



Investment Update

THIRD QUARTER 2011



OPPORTUNITIES IN A GLOBAL DELEVERAGING CYCLE

BY WILLIAM W. PRIEST, CEO, CO-CIO AND PORTFOLIO MANAGER



Equity markets declined sharply in the third quarter (Figure 1) reacting to a global economy evidencing a slowdown in real growth in virtually every country in the world (Figure 2). While a slowdown does not necessarily result in an economic contraction, the global economy is in a vulnerable state with the developed world pursuing fiscal policies of austerity and few levers available to policy makers.

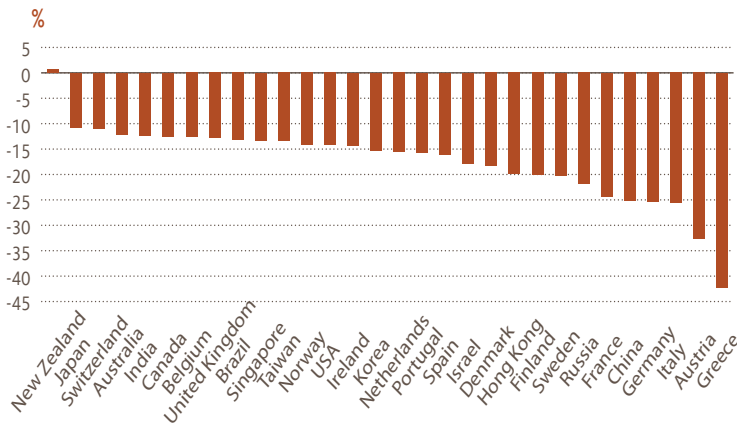


FIGURE 1: WORLD EQUITY MARKET RETURNS (3Q2011 LOCAL RETURNS)

Source: MSCI Inc.

At the heart of the problem is the necessity to delever the sovereign balance sheets of the developed world. Debt to GDP for the combined countries of Europe, U.K., Japan and the U.S. total 300% of GDP (Figure 3). As Rogoff and Reinhart point out in their book, *This Time Is Different*, when debt levels approach 90% of a country's GDP, growth slows considerably (100 to 150 bps below potential) and employment increases ever so slowly, resulting in unemployment levels well above historical norms. Furthermore, with sovereign nations of the developed world deleveraging, is it any surprise that a slowdown in emerging countries is also occurring given their mercantilist economic models that rely so heavily on exports?

What we have now is a full-fledged delevering cycle that has gone global. History teaches us that balance sheet recessions are not the same as plain vanilla manufacturing inventory cycles. Deleveraging implies debt reduction, asset deflation and rising savings rates. In the midst of this slow-growth global economy, if one throws in the crisis of the euro and the potential for a hard landing in China, we have the ingredients for a sudden shift from a "slow-grind" economy to a global recession.

Still Expanding		Close To Contraction		In Contraction	
Norway	● 55.5	India	▲ 52.6	Russia	◆ 49.9
Denmark	● 54.4	Japan	▲ 51.9	China	◆ 49.9
Czech Republic	● 53.4	Poland	▲ 51.8	Ireland	◆ 49.7
		Germany	▲ 50.9	South Korea	◆ 49.7
		Netherlands	▲ 50.7	Singapore	◆ 49.3
		United States	▲ 50.6	France	◆ 49.1
		Austria	▲ 50.1	U.K.	◆ 49.0
		Hungary	▲ 50.1	Eurozone	◆ 49.0
				Turkey	◆ 48.8
				Sweden	◆ 48.7
				Hong Kong	◆ 47.8
				Italy	◆ 47.0
				Spain	◆ 45.3
				Taiwan	◆ 45.2
				South Africa	◆ 46.7
				Greece	◆ 43.3
				Australia	◆ 43.3

FIGURE 2: INCREASING PORTION OF GLOBAL ECONOMY IN CONTRACTION (PMI DATA AS OF 8/31/11)

Source: Wolfe Trahan & Co., Data Insight

The greatest potential for a recession-inducing shock is centered in Europe. The sovereign debt crisis is on the verge of becoming a banking crisis that could choke off credit to a struggling economy and possibly end in the dissolution of the euro. The magnitude of such a dislocation would be extraordinary. A positive outcome is far from certain, increasing the likelihood for volatility across the capital markets.

The basis for a solution lies in the recognition that if the euro zone remains on its current course, there are no winners. While any step toward a fiscal union is a touchy subject with voters, several policy hurdles were overcome in September. Germany's courts upheld the legality of euro bailouts while its parliament ratified enlarging the European Financial Stability Facility to €440 billion and allowing it to be used for purchasing sovereign debt and recapitalizing banks. Policymakers appear committed to providing the euro with a firmer foundation, even if the political process appears slow to outsiders.

Although constructive acts, these actions are far too little for the size of the problem and more steps are necessary including the possibility of a “Euroland” bond guaranteed by the members of the European Union. The only answer for the euro problem is default or fiscal union in some fashion. Time is running short but it is our belief the authorities will act simply because the cost of not saving the euro vastly exceeds the cost of saving it.

Fear of a hard landing in China is exacerbating concerns about economic growth as well. The fact that their economy is slowing directly reflects what happens to an export led economy dependent on growing economies in the developed world. Fears have centered around a property bubble and inflation. Problems for sure, but we believe they are manageable, barring an implosion in Europe. According to Morgan Stanley, for 46 of 70 Chinese cities, property prices declined or stayed the same in August compared with only 31 cities in July. China still expects 15 million people per year to move to the cities from the country side and this should address the “ghost” cities often discussed in the media. Inflation is a problem but the Chinese have raised their benchmark policy interest rate five times in the last 12 months and it is now above the August inflation rate of 6.2% by 30 bps. A slowdown is coming for sure, but a hard landing is far from a certainty at this moment.

While the risks to economic growth are evident, it is trickier to assess the degree to which financial markets have already discounted a poor operating environment for companies. As markets sell off, we see a growing number of high-quality companies that generate free cash flow, have very strong balance sheets, possess management teams with sound capital allocation policies that reward shareholders and are reasonably priced given a long-term outlook. We continue on the same course, favoring businesses that have the brand or intellectual property that enable them to raise prices and preserve margins in an environment of slow growth and elevated costs.

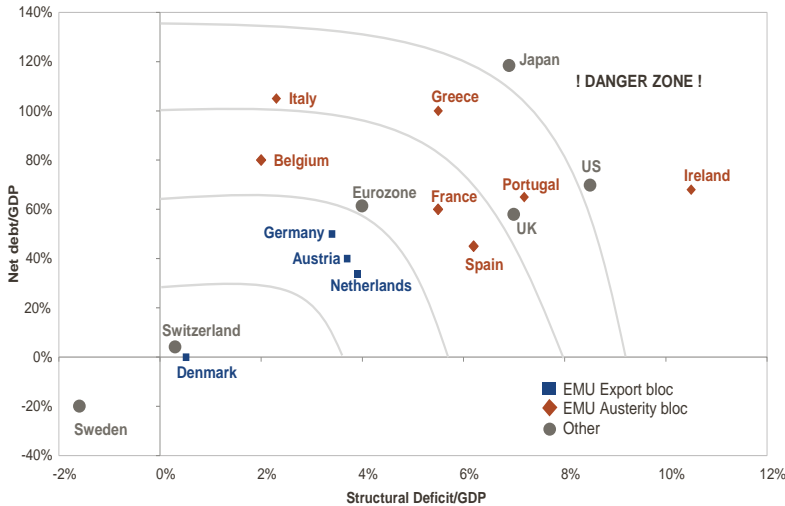


FIGURE 3: NET GOVERNMENT DEBT AND STRUCTURAL BUDGET DEFICITS, 2010 (% OF GDP)

Source: OECD, Independent Strategy

COMPANY OVERVIEW

Epoch Investment Partners, Inc. (“Epoch”) is a global asset management firm formed in April 2004 by senior investment professionals who possess, on average, more than 20 years experience. Epoch was created with the specific goal of responding to paradigm shifts within the sources of global equity investment returns and within the structure of the investment management business as a whole. Epoch has been a public company since its inception (NASDAQ: EPHC) and has adhered to all associated demands surrounding appropriate financial and business practices disclosures. Assets under management: \$16.0 billion as of September 30, 2011.

INVESTMENT PHILOSOPHY

Our investment philosophy, as it has been since inception, is to produce superior total and risk-adjusted returns by identifying companies for investment that not only generate free cash flow but also have management teams that are likely to deploy free cash flow in ways that create shareholder value through intelligent internal reinvestment, accretive acquisitions, dividends, share repurchases and/or debt reduction. Our investment philosophy reflects the changing hierarchy within the three determinants of investment returns: earnings, dividends, and P/E multiples. Throughout history, the relative importance of each determinant has changed dramatically depending upon the economic landscape of the period under review. In the 1980s and 1990s, for example, rising P/E ratios were the principal drivers of equity returns, leading to the popularity of valuation methodologies that reflected Price-to-Book value and Price-to-Earnings metrics. Underlying this 20-year P/E expansion was a collapse in interest rates. However, beginning in June 2003, this two-decade period of declining interest rates and expanding P/E ratios began to show signs of ending.

We believe we have entered a period in which P/E ratios are more likely to remain flat or contract rather than expand as interest rates are more likely to rise rather than fall from recent historical lows. Given the inverse relationship of P/Es to interest rates, P/E multiple expansion will cease to be the primary explanatory variable of equity returns going forward, leaving only earnings growth and dividends to drive equity returns. These two drivers come from a single source: cash flow. Consequently, Epoch’s security selection process is focused on free-cash-flow metrics as opposed to traditional accounting-based metrics. Free-cash-flow analysis is a better and more transparent methodology to understand how a business works. In our view, the key to producing superior risk-adjusted equity returns is the identification of companies with an ability to generate free cash flow and to allocate it properly among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.

RESULTS

AS OF SEPTEMBER 30, 2011

INCEPTION
DATE

ANNUALIZED RETURNS (%)

RISK STATISTICS - SINCE INCEPTION

3Q
2011 YTD 1
Year 3
Years 5
Years 10
Years Since
Incept.Std
Dev. Sharpe
Ratio Inform.
Ratio Alpha Beta R²**U.S. VALUE**

7/31/2001

Epoch Gross Return	(16.1)	(9.3)	0.0	1.8	1.2	5.7	4.6	14.7	0.18	-	-	-	-
Epoch Net Return	(16.1)	(9.6)	(0.3)	1.5	0.7	5.1	4.0	-	-	-	-	-	-
Russell 1000	(14.7)	(9.2)	0.9	1.6	(0.9)	3.3	1.7	16.1	-0.02	0.55	3.07	0.86	0.89
Russell 1000 Value	(16.2)	(11.2)	(1.9)	(1.5)	(3.5)	3.4	2.1	16.4	0.01	0.39	2.75	0.83	0.85
S&P 500	(13.9)	(8.7)	1.1	1.2	(1.2)	2.8	1.3	15.9	-0.04	0.60	3.46	0.87	0.88

U.S. ALL CAP VALUE

7/31/1994

Epoch Gross Return	(18.4)	(10.9)	(1.2)	1.1	0.6	6.9	10.4	13.8	0.51	-	-	-	-
Epoch Net Return	(18.5)	(11.2)	(1.7)	0.6	0.0	6.1	9.5	-	-	-	-	-	-
Russell 3000	(15.3)	(9.9)	0.5	1.5	(0.9)	3.5	7.5	16.0	0.26	0.38	4.49	0.76	0.77
Russell 3000 Value	(16.6)	(11.8)	(2.2)	(1.6)	(3.5)	3.6	7.8	15.5	0.29	0.35	4.12	0.78	0.77

U.S. SMALL CAP VALUE

12/31/2002

Epoch Gross Return	(18.4)	(12.2)	0.6	1.4	1.2	-	7.9	17.8	0.33	-	-	-	-
Epoch Net Return	(18.5)	(12.5)	0.1	1.0	0.6	-	7.1	-	-	-	-	-	-
Russell 2000	(21.9)	(17.0)	(3.5)	(0.4)	(1.0)	-	7.5	20.4	0.27	0.06	1.48	0.83	0.90
Russell 2000 Value	(21.5)	(18.5)	(6.0)	(2.8)	(3.1)	-	7.0	20.4	0.25	0.11	2.00	0.81	0.87

U.S. SMID CAP VALUE

8/31/2006

Epoch Gross Return	(19.4)	(14.4)	(3.1)	2.5	1.3	-	1.4	20.9	-0.01	-	-	-	-
Epoch Net Return	(19.4)	(14.6)	(3.5)	2.2	0.8	-	1.0	-	-	-	-	-	-
Russell 2500	(21.2)	(14.9)	(2.2)	2.3	0.2	-	0.4	22.4	-0.06	0.22	0.92	0.91	0.96
Russell 2500 Value	(21.1)	(16.3)	(4.7)	0.1	(1.7)	-	(1.5)	22.6	-0.14	0.45	2.69	0.89	0.92

U.S. CHOICE

4/30/2005

Epoch Gross Return	(16.4)	(7.8)	1.5	3.1	0.8	-	4.1	17.2	0.11	-	-	-	-
Epoch Net Return	(16.5)	(8.0)	1.1	2.8	0.5	-	3.6	-	-	-	-	-	-
Russell 3000	(15.3)	(9.9)	0.5	1.5	(0.9)	-	2.1	17.0	0.00	0.44	2.06	0.98	0.93

**GLOBAL EQUITY
SHAREHOLDER YIELD**

12/31/2005

Epoch Gross Return	(9.7)	(1.0)	5.1	6.1	3.1	-	5.2	14.6	0.22	-	-	-	-
Epoch Net Return	(9.8)	(1.2)	4.8	5.7	2.6	-	4.7	-	-	-	-	-	-
MSCI World (Net)	(16.6)	(12.2)	(4.3)	(0.1)	(2.2)	-	(0.2)	18.8	-0.12	0.86	5.08	0.74	0.92

GLOBAL CHOICE

9/30/2005

Epoch Gross Return	(13.7)	(7.2)	0.1	3.2	2.4	-	6.0	16.9	0.23	-	-	-	-
Epoch Net Return	(13.8)	(7.6)	(0.4)	2.5	1.6	-	5.2	-	-	-	-	-	-
MSCI World (Net)	(16.6)	(12.2)	(4.3)	(0.1)	(2.2)	-	0.3	18.5	-0.09	0.84	5.67	0.85	0.87

GLOBAL ABSOLUTE RETURN

12/31/2001

Epoch Gross Return	(13.7)	(8.1)	0.0	4.4	2.4	-	9.4	13.3	0.56	-	-	-	-
Epoch Net Return	(14.0)	(9.0)	(1.2)	3.1	1.2	-	7.9	-	-	-	-	-	-
MSCI World (Net)	(16.6)	(12.2)	(4.3)	(0.1)	(2.2)	-	2.9	16.8	0.06	0.71	7.22	0.67	0.71
S&P 500	(13.9)	(8.7)	1.1	1.2	(1.2)	-	1.8	15.7	-0.01	0.85	8.03	0.70	0.68
Barclays Capital U.S. Aggregate	3.8	6.6	5.3	8.0	6.5	-	5.8	3.7	1.05	0.26	10.78	-0.07	0.00

INTERNATIONAL SMALL CAP

1/31/2005

Epoch Gross Return	(22.5)	(21.0)	(10.8)	5.7	1.1	-	6.9	22.2	0.21	-	-	-	-
Epoch Net Return	(22.6)	(21.4)	(11.3)	4.9	0.3	-	6.0	-	-	-	-	-	-
MSCI World ex USA Small Cap (Net)	(18.9)	(16.4)	(5.6)	6.3	(1.2)	-	3.3	22.3	0.05	0.75	3.65	0.97	0.95

GLOBAL SMALL CAP

12/31/2002

Epoch Gross Return	(20.6)	(17.4)	(4.9)	4.9	2.5	-	10.5	16.6	0.52	-	-	-	-
Epoch Net Return	(20.7)	(17.6)	(5.2)	4.6	2.1	-	9.8	-	-	-	-	-	-
MSCI World Small Cap (Net)	(20.4)	(16.0)	(4.0)	4.7	(0.3)	-	10.4	19.8	0.43	0.01	1.78	0.81	0.93

The risk statistics are shown as supplemental information only and supplement the Composite presentation which is located within the Disclosures section. Past performance is not indicative of future results.



DISCLOSURES

1. Presentation of the Firm — Epoch Investment Partners, Inc. ("Epoch") became a registered investment adviser under the Investment Advisers Act of 1940 in June 2004. Performance from April 2001 through May 2004 is for Epoch's investment team and accounts while at a prior firm. Performance from July 1994 through March 2001 is for Bill Priest and the accounts while at a different prior firm. For both time periods, Bill or the investment team were the only individuals responsible for selecting the securities to buy and sell. Epoch has the books and records supporting the performance of this track record and will provide these records upon request. Epoch claims compliance with the Global Investment Performance Standards (GIPS®).

2. Composite Structure — Epoch's composites include all tax-exempt and taxable portfolios above \$500,000 in size and are generally managed relative to an applicable market index. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm.

Table with 5 columns: COMPOSITE, CREATION DATE, CURRENT BENCHMARK, PREVIOUS BENCHMARK HISTORY, COMPOSITE DESCRIPTION. Rows include U.S. Value, U.S. All Cap Value, U.S. Small Cap Value, U.S. SMID Cap Value, U.S. Choice, Global Equity Shareholder Yield, Global Choice, Global Absolute Return, International Small Cap, and Global Small Cap.

3. Risk Statistics Source — Sharpe ratio is a measure of absolute risk adjusted return developed by Professor William Sharpe. It divides the excess return of an account above cash returns by the Standard Deviation of the excess return to determine the reward per unit of risk. Information Ratio is measure of relative risk-adjusted return. It is determined by dividing excess return by Tracking Error. Alpha is a measurement of the expected residual return adjusted for the account Beta. Beta is a quantitative measure of the volatility of the account relative to the account benchmark. R-squared is a measure of how closely an account's performance correlates with the performance of the account benchmark, ranging from 0, indicating no correlation, to 1, indicating perfect correlation. Composite-level risk statistics are calculated using monthly rates-of-return. Statistics calculated using a sample of less than 36 months can be considered a less reliable estimate of the characteristic's true value.

4. Benchmark Source — Russell Investments; MSCI Inc.; Standard & Poor's; and Barclays Capital are the source and owners of the index data contained herein (and all trademarks related thereto), which may not be redistributed. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to the index. The composition of the indices are provided for your information only and may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatilities or tracking error targets, all of which are subject to change over time. Indices are unmanaged. Investors cannot invest directly in indices.

5. Total Return Methodology — Composite returns are presented gross and net of management fees and include the reinvestment of all income. Composite performance is presented net of foreign withholding taxes on dividends, interest income, and capital gains. Withholding taxes may vary according to the investor's domicile. All information is calculated in USD. Returns include the effect of foreign currency exchange rates. Periods over one year are annualized. Effective 1/2008, net performance is calculated by deducting the actual investment management fee incurred by each portfolio in the composite. Prior to 1/2008, net-of-fee returns reflect the deduction of the highest annual management fee, calculated on a monthly basis. A fee schedule is an integral part of a complete presentation and is described in Part II of the firm's ADV, which is available upon request. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. Past performance is not indicative of future results. An account could incur losses as well as gains.

6. To receive a complete list and description of Epoch's composites, GIPS® firm-wide verification or composite verification by Ashland Partners & Company LLP from June 21, 2004 through June 30, 2011, and/or other presentations that adhere to the GIPS® standards, contact us at 212-303-7200, write to Epoch Investment Partners Inc., 640 Fifth Avenue, 18th Floor, New York, NY 10019, or send an email to info@eipny.com.

7. The information contained herein reflects, as of the date hereof, the views of Epoch Investment Partners, Inc. and sources believed by Epoch Investment Partners, Inc. to be reliable. No representation or warranty is made concerning the accuracy of any data compiled herein. In addition, there can be no guarantee that any projection, forecast or opinion in these materials will be realized. The views expressed herein may change at any time subsequent to the date of issue hereof. These materials are provided for informational purposes only.

