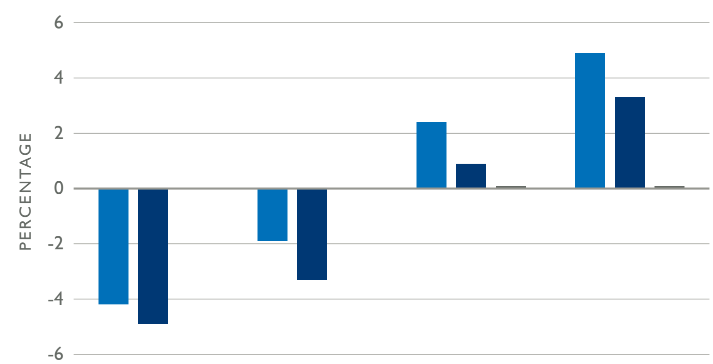
Portfolio Managers

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

PERFORMANCE *(as of 6/30/2015)*

Annualized for periods greater than one year

GLOBAL ABSOLUTE RETURN COMPOSITE



	YTD	1 YEAR	3 YEARS	INCEPTION*
Gross of Fees	-4.2	-1.9	2.4	4.9
Net of Fees	-4.9	-3.3	0.9	3.3
BofA/ML 90 T-Bills	0.0	0.0	0.1	0.1

*Inception: February 28, 2011

Causeway International Small Cap

STRATEGY HIGHLIGHTS

Philosophy

- Actively managed, tracking-error oriented, quantitative small cap equity strategy
- Combines value, growth, technical, and quality factors in security selection
- Risk control:
  - Constrain country/currency/sector weights versus benchmark
  - Proprietary cross-sectional risk model

Process Highlights

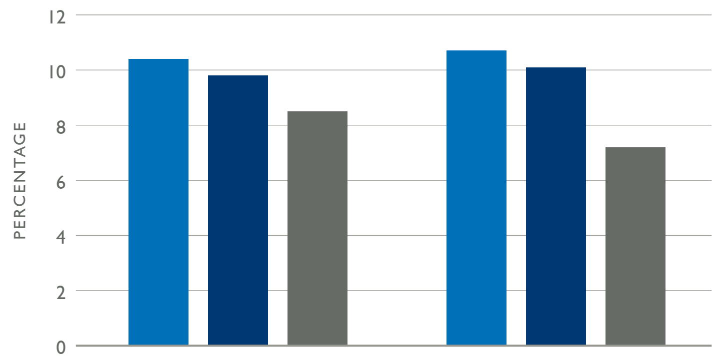
- Developed and emerging markets
- 2,800 stock universe
- Employ stock ranking and risk models designed for small cap equities
- Use optimization to maximize expected return per unit of risk

Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert, Joe Gubler

PERFORMANCE *(as of 6/30/2015)*

Annualized for periods greater than one year



	YTD	INCEPTION*
Gross of Fees	10.4	10.7
Net of Fees	9.8	10.1
MSCI ACWI ex US Small Cap	8.5	7.2

*Inception: November 30, 2014

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, superannuation funds, Taft-Hartley pension plans, endowments and foundations, mutual funds and other collective investment vehicles, 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.

The International Small Cap Equity Composite includes all U.S. dollar denominated, discretionary accounts in the international small cap equity strategy. The international small cap equity strategy seeks long-term growth of capital through investment primarily in common stocks of companies with small market capitalizations located in developed and emerging markets outside the U.S. using a quantitative investment approach. The benchmark is the MSCI ACWI ex USA Small Cap Index.

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, except returns of Causeway-sponsored mutual funds are net of such withholding taxes and reflect accrued tax treaty reclaims. 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. Investments in smaller companies involve additional risks and typically exhibit higher volatility.

The MSCI EAFE Index is a free float-adjusted market capitalization weighted index, designed to measure developed market equity performance excluding the U.S. and Canada, consisting of 21 stock markets in Europe, Australasia, and the Far East. The MSCI World Index is a free float-adjusted market capitalization weighted index, designed to measure developed market equity performance, consisting of 23 developed country indices, including the U.S. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index, designed to measure equity market performance of emerging markets, consisting of 23 emerging country indices. The MSCI All Country World Index ex U.S. is a free float-adjusted market capitalization weighted index, 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. Accounts in the GAR strategy will primarily be exposed to securities that will not be similarly guaranteed by the U.S. government. The MSCI ACWI ex USA Small Cap Index is a free float-adjusted market capitalization weighted index, designed to measure the equity market performance of smaller capitalization stocks in developed and emerging markets excluding the U.S. market, consisting of 45 country indices. The MSCI ACWI ex USA Small Cap Index covers approximately 14% of the free float-adjusted market capitalization in each country. 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.

MSCI has not approved, reviewed or produced this report, makes no express or implied warranties or representations and is not liable whatsoever for any data in the report. You may not redistribute the MSCI data or use it as a basis for other indices or investment products.

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 7/15/2015 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.