



Investment Update

FIRST QUARTER 2011



DRIVERS OF EQUITY RETURNS - THE SHORT TERM AND THE LONG TERM

By William W. Priest, CEO, Co-CIO and Portfolio Manager



In this quarterly commentary, we would like to relate the drivers of short-term equity returns to their long-term determinants: two categories that are often very different.

To begin, let's take a look at Figure 1: a chart from Merrill Lynch's Quantitative Finance Group that shows the relative importance of three variables (cash flow yields, quality as measured by ROE, and beta) annually over a 25-year period. On a cumulative basis, cash flow yields were the most important variable, followed by beta and then "quality."

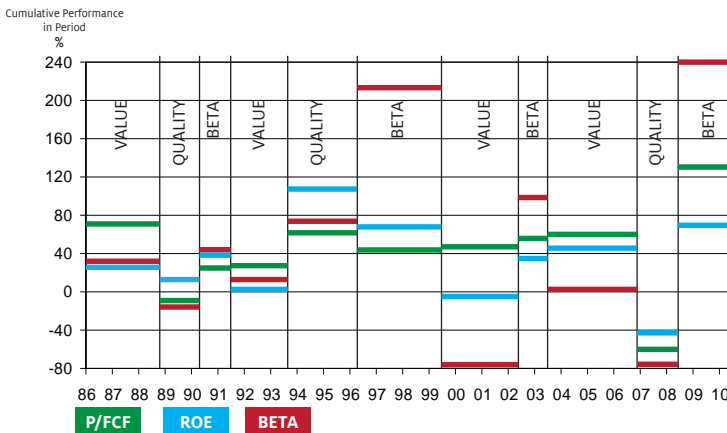


FIGURE 1: AFTER BETA IT'S CASH FLOW

Source: BofA Merrill Lynch U.S. Quantitative Strategy, December 2010

Beta markets are momentum markets. Look at the late 1990s, for example, when NASDAQ tripled in a three-year period. Also consider the rebound from the market bottom in 2009: during this rally, beta mattered most. This surprised many pundits who had expected quality and strong balance sheets to lead the way.

So what happened?

Two things. First, the Fed and other central banks lowered interest rates – to nearly zero on the short end in the U.S. – and fiscal policy became very expansionary. To understand the impact of this event, think of how a present value calculation works. When the denominator falls to nearly zero, the value of the numerator goes through the roof. And if that numerator is a long duration asset with option-like characteristics, the value explodes. Consider this example: J.P. Morgan's stock has nearly tripled from its low in March of 2009 while Citicorp's stock has nearly quintupled from its low of under one dollar in March of 2009. Equities are long duration assets but speculative equities have even longer duration measures.

The second event that boosted beta's power as a market driver was the impact on corporate profits from a surge in government spending.

Taken together, these two events began to impact the equity markets in early April 2009. The lower the quality of the company, the better its stock performed as a result. This was "the power of zero" in action, and it was combined with fiscal policies unlike anything we had seen since the Great Depression. Today, with QE2 about to end and the effects of government stimulus coming to a close, the outlook for the beta trade is not good. As evidenced by the Merrill study, history suggests that when the beta trade ends, cash flow yield strategies will dominate: an outcome that, in our view, seems entirely logical.

With this in mind, let's try to build a model for global equity returns throughout the next ten years. We'll start with the current cash yield of 2.3% for the MSCI World Index. Add to that number an estimate for earnings growth and a number representing the annual rate of change expected for P/E ratios going forward (positive or negative). That sum will be the expected return for global equities for the decade ahead.

¹Source: *The Power of Zero, The Dash for Trash and the Economic Growth Path*, by William W. Priest, April 28, 2010, www.eipny.com

To better understand the basics of this model, take a look at Figure 2, which illustrates the integration of the real economy and the financial economy as reflected in stock market levels.

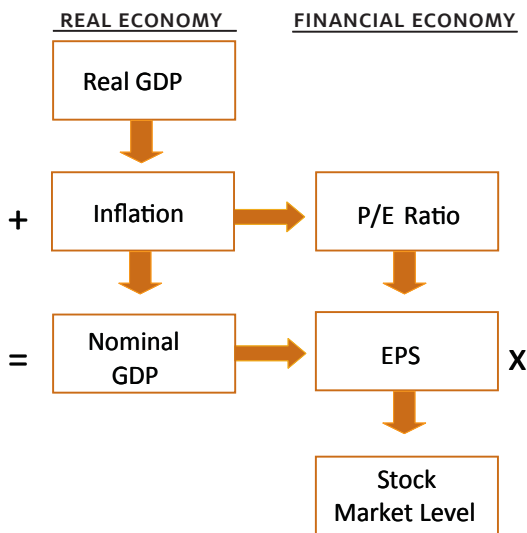


FIGURE 2: REAL ECONOMY VS. FINANCIAL ECONOMY
Source: Epoch Investment Partners, Inc., March 2011

Real GDP is the product of the growth in the work force times the measure of productivity gains. As many of us recall from the decade of the 1980s and repeated in the first decade of this century, this total can be turbo-charged by debt. Current sovereign debt to GDP ratios suggest further leverage-derived real GDP boosters are unlikely to be a factor in the future. So if the global workforce grows at a rate of 1–1.5%, and productivity continues at 1.5–2% per annum, real GDP will grow around 3% per annum. Add inflation of 1–3%, and we have nominal GDP growing at 4–6% for a decade.

Many studies have shown that corporate earnings in aggregate tend to mirror nominal GDP growth rates over time, thereby capturing productivity gains and hedging inflation.

Add an earnings growth rate of 4–6% to the current yield of 2.3% and we now have equity returns approaching 6–8%, exclusive of any P/E impact.

Where P/E ratios are concerned, it is important to remember that inflation – via the mechanism of interest rates – is their biggest driver. High inflation equals high interest rates and low P/Es. The opposite is true as well. Indeed, over a fifty-year period the correlation coefficient between interest rates and P/Es is -0.64, and over 20 years it is -0.8. This is a powerful statistical relationship.

If one assumes flat P/E multiples for the decade ahead, then one can also assume that equity returns will double over this period (a 7% per annum return, the average of our 6 to 8% range, will double the principal value in ten years). Importantly, equities will provide a 4% premium per annum over inflation for a “real” return of the same number. Thus, equities should trump bonds easily over the next ten years, as reflected in Figure 3.

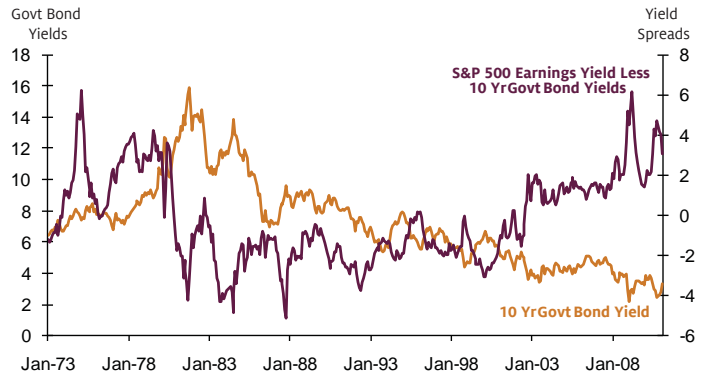


FIGURE 3: S&P 500 VS. BONDS
Source: Bloomberg, December 2010

If the beta trade is about to end and cash flow yields are likely to come to the fore, free-cash-flow strategies will provide the most successful investing outcomes over the next decade. Our goal, as always, is to harness the power of these new market drivers, and to pass the value along to our clients.

RESULTS

AS OF MARCH 31, 2011

**INCEPTION
DATE**

ANNUALIZED RETURNS (%)

RISK STATISTICS - SINCE INCEPTION

	1Q 2011	1 Year	3 Years	5 Years	10 Years	Since Incept.	Std Dev.	Sharpe Ratio	Inform. Ratio	Alpha	Beta	R ²
<u>U.S. VALUE</u>	7/31/2001											
Epoch Gross Return	7.2	15.6	4.0	5.8	-	6.7	14.6	0.3	-	-	-	-
Epoch Net Return	7.1	15.2	3.7	5.3	-	6.1	-	-	-	-	-	-
Russell 1000	6.2	16.7	3.0	2.9	-	3.5	16.2	0.1	0.6	3.6	0.9	0.9
Russell 1000 Value	6.5	15.2	0.6	1.4	-	4.2	16.4	0.1	0.4	3.1	0.8	0.8
S&P 500	5.9	15.6	2.4	2.6	-	2.9	16.0	0.1	0.7	4.1	0.9	0.9
<u>U.S. ALL CAP VALUE</u>	7/31/1994											
Epoch Gross Return	8.0	18.4	4.5	5.1	8.8	12.0	13.6	0.6	-	-	-	-
Epoch Net Return	7.9	17.8	4.0	4.5	8.0	11.1	-	-	-	-	-	-
Russell 3000	6.4	17.4	3.4	2.9	4.1	8.8	16.0	0.3	0.4	5.2	0.7	0.8
Russell 3000 Value	6.5	15.6	1.1	1.4	4.9	9.3	15.5	0.4	0.4	4.6	0.8	0.8
<u>U.S. SMALL CAP VALUE</u>	12/31/2002											
Epoch Gross Return	6.2	23.6	8.9	5.1	-	10.9	17.7	0.5	-	-	-	-
Epoch Net Return	6.1	23.1	8.5	4.5	-	10.1	-	-	-	-	-	-
Russell 2000	7.9	25.8	8.6	3.3	-	11.5	20.2	0.5	(0.1)	1.3	0.8	0.9
Russell 2000 Value	6.6	20.6	6.8	2.2	-	11.0	20.2	0.4	(0.0)	1.8	0.8	0.9
<u>U.S. SMID CAP VALUE</u>	8/31/2006											
Epoch Gross Return	6.1	23.2	9.2	-	-	6.4	21.0	0.2	-	-	-	-
Epoch Net Return	6.0	22.8	8.9	-	-	5.9	-	-	-	-	-	-
Russell 2500	8.7	26.1	8.9	-	-	6.0	22.5	0.2	0.1	0.8	0.9	1.0
Russell 2500 Value	7.7	22.7	7.9	-	-	3.9	22.7	0.1	0.4	2.8	0.9	0.9
<u>U.S. CHOICE</u>	4/30/2005											
Epoch Gross Return	6.7	15.7	5.4	5.0	-	7.0	17.3	0.3	-	-	-	-
Epoch Net Return	6.7	15.5	5.2	4.6	-	6.5	-	-	-	-	-	-
Russell 3000	6.4	17.4	3.4	2.9	-	5.2	17.1	0.2	0.4	2.0	1.0	0.9
<u>GLOBAL EQUITY SHAREHOLDER YIELD</u>	12/31/2005											
Epoch Gross Return	5.6	18.0	4.1	5.9	-	7.1	14.7	0.3	-	-	-	-
Epoch Net Return	5.5	17.6	3.6	5.4	-	6.5	-	-	-	-	-	-
MSCI World (Net)	4.8	13.4	(0.2)	2.1	-	3.2	18.8	0.1	0.6	4.3	0.8	0.9
<u>GLOBAL CHOICE</u>	9/30/2005											
Epoch Gross Return	5.0	8.1	2.5	6.2	-	9.0	17.0	0.4	-	-	-	-
Epoch Net Return	4.8	7.6	1.7	5.3	-	8.1	-	-	-	-	-	-
MSCI World (Net)	4.8	13.4	(0.2)	2.1	-	3.6	18.5	0.1	0.8	5.7	0.9	0.9
<u>GLOBAL ABSOLUTE RETURN</u>	12/31/2001											
Epoch Gross Return	4.8	9.2	5.0	6.0	-	11.5	13.2	0.7	-	-	-	-
Epoch Net Return	4.5	7.8	3.8	4.7	-	10.0	-	-	-	-	-	-
S&P 500	5.9	15.6	2.4	2.6	-	3.6	15.8	0.1	0.9	8.9	0.7	0.7
MSCI World (Net)	4.8	13.4	(0.2)	2.1	-	5.1	16.7	0.2	0.7	7.9	0.7	0.7
Barclays Capital U.S. Aggregate	0.4	5.1	5.3	6.0	-	5.4	3.8	0.9	0.4	12.5	(0.0)	-
<u>INTERNATIONAL SMALL CAP</u>	1/31/2005											
Epoch Gross Return	1.8	28.0	3.0	6.7	-	12.0	21.8	0.4	-	-	-	-
Epoch Net Return	1.7	27.2	2.2	5.8	-	11.0	-	-	-	-	-	-
MSCI World ex USA Small Cap (Net)	3.3	22.0	2.5	2.3	-	7.2	22.3	0.2	1.0	4.9	1.0	1.0
<u>GLOBAL SMALL CAP</u>	12/31/2002											
Epoch Gross Return	4.2	28.3	7.4	7.7	-	14.3	16.0	0.8	-	-	-	-
Epoch Net Return	4.1	27.9	7.2	7.2	-	13.6	-	-	-	-	-	-
MSCI World Small Cap (Net)	6.2	24.6	6.9	3.5	-	14.3	19.5	0.6	0.0	2.7	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.

COMPANY OVERVIEW

Epoch Investment Partners, Inc. ("Epoch") is a global asset management firm formed in April 2004 by senior investment management 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: \$15.6 billion as of March 31, 2011.

INVESTMENT PHILOSOPHY

Our investment philosophy, as it has been since inception, is to produce superior 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 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 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 of 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 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.

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.

COMPOSITE	CREATION DATE	CURRENT BENCHMARK	PREVIOUS BENCHMARK HISTORY	COMPOSITE DESCRIPTION
U.S. Value	June 2004	Russell 1000; Russell 1000 Value; S&P 500		U.S. Value is a value-oriented equity portfolio managed by Epoch for long-term appreciation through investment in large-capitalization U.S. companies. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting-based metrics such as P/E or P/B. As long-term-oriented conviction investors, the portfolio consists of approximately 40-60 securities which provides concentration with diversification, and typically limits the market capitalization of the securities in the portfolio to that of the Russell 1000 at time of purchase. The companies are selected based on their ability to generate free cash flow and to allocate it accretively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
U.S. All Cap Value	June 2004	Russell 3000; Russell 3000 Value	Effective 7/1/06 the U.S. All Cap Value Composite has been redefined to reflect only those discretionary accounts managed by the All Cap Value Team and following the respective All Cap Value model. As a result, all accounts which are not managed by the All Cap Value Team and have specified client risk preferences have been removed.	U.S. All Cap Value is a value-oriented equity portfolio managed by Epoch for long-term appreciation through investment in large-, medium- and small-capitalization U.S. companies. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting-based metrics such as P/E or P/B. As long-term-oriented conviction investors, the portfolio consists of approximately 50-60 securities which provides concentration with diversification, and typically limits the market capitalization of the securities in the portfolio to that of the Russell 3000 at time of purchase. The companies are selected based on their ability to generate free cash flow and to allocate it accretively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
U.S. Small Cap Value	June 2004	Russell 2000; Russell 2000 Value		U.S. Small Cap Value is a value-oriented equity portfolio managed by Epoch for long-term appreciation through investment in small-capitalization U.S. companies. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting-based metrics such as P/E or P/B. As long-term-oriented conviction investors, the portfolio consists of approximately 60-80 securities which provides concentration with diversification, and typically limits the market capitalization of the securities in the portfolio to that of the Russell 2000 at time of purchase. The companies are selected based on their ability to generate free cash flow and to allocate it accretively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
U.S. SMID Cap Value	September 2006	Russell 2500; Russell 2500 Value		U.S. SMID Cap Value is a value equity portfolio managed by Epoch for long-term appreciation through investment in small and mid-capitalization U.S. companies. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting-based metrics such as P/E or P/B. As long-term-oriented conviction investors, the portfolio consists of approximately 60-80 securities which provides concentration with diversification, and typically limits the market capitalization of the securities in the portfolio to that of the Russell 2500 at time of purchase. The companies are selected based on their ability to generate free cash flow and to allocate it accretively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
U.S. Choice	May 2005	Russell 3000		U.S. Choice is a value equity portfolio managed by Epoch for long-term appreciation through investment in businesses that reflect the high conviction ideas of all of Epoch's U.S. strategies. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting-based metrics such as P/E or P/B. As long-term-oriented conviction investors, the portfolio consists of approximately 25-35 securities which provides concentration with diversification, and typically limits the market capitalization of the securities in the portfolio to that of the Russell 3000 at time of purchase. The companies are selected based on their ability to generate free cash flow and to allocate it accretively among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
Global Equity Shareholder Yield	January 2006	MSCI World (Net)	Effective 7/1/2009, performance information for these composites is shown comparative to the MSCI World (Net) Indices, respectively, on a current and retrospective basis. The benchmark previous to 7/1/2009 was the S&P Developed BMI Index.	Global Equity Shareholder Yield is a diversified portfolio of global equity securities managed by Epoch for above average income and long-term capital appreciation. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 100 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among dividends, share repurchases, debt pay downs, internal reinvestment opportunities and/or acquisitions.
Global Choice	October 2005	MSCI World (Net)	Effective 1/2009, the benchmark was changed for the Global Absolute Return and Global Choice composites from the MSCI World (Gross) Index to the MSCI World (Net) Index because it is more representative of the firm's accounting methodology with regards to foreign withholding tax treatment.	Global Choice is a concentrated portfolio of global equity securities managed by Epoch for longer term capital appreciation. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 25-35 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
Global Absolute Return	June 2004	S&P 500; Barclays Capital U.S. Aggregate and MSCI World (Net)	Effective 1/2009, the benchmark was changed for the Global Absolute Return and Global Choice composites from the MSCI World (Gross) Index to the MSCI World (Net) Index because it is more representative of the firm's accounting methodology with regards to foreign withholding tax treatment.	Global Absolute Return is a concentrated portfolio of global equity securities managed by Epoch for longer term capital appreciation. Cash is actively used to limit loss exposure. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 25-35 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
International Small Cap	February 2005	MSCI World Small Cap (Net)	Effective 7/1/2009, performance information for these composites is shown comparative to the MSCI World Small Cap (Net) Index, respectively, on a current and retrospective basis. The benchmark previous to 7/1/2009 was the S&P EPAC Small Cap Index.	International Small Cap is a diversified portfolio of non-U.S. small cap stocks managed by Epoch for long term capital appreciation. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 125-165 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.
Global Small Cap	June 2004	MSCI World Small Cap (Net)	Effective 7/1/2009, performance information for these composites is shown comparative to the MSCI World Small Cap (Net) Index, respectively, on a current and retrospective basis. The benchmark previous to 7/1/2009 was the S&P Developed Small Cap Index.	Global Small Cap is a diversified portfolio of global small cap stocks managed by Epoch for long term capital appreciation. Epoch employs a research process focused on free-cash-flow generation as opposed to traditional accounting based metrics such as P/E or P/B. The portfolio consists of approximately 150-200 securities which are selected on the expectation they will generate excess free cash flow and whose management will allocate it prudently among internal reinvestment opportunities, acquisitions, dividends, share repurchases and/or debt pay downs.

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 a 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, volatility 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 March 31, 2010, 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.