

March 7, 2007

Opportunities in International Investing



A conversation with Audrey H. Kaplan, Fund Portfolio Manager and Senior Vice President – Quantitative Research

Highlights:

- Country allocation drives returns as a stock's performance is approximately 70-80% determined by the domicile country. Our country focus continues to outperform our peers over medium to long-term horizons.
- Our top ranked countries include South Korea, Germany, France, South Africa, and Brazil.
- Prior to the recent correction in the China market, we had already completed the sale of our China holdings at a significant profit because of our concern that the Chinese stock market was overvalued. We are continuously monitoring the risks in the portfolio.
- We believe the current market volatility is caused more by institutional fears about the potential unwinding of the yen carry trade than by the Chinese stock market.
- For a long-term investor, adding international equities with low correlations to the U.S. markets should provide a higher expected return with lower overall risk.

Standardized returns for the quarter ended 12/31/06 are as follows: Average Annualized Total Return at NAV (Net Asset Value) for 1-year, 3-year, 5-year, and since inception: 33.26%, 25.65%, 19.73%, and 11.79%, respectively; Average Annualized Total Return at POP (Public Offering Price, reflecting maximum front end sales charge of 5.75%) for 1-year, 3-year, 5-year, and since inception: 25.59%, 23.20%, 18.32%, and 10.99%, respectively.

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance quoted. The most recent month-end performance can be found on our Web site at www.rochdale.com.

Investing in international companies carries risks such as currency fluctuation, interest rate fluctuation, and economic and political instability.

A fund's investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus contains this and other information about the investment company, and it may be obtained by calling 800-245-9888, or visiting www.rochdale.com. Please read the prospectus carefully before investing. RIM Securities LLC, 570 Lexington Avenue, New York, NY 10022.

The following discussion is moderated by Ted Cox, CFA, Senior Vice President, Investment Consulting, at Rochdale Investment Management.

Introduction: Today we will be discussing Opportunities in International Investing. We are joined by Audrey Kaplan who is a Senior Vice President for Rochdale and leads the quantitative research team that selects stocks for private client and fund portfolios. Among several of Rochdale's mutual funds, she is a portfolio manager of Rochdale's very successful international Atlas fund. Audrey is a seasoned professional in the area of international equity market analysis and has extensive global experience, having worked in London and Tokyo with Merrill Lynch and Salomon Brothers. She has appeared on CNBC and Bloomberg and was highly rated by Institutional Investor Europe and All-Asia Quantitative Strategy. Audrey and the team who have day-to-day responsibility for Atlas, Rochdale's international fund, have a combined total of 31 years 'Feet on the Ground' international experience in addition to the 71 years combined investment experience of the Portfolio Managers.

Q. Audrey, in the recent sell-off that started with China, can you give us a quick recap of what happened in the Chinese market?

A. First, I would like to say that our investment process in our international portfolio is one based on a very long-term strategy. We like to say we ignore the noise, and we continuously monitor the risks, because we know most of our investors are long-term investors using the international asset class as a way to reduce the risk of their overall portfolios.

Having said that, let's talk specifically about what happened in China. The recent sell-off did start in China. In the first two weeks of January in 2007, our international portfolio had sold our China holdings down to zero. Our final day of selling Chinese shares was January 16th, and I want to highlight that day, because on the date of January 16th, the trailing price to earnings ratio of the Chinese stock market had exceeded 20 times price-to-earnings.

For those listeners who are mostly domestic oriented, you probably realize the range for price earnings ratios is typically about 15 to 17 times. If a price earnings ratio hits 20 times, even in the U.S., you are likely to see a sell-off.

So our research team here watched in 2006 as valuations were rising in the Chinese stock market, and yet, earnings were being revised downward. The Atlas portfolio had achieved gains of about 60% throughout 2006 in our Chinese holdings, and therefore, we felt those valuations had achieved the level we were expecting and were above that level.

The China sell-off was primarily valuation related. We do not believe the sell-off is related to GDP growth or any economic factors as GDP growth is still strong in China. We know that the Chinese economy expanded more than 10% in 2006, and as a comparison, the U.S. GDP growth was about 3%. I don't think the final number is out yet, but more than 10% was the fastest rate in ten years, even for China. We continue to expect 9% growth in GDP in each of the next two years in China.

To summarize, although the economy of China remains strong, the correction was not a surprise given the sharp market appreciation. The correction may not be over, and there may be more turbulence over the next several days and/or weeks.

Q. So, if we didn't own China, what are some of the other Asian markets that were impacted where we did have some holdings?

A. We do feel that Asia is a dominant economic force, which may be driven primarily by the growth in exports. We are expecting more than 40% of the 2007 worldwide growth in GDP to come from emerging markets, including Asia. In fact, some economists are saying that more than 50% of the growth in GDP will come from emerging markets. Some people could say that we are actually somewhat conservative, and yet, our benchmark (MSCI All Country World ex USA Index) shows that emerging markets make up less than 15% of the market capitalization. We believe the recent sell-off is a relatively minor correction in a long-term bull market in emerging markets.

Specifically in Asian emerging markets, our favorite opportunity is South Korea. What makes South Korea so attractive is that many of the companies in South Korea are trading at discounts. In other words, not only their price to earnings, but whichever valuation indicator you look at, price to sales, price to cash flows, we're seeing the South Korean market trading



at discounts of 20% to 30%, compared to other emerging markets even. So that makes South Korea quite attractive. Not just on the valuation side, but growth is very strong and strengthening. Industrial production is growing. Export growth is growing. Shipments growth is growing. All of the right indicators are in place to expect stock market appreciation.

In addition to South Korea, we also have been overweight Taiwan. That's another strong area with very strong exports. Tech orders have been coming in stronger. Employment is expanding. Wage growth is recovering. So, not only is it strong on the export side, but domestically, the outlook looks very strong as well. We look at economic drivers and growth drivers' valuation. In terms of growth in profits, we're seeing an 18% growth rate over the next 12 months for the Taiwanese companies, and that compares very favorably to the rest of the world market.

We're often asked about Japan, and we've been underweight for quite some time. We're constantly monitoring for a good opportunity to add weight to Japan, but we haven't seen the criteria materialize which would rate the country a buying opportunity. The criteria we monitor include favorable valuations, strong earnings growth and/or positive economic outlook relative other countries we monitor.

Q. Now let's bring it home a little bit. We know that the Chinese sell-off triggered, very quickly, a decline in the U.S. markets. Can you share some insight as to what happened there?

A. Many of the analysts are saying the sell-off started with China. China is important for the economic growth worldwide, but we actually don't feel that it was the main cause of the worldwide market volatility. The reason we feel the Chinese stock market is not responsible is because China's economy looks so healthy, and other worldwide market valuations are quite reasonable. Many of the major markets are seeing strong demand for their stocks from private equity firms. There's a lot of M&A activity going on worldwide.

Even though the sell-off started in China, we don't think it was really a cause and effect relationship. Instead, we think that the correction or the market volatility was really caused more by something you may have seen in the headlines called the yen carry trade. The yen carry trade means that institutional investors borrow cheaply in yen, and invest those proceeds in higher yielding assets in other currencies. Investors like this "free-lunch" carry trade opportunity. The Japanese interest rates have been low and stable while international stock markets have been rising steadily with low volatility. The environment has been a favorable one allowing ever-increasing institutional participation in this carry trade.

On February 21, 2007, the Bank of Japan raised its overnight interest rate 25 basis points to one half of one percent. This is still relatively low, but it's the highest rate since 1998. I'm not sure how many people are aware of that, but what that meant is that a lot of traders are concerned that there's going to be an unwinding of the yen carry trade. So the fear is, with market volatility rising and interest rates rising in Japan, that those investors will be forced to sell the other assets.

In fact, this is a much bigger story and can take up the whole call, but we feel that it is a big part of the trigger over the past week that carry traders lost money, because the yen rose 6% against the dollar. This is, in a sense, a repeat of what happened in April '06. There was an 8% appreciation in the yen almost a year ago, and that triggered an even larger sell-off last year.

This really is the reason for the increased volatility, however, our long-term view is that there's a long way to go for this unwinding and it would take a very long time horizon. If you have a very long time horizon, you need to stick with your sound investment philosophy of finding good valuations, great growth opportunities, and areas of the economy that are strong.

Q. Excellent. Thank you, Audrey. One thing that everybody is realizing is that the global markets are now increasingly interconnected. How does that affect what investors should be doing with regard to investing internationally or domestically?

A. It is true that markets are connected. They are more interconnected than they have been, and especially so, whenever there are these pull-backs or corrections. Short-term market corrections seem to be interconnected, but our research shows that for long-term investors, if you look at three year horizons over the last 30 years, there are still a lot of opportunities to find lower correlated opportunities, or lower correlated countries to invest in.

Our team focuses on discovering and analyzing lower correlated countries. A lot of other international funds will invest a big portion of their assets, over 20% or 30%, in the United Kingdom. But the U.K./U.S. market correlation is 0.8. In other words, 80% of the time, they move together.

What we do is emphasize lower correlated countries which could include smaller developed countries like Norway, which is only correlated 20%, or emerging countries like Korea and Brazil, which are correlated less than 30%, so more than 60% to 70% of the time, they move differently. We have a greater emphasis on the smaller developed markets and emerging markets compared to our peers.

The interconnection can be attributed to the fact that globalization is here to stay. I know it's not particularly profound, but there are better opportunities for growth at reasonable valuations outside of the U.S., because of globalization, and we are looking for those opportunities and trying to find uncorrelated opportunities.

In addition to looking for uncorrelated countries, in the international countries, there are other uncorrelated asset classes that our advisors could be considering, such as alternative asset classes, or low volatility hedge funds, fund of funds, or even commodity funds.

Q. Could you explain the country focus strategy for the Atlas portfolio?

A. There is a lot of research that shows the majority of international investment managers, 75%, or greater, describe themselves as stock selectors. Most of my peers, if they were asked what they do to manage their funds, would answer, "I go out and analyze stocks," and fewer spend most of their time on country allocation. But our research shows that the majority of value added in the research process comes from country allocation and country analysis.

In other words, 70-80% of a single company's stock return is directly related to the country that stock is domiciled in. For example, Siemens (SI, \$102.91) moves 80% of the time with the German stock market. So, if you want to choose those stocks that will outperform the international market averages, you first need to concentrate on owning the countries and having good concentration or allocation in the countries that will outperform. We do own Siemens in our portfolio, and we like a lot of other German companies.

Let me just add a little bit more. At first, we concentrate on identifying the correct country weight, and I mentioned Germany. As an example, in 2006, we had on average approximately 15% of our portfolio in German shares, while the MSCI All Country World ex USA Index had only a 6% weight in Germany. Our weight was more than double, and that difference in weight provided a significant positive contribution to our performance.

In order to perform this analysis, we look, on a regular basis, at analyzing multiple criteria. What makes a country outperform? We look at valuation indicators, growth prospects, and economic indicators, so that we can achieve an above average return.

Q. We know that country ranking focus has certainly performed well, with Atlas having a total return of 33.26% in 2006, which stacks it up as the #4 mutual fund out of 333 funds in the Lipper International Multi-Cap Core category. In your updated country rankings, have there been any big movers, up or down, or any surprises?

A. I would say that the biggest surprise in our most recent ranking using data through the end of February, was that there were no surprises. The same countries we've been recommending for the past quarter, and even, some of them, for more than a year, continue to be highly ranked.

For example, in Asia, our top ranked country is South Korea. In Europe, we've been overweight and expect favorable prospects in Germany, France, and Italy. And in Latin America, Brazil is our favorite investment opportunity. In fact, Brazil is our number one best opportunity going forward over the next one to three years.

Again, just emphasizing long-term investment and our country ranking process, there was a period a year ago from May to June, where Atlas had a correction of more than 15%. At the same time, the MSCI All Country World ex USA Index had



only corrected about 10%, so there was a lot of concern that the country ranking process wasn't working, and with this market correction, we need to think about what we're doing.

Let me tell you, first of all, we think about what we're doing 24/7, but essentially, that was a short-term correction, and over the long haul of the entire 2006, we did achieve that 33% return because our process really takes into account what moves markets over the long run.

Q. You mentioned a couple of countries along the way, Korea, Taiwan, and Germany. What are some other countries that you like now, or are looking at to favor in the future?

A. I talked a lot about Korea and Taiwan. Let me talk a bit more about Germany and the 2007 GDP growth forecast. There was a strong expansion in '06, and we expect that to continue in '07. In 2006, Germany expanded GDP at the fastest pace since 2000, and we continue to feel positive on German expansion.

It's not just a German story; it's throughout the Euro zone economy. Unemployment rates are very strong. German unemployment fell in February, after falling in January. The unemployment trend means it's now at the lowest level ever in Germany. It's also at the lowest level it's been in the Euro zone since they started keeping records. All of this is good and favorable for the domestic demand of the economy, on the domestic side.

There is supposed to be an announcement tomorrow about interest rates. We're watching for that. If interest rates do rise, as we expect they will, that means the Euro may continue to strengthen. That's actually been a positive trend for U.S. investors investing in Europe.

In France, similarly, the economy has been favorable. I don't want to go through all the details, but there's been strong growth in profits and corporate earnings, and companies are earning very strongly compared to their borrowing costs. So we are also overweight France.

I think a place I haven't really mentioned yet is Brazil. The companies in the Brazilian stock market are showing very strong growth potential. We are estimating, over the next 12 months, their earnings per share growth rate will be greater than 20%. That is among the top three countries in our universe, and yet, it's trading at very good valuations. We've been watching as the market was correcting the last several days, and wondering why that's the case in such a market that we favor, and then I was glad to see yesterday, the market rebounded 4%, because we really didn't understand what was driving a correction in Brazil. So yesterday's gain in the MSCI Brazil Index is actually the biggest single move among all the markets all week, so we're obviously not the only one who thinks that Brazilian companies have strong potential.

There's been a lot of recent reform in that country. The current government is very good for improving the business conditions, and we're seeing a lot of globalization from the Brazilian companies.

I would say there are a lot of opportunities overseas. You just need to know where to look for those opportunities.

Q. Great, and I know that I saw you on CNBC recently, and you were talking about the opportunities in resource markets, especially in South Africa. Can you elaborate on that?

A. For those of you who have heard this call before in the last two or three years, we have been consistently overweight in resource markets. Resource markets typically are commodity producing markets, or metal and mining producing countries. We have been and continue to be overweight Brazil and Norway, which are significant resource markets.

What we have been watching for was an opportunity to invest in South African shares in the South African market. At one time, it was only a commodities market with only natural resources, but there are actually a lot of opportunities in other areas like telecom, banking, and service sectors.

I think sometimes you might read the paper and think of South Africa as a frontier market, but we feel there are actually good indications that there is a strong growth on the corporate side and in the GDP. With the current market volatility, we've been adding weight to South Africa as recently as yesterday. We've been adding weight for the last six weeks, and

we've been using this pull-back as a time to add weight. The South African government just released their latest government figures and the GDP exceeded expectations. They've just announced their first ever budget surplus. There's a lot of positive activity going on that argues for a strong economy in South Africa.

I was talking earlier about globalization and globalization is here to stay. One of the companies we've been buying is Sasol (SSL, \$30.52) in South Africa. It's a petrochemical company, and they convert coal to fuel. They're actually looking to invest in production plants here in the United States. I certainly think that seeing South African companies building plants in the U.S. would be evidence that globalization is here to stay.

Q. What is Rochdale's current stance on what a particular client's asset allocation should be to international. Obviously, it depends on their risk tolerance, but what are our thoughts on that, Audrey?

A. This question is asked all of the time of the Portfolio Managers at Rochdale, and our answer is that the proper allocation is very specific to each client, and each client needs to determine that in conjunction with their advisor, and/or their Rochdale Portfolio Manager.

In terms of what we're seeing, most of our clients, across the spectrum, have approximately 10% to 20% invested in international, with more aggressive clients having as high an allocation as 30%, and some long-term, aggressive investors are even going above and beyond the 30%. Part of that has to do with this whole phenomenon of growth being driven outside of the U.S. Emerging markets, in some estimates, contribute more than half of the world's GDP growth, and yet, only comprise 15% of the MSCI All Country World ex USA Index. So, we do feel that international equities offer a better valuation opportunity with more growth, compared to the maturing U.S. economy. Clients have been recognizing this and increasing international exposure in their portfolios.

In terms of risk and return, our research shows that placing up to 20% into international over any three-year period since 1970 would result in better return at a lower level of risk. So I certainly don't think anything up to 20% would be risky to add to your portfolio.

Q. Audrey, you've covered a lot of information, and there's a lot for us to think about. Is there anything else that you would like to add that we haven't covered?

A. Just following up that, in the short-term, international markets can be more volatile. We know that. We think that the risk in the short-term on an annualized risk basis is typically higher than a domestic U.S. equity portfolio, but over the long run, for long-term investors, you have a higher potential return at a lower overall risk and volatility level. The current correction is certainly within our risk tolerance. It's not anything to be overly concerned with, or feared in any way. We were expecting these corrections, and if we hadn't been expecting the corrections, we probably would still have investments in China where we had 10-12% one year ago. We watched as those appreciated, and we took the risk off the table when we needed to, capturing gains in the process.

Stock prices shown in U.S. dollars and are the closing prices of 3/8/07 (Source: Bloomberg). The Rochdale Atlas Portfolio holds the following positions as of 2/28/07: SI, 1.6%; SSL, 0.6%. All opinions constitute Rochdale's opinion and are subject to change without notice. Rochdale Investment Management LLC, its affiliated companies, or their respective shareholders, directors, officers, and/or employees may have long or short positions in the securities discussed herein.

The MSCI All Country World ex USA IndexSM is a free float-adjusted market capitalization index that comprises approximately 2,100 securities listed on exchanges in 47 countries, excluding the United States.

The MSCI Brazil Index is an index of 54 leading stocks traded on the Brazilian Stock Exchange.

The Lipper International Multi-Cap Core consists of funds that invest in securities of companies of various sizes outside of the U.S. The Lipper rankings for the International Multi-Cap Core Category period ending



12/31/06 are #4 out of 333 funds, #4 out of 246 funds, and #13 of 201 funds for 1-year, 3-year, and 5-year, respectively. Categories are compiled by Lipper Inc., and are not directly investable.

All opinions constitute Rochdale's opinion and are subject to change without notice. Rochdale Investment Management LLC, its affiliated companies, or their respective shareholders, directors, officers, and/or employees may have long or short positions in the securities discussed herein.

I, Audrey H. Kaplan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in the report.

Rochdale Investment Management makes the Rochdale Insight series available to clients and their advisors to provide perspective on Rochdale's portfolio management process, our outlook for the economy and industries, and changes to clients' portfolios. The research recommendations herein are determined by Rochdale Investment Management and intended as a guide. Final determination regarding inclusion in client portfolios is made in accordance with the client's investment objectives at the Portfolio Manager's discretion. To subscribe to the Rochdale Insight series, please send an email to info@rochdale.com.

041007

© 2007 Rochdale Investment Management

