Stocks for 2012: "Safety" vs. Valuation

> JANUARY 2012 NEWSLETTER

As the Causeway investment team surveys the 2012 New Year, we take note of the mispricing and anomalies rampant in equity markets.

Markets are constantly in a state of uncertainty and flux and money is made by discounting the obvious and betting on the unexpected.
– George Soros

Everyone wants the contrarian victory—but few can endure the pain that precedes the performance gain. How many consecutive quarters of attention-grabbing stock market volatility and ravaged returns will most investors withstand? After two or three quarters, panic and doubt often catalyze a change in strategy – frequently leading to selling portfolios at the absolute worst time: the cyclical bottom of the market. As a civilization, we'll probably find a cure for cancer long before vanquishing the tendencies of human nature. With over a decade of often tumultuous equity markets experience (two decades for our founding principals), the investment professionals of Causeway have steered our client portfolios through economic booms, recessions, asset bubbles, credit crises, natural and man-made disasters and periods of great uncertainty. We know that stock prices can resemble a flock of wild birds after a gunshot. And currency fluctuations from 2008-to-present have exacerbated the recent rise in volatility. However, we do not believe there has been a significant long-term trend upward in equity volatility, as measured by the rolling one-year standard deviations of the MSCI World Index and MSCI World Index ex-US.

Investors appear to have voted against volatility by exiting equity funds at a rapid clip. According to Lipper data, US equity mutual funds have lost approximately $154 billion in net outflows from the second quarter 2011 to December 23, 2011. This compares with a positive $106 billion of net bond fund inflows. Barring a deflationary scenario, we believe those who have traded equities for bonds face eventual disappointment.

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CONTACT INFORMATION

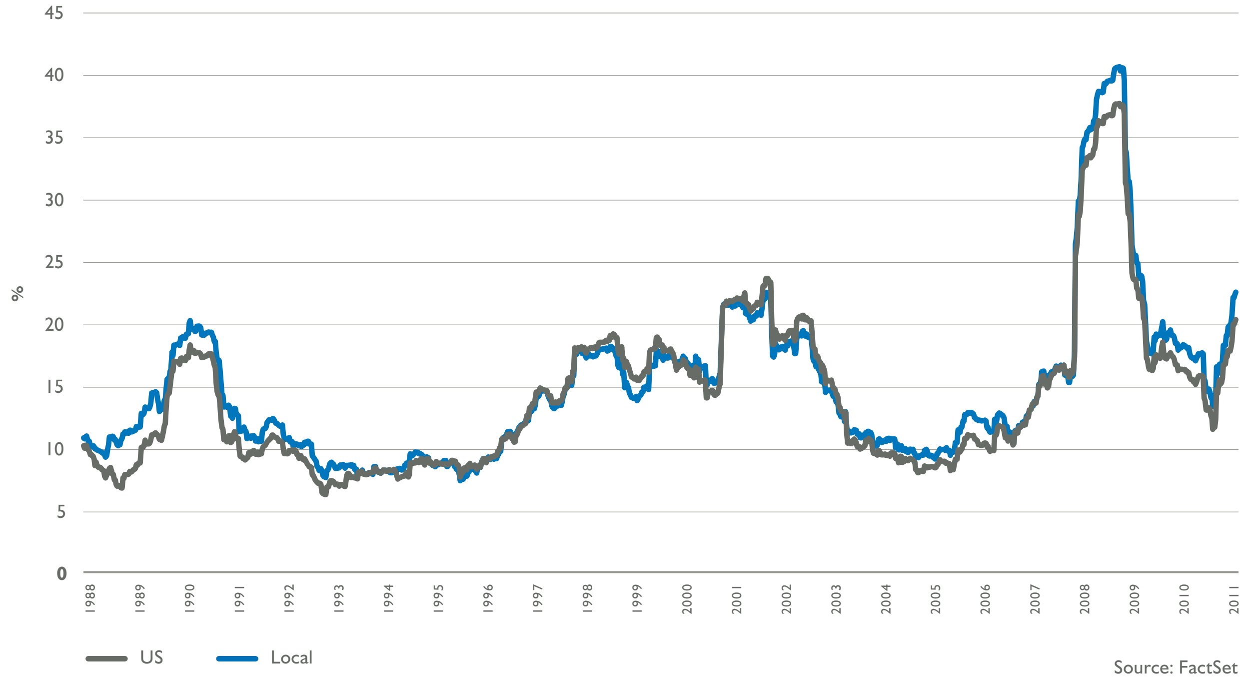
Sales and marketing
Mark Cone
email: cone@causewaycap.com
phone: 310-231-6108

Client service
Eric Crabtree
email: crabtree@causewaycap.com
phone: 310-231-6145

Stocks for 2012: “Safety” vs. Valuation

DESPITE RECENT SPIKE, THERE IS NO SIGNIFICANT UPWARD TREND IN VOLATILITY

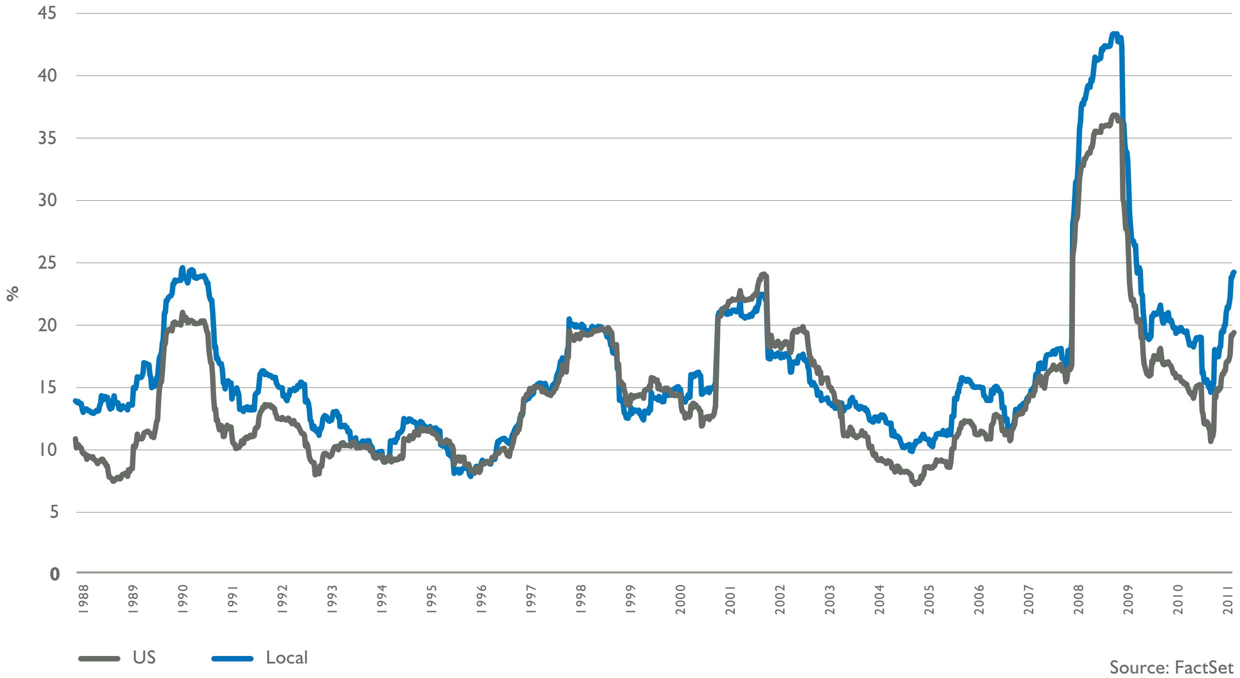
TRAILING 52-WEEK VOLATILITY, MSCI WORLD



Source: FactSet

As the Causeway investment team surveys the 2012 New Year, we take note of the mispricing and anomalies rampant in equity markets. Small market capitalization (small-cap) European companies—especially those whose earnings are tied to the economic cycle—trade at valuations indicating a perpetual depression. Conversely, the mega-sized consumer staples stocks delivered the rare gains to be found in the world of equities in 2011. In Europe, consumer staples have become “safety” stocks. We hear the consensus opinion: “…discard the banks, the insurance companies, and the industrial cyclicals, they’re too risky. Buy the leading global franchises in food, beverage, tobacco and other staples. Buy safety; don’t worry about valuation.” We respectfully disagree. The largest European consumer staples stocks trade at over fifteen times (15x) next year’s analyst forecast earnings, on average, versus below 11x for small-to-mid-cap European industrial stocks. How can overvalued companies, no matter how resilient their earnings, deserve the definition: “safety”? At some point, the price factors in all the good news, leaving only the prospect for unmet expectations. We strive for portfolio diversification, and believe that our fundamental international value strategies can outperform the safety-laden benchmarks by holding the unwanted: namely, deeply discounted stocks with superior financial strength.

TRAILING 52-WEEK VOLATILITY, MSCI WORLD-EX US



Source: FactSet

Many of those candidates trade in Europe, but we can identify several in all geographies.

For more specifics on the most acute undervaluation in the markets, we spoke to Causeway portfolio manager, Kevin Durkin, and senior analysts Foster Corwith and Ellen Lee.

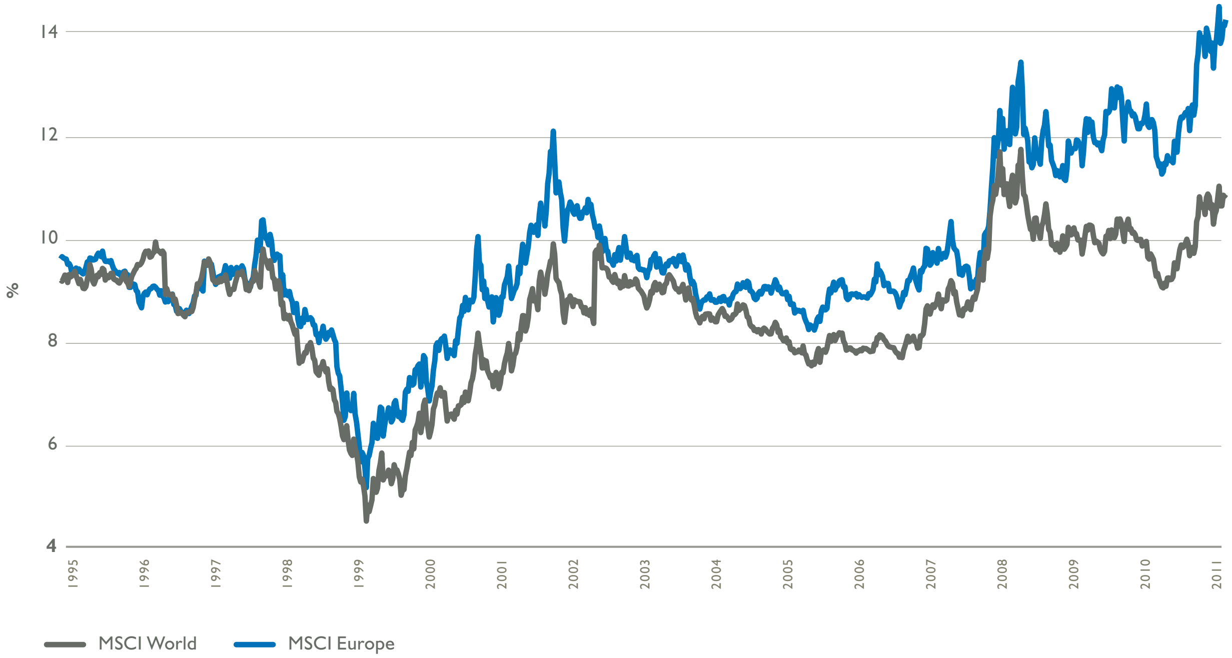
Kevin, why have buyers gone on strike in European mid- and small-cap stocks?

KD: Macro and political uncertainty have made these typically cyclical businesses unappealing to investors. Market capitalization and valuation have become closely correlated. In other words, as market caps decline, these stocks typically experience declines in price-to-earnings multiples and other valuation characteristics. A shortage of buyers can lead to a prolonged period of mispricing.

Give me an example.

KD: You may want to run when you hear, “European leisure and travel services.” Who will spend on holidays in a prolonged period

CONSUMER STAPLES REPRESENT A RECORD-HIGH PROPORTION OF EUROPEAN EQUITY INDICES
CONSUMER STAPLES WEIGHTS OVER TIME: MSCI EUROPE VS. MSCI WORLD



Source: FactSet

We argue that the share prices of some companies already reflect sluggish European spending—and ignore the growth engines from emerging markets regions.

of austerity and fiscal retrenchment? We argue that the share prices of some companies already reflect sluggish European spending – and ignore the growth engines from emerging markets regions. One of our Swiss-listed small-cap companies trades at 6x next year's forecast earnings and 20% of next year's forecast revenues. The company specializes in high-end leisure travel, and is known for a deliberate lack of vertical integration that creates a predominantly variable cost structure. Only 20% of the company's costs are fixed, allowing for significant flexibility when revenues sag. Unlike its competition, the company has a rock-solid balance sheet, affording it plenty of flexibility to expand.

EL: Within two years, Asian and emerging markets should grow to represent roughly 40% of sales. The current valuation does not incorporate any of the growth prospects from the developing countries, where rising incomes allow for more leisure travel. We project that the stock has approximately 30% upside potential per annum over the next two years. This would return the share price to the same level it reached in May 2011.

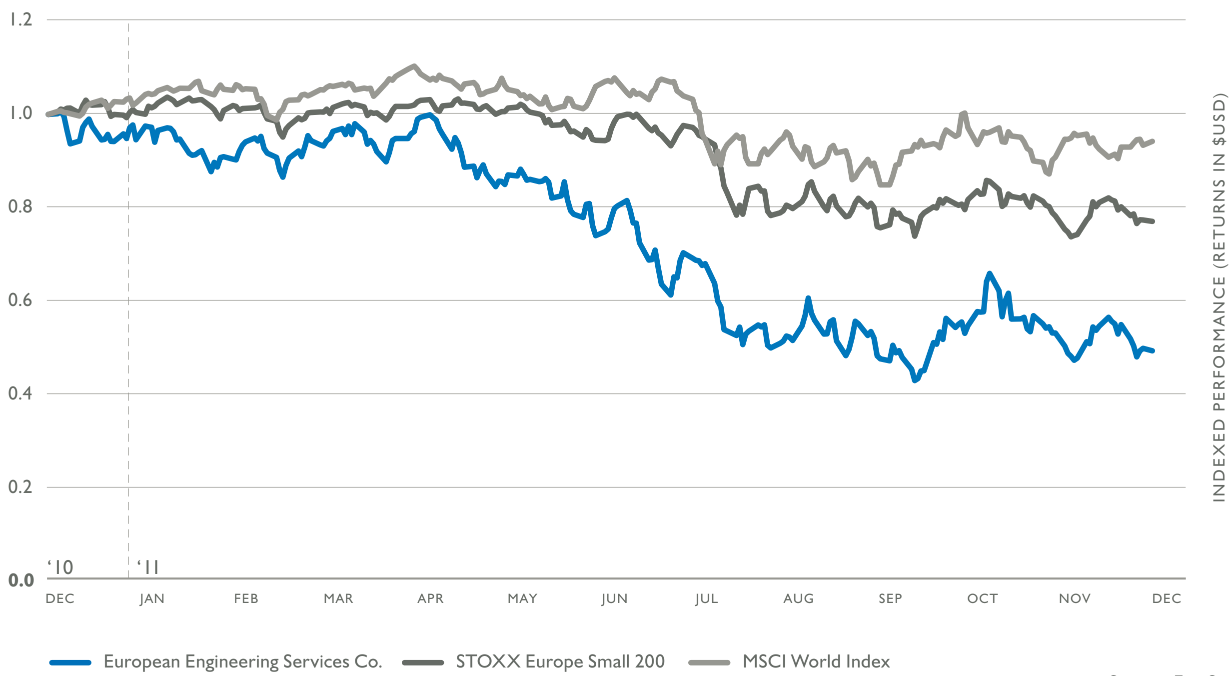
KD: And, the European travel business is stronger than many investors forecast. Europeans differ from Americans in their approach to leisure travel. The Dutch, British, and Germans spend roughly five times per capita on tourism as Americans. In the consumer recession of 1990-1992 in the United Kingdom, tourism grew, while gambling, eating out, drinking out, sports events, culture, and household spending all declined. The European holiday may get trimmed, but it is sacrosanct.

What other small- or mid-cap stocks have you identified in these volatile markets?

EL: We hold a Spanish-listed mid-cap stock with no net debt in our client portfolios. The company offers engineering infrastructure services to the energy (oil/gas/electricity) sector, with its largest operations in the Middle East and recent contracts in South and Central America, Europe, Russia, Asia, and Australia. The nature of the business leads to the awarding of huge contracts that can temporarily distort earnings. When contract awards slow, investors flee the stock, extrapolating the current dry spell into the future.

KD: Of course, oil & gas industry capital expenditures are important to drive growth in this industry. However, this company has a far stronger focus than peers on customer service. Unlike peers,

A EUROPEAN ENGINEERING SERVICES COMPANY IS DEEPLY DISCOUNTED
2011 CALENDAR YEAR INDEXED PERFORMANCE



Source: FactSet

As value investors, we deliberately screen for companies with languishing share prices, and buy them long before any recovery appears on the horizon.

management has not experienced significant problems in project execution. This leads to stable operating profit margins in both good times and bad. We especially appreciate the company's well-balanced geographic and product diversification. Furthermore, despite its abundance of cash, management does not make huge or dilutive acquisitions. Here is another stock with a large potential upside—35% per annum estimated over the next two years—which would only return the share price to its level of January 2011.

Can you find sizable undervaluation outside of Continental Europe?

FC: Sure, there are many examples. One of my favorites is a mid-cap, UK-listed recruitment/staffing company. Staffing remains an economically sensitive business, and revenues fluctuate based on hiring needs and economic conditions. With the vast majority of its costs variable, the company can weather most economic storms, as evidenced by its performance through the 2008 crisis. When times are tough, the company simply shrinks its recruitment workforce. As a large market participant, this company will be the first call for candidates, employers, and employees when the economy picks up again.

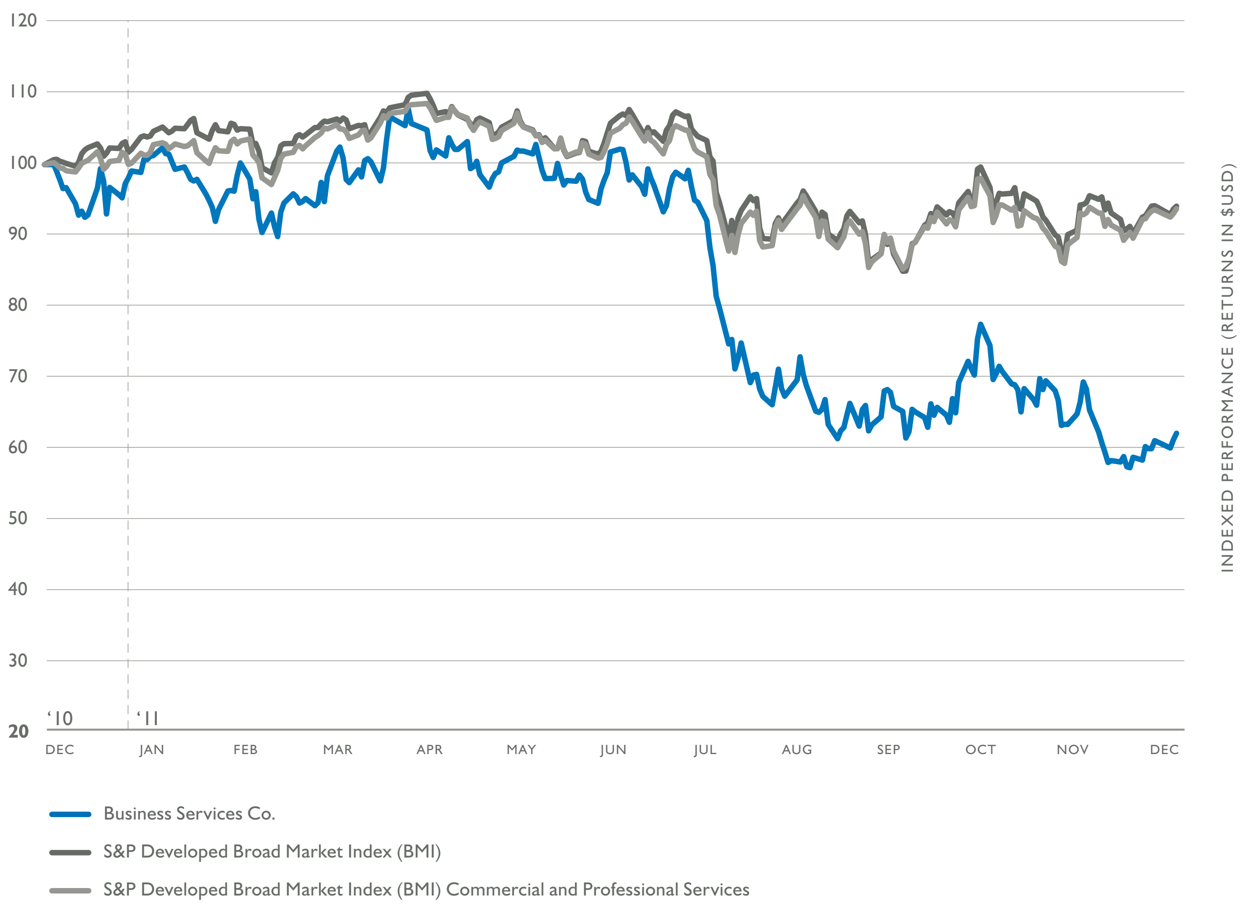
To what degree does this staffing firm depend on the United Kingdom for its revenues?

FC: There's no escaping the fact that this is a European company, albeit one in the low-risk category, given its net debt-free balance sheet. The percentage dependence on the United Kingdom has declined each year for the past five years. Today, the United Kingdom makes up an estimated 23% of 2011 total group fees versus 45% in 2006. Continental Europe amounts to 43% of the company's total fees. The fastest growth has come from Asia Pacific and the Americas. Business has remained surprisingly strong in Europe. If our prognosis is wrong, and the euro zone plunges into crisis, we still expect the company to survive and outlast its more financially leveraged competition. For a business that has improved in quality and stability over the past five years, we consider 1x revenues to be a reasonable entry price. We estimate that the stock should deliver approximately 30% per annum over the next two years, assuming that Europe muddles through and the company's geographic expansion to developing countries continues to yield positive results.

Why do you consider these small- and mid-cap stocks "low risk," especially when they have performed so poorly in recent quarters?

KD: We become very interested in candidates when share prices already reflect the downside scenario. That—in a nutshell—defines low (remaining) downside risk. Companies with superior financial strength simply need time to weather the economic storm and attract the attention of investors once earnings appear likely to recover. As value investors, we deliberately screen for companies with languishing share prices, and buy them long before any recovery appears on the horizon. In 2012, we will remain committed to "discount the obvious" and bet (carefully) on the unexpected.

HIGH-QUALITY EUROPEAN BUSINESS SERVICES STOCK AT VALUATION DISCOUNT TO PEERS



Source: FactSet

Causeway Global Value Equity

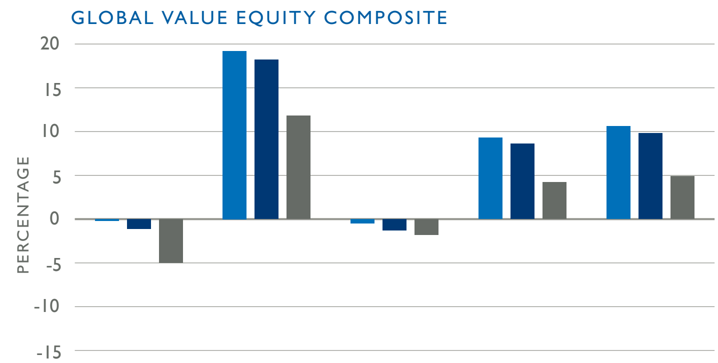
STRATEGY HIGHLIGHTS

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 12/31/2011)*
Annualized for periods greater than one year



	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Causeway gross	-0.2	19.2	-0.5	9.3	10.6
Causeway net	-1.1	18.2	-1.3	8.6	9.8
MSCI World	-5.0	11.8	-1.8	4.2	4.9

*Inception: September 30, 2001

Performance is preliminary.

Causeway International Value Equity

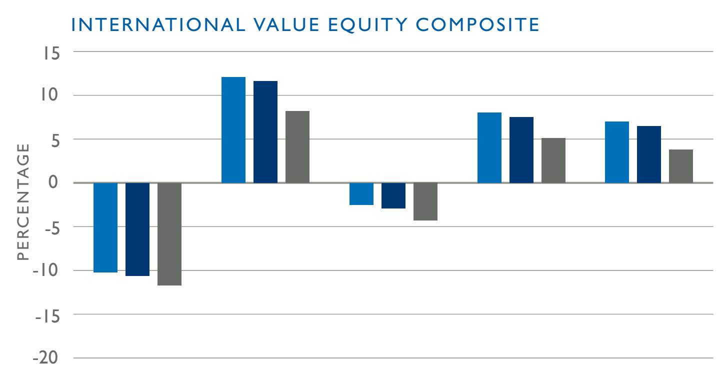
STRATEGY HIGHLIGHTS

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 12/31/2011)*
Annualized for periods greater than one year



	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Causeway gross	-10.2	12.1	-2.5	8.0	7.0
Causeway net	-10.6	11.6	-2.9	7.5	6.5
MSCI EAFE	-11.7	8.2	-4.3	5.1	3.8

*Inception: June 11, 2001

Performance is preliminary.

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

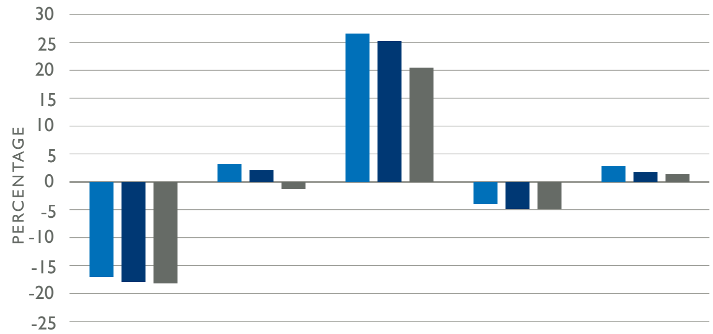
Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 12/31/2011)*

Annualized for periods greater than one year

EMERGING MARKETS EQUITY COMPOSITE



	1 YEAR	2 YEARS	3 YEARS	4 YEARS	INCEPTION*
Causeway gross	**-17.0**	**3.1**	**26.5**	**-3.9**	**2.8**
Causeway net	**-17.9**	**2.0**	**25.2**	**-4.8**	**1.8**
MSCI EM	**-18.2**	**-1.2**	**20.4**	**-4.9**	**1.4**

*Inception: April 30, 2007

Performance is preliminary.

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

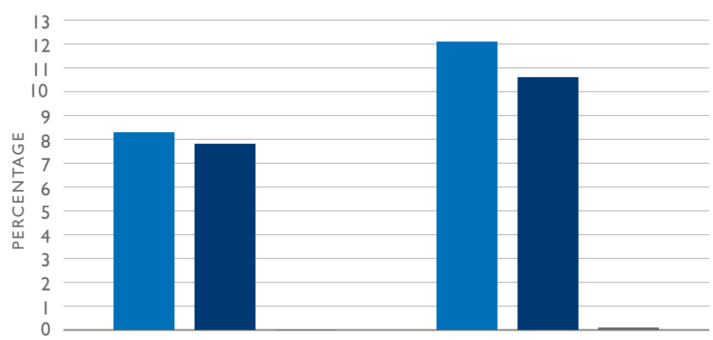
Portfolio Managers

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

PERFORMANCE *(as of 12/31/2011)*

Annualized for periods greater than one year

GLOBAL ABSOLUTE RETURN COMPOSITE



	QUARTER	INCEPTION*
Causeway gross	**8.3**	**12.1**
Causeway net	**7.8**	**10.6**
BofAML 90 T-Bills	**0.0**	**0.1**

*Inception: February 28, 2011

Performance is preliminary.

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

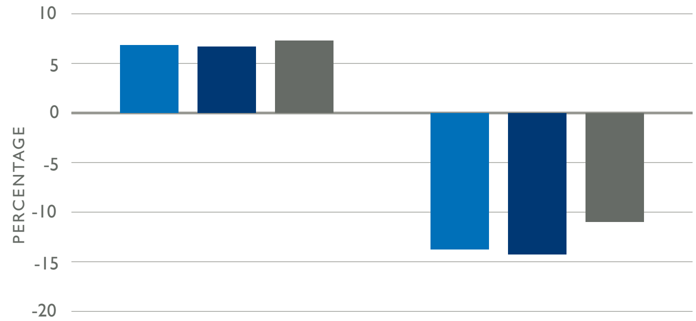
Portfolio Managers

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

PERFORMANCE *(as of 12/31/2011)*

Annualized for periods greater than one year

GLOBAL OPPORTUNITIES COMPOSITE



	QUARTER	INCEPTION*
Causeway gross	6.9	-13.7
Causeway net	6.7	-14.2
MSCI ACWI	7.3	-11.0

*Inception: Feburary 28, 2011

Performance is preliminary.

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

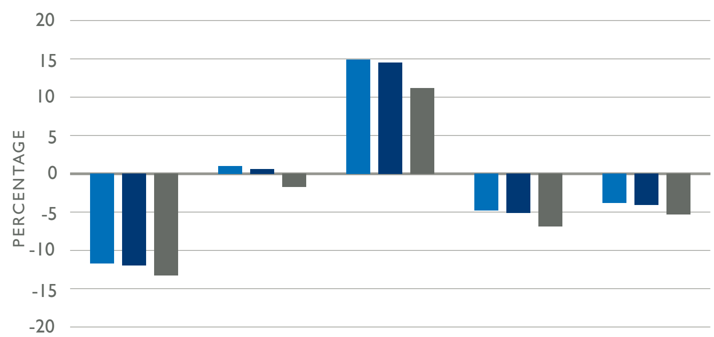
Portfolio Managers

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

PERFORMANCE *(as of 12/31/2011)*

Annualized for periods greater than one year

INTERNATIONAL OPPORTUNITIES COMPOSITE



	1 YEAR	2 YEARS	3 YEARS	4 YEARS	INCEPTION*
Causeway gross	-11.7	1.0	14.9	-4.8	-3.8
Causeway net	-12.0	0.6	14.5	-5.1	-4.1
MSCI ACWI Ex US	-13.3	-1.7	11.2	-6.9	-5.3

*Inception: June 30, 2007

Performance is preliminary.

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 international value equity, U.S. Dollar denominated, discretionary accounts, which contain typically 50 to 80 holdings, do not apply a minimum market capitalization requirement of $2.5 billion or higher ($5 billion or higher prior to November 2008), include 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 global value equity, U.S. Dollar denominated, discretionary accounts, 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 emerging markets equity, U.S. Dollar denominated, discretionary accounts, which contain typically 70 to 120 holdings, and apply a minimum market capitalization requirement of generally $500 million or higher at the time of initial investment. 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 International Opportunities, U.S. dollar denominated, discretionary accounts. 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 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 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. Portfolios in the International Composite invest in Canada and South Korea, which countries are not included in the MSCI EAFE Index. 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. Portfolios in the Global Composite invest in South Korea, which is not included in the MSCI World Index. 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 12/31/11 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.