



Investment Update

FOURTH QUARTER 2011



NEW YEAR, OLD PROBLEMS

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For as long as humankind has celebrated the New Year, we've had hopes and expectations associated with this symbolic spot on the calendar. We all wish for fresh starts, and investors are no exception. This year, it is especially tempting to want to leave the past twelve months behind. Investors were beset by enormous challenges in 2011: the burdens of

paying down a staggering global debt, the uncertain footing of the euro, and the slowing growth rates in China and other emerging markets. It is natural, then, to hope for better in 2012. The truth, however, is that the next several quarters will likely present us with a familiar set of economic challenges. Instead of a clean slate, we'll have a continuation of several worrying trends. The good news is that we're smarter now, or perhaps wiser, than we were this time last year. And if we keep the right investment mindset, we just might get one step closer to realizing the goal of a happy and prosperous New Year.

In our discussion of today's economic landscape, let us start with the aggregation of global debt in relation to GDP: a process many years in the making. Figure 1 displays the rise in government debt for the largest developed countries. In the global financial crisis of 2008-2009, much of this debt shifted from the private sector, particularly the financial segment, to the public sector. Additional fiscal stimulus was undertaken to offset the collapse in private sector demand thereby adding to the growth in overall debt as well. These actions were necessary to buy time to deal with a potentially catastrophic situation, but the end result was and continues to be an over-leveraged world burdened by significant deflationary pressures. In an attempt to restore balance to the global economy, some countries in the developed world have enacted fiscal policies geared toward austerity, but there is little evidence to suggest these policies are working (This is the Paradox of Thrift¹ at work.)

The debt burden illustrated in Figure 1 has important implications for the growth outlook in the developed world. In Ken Rogoff and Carmen Reinhart's landmark book, *This Time is Different*, their data show that when a nation's sovereign debt reaches 90% of GDP, structural unemployment rises and future real growth rates are affected negatively by 100 to 150 basis points.

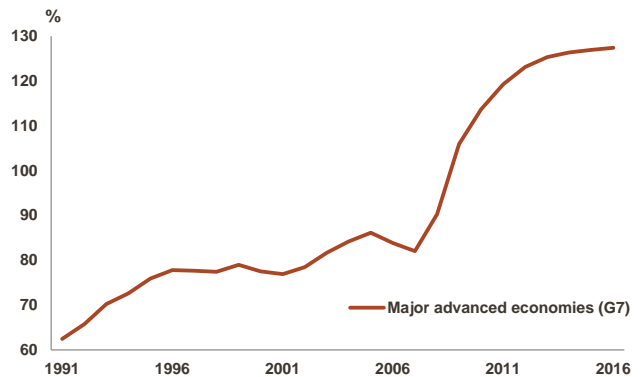
We can therefore assume that an escape from this debt quagmire will require sustainable growth in real GDP. Real GDP is driven by two variables — growth in the work force and productivity. Demographics suggest there will be little growth in the workforce of the OECD countries over the next few years. Productivity has been mixed in these countries: for a while,

it was trending mildly positive, but is now decelerating. The outlook for real GDP, then, is not particularly reassuring. We're looking at 2% growth at best. On the bright side inflation should not pose much of a threat. The enormous supply of unemployed people and low factory operating rates plus the significantly negative OECD output gap (see Figure 2), will mitigate inflation risk going forward.

So far we have not discussed the impact of the euro crisis nor the outlook for emerging economies, particularly China. In brief, we believe the euro crisis aggravates the debt problem and the slowdown in growth for the emerging economies is real and inevitable given their need for exports to OECD countries.

FIGURE 1: GROSS GOVERNMENT DEBT/GDP FOR MAJOR ADVANCED ECONOMIES (G7)

Source: International Monetary Fund, World Economic Outlook Database, September 2011



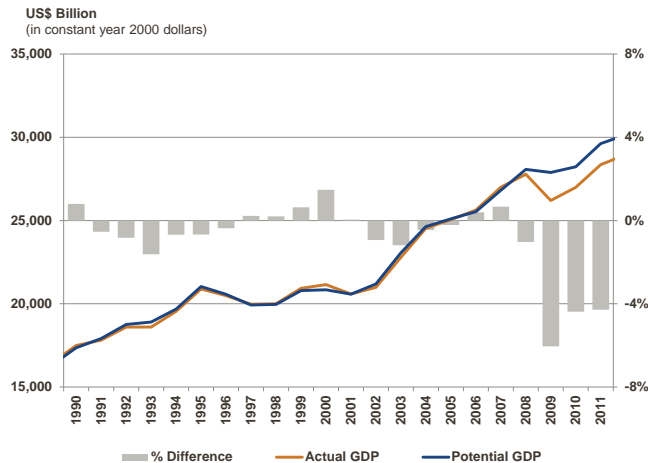
With all due respect to the euro, it is going to cost an enormous amount of money to save it: approximately €3 trillion by our count. The consequences and potential costs of not saving the euro, however, vastly exceed the sum mentioned above. Talk about unintended consequences! The global financial system, with all of its linkages and counterparty risks, would be shaken to the core by the euro's collapse. The good news is that most policy makers realize the euro must be rescued, no matter the price, and likely steps will include gestures toward a fiscal union that would allow quantitative easing and quite possibly the issue of a euro bond. Nevertheless, this nagging issue will hang around for most if not all of 2012, mitigating growth plans and slowing any nascent economic expansion.

In terms of emerging markets, growth rates here should slow considerably. China provides a good example. It remains a mercantilist model in which exports are critical for growth. Yet if the OECD economies grow little, what happens to this export model? The outcome cannot be positive.

China, then, must rebalance its economic model so that it relies less on exports and capital investment. These two components of GDP are 52% of the Chinese economy, and both are losing steam. The marginal efficiency of capital spending in China is based more on keeping people employed than earning an economic return. Thus, we expect a slowdown in China's growth rate this year. Note, however, that even if the growth rate slips to five or six percent, the absolute increment to GDP remains very large. China, once again, will comprise the largest increment to global GDP in 2012. The rest of us will still be dealing with the consequences of three long decades of accumulated debt.

FIGURE 2: G7 ACTUAL AND POTENTIAL OUTPUT

Source: International Monetary Fund, World Economic Outlook Database, September 2011



What should the investor do under these circumstances? In many respects, the answer depends on how policy makers deal with the debt issue. They have five broad policy options: default, devaluation, inflation, austerity or financial repression.

Austerity is already being pursued in a number of countries. Inflation is what many policy makers would like to see, but it is just not present today at the macro level given the very large output gaps that exist. Default and devaluation are loaded with unintended consequences. It is the fifth and final option, financial repression, which is being deployed by the central banks. By keeping interest rates at near zero across the entire system (preferably a negative rate if one uses the Taylor Rule²),

¹ The Paradox of Thrift states that if everyone saves a larger part of their income, they will become poorer instead of richer because of a decline in consumption and economic growth. So while individual thrift is a virtue, collective thrift can hurt the economy.

² In 1993, economist John Taylor proposed a formula for setting U.S. monetary policy that takes into account output gaps and inflation. While the Federal Reserve does not explicitly follow the Taylor rule, the principle of tight policy in times of full employment and rising inflation and loose policy in times of recession and falling inflation has been thought to accurately describe Fed policy over the past three decades. The original formula takes on the simplified form: $i_t = 1 + 1.5\pi_t + 0.5y_t^*$, where i_t is the Fed funds rate, π_t is the rate of inflation over the previous four quarters, and y_t^* is the percent deviation of real GDP from potential GDP, the so called "output gap."

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: \$19.2 billion as of December 31, 2011.

Our investment philosophy is to produce superior risk-adjusted returns by identifying companies 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 such as through dividends, share repurchases, debt-reduction, sensible internal reinvestment, or accretive acquisitions. Our investment philosophy reflects the changing hierarchy within the three determinants of investment returns: earnings, dividends, and P/E ratios. Throughout history, the relative importance of each determinant has changed dramatically depending upon the economic landscape. 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 2003, this period of declining interest rates and expanding P/E ratios showed 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 upon 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 dividends, share repurchases, debt pay downs, internal reinvestment opportunities and/or acquisitions.

savings will be gradually invested in risky assets or lost to inflation. With the savings in the private sector and the debt in the public sector, the government will attempt to transfer those savings to its balance sheet to resolve its debt obligations.

China, too, is practicing financial repression, and with certain unanticipated consequences. By slashing savings rates at the banks and allowing wage inflation of 15% or more, real estate speculation has increased, creating a bubble of large proportions.

In this environment, we have seen bonds perform well. In 2011, bonds surprised many pundits with very strong returns: 17% for 10-year U.S. Treasuries. Despite earnings yields for equities (E/P) at three times the level of bond yields, bonds beat equities handily. Can that happen again? Yes, if 2012 turns into a recession and global GDP declines. But if that is not the case, then equities will beat bonds.

Equities, after all, are a hedge against inflation and they capture productivity gains, unlike bonds. If deflation prevails, then bonds will provide competition for equities. Be assured, however, that every policy maker in the world wants inflation — not deflation — and economic policies (such as QE3 in the U.S. and a bail-out of the euro) will be implemented with this in mind.

Simply put, investors should seek out bonds that look like equities and equities that look like bonds. Corporate bonds, for example, will fare better than sovereign bonds, as corporations have better balance sheets and more transparent financial statements. As for equities, the emphasis should be on "global champions." These multi-national companies operate in industries with high barriers to entry and can reconfigure their factors of production and reposition their marketing efforts to parts of the world that are still growing. It is equally important to seek out companies with high-quality management teams, strong histories of successful capital allocation and consistent shareholder yield creation (i.e., cash dividends, share buybacks, and debt pay downs).

In other words, we may not be entering 2012 with a clean slate, but we are greeting the New Year with an investment strategy that can weather even the roughest economic conditions. With a bit of insight, and a lot of intelligence and luck from the world's policy makers, we might be raising our glasses soon enough to an auspicious 2013.

RESULTS

AS OF DECEMBER 31, 2011

**INCEPTION
DATE**

ANNUALIZED RETURNS (%)

4Q
2011

1 Year 3 Years 5 Years 10 Years Since Incept.

RISK STATISTICS - SINCE INCEPTION

Std. Dev. Sharpe Ratio Inform. Ratio Alpha Beta R²

U.S. VALUE

7/31/2001

Epoch Gross Return	11.5	1.1	14.3	2.0	6.1	5.6	14.9	0.2	-	-	-	-
Epoch Net Return	11.4	0.7	13.9	1.6	5.5	5.0	-	-	-	-	-	-
Russell 1000	11.8	1.5	14.8	0.0	3.3	2.8	16.3	0.1	0.5	3.1	0.9	0.9
Russell 1000 Value	13.1	0.4	11.5	(2.6)	3.9	3.3	16.6	0.1	0.4	2.7	0.8	0.9
S&P 500	11.8	2.1	14.1	(0.2)	2.9	2.3	16.1	0.0	0.6	3.5	0.9	0.9

U.S. ALL CAP VALUE

7/31/1994

Epoch Gross Return	13.8	1.4	15.5	1.8	7.4	11.0	14.0	0.6	-	-	-	-
Epoch Net Return	13.6	0.9	14.9	1.2	6.7	10.2	-	-	-	-	-	-
Russell 3000	12.1	1.0	14.9	0.0	3.5	8.1	16.1	0.3	0.4	4.6	0.8	0.8
Russell 3000 Value	13.3	(0.1)	11.6	(2.6)	4.1	8.5	15.6	0.3	0.3	4.2	0.8	0.8

U.S. SMALL CAP VALUE

12/31/2002

Epoch Gross Return	14.8	0.7	17.9	2.8	-	9.3	18.2	0.4	-	-	-	-
Epoch Net Return	14.7	0.3	17.5	2.2	-	8.5	-	-	-	-	-	-
Russell 2000	15.5	(4.2)	15.6	0.2	-	9.0	20.7	0.3	0.0	1.6	0.8	0.9
Russell 2000 Value	16.0	(5.5)	12.4	(1.9)	-	8.6	20.6	0.3	0.1	2.0	0.8	0.9

U.S. SMID CAP VALUE

8/31/2006

Epoch Gross Return	15.6	(1.0)	18.9	2.9	-	4.1	21.3	0.1	-	-	-	-
Epoch Net Return	15.5	(1.4)	18.5	2.5	-	3.7	-	-	-	-	-	-
Russell 2500	14.5	(2.5)	18.4	1.2	-	3.0	22.8	0.1	0.3	1.3	0.9	1.0
Russell 2500 Value	15.4	(3.4)	15.5	(0.6)	-	1.3	22.8	0.0	0.5	2.9	0.9	0.9

U.S. CHOICE

4/30/2005

Epoch Gross Return	12.4	3.7	16.8	2.1	-	5.8	17.4	0.2	-	-	-	-
Epoch Net Return	12.3	3.3	16.5	1.7	-	5.3	-	-	-	-	-	-
Russell 3000	12.1	1.0	14.9	0.0	-	3.8	17.3	0.1	0.4	2.1	1.0	0.9

GLOBAL EQUITY SHAREHOLDER YIELD

12/31/2005

Epoch Gross Return	8.1	7.1	14.9	2.7	-	6.4	14.6	0.3	-	-	-	-
Epoch Net Return	8.1	6.7	14.5	2.2	-	5.8	-	-	-	-	-	-
MSCI World (Net)	7.6	(5.5)	11.1	(2.4)	-	1.1	18.9	0.0	0.8	5.3	0.7	0.9

GLOBAL CHOICE

9/30/2005

Epoch Gross Return	7.7	(0.1)	13.6	2.0	-	7.0	16.9	0.3	-	-	-	-
Epoch Net Return	7.5	(0.6)	12.9	1.3	-	6.2	-	-	-	-	-	-
MSCI World (Net)	7.6	(5.5)	11.1	(2.4)	-	1.5	18.6	0.0	0.8	5.6	0.9	0.9

GLOBAL ABSOLUTE RETURN

12/31/2001

Epoch Gross Return	7.3	(1.4)	13.2	2.1	9.9	9.9	13.3	0.6	-	-	-	-
Epoch Net Return	7.0	(2.6)	11.9	0.9	8.4	8.4	-	-	-	-	-	-
MSCI World (Net)	7.6	(5.5)	11.1	(2.4)	2.9	3.6	16.9	0.1	0.7	7.3	0.7	0.7
S&P 500	11.8	2.1	14.1	(0.2)	2.9	2.9	15.9	0.1	0.8	7.7	0.7	0.7
Barclays Capital U.S. Aggregate	1.1	7.8	6.8	6.5	2.9	5.8	3.7	1.1	0.3	11.5	(0.1)	0.0

INTERNATIONAL SMALL CAP

1/31/2005

Epoch Gross Return	1.2	(20.2)	15.2	(1.8)	-	6.8	22.1	0.2	-	-	-	-
Epoch Net Return	1.0	(20.7)	14.4	(2.6)	-	5.9	-	-	-	-	-	-
MSCI World ex USA Small Cap (Net)	0.7	(15.8)	16.5	(3.2)	-	3.3	22.2	0.1	0.7	3.6	1.0	1.0

GLOBAL SMALL CAP

12/31/2002

Epoch Gross Return	9.2	(9.8)	16.5	2.0	-	11.3	16.9	0.6	-	-	-	-
Epoch Net Return	9.1	(10.1)	16.2	1.6	-	10.6	-	-	-	-	-	-
MSCI World Small Cap (Net)	8.2	(9.1)	18.2	(0.6)	-	11.1	19.8	0.5	0.0	1.9	0.8	0.9

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 examination reports by Ashland Partners & Company LLP from June 21, 2004 through September 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, New York, NY 10019, or send an email to info@eipny.com.

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