



The Power of Zero and the Dash for Trash in Equities

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

In the history of finance, interest rates have been the single most powerful driver of economic growth and decline. And the past several years have been no exception. Since the beginning of the global financial crisis in the summer of 2007, we have witnessed a collapse in equity prices and a contraction in real global GDP rivaled only by the Great Depression. In response, governments and central banks took action on several fronts. First, government stimulus plans were enacted that allowed for unprecedented levels of liability guarantees and government spending. Second, and most importantly, interest rates were slashed, dropping the short end of the yield curve to just a hair's breadth from zero.

The impact of these astonishingly low interest rates is our focus here. Let's start with Figure 1, which shows what happens to the value of a dollar when the discount rate changes from a high number to a lower one. Should the discount rate fall from five percent to one percent, for example, the present value of a dollar due 20 years hence climbs from 38 cents to 82 cents: an increase of 115%. Figure 1 demonstrates that the longer the duration of the asset in years, the greater the impact of a given decline in the discount rate.

Furthermore, compare the impact on the valuation of one dollar over five years with one due in 30 years. Continuing the example of a shift in the discount rate from five percent to one percent, an asset with a five-year duration rises 22% (.95 / .78) whereas an asset with a 30-year duration gains more than 220% (.74 / .23). In the case of a long duration asset containing option-like characteristics, its value explodes upward as rates approach zero. This is effectively what happened in the equity market over the past 12 months.

Figure 1
Present Value of a Dollar

Rates	Periods				
	1	5	10	20	30
6%	0.94	0.75	0.56	0.31	0.17
5%	0.95	0.78	0.61	0.38	0.23
4%	0.96	0.82	0.68	0.46	0.31
3%	0.97	0.86	0.74	0.55	0.41
2%	0.98	0.90	0.82	0.67	0.55
1%	0.99	0.95	0.90	0.82	0.74

With the lessons of Figure 1 in mind, let's take a look at a real-life example. From the summer of 2007 through today, Treasury Bill rates have fallen from 500 basis points to 15 basis points while 20-year rates declined modestly from 5% to 4.5%. This downward shift in the yield curve has lowered the discount rate applied to all financial assets. One can debate whether it is the short-term or the long-term rate that most affects equity valuations. Either way, it is clear that such a shift has a powerful effect on valuation and favors the asset with the longest duration and highest risk. As previously mentioned, the present value of equities possessing option-like characteristics (funding problems, bankruptcy risk, or other forms of significant operational and financial leverage) will be affected more than the equities of companies with real cash flows and solid balance sheets.

Figure 2 offers yet another way to see the effects of the massive injection of liquidity by central banks and the accompanying decline in interest rates. Figure 2 is the Bloomberg Financial Conditions Index¹, as expressed in z-scores. This chart shows that in the summer of 2007, an event² occurred that triggered a negative two standard deviation event. The index then staggered sideways for over a year until it finally collapsed with the Lehman bankruptcy and the failure of AIG – an amazing 12 standard deviation event. The index reached its nadir in October 2008 and look at what's happened since. Today, the BFCI index scores a positive 0.5 or one half of one standard deviation better than its historical average. Indeed, the index is back to its level preceding the Paribas incident. This index is the mirror image of the cost of liquidity and reflects the power of zero when combined with liability guarantees on the valuation of financial assets.

The power of zero's effect also appears in the data presented in Figure 3, on the following page. Here we see the performance of the companies in the S&P 500, with and without earnings. Stock prices of firms without earnings who were shaky financially and in some cases facing bankruptcy performed better than those with earnings. Hence, the more option-like the equity, the better it performed over the past year as interest rates approached zero and the cost of liquidity collapsed from the incredible 12 standard deviation level shown in Figure 2. Figure 3, then, is Figure 1 writ large for equity valuations. It literally was a dash for trash over the past year.

Figure 2'
BFCI Index (as of March 31, 2010)



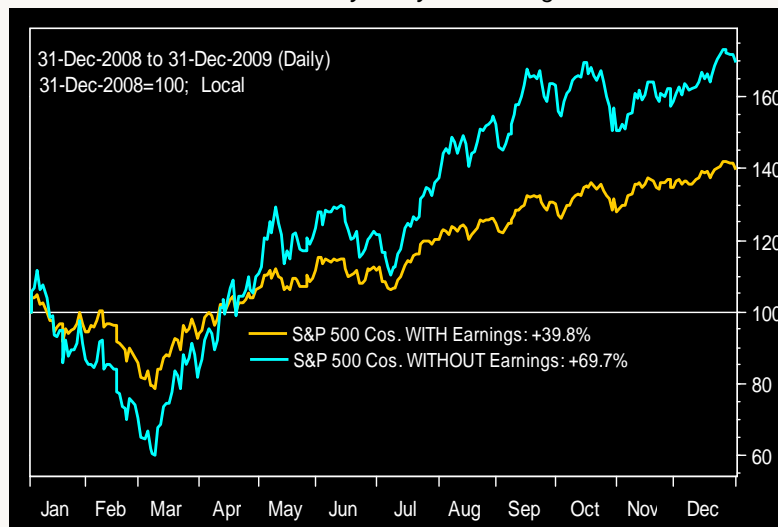
Source: Bloomberg L.P. © See page 4 for definition of BFCI Index.

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While the power of zero has certainly had a dramatic impact on the recent history of the stock market, we believe it has run its course with respect to positive valuation influences. Future gains in the stock market will reflect the degree of success of an economy transitioning from government stimulus and inventory building to one led by private sector demand. Success will be determined by gains in employment and rising personal income. Too little progress will trigger stagnation. Corporate earnings growth will be an important component as will the effects of very strong corporate balance sheets. External issues such as sovereign debt concerns must be allayed and the balance sheets of state and local governments must improve. China needs to continue to grow and protectionism actions by our Congress need to be held to a minimum. Put another way, the domination of the collapse of short term interest rates on equity prices will now give way to other forces affecting equity prices.

As investment managers, our task is to identify those companies that will prosper over the long run and not be swayed by the "power of zero" in the short run. With interest rates at present levels, that game has ended, but Epoch's investment philosophy remains consistent. Firms that generate free cash flow and management teams that deploy this cash flow for shareholder value creation will win. These are the companies we seek to own in our portfolios.

Figure 3
2009 Quality Analysis: Earnings



Source: Strategas Research

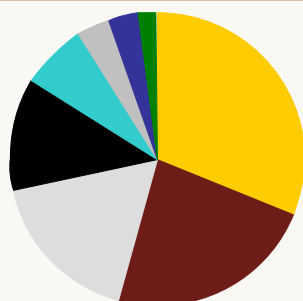
COMPANY OVERVIEW

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 25 years of 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.

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 re-investment, 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.

Assets Under Management: \$12.6 Billion (As of March 31, 2010)



In thousands and may not total due to rounding.

U.S. Value	\$ 3,916
U.S. All Cap Value/Balanced	\$ 2,929
Global Equity Shareholder Yield	\$ 2,158
Absolute Return / Choice	\$ 1,577
U.S. SMID Cap Value	\$ 924
International	\$ 456
U.S. Small Cap Value	\$ 415
Global Small Cap	\$ 239

Performance First Quarter 2010

	Inception Date	1Q 2010	Annualized Returns					Risk Statistics - Since Inception						
			1 Year	3 Years	5 Years	10 Years	Since Inception	Std Dev.	Sharpe Ratio	Inform. Ratio	Alpha	Beta	R ²	
U.S. ALL CAP VALUE	7/31/1994													
Epoch Gross Return		6.9	50.7	(1.3)	4.1	7.6	11.6	13.2	0.6	-	-	-	-	-
Epoch Net Return		6.7	49.4	(2.2)	3.2	6.7	10.7	-	-	-	-	-	-	-
Russell 3000		5.9	52.4	(4.0)	2.4	(0.1)	8.3	15.8	0.3	0.4	5.4	0.7	0.7	
Russell 3000 Value		7.0	54.5	(7.2)	1.2	3.5	8.9	15.3	0.3	0.4	4.8	0.7	0.7	
U.S. VALUE	7/31/2001													
Epoch Gross Return		5.7	47.2	(0.4)	5.2	-	5.7	14.2	0.2	-	-	-	-	-
Epoch Net Return		5.5	46.2	(1.1)	4.4	-	5.0	-	-	-	-	-	-	-
Russell 1000		5.7	51.6	(4.0)	2.3	-	2.0	16.0	(0.0)	0.6	3.9	0.8	0.9	
Russell 1000 Value		6.8	53.6	(7.3)	1.0	-	3.0	16.3	0.0	0.4	3.2	0.8	0.8	
S&P 500		5.4	49.8	(4.2)	1.9	-	1.5	15.8	(0.0)	0.7	4.4	0.8	0.9	
U.S. SMID CAP VALUE	8/31/2006													
Epoch Gross Return		7.9	63.2	(1.4)	-	-	2.2	21.2	(0.0)	-	-	-	-	-
Epoch Net Return		7.7	61.5	(2.3)	-	-	1.2	-	-	-	-	-	-	-
Russell 2500		9.2	65.7	(3.2)	-	-	1.0	23.0	(0.1)	0.3	1.2	0.9	1.0	
Russell 2500 Value		9.6	67.2	(5.1)	-	-	(0.8)	23.3	(0.1)	0.4	2.8	0.9	0.9	
U.S. SMALL CAP VALUE	12/31/2002													
Epoch Gross Return		8.0	57.3	(1.8)	3.4	-	9.3	17.2	0.4	-	-	-	-	-
Epoch Net Return		7.8	55.8	(2.8)	2.3	-	8.2	-	-	-	-	-	-	-
Russell 2000		8.9	62.8	(4.0)	3.4	-	9.6	19.9	0.4	(0.1)	1.3	0.8	0.9	
Russell 2000 Value		10.0	65.1	(5.7)	2.8	-	9.8	19.9	0.4	(0.1)	1.4	0.8	0.8	
U.S. CHOICE	4/30/2005													
Epoch Gross Return		7.0	56.1	(1.4)	-	-	5.4	17.0	0.2	-	-	-	-	-
Epoch Net Return		6.8	54.8	(2.3)	-	-	4.5	-	-	-	-	-	-	-
Russell 3000		5.9	52.4	(4.0)	-	-	2.9	16.9	0.0	0.5	2.6	1.0	0.9	
INTERNATIONAL SMALL CAP	1/31/2005													
Epoch Gross Return		2.8	66.8	(5.7)	9.0	-	9.2	21.9	0.3	-	-	-	-	-
Epoch Net Return		2.5	65.2	(6.6)	7.9	-	8.1	-	-	-	-	-	-	-
S&P EPAC SmallCap Index		3.9	65.9	(7.9)	5.0	-	5.3	21.8	0.1	0.7	3.9	1.0	0.9	
MSCI World ex USA Small Cap (Net)		5.4	74.5	(7.3)	4.1	-	4.5	22.3	0.1	1.0	4.7	1.0	1.0	
GLOBAL SMALL CAP	12/31/2002													
Epoch Gross Return		4.3	55.5	(2.1)	7.0	-	12.5	15.3	0.7	-	-	-	-	-
Epoch Net Return		4.1	54.0	(3.1)	6.0	-	11.5	-	-	-	-	-	-	-
S&P Developed SmallCap Index		6.7	67.9	(5.6)	4.6	-	12.1	18.9	0.5	0.1	2.7	0.8	0.9	
MSCI World Small Cap (Net)		7.6	73.2	(4.8)	4.3	-	12.9	19.3	0.6	(0.1)	2.3	0.8	0.9	
GLOBAL CHOICE	9/30/2005													
Epoch Gross Return		3.5	48.6	0.7	-	-	9.2	17.1	0.4	-	-	-	-	-
Epoch Net Return		3.3	47.3	(0.1)	-	-	8.2	-	-	-	-	-	-	-
MSCI World (Net)		3.2	52.4	(5.4)	-	-	1.6	18.4	(0.1)	1.0	7.7	0.8	0.8	
GLOBAL ABSOLUTE RETURN	12/31/2001													
Epoch Gross Return		2.9	44.2	1.1	7.8	-	11.8	12.7	0.8	-	-	-	-	-
Epoch Net Return		2.5	42.0	(0.4)	6.2	-	10.1	-	-	-	-	-	-	-
S&P 500		5.4	49.8	(4.2)	1.9	-	2.2	15.5	(0.0)	1.0	10.2	0.6	0.6	
MSCI World (Net)		3.2	52.4	(5.4)	2.9	-	4.1	16.4	0.1	0.8	8.9	0.6	0.7	
Barclays Capital U.S. Aggregate		1.8	7.7	6.1	5.4	-	5.5	3.9	0.8	0.5	11.7	0.2	0.0	
GLOBAL EQUITY SHAREHOLDER YIELD	12/31/2005													
Epoch Gross Return		1.2	39.9	(2.8)	-	-	4.6	14.3	0.1	-	-	-	-	-
Epoch Net Return		1.0	38.8	(3.6)	-	-	3.8	-	-	-	-	-	-	-
S&P Developed BMI Index		3.9	56.6	(4.6)	-	-	1.8	19.5	(0.0)	0.4	3.0	0.7	0.9	
MSCI World (Net)		3.2	52.4	(5.4)	-	-	1.0	18.8	(0.1)	0.6	3.6	0.7	0.9	

See End Notes for important disclosure information. Past performance is not indicative of future results.

DISCLOSURE INFORMATION

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. U.S. All Cap Value is a value equity portfolio managed by Epoch for long-term appreciation through investment in large-, medium- and small-capitalization U.S. companies. U.S. Value is a value equity portfolio managed by Epoch for long-term appreciation through investment in large-capitalization U.S. companies. 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. U.S. Small Cap Value is a value equity portfolio managed by Epoch for long-term appreciation through investment in small-capitalization U.S. companies. U.S. Choice is a concentrated U.S. portfolio (typically consisting of approximately 20-25 securities) invested in businesses that reflect high conviction ideas of the Epoch Research Team. International Small Cap is a core equity portfolio managed by Epoch for long-term appreciation through investment in small-capitalization non-U.S. companies, with “small cap” defined as companies with market capitalization in the bottom 25% of the publicly traded companies in each country where the strategy is applied. Global Small Cap is a core equity portfolio managed by Epoch for long-term appreciation through investment in small-capitalization U.S. and non-U.S. companies. Global Choice is a concentrated global portfolio (typically consisting of approximately 20-35 securities) invested in businesses that reflect high conviction ideas of the Epoch Research Team. Global Absolute Return is a concentrated global portfolio (typically consisting of approximately 20-35 securities) invested in businesses that reflect high conviction ideas of the Epoch Research Team. Individual positions can be as high as 15% and cash is used aggressively to control loss exposure. The objective of this product is absolute positive return. Global Equity Shareholder Yield is a diversified portfolio of global equity securities with a history of attractive dividend yields and positive growth in free cash flow. The primary objective of this product is to seek a high level of income, with capital appreciation as a secondary investment objective.

3. Risk Statistics Source — The composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire period. 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, 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. 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. 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 December 31, 2009 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.

Composite	Creation Date	Current Benchmark	Previous Benchmark History
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. Small Cap Value	June 2004	Russell 2000; Russell 2000 Value	
U.S. SMID Cap Value	September 2006	Russell 2500; Russell 2500 Value	
U.S. Value	June 2004	Russell 1000; Russell 1000 Value	
U.S. Choice	May 2005	Russell 3000	
Global Small Cap	June 2004	MSCI World Small Cap (Net); S&P Developed SmallCap Index	Effective 7/1/2009, performance information for these composites is shown comparative to the MSCI World Small Cap (Net) respectively, on a current and retrospective basis. The benchmark previous to 7/1/2009 was the S&P Developed Small Cap Index.
International Small Cap	February 2005	MSCI World ex USA Small Cap (Net); S&P EPAC SmallCap	Effective 7/1/2009, performance information for these composites is shown comparative to the MSCI World ex-USA Small Cap (Net) respectively, on a current and retrospective basis. The benchmark previous to 7/1/2009 was the S&P EPAC Small Cap Index.
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 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 Equity Shareholder Yield	January 2006	MSCI World (Net); S&P Developed BMI	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.

¹The Bloomberg Financial Conditions Index combines yield spreads and indices from the money markets, equity markets, and bond markets into a normalized index. The values of this index are presented as z-scores, which represent the number of standard deviations from which current financial conditions surpass or lag the average of the 1992-June 2008 period.

²Paribas Bank could not meet redemption requests on a fund it managed, triggering a major liquidity injection into money markets first by the ECB and then a day later by the US Fed. 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.