FACT SHEET

Investing internationally

There are a number of compelling reasons for diversifying your investment portfolio with international investments.

Why invest overseas?

Among the attractions of investing overseas is access to growing economies, geographic and sector diversification, a better spread of risk and the potential for higher returns over the longer term.

The main benefit of investing internationally is access to investments not available in Australia. Some 98% of all investment opportunities lie beyond our shores. This puts Australia's sharemarket in perspective, on a global scale. It's small – only 2% of the entire world capital market.

Investing internationally means you are able to access industries and leading companies generally unavailable in Australia. This could mean better returns for local investors over the long-term. Some of the world's largest and most successful companies, such as Microsoft, General Electric, Coca-Cola, General Motors, Nokia, McDonalds, Pfizer, are only listed on international stock exchanges. If you want to profit from the growth of large global companies like these, you need to invest using international expertise and capability.

Other benefits include:

- a number of growth industries including technology, telecommunications and health care are not well represented within Australia
- diversification across countries and industries gives you the opportunity for better performance. This added diversification could also help you protect your investment against a fall in any one market (including Australia).

How can you invest internationally?

There are a number of options available when investing internationally. You could buy shares directly in overseas companies. However, this can be both complex and time consuming as well as having currency exchange rate risks, as outlined later.

Alternatively, you can invest internationally through your super fund, which involves nominating an appropriate international investment fund for your account. You can also invest in a managed fund that invests in international shares. A managed investment fund, pools your and other investors' money, which is then invested by investment managers in international shares. A managed fund not only provides easy access to international investments, it also provides a greater degree of diversification than a direct investment.

What is diversification?

It is difficult to determine what the best performing investment will be from year to year. Diversification is an important way of managing the risks associated with investing. It involves spreading your money across different investments or asset classes (shares, fixed interest, property and cash) to provide more consistent overall returns. It means the returns you receive are not reliant on just one asset class performing well every year.

The same principle applies if you invest in only one country's share market. Spreading investments across a range of countries and industries means you have more opportunity to build your wealth. It also means you can protect your investment against a fall in one particular market.

What are the different types of international share funds?

There are three main types of international share funds:

- **Global funds** typically focus on established markets in regions like the United States, Europe and Japan. Their objective is to achieve long-term growth by investing in a range of companies listed on the major international share markets.
- **Regional and single-country funds** invest in a specific part of the world such as Europe or Asia or in a single foreign country such as Japan. Because of their concentration, these funds generally display greater volatility than diversified global funds.
- **Emerging market funds** are a relatively new type of international fund that invest in share markets of developing countries such as Taiwan, Korea, Brazil, Mexico and India. Emerging markets offer the potential for higher rates of economic growth than more established markets. However, the potential for achieving higher returns also means additional volatility and a greater risk of a negative return.

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What are the risks of investing internationally?

The three major types of risks are:

- **Currency risk** – when you invest internationally, changes in the value of currencies can affect your investment. Many investors are simply not aware that fluctuations in the Australian dollar and foreign currencies can seriously affect returns from overseas investments. This is because losses or gains must be converted back into Australian dollars. Currency risk can work in your favour, or it can work against you. Professional investment managers can use hedging techniques to offset the effects of currency fluctuations. Hedging is performing one investment activity in order to protect against potential losses or additional costs from another investment activity.
- **Market risk** – just as the Australian sharemarket moves up and down from time to time, international markets are also subject to sharp rises and falls. In fact, international sharemarkets are often more volatile than domestic markets.
- **Political and liquidity risk** – like changes in the value of a country's currency, political changes can also have a major impact on the value of overseas investments. For example, a change in economic policy, trade restrictions or the nationalisation of industries can lead to market declines and affect returns from overseas investments. Furthermore, some overseas sharemarkets have much lower trading volumes than the world's primary markets, making both buying and selling of international shares difficult.

Would you like more information?

Contact your ANZ Financial Planner who can provide you with information so you can make the decision that is right for you.

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