



QUARTERLY NEWS

Spotlight



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The European Investment Case for the Kyoto Protocol

The frenzy of acquisitions seen in the European electricity and gas sectors seems to be motivated by a search for new areas of growth. In the absence of any real European coordination on energy policy, the increased intervention of governments has been fostered by the Russo-Ukrainian gas dispute which revived fears about the security of supplies. The acrimony in this argument overshadowed a major change last year in the market, namely the introduction of carbon dioxide (CO₂) emission quotas in electricity production.

The Kyoto Protocol set a target for 38 OECD countries to reduce greenhouse gases by 5% between 2008 and 2012, from 1990 levels. The European Union set a system of quotas intended to attain this environmental goal at the lowest economic cost. The first phase, begun in 2005, granted each country the right to allocate CO₂ emissions among its main polluting industrial groups, primarily the electricity producers. These producers can buy and sell emission rights which is likely to create a secondary market throughout Europe, should allocation plans for the period 2008-2012 prove too restrictive. Production costs will include not only the carbon intensity of the underlying commodity, but also the cost of purchasing CO₂ quotas. The most polluting fuel sources are lignite, coal and oil, followed by gas, the cleanest of the fossil fuels. At the other end of the spectrum are hydroelectricity, nuclear power and alternative energies such as biomass, solar or wind power, whose significance is still marginal in overall electricity production.

The rise of oil and gas prices in 2005 and the unfavorable weather conditions for hydroelectric production in many European countries, triggered a strong rise in the price of emission quotas which finished the year at € 22/ton, as compared to € 8/ton in January 2005. Therefore, the wholesale prices of electricity surged last year. Taking into account the inertia in the commissioning of new capacity, the continuation of this upward trend will disproportionately benefit the most productive power stations. The economic advantage of hydroelectric or nuclear power becomes even greater as the operators of conventional power stations buy CO₂ certificates at higher and higher prices.

Although the exact methods for allocating quotas pertaining to the second phase (2008/2012) and beyond have not yet been decided, an alleviation of the carbon constraint appears unlikely. Companies such as **Fortum** in Scandinavia and **EDF** in France enjoy very competitive production (over 80% of their electricity production is CO₂ free) and should continue to benefit. However, the advantage of nuclear power (45% of the production mix for Fortum and 74% for EDF) must be qualified. Any tightening of European regulations for dismantling power stations and disposing of radioactive waste would make the current level of balance sheet provisions inadequate.

When the European market is fully liberalized next year, producers will be looking to rationalize their businesses and add assets. The Italian group, **Enel**, for which over half the domestic production is CO₂ intensive, has shown interest in the Belgian producer **Electrabel** which, in addition to their nuclear capacity, has a strong presence in natural gas. To complicate matters, **Suez**, which owns Electrabel, and **Gaz de France** remain potential partners in view of the complementary nature of their respective gas and electricity activities.

As we look for the European beneficiaries of the Kyoto Protocol, we see the advantages of positioning in cleaner fuel production, mergers and acquisitions and potential revenues from quota sales. Other winners will be those with a focus on using ever more expensive fossil fuels in ways less damaging to the environment.

CONTACT INFORMATION

If you would like further information about Philippe Group, our products or people, or would like to comment on the Spotlight, please let us know.

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PHILIPPE INTERNATIONAL EQUITY

First Quarter 2006

Markets continued very strong this quarter with the MSCI EAFE index up 9.4%. Europe led the way with a double digit increase, while Japan was up just under 7%. The dollar weakened 2.3% against the euro and 0.2% against the yen. All countries in the portfolio had positive returns, with half rising in the double digits. France and the UK were our best contributors, with Japan and Switzerland as the worst.

Relative to the benchmark, the best contributors to our portfolios were utilities, telecom services, primarily due to underweighting, and insurance. Detractors were diversified financials, consumer durables and tech hardware and equipment.

Contributors:

Fortum, the Finnish electricity company, was fueled by its recently enlarged footprint in the Russian energy market and by further rises in Nordic power prices, triggering earnings upgrades.

Gaz de France: The shares were boosted by the announcement of a friendly merger with Suez and the release of strong 2005 results.

BHP Billiton, the Australian mining company, benefitted from surging prices of raw materials.

Detractors:

Mitsui OSK Lines, a shipping company in Japan, **TIS** and **Fujisoft ABC**, IT services companies, also in Japan, did not meet third quarter expectations and corrected, following the good performance in the previous quarter.

Outlook:

- Economies around the world are doing well, with Europe and Japan in particular, showing strong improvement.
- Commodity prices have continued their upward moves, but should stabilize. Inflation, remarkably, seems under control and businesses are awash in cash and delivering strong earnings.
- However, markets are no longer cheap and the US economy, with housing softening, may well slow down. Adding to our worries are abundant geopolitical risks, as well as increasing risk from the recently inflated structure of derivatives in the financial markets.
- One needs to continue to focus on quality growth and pay close attention to valuations. There is reason for cautious optimism, particularly for international markets, as the dollar may finally suffer from the huge imbalances that are building up in the US.

International Equity Management Team

	Years Experience
Michel Raud , Co-CIO, Lead Portfolio Manager	32
Béatrice Philippe , Co-CIO, Portfolio Manager	35
Véronique Cabioc'h , Associate Portfolio Manager & Analyst	19

Top Ten Holdings as of 03/31/06

ROCHE HLDGS AG	2.78%
TOTAL	2.43%
SGS SA	2.39%
BP	2.30%
ALLIANZ AG	1.81%
UBS AG	1.70%
NESTLE SA	1.69%
BHP BILLITON LTD	1.66%
ESSLOR INTL	1.65%
KBC GROUP NV NPV	1.59%

* Please see Performance Disclosure.

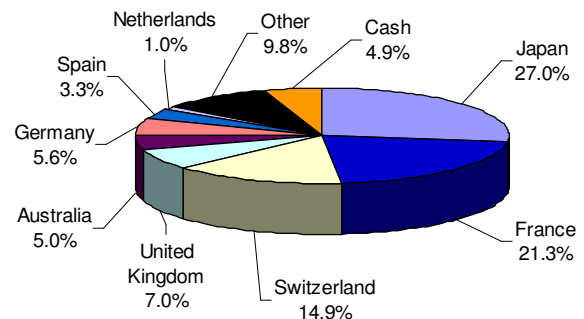
Source GPMS

Characteristics as of 03/31/06

Weighted Avg Market Cap	\$ 45,634 MM
Median Market Cap	\$ 11,573 MM
Dividend Yield	1.6
Est EPS Growth	13.4
Price/Book	4.0
Holdings	96
Product Assets	\$ 132 MM

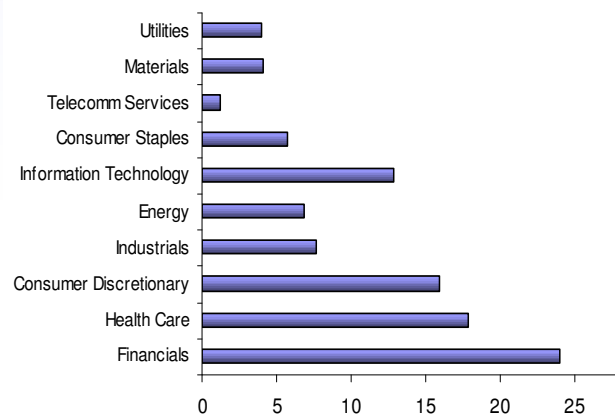
Source Datastream

Geographical Breakdown as of 03/31/06



Source GPMS

Sector Breakdown as of 03/31/06



Source GPMS

Composite Performance* as of 03/31/06

	Philippe Return	MSCI EAFE	MSCI EAFE Growth
Quarter	7.60	9.40	9.01
YTD	7.60	9.40	9.01
1 year	21.38	24.41	24.59
3 years	24.59	31.13	27.17
5 years	5.11	9.63	7.53
10 years	6.86	6.49	3.93
Since Inception	7.24	5.59	3.27

Annualized. Inception date: January 1, 1989, before fees.

Source GPMS

PHILIPPE EUROPE SMALL & MID-CAP EQUITY

First Quarter 2006

Earnings reports for 2005 continued positively with good outlooks for 2006 which has served to support the markets well. M & A activity is still active amid favorable conditions and liquidity. However, speculation on mergers was overdone and buyers were chasing commodity plays. We continue to see a tendency for investors to 'take profits' in strong performers and buy into weaker stocks with little reference to fundamentals. We prefer to concentrate on longer term value and potential.

Contributors:

Conergy, the German renewable energy company, performed well following an announcement of increased subsidies for the California solar energy program and President Bush's comment on reducing reliance on oil in the State of the Union address.

Aalberts, the Dutch specialist engineering company, saw its stock rise following its announcement of an acquisition of a French company. The results of major customers have supported the positive outlook for this well diversified business.

Detractors:

Metal-Tech, a UK metal refining and recycling company, gave back some of the gains made last year as the market focused on the recent weakness in the molybdenum price. We believe that the profit stream from a new processing facility will more than compensate for the weakness in the metal price. We did not ever believe the metal price was the main driver of performance as we avoid buying companies that offer only cyclical exposure. **CRC**, providing technology repair services in the UK, posted weak results pending an investigation and the suspension of its finance director. We sold the position in early March.

Outlook:

- As at this time last year, we continue to feel the benefit of a strengthened corporate sector and confidence among investors which, reasonably, should be sustained for at least the next year.
- We continue to feel comfortable with the economic backdrop, and valuations are reasonable, if one is selective.
- We still fear the time bomb of the fundamentally overvalued US dollar exchange rate--the fact that it has not happened yet is far from comforting.
- In addition, there are speculative bubbles which may be fit to burst as a result of a trend change in the next 12-18 months.

Europe Small & Mid Cap Management Team

	Years Experience
Consuelo Brooke , Lead Portfolio Manager	35
Gariesh Sharma , Co-Portfolio Manager & Analyst	8
Johann Ropers , Associate Portfolio Manager & Analyst	4

Top Ten Holdings as of 03/31/06

FUGRO NV	2.63%
LA ING (JOHN)	2.20%
VEGA GROUP	2.20%
AARHUSKARLSHAMN	1.95%
SSAB (SVENSKT STAL)	1.93%
ARCADIS NV	1.93%
AIRSPRAY	1.88%
CARE UK	1.87%
HOMESERVE	1.86%
CAPMAN OYJ	1.84%

* Please see Performance Disclosure.

Source GPMS

Annualized. Inception date: October 1, 2002, before fees.

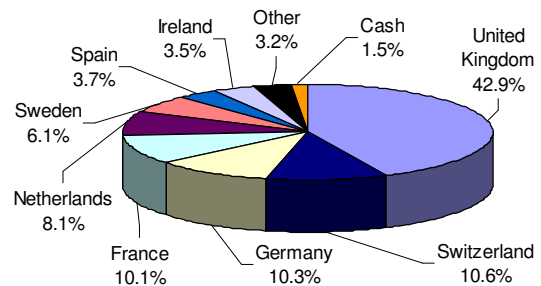
Source GPMS

Characteristics as of 03/31/06

	Philippe	S&P Citigroup Europe EMI
Weighted Avg Market Cap	\$ 1,712 MM	\$ 5,410 MM
Median Market Cap	\$ 872 MM	\$ 854 MM
Dividend Yield	1.4	1.9
Est EPS Growth	17.0	15.6
Price/Book	4.9	3.7
Holdings	83	1,733
Product Assets	\$ 262 MM	NA

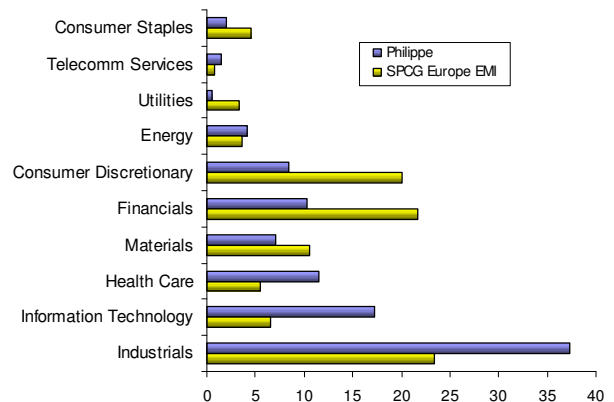
Source Datastream

Geographical Breakdown as of 03/31/06



Source GPMS

Sector Breakdown as of 03/31/06



Source GPMS

Composite Performance* as of 03/31/06

	Philippe Return (Gross)	S&P Citigroup Europe EMI	DJ Stoxx Small 200	MSCI Europe
Quarter	13.35	17.32	16.74	10.76
YTD	13.35	17.32	16.74	10.76
1 year	19.14	30.79	28.73	20.64
3 years	38.75	42.64	42.36	30.76
Since Inception	32.09	35.46	36.78	26.08

PHILIPPE EUROPE EQUITY

First Quarter 2006

European markets continued their strong performance, rising over 10%. Reassuring earnings reports, renewed M&A activity and more signs of an improving economic environment in the Eurozone provided a strong support to equities. This good news offset rising oil prices and tightening monetary conditions. The European markets were driven by cyclical sectors--steel & metals, finance, forestry & paper and real estate. Still penalized by competitive and regulatory threats, telecom services was the only segment to post a negative performance. The defensive sectors, food producers, tobacco, food & drug retailers, underperformed.

Contributors:

Fortum, the Finnish electricity company, was fueled by its recently enlarged footprint in the Russian energy market and by further rises in Nordic power prices, triggering earnings upgrades.

Gaz de France: The shares were boosted by the announcement of a friendly merger with Suez and the release of strong 2005 results.

SAP: After posting 2005 earnings above expectations, the stock of this German software and computer services firm continued to rise following optimistic earnings guidance, underpinned by new expansion opportunities.

Detractors:

Logitech: this Swiss IT hardware company lagged following reporting 3Q results under consensus. However, full-year guidance was revised upwards and March 2007 guidance suggests sales and earnings growth of 15%, in line with the company's usual cautious communications policy.

Synthes, the Swiss health care company, declined on concerns over Japanese reimbursement changes. With Japan Trauma accounting for only about 4% of sales, the negative impact is limited.

Roche, the Swiss pharmaceuticals and biotech company, suffered from profit taking after a strong performance in 2005.

Outlook:

- Business survey indicators continue to point to an economic revival in the Eurozone with consumption strengthening at last, creating a solid support for corporate earnings growth and thus, for the stock markets.
- Although the inflation remains stable at about 2% despite rising oil prices, the ECB's monetary policy tightening is expected to intensify towards 3% by the end of the year.

Europe Equity Management Team

	Years Experience
Michel Raud , Co-CIO, Portfolio Manager	32
Béatrice Philippe , Co-CIO, Portfolio Manager	35
Véronique Cabioc'h , Associate Portfolio Manager & Analyst	19

Top Ten Holdings as of 03/31/06

SGS SA	3.89%
TOTAL	3.82%
BP	3.74%
ROCHE HLDGS AG	3.34%
KBC GROUP NV NPV	2.59%
SAP AG ORD NPV	2.57%
ALLIANZ AG	2.54%
SANOFI-AVENTIS	2.49%
UBS AG	2.49%
UNICREDITO ITALIAN	2.46%

* Please see Performance Disclosure.

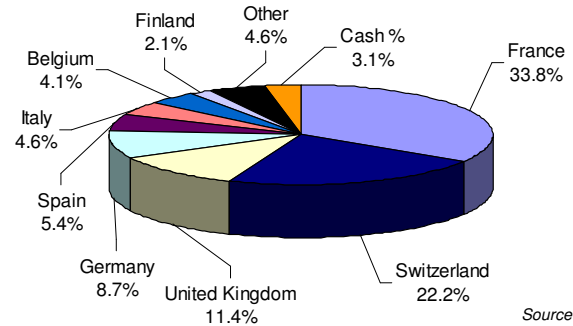
Source GPMS

Characteristics as of 03/31/06

Weighted Avg Market Cap	\$ 52,298 MM
Median Market Cap	\$ 18,934 MM
Dividend Yield	1.5
Est EPS Growth	13.9
Price/Book	5.1
Holdings	50
Product Assets	\$ 242 MM

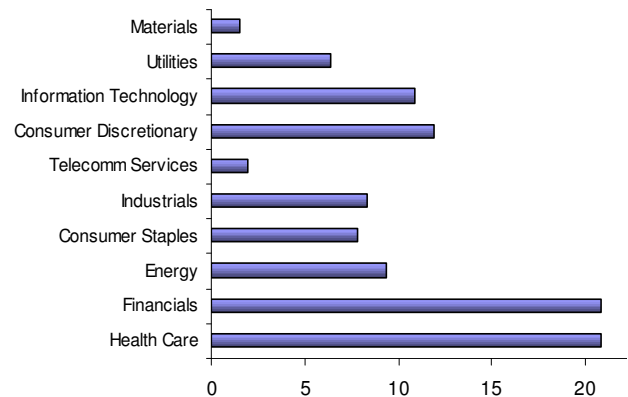
Source Datastream

Geographical Breakdown as of 03/31/06



Source GPMS

Sector Breakdown as of 03/31/06



Source GPMS

Composite Performance* as of 03/31/06

	Philippe Return	MSCI Europe	MSCI Europe Growth
Quarter	10.37	10.76	10.17
YTD	10.37	10.76	10.17
1 year	18.79	20.64	18.62
3 years	25.53	30.76	25.84
5 years	4.47	9.46	6.90
10 years	7.81	10.10	7.15
Since Inception	8.88	10.69	8.71

Annualized. Inception date: January 1, 1991, before fees.

Source GPMS

PHILIPPE U.S. EQUITY

First Quarter 2006

The first quarter gave a strong start to the year, with the market up over 4%, but still lagged the international markets. Small caps, both in the US and in Europe, continued to outperform large caps. Energy prices resumed their upward move and the Fed continued to raise rates. Job figures were good and company earnings were quite strong. Signs of a softening in the housing market started to appear.

Our two most heavily weighted sectors, capital goods and healthcare equipment & services, contributed positively to performance; however, we were hurt by our underweightings in diversified financials and technology hardware and equipment.

Contributors:

Global Santa Fe benefited from record dayrates in offshore oil and gas drilling.

Covance is reaping the benefits of cost-cutting at the major pharmaceutical companies. The company excels in early stage research performed on a contract basis.

Claire's Stores reported better-than-expected sales and earnings and is showing strong growth in new categories.

Detractors:

Williams: Fourth quarter 2005 earnings reflected litigation costs and impairment charges on non-core investments.

Medtronic: Industry-wide sales of implantable cardiac defibrillators showed somewhat slower growth.

Lyondell Chemical: The stock fell after a negative ruling on the lead paint issue by a Rhode Island court.

Outlook:

- On the positive side, job numbers are strong and we appear to be at the end of rate increases. Inflation is rather tame, thanks in part to globalization, and businesses are doing well. Liquidity is still abundant and business capital spending should improve. Europe, Japan and the emerging markets also are growing nicely.

- On the negative side, oil and raw materials prices keep going up which eventually will have an impact on inflation. Housing is softening, the dollar is weakening and it may only be the beginning. Rates could yet rise further, geopolitical issues (Iraq, Iran, the Middle-East) abound and the risk of the inflated structure of derivatives in the financial markets may be underestimated--to mention a few worries.

- Still, it appears to be a benign environment but volatility may increase. This may just be "the calm before the storm."

U.S. Equity Management Team

Years Experience

Béatrice Philippe, Co-CIO, Lead Portfolio Manager 35

Carla Chase, Associate Portfolio Manager & Analyst 7

Characteristics as of 03/31/06

	Philippe	S&P 500 (Gross)
Weighted Avg Market Cap	\$ 45,843 MM	\$ 90,256 MM
Median Market Cap	\$ 8,898 MM	\$ 12,289 MM
Dividend Yield	1.8	1.8
Est EPS Growth	16.1	13.3
Price/Book	3.4	3.7
Holdings	56	499
Product Assets	\$ 183 MM	NA

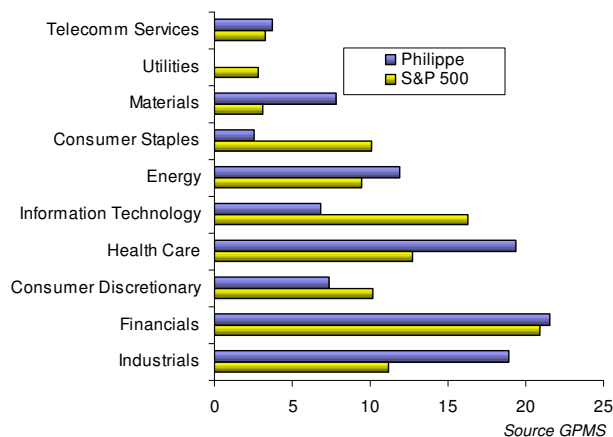
Source Datastream

Top Ten Holdings as of 03/31/06

COVANCE INC	2.40%
L-3 COMMUNICATIONS	2.28%
KEPPEL CORP	2.24%
PALL CORP COM USD0.10	2.20%
PENTAIR INC COM	2.19%
GLOBALSANTA FE CORP	2.18%
BALL CORP COM NPV	2.16%
PRA XAIR INC COM USD0.0	2.13%
HENRY SCHEIN CORP COM	2.12%
ISTAR FINANCIAL	2.10%
TOTAL	22.00%

Source GPMS

Sector Breakdown as of 03/31/06



Composite Performance* as of 03/31/06

	Philippe Return	S&P500	Russell 1000
Quarter	3.31	4.21	4.49
YTD	3.31	4.21	4.49
1 year	6.56	11.73	13.20
3 years	12.89	17.22	18.30
5 years	4.02	3.97	4.74
Since Inception	2.70	1.73	2.41

* Please see Performance Disclosure.

Annualized. Inception date: February 1, 1999, before fees.

Source GPMS

FIRM NEWS

CURRENT PUBLICATIONS

- **Economic Grids – March 31, 2006**
- **Analyst Spotlights:**

The Unsung Heroes in Drug Development

By Goldie Brandl January 2006

Séché Recycle les Déchets en Pépites

By Johann Ropers February 2006

The European Investment Case for the Kyoto Protocol

By Yves-Marc Le Réour March 2006

Please visit our website at www.Philippe-Group.com for complete listings or please contact us.

RECENT EVENTS

We have taken new office space, which is currently under renovation at **Two Penn Plaza** in New York.

While we wait for our new office to be completed, we are temporarily located across the street at **Eleven Penn Plaza**. Both offices are located on 7th Avenue, between 31st and 32nd Streets, right across from Penn Station.

PEOPLE

- **Howard Chin, CFA**

We are pleased to announce that Howard Chin will be joining us in May 2006 as a US Equity Research Analyst and Associate Portfolio Manager. He will be working closely with Béatrice Philippe on our US equity portfolios.

Previously, Howard worked as an Equity Research Associate & Debt Capital Markets Analyst at Bank of America here in New York City. Most recently, he was a Senior Financial Analyst with Merck. He holds a BA in Economics and Biology from the University of Pennsylvania and an MBA from Cornell University.

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PERFORMANCE DISCLOSURE

AIMR Compliance

We are in compliance with the composite construction requirements of the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®) and the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). Our policies and procedures are designed to calculate and present performance results in compliance with AIMR-PPS® and the U.S. and Canadian version of GIPS®. Our compliance was audited on a *firmwide* basis from January 1, 1989 through December 31, 2001.

Our International Equity composite return calculations are in compliance with AIMR-PPS® and the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). Ashland Accounting performed an independent, third party, verification and a performance examination (Level II) as set forth by the AIMR-PPS® and the U.S. and Canadian version of the Global Investment Performance Standard (GIPS®) on our International Equity composite from January 1, 1989 through December 31, 2001.

Our European Equity composite return calculations are in compliance with AIMR-PPS® and the U.S. and Canadian versions of the Global Investment Performance Standards (GIPS®). Ashland Accounting performed an independent, third party, verification and a performance examination (Level II) as set forth by the AIMR-PPS® and the U.S. and Canadian versions of the Global Investment Performance Standards (GIPS®) on our European Equity composite from January 1, 1991 through December 31, 2001.

Composite Descriptions

The **Philippe International Equity composite** includes all fully discretionary institutional international equity accounts with minimum assets of \$10 million. The benchmark is the MSCI EAFE (net). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark and composite is Reuters. All returns are translated into US dollars. The composite is asset weighted, computed monthly, based on time-weighted returns, gross of fees, including income and cash equivalents. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Accounts are included from the first full month under management. Leverage is not used in this composite. Non-fee-paying accounts are not included in the composite. Composite performance is presented net of foreign withholding taxes. Past performance is not indicative of future results. There is one portfolio in the composite. Composite assets at year-end 2005 were \$102 million.

The **Philippe European Small and Mid Cap Equity composite** includes all fully discretionary institutional European small & Mid Cap equity accounts with minimum assets of \$2 million. The benchmark is the DJ STOXX Small 200. Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark and composite is Reuters. All returns are translated into US dollars. The composite is asset weighted, computed monthly, based on time-weighted returns, gross of fees, including income and cash equivalents. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Accounts are included from the first full month under management. Leverage is not used in this composite. Non-fee-paying accounts are not included in the composite. Composite performance is presented net of foreign withholding taxes. Past performance is not indicative of future results. There are four portfolios in the composite. Composite assets at year-end 2005 were \$345 million.

The **Philippe European Equity composite** includes all fully discretionary institutional European equity accounts with minimum assets of \$5 million. This composite includes a euro-denominated European FCP (mutual fund primarily for institutions), a European equity account with assets over \$5 million. (Although that product is not available to US investors, the track record, translated into USD, is representative of our results for an institutional investor.) The benchmark is the MSCI Europe (net). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark and composite is Reuters. The composite is asset weighted, computed monthly, based on time-weighted returns gross of fees, including income and cash equivalents. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Leverage is not used in the composite. Accounts are included from the first full month under management. Non-fee-paying accounts are not included in the composite. Composite performance is presented net of foreign withholding taxes. Past performance is not indicative of future results. There is one portfolio in the composite. Composite assets at year-end 2005 were \$9.2 million.

The **Philippe US Equity composite** includes two fully discretionary US equity accounts with assets over \$25 million. This includes a euro-denominated European FCP (mutual fund primarily for institutions) with assets over \$15 million and a euro-denominated European institutional account with assets over \$5 million. The benchmark is the Standard & Poor's 500 Index. All returns are translated into US dollars. The composite is asset-weighted, computed monthly, based on time-weighted returns, gross of fees, including income and all cash equivalents. (Although the FCP product is not available to US investors, the track record, translated into USD, is representative of our results for an institutional investor.) Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. A fee schedule is available upon request and is described in Part II of the firm's ADV. Accounts are included from the first full month under management. Leverage is not used in this composite. Non-fee-paying accounts are not included in the composite. Past performance is not indicative of future results. There are two portfolios in the composite. Composite assets at year-end 2005 were \$109 million.

Philippe Investment Management, Inc. claims compliance with the Global Investment Performance Standards (GIPS®)

A complete list and description of Philippe Investment Management, Inc.'s composites are available on our web site:

www.Philippe-Group.com