

International Growth 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 environment, we continue to seek high quality names with good secular growth potential, as we believe that these companies will be well positioned to provide positive returns for investors over the long-term. We also favor companies with a competitive advantage and pricing power since the long-term solution to the sovereign debt issues is likely to include a looser monetary policy stance, potentially leading to higher inflation. As always, we remain focused on company specific opportunities and overall portfolio positioning is reflective of those individual decisions in the context of our overall macro, sector, and regional risk controls.

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.

The commentary reflects the opinions of the Growth Team of Hansberger Global Investors, Inc. (HGI), and has been developed from sources that HGI believes reliable. MSCI index weights and characteristics calculated by HGI are based on index constituent data. HGI does not guarantee the accuracy or completeness of such information. This economic overview is provided for informational purposes only and is not meant as investment advice. There is no assurance that any predictions or projections will occur. This material is dated as indicated, and opinions and viewpoints may change as economic conditions change.

This portfolio is actively managed and holdings are subject to change. Past performance is no guarantee of future results. The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that the securities discussed herein will remain in the account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent all of the securities purchased, sold, or recommended for advisory clients or an account's entire portfolio, and in the aggregate may represent only a small percentage of an account's portfolio holdings.

Risks: Investing in foreign securities, including emerging markets, involves risks not associated with domestic securities, such as currency fluctuations, differing political and economic conditions, and different accounting standards. Emerging markets may be more likely to experience political turmoil or rapid changes in market or economic conditions than more developed countries. In addition, the financial stability of issuers (including governments) in emerging market countries may be more precarious than in other countries. As a result, there will tend to be an increased risk of price volatility in a Fund's investments in securities of issuers organized or located in emerging market countries, which may be magnified by currency fluctuations relative to the U.S. dollar.