



## WHY INTERNATIONAL INVESTING IS IMPORTANT IN A PUBLIC PENSION PORTFOLIO

Adding international exposure to your portfolio offers significant benefits versus investing in a strictly domestic strategy. This is the first of a three article series to offer some pointers on how to invest in these markets and what to look for when you are making those decisions.

Florida recently allowed their Public Pension Funds to increase exposure (25% from 10%) in international investments. This change recognizes the increase in international exposure that many public funds have implemented over the past ten years.

What are the benefits of international investing? For starters, studies indicate that adding international investments reduces volatility of returns for your portfolio. That is because International markets will sometimes move in different directions or different magnitudes from US stocks. Including foreign stocks in a portfolio can smooth out the performance ride from period to period.

International investing offers a broader selection of companies as well. While the US has many world class companies, we don't have all of them! In fact, of the 25 largest companies globally only 7 are American. Our sense is that investors want to be able to invest in companies like Nestle, Nokia, Sony, Canon and a variety of others whose products they know and use.

There are a number of options available to execute this strategy. Most large US companies offer international exposure as they have significant operations in overseas countries and will be impacted by conditions in those countries. American Depositary Receipts (ADRs) are foreign stocks that trade on US exchanges. An ADR is a registered security issued by a bank representing shares of a foreign stock. They are traded and settled in US dollars.



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Mutual funds and Exchange Traded Funds (ETFs) can also be used to access foreign markets. Both of these allow investors to broadly invest internationally or focus on a particular sector, country and region. Of course investors can buy international stocks directly from foreign exchanges. This can be complex and the companies may not file financial reports with the SEC.

There are three risks to consider in international investing; currency, political and economic concerns. Exchange rate fluctuations between the US and foreign currencies will affect returns. In recent years, the falling dollar has made foreign stocks worth more to US investors. Also, many countries have implemented political and economic reforms. These would include changes in political leadership and civil unrest as well as economic events such as trade wars and capital controls. While these reforms can be either positive or negative, they have resulted in emerging country economies far outpacing US growth.

We believe increased international investments should allow investors the benefit of lower volatility, better diversification and potentially improved returns. In our next two articles we will provide more detail on developed and emerging markets.



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