

Four Fine All-in-One Foreign-Stock Funds

These funds provide exceptionally broad international exposure in one package.

Fund Spy | 06-28-11 | By William Samuel Rocco

The universe of open-end international-stock funds contains a growing number of really specialized offerings. Indeed, though the Brazilian, Chinese, and Indian markets have been beset by worries about slowing growth, rising inflation, and other issues in 2011—and posted disappointing results—one Brazil fund, four China-region offerings, and five India funds have opened since Jan. 1.

Such launches are part of a trend. Many other Brazil, China, and India funds have opened in recent years, along with some offerings that focus on other developing markets such as Korea or Russia and several regional small-cap funds. There now are 50 single-country emerging-markets funds and 15 regional small-cap offerings, plus various other funds with very narrow purviews focused on emerging markets. These include Brazil, Russia, India, and China (BRIC) funds and Europe, Middle East, and Africa (EMEA) offerings in the open-end universe. There also are dozens of exchange-traded funds that are focused on specific countries or regions in the emerging-markets realm.

Though these very narrow funds get lots of attention from the media, most individual investors can safely ignore them. They can get considerable geographic, market-cap and overall breadth in a three-fund portfolio composed of complementary foreign large-cap, diversified emerging-markets and small/mid-cap offerings. Even a two-fund portfolio can provide broad foreign-stock diversification, as long as the funds are chosen carefully.

Meanwhile, investors who prefer to own just one international fund don't necessarily have to miss out. There are a good number of foreign large-cap funds that pay significant attention to both emerging-markets stocks and smaller companies. Several of these exceptionally wide-ranging funds are topnotch offerings, as explained below.

HighMark International Opportunities (HIOMX)

There's a quant-oriented top-down approach behind this foreign large-blend fund's breadth. Its managers, at sub-advisor Bailard, Inc.,

begin by establishing the portfolio's country allocations based on a set of models that incorporate various momentum, value, and risk factors; and they then select stocks based on a similar set of models, favoring those that rank in the top 20% while striving to own a healthy number of names in each market and to consider more than the usual suspects. The end result is one of the more-diversified portfolios in the international-stock universe. This fund typically invests 15% to 20% of its assets in emerging-markets stocks, devotes a similar amount to smaller-cap stocks, and owns 250 to 350 names.

The managers have executed this strategy well over the years, and this fund has earned good five-, 10-, and 15-year returns with relatively average volatility. And it bodes well for the future that the managers regularly adjust the weightings of the variables in their models based on market conditions and that they constantly look for ways to enhance their approach.

Janus Overseas (JAOSX)

Brent Lynn has guided this foreign large-growth fund to stellar returns since taking the helm at the start of 2001. Thanks to the terrific gains he has delivered in the various rallies of the 2000s, this fund has posted a 7.5% annualized return on his watch. That result ranks second-best among foreign large-growth offerings and places in the top 5% among all foreign large-cap funds.

Not surprisingly, Lynn has used a pretty adventurous strategy to produce those results. For starters, he readily considers midsize firms if they are growing fast and have the high returns on capital and other traits he seeks, so this fund's average market cap is usually well below the foreign large-growth median. What's more, he's not the least bit shy about loading up on stocks in the developing world as long as they meet his criteria. This fund currently has a 33% stake in emerging markets overall, which includes a 15% position in India. Of course, such aggressive positioning comes with real perils, but the long-term rewards are well worth the risk here.

Masters' Select International (MSILX)

This foreign-blend fund is really distinctive as well as rather diversified. Its advisor divides the portfolio pretty evenly among six managers who employ strategies that span the style and market-cap spectrums and that complement each other nicely. All of the managers search far and wide for stocks that meet their standards, and all of the managers have the courage of their convictions. And the advisor limits the managers to eight to 15 picks each, so this fund isn't sprawling like many multimanager offerings are. Thanks to all these factors, this fund is wider ranging than nearly all other foreign large-cap offerings, providing ample exposure to both smaller-cap names and emerging-markets stocks.

The six managers, who are talented veterans and have strong records on their own funds, have picked lots of good stocks here. This fund has thrived in a variety of market conditions since opening in late 1997, and it boasts impressive three-year, five-year, 10-year and since-inception returns as a result.

Vanguard Total International Stock Index (VGTSX)

This foreign large-blend offering tracks the MSCI All Country World ex USA Investable Market Index. That index is just as expansive as its name suggests. As of May 31, 2011, in fact, this fund owned more than 6,500 stocks, spread its assets relatively evenly across both the style and the sector spectrums, and had roughly 24% of its assets in emerging-markets stocks and nearly as much in smaller-cap issues. (The makeup of the portfolio will fluctuate over time, as this underlying index is market-cap weighted and assets will flow toward stocks and areas that have outperformed.)

This fund has much more than its breadth going for it: Vanguard is rightly well respected for its skill at executing passive strategies, and this fund has an ultralow expense ratio. And thanks in large part to these attributes, this fund has an enviable long-term record.

Final Words

All of these funds have bright long-term prospects and deserve long looks from investors who are seeking broad international exposure in one package. However, interested investors should note that all of these funds have benefited from the fact that emerging-markets stocks and smaller-cap names have often led the way in the 2000s and that all of these funds will be at a disadvantage when such issues lag.

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