

GOLF LESSON

The highlight reel from this year's U.S. Open at Torrey Pines will be a source of delight for golf fans for many years to come. But Phil Mickelson, the world's #2-ranked player and an early favorite to win the tournament, will be conspicuously absent.

In the early rounds, Mickelson left his driver, a powerful but volatile club, at home. Instead, he teed off with a 3-wood, which is shorter, but generally more accurate. Mickelson also carried five wedges in his bag to take advantage of scoring opportunities close to the green. For a short-game wizard like Mickelson, it was a strategy that seemed to make good sense in theory.

In practice, however, it turned out to be a costly gambit. Mickelson gradually slid down the leaderboard before eventually putting the driver back in his bag. He fired an impressive 68 on Sunday afternoon, but by then the damage was done.

Instead of a much-anticipated Tiger and Phil showdown—as some golf pundits had predicted—the Open was decided in an epic 19-hole playoff between Tiger and #158-ranked Rocco Mediate.

The lesson here—for golfers and investors alike—is that playing it too “safe” can sometimes backfire.

Take emerging markets. The conventional wisdom has long been that emerging markets are a “risky” asset class and are thus off-limits to conservative investors. And for more aggressive types, they are best used in very small doses, say 5% or 10% of your equity portfolio, maybe 20% max. This is the orthodox approach

taught in business schools, the CFA program, and preached by financial advisors. And to merely suggest anything else borders on the verge of heresy.

Trouble is, this perfectly sensible-sounding advice has been dead wrong. And I'm not just talking about the recent outperformance of the “BRIC” markets. According to Morgan Stanley Capital International (MSCI) data, emerging markets as a group have delivered a 12.8% compound annualized

return over the past ten years. Meanwhile, the U.S. market has delivered just 2% a year over the same stretch.

Ten years is an awful long time to get stuck with lackluster performance, especially if you're trying to build wealth for retirement or other long-term goals. And 2% is abysmal compensation in for taking equity risk in any market, developed or emerging.

Don't get me wrong. Emerging markets, like those oversized 460cc titanium drivers, can be *volatile*. The steep year-to-date plunges in China (-23.8%), India (-31.5%), and Turkey (-34.8) are a reminder that when you tee it up in emerging markets, every now and then you'll shoot a few balls into the ocean.

But as whole, emerging markets have offered a pretty good risk/reward proposition, even in these turbulent times. MSCI's Emerging Markets index was up +36.5% last year and down -8.2% since the start of 2008. Compare that to U.S. stocks: heads you win +4.1% (2007) and tails you lose -7.2% (2008 YTD). Which was the “riskier” bet?

None of this means that you should throw caution to the wind or make reckless decisions. Investing, much like golf, involves taking calculated risks, supported by solid fundamentals. And that trade-off still favors emerging markets. According to S&P/Citigroup valuation data, emerging markets sell for 13.9 times 2008 earnings versus 15.3 for the U.S. Return-on-equity for emerging market firms runs about 16.1% versus 14.9% in the U.S.

The macro picture also continues to look good. While economists and CNBC's talking heads can't seem to agree whether or not the U.S. is in recession—and, if so, when did it start?—global growth remains surprisingly robust. Even after factoring in the U.S. slowdown, the World Bank expects 9.4% GDP growth in China this year, 7% growth in Russia and India, and 4.6% in Brazil. And policymakers in these “risky” markets have arguably been more vigilant on inflation than Helicopter Ben and friends at the Fed.

The big story in emerging markets continues to be the massive infrastructure build-out. *The Economist*, a sober publication that knows its global financial history well and eschews hyperbole, notes that “never before has infrastructure spending been so large as a share of World GDP.” Not during the Industrial Revolution. Not during the railway boom. Never.

And yet...some folks still insist that emerging market stocks are a passing fad or too “risky”. Are they volatile? Certainly. But they're also cheaper, more profitable, and the macroeconomic story is better. Relegating these important opportunities to a minor role in your portfolio has been—and will continue to be—a huge mistake.

So take a tip from Phil Mickelson's miscalculation: Keep the driver in your bag. You'll need it. ■

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China/medical equipment

After a blistering 63% gain last year, Chinese stocks have been tanking in 2008. MSCI's China index is off 24% since Jan. 1, ranking among the world's worst-performing markets.

But some Chinese firms have been quietly bucking the trend. Shares of our longtime Global Core holding **China Medical** (nasdaq: CMED) have surged almost 30% since June 12 after the company reported fiscal 2007 results that beat expectations.

Mindray Medical International Ltd. (nyse: MR) is another Chinese healthcare name that merits closer attention. Based in Shenzhen, Mindray is China's largest medical equipment manufacturer. The company operates in three business segments: patient monitoring; biochemistry and hematology analysis equipment; and ultrasound imaging systems.

Mindray's full-year 2007 revenue rose 47% to \$306m. Revenues were fairly balanced among the three segments. Patient monitoring equipment accounted for the largest share sales (35%), followed by analyzers and ultrasound imaging at about 31% each.

Mindray certainly isn't a household name. And, with a market cap of \$4 billion, it's a little on the small side. But this is no fly-by-night operation. Founded in 1991, Mindray has the No.1 market share in China for several of its products and it routinely beats or at least holds its own against much bigger global competitors like **GE** (nyse: GE), **Siemens**, and several Japanese firms.

And Mindray has ambitions far beyond China. Indeed, its home country accounts for only half of its revenue. Europe accounts for 18.4% of sales, Asia ex China comes in at 13.5%, and 6.8% of sales are in the U.S. Mindray has been exporting its med-

ical equipment since the start of the decade, but as recently as a few years ago the Chinese market accounted for three-quarters of the company's revenue.

By making its equipment in China, Mindray enjoys an obvious cost advantage. But it's not merely a cheap manufacturing play. The company is committed to innovation, targeting R&D spending at 10% of revenue. Mindray has nearly 1,000 engineers in China and Seattle, and the company typically rolls out about 8 new products each year.

The strategy is paying off. Net income rose 64% last year to \$81 million, a net margin of 26.4%. Return-on-equity was a robust 21.5%. By selling most of its equipment through a network of exclusive distributors, Mindray keeps sales and marketing expenses low. The bottom line also gets a little extra boost thanks to the Chinese tax code. As a "high tech" enterprise, Mindray qualifies for a 15% tax rate rather than the 25% rate that is the norm for Chinese companies in other sectors.

Demand for Mindray's equipment is expected to remain strong in China. The government is eager to help hospitals invest in new equipment, particularly in rural areas that are less advanced than the big cities. Sales outside of China should also continue to be robust. Earlier this month, Mindray received FDA approval to sell its DC-3 color ultrasound imaging system in the U.S., the latest of 16 products with FDA clearance. Mindray's guidance calls for 50% sales growth in U.S. in 2008. At a recent \$39, Mindray sells for 26 times earnings estimates for 2009. That's not cheap, but the company has the growth and profitability to back it up. And as emerging market stocks go, medical equipment makers are as close to "defensive" as they come. ■



P/E: 25.8

EV/EBITDA: 15.4

MARKET CAP: \$4 BLN

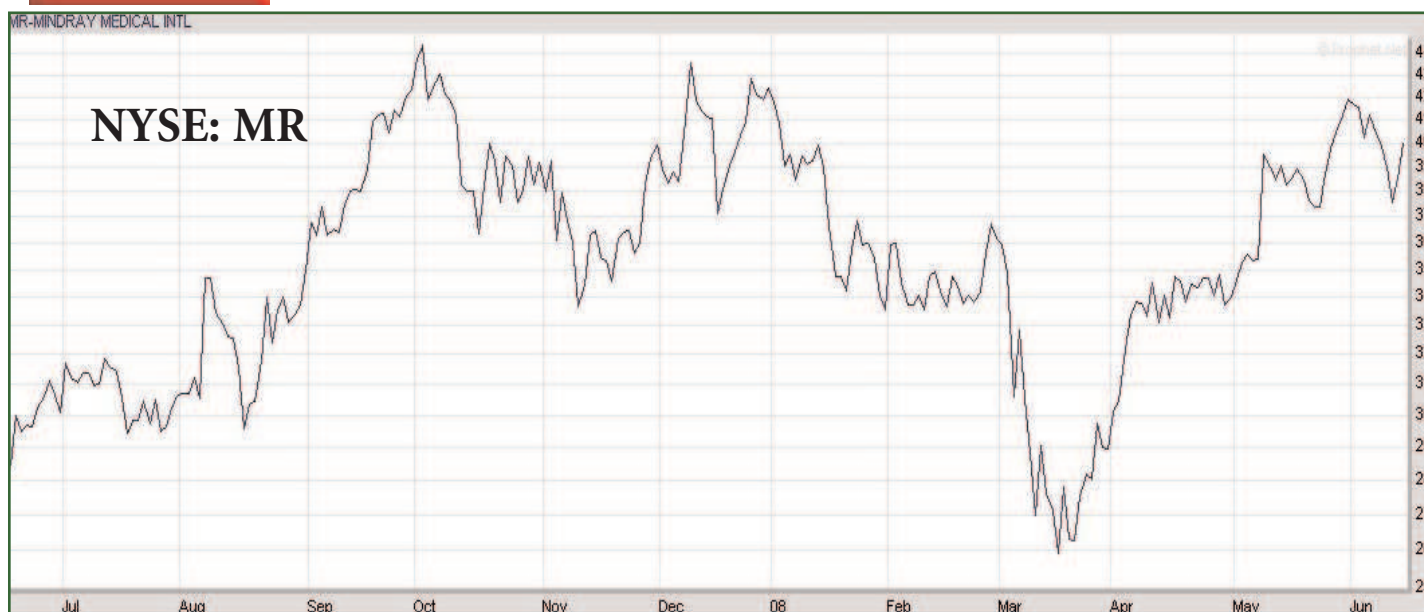


Chart source: Prophet.net; Chinese flag courtesy of www.33ff.com

MODEL PORTFOLIO ADDITIONS & UPDATES

SELL: AmBev (nyse: ABV), Remove from Global Core

AmBev's parent company, InBev, is shaking up the beer world with a \$47 billion unsolicited offer for **Anheuser-Busch** (nyse: BUD). While the deal makes a lot of strategic sense for all parties, it may not be the best news for ABV shareholders in the short run. First there's the issue of simply getting the deal done. The Busch family isn't thrilled with the idea of handing over the reins of the Clydesdales to a bunch of scrappy Brazilians, so it will be a long and likely expensive takeover battle. BUD is already talking about a merger with **Grupo Modelo** to keep InBev at bay and has even enlisted politicians and lobbyists to stir up protectionist fears in Washington. Assuming the deal goes through, a much bigger issue looms: the integration of two vastly different corporate cultures. Very few huge, cross-border M&A deals end up delivering positive surprises for shareholders, regardless of how good the spreadsheets look to the investment bankers. Shares of ABV are up 58% since the first issue of this newsletter. It's a good time to take our chips off the table. ■

AMBEV (NYSE: ABV)



Chart source: Prophet.net

NEW BUY: BanColombia (nyse: CIB), Add to Global Core

Many investors remain skittish about financial stocks. And nerves have also been on edge in emerging markets. That makes emerging market banks a particularly dicey-looking combination in the short run. But over the long haul, banks are one of the best ways to capitalize on improving economies in the emerging world. And many of these institutions either steered clear of the toxic junk that brought down Wall Street, or simply never had the capability to handle the stuff in the first place. **BanColombia** (nyse: CIB) is a good example. With \$12 billion in assets, it's Colombia's largest bank and a good way to play the country's rapidly improving political and economic outlook. President Alvaro Uribe's crackdown on FARC guerrillas is gathering a lot of momentum after the death of longtime FARC leader Manuel Marulanda and two other key lieutenants in March. Uribe hopes to import some Celtic mojo to Colombia's economy by cutting taxes and taking other steps that Ireland did to fix its economy years ago. It's a stretch to declare Colombia the "next Ireland", but not too early to add to your portfolio. ■

BANCOLOMBIA (NYSE: CIB)



Chart source: Prophet.net

UPDATE: Veolia (ticker: VE), BUY, Add to Global Core

"Green" investing is rapidly becoming a big theme among institutional investors, particularly in Europe. But in contrast to earlier versions that focused on environmental issues under the hazy rubric of "doing the right thing", today's "responsible" investors are just as focused on the bottom line. Think efficiency and cost cutting rather than tree-hugging for its own sake. France's **Veolia Environment** (nyse: VE) is a leading player in several key environmental businesses including water treatment (34% of revenue), waste management (28%) and energy services (21%). But apart from fitting into the green thesis, VE is a great company on its own merits. Revenue rose 15% in 2007 and net income rose 22%. Veolia's customer base consists mainly of municipalities, which tend to operate on long-term contracts. VE's Chinese contracts, for example, run as much as 30 years. The result is a very powerful combination of stability and growth. ■

VEOLIA ENVIRONMENT (NYSE: VE)

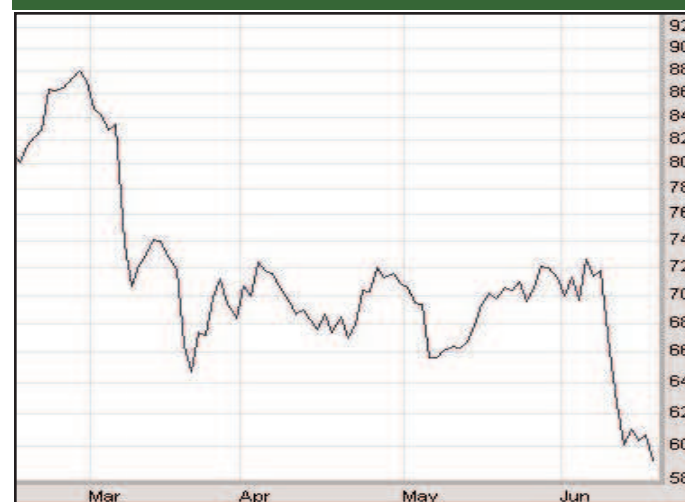


Chart source: Prophet.net

GLOBAL GURUS: JOHN CONNOR, THIRD MILLENNIUM RUSSIA

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's Q&A guest is John T. Connor Jr., founder and portfolio manager of the **Third Millennium Russia Fund** (ticker: TMREX). Since its launch in October 1998, the fund has delivered a 36% compound annualized return.

Connor's experience in Russia spans three decades and consists of a lot more than just picking stocks. A Harvard-trained lawyer, Connor ran an insurance company in Russia in the mid-1990s and served as president of a leading Russian internet portal. His new book, **Out of the Red: Investment and Capitalism in Russia** (Wiley, 2008) is an absolute must-read for anyone interested in Russia or emerging markets investing. —JHC

FOR INVESTORS WHO STILL DON'T HAVE ANY EXPOSURE TO RUSSIA, WHAT'S THE CASE FOR GETTING INVOLVED NOW?

First there's the perennial dictum now that market cap is moving offshore. If you follow the whole idea of equity indexes, you follow where the market cap goes and it's increasingly moving overseas. So just in terms of diversification, there is more and more reason to invest outside the U.S. market. In the case of Russia, you also have a strong currency—the ruble—appreciating against the dollar. Lastly, there's the fundamental performance of Russian companies, many of which have outstanding growth profiles.

AND THE ENERGY SECTOR IS PRESUMABLY A BIG PART OF THE EQUATION AS WELL.

Right. The big news in the oil sector is that Russia is reducing the tax bite, which has been extremely steep. The government takes almost 90 cents on the dollar when crude prices are above \$25 per barrel. They're also reducing the mineral extraction tax. So, the oil companies are going to be able to keep a lot more of their revenue, and that will be available for capital investment and new exploration. That's important because Russian oil output overall is stagnant, and in danger of actually falling. Up until now, it just hasn't been worth it for companies to spend money on exploration and production if the government takes almost all of the upside.

THAT MUST MAKE RUSSIAN OIL COMPANIES A SCREAMING BUY.

Yes, it does. Everybody knows what's happened to the price of oil. The Russian companies were making good money, but not like Exxon. Now it looks like there's much more potential for profits to grow. We own a big chunk of **Lukoil** (otc: LUKOY). I started loading up once the prospects for tax relief came along.

But in the fund we can only own so much of one stock, so to increase our weight in the sector we had to look elsewhere. We also own **Rosneft** (London: ROSN) and **Tatneft** (London: ATAD).

ANY OTHER COMMODITY PLAYS BESIDES OIL?

Norilsk Nickel (otc: NILSY) is one of my core investments. It's one of the leading metals companies in the world. It produces 20% of the world's nickel, which is used to make stainless steel, 12% of global platinum, and 50% of palladium. We also own **Uralkaliy** (London: URKA), a leading potash producer.

WHAT OTHER SECTORS LOOK ATTRACTIVE?

Russia is the world's largest exporter of commodities and energy. That part of the story is well understood. But given the growth in Russia over the last six years, it's become a consumer-based economy like our own. So consumer spending has gone way up. Russians spend very little on housing, so they have a lot to spend on durables and personal goods.

WHY DO RUSSIANS SPEND SO LITTLE ON HOUSING?

Well, most people live in apartments. And the state privatized those apartments to the occupants at minimal cost. Basically the government gave away the apartments to the people who were living in them. Very few people have mortgages, and things like electricity and heating are subsidized. In other words, instead of occupancy being 30%-40% of disposable income, it's more like 5%. Of course the private sector builds luxury homes and apartments and those are much more expensive. But for average folks the cost of occupancy in Russia is probably among the lowest in the world, certainly for a Northern climate.

HOW ARE YOU PLAYING THE CONSUMER THEME?

There are a lot of businesses like pharmacies that were previously state-owned, but were privatized to the workers and managers. For example, we own a company called **Pharmacy Chain 36.6** which is Russia's largest pharmacy chain. It takes its name from the healthy body temperature in centigrade. They go in and buy these rather pedestrian-looking pharmacies and then remodel them to a more modern look, and it becomes a 36.6-branded store. It's a classic "roll-up" and re-branding strategy. Another example is **Wimm-Bill-Dann** (nyse: WBD), which did the same thing with dairies and fruit juices. It's Russia's largest food company and second-largest beverage maker. They acquired existing facilities, re-branded them, improved service, and made them more efficient.



John T. Connor Jr.

(Continued)

GLOBAL GURUS: JOHN CONNOR, THIRD MILLENIUM RUSSIA

ARE RUSSIAN CONSUMERS USING ANY OF THEIR SPARE CASH FOR IPODS, COMPUTERS OR OTHER ELECTRONIC GADGETS?

Telecom shares have really become consumer stocks because of the cell-phone usage factor going up so dramatically. Again, it's a function of high disposable income. **Mobile Telesystems** (nyse: MBT) and **VimpelCom** (nyse: VIP) are two excellent private sector players. VIP is also in the broadband business via Golden Telecom. They are also expanding geographically into the Ukraine.

IN YOUR BOOK YOU TALK A LOT ABOUT THE MISCONCEPTIONS OUT THERE ABOUT RUSSIA, PARTICULARLY WITH RESPECT TO POLITICS AND GOVERNMENT. WHAT ARE THE IMPLICATIONS FOR INVESTORS?

You see it in a big political discount. The Russian market in general trades on a price-earnings multiple of about 10, which is low compared to other BRIC countries and to the US. And a big part of that is the so-called political discount. In other words, people say, "Well, Russia's a high risk country, it's run by a Tsar, there's no property rights, no rule of law," and other nonsense. That's just my exaggerated version of it, but you can find those generalizations in the newspapers everyday.

AND YOU THINK THOSE CONCERNS ARE OVERDONE?

Yes. It certainly makes sense to factor in a discount for risk; analysts do that in every market. But in Russia's case it's a pretty hefty one and I think it's probably too much. Now, I'm not necessarily complaining about it, because a certain portion of my yearly performance reflects the fact that Russia's credit rating has gone up and the political discount is abating. There's a slow process underway in which Russia is getting a fairer shake, if you will, in terms of investor perceptions. So I'm pretty optimistic that the political discount will get to be less and less over time.

HOW MUCH OF THE FUND IS INVESTED OUTSIDE RUSSIA?

Not much, about 5%. I pick stocks company by company and right now I just see more opportunities in Russian companies. But in the Ukraine we own **Stirol**, a fertilizer and specialty chemical company. In Kazakhstan we own **KazMunaiGaz**. We also own **Raiffeisen Bank**, which is an Austrian bank, but they do 50% of their business in Russia and the Ukraine.

THERE'S A LOT OF CONCERN ABOUT INFLATION JUST ABOUT EVERYWHERE YOU LOOK. HOW IS RUSSIA HANDLING IT?

Russia hasn't exhibited quite as much fiscal restraint as they have in the last six years. Part of it is due to structural inflation, that is, bringing the cost of electricity, telephone service, and so forth up to normal levels. But they're also spending a lot of money on health services, education, housing, which is also inflationary. Remember, it's still a poor country and it was an election year, so the spending increases shouldn't come as a big surprise. But I do think they have it under control.

WHAT ARE SOME OTHER RISK FACTORS THAT INVESTORS SHOULD BEAR IN MIND WHEN LOOKING AT RUSSIA?

There is still a lot of structural weakness in the banking and insurance sectors. The local bankers are often just trying to keep the foreigners out. We do own **Sberbank**. They've unfairly been tarred by the same brush as the global financial sector. Subprime, the credit crunch, those problems are simply not relevant to Sberbank. But you know how analysts work! Insurance is just a matter of not seeing the need for it. There's a famous example about a company whose factory burned down. So they go to the Kremlin and say "Hey, build us a new factory." The Kremlin says "Maybe you haven't been reading the newspapers. We're not building people's factories anymore." So the whole concept of insuring against loss is still catching on! ■



Chart Source: Prophet.net

GLOBAL CORE PORTFOLIO

| Company [symbol/country]/sector | Coverage Start Date | Reference price(\$) | Current price (\$) | Gain/Loss %* | Current Value (\$)** | Weight in model % | Current Advice |
|---|---------------------|---------------------|--------------------|--------------|--------------------------|-------------------|----------------|
| Allied Irish Banks [AIB/Ireland]/banking | Jan-06 | 44.20 | 34.87 | -21.1 | 19,423 | 1.4 | Buy |
| Ambev [ABV/Brazil]/beverages | Jan-06 | 41.64 | 68.82 | 65.3 | 0 | 0.0 | SELL |
| America Movil [AMX/Mexico]/telecom | Jan-06 | 33.30 | 56.59 | 69.9 | 56,647 | 4.1 | Buy |
| ArcelorMittal [MT/Luxembourg]/steel | Apr-08 | 88.00 | 95.28 | 8.3 | 38,303 | 2.8 | Buy |
| BanColombia [CIB/Colombia]/banking | Jun-08 | 34.64 | 34.64 | 0.0 | 33,635 | 2.4 | NEW BUY |
| Canon [CAJ/Japan]/electronics | Jan-06 | 42.50 | 50.81 | 19.6 | 39,835 | 2.9 | Buy |
| China Medical [CMED/China]/healthcare | Jul-06 | 20.60 | 40.41 | 96.2 | 49,745 | 3.6 | Buy |
| Embraer [ERJ/Brazil]/aerospace | Jan-06 | 41.21 | 31.55 | -23.4 | 25,524 | 1.9 | Buy |
| GlaxoSmithKline [GSK/UK]/pharmaceuticals | Sep-06 | 55.00 | 42.04 | -23.6 | 26,569 | 1.9 | Buy |
| HDFC Bank [HDB/India]/banking | Jan-06 | 54.05 | 84.64 | 56.6 | 52,223 | 3.8 | Buy |
| Homex [HXM/Mexico]/housing | Feb-06 | 38.21 | 65.28 | 70.8 | 45,827 | 3.3 | Buy |
| Hutchison Telecom [HTX/HK]/telecom | Feb-06 | 22.97 | 21.62 | -5.9 | 33,987 | 2.5 | Buy |
| Infosys [INFY/India]/technology | Jan-06 | 36.72 | 47.32 | 28.9 | 42,967 | 3.1 | Buy |
| ING [ING/Netherlands]/banking | Jan-06 | 35.40 | 35.32 | -0.2 | 33,271 | 2.4 | Buy |
| iShares Brazil [EWZ/Brazil]/ETF | Jan-08 | 78.00 | 90.82 | 16.4 | 38,780 | 2.8 | Buy |
| Lenovo [LNVGY/China]/technology | Jan-06 | 9.22 | 13.74 | 49.0 | 49,670 | 3.6 | Buy |
| Liberty Global [LBTYA/US]/media | Jan-06 | 22.02 | 33.96 | 54.2 | 51,415 | 3.7 | Buy |
| Malaysia iShare [EWM]/ETF | May-06 | 7.99 | 10.92 | 36.7 | 28,195 | 2.0 | Buy |
| Matthews Asian Tech [MATFX]/mutual fund | Jan-08 | 9.52 | 8.25 | -13.3 | 28,883 | 2.1 | Buy |
| Mindray Medical [MR/China]/medical equip | Jun-08 | 39.98 | 39.98 | 0.0 | 33,303 | 2.4 | NEW BUY |
| Mitsubishi UFJ [MTU/Japan]/banking | Jan-06 | 13.25 | 9.90 | -25.3 | 24,908 | 1.8 | Buy |
| Mobile Telesystems [MBT/Russia]/telecom | Mar-07 | 50.88 | 84.45 | 66.0 | 29,473 | 2.1 | Buy |
| Nokia [NOK/Finland]/telecom equipment | Jan-06 | 18.89 | 26.08 | 38.1 | 46,031 | 3.3 | Buy |
| Novo Nordisk [NVO/Denmark]/healthcare | Jan-06 | 28.01 | 61.46 | 119.4 | 33,803 | 2.5 | Buy |
| Petrobras [PBR/Brazil]/energy | Jan-06 | 20.01 | 67.94 | 239.5 | 54,080 | 3.9 | HOLD |
| Philippines Long Distance [PHI/Phil.]/telecom | Dec-07 | 74.75 | 52.95 | -29.2 | 23,616 | 1.7 | Buy |
| Philips [PHG/Netherlands]/electronics | Jan-06 | 31.65 | 36.51 | 15.4 | 28,186 | 2.0 | Buy |
| Sadia [SDA/Brazil]/food processing | May-06 | 10.04 | 23.00 | 129.1 | 74,497 | 5.4 | Buy |
| Sanofi-Aventis [SNY/France]/pharmaceuticals | Jan-06 | 46.82 | 33.04 | -29.4 | 23,524 | 1.7 | Buy |
| Sony [SNE/Japan]/electronics | Jan-06 | 44.64 | 48.66 | 9.0 | 36,349 | 2.6 | Buy |
| Russell/Nomura Sm. Cap Japan [JSC]/ETF | Feb-08 | 40.00 | 43.10 | 7.8 | 35,428 | 2.6 | Buy |
| T. Rowe Price Africa & M.E. [TRAMX]/mutual fund | Dec-07 | 12.55 | 13.99 | 11.5 | 37,157 | 2.7 | Buy |
| Taiwan Semiconductor [TSM/Taiwan]/technology | Jan-06 | 10.39 | 11.23 | 8.1 | 37,104 | 2.7 | Buy |
| Turkcell [TKC/Turkey]/telecom | Jan-06 | 15.38 | 17.41 | 13.2 | 37,727 | 2.7 | Buy |
| UBS [UBS/Switzerland]/financial svcs | Aug-07 | 56.00 | 24.67 | -55.9 | 17,368 | 1.3 | Buy |
| Veolia Environment [VE/France] environmental svcs | Jun-08 | 61.01 | 61.01 | 0.0 | 34,349 | 2.5 | NEW BUY |
| Woori Finance [WF/Korea]/banking | Jan-06 | 59.29 | 51.00 | -14.0 | 28,662 | 2.1 | Buy |
| | | | | CASH | \$49,189 | 3.6 | |
| | | | | | TOTAL \$1,379,654 | 100.0% | |

Recent prices as of June 13, 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 | +0.8 | -9.0 | +2.6 | +21.5 | +12.9 |
| MSCI EAFE | +0.5 | -8.9 | -5.7 | +10.4 | +6.6 |

*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 | 76.12 | -13.1 | 29,002 | 3.3 | Buy |
| ABB [ABB/Switzerland]/engineering | Jun-07 | 21.00 | 29.94 | 42.6 | 42,784 | 4.9 | Buy |
| Aflac [AFL/US]/insurance | May-08 | 66.45 | 67.41 | 1.4 | 33,840 | 3.9 | Buy |
| American Express [AXP/US]/financial svcs | Aug-07 | 57.49 | 44.66 | -22.3 | 25,903 | 3.0 | Buy |
| ArcelorMittal [MT/Luxembourg]/steel | Apr-08 | 88.00 | 95.28 | 8.3 | 38,303 | 4.4 | Buy |
| Caterpillar [CAT/US]/machinery | Aug-07 | 78.96 | 81.50 | 3.2 | 34,556 | 3.9 | Buy |
| Cemex [CX/Mexico]/cement | Jan-08 | 31.40 | 25.75 | -18.0 | 27,141 | 3.1 | Buy |
| Citigroup [C/US]/banking | Aug-07 | 45.72 | 20.48 | -55.2 | 14,930 | 1.7 | Buy |
| Cisco [CSCO/US]/technology | Aug-07 | 29.46 | 26.37 | -10.5 | 29,824 | 3.4 | Buy |
| Diageo [DEO/UK]/beverages | Jun-08 | 67.08 | 76.27 | 13.7 | 31,194 | 3.6 | Buy |
| Disney [DIS/US]/entertainment | Aug-07 | 33.90 | 33.93 | 0.1 | 33,387 | 3.8 | Buy |
| Embraer [ERJ/Brazil]/aerospace | Jan-08 | 41.21 | 31.55 | -23.4 | 23,726 | 2.7 | Buy |
| FedEx [FDX/US]/delivery svcs | Aug-07 | 108.56 | 85.98 | -20.8 | 26,396 | 3.0 | Buy |
| General Electric [GE/US]/diversified | Aug-07 | 38.06 | 29.15 | -23.4 | 25,535 | 2.9 | Buy |
| GlaxoSmithKline [GSK/UK]/pharma | Sep-08 | 55.00 | 42.04 | -23.6 | 27,452 | 3.1 | Buy |
| Goldman Sachs [GS/US]/financial svcs | Aug-07 | 179.68 | 178.29 | -0.8 | 33,162 | 3.8 | Buy |
| Infosys [INFY/India]/technology | Jan-08 | 36.72 | 47.32 | 28.9 | 32,887 | 3.8 | Buy |
| ING [ING/Netherlands]/banking | Jan-08 | 35.40 | 35.32 | -0.2 | 28,927 | 3.3 | Buy |
| Liberty Global [LBTYA/US]/media | Jan-08 | 22.02 | 33.96 | 54.2 | 26,353 | 3.0 | Buy |
| Manitowoc [MTW/US]/cranes | Aug-07 | 44.45 | 39.67 | -10.8 | 29,753 | 3.4 | Buy |
| Microsoft [MSFT/US]/software | Aug-07 | 28.96 | 29.07 | 0.4 | 33,460 | 3.8 | Buy |
| News Corp [NWS/Australia]/media | Aug-07 | 22.40 | 18.43 | -17.7 | 27,424 | 3.1 | Buy |
| Nokia [NOK/Finland]/telecom | Jan-08 | 18.89 | 26.08 | 38.1 | 29,314 | 3.3 | Buy |
| Procter & Gamble [PG/US]/consumer goods | Aug-07 | 62.88 | 66.45 | 5.7 | 35,219 | 4.0 | Buy |
| Starbucks [SBUX/US]/coffee shops | Aug-07 | 26.31 | 18.17 | -30.9 | 23,021 | 2.6 | Buy |
| Tiffany [TIF/US]/luxury goods | Aug-07 | 48.52 | 46.67 | -3.8 | 32,062 | 3.7 | Buy |
| UBS [UBS/Switzerland]/banking | Aug-08 | 56.00 | 24.67 | -55.9 | 18,774 | 2.1 | Buy |
| Recent prices as of June 13, 2008. Net Asset Value (NAV) is shown for funds. *Not annualized, price-only. **Assumes \$33,333 initial investment | | | | CASH | 82,018 | 9.4 | |
| | | | | Total: | \$876,346 | 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 | 0.0 | -11.5 | -12.4 |
| MSCI AC World | +2.5 | -7.5 | -2.2 |

*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 | 73.24 | 111.6 | Buy |
| Fosters [FBRWY/Australia] | beverages | Jan-06 | 4.21 | 5.14 | 22.1 | Buy |
| BRAZIL | | | | | | |
| Ambev [ABV/Brazil] | beverages | Jan-06 | 41.64 | 68.82 | 65.3 | Buy |
| Banco Itau [ITU/Brazil] | banking | Jan-06 | 13.65 | 22.01 | 61.2 | Buy |
| Cemig [CIG/Brazil] | electric utility | Feb-08 | 17.68 | 23.74 | 34.3 | Buy |
| CVRD [RIO/Brazil] | mining | Jan-06 | 11.83 | 34.57 | 192.2 | Buy |
| Embraer [ERJ/Brazil] | aerospace | Jan-06 | 41.21 | 31.55 | -23.4 | Buy |
| GOL [GOL/Brazil] | airline | Jan-06 | 26.11 | 12.50 | -52.1 | Buy |
| Net Servicos [NETC] | cable television | Mar-08 | 11.00 | 12.50 | 13.6 | Buy |
| Pao de Acucar [CBD/Brazil] | retailing | Jan-06 | 36.19 | 45.52 | 25.8 | Buy |
| Petrobras [PBR/Brazil] | energy | Jan-06 | 20.35 | 67.94 | 233.9 | Buy |
| Sadia [SDA/Brazil] | food processing | Apr-06 | 10.03 | 23.00 | 129.3 | Buy |
| Vivo [VIV/ Brazil] | telecom | May-07 | 4.37 | 6.01 | 37.5 | Buy |
| CHILE | | | | | | |
| Banco Chile [BCH/Chile] | banking | Jan-06 | 40.20 | 47.56 | 18.3 | Buy |
| CHINA/HONG KONG | | | | | | |
| China Medical Tech [CMED/China] | healthcare | Jul-06 | 20.60 | 40.41 | 96.2 | Buy |
| China Mobile [CHL/China] | telecom | Jan-06 | 25.24 | 68.54 | 171.6 | HOLD |
| Hutchison Telecom [HTX/HK] | telecom | Feb-06 | 22.97 | 21.62 | -5.9 | Buy |
| Lenovo [LNVGY; HK 992/China] | technology | Jan-06 | 9.22 | 13.74 | 49.0 | Buy |
| VisionChina [VISN/China] | advertising | Feb-08 | 9.11 | 16.91 | 85.6 | Buy |
| DENMARK | | | | | | |
| Danske Bank [DNSKY/Denmark] | banking | Jan-06 | 17.97 | 15.85 | -11.8 | Buy |
| Novo Nordisk [NVO/Denmark] | healthcare | Jan-06 | 28.01 | 61.46 | 119.4 | Buy |
| FINLAND | | | | | | |
| Nokia [NOK/Finland] | telecom | Jan-06 | 18.89 | 26.08 | 38.1 | Buy |
| FRANCE | | | | | | |
| AXA [AXA/France] | insurance | Jan-06 | 32.78 | 32.94 | 0.5 | Buy |
| Dassault Systemes [DASTY/France] | software | Jan-06 | 60.00 | 64.01 | 6.7 | Buy |
| Publicis [PUBGY/France] | advertising | Jan-06 | 37.59 | 35.05 | -6.8 | Buy |
| Sanofi-Aventis [SNY/France] | pharmaceuticals | Jan-06 | 46.82 | 33.04 | -29.4 | Buy |
| Total [TOT/France] | energy | Jan-06 | 67.33 | 80.44 | 19.5 | Buy |
| Veolia Environment [VE/France] | environmental | Feb-08 | 83.40 | 61.01 | -26.8 | Buy |
| GERMANY | | | | | | |
| Deutsche Bank [DB/Germany] | banking | Jan-06 | 103.69 | 96.35 | -7.1 | Buy |
| HUNGARY | | | | | | |
| Magyar Telecom [MTA/Hungary] | telecom | Jan-06 | 24.66 | 24.37 | -1.2 | Buy |

Recent prices as of June 13. 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 | 84.64 | 56.6 | Buy |
| Infosys [INFY/India] | technology | Jan-06 | 36.72 | 47.32 | 28.9 | Buy |
| Satyam Computer [SAY/India] | technology | Jan-06 | 19.13 | 27.30 | 42.7 | Buy |
| Wipro [WIT/India] | technology | Jan-06 | 12.19 | 13.53 | 11.0 | Buy |
| IRELAND | | | | | | |
| Allied Irish Banks [AIB/Ireland] | banking | Jan-06 | 44.20 | 34.87 | -21.1 | Buy |
| ITALY | | | | | | |
| Luxottica [LUX/Italy] | eyewear | Jan-06 | 25.86 | 24.60 | -4.9 | Buy |
| JAPAN | | | | | | |
| Canon [CAJ/Japan] | electronics | Jan-06 | 42.50 | 50.81 | 19.6 | Buy |
| Hitachi [HIT/Japan] | electronics | Jan-06 | 73.67 | 71.81 | -2.5 | Buy |
| Komatsu [KMTUY/Japan] | industrial equip | Jan-06 | 70.29 | 115.00 | 63.6 | Buy |
| Matsushita [MC/Japan] | electronics | Jan-06 | 22.43 | 22.18 | -1.1 | Buy |
| Mitsubishi-Tokyo UFJ [MTU/Japan] | banking | Jan-06 | 13.25 | 9.90 | -25.3 | Buy |
| Orix [IX/Japan] | financial svcs | Jan-06 | 127.95 | 84.85 | -33.7 | Buy |
| Russell/Nomura Sm. Cap Japan [JSC] | ETF | Feb-08 | 40.00 | 43.10 | 7.8 | Buy |
| Sekisui House [SKHSY/Japan] | housing | Jan-06 | 13.59 | 10.22 | -24.8 | Buy |
| Shiseido [SSDOY/Japan] | consumer | Jan-06 | 19.41 | 22.85 | 17.7 | Buy |
| Sony [SNE /Japan] | electronics | Jan-06 | 44.64 | 48.66 | 9.0 | Buy |
| Toyota [TM/Japan] | automobiles | Jan-06 | 104.28 | 102.71 | -1.5 | Buy |
| MALAYSIA | | | | | | |
| Malaysia iShare [EWM] | ETF | May-06 | 7.99 | 10.92 | 36.7 | Buy |
| MEXICO | | | | | | |
| America Movil [AMX/Mexico] | telecom | Jan-06 | 33.30 | 56.59 | 69.9 | Buy |
| Cemex [CX/Mexico] | cement | Jan-06 | 31.40 | 25.75 | -18.0 | Buy |
| Grupo Televisa [TV/Mexico] | media | Jul-07 | 27.00 | 25.01 | -7.4 | Buy |
| Homex [HXM/Mexico] | housing | Feb-06 | 38.21 | 65.28 | 70.8 | Buy |
| NETHERLANDS | | | | | | |
| ING [ING/Netherlands] | banking | Jan-06 | 35.40 | 35.32 | -0.2 | Buy |
| Philips [PHG/Netherlands] | electronics | Jan-06 | 31.65 | 36.51 | 15.4 | Buy |
| PHILIPPINES | | | | | | |
| eTelecare Global Solutions [ETEL/Phil.] | outsourcing | Feb-08 | 7.87 | 6.20 | -21.2 | Buy |
| Philippines Long Distance [PHI/Phil.] | telecom | Dec-07 | 74.75 | 52.95 | -29.2 | Buy |
| RUSSIA | | | | | | |
| Mobile Telesystems [MBT/Russia] | telecom | Mar-07 | 50.88 | 84.45 | 66.0 | Buy |
| SINGAPORE | | | | | | |
| DBS Group [DBSDY/Singapore] | banking | Jan-06 | 40.51 | 55.85 | 37.9 | Buy |
| Singapore iShare [EWS] | ETF | Feb-06 | 8.60 | 12.74 | 48.1 | Buy |

Recent Prices as of June 13. 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 |
|---------------------------------------|-----------------|--------------------|--------------------------------------|-------------------|-------------|----------------|
| SOUTH AFRICA | | | | | | |
| iShares South Africa [EZA/S.Africa] | ETF | Feb-08 | 117.00 | 117.99 | -0.8 | SHORT |
| SOUTH KOREA | | | | | | |
| Gmarket [GMKT/Korea] | internet | Jan-07 | 22.00 | 23.18 | 5.4 | Buy |
| Matthews Korea Fund [MAKOX] | mutual fund | Jan-06 | 6.71 | 5.27 | -21.5 | Buy |
| Shinhan Financial [SHG/Korea] | banking | Jan-06 | 82.15 | 90.34 | 10.0 | Buy |
| Woori Financial [WF/Korea] | banking | Jan-06 | 59.29 | 51.00 | -14.0 | Buy |
| SPAIN | | | | | | |
| BSCH [STD/Spain] | banking | Jan-06 | 13.66 | 19.30 | 41.3 | Buy |
| SWITZERLAND | | | | | | |
| Logitech [LOGI/Switzerland] | technology | Jan-06 | 25.13 | 30.30 | 20.6 | Buy |
| iShares Switzerland [EWL/Switzerland] | ETF | Dec-06 | 24.80 | 24.87 | 0.3 | Buy |
| Roche [RHHBY/Switzerland] | pharmaceuticals | Jan-06 | 77.35 | 84.85 | 9.7 | Buy |
| UBS [UBS/Switzerland] | financial svcs | Aug-07 | 56.00 | 24.67 | -55.9 | Buy |
| Zurich Financial [ZFSVY/Switzerland] | insurance | Jan-06 | 22.13 | 26.90 | 21.6 | Buy |
| TAIWAN | | | | | | |
| Taiwan iShare [EWT] | ETF | Jan-06 | 13.20 | 15.29 | 15.8 | Buy |
| Taiwan Semiconductor [TSM/Taiwan] | technology | Jan-06 | 10.39 | 11.23 | 8.1 | Buy |
| TURKEY | | | | | | |
| Turkcell [TKC/Turkey] | telecom | Jan-06 | 15.38 | 17.41 | 13.2 | Buy |
| UK | | | | | | |
| Invesco [IVZ/UK] | financial svcs | Apr-07 | 23.00 | 27.57 | 19.9 | Buy |
| Diageo [DEO/UK] | beverages | Jun-06 | 67.08 | 76.27 | 13.7 | Buy |
| GlaxoSmithKline [GSK/UK] | pharmaceuticals | Sep-06 | 55.00 | 42.04 | -23.6 | Buy |
| OTHER | | | | | | |
| Matthews Asia Tech Fund [MATFX] | mutual fund | Jan-08 | 9.52 | 8.25 | -13.3 | Buy |
| Liberty Global [LBTYA/US] | telecom | Jan-06 | 22.02 | 33.96 | 54.2 | Buy |

Recent Prices as of June 13. 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 [IIJI/Japan] | technology | Jan-06 | 12.04 | 8.46 | -29.7 | Closed |
| Webzen [WZEN/Korea] | technology | Jan-06 | 10.20 | 6.27 | -38.5 | 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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