



Global Equity Income Fund

Portfolio Manager Commentary as of 12/31/11

QUARTERLY REVIEW

The Fund's performance during the fourth quarter 2011 was 9.28% on net asset value (NAV) basis while the return of the MSCI World Index with net dividends reinvested (the "benchmark") and that of the MSCI World Value Index with net dividends reinvested were 7.74% and 7.79, respectively. For the entire year of 2011, the Fund managed to gain 0.42% while the benchmark's and that of the MSCI World Value Index with net dividends reinvested fell by 4.98% and 4.88, respectively.

Christmas rallies sealed a solid close to an otherwise lackluster year for the global equity markets. North America as a region returned 10.9% and -0.1% for the quarter and 2011, respectively. Europe saw the return for the quarter to 5.4% and for 2011 to an ignominious -11.1%. The Euro-zone sank a much sharper 16.5% with a precipitous 26.1% decline for the second half of 2011, especially in the July–September quarter. Countries outside of the Euro-zone suffered a somewhat milder setback for the year. The U.K. and Switzerland fell 2.6% and 6.8%, respectively. The Pacific Basin excluding Japan region finished at the bottom of the developed world for the year with a 12.8% decline, despite a 6.0% advance for the final quarter. Japan suffered another dismal year, posting a significant downturn of -14.4%, with a fall of -3.9% for the fourth quarter when the vast majority of markets posted positive returns. Emerging markets suffered an even worse ordeal with a 18.4% decline for 2011, despite a 4.4% advance for the quarter. (All performance figures are based on MSCI indices in U.S. dollar terms with dividends included unless otherwise stated.)

Having started with a relatively strong tone, 2011 turned out to be a more volatile than usual, alternating rapidly between "risk on" and "risk off" moments, leaving it at the mercy of macro events mostly in Europe. Various assets as well as securities moved in tandem, especially in the latter half of the year. 2011 proved to be the year that shares with qualities such as low beta and dividends prevailed. In North America, for example, the Utilities sector led the market with a 18.1% gain, followed by Consumer Staples and Healthcare that returned 12.4% and 12.1%, respectively. Telecommunications and Consumer Discretionary stocks returned 4.5% and 3.4%, respectively, but the former was almost entirely attributed to dividend returns. The sectors that weighed on the market turned out to be Materials, down 15.3%, and Financials, which sank 15.0%. Similar trends were also observed in Europe and Pacific Basin, too.

The Fund maintained its high equity ratio, taking advantage of highly volatile market situation by accumulating undervalued stocks on dips. At the end of December, the Fund's equity portfolio consists of 136 common stocks, American Depository Receipts (ADRs) and Real Estate Investment Trusts (REITs). The Fund continued to its underweight position in North America and Japan, while maintaining its overweight position in Europe and Asia except Japan during the quarter.



The Fund's investment objective is to seek current income and long-term capital appreciation through a globally diversified stock portfolio that provides above-average price stability. To meet the Fund's investment objectives, the portfolio maintained its overweight position in sectors such as Consumer Staples, Telecommunications, Healthcare and Utilities, albeit to lesser degree than the previous quarter. The Fund took advantage of the current market volatility to increase its exposure to attractively valued stocks mainly among Information Technology and Materials names.

MARKET OUTLOOK

The U.S. economy continues to deliver economic data that have surpassed low expectations at a time when Europe has almost certainly entered a mild recession. The favorable trend is especially clear in the labor market where a steady decline in initial jobless claims has been apparent every week. This could be considered a 'decoupling' from Europe. While emerging markets have already demonstrated the futility of subscribing to a decoupling theory, the U.S. apparently belongs to a different league, being a vast and relatively insulated economy that can stand on its own feet, distinctly different from those countries that are excessively dependent on American consumers. With household balance sheets undergoing basic repair, the return of some confidence to American consumers is certainly to help revive economic activity in their own economy, as well as feeding those who export goods to them. After all, the Euro-zone represents a modest 10% of U.S. export trade, and what happens on the other side of the Atlantic these days does not matter quite as much as the headlines might suggest.

Europe will certainly remain mired in a period of low economic growth for years to come. The question for the global economy and the financial markets is whether or not Europe becomes too much of a distraction to the global economy. In spite of high economic growth rates on the surface, China seems to be struggling in the aftermath of a credit boom in 2008-09 that bailed out not only its own economy but the developed world's too following the collapse of Lehman Brothers. While the Federal government's indebtedness and Washington's inability to tackle it remains a serious problem, the rest of the U.S. economy is slowly regaining health. There is no doubt that the global economy and the financial markets will be unable to repeat the same robust performance this decade that marked the first ten years of this century, but the outlook is unlikely to be as grim as some are suggesting despite the inevitable bumps.

Meanwhile, our overall portfolio strategy for the year of 2012 remains largely unchanged. The Fund's basic investment philosophy is to seek to invest in attractively valued stocks from dividend yield perspective that have solid dividend payment track record and prospects of dividend growth into the foreseeable future. Also, we consider adding our exposure to stocks that have relatively stronger prospects for their dividends growth in more cyclical sectors such as Materials and Consumer Discretionary, including those in the emerging countries. The Fund fully deploys the bottom-up research capability of Nomura Asset Management's global research capability to find undervalued quality stocks that should reflect their true values in the long run.



As for regional allocation that we identify as a consequence of individual stock selection, we continue to take overweight positions in Europe and in Asia ex Japan. Despite its prevailing sovereign debt concerns, we can still identify European large cap multinationals attractively valued with long-term earnings growth prospects in emerging economies. In order to fund those regions' overweight positions, we remain underweight in North America and in Japan for the time being.

	MSCI World Index December 31, 2011	Fund Strategy
North America	56.81%	-12.0%
Europe	28.42%	+4.0%
Japan	9.11%	-3.3%
Asia ex Japan	5.63%	+6.1%

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The MSCI World Index is an unmanaged free float-adjusted market capitalization weighted index that measures the equity market performance of developed markets. One cannot invest directly in an index.

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