

INTERNATIONAL MARKET REVIEW AND OUTLOOK

MARKET OVERVIEW

The international equity markets bounced back during the fourth quarter although still ended the year in the red. The U.S. equity markets also ended on a positive note with a strong reaction to positive U.S. economic data in the quarter. The MSCI EAFE finished the year down -12.1% while the S&P 500 managed a modest gain, rising 2.1% for the year.

THE GLOBAL ECONOMY

GLOBAL SUMMARY

Global growth is likely to come in close to 3.8% for 2011, masking a significant decline in global economic growth in the second half of the year compared to the first half. The intensification of the Eurozone financial crisis together with fiscal tightening measures is likely to lead to a renewed recession in the Eurozone beginning in the fourth quarter of 2011 or early in 2012. While economic data in the U.S. surprised to the upside in the latter parts of the fourth quarter, significant fiscal restraint at the federal and state level along with continued high levels of unemployment is likely to continue hindering economic growth in the U.S. in the near term. Emerging markets and Asia have also not been immune to slowing global economic conditions. As global trade slows, so does economic growth in economies tied to it, including Brazil, China, Singapore, and Japan. Commodity markets bounced back during the quarter led by a strong rally in oil prices. Significant disruptions in Libyan oil output, concerns over additional disruption from the "Arab Spring" as well as renewed concerns over Iran and Nigeria placed a bid on oil prices late in the quarter. For the most part, the commodity country currencies rallied back in the quarter with higher commodity prices and better economic data out of the U.S. Time will tell what the contagion effect the European crisis will have on the global economy. The OECD slashed projections for economic growth for 2012 taking projections for U.S. growth down significantly to 1.8% while projecting the Eurozone economies to barely grow in the new year. In addition, the OECD

warned that advanced economies were looking at two years of weak growth. It also projected that debt levels would continue to rise in the developed world with key estimates of debt to GDP to reach 108.7% in the U.S., 97.6% in the Eurozone, and 227.6% in Japan over the next two years.

JAPAN / ASIA

Eurozone problems as well as slowing Chinese economic growth are likely to keep exports weak in Japan for the near term. Yet, continued reconstruction spending from the tsunami in the Spring of 2011 and manufacturing facilities coming back on stream may provide somewhat of a buffer for Japanese economic growth in 2012. Deflation has crept back into the economy in the fourth quarter. Core CPI is likely to stay in a mild deflation/inflation range as global growth expectations keep a lid on demand and as some supply comes back into the market. The yen was the strongest major currency in the world during 2011 providing significant pain to the Japanese export sector. The Japanese government intervened in the currency market during the fourth quarter in what some believed were record amounts of yen sold in one day by the central bank. As is customary with central bank currency interventions, the yen depreciated significantly in the days following the intervention but has recovered somewhat since then. The yen is critical as the Japanese economy is export-led and as neighboring currencies, most importantly the Korean Won, depreciated for the year providing additional competition

to Japanese companies in the global marketplace.

EUROPE

It is hard to put into words the continuing saga surrounding the financial crisis in Europe. However, it appears the contagion is spreading even to Germany, evidenced by a weak German bond auction in the quarter together with higher German rates. This may have proven to be the final straw that got European leaders, and most importantly Angela Merkel, focused on finding lasting solutions rather than band-aid approaches.

Central banks in the E.U. remain concerned about recent economic data. Under the new leadership of Mario Draghi, the European Central Bank (ECB) cut interest rates by 25bps in November, reversing the trend of his predecessor. Bank of England Governor Sir Mervyn King continued the U.K.'s quantitative easing in the quarter, signaling that "inflation is more likely to be below than above target" over the next two years, hence providing additional room for continued monetary stimulus in 2012. Germany's central bank, the Bundesbank, sharply lowered German growth expectations for 2012 to 0.5%-1.0% as it perceives continued elevated global economic risks will affect German growth. Some market participants expect a more severe contraction in Eurozone economic growth in 2012 and given current valuations, markets already appear to be pricing in an average recession in Europe.

THE GLOBAL ECONOMY *Continued from page 1.*

The euro has also begun to take the brunt of higher risk to the region as it closed the year below 1.30 to the dollar after appreciating to over 1.40 in late October.

Although some recent economic growth in Germany showed better than expected IFO business and GfK confidence numbers, the rating agencies have placed the major Eurozone economies under negative watch with most expecting downgrades to be announced in the first quarter of 2012. On the back of continued financial stress on the area's banks and sovereign issuances, the ECB announced new important measures in December that appeared to calm the markets. These included a new unlimited 36-month credit line to Eurozone banks, reduction of reserve requirements, and allowing a wider pool of assets as collateral for ECB loans. Eurozone banks rushed to tap the new loan facility with more than 500 banks tapping close to €500bn of ECB loans in the new 36-month program. This provides significant

liquidity to the system and will be followed by an additional program in February.

Yet, risks in the Eurozone are not over and are likely to remain elevated. Significant sovereign and bank debt issuance in 2012, bank capital raises, high interest rates, Greek and French elections, rating agency decisions as well as continued soft economic growth point to continued volatility for the region in the first half of the year and provides a backdrop for higher than normal equity price volatility going forward.

EMERGING MARKETS

Emerging economies began to feel the effects of softening commodity prices and global trade. All eyes continue to be on China with its third quarter GDP coming in at 9.1%, although most analysts expect a mid-8% print for Q4 economic growth. Yet, signs of asset outflows and the beginning of declining housing prices in China after two years of government housing austerity

measures did begin to soften the stance of the authorities providing room to lower the reserve requirement. In addition, contracting manufacturing PMI figures in China in the fourth quarter are of concern to global growth. Lower food price inflation led to lower overall inflation in the final months of the year, touching 4.2%, hence giving the central bank room to provide some monetary stimulus in 2012. Chinese economic growth is likely to be lower in 2012 than 2011 but most expect a soft landing. In contrast to China, inflation appears to be a problem in Turkey and India leading to significant depreciation in the lira and rupee during the quarter. Soft economic conditions are also apparent in Brazil and Taiwan with GDP growth stalling in the third quarter while the financial travails of Hungary were resurrected. Although there are some smaller standout performers including Indonesia and the Philippines, emerging economies continue to be tied to the fortunes of their developed market trading partners.

POLITICAL INFLUENCES

The Arab Spring maintained its momentum with events in Syria and Egypt dominating. Iran's hard line stance also provided significant risk to not only oil price surges but geopolitical complications that led to additional measures against the country from the U.S. and Europe. To the North, Russia's political landscape significantly changed with Vladimir Putin's United Russia party being dealt a blow in the latest parliamentary elections "only" garnering 49.5% of the vote compared to the 2007 tally of 64.3%. Demonstrators rallied against purported corruption during the election and Russian equity markets felt the effects. This outcome places unknown risk to the March

presidential elections and the political future for the country.

Southern European leaders felt the effect of high unemployment, austerity measures, and mismanagements of their economies as leaders were voted out in Greece, Italy, and Spain. In Greece, former ECB Vice President Lucas Papademos took the helm as its prime minister as new elections loom in 2012. Although Berlusconi narrowly survived a confidence vote in Italy, he subsequently resigned after parliament approved some of the fiscal reforms demanded by the E.U. New Prime Minister Mario Monti has been dealt a very difficult deck of cards.

Popular elections in Spain placed the conservatives back in power with new leader Mariano Rajoy taking over in a country hobbled by 21% unemployment and the aftershocks of a burst in the housing bubble.

STOCK AND PORTFOLIO HIGHLIGHTS

A rally in the MSCI EAFE in October was followed by a significant selloff in the first three weeks of November only to be followed by a sharp bounce into late November and early December with a more muted performance for the rest of December. Markets have become accustomed and weary of these sharp reversals in the equity markets. Hope of a Greek deal and supposed fixes to the European debt crisis in October were met with more skepticism and weaker global economic data in November. The demise of John Corzine's MF Global led to the eighth largest bankruptcy in U.S. history as ill-timed bets proved too much for this ex-Goldman executive and ex-governor of New Jersey. The markets worried about a potential "Lehman event" in November and contagion from MF Global while European leaders did what they have done best by "kicking the can down the road". The failed German bond auction and higher French interest rates finally do appear to have cornered Merkel into action. Although recession is still the likely outcome in the Eurozone, tighter fiscal integration (even without U.K. support) and significantly increased liquidity measures will help support the region. Chinese data also spooked some market participants as soft housing and PMI figures overshadowed better inflation results. Improving near term results in the U.S., including better than expected ISM and consumer confidence, gave the market some relief in December but all eyes are focused on Europe in the new year.

Currency moves did not affect the performance of the EAFE benchmark much this year while styles differed slightly. Large caps outperformed for the quarter and year while growth and value performed similarly during the year after a small comeback from growth in the fourth quarter. The best performing EAFE markets for the quarter were Ireland, Norway, and the U.K. while the worst were Greece, Portugal, and Austria. Year to date the best performing EAFE markets were New Zealand, Ireland, and the U.K. while the worst were Greece, Austria, and Finland. In the emerging markets, the best performing for the quarter were Peru, Malaysia, and Thailand while the worst were Turkey, India, and Egypt. For the year, the best performing emerging market countries were Indonesia, Malaysia, and the Philippines while the worst were Egypt, India, and Turkey.

OUTPERFORMERS

The Eagle portfolios significantly outperformed the EAFE benchmark for the quarter, benefitting from great stock selection, despite elevated cash levels in the portfolio. From a country standpoint, being underweight to an underperforming Japan as well as good stock selection there highlighted Japan as the best country bet during the quarter. Good selection was also apparent in Singapore and France. From a sector allocation standpoint, the two largest underweights in the portfolio, Financials and Utilities, were also two of the three underperforming sectors in the EAFE benchmark hence providing good sector allocation overall. Stock selection was positive in all sectors except one. Significant outperformance occurred in stock selection in Industrials and Staples. From a total effect of both allocation and selection, Industrials, Financials, Staples, and Energy all provided significant positive alpha for the portfolio. Underweights in Financials and more specifically to European financials continued to be an appropriate positioning of the portfolio. The large weight in a Singapore rig company provided good results with a big outperformance in the stock due to a fast rising backlog of orders. In Staples, a large overweight to tobacco provided positive alpha as the industry's stable and predictable cash flows provided comfort to investors.

DISAPPOINTMENTS

The largest drags to the portfolio during the quarter appeared to be more top down and a few company-specific issues. The larger than normal cash weight in the portfolio weighed on results as the EAFE index rose for the quarter. A large underweight to Australia also hurt performance as some commodity prices bounced back during the quarter. A holding in a Japanese insurance company disappointed as changes in accounting due to changes in tax rates significantly affected near term reported earnings. A Dutch telecom company also disappointed as increased risks of a new entrant, dividend cuts from other European telecoms and potentially higher capex needs from new infrastructure and spectrum auction in 2012 dented the stock's performance.

PURCHASES / ADDITIONS IN THE QUARTER

BAE Systems PLC (BAESY): SECTOR: Industrials; COUNTRY: U.K.: This U.K. defense company stock has been battered due to concerns over global defense spending cuts. With a strong balance sheet, 7% dividend yield and low historical valuation, the stock appears priced for too negative a scenario and hence provided a good entry point.

National Grid PLC (NGG): SECTOR: Utilities; COUNTRY: U.K.: A strong and growing dividend provides good support to this U.K. based regulated electricity and gas transmission and distribution company. Trading at multiples to regulated asset bases below peer water companies and recent M&A transactions, this safe cash flow provided good safety to the portfolio.

Nippon Telegraph & Telephone (NTT) SECTOR: Telecom Services; COUNTRY: Japan: Japan's largest telecom provides good defensive cash flows and dividend growth at a time of soft Japanese and global economic growth. Cost reductions due to declining capex levels may provide significant room for continued share buybacks and dividend growth.

Roche Holding Ltd (RHHBY): SECTOR: Health Care; COUNTRY: Switzerland: Roche offers a more robust pipeline and more limited patent expiration profile than its European peers. Significant positive news flow potential into 2012 could support the stock price as its peers feel the effects of generics.

Royal Dutch Shell PLC (RDS.A): SECTOR: Energy; COUNTRY: UK: RDS is seeing the fruits of a lengthy and expensive exploration and restructuring program that is leading to higher returns for the international integrated oil group.

Royal KPN (KKPNY): SECTOR: Telecom Services; COUNTRY: Netherlands: An attractive valuation and high dividend yield enticed us to add to this position at a time of significant volatility in the equity markets.

Sanofi (SNY): SECTOR: Health Care; COUNTRY: France: Benefiting from an accretive acquisition of Genzyme as well as a robust position in vaccines, diabetes treatment / care, and emerging markets, Sanofi is likely to benefit from investor attention to its growth potential starting in 2013.

SALES / TRIMS IN THE QUARTER

Focus Media (FMCN): SECTOR: Emerging Markets; COUNTRY: China: After trimming the position in half in the third quarter, we decided to exit in whole as some news and short sale research created negative overhang on the stock for the foreseeable future.

Infineon Technologies (IFNNY): SECTOR: Technology; COUNTRY: Germany: We became concerned about continuing profit warnings as the stock has significant operating leverage to a slowing European economy and auto environment.

Precision Drilling (PDS): SECTOR: Energy; COUNTRY: Canada: After a strong bounce back in the stock from recent weakness as well as concerns over the company's aggressive capex plans and overspending cash flow, we

decided to exit the position in order to reduce the beta of our energy holdings.

Sony Corp (SNE): SECTOR: Consumer Discretionary; COUNTRY: Japan: Significant large write-offs, worsening TV demand and trends, 3DS pricing concerns, as well as worries over damage to the brands from its massive data breach alerted us to redeploy assets to more attractive opportunities.

UBS AG (UBS): SECTOR: Financials; COUNTRY: Switzerland: New regulation and a low interest rate environment are placing significant pressure on key businesses of wealth management and investment banking. UBS shows little progress in cost cuts to compensate for worsening revenue trends.

Vale SA (VALEP): SECTOR: Emerging Markets; COUNTRY: Brazil: Continued corporate governance issues as the government in Brazil increases its influence on the company, worrying increasing capex trends, as well as declining iron ore prices, led us to trim our position in Vale.

Volvo AB (VOLVY): SECTOR: Industrials; COUNTRY: Sweden: A worsening economic backdrop and estimated significant drop in truck demand in 2012, led us to trim this high fixed asset cyclical business and redeploy into more defensive assets.