

Revisiting International Indexing

*Closed-end Country Funds & Global
ETF Conference; April 9, 2002*

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The efficiency of indexing

Arithmetic of active management

- Before costs and fees, active = index

Active has higher costs & fees

- Turnover cost disadvantage approximately 100bps
- Fee disadvantage approximately 50bps
- Total hurdle to overcome approximately 150bps

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SPRING 1994

Interest Rate-Sensitive Asset Allocation

*Martin L. Leibowitz, Stanley Kogelman,
Lawrence N. Bader, and Ajay R. Dravid*

Tracking Errors, Regret, and Tactical Asset Allocation

Roger G. Clarke, Scott Krase, and Meir Statman

Passive Trading: Point and Counterpoint

Wayne H. Wagner and Ewan Schulman

Endowment Planning: A Real-Life Example

*William T. Spitz, Minot B. Nettleton,
George F. Keane, and H. Russell Fogler*

Corporate Credit Risk and Reward

Thomas L. Bennett, Stephen F. Esser, and Christian G. Roth

Dynamic Immunization under Stochastic Interest Rates

Louis Gagnon and Lewis D. Johnson

Can Regression-Based Models Predict

Stock and Bond Returns?

Russell J. Fuller and John L. Kling

EAFE is for Wimps

Jarrod W. Wilcox

**Investing in Emerging Stock Markets:
Is It Worthwhile Hedging Foreign Exchange Risk?**

Shmuel Hauser, Matityahu Marcus, and Uzi Yaari

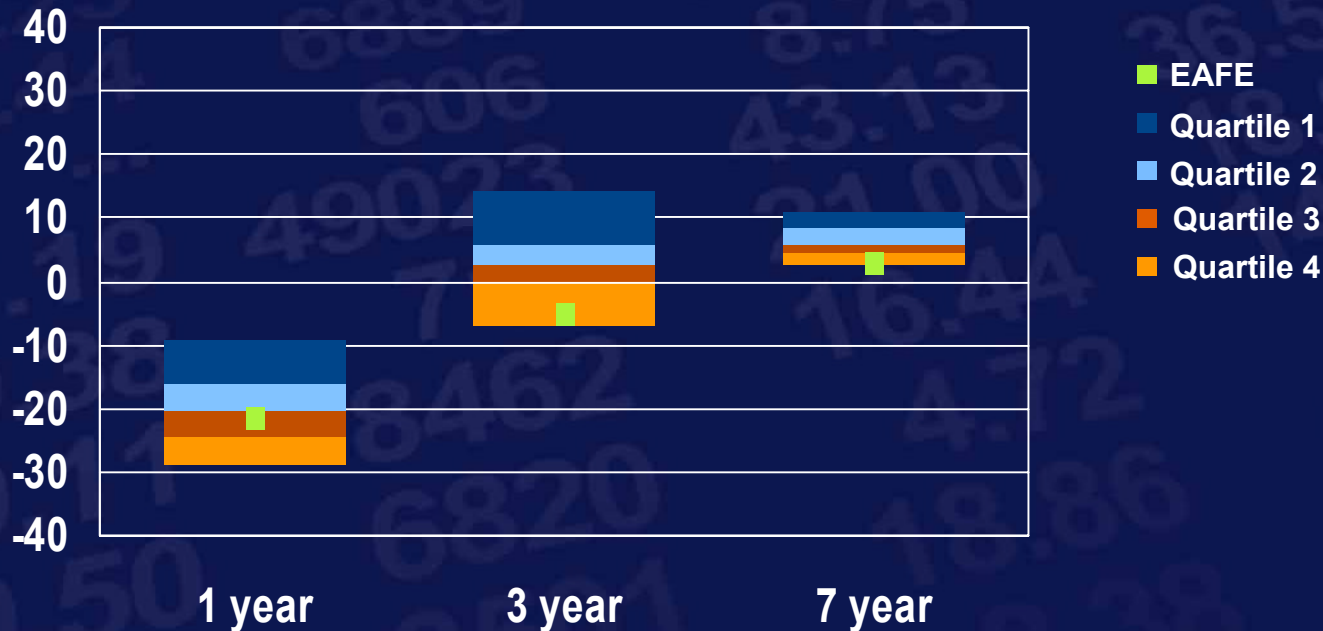
Emerging Markets: Some New Concepts

Vihang R. Errunza

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... EAFE has been going to the gym!

International equity managers vs. EAFE (thru 12/31/2001)



Source: InterPERF 2000®2001, InterSec Research Corp., EAFE Plus Universe. Based in US Dollars. InterPERF 2000®2001 universes are entirely based on portfolios managed for domestic (US) institutional investors. All portfolios are US tax-exempt.

1. The Japan bet

...passive managers have shot to the top of league tables of funds under management ... Earlier this year some 60-70% of new international equity mandates were going to these passive managers.

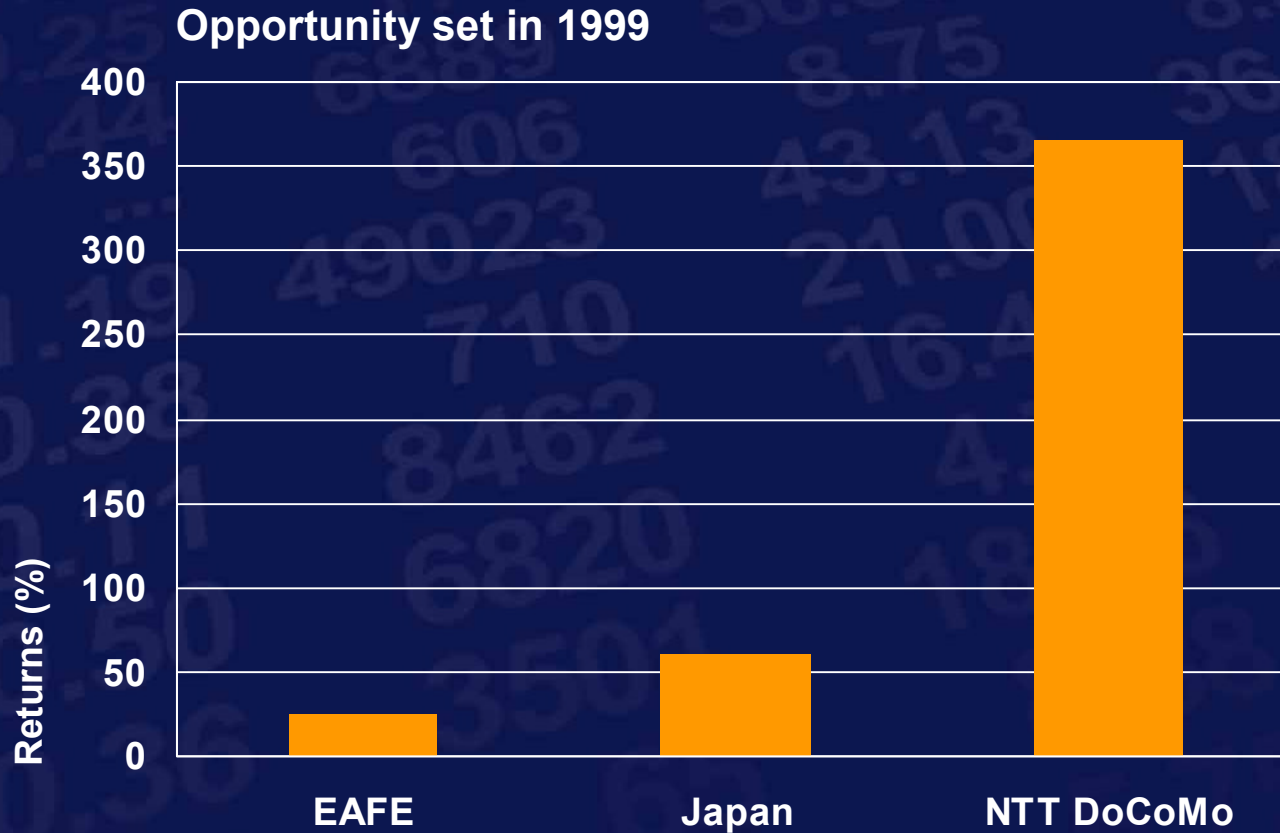
...performance of international equity managers presented index trackers with seemingly cast-iron marketing pitch. Active managers had been seriously underweight in Japan, and moreover had underperformed local indices by amazingly wide margins...

Financial Times October 26, 1989

2. The evolution of benchmark methodology

- Increased Investability – comprehensive free float adjustment
- Expanded Coverage - 60 to 85%

2. The diminishing opportunity set



MSCI, BGI.

3. International arena is becoming more efficient

Greater focus / increasing allocations to international markets

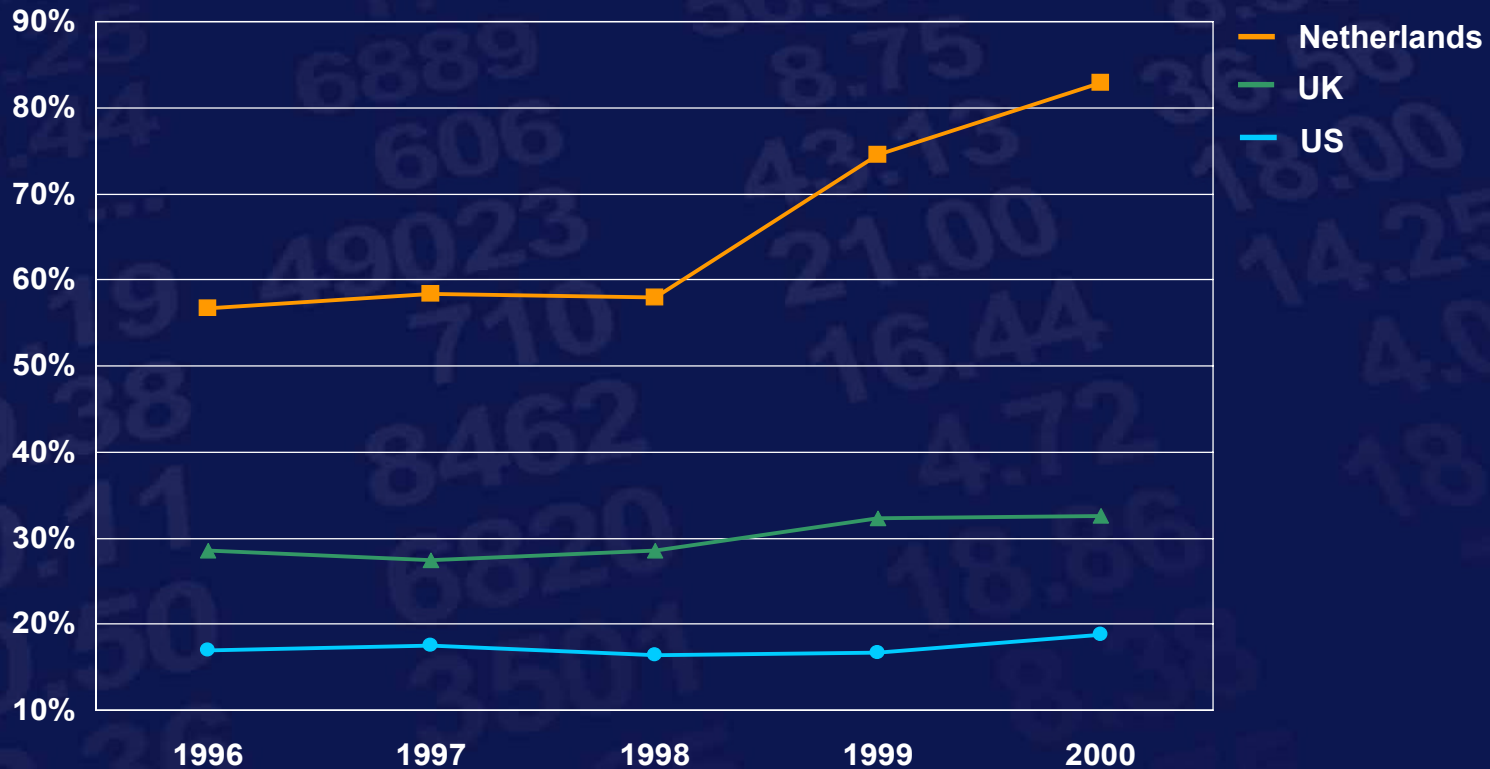
EMU has resulted in a re-definition of “home country”

Earnings announcements are more rapidly reflected in stock prices

Transactions costs have fallen by 20% as a result of increased activity and market participation

BGI, SSB.

3. International equity allocations



WM, Greenwich Associates.

Summary

Don't invest using a rear view mirror

EAFE and other international benchmarks will become harder to beat

Use index based funds as the core for diversified, low cost, efficient exposure