

Seeking Returns Globally

Yields on bonds may vary from country to country reflecting local economic growth and macro economic fundamentals of the country or the region. Investing globally in bonds requires an understanding of global economic currents, fund flows and currency dynamics. Don Quigley, co-portfolio manager of the Julius Baer Total Return Bond Fund, leverages these factors to enhance returns.

Q: What is your investment philosophy?

A: We are trying to find opportunities around the globe. One of the things that we do differently than a lot of other fixed income managers is we break down the world into sectors. The U.S. is our core market and our weightings there can be from 100% to 60%, but our natural habitat is around 80%. Beyond this core market, we break down the world as major markets, satellite markets, low correlation, convergence and commodity.

For the major markets, we'll be talking about the Eurozone region, UK, Japan and Australia. The satellites are Canada, as a satellite to the U.S., then Sweden and Switzerland as satellites to Europe and New Zealand would be a satellite of Australia.

For us, Iceland and Mexico have been low correlation markets. These are countries that are trading on what is happening in their local economies. Even when the major markets will move lower, these markets may actually go up. The convergence sector would be countries like Hungary, Poland, and Czechoslovakia. They are participating in the EU and are looking at converging over time to the Euro zone. The commodity markets, to name a few, are Russia, South Africa and Norway.

Q: What kind of investment strategy do you follow in these different sectors?

A: In our core market we follow more of a sector rotation strategy. We are not big duration players. We can stay within a range of 1 year of our index, which is the Lehman Brothers Aggregate Bond Index. We believe we can add more value just by moving within the various sectors.

Q: Which are the major sectors for the core bond market?

A: The major bond sectors of the U.S. market are bonds from the U.S. treasury, agencies of the U.S. Government, corporate and mortgage bonds. We are more of a macro driven fund so we move our weightings around in those sectors when we think there is an advantage. It's rarely a short-term trade. Usually it is driven by where we are in the economic cycle.

Q: What's your investment strategy for your markets beyond the core market?

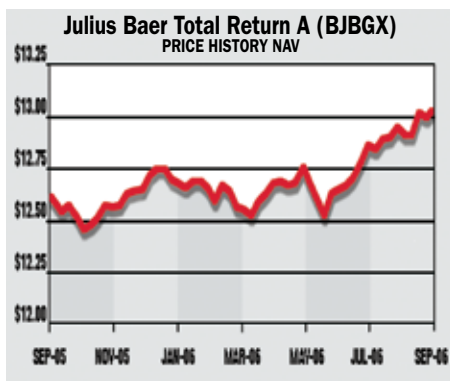
A: Let's start with the Eurozone as an example. You are looking at completely different yield curve and a different central bank from the U.S. The Euro is a very liquid currency and commercial and financial traders like this. We think that Euro is a good diversifier in



DONALD QUIGLEY serves as Co-Portfolio Manager of the Julius Baer Total Return Bond Fund and is a First Vice President of Julius Baer Investment Management LLC (JBIM). Mr. Quigley joined Julius Baer in 2001 after his tenure at Chase Asset Management where he served as portfolio manager of U.S. fixed income for more than seven years. Previously, he spent six years with Met Life Insurance Company as a U.S. Fixed Income trader.

Mr. Quigley earned an MBA in Finance from Fordham University and a Bachelor of Science degree in Finance from Boston University. He is a Chartered Financial Analyst.

“Beyond the core U.S. market, we break down the world as major markets, satellite markets, low correlation, convergence and commodity. We are a macro-driven fund and seek to take advantage of various bond yields around the globe.”



the longer term. When we are looking at major markets, we study all the macroeconomic fundamentals. That means not just monetary but also fiscal policy within the various governments, trying to figure out which way that economy is heading. We look at central banks policies in the past and which way they are leaning in the future as well as what our expectations are for the macro economic environment of each region or country. That leads us to our next decision, how do we effectively invest in a foreign bond market. There are two reasons we will like the bonds in a foreign market. The first is yield; the higher the better. The second is the anticipated direction of interest rates. If rates are expected to go down, you want to own long bonds in this country. Of course, an investor also has to be concerned with currency risk. If an investor is concerned about a particular country's currency, the investor may want to avoid that bond market altogether or invest in the country's bonds while hedging out the currency risk.

Q: What is exactly your idea of a satellite market?

A: Let's take Sweden. Sweden is usually going to be trading in a certain range compared to the Eurozone region. Over time, when the Swedish central bank is starting to tighten, the ECB is also going to be in that mode give or take 6 months. A lot of the time their economies are closely linked. As Europe improves, Sweden

will improve. You will see them usually moving in tandem, but rotating around. That's why we call it a satellite. The satellite positioning is a way where we can add value to our overall performance by tying this sector in with the major sectors we already talked about.

Q: Which countries do you focus on in commodity group of countries?

A: Russia, Norway and South Africa are some of the countries in the commodity group of countries on which we focus. Our philosophy regarding the commodity countries is that they can act as a powerful diversifier when interest rates are heading higher globally. The rationale is if rates are increasing, chances are the global economy is doing well. In this environment, chances are commodities are in high demand. Our expectation in this scenario is that these countries yields would be higher and their currencies could appreciate dramatically. We had a short maturity bond position in Russia recently and we were able to put that position on for several quarters and it worked out very well as Russian Ruble seemed to go up every day by a small amount, plus we were also getting a decent yield in the trade. We also watch South Africa very closely. It can be a very volatile market, but at times, it can be very rewarding to be there.

Q: How about convergence group of countries?

A: A few examples of convergence countries are Hungary, Czech Republic, and Poland. These countries are in the process of trying to integrate fully into the Eurozone. If and when they are successful, they will use the Euro and follow the policies of the European Central Bank. As a country makes it past the various hurdles to membership, the country's bonds and currency will perform very well as in-

vestors begin to view the country in a more favorable light. In the late 90's, Spain, Italy and Greece all 'converged' on German and French rates as they went through the same process. We expect countries such as Hungary, Czech Republic and Poland that have been admitted to the EU to show more fiscal discipline. Yet their currencies will probably trade fairly well as more and more developed nations' investors are part of the economy. Usually the yields come down and over a time one could expect the currency to at least appreciate. As the yields come down, the country's economy becomes more competitive.

Q: So you basically build a geographic base, a collection of various yield curves, depending upon the global economies.

A: Correct. I do look at the yield curve, of course, but the curve is going to differ from country to country and from region to region. Where I want to be on the yield curve, and what bond fits the risk profile, depends on the country and economy. I can't say that I've got a full yield curve picture on every country I'm looking at because they don't have full yield curves, from short to intermediate to long term bonds, but we try and take a look at every country down to a decimal spot on the yield curve. That would be a part of our duration budget. If we think interest rates are going up globally, that means we are probably going to want to have a lower duration than our benchmark, then we decide where we want to spend our duration. Of course, there's going to be a certain amount spent in the US. That will be at least 60% of our portfolio, most likely 80%. Even though interest rates globally are going up, it is likely that some countries might have declining interest rates. What countries are on a different economic cycle in a globally rising rate environment? That is the question to which we pay attention.

Back in the year 2004, we had a significant position in European bonds. Now we have zero, but back then Europe was really struggling. While the U.S. economy was coming out of slow growth of 2002 and 2003 we were in French bonds. The interest rates were rising in the U.S. and the U.S. dollar was probably going to be doing a little better, so we were buying the European bonds and hedging back to the U.S. dollar. What really attracted us to this trade, though, was that the two countries had differently shaped yield curves. When we bought a 10-year French bond and hedged the Euro exposure back to the dollar, we were able to have an actual increase in yield because of the different shaped yield curves. This was a result of what is called positive carry in the FX market. The net result to this trade was that we were able to add yield to the portfolio, yet have our interest rate exposure in a friendlier yield environment while having no currency risk in this trade.

Q: How do you go about researching these various yield curves or getting a handle of the direction of inflation globally?

A: It is an intensive process where we use international and external sources as well as Wall Street research and the various governments' own economic releases.


Q: Do you try to invest in one specific sector?

A: No, domestically we strive to let our economic outlook dictate our sector weightings. Internationally, our macro view and the particular aspects of the various countries will drive our positioning.

Q: What kind of risks do you monitor and how do you go about mitigating them?

A: We are always monitoring the track-

ing error of the portfolio. We are going to be using a value-at-risk method. We want make sure we know where our tracking error is and where we think it should be. There are times we want to take risks, and times when don't have a large conviction. That is when we say 'I am going to move my tracking error down because I am not as confident of where interest rates or the U.S. dollar is going to be.' So you take off some of your position and reduce your risk.

The fixed income market is a little different than the equity market. Our positioning depends on what our risk tolerance is at that time. We run every trade through a co-variance matrix to make sure that the impact of the trade on the portfolio's overall tracking error matches up to what we expected it to be. 

Ticker staff searches for mutual funds for their consistency in performance and durability of investment style.

Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

You can read more on this and other funds at Ticker.com

Julius Baer Total Return

Symbol	BJBGX (Class A); JBGIX (Class I)
Website	www.us-funds.juliusbaer.com
Address	Julius Baer Inv. Management LLC 330 Madison Avenue New York, NY 10017
Tel. No.	800-387-6977
Inception	Class A: 7/1/92; Class I: 11/17/99

PORTFOLIO

Total Net Assets (Class A)*	\$101.3
Total Net Assets (Class I)*	\$361.5
Turnover Ratio (as of 10/31/05)	202%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment (Class A)	\$1,000
Min Initial Investment (Class I)	\$1,000,000
Min Subsequent Investmt (Class A)	\$1,000
Min Subsequent Investmt (Class I)	\$0
Min Initial IRA Investment	\$100

RISK (JBGIX AGAINST LEHMAN BR US AGG BD INDEX)

Alpha	0.33
Beta	102
R-Squared	71.06
Ann Std Deviation	4.36
Sharpe Ratio	0.82

RETURNS VS. LEHMAN BROTHERS US AGG BD INDEX

	BJBGX	JBGIX	Index
1 Year (Cum.)	3.16%	3.45%	3.67%
3 Year (Ann.)	4.27%	4.56%	3.38%
5 Year (Ann.)	6.72%	7.06%	4.80%
Incep. (Ann.)	6.05%	-	6.55%
Incep. (Ann.)	-	6.68%	6.25%

RETURNS VS. LIPPER GLOBAL INCOME FUND INDEX

	BJBGX	JBGIX	Index
1 Year (Cum.)	3.16%	3.45%	3.58%
3 Year (Ann.)	4.27%	4.56%	4.76%
5 Year (Ann.)	6.72%	7.06%	6.97%
Incep. (Ann.)	6.05%	6.68%	N/A

FEES AND EXPENSES

Max Sales Charge - Front**	0.00%
Max Sales Charge - Deferred**	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio (Class A)***	0.77%
Total Expense Ratio (Class I)***	0.47%

PORTFOLIO MANAGER

Donald Quigley	8/10/01
Richard Pell	7/01/98

*millions **While the fund is no-load, management and distribution fees and other expenses apply. ***Data through: as of 10/31/05.

The Investment Advisor has contractually agreed to reimburse certain expenses of the Fund through 2/28/07, so that the net operating expenses of the Fund, based on average net assets, are limited to 0.69% and 0.44% for Class A and Class I, respectively. The gross expense ratios which do not take into consideration any expense reductions related to expense offset arrangements, were 0.78% and 0.47% for Class A and Class I, respectively.

As of 9/30/06

Source: Company Documents; Lipper; Morningstar