

Forbes International

INVESTMENT



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REPORT

RUSSIAN CALCULUS

Winston Churchill's famous description of Russia as a "riddle, wrapped in a mystery, inside an enigma" rings hauntingly true today. How else can one explain Russia's bizarre decision to invade Georgia, a sovereign nation, risking a new Cold War? And why did Vladimir Putin choose to scare the daylights out of the investment community by going after Mechel and raising fears of another Yukos affair? By the way, who's really running the show anyhow? Is it Putin or that Med-vuh-dev-uh-dev guy? As Hillary Clinton put it, even more succinctly than Churchill: "Whatever".

There are no sensible explanations here. Russia's behavior in Georgia and in the Mechel affair are riddles and mysteries beyond the scope of this newsletter. Perhaps a deeper understanding of Russian history might help, but then again, Churchill was a pretty good historian in his own right and he never figured Russia out. Fortunately for investors, there's an alternative way to think about Russia, and it comes from an unlikely place: a calculus textbook.

Calculus, for all of its apparent complexity and mind-bending formulas, boils down to a handful of simple, yet powerful concepts. And some of the toughest calculus problems can be broken down into component pieces that even a fifth-grader can solve. The trick is first knowing how to set up the problem, and then simplifying the equations. When faced with impossible-looking problems—of the mathematical variety or otherwise—most folks make one of two common mistakes. The first is to simply throw up one's hands and declare the problem unsolvable. Call this the "whatever" method. Sadly, it's an all-too-common approach among investors

when looking at Russia and other emerging markets. Too hard to understand, too risky, so let's not bother. Let somebody else figure it out. Not me.

The second mistake is to fight fire with fire. Investors attempt to match complex problems with equally complex solutions. This method is fashionable among many of the talking heads who appear on the CNBC set. To invest in Russia, one would appear to need an elaborate analysis of various

political scenarios, detailed maps of provinces and pipelines, precise commodity price forecasts and maybe even a trip to Tbilisi.

While this latter approach may appear more sophisticated, it can also be a dangerous trap. It's a bit like introducing additional variables into an already difficult math problem. By over-thinking the problem, you accomplish little more than increasing your odds of making an even bigger mistake somewhere along the way.

When looking at Russia, I prefer to take a simpler approach. I begin with the assumption that I have no hope of reading Putin's mind. Nor do I believe that I can predict commodity prices any better than the next fellow. So I want to strip those variables of the equation. Instead, I want to focus on less-politically sensitive things that I do understand, say, cartoons and baby food. More generally, I want to focus on the Russian consumer, whose disposable income has grown nearly 27% annually this decade. The Russian consumer market is now nearly as big as Germany's. This trend isn't likely to change anytime soon, no matter what Putin may be up to.

This line of thinking points to three Russian consumer plays in our model portfolios: **Wimm-Bill-Dann Foods** (nyse: WBD), Russia's leading dairy, juice, and baby food company, **CTC Media** (nasdaq: CTCM), the country's fourth-biggest television network, and **MobileTelesystems** (nyse: MBT), Russia's biggest mobile phone service provider. All three are listed right here in the U.S. and follow familiar disclosure practices.

Does that make these stocks risk-free? Absolutely not. But it does give us a solution to the problem of investing in Russia without taking an unnecessary degree of excess risk. Of course, if Putin decides to nationalize the baby food business, all bets are off. But why bother at all? Why not just leave Russia off the list and focus on something else? It's tempting to take the easy way out, but it's a strategy that hasn't worked in the past.

To put things in perspective, consider the following passage from the *Wall Street Journal Guide to International Investing*, published back in 1997: "There are places that simply aren't worth the risk at any cost. Russia and the other republics of the former Soviet Union haven't put their economies, much less their markets, into good enough shape to be hospitable for the average investor."

Really? As it turns out, investing in Russia was well worth all of the risks. In the ten years after this nugget of WSJ wisdom came out, Russian stocks rose more than 1,000%. Obviously it wasn't something to bet your life savings on, but why not a small part of your portfolio? Heads I lose \$10,000, tails I win \$100,000? I'll take those odds anytime. There is no question that Russia can be a difficult, indeed dangerous, place to do business. And the situation in Georgia is heartbreaking from a humanitarian and diplomatic perspective. But those are not reasons to avoid *all* Russian stocks. Don't throw the baby food out with the bath water. ■

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STOCK OF THE MONTH: NATL BANK OF GREECE (NYSE: NBG) **NEW BUY**

Greece/banking

While it may be premature to declare that the worst of the credit crunch is over for the biggest banks in the U.S. and Europe, there are plenty of smaller banks elsewhere in the world that have emerged relatively unscathed from the crisis. Yet despite stronger fundamentals, investors have assumed the worst for many of these institutions, and as a result some pretty solid banks are trading at depressed valuations.

National Bank of Greece (nyse: NBG) is a good example. NBG is the country's largest lender. With total assets of \$132 billion and 579 branches, NBG has a 25% share of the Greek banking market. The bank also controls 32% of the local mutual fund market, with \$10 billion of assets under management.

In its most recent quarter, mortgages and consumer loans accounted for \$34 billion, or 56% of NBG's \$60 billion domestic lending portfolio. Corporate and small business loans made up the remainder. All categories showed robust growth in the first quarter of 2008. Mortgages and consumer loans grew 17% and 24% respectively. Corporate lending grew 22%, and small business lending was the fastest of all at 28% growth. Hardly the sort of numbers that one would expect to see in a credit "crunch".

The real excitement, however, is in NBG's overseas [ex-Greece] operations. With a population of just 11 million, Greece is a small, relatively mature market. For long-term growth, NBG is looking beyond its borders, where its reach currently extends to a dozen countries. In fact, NBG has more than twice as many branches outside of Greece—1,131 to be exact—than at home.

In April 2006, NBG acquired Turkey's Finansbank, which now accounts for 30% of NBG's net profit. NBG is also present in Bulgaria, Romania, and Serbia. This portfolio was cobbled

together through several acquisitions earlier in the decade. In 2000, NBG bought United Bulgaria Bank, Banca Romaneasca in Romania in 2003, and Serbia's Vojvodjanska Banka in 2006. In all, NBG now has a presence in a group of countries with a combined population of 125 million. Earnings from NBG's Southeast Europe segment currently account for 12% of NBG's net profit, but should comprise a larger proportion over time.

This combination of exposure to growth at home and in these emerging European markets has helped NBG shake off the credit crunch. Net interest income rose 21% to \$1.3 billion. Net income rose 25% in the first quarter of 2008 to \$622 million, powered by more than 70% growth in Southeast Europe. Return-on-equity was a healthy 28%, a five percentage point improvement over the previous year.

NBG's Tier 1 capital ratio of 9.2% is at least comparable to, if not better than most major banks in Germany, France, and U.K. The bank's non-performing loan ratio of 3.4% is a bit on the high side, but in line with larger European banks like BNP and Barclays. NBG's cost/income ratio of 51% is much lower than the 60% to 80% range that is the norm in France and Germany.

In short, NBG offers a considerably better combination of growth and profitability than larger European banks, with equal or arguably less risk. At a recent \$9, NBG shares are more than 36% off their January high of nearly \$14. At these levels, NBG is selling for just 7 times estimated 2009 earnings, despite long-term earnings forecasts in excess of 20% annualized over the next five years. While Europe flirts with recession, the Greek economy is still growing at a healthy 3%+ clip. As a bonus, NBG also offers some exposure to frontier markets like Bulgaria and Serbia that would be otherwise impossible to invest in directly. ■



P/E: 7

PRICE/BOOK: 2.5

MARKET CAP: \$ 22BLN

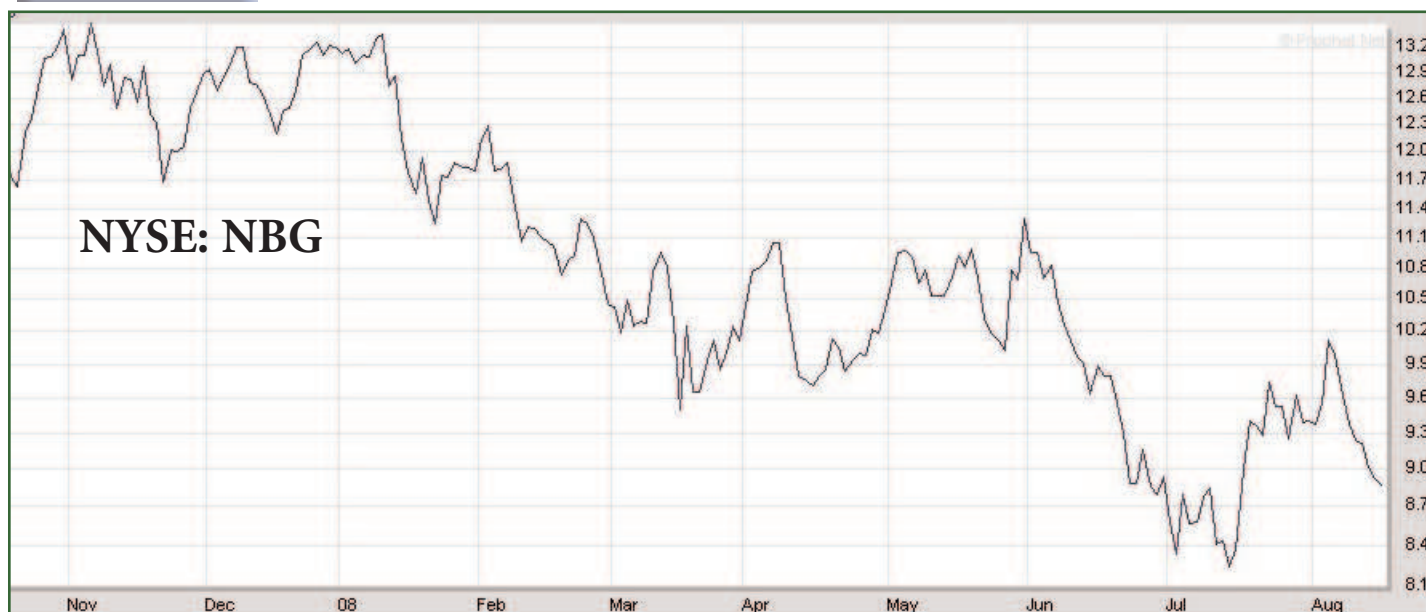


Chart source: Prophet.net; Flag graphics courtesy of www.33ff.com

MODEL PORTFOLIO ADDITIONS & UPDATES

UPDATE: GlaxoSmithKline (nyse: GSK), BUY

GlaxoSmithKline reported second quarter 2008 earnings on July 23. While the results were nothing spectacular—sales were up just 4%, earnings per share up just 3%—GSK’s new CEO Andrew Witty laid out a compelling vision for reshaping the business model. Emerging markets are a key element of Witty’s strategy. GSK’s emerging markets business was one of the few bright spots in the quarter, with revenue growth of 15%. Worldwide, 40% of the pharmaceutical industry’s growth is expected to come from emerging markets by 2020 as countries buy more vaccines and demand better quality healthcare. Witty’s background is an ideal fit for the task. Prior to taking the helm, he ran Glaxo’s Asia-Pacific operations and was also in charge of its South African business. Abbas Hussain, a 20-year emerging markets veteran from Eli Lilly, was recently hired to take charge of GSK’s emerging markets push. Separately, GSK announced a licensing deal with South African generic drug-maker Aspen, covering some 1,200 products. ■

GLAXOSMITHKLINE (NYSE: GSK)

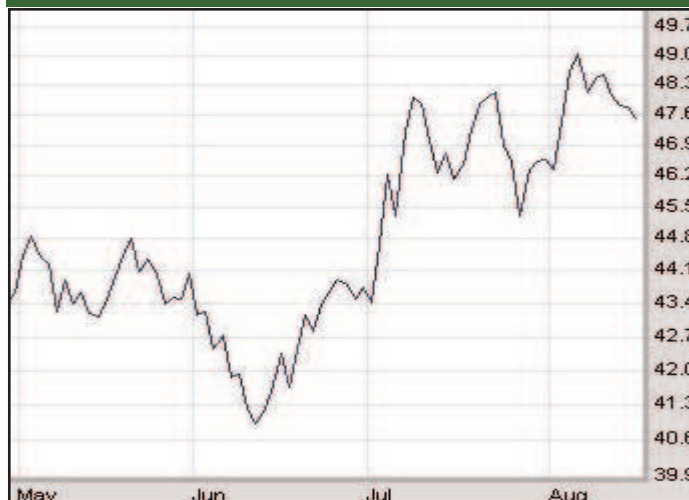


Chart source: Prophet.net

UPDATE: ArcelorMittal (nyse: MT), BUY

Second-quarter results from **ArcelorMittal** (nyse: MT) confirmed the company’s strategy of consolidation and increasing scale on a global basis. Sales rose 39% to \$37.8 billion in Q2, and EBITDA rose 51% to \$8 billion. Net income more than doubled to \$5.8 billion, while earnings per share rose 2.5-fold to \$4.20. MT’s results smashed the company’s previously announced targets and left most analyst forecasts in the dust. EBITDA margins also improved by four percentage points to 21%. These results show that MT is reaping the rewards of its consolidation and cost-cutting efforts since the company was created after Mittal Steel’s long takeover battle for Europe’s Arcelor in the summer of 2006. MT continues on the acquisition trail, putting its massive cash flow to work by scooping up coal and iron ore assets that will ultimately reduce its dependency on outside suppliers for these key raw materials. Management’s guidance for Q3 EBITDA calls for more than \$8.5 billion. ■

ARCELORMITTAL (NYSE: MT)



Chart source: Prophet.net

UPDATE: Turkcell (nyse: TKC), BUY

Stocks in Istanbul surged 28% in the month of July, making Turkey the best performing market in the world. The reason for the excitement was a ruling by Turkey’s highest court, rejecting a case that would have banned the country’s ruling party and risked unleashing an unprecedented political crisis. The political situation had been an overhang on the Turkish market, which had fallen 45% in the first six months of the year. With these political concerns lifted, investors may again begin to focus on the fundamentals. Despite a difficult environment, **Turkcell** (nyse: TKC) reported solid results in its most recent quarter. Revenue grew 16.7% in the quarter and net income surged 55.8%. At home, Turkcell’s subscriber base and average revenue per user (ARPU) both showed solid gains, while its operations in the Ukraine and Central Asia gave an additional boost to the bottom line. TKC continues to expand its portfolio outside of Turkey, taking an 80% stake in Belarusian Telecommunications Network in Belarus. ■

TURKCELL (NYSE: TKC)



Chart source: Prophet.net

GLOBAL GURUS: LOU GERKEN, GERKEN CAPITAL

Each month the *Forbes International Investment Report* will include a Q&A feature with a fund manager, analyst, or another guest who we think has exceptional insight into global markets and investing. We may not always agree with them on every market or every stock, but we promise that each interview will be full of fresh investing ideas from some of the best minds in the business.

While we encourage our guests to mention companies with American Depositary Receipts (ADRs), they are free to discuss any of their global holdings. For stocks without ADR programs or ADRs with limited liquidity, we show the local exchange and ticker symbol. While buying foreign shares directly is becoming much easier these days, please note that some of the stocks mentioned here may be difficult for U.S. individuals to trade. Always check with your broker for complete details when buying overseas-listed securities.

This month I spoke with Lou Gerken, founder of Gerken Capital Associates. Based in the San Francisco Bay area, Gerken Capital is a registered investment advisor with \$1.1 billion of assets under management and advisement, all of which is invested in emerging market portfolios. Gerken has been involved with emerging markets since the mid-1970s when he worked as one of the first portfolio managers at London-based emerging markets pioneer GT Capital. Gerken Capital was founded in 1989.—JHC

HOW HAS EMERGING MARKET INVESTING CHANGED SINCE YOU FIRST GOT STARTED IN THE BUSINESS IN THE 1970S?

When I was at GT, we had 10 employees and a couple hundred million under management. Emerging market investing consisted of markets like Japan, some Hong Kong, and a little bit of Latin America. Obviously, what we define today as the BRIC markets [Brazil, Russia, India, China] didn't exist then. I think the year 2000 marked a major inflection point, which finally signaled the arrival of the emerging markets. In the 70's, 80's and 90's you could have made a lot of money in the emerging markets, but regrettably you gave most of it back because most of the fundamental underpinnings were just not yet established. The year 2000 seemed to mark the point where one could look at the emerging markets at large, or more importantly region by region, and see very material advances that had taken place in the respective capital markets, levels of transparency, Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). They were truly becoming free-standing markets.

HOW SHOULD INVESTORS THINK ABOUT EMERGING MARKETS IN THE CONTEXT OF THEIR OVERALL EQUITY PORTFOLIOS?

Our view is that investors should have a minimum 25% allocation to the emerging markets, and in certain cases, much higher than that. Just look, for example, at the earnings growth of the S&P 500 companies in 2007. Greater than 50% of the contribution to growth came from emerging markets. That compares with maybe 12% to 15% five years ago. So there are a number of very significant signals that the emerging markets are essentially driving global markets. Compare that to the past when the U.S. essentially single-handedly drove global growth year-by-year. More than 50% of today's global growth is being driven by the emerging markets, principally led by China and India, but certainly many of the other regional markets are rapidly catching up as well.

HOW HAS THE RISK PROFILE OF EMERGING MARKETS CHANGED OVER THE YEARS?

Risk levels have dropped dramatically. Hand-in-hand with that, we've seen very significant inflows of FDI and FII into the regions. We've also seen very strong government balance sheets and rapid diversification of emerging economies to not just be commodities-dependent. Countries are now investing their surpluses into infrastructure, which leads to the development of new industries within those countries. And, importantly, there has been greater development of the respective capital markets and the rapid introduction of new financial instruments, which allow G7 investors to more actively invest in those regions. The frontier markets clearly represent much higher levels of risk, primarily liquidity risks, compared to today's emerging markets.



Lou Gerken

THERE SEEMS TO BE SOME CONFUSION, EVEN AMONG PROFESSIONAL INVESTORS, AS TO WHAT CONSTITUTES AN "EMERGING MARKET" THESE DAYS. SOME HAVE BEEN UPGRADED TO DEVELOPED STATUS, AND THERE'S A NEW CROP OF "FRONTIER" COUNTRIES. IS THERE A RISK OF PERHAPS OVER-THINKING THESE LABELS, RATHER THAN FOCUSING ON THE OPPORTUNITIES?

Yes, I think that's certainly the case, in fact even for institutional investors. Take a Chicago-based family office, for example. It's not like they can travel to Mumbai and Moscow and Hong Kong and Rio every quarter like they would go to New York to visit many of the companies or attend many of the analyst meetings. They might go once a year, perhaps twice, and maybe spend a week or 10 days. But by the time they leave, the landscape has already changed because things are growing so quickly. Moreover, emerging markets have historically been lumped into one basket with a view that there's a 1.0 correlation in how they all operate. That is certainly one of the major changes over the last couple years, whether you look at Brazil, China, India or Russia. Sure, emerging markets are all impacted by global macro events, but certainly they are even more so impacted by the individual drivers within those countries. It's not simply a matter of buying a MSCI global emerging markets index because the underlying drivers that make up the country indexes may vary dramatically country-by-country. So it requires a skill set that's basically able to segregate those various markets and understand what the individual drivers are in each case.

(Continued)

GLOBAL GURUS: LOU GERKEN, GERKEN CAPITAL

SOME OF THE LARGEST EMERGING MARKETS, PARTICULARLY CHINA AND INDIA, HAVE FALLEN SIGNIFICANTLY IN THE YEAR-TO-DATE PERIOD. WHERE DO WE GO FROM HERE?

I think most professionals continue to believe that, medium to long-term, the macro environment and the investment climate for the emerging markets is very strong and, by all indicators, stronger than in the U.S. or G7 markets. The challenge is to interpret what the near term looks like. Our view is what we call the “20/20” view. We can’t tell you the exact date, but we think we’re very close to seeing a 20% positive bounce in the emerging markets from what are very depressed levels. You’ve seen a U-shaped recovery already in the Latin American markets, primarily Brazil, since October of last year, but you haven’t yet seen that in India and China. So we’re looking for a 20% bounce near term, defined as what remains of ‘08 and ‘09.

WHAT’S THE OTHER PART OF YOUR 20/20 VIEW?

We’re also looking for a 20% drop in the price of oil and gold. It is our view that the present levels, given what we see in the marketplace, are not sustainable over the medium to long-term. And perhaps a bit of a contrarian view, we also see a 20% bounce-back in the dollar versus the Euro.

HOW DO VALUATIONS LOOK IN EMERGING MARKETS?

Investors should take heart that there are companies they can invest in at very low valuations in emerging markets. And in the particular case of Latin America, many have U.S.-listed ADRs that have plenty of liquidity and are very accessible and cost-effective to buy. When you look at October of last year, China is still off some 25% to 30% from its peak. And India’s probably off a comparable level since that period. So from the 30 times price-to-earnings multiples you were seeing before, it’s now something south of 20 times. In the case of Latin America, specifically Brazil, you’ve essentially seen a full recovery, and the valuations are where they were in October of last year.

LET’S DRILL DOWN AND TALK ABOUT SOME SPECIFIC EXAMPLES OF THESE VALUATIONS. [EDITOR’S NOTE: NOT ALL OF THE FOLLOWING COMPANIES ARE AVAILABLE AS ADRS.]

In the case of India, one company we like is called **Welspun**. They make welded pipes for the oil and gas sector. Valuations are very attractive. Top line and EBITDA growth has been extremely strong. Most of their revenues come from abroad, from the major oil and gas companies. They’ve got some very solid backlogs in hard currencies. It’s a case where the company’s top line and EBITDA growth is growing 30% to 35%, and its backlog is two times its annual sales. It’s presently trading at 10-12 times 2008 earnings and 8-10 times 2009 earnings. Another company in India that we like is **Larsen & Toubro**. It’s a large construction and engineering company with very strong backlogs throughout India and the Middle East. They’re benefiting from a lot of the recent nuclear deals that have been signed. A third Indian company is **Allied Digital**, which is one of the domestic IT Service providers that are continuing to grow at 30% to 40%.

CAN YOU GIVE US A FEW EXAMPLES FROM CHINA?

In China, we like a company called **Huadian Power International** (Hong Kong: 1071). It trades on the Hong Kong Stock Exchange. It’s one of the largest independent power companies in China. It has a market share of about 20% and it’s trading at about 8 times its 2008 book value. We think the electricity sector in China is positioned for some major gains soon. The ceiling that’s been placed by the Chinese government on price tariffs and price limitations is being removed. So the pricing and ROE margins for the company should dramatically increase over the near to intermediate term. Like most Chinese stocks, the company has been beat up recently because of the snowstorms and earthquakes and other issues in China. But when you remove that, the company’s fundamental earnings have been very strong and we think they’re positioned to do quite well. The second company is called **Ctrip.com** (nasdaq: CTRP) and it’s essentially the Chinese version of Expedia. They’re a consolidator of hotel accommodations and airline tickets in China. This is a very fragmented market in China. We think they have a very strong long-term competitive advantage and we see them maintaining a very strong growth rate.

HOW ABOUT SOME EXAMPLES OF THE LATIN AMERICAN ADRS THAT YOU MENTIONED EARLIER.

In Brazil, one of the more interesting food companies that we like is a company called **Perdigao** (nyse: PDA). It’s a food retailer with a specialty meat franchise. In Brazil, like most emerging markets, we’re seeing rather healthy gains in per capita calorie intake. People are just eating more meat than they have in the past. PDA essentially raises poultry and sells frozen goods, but meat is an important component of that overall revenue mix. Exports last year grew close to 50%. It’s had over 80% year-to-year sales growth and 40% year-to-year EBITDA growth. We think that Mexico is probably the best positioned Latin American country from a risk perspective because, obviously, with 86% exports to the U.S. it’s very reliant on the U.S., but it’s still seeing very healthy internal growth irrespective of what’s going on in the U.S. A company that we like there is **FEMSA** (nyse: FMX). It produces, markets and distributes Coca-Cola, Dos Equis, Tecate Beer and a lot of other beverages across Latin America. It also operates something that’s very comparable to our 7-Eleven stores. They’re called OXXO convenience stores. Very strong sales and EBITDA growth, despite the presumed slowdown that’s been occurring as it relates to the U.S. contagion effect, and valued very attractively at 8 times EBITDA.

IN LIGHT OF YOUR EXPERIENCE INVESTING IN EMERGING MARKETS FOR SEVERAL DECADES, HOW DO YOU SEE THE ASSET CLASS CHANGING IN THE FUTURE?

In the last five years, you could have bought a China, Russia or Brazil index, leveraged that index and done quite well. We think going forward it will be more important to really understand the individual drivers of those countries. It will be a dramatically different approach than what worked over the last five years.

THANKS, LOU. ■

GLOBAL CORE PORTFOLIO

Company [symbol/country]/sector	Coverage Start Date	Reference price(\$)	Current price (\$)	Gain/Loss %*	Current Value (\$)**	Weight in model %	Current Advice
America Movil [AMX/Mexico]/telecom	Jan-06	33.30	48.90	46.8	48,949	3.8	Buy
ArcelorMittal [MT/Luxembourg]/steel	Apr-08	88.00	77.27	-12.2	31,063	2.4	Buy
BanColombia [CIB/Colombia]/banking	Jun-08	34.64	33.54	-3.2	32,567	2.5	Buy
Canon [CAJ/Japan]/electronics	Jan-06	42.50	48.40	13.9	37,946	2.9	Buy
China Medical [CMED/China]/healthcare	Jul-06	20.60	54.78	165.9	67,434	5.2	Buy
Embraer [ERJ/Brazil]/aerospace	Jan-06	41.21	29.90	-27.4	24,189	1.9	Buy
GlaxoSmithKline [GSK/UK]/pharmaceuticals	Sep-06	55.00	48.53	-11.8	30,671	2.4	Buy
HDFC Bank [HDB/India]/banking	Jan-06	54.05	93.15	72.3	57,474	4.4	Buy
Homex [HXM/Mexico]/housing	Feb-06	38.21	50.70	32.7	35,591	2.7	Buy
Hutchison Telecom [HTX/HK]/telecom	Feb-06	22.97	19.28	-16.1	30,308	2.3	Buy
Infosys [INFY/India]/technology	Jan-06	36.72	41.34	12.6	37,537	2.9	Buy
ING [ING/Netherlands]/banking	Jan-06	35.40	33.83	-4.4	31,868	2.4	Buy
iShares Brazil [EWZ/Brazil]/ETF	Jan-08	78.00	72.05	-7.6	30,765	2.4	Buy
Lenovo [LNVGY/China]/technology	Jan-06	9.22	14.30	55.1	51,695	4.0	Buy
Liberty Global [LBTYA/US]/media	Jan-06	22.02	32.90	49.4	49,811	3.8	Buy
Malaysia iShare [EWM]/ETF	May-06	7.99	9.90	23.9	25,562	2.0	Buy
Matthews Asian Tech [MATFX]/mutual fund	Jan-08	9.52	7.64	-19.7	26,748	2.1	Buy
Mindray Medical [MR/China]/medical equip	Jun-08	39.98	38.51	-3.7	32,079	2.5	Buy
Mitsubishi UFJ [MTU/Japan]/banking	Jan-06	13.25	8.04	-39.3	20,229	1.6	Buy
Mobile Telesystems [MBT/Russia]/telecom	Mar-07	50.88	70.23	38.0	24,510	1.9	Buy
Nokia [NOK/Finland]/telecom equipment	Jan-06	18.89	27.05	43.2	47,743	3.7	Buy
Novo Nordisk [NVO/Denmark]/healthcare	Jan-06	28.01	62.22	122.1	34,221	2.6	Buy
Petrobras [PBR/Brazil]/energy	Jan-06	20.01	49.44	147.1	39,354	3.0	HOLD
Philippines Long Distance [PHI/Phil.]/telecom	Dec-07	74.75	61.79	-17.3	27,558	2.1	Buy
Philips [PHG/Netherlands]/electronics	Jan-06	31.65	34.55	9.2	26,673	2.0	Buy
Sadia [SDA/Brazil]/food processing	May-06	10.04	21.75	116.6	70,448	5.4	Buy
Sanofi-Aventis [SNY/France]/pharmaceuticals	Jan-06	46.82	36.18	-22.7	25,760	2.0	Buy
Sony [SNE/Japan]/electronics	Jan-06	44.64	39.87	-10.7	29,783	2.3	Buy
Russell/Nomura Sm. Cap Japan [JSC]/ETF	Feb-08	40.00	39.56	-1.1	32,518	2.5	Buy
T. Rowe Price Africa & M.E. [TRAMX]/mutual fund	Dec-07	12.55	11.69	-6.9	31,049	2.4	Buy
Taiwan Semiconductor [TSM/Taiwan]/technology	Jan-06	10.39	10.67	2.7	35,254	2.7	Buy
Turkcell [TKC/Turkey]/telecom	Jan-06	15.38	17.71	15.1	38,378	2.9	Buy
UBS [UBS/Switzerland]/financial svcs	Aug-07	56.00	21.69	-61.3	15,270	1.2	Buy
Veolia Environment [VE/France] environmental svcs	Jun-08	61.01	56.10	-8.0	31,584	2.4	Buy
Woori Finance [WF/Korea]/banking	Jan-06	59.29	48.09	-18.9	27,027	2.1	Buy
				CASH	\$63,933	4.9	
				TOTAL	\$1,303,546	100.0%	

Recent prices as of Aug. 11, 2008. Net Asset Value (NAV) is shown for funds.

*Not annualized, price-only. **Assumes \$33,333 initial investment.

Note: Hypothetical portfolio values and performance figures for the Global Core Portfolio are based on a simulated initial investment of \$1,000,000 at inception on January 16, 2006. The Global Core Portfolio holdings, current recommendations and performance data are shown for illustrative purposes only. It does not represent an actual investment portfolio, nor should it be interpreted as personalized investment advice. Performance calculations are made using data that is believed to be accurate at the time of publication, but these figures have not been audited, and their accuracy cannot be guaranteed. ■

PORTFOLIO PERFORMANCE DATA

	Three months %	Six months %	One year %	Two years* %	Since inception* %
FIIR Global Core	-8.1	-6.2	-2.1	+12.3	+9.6
MSCI EAFE	-12.5	-1.2	-9.8	+3.7	+5.1

*Annualized. All figures include dividends and are US dollar based.

THE BORDERLESS INVESTOR PORTFOLIO

Company [symbol/country]/sector	Coverage Start Date	Reference price (\$)	Current price (\$)	Gain/Loss % *	Current Value (\$)**	Weight in model %	Current Advice
3M [MMM/US]/diversified	Aug-07	87.56	74.38	-15.1	28,339	3.5	Buy
ABB [ABB/Switzerland]/engineering	Jun-07	21.00	25.07	19.4	35,825	4.4	Buy
Aflac [AFL/US]/insurance	May-08	66.45	56.06	-15.6	28,142	3.5	Buy
American Express [AXP/US]/financial svcs	Aug-07	57.49	39.17	-31.9	22,719	2.8	Buy
ArcelorMittal [MT/Luxembourg]/steel	Apr-08	88.00	77.27	-12.2	31,063	3.8	Buy
Caterpillar [CAT/US]/machinery	Aug-07	78.96	70.80	-10.3	30,019	3.7	Buy
Cemex [CX/Mexico]/cement	Jan-08	31.40	21.79	-30.6	22,967	2.8	Buy
Citigroup [C/US]/banking	Aug-07	45.72	19.82	-56.6	14,449	1.8	Buy
Cisco [CSCO/US]/technology	Aug-07	29.46	24.62	-16.4	27,845	3.4	Buy
Diageo [DEO/UK]/beverages	Jun-08	67.08	76.38	13.9	31,239	3.8	Buy
Disney [DIS/US]/entertainment	Aug-07	33.90	32.80	-3.2	32,275	4.0	Buy
Embraer [ERJ/Brazil]/aerospace	Jan-08	41.21	29.90	-27.4	22,485	2.8	Buy
FedEx [FDX/US]/delivery svcs	Aug-07	108.56	87.97	-19.0	27,007	3.3	Buy
General Electric [GE/US]/diversified	Aug-07	38.06	29.95	-21.3	26,236	3.2	Buy
GlaxoSmithKline [GSK/UK]/pharma	Sep-08	55.00	48.53	-11.8	31,690	3.9	Buy
Goldman Sachs [GS/US]/financial svcs	Aug-07	179.68	178.00	-0.9	33,108	4.1	Buy
Infosys [INFY/India]/technology	Jan-08	36.72	41.34	12.6	28,731	3.5	Buy
ING [ING/Netherlands]/banking	Jan-08	35.40	32.73	-7.5	26,806	3.3	Buy
Liberty Global [LBTYA/US]/media	Jan-08	22.02	32.90	49.4	25,530	3.1	Buy
Manitowoc [MTW/US]/cranes	Aug-07	44.45	24.08	-45.8	18,060	2.2	Buy
Microsoft [MSFT/US]/software	Aug-07	28.96	27.90	-3.7	32,113	4.0	Buy
News Corp [NWS/Australia]/media	Aug-07	22.40	14.25	-36.4	21,204	2.6	Buy
Nokia [NOK/Finland]/telecom	Jan-08	18.89	27.05	43.2	30,404	3.7	Buy
Procter & Gamble [PG/US]/consumer goods	Aug-07	62.88	69.43	10.4	36,798	4.5	Buy
Starbucks [SBUX/US]/coffee shops	Aug-07	26.31	16.30	-38.0	20,652	2.5	Buy
Tiffany [TIF/US]/luxury goods	Aug-07	48.52	41.20	-15.1	28,304	3.5	Buy
UBS [UBS/Switzerland]/banking	Aug-08	56.00	21.69	-61.3	16,506	2.0	Buy
Recent prices as of Aug. 11, 2008. Net Asset Value (NAV) is shown for funds. *Not annualized, price-only. **Assumes \$33,333 initial investment				CASH	82,018	10.1	
				Total:	\$813,386	100.0%	

Note: Hypothetical portfolio values and performance figures for the Borderless Investor Portfolio are based on a simulated initial investment of \$1,000,000 at inception on August 3, 2007. The Borderless Investor Portfolio holdings, current recommendations and performance data are shown for illustrative purposes only. It does not represent an actual investment portfolio, nor should it be interpreted as personalized investment advice. Performance calculations are made using data that is believed to be accurate at the time of publication, but these figures have not been audited, and their accuracy cannot be guaranteed. ■

PORTFOLIO PERFORMANCE DATA

	Three months* %	Six months* %	Since inception* %
Borderless	-9.8	-8.5	-18.6
MSCI AC World	-10.9	-2.5	-9.1

*Not annualized. All figures include dividends and are US dollar based.

ADDITIONAL INVESTMENT IDEAS

Company [symbol/country]	Business	Coverage Initiated	Initial Price at Recommendation (\$)	Recent Price (\$)	Gain/Loss %	Buy/Sell/Hold
AUSTRALIA						
BHP Billiton [BBL/UK-Australia]	mining	Jan-06	34.61	56.79	64.1	Buy
Fosters [FBRWY/Australia]	beverages	Jan-06	4.21	4.55	8.1	Buy
BRAZIL						
Ambev [ABV/Brazil]	beverages	Jan-06	41.64	59.19	42.1	Buy
Banco Itau [ITU/Brazil]	banking	Jan-06	13.65	19.95	46.2	Buy
Cemig [CIG/Brazil]	electric utility	Feb-08	17.68	21.23	20.1	Buy
CVRD [RIO/Brazil]	mining	Jan-06	11.83	24.76	109.3	Buy
Embraer [ERJ/Brazil]	aerospace	Jan-06	41.21	29.90	-27.4	Buy
GOL [GOL/Brazil]	airline	Jan-06	26.11	10.17	-61.0	Buy
Net Servicos [NETC]	cable television	Mar-08	11.00	11.90	8.2	Buy
Pao de Acucar [CBD/Brazil]	retailing	Jan-06	36.19	42.90	18.5	Buy
Petrobras [PBR/Brazil]	energy	Jan-06	20.35	49.44	142.9	Buy
Sadia [SDA/Brazil]	food processing	Apr-06	10.03	21.75	116.8	Buy
Vivo [VIV/ Brazil]	telecom	May-07	4.37	5.42	24.0	Buy
CHILE						
Banco Chile [BCH/Chile]	banking	Jan-06	40.20	42.00	4.5	Buy
CHINA/HONG KONG						
China Medical Tech [CMED/China]	healthcare	Jul-06	20.60	54.78	165.9	Buy
China Mobile [CHL/China]	telecom	Jan-06	25.24	63.54	151.7	HOLD
Hutchison Telecom [HTX/HK]	telecom	Feb-06	22.97	19.28	-16.1	Buy
Lenovo [LNVGY; HK 992/China]	technology	Jan-06	9.22	14.30	55.1	Buy
VisionChina [VISN/China]	advertising	Feb-08	9.11	19.79	117.2	Buy
DENMARK						
Danske Bank [DNSKY/Denmark]	banking	Jan-06	17.97	14.31	-20.4	Buy
Novo Nordisk [NVO/Denmark]	healthcare	Jan-06	28.01	62.22	122.1	Buy
FINLAND						
Nokia [NOK/Finland]	telecom	Jan-06	18.89	27.05	43.2	Buy
FRANCE						
AXA [AXA/France]	insurance	Jan-06	32.78	33.58	2.4	Buy
Dassault Systemes [DASTY/France]	software	Jan-06	60.00	63.75	6.3	Buy
Publicis [PUBGY/France]	advertising	Jan-06	37.59	33.80	-10.1	Buy
Sanofi-Aventis [SNY/France]	pharmaceuticals	Jan-06	46.82	36.18	-22.7	Buy
Total [TOT/France]	energy	Jan-06	67.33	72.19	7.2	Buy
Veolia Environment [VE/France]	environmental	Feb-08	83.40	56.10	-32.7	Buy
GERMANY						
Deutsche Bank [DB/Germany]	banking	Jan-06	103.69	95.79	-7.6	Buy
HUNGARY						
Magyar Telecom [MTA/Hungary]	telecom	Jan-06	24.66	25.60	3.8	Buy

Recent prices as of Aug. 11, 2008. NAV shown for mutual funds and ETFs.

ADDITIONAL INVESTMENT IDEAS

Company [symbol/country]	Business	Coverage Initiated	Initial price at Recommendation (\$)	Recent Price (\$)	Gain/Loss %	Buy/Sell/ Hold
INDIA						
HDFC Bank [HDB/India]	banking	Jan-06	54.05	93.15	72.3	Buy
Infosys [INFY/India]	technology	Jan-06	36.72	41.34	12.6	Buy
Satyam Computer [SAY/India]	technology	Jan-06	19.13	23.78	24.3	Buy
Wipro [WIT/India]	technology	Jan-06	12.19	11.66	-4.3	Buy
ISRAEL						
Cellcom Israel [CEL/Israel]	telecom	May-08	34.51	32.92	-4.6	Buy
ITALY						
Luxottica [LUX/Italy]	eyewear	Jan-06	25.86	27.06	4.6	Buy
JAPAN						
Canon [CAJ/Japan]	electronics	Jan-06	42.50	48.40	13.9	Buy
Hitachi [HIT/Japan]	electronics	Jan-06	73.67	74.91	1.7	Buy
Komatsu [KMTUY/Japan]	industrial equip	Jan-06	70.29	91.43	30.1	Buy
Matsushita [MC/Japan]	electronics	Jan-06	22.43	21.49	-4.2	Buy
Mitsubishi-Tokyo UFJ [MTU/Japan]	banking	Jan-06	13.25	8.04	-39.3	Buy
Orix [IX/Japan]	financial svcs	Jan-06	127.95	65.78	-48.6	Buy
Russell/Nomura Sm. Cap Japan [JSC]	ETF	Feb-08	40.00	39.56	-1.1	Buy
Sekisui House [SKHSY/Japan]	housing	Jan-06	13.59	9.00	-33.8	Buy
Shiseido [SSDOY/Japan]	consumer	Jan-06	19.41	22.10	13.9	Buy
Sony [SNE /Japan]	electronics	Jan-06	44.64	39.87	-10.7	Buy
Toyota [TM/Japan]	automobiles	Jan-06	104.28	92.34	-11.4	Buy
MALAYSIA						
Malaysia iShare [EWM]	ETF	May-06	7.99	9.90	23.9	Buy
MEXICO						
America Movil [AMX/Mexico]	telecom	Jan-06	33.30	48.90	46.8	Buy
Cemex [CX/Mexico]	cement	Jan-06	31.40	21.79	-30.6	Buy
Grupo Televisa [TV/Mexico]	media	Jul-07	27.00	24.55	-9.1	Buy
Homex [HXM/Mexico]	housing	Feb-06	38.21	50.70	32.7	Buy
NETHERLANDS						
ING [ING/Netherlands]	banking	Jan-06	35.40	32.73	-7.5	Buy
Philips [PHG/Netherlands]	electronics	Jan-06	31.65	34.55	9.2	Buy
PHILIPPINES						
eTelecare Global Solutions [ETEL/Phil.]	outsourcing	Feb-08	7.87	6.25	-20.6	Buy
Philippines Long Distance [PHI/Phil.]	telecom	Dec-07	74.75	61.79	-17.3	Buy
RUSSIA						
CTC Media [CTCM/Russia]	television	Apr-08	27.75	22.65	-18.4	Buy
Mobile Telesystems [MBT/Russia]	telecom	Mar-07	50.88	75.40	48.2	Buy
Wimm-Bill-Dann Foods [WBD/Russia]	food & beverages	Jul-08	100.99	80.01	-20.8	Buy

Recent Prices as of Aug. 11, 2008. NAV shown for mutual funds and ETFs.

ADDITIONAL INVESTMENT IDEAS

Company [symbol/country]	Business	Coverage Initiated	Initial price at Recommendation (\$)	Recent Price (\$)	Gain/Loss %	Buy/Sell/Hold
SINGAPORE						
DBS Group [DBSDY/Singapore]	banking	Jan-06	40.51	53.50	32.1	Buy
Singapore iShare [EWS]	ETF	Feb-06	8.60	11.73	36.4	Buy
SOUTH AFRICA						
iShares South Africa [EZA/S.Africa]	ETF	Feb-08	58.50	53.47	8.6	SHORT
SOUTH KOREA						
Gmarket [GMKT/Korea]	internet	Jan-07	22.00	22.39	1.8	Buy
Matthews Korea Fund [MAKOX]	mutual fund	Jan-06	6.71	4.70	-30.0	Buy
Shinhan Financial [SHG/Korea]	banking	Jan-06	82.15	98.07	19.4	Buy
Woori Financial [WF/Korea]	banking	Jan-06	59.29	48.09	-18.9	Buy
SPAIN						
BSCH [STD/Spain]	banking	Jan-06	13.66	18.53	35.7	Buy
SWITZERLAND						
Logitech [LOGI/Switzerland]	technology	Jan-06	25.13	27.11	7.9	Buy
iShares Switzerland [EWL/Switzerland]	ETF	Dec-06	24.80	23.59	-4.9	Buy
Roche [RHHBY/Switzerland]	pharmaceuticals	Jan-06	77.35	85.46	10.5	Buy
UBS [UBS/Switzerland]	financial svcs	Aug-07	56.00	21.69	-61.3	Buy
Zurich Financial [ZFSVY/Switzerland]	insurance	Jan-06	22.13	26.20	18.4	Buy
TAIWAN						
Taiwan iShare [EWT]	ETF	Jan-06	13.20	13.85	4.9	Buy
Taiwan Semiconductor [TSM/Taiwan]	technology	Jan-06	10.39	10.67	2.7	Buy
TURKEY						
Turkcell [TKC/Turkey]	telecom	Jan-06	15.38	17.71	15.1	Buy
UK						
Invesco [IVZ/UK]	financial svcs	Apr-07	23.00	25.46	10.7	Buy
Diageo [DEO/UK]	beverages	Jun-06	67.08	76.38	13.9	Buy
GlaxoSmithKline [GSK/UK]	pharmaceuticals	Sep-06	55.00	48.53	-11.8	Buy
OTHER						
Matthews Asia Tech Fund [MATFX]	mutual fund	Jan-08	9.52	7.64	-19.7	Buy
Liberty Global [LBTYA/US]	telecom	Jan-06	22.02	32.90	49.4	Buy
T Rowe Price Africa & M.E. [TRAMX]	mutual fund	Dec-07	12.55	11.69	-6.9	Buy

Recent Prices as of Aug. 11, 2008. NAV shown for mutual funds and ETFs.

CLOSED POSITIONS

Company [symbol/country]	Business	Coverage Initiated	Initial price at Recommendation (\$)	Final Price (\$)	Holding period Gain/Loss %	Current Advice
Ducati [DMH/Italy]	motorcycles	Jan-06	8.68	21.70	150.0	Closed
Focus Media [FMCN/China]	advertising	Jan-06	20.75	44.31	113.5	Closed
Suntech [STP/China]	solar power	Feb-06	37.56	69.42	84.8	Closed
Sinopec [SNP/China]	energy	Jan-06	55.15	92.64	68.0	Closed
Anglo American [AAUK/UK-S.Africa]	mining	Jan-06	17.90	29.48	64.7	Closed
BASF [BASFY/Germany]	diversified	Jan-06	75.89	124.90	64.6	Closed
Vimpel Communications [VIP/Russia]	telecom	Jan-06	49.42	78.95	59.8	Closed
Tatneft [TNT/Russia]	energy	Jan-06	74.38	118.74	59.6	Closed
Akzo Nobel [AKZOY/Netherlands]	chemicals	Jan-06	47.34	70.09	48.1	Closed
Volvo [VOLVY/Sweden]	automobiles	Jan-06	48.80	68.75	40.9	Closed
MTN Group [MTNOY/South Africa]	telecom	Jan-06	10.29	15.25	39.7	Closed
Adecco [ADO/Switzerland]	services	Jan-06	13.12	18.17	38.5	Closed
Rio Tinto [RTP/UK-Australia]	mining	Jan-06	196.69	266.46	35.3	Closed
Amvescap [AVZ/UK]	financial svcs	Jan-06	17.16	22.96	33.8	Closed
Sasol [SSL/South Africa]	diversified	Jan-06	36.45	48.02	31.7	Closed
Veolia Environment [VE/France]	environment	Jan-06	47.06	61.99	31.7	Closed
ANZ Bank [ANZ/Australia]	banking	Jan-06	92.60	121.20	30.9	Closed
Barclays [BCS/UK]	banking	Jan-06	43.98	56.94	29.5	Closed
SanPaolo IMI [IMI/Italy]	banking	Jan-06	32.82	41.78	27.3	Closed
Ctrip.com [CTRP/China]	travel	Feb-06	38.78	48.12	24.1	Closed
Naspers [NPSN/South Africa]	technology	Jan-06	21.00	25.55	21.7	Closed
Repsol YPF [REP/Spain]	energy	Jan-06	30.94	35.83	15.8	Closed
SAP [SAP/Germany]	technology	Jan-06	46.38	53.10	14.5	Closed
Vivendi Universal [V/France]	media	Jan-06	31.47	35.88	14.0	Closed
Portugal Telecom [PT/Portugal]	telecom	Jan-06	10.37	11.51	11.0	Closed
Telstra [TLS/Australia]	telecom	Jan-06	15.01	16.38	9.1	Closed
Suez [SZE/France]	diversified	Jan-06	33.67	36.66	8.9	Closed
Ternium [TX/Argentina]	steel	Oct-07	34.00	35.82	5.4	Closed
Kyocera [KYO/Japan]	electronics	Jan-06	82.52	83.27	0.9	Closed
Serono [SRA/Switzerland]	pharmaceuticals	Jan-06	21.18	21.18	0.0	Closed
DaimlerChrysler [DCX/Germany]	automobiles	Jan-06	54.53	52.86	-6.3	Closed
Sanyo Electronics [SANYY/Japan]	electronics	Jan-06	15.04	13.35	-11.2	Closed
NTT DoCoMo [DCM/Japan]	telecom	Jan-06	17.04	13.89	-18.5	Closed
Shanda Interactive [SNDA/China]	technology	Jan-06	17.17	13.55	-21.1	Closed
Internet Initiative Japan [IIJ/Japan]	technology	Jan-06	12.04	8.46	-29.7	Closed
Webzen [WZEN/Korea]	technology	Jan-06	10.20	6.27	-38.5	Closed
Allied Irish Banks [AIB/Ireland]/	banking	Jan-06	44.20	26.47	-40.1	Closed
Thomson [TMS/France]	media technology	Jan-06	22.12	12.00	-45.8	Closed
Ericsson [ERIC/Sweden]	telecom	Jan-06	35.27	18.91	-46.4	Closed
Sify [SIFY/India]	technology	Jan-06	10.93	5.61	-48.7	Closed

The table above shows the performance history of recommendations that were made in previous editions of this newsletter. For each stock or fund, we show the month that the initial recommendation was made, the price at the time of the initial recommendation, and the final price when a “sell” recommendation was issued or the security was otherwise removed from our portfolios. The holding period gain/loss column shows the simple percentage change between the recommended price and the final price when the position was sold or closed. This figure is not annualized, it does not include dividends or other distributions, and it does not take into account any trading costs or tax considerations. In some cases, the ticker symbols shown above may have changed. This table is shown strictly for informational purposes only. None of the stocks or funds listed here should be construed as current recommendations. Although the pricing data shown above is derived from sources believed to be reliable, its accuracy cannot be guaranteed.

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