

Dresdner RCM Global Investors

Quarterly Investment Strategy Sheet

Fourth Quarter 1999

International Equity

► Market Environment

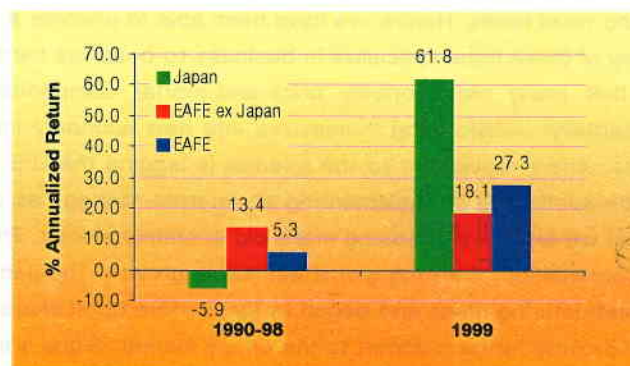
Economic growth was strong across the globe in fourth-quarter 1999, with the technology and telecommunications sectors driving the international markets. Markets soared with the Europe, Australasia, Far East (EAFE) Index up 16.8% and the All Country World Free exUS (ACWFXUS) up 18.3% (versus 4.5% and 3.3%, respectively, for the third quarter). Regional strength was balanced, with Europe's market up 17.5% and the Pacific rising 16.2%. The European market rose despite increases in short-term interest rates by the European Central Bank (ECB) and the Bank of England (BOE). The ACWFXUS benefited from the 25.4% increase in emerging markets this past quarter.

► Portfolio Review

Driven primarily by bottom-up stock selection, Dresdner RCM's international portfolios significantly outperformed the benchmarks for both the quarter and the year. (The EAFE and ACWFXUS benchmarks rose by 27.3% and by 31.8%, respectively, during the calendar year.)

Our exposure to Japanese technology companies and firms undergoing corporate restructuring spurred most of our outperformance for the quarter and the year. The technology sector looked particularly attractive to us for a number of reasons. First, many Japanese tech companies are world leaders. Secondly, Internet and computer penetration outside the United States is lagging. Therefore, it appeared that a technology phenomenon, similar to the U.S. one, would occur overseas, thus positioning these tech companies for growth. Additionally, the U.S. experience had not been factored into valuations, making these stocks especially appealing given the growth prospects. This accounts for our increased exposure in Japan earlier in the year—a major shift in our portfolios—and our purchase of companies such as SoftBank, Yahoo! Japan, Sony, and Fujitsu.

Japan's Effect on International Equity Markets



Source: Rimes Online

Consistent with the theme of a new economy, November and December were stellar for tech stocks globally, including the telecommunications manufacturers (Nokia in Finland and Ericsson in Sweden). Telecommunications service providers (Sonera in Finland, British Telecom and Vodafone in the United Kingdom, and Mannesmann in Germany) also performed well during the fourth quarter.

Country allocation, also a residual of our bottom-up stock-selection process, contributed to performance during the quarter as well. An overweight position in Finland and underweight positions in the United Kingdom and Switzerland were the largest country factors.

Foreign currency allocation, which is also largely a residual of our stock-selection process, also contributed to performance during the quarter. We placed no foreign currency hedges on our portfolios throughout 1999. Our portfolios were overweight the Japanese yen—which appreciated by 4.0% versus the U.S. dollar during the quarter—and underweight European currencies. The Euro depreciated by 5.9% versus the U.S. dollar during the quarter and at one point reached parity after being launched at the start of the year at 1.17 Euro/\$.

Highlight Theme: Part of our strategy over the past quarter was to reduce our position in technology stocks as they sharply appreciated. Some of these assets were redeployed into a number of firms that are poised to benefit from increased expenditures on advertising. Within the European markets, we purchased the WPP Group in the United Kingdom, and Havas Advertising and Television Francaise in France. We applied this theme to Japan as well, where we purchased Asatsu-DK. Our optimism within this theme is predicated upon a number of factors. First, companies have been striving to increase market share—particularly on the Internet—via increased advertising expenditures. Second, 2000 is an election year in the United States and politicians will be competing for advertising space. Furthermore, 2000 will be an Olympic year, and firms eager to capture the broad audiences drawn to this global event will probably increase their advertising.

GrassrootsSM Research^{*}: Our GrassrootsSM Research team has conducted a number of studies that support the theme of increased advertising. One area of particular interest is the Internet, where advertising revenue is growing due to increased traffic. Sources indicated that firms are buying advertisements for two main reasons: to build a brand name and to increase e-commerce. One Internet advertising broker stated, "I can attest to the fact that our business has exploded in the past year. Each month we are accepting orders at a rate double the previous month. We are often oversold and can't get enough space to sell everything I think this is just the tip of the iceberg."

► Outlook

Our investment process is predicated upon researching and purchasing high-quality growth stocks at attractive valuations. As we enter the millennium, there are three major themes in the portfolio that encompass our stock selection. First, as the new economy continues to develop, we believe that companies will increasingly be utilizing the Internet on both the wholesale and retail levels. Hence, we have been able to uncover a number of firms that are aiding businesses in this migration. Many of these firms specialize in business-to-business hardware, software, and consulting services. Second, we believe that many old economy brick-and-mortar companies will significantly boost their long-term earnings growth by (partially) transforming themselves into new economy Internet click companies. This is especially true in foreign markets, where movement to the Internet is lagging the U.S. trend. We will focus on those companies that we believe will be successful in implementing an Internet strategy as part of their business plan. We would like to stress, however, that we are still purchasing many old economy stocks. This is particularly the case given our third investment theme—a continuation of strong global economic growth. The Japanese economy awakened last year as companies announced restructuring plans and began to focus more upon shareholder value. This trend should continue into the millennium and provide further support to the equity market. Signs are also appearing of an upturn in European economic activity after an anemic 1999. Accordingly, we continue to overweight cyclical stocks in our portfolios and have also increased the weight of commodity-related companies that may benefit from this growth.

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