

International Core Strategy

First Quarter 2012

Market Overview

International stock markets began the year in a positive fashion as equities rose in the first quarter of 2012. After an encouraging final quarter of 2011, investors continued their gradual move towards riskier assets such as equities during the period. Investors were encouraged by the improving outlook for the U.S. economy with the manufacturing sector in particular growing at a healthy pace and fueling an improvement on the jobs front. In addition, further efforts by central banks throughout the world to support economic growth along with the avoidance of a European debt collapse boosted investor confidence in the equity markets.

Market performance was positive across all the regions with Emerging Markets, Japan, Pacific ex Japan and Europe all registering double-digit percentage gains while North America (Canada) also had a positive return for the quarter. All sectors gained in the quarter with Consumer Discretionary, Information Technology, Financials and Industrials being the best performers. In addition, for the most part, currency movements helped returns for US dollar investors. The Canadian and Australian dollars benefitted from the better outlook for commodities, while the euro, British pound and the Swiss franc were stronger on the improved European debt outlook. The Mexican peso was one of the best performers as it benefited from an upturn in the U.S economy. Meanwhile the Japanese yen was the worst performing major currency as the Bank of Japan took steps to weaken the currency with the aim of stimulating exports and keeping the country out of recession.

Market Outlook

While the economic data has improved substantially since the third quarter of 2011, the global macroeconomic environment remains unsettled. Many of the issues that weighed on the markets in 2011 are still unresolved and are likely to resurface periodically over the course of this year. However, the anxiety about a significant global slowdown that peaked in the third quarter has been alleviated by more encouraging economic data out of the US and China. In Europe, after repeated false starts, policymakers finally seem to be making some progress toward containing the crisis, although increased liquidity – while helpful – is no substitute for much needed structural reform. Importantly, the success of the European Central Bank's long-term bank funding facility has dramatically reduced the "tail risk" that the sovereign debt crisis posed to the global recovery. In our view, the global recovery remains intact, although we expect it will continue to be below par and somewhat fragile. Against this backdrop, we expect periodic bouts of volatility in equity markets through much of 2012.

Within this context, emerging markets are likely to be a bright spot as growth prospects remain substantially better than in the more developed parts of the world. Unlike much of the developed world, levels of indebtedness at both the government and household level remain modest. In addition, slowing global growth has alleviated much of the inflationary pressure that posed a risk to many emerging economies at this time last year. This provides a better cyclical backdrop for economic growth, supported by improved long-term structural growth prospects and a freedom from the burdens carried by the developed economies as they continue to recover from the bursting of the credit bubble.

In Europe, the risk of a liquidity crisis leading to knock-on bank failures is for the most part off the table. In addition to the ECB's emergency bank lending facilities, substantial resources have been committed to provide troubled sovereign nations much-needed breathing room via the soon-to-be-combined European Financial Stability Facility and the European Stability Mechanism. However, structural weaknesses in the peripheral economies remain, and the reform and adjustment required to put these countries on a path to sustainable growth will take many years. We believe that given the complex political dynamics in Europe, this will continue to be a bumpy process that will contribute to below trend growth for the region as a whole.

We also expect that politics will play an important role in many parts of the world in 2012. With presidential elections in the US, France and Russia and a transition in leadership in China, 2012 could bring some significant political changes to the world. In addition, as we saw during the US debt ceiling debate and as we continue to see in Europe, economic realities and political practicalities are rarely in perfect alignment. This less-than-certain global political landscape will provide additional challenges for investors, making local market insight increasingly important.

In this volatile environment, we will continue to seek high quality businesses that have strong balance sheets and are well managed. We believe these companies will be well positioned to provide positive returns for investors over the long-term.

Thank you for the opportunity to discuss our outlook for the international equity markets and for your continued trust and support.

Hansberger Global Investors, Inc.

Unless otherwise noted, all returns cited above are expressed in U.S. dollars.

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