



QUARTERLY NEWS

Spotlight

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Nicolas Guilloteau
Analyst Asian Equities
Sector coverage: Technology

BACKGROUND

Mr. Guilloteau covers technology equipment and hardware and telecommunication services in Asia. He has a highly ranked engineering degree (Ingénieur des Travaux Publics, Paris) as well as a master's in business (HEC, Paris). Mr. Guilloteau speaks fluent English and Chinese, having lived in Hong Kong and Taiwan for close to 15 years.

Japanese Technology at the Heart of Added-Value :

The market for digital products is exploding. Sales of digital cameras, flat screens and recordable DVDs are at record levels and the forecasts for the years ahead suggest growth on the order of 30% to 40%. Many technology companies have seen their sales increase as a consequence, but very few seem able to translate this growth into stable and sustained profitability. Pressure on margins, extremely heavy outlay on investment, and product prices falling at rates of over 15% a year, have eroded profitability. The less heralded beneficiaries of this favorable trend in the industry as a whole are the few specialist companies that have managed to capture the added-value components.

An important lesson can be learned from an analysis of the boom in PCs during the 1980s and 1990s. Despite significant market share, manufacturers such as Toshiba and Sony never established themselves as leaders, and today these divisions are still the cause of major losses. The greatest added-value in a PC lies in the microprocessor and in the operating system. Intel has 80% of the microprocessor market and Microsoft has almost exclusive control of operating systems.

The situation for this new generation of digital products is similar. Liquid crystal display (LCD) screens are needed for all these new electronic devices and the chemical substrates and plastic films essential in the manufacturing process are almost all produced by a small number of Japanese chemical firms such as **JSR**, **Zeon** or **Nitto-Denko**.

The example of JSR is instructive. This company began in the 1980s as a manufacturer of electronic chemicals for semiconductors. Today JSR enjoys market shares of 30% to 60% in electronic equipment for LCD screens and its operating margins have widened from 3.5% in 1999 to 10.5% in 2003. Nitto Denko, a company that originally specialized in the manufacture of plastic films and synthetic filters for industrial applications, now dominates the market for LCD films with a market share of 55%.

We find a similar situation in the market for digital cameras where fierce competition and price wars are raging. The two key components, the CCD and the optic block, are produced by a handful of companies. Sony and Fuji Film share 70% of the CCD market.

At a time when human and financial capital is being moved to countries such as China, Taiwan and South Korea, the electronics sector in Japan is essentially being driven by these and other very specialized companies whose strategic positions protect them from excessive competition and increased pressure on margins.

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

The Year in Review 2003

2003 saw a return to positive performance, however it represented a difficult environment for fundamental growth-oriented and valuation-aware long term investors. More economically sensitive companies outperformed steady high return companies, companies with lower quality business generally outperformed their high quality counterparts.

In Japan, this split in performance was especially strong and many growth stocks performed poorly. Conversely, previously savaged stocks, particularly in banking and cyclicals, had a strong run with almost no consideration of their true business prospects.

After a strong rebound in Q3, the Pacific Basin markets were less buoyant than European ones in the fourth quarter.

The portfolio, in both Europe and Asia, was progressively shifted to take advantage of a more positive economic environment.

Outlook

The force of the rebound in 2003 cannot run much longer. However, three years of bear markets have left many strong and leading companies comparatively cheap and economic prospects are progressively improving, despite the threat of a lower dollar for international companies. Our portfolio is structurally strong with these stocks and we are finding a large choice of available investment opportunities.

International Equity Management Team

	Years Experience
Michel Raud , Co-CIO, Lead Portfolio Manager	31
Philippe Lesueur , Portfolio Manager	17
Béatrice Philippe , Co-CIO, Portfolio Manager	34

Top Ten Holdings as of 12/31/03

FRANCE TELECOM	4.0%
ROCHE HLDGS AG	2.6%
TOTAL	2.3%
VODAFONE GROUP	2.2%
BP	2.1%
SGS HOLDING	2.1%
PHILIPS ELEC(KON)	1.9%
NESTLE SA	1.9%
EQUANT NV	1.9%
UNILEVER	1.6%
TOTAL	22.5%

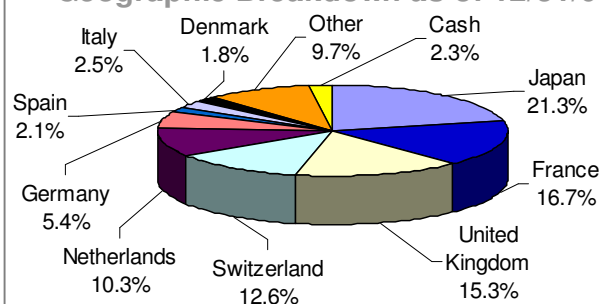
Source FMC

Characteristics as of 12/31/03

	Philippe	MSCI Eafe
Weighted Avg Market Cap	\$ 44,767 MM	\$ 46,584 MM
Median Market Cap	\$ 11,595 MM	\$ 3,798 MM
Dividend Yield	1.9	2.5
Price/Book	3.5	2.7
Holdings	122	1,005
Product Assets	\$ 241 MM	

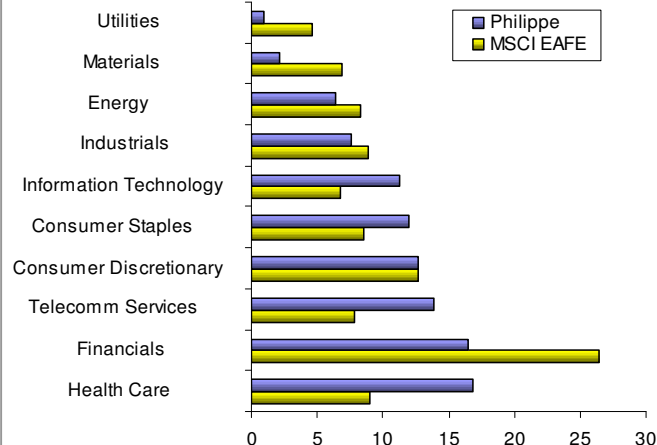
Source Datastream and Wilshire

Geographic Breakdown as of 12/31/03



Source Wilshire Atlas

Sector Breakdown as of 12/31/03



Source Wilshire Atlas

Composite Performance* (Periods ending 12/31/03)

	Philippe Return (Gross)	MSCI EAFE	MSCI EAFE Growth
Quarter	13.54	17.08	15.67
YTD	32.88	38.59	31.99
3 years	(7.10)	(2.91)	(5.80)
5 years	(0.08)	(0.05)	(3.96)
10 years	5.28	4.59	2.07
Since Inception	6.15	3.83	1.30

Annualized. Inception date: January 1, 1989. Source FMC

* Please see Performance Disclosure.

PHILIPPE EUROPE SMALL & MID-CAP EQUITY

The Year in Review 2003

- Following the war in Iraq, we experienced a rise in the market; thereafter, it followed a classic year-end cyclical recovery pattern. Stocks that traditionally benefit in such conditions moved ahead sharply.
 - While the early movement was largely speculative, the improvement in economic fundamentals and better corporate results lent increased support. By year end, confidence was largely restored, judging by the sharp upward movement in the technology and telecom sectors.
 - Small cap, as predicted, faded in December relative to big cap. The portfolio outperformed the small cap index by 138 basis points for the month.
- Outlook
- Sustained confidence is key. The divergence of news on the economic out-turn provides for a reasonable level of opportunity which can be translated into profitable investments.
 - We are likely to see continued improvement in economic factors and reported results meeting expectations.
 - Continued concerns over the level of the US dollar and government deficits should ensure that some restraint is applied to the further recovery of the more speculative areas of the market.
 - We still favor companies with positive free cash flow, dividend and earnings growth capacity and strong competitive product positioning.

Europe Small & Mid Cap Equity Management Team

	Years Experience
Consuelo Brooke , Portfolio Manager	34
Béatrice Philippe , Co-CIO	34
Michel Raud , Co-CIO	31

Top Ten Holdings as of 12/31/03

BJOU BRIGITTE	2.35%
ACS ACTIVIDADES CO	2.29%
STADA ARZNEIMITTEL	2.17%
ANGLO IRISH BNK.CP	2.14%
SYNTHES-STRATEC	2.10%
WENDEL INVESTISSEM	1.97%
ELRINGKLINGER AG	1.82%
VOSSLOH AG	1.75%
STRAUMANN HLDG	1.71%
VEDIOR	1.70%
TOTAL	20.01%

Source FMC

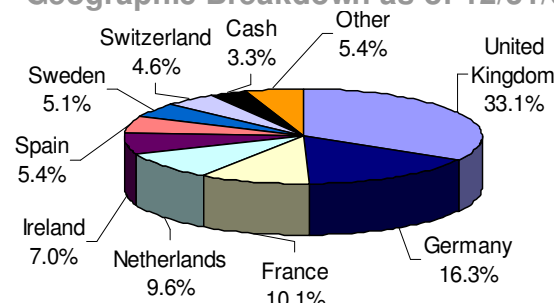
* Please see Performance Disclosure.

Characteristics as of 12/31/03

	Philippe	DJ Stoxx Small 200
Weighted Avg Market Cap	\$ 1,596 MM	\$ 2,894 MM
Median Market Cap	\$ 623 MM	\$ 1,809 MM
Dividend Yield	2.5	2.2
Price/Book	3.8	2.9
Holdings	83	200
Product Assets	\$ 218 MM	

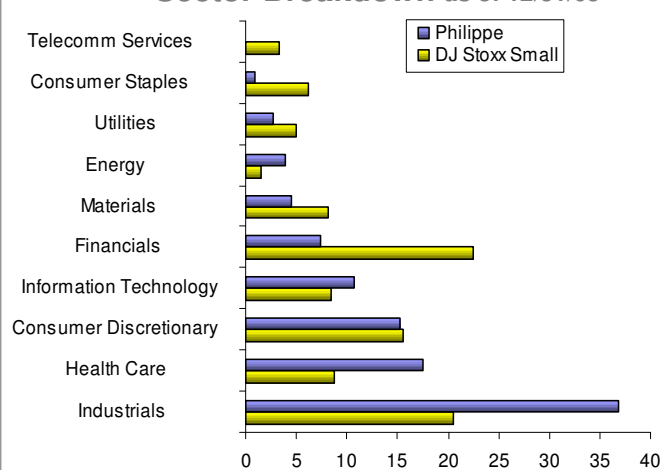
Source Datastream

Geographic Breakdown as of 12/31/03



Source Wilshire Atlas

Sector Breakdown as of 12/31/03



Source Wilshire Atlas

Composite Performance*

(Periods ending 12/31/03)

	Philippe Return (Gross)	DJ Stoxx Small 200	MSCI Europe
Quarter	15.50	17.14	20.37
YTD	47.98	56.64	38.54
Since Inception	44.25	55.10	40.98

Annualized. Inception date: October 1, 2002. Source FMC

PHILIPPE EUROPE EQUITY

The Year in Review 2003

The 4th quarter was very strong, still led by cyclicals and valuation driven investment opportunities with defensive stocks lagging. The weak dollar made it even stronger in \$ terms. Telecom services, software, pharma and insurance had a positive contribution to the portfolio while our underweighting of banks was a detractor.

For the whole year, performance was a strong 37.2% in \$, only slightly lagging the index in spite of our continued focus on quality growth companies, which, on average did less well than cyclical and previously beaten stocks which rebounded very strongly in that first leg of the cyclical recovery.

Outlook for 2004

We believe that 2004 should see a return to more normal conditions, driven by improving economic prospects. This should benefit our investment approach which focuses on financially strong companies with sustainable growth prospects.

Europe Equity Management Team

	Years Experience
Philippe Lesueur , Lead Portfolio Manager	17
Michel Raud , Co-CIO, Portfolio Manager	31
Béatrice Philippe , Co-CIO, Portfolio Manager	34

Top Ten Holdings as of 12/31/03

FRANCE TELECOM	5.62%
ROCHE HLDGS AG	3.49%
TOTAL	3.41%
SGS HOLDING	3.05%
BP	2.87%
PHILIPS ELEC(KON)	2.58%
NESTLE SA	2.53%
VODAFONE GROUP	2.53%
EQUANT NV	2.24%
SHELL TRNSPT&TRDG	2.23%
TOTAL	30.55%

Source FMC

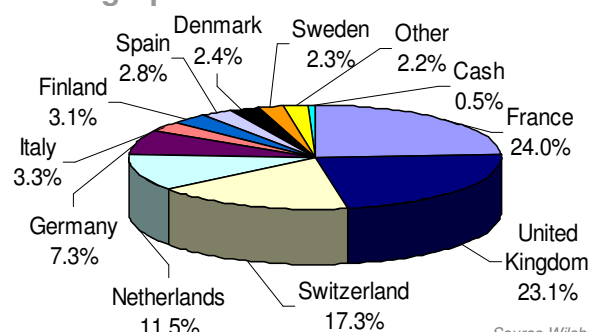
* Please see Performance Disclosure.

Characteristics as of 12/31/03

	Philippe	MSCI Europe
Weighted Avg Market Cap	\$ 49,935 MM	\$ 56,384 MM
Median Market Cap	\$ 14,742 MM	\$ 4,587 MM
Dividend Yield	2.3	2.8
Price/Book	3.6	2.9
Holdings	64	539
Product Assets	\$ 143 MM	

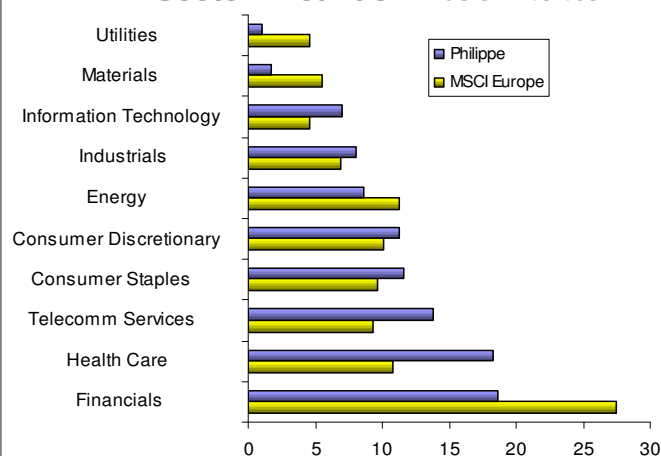
Source Datastream and Wilshire

Geographic Breakdown as of 12/31/03



Source Wilshire Atlas

Sector Breakdown as of 12/31/03



Source Wilshire Atlas

Composite Performance* (Periods ending 12/31/03)

	Philippe Return (Gross)	MSCI Europe
Quarter	16.97	20.37
YTD	37.22	38.54
3 years	(8.78)	(3.24)
5 years	(2.69)	(0.78)
10 years	7.49	8.71
Since Inception	8.14	9.39

Annualized. Inception date: January 1, 1991. Source FMC

PHILIPPE U.S. EQUITY

The Year in Review 2003

- In 2003, the US markets favored smaller and more economically sensitive companies as opposed to larger, high return companies and lower quality businesses generally outperformed their higher quality counterparts.
- The Bush administration's expansionary fiscal and monetary policy jump-started the economy and, as a result, we saw a rapid increase in commodity prices and a large build-up in the budget deficit.

Contributors

- American Express: AXP benefited from a cyclical recovery in money management and card spending by both individuals and corporate customers.
- Tyco International: We are favorably impressed by new management and underlying business values.
- Yum Brands: Continued growth in earnings and free cash. Underlying business performance was good and the stock moved closer to, but did not reach, full value.

Detractors

- Johnson and Johnson: Challenges in some key product areas led to relatively flat performance despite continued EPS growth and our view that the long-term prospects are very strong.
- First Data: Underperformed in 2003 due to a modest slowdown in growth and concern over the pending acquisition of Concord EFS. This technology holding was eclipsed by companies that were recovering from very weak earnings and dismal market performance in 2002.

Outlook

- Given the dramatic run-up in valuations and the tendency to have a big run off the bottom in the first year of a recovery, it is likely that the relative out-performance of cyclicals and technology will be less in 2004 than in 2003.
- The current psychology has totally changed. After the gloom of 2002 through March of 2003, the market now has a momentum all its own, and the fear factor has largely disappeared.

U.S. Equity Management Team

	Years Experience
Douglas Bean, Lead Portfolio Manager	15
Béatrice Philippe, Co-CIO	34

* Please see Performance Disclosure.

Characteristics as of 12/31/03

	Philippe	S&P 500
Weighted Avg Market Cap	\$ 82,773 MM	\$ 90,045 MM
Median Market Cap	\$ 36,900 MM	\$ 8,600 MM
Dividend Yield	1.2	1.6
Price/Book	4.5	4.5
Holdings	50	500
Product Assets	\$ 122 MM	

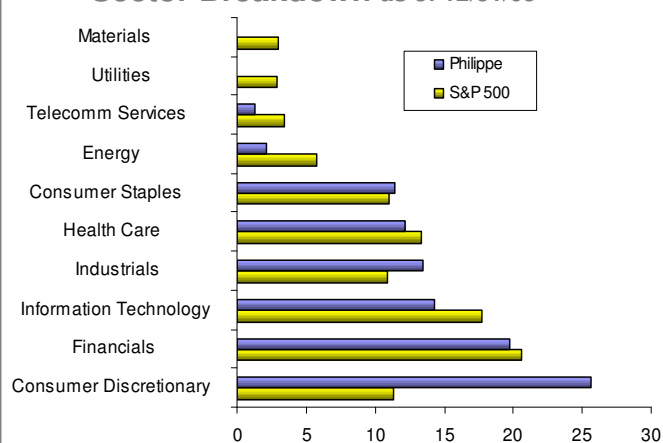
Source Datastream

Top Ten Holdings as of 12/31/03

LIBERTY MEDIA CORP	4.11%
BLOCK H & R INC	4.00%
AMERICAN EXPRESS CO	3.94%
BERKSHIRE HATHAWAY	3.89%
PFIZER INC	3.33%
FIRST DATA CORP	3.23%
WASHINGTON MUT INC	3.15%
MICROSOFT CORP	3.01%
GENERAL ELECTRIC CO	2.92%
IBM	2.33%
TOTAL	33.90%

Source FMC

Sector Breakdown as of 12/31/03



Source Wilshire Atlas

Composite Performance*

(Periods ending 12/31/03)

	Philippe Return (Gross)	S&P 500	Russell1000
Quarter	10.50	12.18	12.26
YTD	24.19	28.68	29.90
3 years	1.07	(4.05)	(3.78)
Since Inception	1.35	(1.40)	(0.85)

Annualized. Inception date: February 1, 1999. Source FMC

FIRM NEWS

BUSINESS

- Total business gained in 2003 was \$135 million.
- We added 9 new clients during the year.
- Assets Under Management reached \$728 million at December 31, 2003.



PEOPLE

□ **Lenore Thornton:** U.S. Marketing Director, Ms. Thornton joined Philippe Investment Management in July 2003, as Senior Vice President and Director of Marketing and Client Services. Lenore is based in New York and is responsible for servicing our North American clients. In addition, she directs our marketing and sales efforts to North American plan sponsors.



□ **Johann Ropers:** Europe Small & Mid Cap Equity analyst, Mr. Ropers joined Philippe Investment Management in 2002, and now is dividing his time between Paris and London, working very closely with Consuelo Brooke.

CURRENT PUBLICATIONS

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

- **Economic Grids** December 2003
- **Analyst Spotlights**



□ **Louis-Edouard de Belair:** Europe Client Services, Mr. de Belair joined PIM Gestion France in 2003 to reinforce the Europe Client Services and Marketing team in Paris.

Advertising Agencies and the Stock Exchange
by Véronique Cabioc'h January 2004

Japanese Technology at the Heart of Added-Value
by Nicolas Guilloteau December 2003

It's Dress Up Time Again!
by Goldie Brandl November 2003



□ **Gina Song:** U.S. Client Services, in January 2004, Ms. Song was hired as an associate to complement our North American Client Services and Marketing team in New York.



□ **Carla Chase:** US Equity analyst, covering consumer products, retail, business services, and the media sector, received her CFA designation in 2003 and has been named US Equity Analyst team leader, effective January 1, 2004.

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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 the 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. The composite is asset weighted, computed monthly, based on time-weighted returns, gross of fees, including income. 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. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of management fees on the total value of a client's portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 8% a year, and (c) 1.00% annual investment advisory fee would be \$10, 416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary. Accounts are included from the first full month under management. All returns are translated into US dollars. No balanced portfolio segments are included, nor is this composite a sub-sector of a larger portfolio. 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. From inception (January 1, 1989) through December 31, 1995 there was one portfolio in the composite. From January 1, 1996 through March 31, 1999 there were two portfolios in the composite. From April 1, 1999 through March 31, 2001 there was one portfolio in the composite. Since April 1, 2001 there have been two portfolios in the composite. Composite assets at year-end 2003 were \$220.7 million. Prior year's-end composite assets were: 1989, \$204 million; 1990, \$159 million; 1991, \$170 million; 1992, \$162 million; 1993, \$212 million; 1994, \$216 million; 1995, \$238 million; 1996, \$338 million; 1997, \$365 million; 1998, \$413 million; 1999, \$85 million; 2000, \$81 million; 2001, \$196 million; 2002, \$161.5 million.

The **Philippe European Small and Mid Cap Equity composite** includes all fully discretionary institutional European small and 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. The composite is asset weighted, computed monthly, based on time-weighted returns, gross of fees, including income. 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. All returns are translated into US dollars. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of management fees on the total value of a client's portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 8% a year, and (c) 1.00% annual investment advisory fee would be \$10, 416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary. No balanced portfolio segments are included, nor is this composite a sub-sector of a larger portfolio. 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. From inception (10/2002) through January 31, 2003 there were two portfolios in the composite. Since February 1, 2003 there have been three portfolios in the composite. Composite assets at year-end 2003 were \$201.4 million. Composite assets at year-end 2002 were \$4.7 million. This composite was created in January 2002.

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. 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.

PERFORMANCE DISCLOSURE

Philippe European Equity composite (continued)

Accounts are included from the first full month under management. All returns are translated into US dollars. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of investment management fees on the total value of a client's portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 8% a year, and (c) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary. No balanced portfolio segments are included, nor is this composite a sub-sector of a larger portfolio. 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. From inception (1/1/1991) through the first quarter of 1991 there was one portfolio in the composite. From the second quarter of 1991 through June 1996 there were two portfolios in the composite. From July 1996 to January 1999 there was one portfolio in the composite. From February 1999 through May 2000 there were two accounts in the composite. Since June 2000 there has been one portfolio in the composite. Composite assets at year-end 2003 were \$14.2 million. Prior years-end composite assets were: 1991, \$78 million; 1992, \$118 million; 1993, \$166 million; 1994, \$186 million; 1995, \$214 million; 1996, \$228 million; 1997, \$271 million; 1998, \$358 million; 1999, \$330 million; 2000, \$14 million; 2001, \$10 million; 2002, \$8.1 million. This composite was created in January 2002.

The **Philippe US Equity composite** includes two fully discretionary US equity accounts with assets over \$40 million. This includes a euro-denominated European FCP (mutual fund primarily for institutions), a US equity account with assets over \$30 million, and a euro-denominated European institutional account with assets over \$10 million. The benchmark is the S&P 500. 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. All returns are translated into US dollars. Fees are collected quarterly, which produces a compounding effect on the total rate of return net of management fees. As an example, the effect of management fees on the total value of a client's portfolio assuming (a) \$1,000,000 investment, (b) portfolio return of 8% a year, and (c) 1.00% annual investment advisory fee would be \$10,416 in the first year, and cumulative effects of \$59,816 over five years and \$143,430 over ten years. Actual investment advisory fees incurred by clients may vary. No balanced portfolio segments are included, nor is this composite a sub-sector of a larger portfolio. 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. From inception (February 1, 1999) to September 30, 2003 there was one portfolio in the composite. Since October 1, 2003 there have been two portfolios in the composite. Composite assets at year-end 2003 were \$47 million. Prior years-end composite assets were: 1999, \$5.7 million; 2000, \$6.6 million; 2001, \$13.0 million; 2002, \$14.5 million. This composite was created in January 2002.