

One Size Doesn't Fit the Globe

A major differentiator for this global fund lies in its stock-selection approach which varies across sectors and regions. A uniform, "one size fits all", strategy would be too confining, as would adhering to a strict growth or a value discipline, according to the manager Brett Gallagher. He needs the flexibility to analyze what's important to the market at a given time and an organization able to quickly process that information.

Q: What is your investment philosophy?

A: Our philosophy is based on four pillars. The first is that "information is not the bottleneck". While years ago the key to successful investing was going out and uncovering information that wasn't widely known, today you could argue there's too much information with the implementation of regulation FD and all the online and electronic resources. "It's like trying to drink water from a fire hose".

The real key is being able to organize and successfully process that information. This requires a smaller, more reactive team that's able to process both "active" and "passive" information. Passive information includes the financial statements and valuation measures, while active information includes things like price movements, management and strategy changes, corporate actions, regulatory changes – in other words, events that really change the model.

Secondly we believe you must "think before you screen". Another way to say this is that you need to follow the fundamentals. Warren Buffett once said that the dis-

inction between growth and value styles is "fuzzy logic" and we think he's right. Defining yourself as a small-cap value or large-cap growth manager can be limiting. It works in certain markets and fails miserably in others. Instead, one ought to think about the market and what is important to it, not about what you believe the fund should look like irrespective of the environment around it.

Applying that thinking to the current market where small-cap stocks have outperformed large-cap stocks for over six years and where the normal discount is now a premium might lead us to spend more of our time looking at larger companies. So instead of telling the market what we're going to look like at all times, it is better to listen to the market and let it determine what we ought to be favoring.

The third point is that "one size doesn't fit all". Just as Procter & Gamble won't sell the same product in the same package using the same advertising the world over, neither should investors attempt to fit the world's many stocks through one standard filter. In our work, Emerging markets require top-down decision making (being in

Julius Baer Global Equity

FUND FACTS

Symbol	BJGQX
Website	www.juliusbaer.com
Address	Julius Baer Inv Management Inc. 330 Madison Avenue New York, NY 10017
Tel. No.	800-387-6977
Inception	7/17/1990

PORTFOLIO

Total Net Assets *	\$29.2
Avg Mkt Cap (\$ Weighted) *	\$71,800
Average Price/Earnings Ratio	21.34x
Average Price/Book Ratio	3.35x
Turnover Ratio	118%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$1,000
Min Initial IRA Investment	\$100

RISK (AGAINST MSCI EAFE ND IX - 3 YEARS)

Alpha	N/A
Beta	N/A
R-Squared	N/A
Ann Std Deviation	N/A
Sharpe Ratio	N/A

RETURNS VS. LIPPER GLOBAL FUND IX

	BJGQX	Index
1 Year (Cum.)	17.32%	14.25%
3 Year (Ann.)	N/A	16.81%
5 Year (Ann.)	N/A	6.75%

RETURNS VS. MSCI WORLD IX

	BJGQX	Index
1 Year (Cum.)	17.32%	14.24%
3 Year (Ann.)	N/A	16.87%
5 Year (Ann.)	N/A	6.63%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	1.51%

PORTFOLIO MANAGER

Brett Gallagher	7/01/2004
Rudolph-Riad Younes	7/01/2004

* millions ** within 3 months after purchase

Data through: 7/31/2006

Source: Company Documents; Lipper



the right country at the right time) while developed markets require more bottoms-up work (finding the best stocks).

For example, when we compare beverage companies worldwide, Pepsi, SABMiller, Budweiser, Heineken, etc., we won't put San Miguel brewery from the Philippines into the mix. Although it might be the cheapest or the fastest-growing beverage company at a given point, its performance doesn't depend upon how beverages move. Rather, it depends on whether the market likes the Philippines. If the Philippines goes up, San Miguel's going to be up and if Philippines goes down, San Miguel's going to be down.

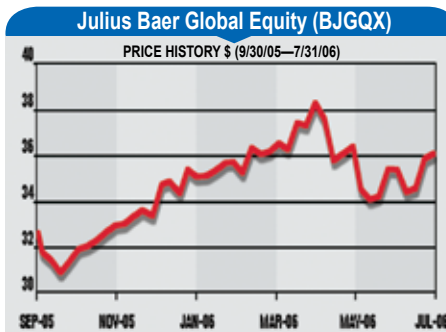
Lastly, we believe that "valuation is best thought of as a measure of risk". We won't buy a stock just because it is cheap or sell it just because it is expensive. Some expensive stocks do go up and some cheap ones continue to go down. What expensive really means is that if something goes wrong, there's a long way for that stock to fall before it is going to find support. Cheap only means that if something goes wrong there is some intrinsic value on the downside offering protection. So, valuation is not a trigger for our buy or sell decisions, but rather a part of the overall process of defining the risk inherent in a name. Ideally, we like to frame our work using Michael Porter's "Five Forces" model for industry analysis and we're willing to pay more for companies that screen highly on this work.

Q: What is the process that drives your top-down or bottoms-up decisions?

A: In the emerging markets we're looking at macro economic indicators, such as current account balances, fiscal deficits or surpluses, capital flows, etc. In the developed markets we scrutinize each sector to find the best of breed companies. We spend a lot of time analyzing the key drivers for any given industry and we judge the investment value of an individual stock on the basis of those factors.

While in the emerging markets we analyze whether this is the right time to be in the particular market, in the devel-

oped markets we are trying to find the best pharmaceutical company or the best energy company. Before we start doing our research, we have to know what we're looking for. We thus identify the factors that make a pharmaceutical company successful. These factors change over time, but today include things like a favorable patent expiration schedule, strength of product pipeline, R&D spending and what we are paying for currently identifiable products versus what we are paying for the promise of the pipeline. Another factor is whether these drugs are unique or not. For example Lipitor, Pfizer's cholesterol drug, is the biggest selling drug in the world. However, there are half a dozen other equally effective cholesterol drugs out there and though Lipitor's U.S. patent is protected until



2011, it is going to suffer because it's not a unique drug – Merck's Zocor just went off patent and we believe generic cholesterol drugs will hurt Lipitor almost as much as they will Zocor.

Energy requires an entirely different set of metrics. There, we are looking to acquire reserves at the lowest cost (Enterprise Value per Barrel of Oil equivalent). Whereas Exxon trades around \$12 or \$13 per boe some of the Russian names trade at \$2 or \$3 which has led us to favor Russian names when we want energy exposure.

I should also mention that Japan, to us, is a hybrid market, necessitating both a top-down and a bottom-up approach. While the Japanese economy has global champions like Toyota or Sony and we compare those to their peer group, they also have some closed sectors, like construction or finance, which are more dependent on the performance and the economic characteristics of Japan. These closed sectors

will be examined relying primarily using a top-down process.

Q: How is your research process organized?

A: The greatest amount of value we can add is at the beginning and the end of the process. You've got to think about what drives stocks/industries and what you want the portfolio to look like (idea generation). Then, at the execution stage, a little skill as a trader comes into play. But the data gathering, what is done in the middle, is something that we like to pass along to the analysts.

We may use our Zurich analysts or Wall Street's – whoever is best equipped to answer the question. For example, in the drug company situation we discussed earlier, we're not going to spend time looking at every drug company to see which products expire this, next and the following year. That's important but we're not going to be able to differentiate ourselves gathering the data. We'll let the analysts do it and send the results. We'll spend our time analyzing it and making decisions based on the factors that we originally thought were important. This is where we can add value.

The other important issue is making the distinction between active and passive information and knowing where to spend your time. On September 11th, the U.S. markets closed as the World Trade Center and Pentagon were attacked. European markets, however, were open and the insurance sector sold off dramatically. We were able to do a quick analysis of the worst-case scenario, the costs to insurers to replace the World Trade Center. We compared that to the amount of capitalization lost and saw a buying opportunity.

Q: How would you explain the fact that you could come up with the total damage for the World Trade Center in two hours while the insurance companies could not come up with an estimate?

A: What we had to do and what the insurers had to do were two different things and people often confuse them. Insurers

are running a business and they had to ascertain, with reasonable certainty, what they would have to pay. All we had to know was whether the evaporation of sector market capitalization was more or less than the worst-case cost to rebuild these things. In the end, the number was much less than the loss in market cap of these stocks. With the gap that wide, it became an easy decision to buy the insurers even though we didn't know the precise costs.

The same is true on a day-to-day basis. We don't think that we have to know whether IBM is going to earn exactly \$1.35 next quarter. The important factor is whether their earnings are well above the trend or below it. It's all about being directionally correct and avoid being precisely wrong.

Q: Could you explain your approach to portfolio construction? Do you follow any benchmark?

A: Our benchmark is the Morgan Stanley World Index and while we're aware of the benchmark we're not wedded to it. If we believe in an investment thesis or idea, it makes sense to have a large exposure to it no matter what the benchmark "advises" us we should own. For example, the Emerging Markets are not a part of our benchmark and we've had zero exposure there at times, but we've also been as high as 19% exposure. Likewise, we had very little in Technology back in 2000 despite it being the largest index sector. In general we allow ourselves sector exposures up to double the benchmark weight (or benchmark plus 10% for smaller sectors) and we allow a maximum of 25% in Emerging Markets. You do need some guidelines, but we're not afraid to stray from the benchmark when we have conviction.

The number of holdings in the fund varies. On average I would say we have held between 275 and 325 names, though a higher emerging markets weight would push the number up (since it uses a top-down approach and we often buy "baskets" of names in that case) as would any "thematic" investment. There is no fixed target, as that would be an artificial constraint and we like to avoid artificial restrictions.

Q: What are the key elements of your sell discipline?

A: They probably aren't very different from the sell discipline of most money managers. Reasons for selling a stock may include it reaching the target level, a change in business fundamentals, a change in strategy or any other change in the original investment rationale. For example, if we bought it because we liked the collec-

tion of businesses and then it spins off a major division, that's a reason to re-assess the holding.

One area, however, where we do differ a bit from others is in how we "listen" to the market. If a stock is underperforming its sector we will automatically revisit the investment. It does not mean we will automatically sell, simply that we must spend some time looking at the situation.

Q: What kind of risks do you perceive at a global level? How do you measure and mitigate them?

A: We have a risk analytics group that provides us with many measures of risk exposure such as our size, valuation, growth or geographic bias relative to the benchmark. They also provide us with tracking error measurements (likely deviation from the benchmark given our current exposures), though we don't seek out to contain tracking error – it's more a residual of our fundamental work.

We have all the analytics to make us aware of the risks we have taken on, but we don't manage the portfolio to them. They are there to ensure that we haven't taken on unintended exposures and to help analyze performance post-fact. At the end of the day, it comes back to whether we own the best companies in their sectors and whether we are comfortable with our overall emerging markets exposure.

Q: Do you hedge against currency fluctuations?

A: We tend not to be active hedgers and we don't separately manage the currency. But if we have a very low US dollar exposure because of our US equity holdings, for example, we may choose to hedge back towards a more neutral benchmark for risk control purposes. We may not want to take a bet on a currency though we can be very willing to take a bet on the company. There was an instance last year when we did hedge some of the Eastern European currencies for a short period of time because we were expecting pressure following a French and Dutch vote on the EU Constitution. But that was a very unusual situation. **T**

"The part of the investment process where we can add the greatest value is at its beginning (idea generation) and end (implementation). The middle stage, data gathering, is not one where we can add value and we like to outsource it – either to Julius Baer's Zurich analysts or to Wall Street's sell-side."



BRETT GALLAGHER is the Deputy Chief Investment Officer and Co-Head of Global Equities at Julius Baer Investment Management LLC. He joined Julius Baer in 1999 after serving as the Senior Investment Executive at Chase Manhattan Bank (Singapore) and the Head of Private Client Investment Management for JP Morgan (Singapore). In addition, Brett spent four years with Bankers Trust Co. (New York), serving as a Senior Portfolio Manager, Global Equity and three years as a Financial Analyst at the Irwin Management Company (Columbus, IN).