Research and Experience Driven

Starting as a research firm 40 years ago, Wright Investors' Service considers research and analysis to be the cornerstones of its investment process. The fund has its own definition of what a blue chip company is. To qualify for that label and to make it to Wright Approved Investment List, a company has to meet 32 standards of investment quality.

Q: ***What is the investment philosophy of Wright International Blue Chip fund?***

A: In a nutshell, our philosophy is based on the belief that the markets are not always efficient and this inefficiency creates opportunities for investment. For us, the right way to capture that opportunity is through a disciplined investment process, which incorporates both quantitative research based on fundamentals and qualitative elements that allow us to identify companies of above-average return potential.

The Worldscope database is the foundation of our research and is embedded in our philosophy across all the product lines we have. Wright Investors was founded 40 years ago as a research firm and later started the investment management business. In the 80s, we launched different mutual funds and at the end of the decade we started to consider investing outside the US. So, we started collecting data from the bottom up and it took a life of its own. Very soon we had offices in Ireland, India, and were collecting data in Korea, Mexico, the Philippines, etc.

Q: ***Would you explain your investment process?***

A: Our primary objective is to beat the benchmark by about 200 basis points over a market cycle. This might not seem like a large number, but it is extremely difficult to achieve it consistently. To do that, we manage the risk around the benchmark and we don't take big bets that result in volatile returns. We build the portfolios with very specific target characteristics and we aim to control and quantify the amount of portfolio risks we are taking.

So our process starts with the benchmark, which is the Morgan Stanley World ex-US index. The only difference between that index and EAFE, the Europe, Australia, and Far East Index, is Canada, which is an investment market for us and is not included in the EAFE index. The second step is creating multi-factor ranks in a quantitative process. We use fundamental data to create a rank for each of the securities in our universe. The third step is optimization and qualitative analysis. In the final stage we create the portfolios. We model and rebalance the portfolio periodically to

Wright International Blue Chip Equities

Fund Facts

Symbol	WIBCX
Website	www.wisi.com
Address	Wright Investors Service 440 Wheelers Farm Road Milford, CT 06460
Tel. No.	800-888-9471
Inception	09/14/1989

Portfolio

Total Net Assets *	$ 88.0
Avg Mkt Cap ($ Weighted) *	$ 32,000
Average Price/Earnings Ratio	13.4
Average Price/Book Ratio	2.4
Turnover Ratio	121 %

Investment Information

New Investment	Open
Min Initial Investment	$ 1,000
Min Subsequent Investment	$ 0
Min Initial IRA Investment	$ 0

Risk (Against MSCI EAFE IX ND - 3 Years)

Alpha	0.07
Beta	0.94
R-Squared	0.93
Ann Std Deviation	11.29
Sharpe Ratio	1.81

Returns vs. Lipper International Fund Index

	WIBCX	Index
1 Year (Cum.)	32.80 %	26.32 %
3 Year (Ann.)	23.98 %	23.84 %
5 Year (Ann.)	1.29 %	3.51 %

Returns vs. MSCI EAFE IX ND

	WIBCX	Index
1 Year (Cum.)	32.80 %	25.79 %
3 Year (Ann.)	23.98 %	24.61 %
5 Year (Ann.)	1.29 %	3.16 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee**	2.00 %
Total Expense Ratio	1.72 %

Portfolio Manager

Amit S. Khandwala - Lead PM	March-2005

** millions* *** 3 months after purchase*

Data through: 09/30/05

Source: Company Documents; Lipper

Q&A TICKER's Choice

make sure that it continues to exhibit the desired characteristics and that we are within the desired tracking error.

Q: ***What is considered blue chip in the various international markets?***

A: By our definition, blue chips are the selected securities, which are part of the Wright Aapproved Investment List. If EAFE has 1100-1200 names, we would only include those securities that meet our 32 standards of quality and we would only buy from that list. There are about 500 companies that make it into the approved investment list for international exposure. Globally, we have about 1100 companies on that list.

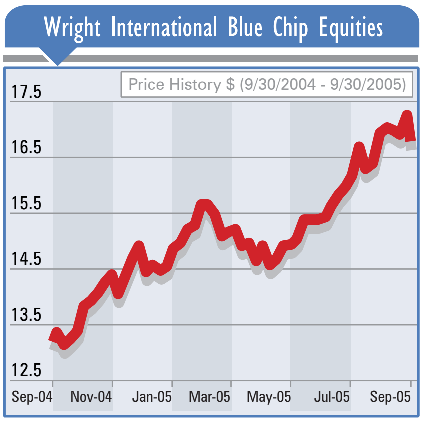
Q: ***What are the criteria that these companies have to meet?***

A: We have our own proprietary quality ratings, which incorporate 32 different standards in four main categories. We look at market acceptance, or how liquid a stock is. The second category is financial strength and the third one is profitability and how stable the profit stream is. The final category is growth not only of earnings, but also of dividends, cash earnings etc. These 32 standards come down to an alphanumeric quality rating. For example, IBM is AAA 20, which is the highest quality rating for a company.

We believe that this approach adds a lot of value to the process. We have created the world's largest database, incorporating companies from different markets and accounting standards. We initially worked with a Princeton based professor and later with enhancements created a template that allows more robust cross-country comparisons. To a certain extent, we can compare an insurance company in Spain and an insurance company in UK.

Our qualitative ratings are not only customized at the country level, but also at the sector level. This allows us to asses the financial strength of a bank differently than say an insurance company.

We also look at a measure of the return on equity. All things being equal, we feel that consistency and profitability are critical for long-term returns. We rate this profitability measure to the company's intrinsic value. This is not just a standard return on equity number, but earnings that have been adjusted for credit and charges based on the footnotes. We collect footnotes on companies and adjusting the financials going back to the 80s because we feel that they carry more information. We have a policy to adjust and penalize the company for charges and reward it for credit, depending on the corporate action. Then we relate the return on equity to the firm's intrinsic value to assess if that company is trading at a discount relative to its own profitability.



Another metric that we look at is earnings momentum. Although projected earnings have historically been a good guide, they have not worked that well in the recent past. That is why we put greater emphasis on historic earnings as an indicator of the management's ability to provide better earnings in the future. We take away the noise of analysts being too optimistic or pessimistic and simply rely on the company's own track record. After the Regulation FD we have found that the volatility of earnings has gone up quite a bit. The Fair Disclosure Regulation leveled the playing field and we feel that our quantitative and systematic method of analyzing earnings clearly helps.

Once we have assigned a rank for each of the securities, we confirm the attractiveness of the rank. For example, a pharmaceutical company may look very attractive based on valuation, but it may be distressed because of a political or a patent issue or a legal suit. Hence our process uses a combination of quantitative securities research and the knowledge and experience of our investment team.

Q: ***What is the distribution of these 500 companies by regions?***

A: They generally fall along the market cap of the index. The UK, the Euro zone, and Japan would constitute the majority of the securities primarily because of the quality requirements. UK is much closer to the US accounting standards and these companies are financially stronger and quite liquid. But the list is very diversified. We have substantial coverage of mid-cap and small-cap companies, avoiding only the very small-cap ones. Our approved list is not a cap-weighted index; it gives a broad exposure to various sectors and countries.

Q: ***You have a very standardized approach of collecting and processing the data for the quantitative part of research. When covering so many different regions, how do you handle the qualitative aspect, which requires some traveling or at least phone interaction?***

A: Interaction with the management is an important part of our process. You will be amazed to learn how many management teams from non-US markets come to the US. Our analysts do web casts, conference calls, or personal meetings in our office. The focus of such meetings is not company-specific information, but understanding the key points that drive the company and the sector and see if there are advantages from a broader sector perspective.

We have four analysts and they have research responsibilities on a global sector basis. Clearly, analyzing the 35,000 companies in our database is an impossible task even if we had

100s of analysts. Our way to add value is not by telling where the next Microsoft is going to come from. We instead focus on companies with a record of creating consistent value for the shareholders and void of any financial noise. We want to create a portfolio that not only emphasizes those quality characteristics, but also manages the risk of uncertainty via diversification.

Q: ***Do you use the arbitrage between ADRs and the local market pricing?***

A: Absolutely. Back in 1990, I wrote a paper in the Journal of Portfolio Management, analyzing the impact of the ADRs vs. the local shares on an investor's portfolio. That was the basis on which we felt comfortable creating our first ADR portfolio. The Wright International Blue Chip Fund invests in a combination of ADRs and underlying securities, although about 95% of them are in underlying securities.

Q: ***Do you consider long-term macro trends or you prefer to stick to next few quarters? For example, in the 1990s Mexico was supposed to be the big beneficiary of NAFTA and 12 years later, China and South East Asia are running the show despite Mexico's proximity to the US. Now India is slowly catching up with its economic reforms. How important are such trends in your process?***

A: We consider the broad market as well as short-term trends. We used to own companies like Infosys within the portfolio because we felt that the advantage on the software side was clearly something that would be beneficial to the Indian companies. We ran a pure Mexico Fund, so we are quite familiar with the Mexican market. In our experience, each market exhibits its own strengths and weaknesses. For example, the cheaper wages in India and China has allowed their corporations to benefit disproportionately.

You have to focus on companies with competitive advantage, irrespective of where they're located. Therefore, our focus on global sectors makes a lot of sense.

> *"Our way to add value is not by telling where the next Microsoft is going to come from. We manage the process of finding companies with good, steady streams of growing value for the shareholders and making sure that it's not just financial noise."*

about **Amit S. Khandwala**

Amit S. Khandwala

Executive Vice President, Chief Investment Officer - Equity Management.

Mr. Khandwala received a BS in Economics, Accounting, International Business and Computers from the University of Bombay, India, and an MBA in Investments, Corporate Finance, International Finance & International Marketing from the University of Hartford. Mr. Khandwala has overall responsibility for US and International equity management including the direction and implementation of quantitative equities research. Additionally, he is the portfolio manager for Wright's International products. Mr. Khandwala has been published in the Journal of Portfolio Management and has been involved in conducting empirical research in finance. He was also responsible for the management of 21 single country and regional funds domiciled in US and in Luxembourg. He is a member of the New York Society of Security Analysts. Mr. Khandwala joined Wright in 1986. Investment experience: 19 years.

Q: ***Could you explain your portfolio construction in terms of risk controls, buy and sell discipline? When do you reduce the holdings and why?***

A: The International Blue Chip fund that we manage has 125 names. We don't take more than 5% bet in any company and we manage our sector exposure much more astutely. We are usually exposed to almost all sectors. We stay away from big sector bets, but we may take bets in the industry groups underneath. For example, while we may be neutral on healthcare, we may overweight the pharmaceutical companies versus the medical-technology companies. The country bet is relatively wider, but is also managed and I have a currency exposure in almost all the major currencies.

The risk control is implemented mainly through an optimizer that helps manage the idiosyncratic risk in our portfolio. The optimizer not only allows managing the risk-return trade off, but more importantly, it allows us to clarify and compare the expectations about our researched alpha-generators. We want the portfolio to exhibit better value relative to the benchmark and to reflect better historical earnings growth relative to the benchmark. We also don't take significant style bets. If we are providing a client with a large-cap core product, that's exactly what they are getting. Within our sell discipline, we assess if rankings are deteriorating, what are the reasons, is there a better opportunity in the same class.

Our Fund, with a record spanning 16 years, has one of the longest tenure among international equity funds. Our philosophy of simply investing equally among fundamentally sound companies has evolved to include risk management. Now we are managing the whole process in a very disciplined way, focusing on stock selection, but also managing the risk. ▮

TICKER Staff