

Institute for Private Investors

Implementing a Global Equity Portfolio

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**Global Investing
is a good idea,
but...**

**It has become
popular for the
wrong reasons.**

Overview

I. Why Invest Globally?

- ...Broader Opportunity Set*
- ...Benefits of Lower Correlations*
- ...Faster Economic Growth Abroad*

II. Executing a Global Equity Strategy

- ...Are US Multinationals a good Proxy?*
- ...Active or Passive?*
- ...To Hedge or Not to Hedge*
- ...Global versus Non-US Managers*

III. What About Other Asset Classes?

- ...Fixed Income*
- ...Hedge*
- ...Private Equity*
-Real Estate*

Why Invest Globally?

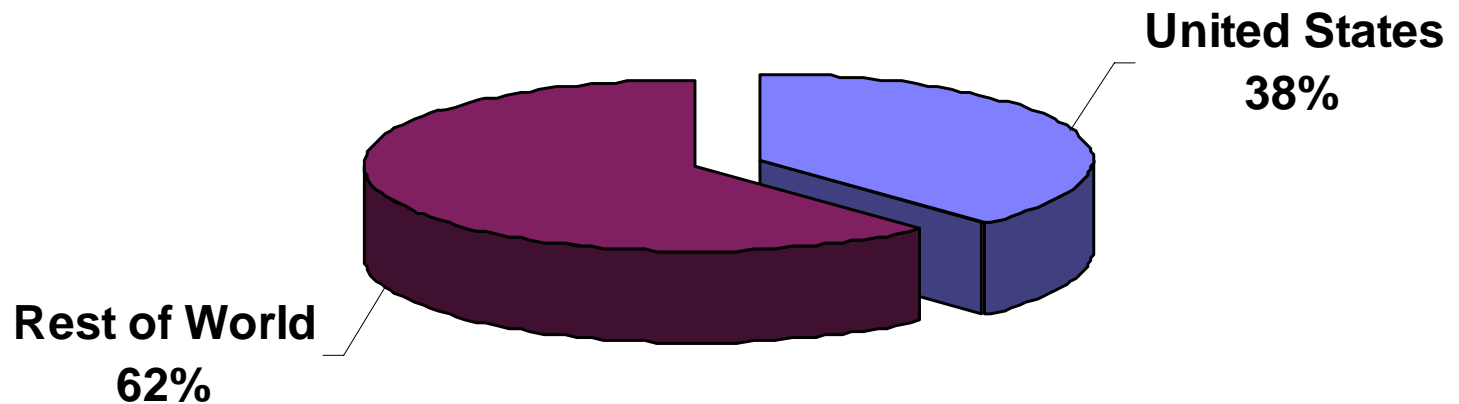
US stocks used to dominate global equities.

Now more than 60% of world equity based outside of United States.

Pace of globalization WILL continue.

Broader Opportunity Set...

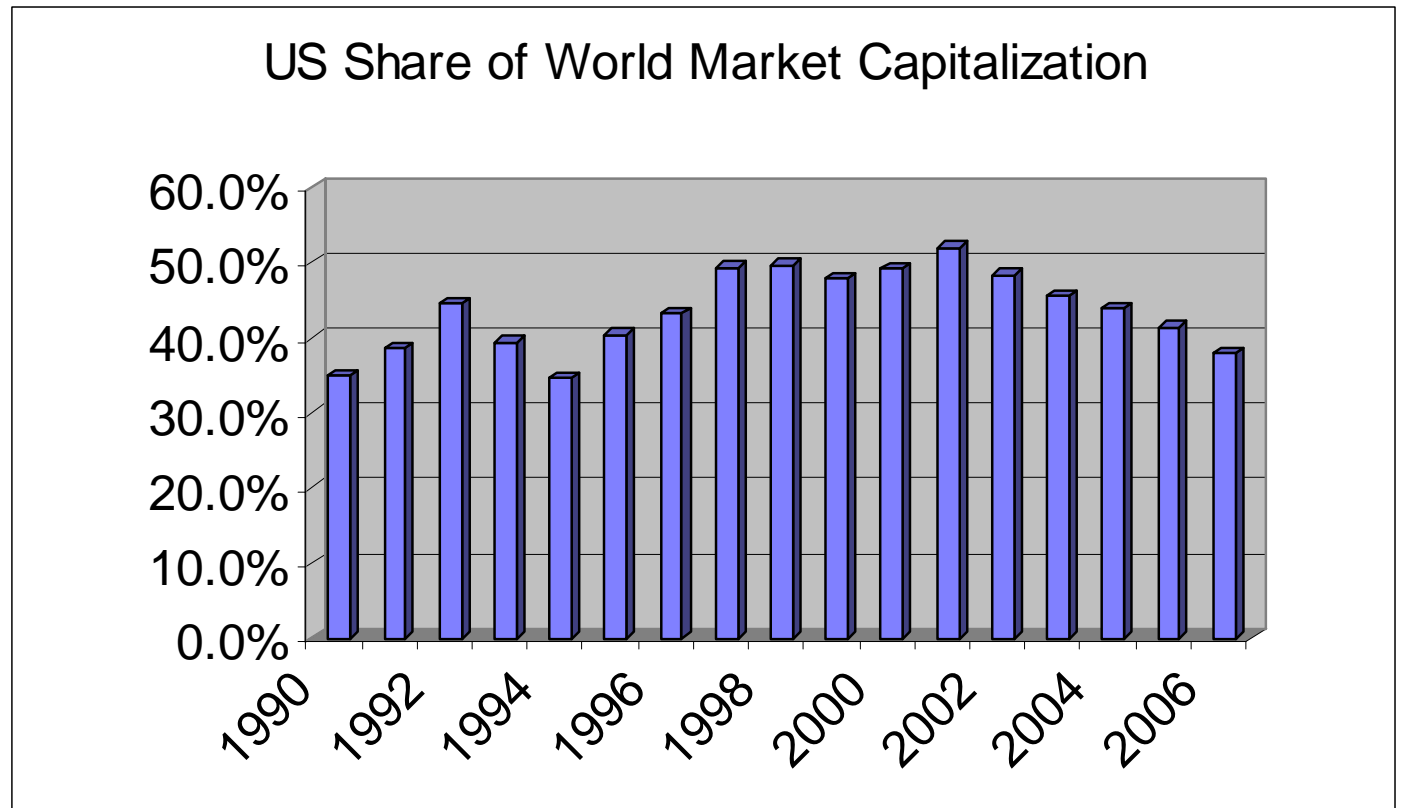
U.S. % of World Market Capitalization *November 2007*



Source: World Federation of Exchanges

Broader Opportunity Set...

Contrary to common belief, since 1990 US equity market capitalization has rarely exceeded 50% of the world market



Source: World Federation of Exchanges

Why Invest Globally?

Broader Opportunity Set...

Global Rank	Company Name	Country	Capitalization %
3	China Mobile Ltd.	HONG KONG	0.82%
5	Gazprom OAO	RUSSIA	0.79%
8	BP PLC	UNITED KINGDOM	0.52%
10	Petroleo Brasileiro S/A	BRAZIL	0.49%
11	Electricite de France	FRANCE	0.49%
12	Toyota Motor Corp.	JAPAN	0.49%
13	Vodafone Group PLC	UNITED KINGDOM	0.48%
14	HSBC Holdings PLC	UNITED KINGDOM	0.47%
16	China Construction Bank Corp.	CHINA	0.46%
18	Total S.A.	FRANCE	0.46%
Total Non-US Based in Top 20 Non-US			5.48%
Total US-based in Top 20 United States			6.30%

- ✓ World Class Products
- ✓ Talented Management
- ✓ Globally Competitive

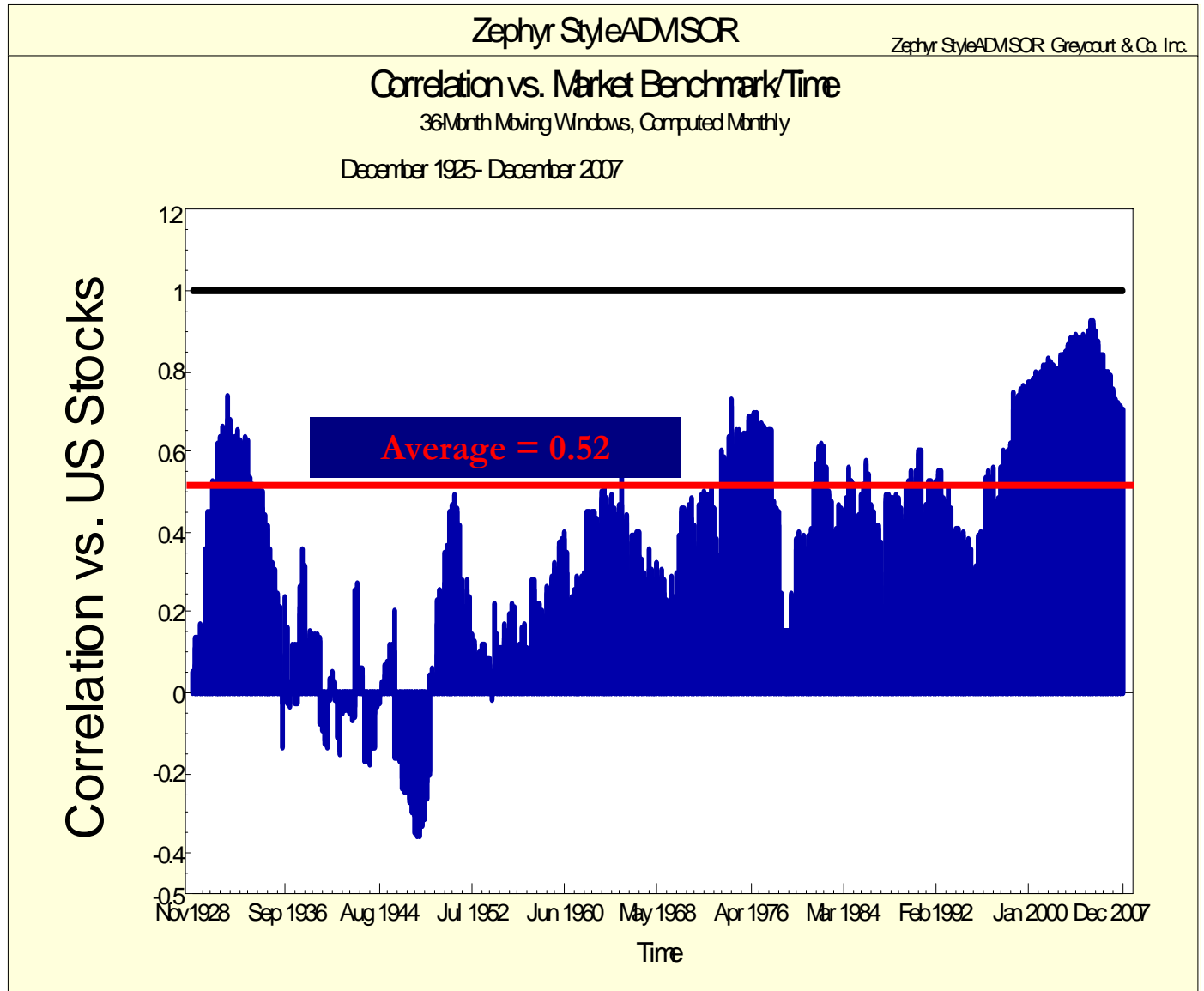
Why Invest Globally?

Benefits of Lower Correlation...

Historically low correlation with US stocks...
(0.52 since 1925)

US to non-US stock correlation has increased...
(0.82 since 1997)

Most recently, correlations have decreased...
(0.70 since 2004)



Economic Growth Faster Outside US...

According to the International Monetary fund, expected GDP growth in the United States is currently among the slowest in the world.

The United States has one of the world's slowest-growing economies.















Country	2007 growth{+1}
China	11.5%
India	8.9
Russia	7.0
Middle East	5.9
Central/ Eastern Europe	5.8
Africa	5.7
Brazil	4.4
United Kingdom	3.1
Mexico	2.9
Euro area{+2}	2.5
Canada	2.5
Japan	2.0
United States	1.9

Source: International Monetary Fund

Why Invest Globally?

Expected Equity Returns Follow GDP Growth...

Country Risk Premium Table

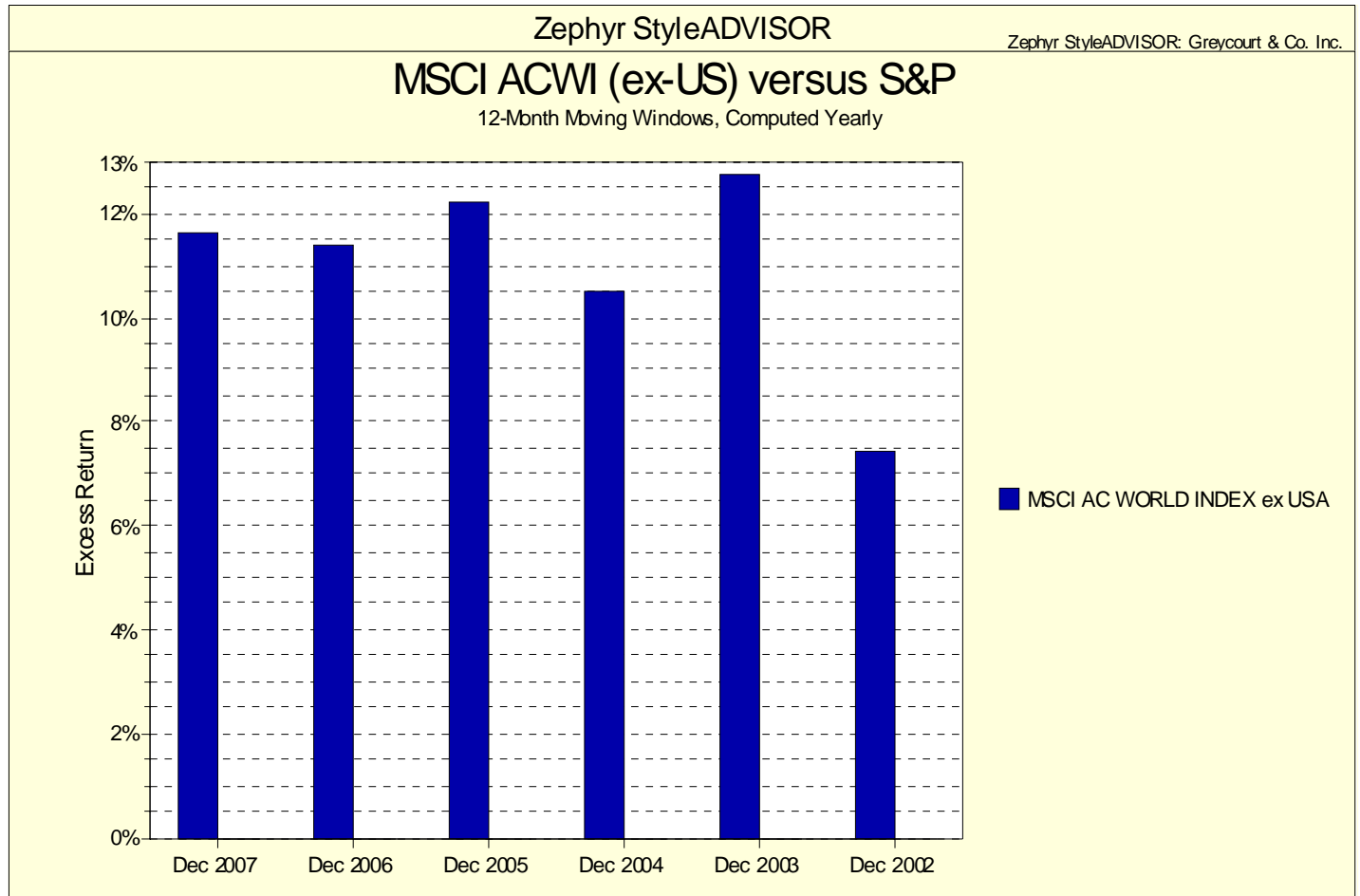
 Australia 1) 7.13	 Hong Kong 5) 12.36	 Singapore 9) 10.46
 Canada 2) 8.13	 Japan 6) 9.22	 Switzerland 10) 7.56
 Denmark 3) 6.63	 N. Zealand 7) 4.79	 Sweden 11) 7.82
 Euro 4) 8.18	 Norway 8) 7.71	 Taiwan 12) 15.88
 U.K. 13) 5.37	 U.S. 14) 6.64	

Source: Bloomberg

- Forecast equity risk premiums stock by stock.
- Aggregate to estimate country risk premium.
- US stock market expected return lags all but the UK.

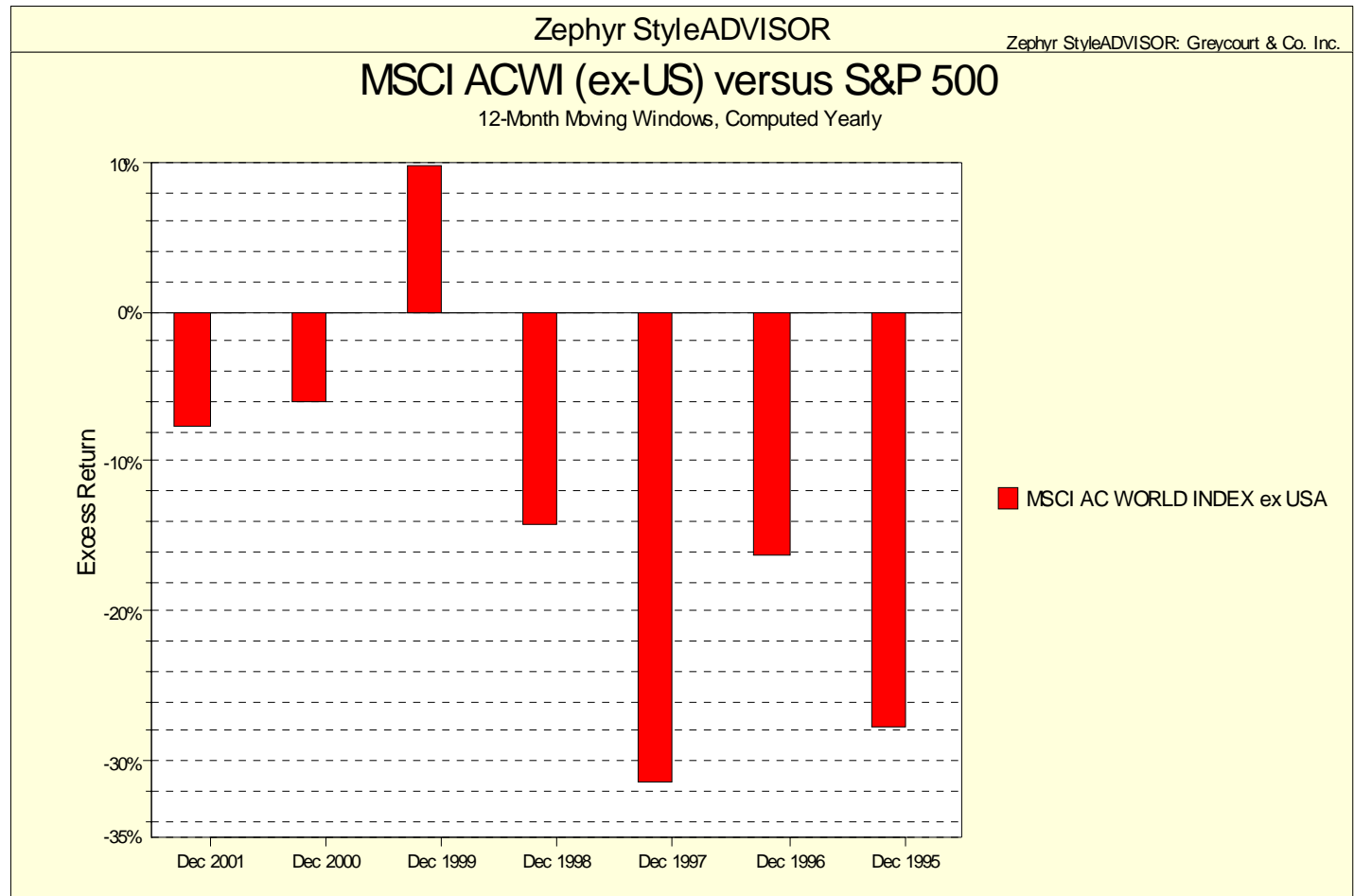
Investor Interest Often Chases Good Returns...

Non-US equity investments have significantly exceeded US-based investments in each of the past 6 years.



Beware of Recent History...Past is Not Always Prologue...

From 1995 thru 2001, non-US equities badly underperformed domestic equities in 6 of 7 years.

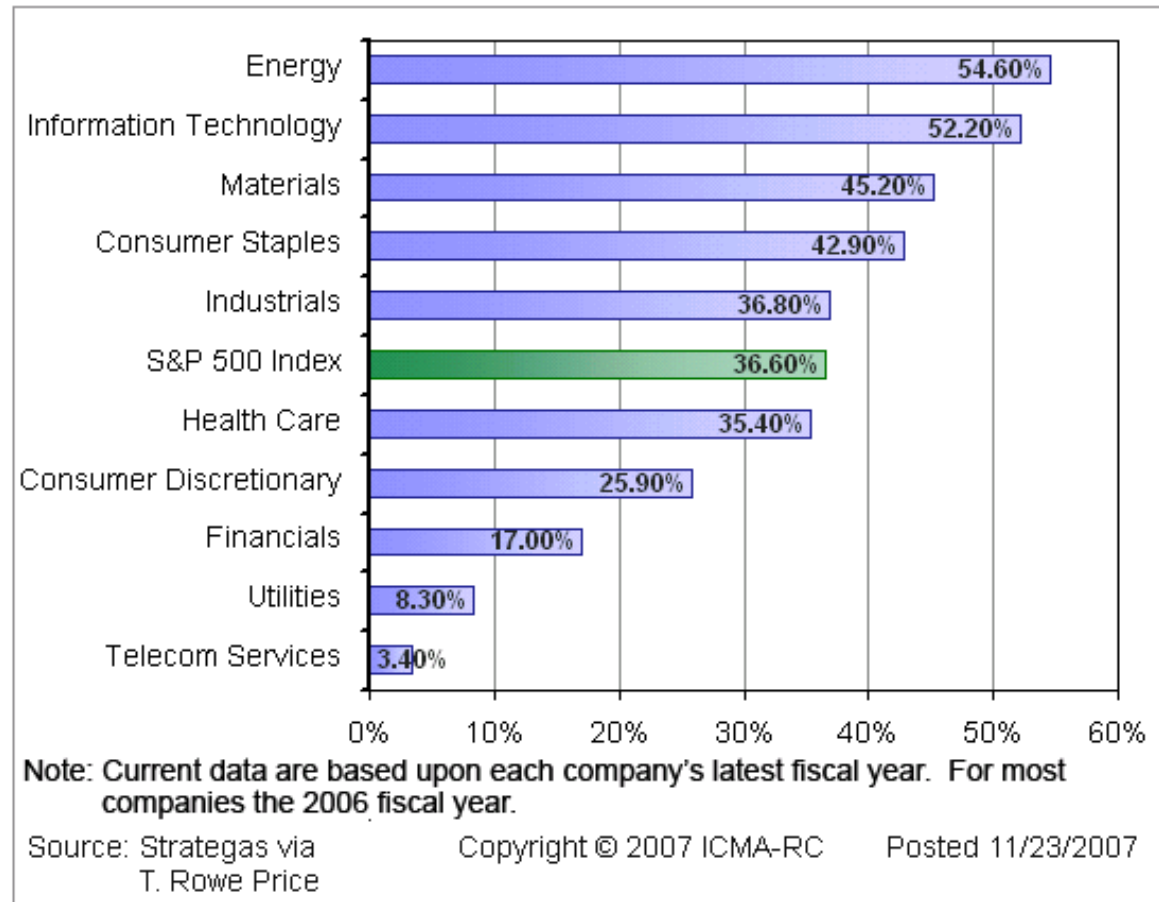


Are US Multinationals a Good International Equity Substitute?

Not all S&P 500
sectors derive
substantial
revenues from
overseas.

S&P 500 Sectors — Foreign Revenue as a Percentage of Total Revenue

Chart of the Week for November 23 - November 29, 2007



Not Really...

Despite deriving more than 50% of their revenues from overseas, these US based multinationals still have higher correlation to the S&P 500 (+0.30) than to EAFE (+0.18)

Are US Multinationals a Good International Equity Substitute?

Some of the largest US companies derive over half of their revenues from outside the United States...

Company	Business	% of revenue from overseas
Intel	Semiconductors	79.0%
Coca-Cola	Beverages	72.3
Exxon Mobil	Oil and gas	69.0
Schlumberger	Oil services	67.0
McDonald's	Restaurants	65.5
Hewlett-Packard	Computer equipment	65.0
3M	Diversified	61.4
United Technologies	Diversified	60.0
E.I. du Pont de Nemours	Chemicals	60.0
Altria	Tobacco	58.0
Procter & Gamble	Household products	57.0
IBM	Computers	57.0
Caterpillar	Construction machinery	53.0
Aon	Insurance	53.0
FPL Group	Electric utility	52.0

Source: Morningstar

Active or Passive?

Assumptions:

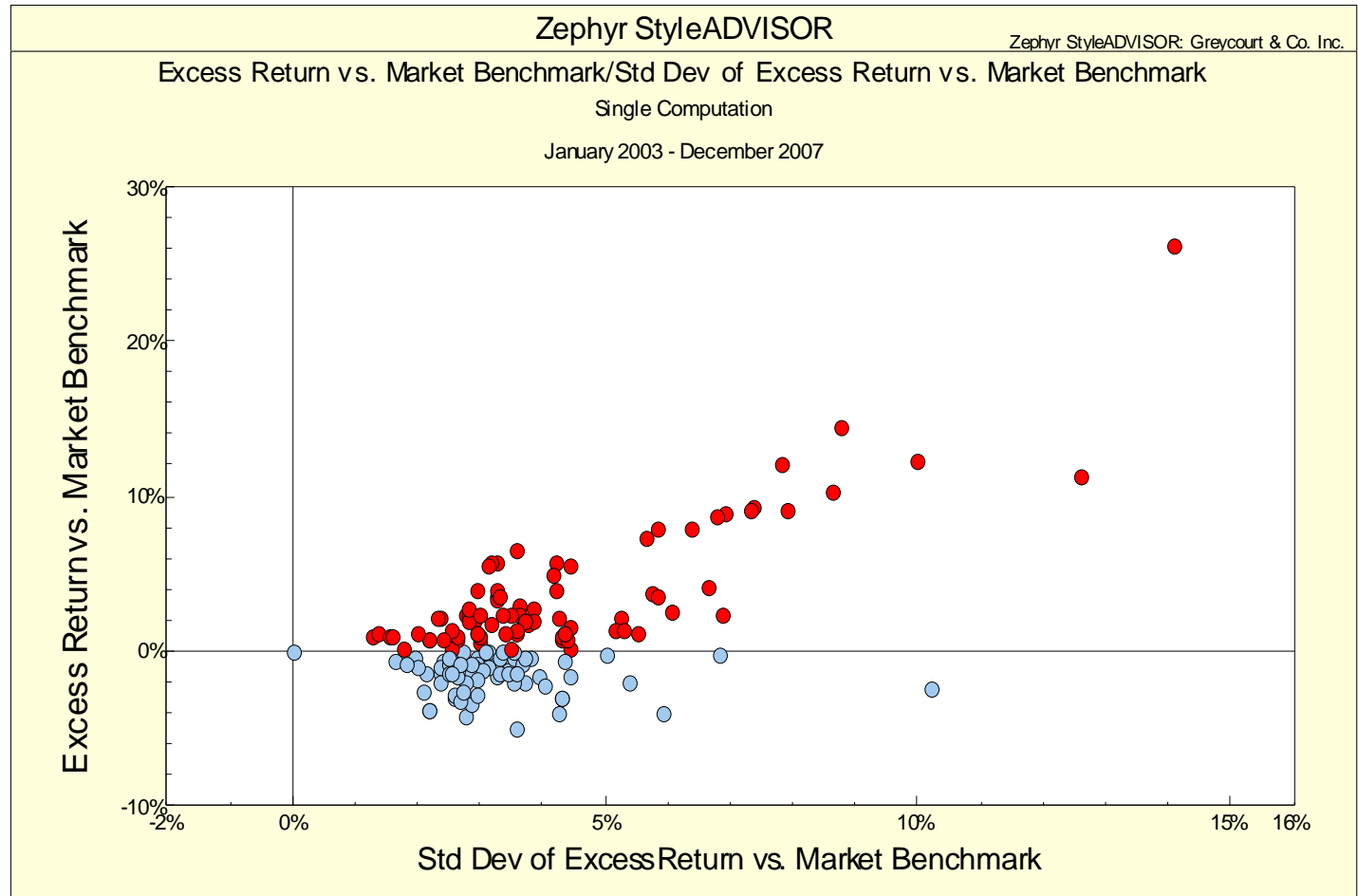
- (1) Management fees0.75% vs. 0.15%
- (2) Asset turnover.....40% vs. 7.0%
- (3) 10 Years with no liquidation

What is the
manager's
required Excess
return to match
index fund?

<u>Return Summary</u>	<u>Manager</u>	<u>Benchmark</u>
Projected Average Return	10.20%	9.00%
Projected Annual Compound Return	8.92%	7.72%
Loss due to Capital Gains Taxes	0.82%	0.18%
Loss due to Income Taxes	0.32%	0.40%
Loss due to Management Fees	0.75%	0.15%
<i>Total Reductions</i>	<i>1.89%</i>	<i>0.73%</i>
Net After-tax Return	6.95%	6.95%

Required Excess Return: 10.20% - 9.00% = 1.20%

Active or Passive?



Better Odds Going Passive... Despite common view that active international managers generally outperform EAFE, data over the past 5 years suggests a passive approach is, on average, more successful.

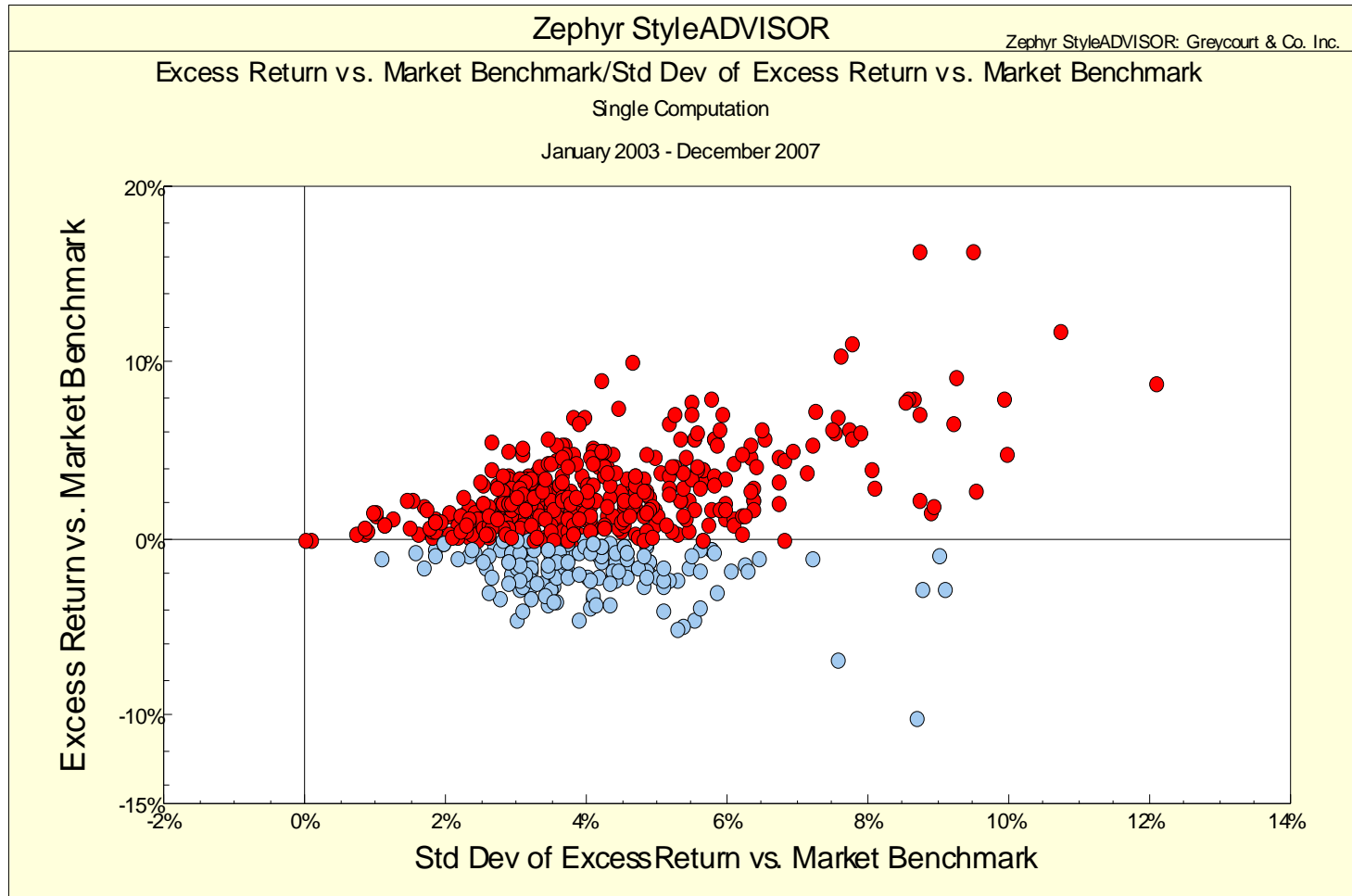
**Zephyr Universe
International Mgrs.**

**Total
151...(100%)**

**> EAFE
74...(49%)**

**> EAFE + Fees &
Taxes
52...(34%)**

Active or Passive?



It's a coin toss... Slightly less than half of active US equity managers outperformed the S&P 500 Index net of fees and taxes over the past 5 years.

**Zephyr Universe
Domestic Large
Managers.**

**Total
582...(100%)**

**> S&P 500
398...(68%)**

**> S&P 500 + Fees &
Taxes
266...(45%)**

**International
managers seem to
be more persistent
in ability to remain
top performers...**

However...

- **Only 26%** of US equity managers who outperformed the S&P 500 net of fees and taxes from 1998 thru 2002 outperformed in the following 5 years.
- **46%** of International equity managers who outperformed EAFE net of fees and taxes from 1998 thru 2003 continued to outperform in the following 5 years.

Executing a Global Equity Portfolio

Currency fluctuations responsible for low correlation between US and foreign equities.

Since 1998, declining dollar has added over 1.5% to US-based investors' return.

Dollar is at near 20 year lows to GBP and all-time low to the Euro.

Currency Critical but Hard to Hedge...



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Is a Global Mandate Better?

**Zephyr Universe
Global Managers.**

Total

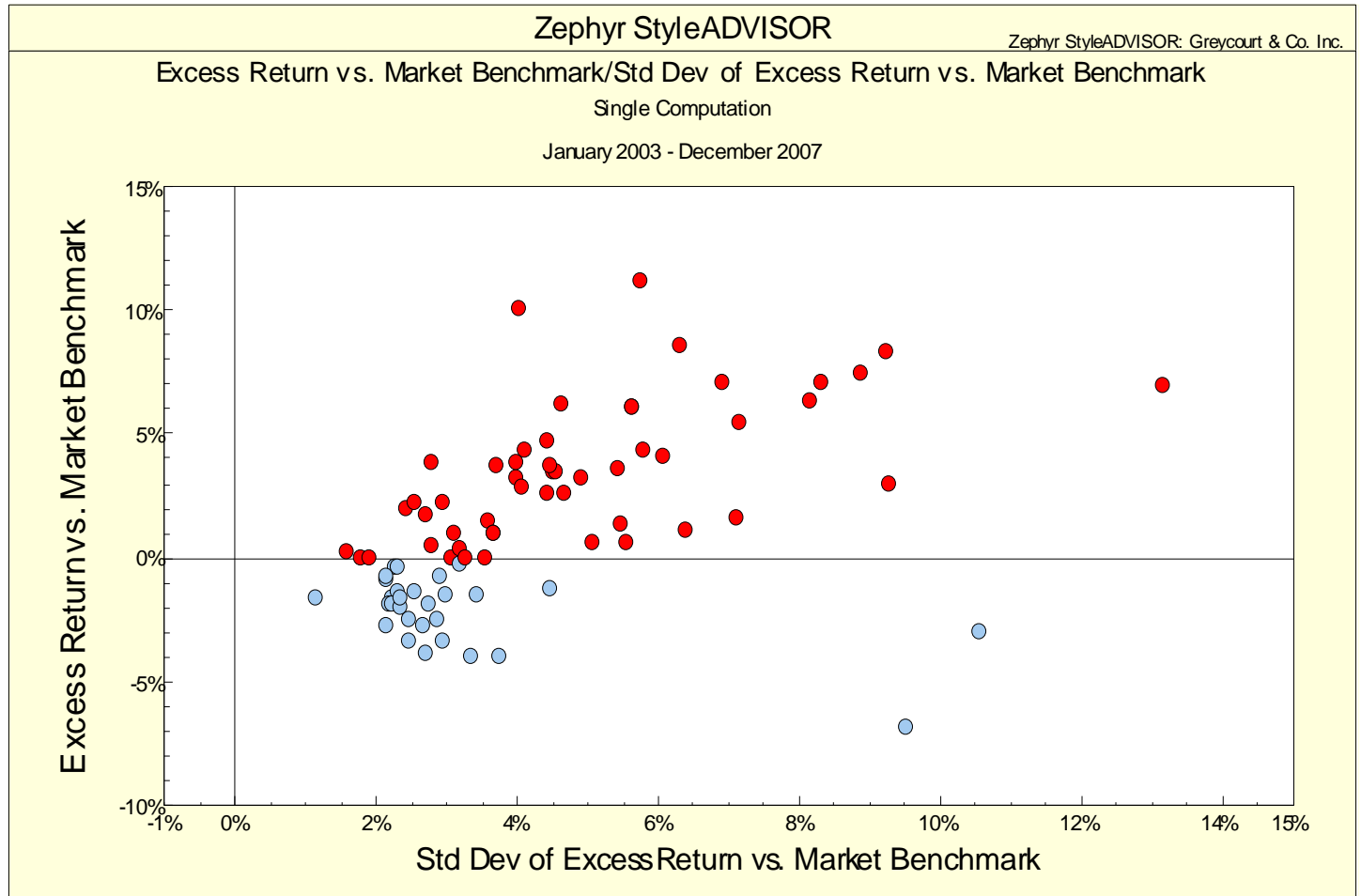
80...(100%)

>MSCI ACWI

56...(62%)

**>MSCI ACWI +
Fees & Taxes...**

31...(38%)



No advantage to active global mandates... **One would expect the broader opportunity set to afford global managers a better chance to outperform a passive index. The data shows that very few global managers outperform MSCI ACWI.**

What About Other Asset Classes?

Inefficiently traded markets offer ample opportunity for skillful managers to generate excess returns.

Watch out for potentially adverse legal systems, capital controls and insider control.

Other Asset Classes...

- Fixed Income...**US Only**
- Real Estate.....**US & International**
- Hedge Funds...**Global**
- Private Equity.. **US & International**

Think Globally
but
Act Locally

Conclusions

- **Global investing is compelling**
- **Passive investing hard to beat ...*but hope springs eternal***
- **Investing in US multinationals is like “kissing your sister”**
- **Global long-only equity mandates are not recommended**
- **Active currency hedging is usually a losers game**
- **Invest actively but locally where markets are inefficient**
- **Invest globally where inefficiencies cut across markets...e.g., hedge**

Contact Information

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