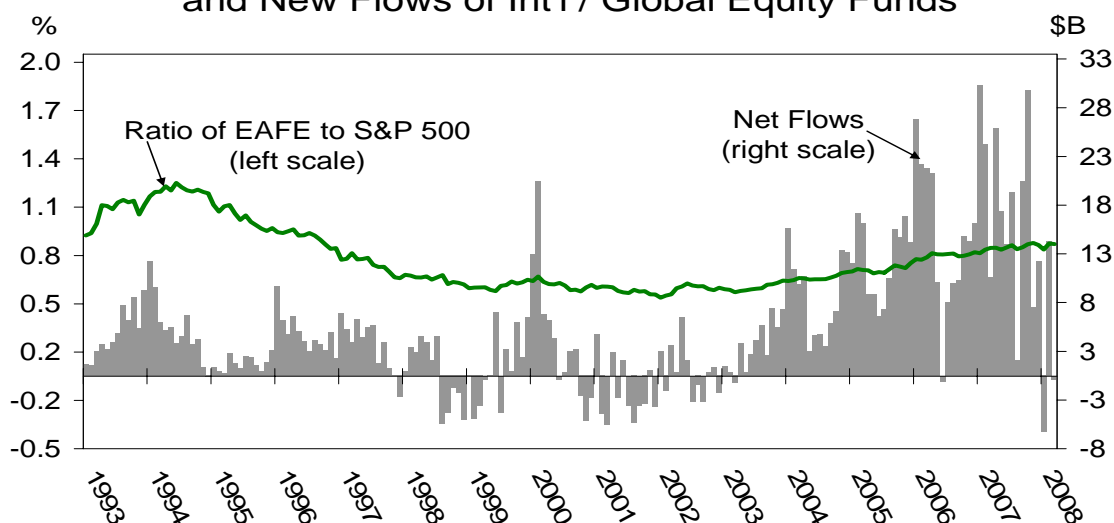


## SI Quick Insight: International Diversification is a Permanent Shift in Investing

Asset flows into international and global equity mutual funds surged in recent years, growing from \$85 billion in 2004 to \$158 billion in 2007. This is not just due to investors chasing higher relative returns, as international stocks have frequently outperformed U.S. equities. What we're witnessing is a permanent shift of U.S. investors to more globally diversified portfolios.

### Relative Performance of U.S. vs. Foreign Stocks and New Flows of Int'l / Global Equity Funds



Source: Strategic Insight Simfund MF; Standard & Poors

More U.S. portfolios are moving toward allocating 30% or more of assets to international stocks and bonds. In a phenomenon that's happening in many countries, **investors are moving away from their "home bias"**, which leads individuals to invest overwhelmingly in companies of their own nation (after all, Americans traditionally put more than 80% of their equity exposure in U.S. companies, and, similarly, U.K. investors put most of their equity exposure in U.K. companies, Spanish investors put most of their equity exposure in Spanish companies, and so on).

A so-called "flat world" for wealth opportunities dictates a greater exposure to intellectual capital outside one's home country, especially for long-term oriented retirement portfolios. Indeed, more investors are looking long-term and allocating their assets by class, rather than chasing yesterday's winners. This means that international/global funds (including emerging markets) are now a permanent asset category in a growing number of investors' portfolios. With this perspective, it's clear that **the desire for global diversification is here to stay.**

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