

Why Global Investing?

Adding value through integrated global equity portfolios

Michael Cantara

Institutional Portfolio Manager

MFS Investment Management

Agenda

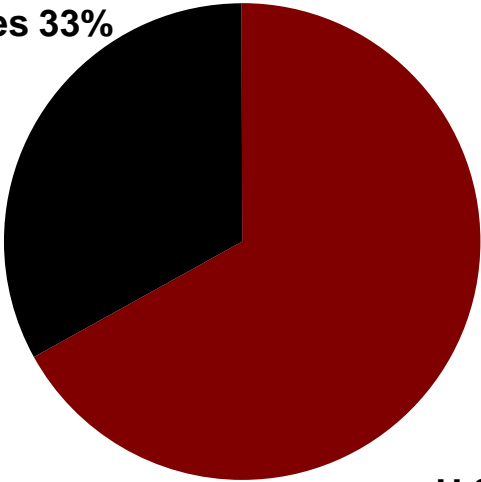
- Investing in an increasingly integrated world
- The potential benefits of global investing
- Institutional investments in global equity: past and present
- Implementation of global equity investments

World equity markets are increasingly non-U.S. weighted

% of World's Market Capitalization

December 31, 1970

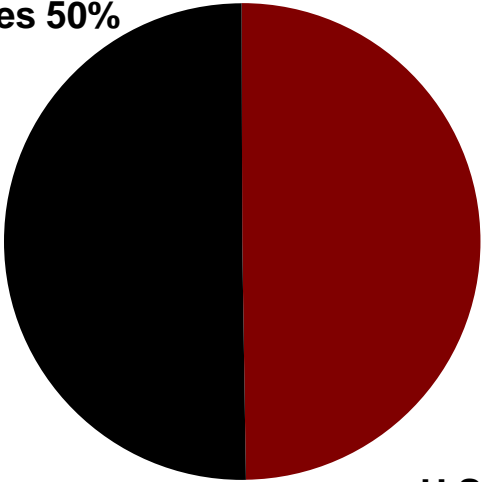
**Non-U.S.
Equities 33%**



**U.S. Equities
67%**

December 31, 2008

**Non-U.S.
Equities 50%**

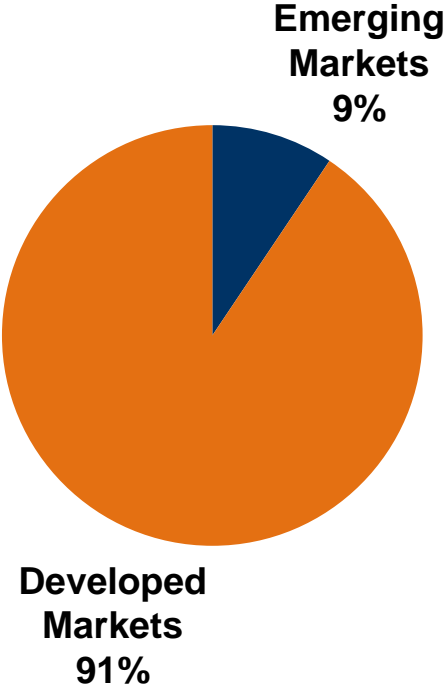


**U.S. Equities
50%**

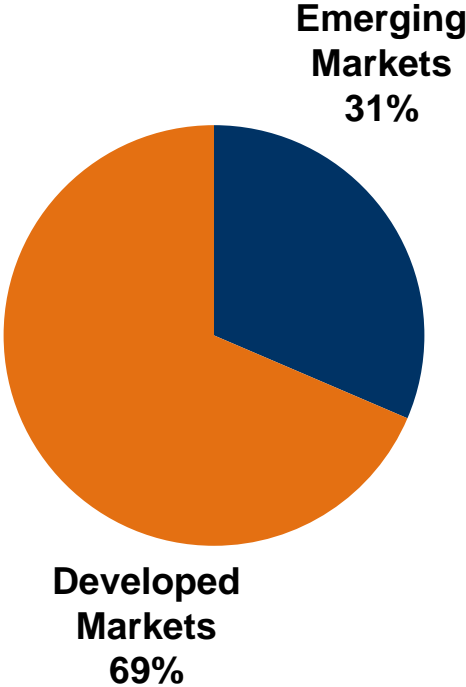
World market is represented by the MSCI World Index. Source: MSCI Barra.

Emerging markets are becoming important engines of growth

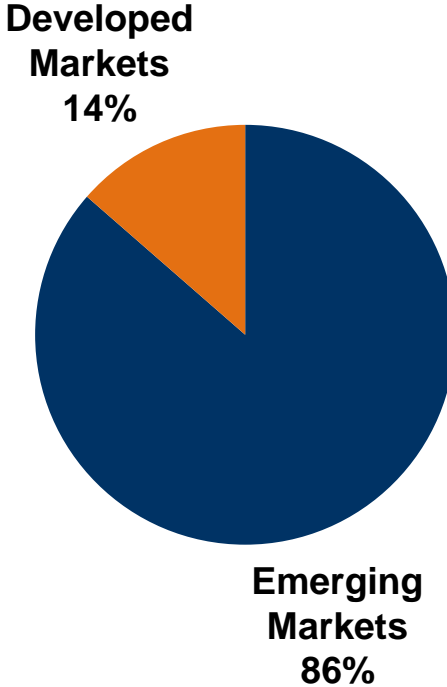
Global Equity Markets¹



Global Economy (share of GDP)²



Global Population³



1 As of 12/31/2008. Source: MSCI Barra.
2 As of 12/31/2007. Source: International Monetary Fund (latest data available)
3 As of 12/31/2007. Source: World Bank (latest data available)

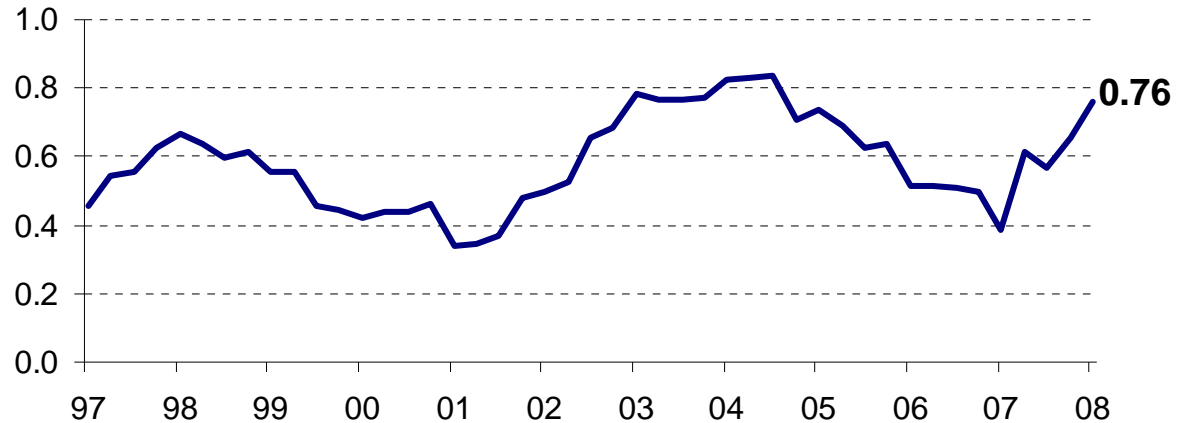
Trends for globalization likely to endure

- Integration of global economies and financial markets e.g., current financial crisis
- Rising correlation between regional markets e.g., trading blocs (EU, ASEAN)
- Sectors and industries are becoming more important than countries e.g., supply chains
- Companies are becoming more global e.g., brand management

Global stock selection has become more important as correlations rise

Average Correlation within the MSCI World Index

Sector Correlation

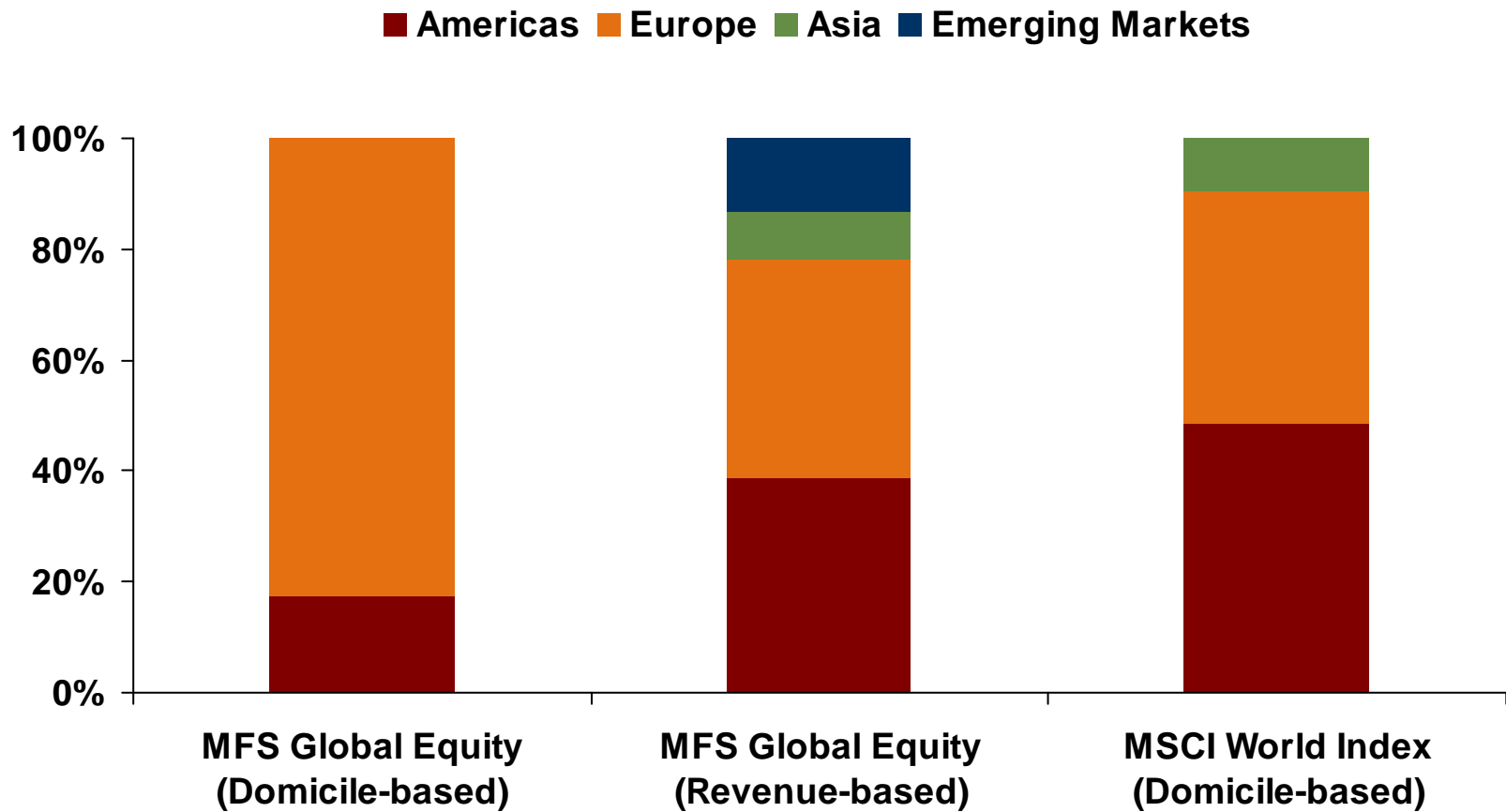


Country Correlation



Correlations are based on rolling three years of quarterly returns in USD. Source: MFS research; MSCI Barra.

By looking at domicile, investors may get the wrong picture (pharma example)



Source: MFS research; MSCI Barra.
As of December 31, 2008.

Agenda

- Investing in an increasingly integrated world
- The potential benefits of global investing
- Institutional investments in global equity: past and present
- Implementation of global equity investments

What is global investing and why could it benefit investors?

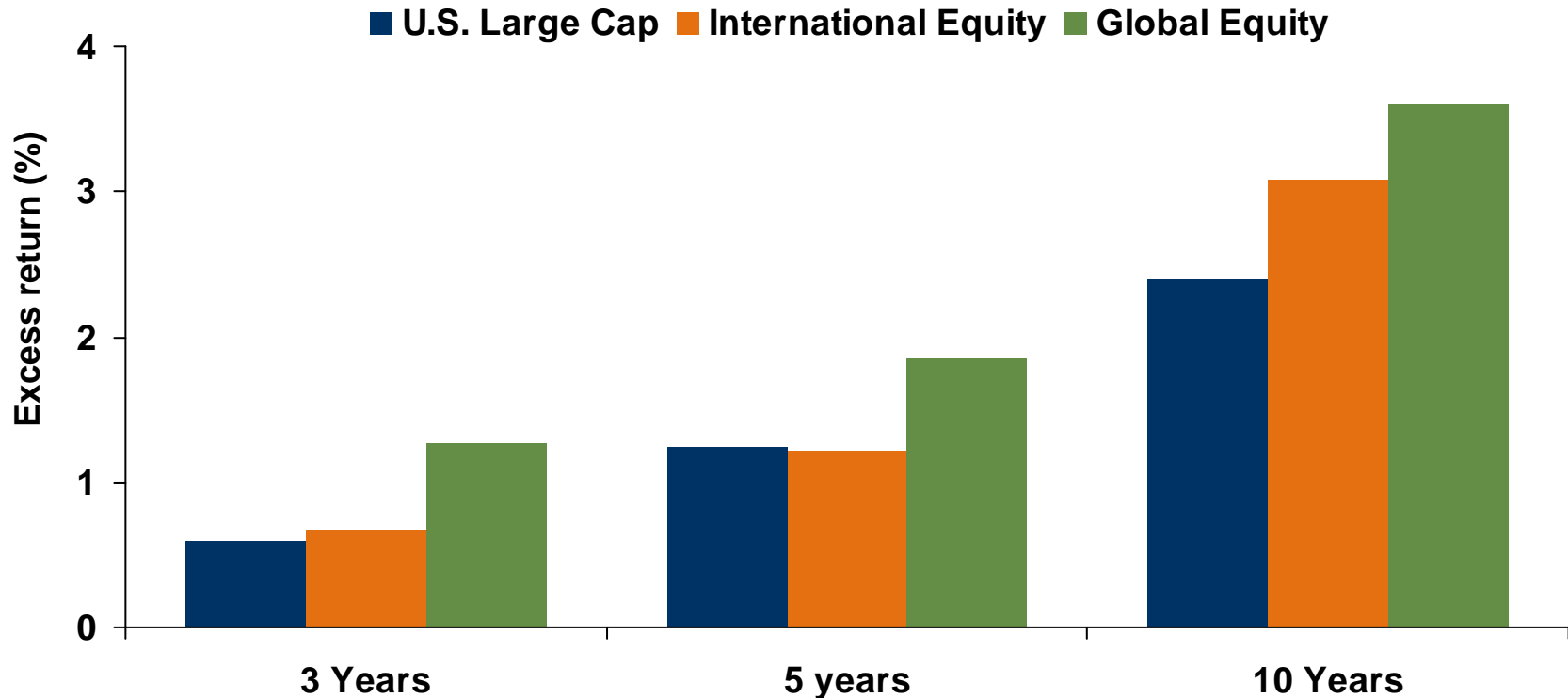
- Global investing
 - Is: A single manager identifies and compares opportunities across the globe
 - Is not: Integrating multiple regional managers to create a global portfolio
- Potential benefits
 - A wider opportunity set with fewer regional constraints
 - Global comparison of opportunities regardless of company domicile
 - Taking full advantage of bottom-up, sector-oriented global research
 - More closely aligned with global market composition

Global investing myths dispelled

- Myth #1: A plan is investing globally as long as it has investments in every region.
- Reality: Global investing is more than having exposure in every region.
 - Combination of best regional investments does not equal best global investments.
 - Investors tend to under-invest outside their home countries.
- Myth #2: A manager can easily combine regional portfolios into a global portfolio.
- Reality: Integrated investing in a single global portfolio is key.
 - Managers add value through stock selection across the world in which relative values within sectors are compared on a global basis.

Overall, global equity managers with a larger opportunity set have added value

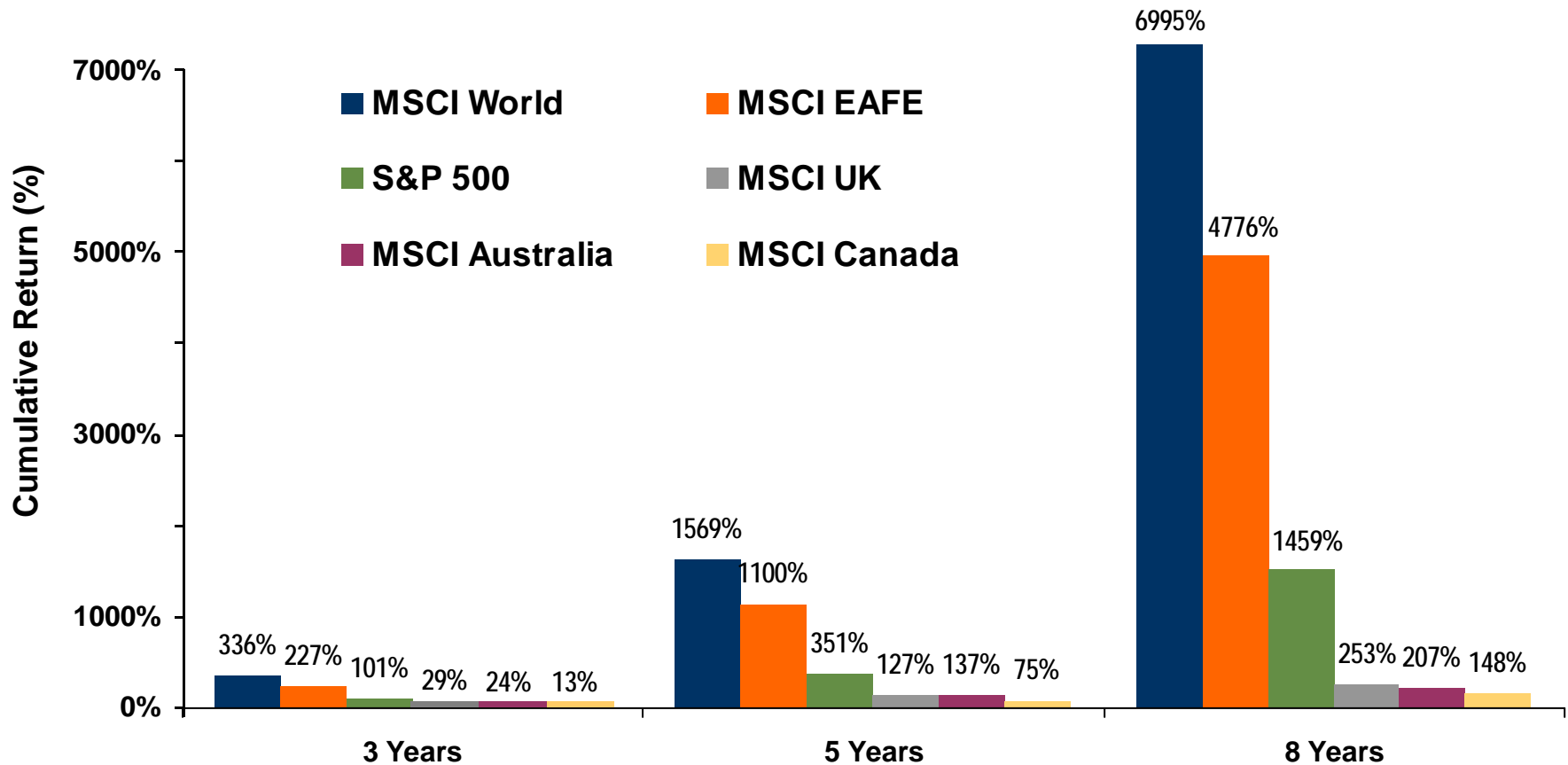
Excess Returns as of 31-Dec-2008



Excess returns are based on eVestment Alliance Large Cap Equity median return over the S&P 500 Index, International Equity Universe median return over the MSCI EAFE Index, and Global Equity Universe median return over the MSCI World Index.
Source: eVestment Alliance.

Top global stocks beat regional/country counterparts

Simulated Returns as of December 31, 2008



Based on simulated returns derived by selecting the top ten performing stocks in each sector and then averaging the returns across sectors in each index. Source: MFS Research; MSCI Barra; Standard & Poor's.

Agenda

- Investing in an increasingly integrated world
- The potential benefits of global investing
- Institutional investments in global equity: past and present
- Implementation of global equity investments

Domestic bias has prevailed, despite higher foreign exposure by investors outside U.S.

- Both global equity and global ex home country portfolios are common
- Higher foreign exposure
 - U.K.¹: 53% domestic, 47% foreign
 - Canada²: 41% domestic, 59% foreign
 - U.S.³: 69% domestic, 31% foreign
- Domestic bias (relative to size of home market) still exists

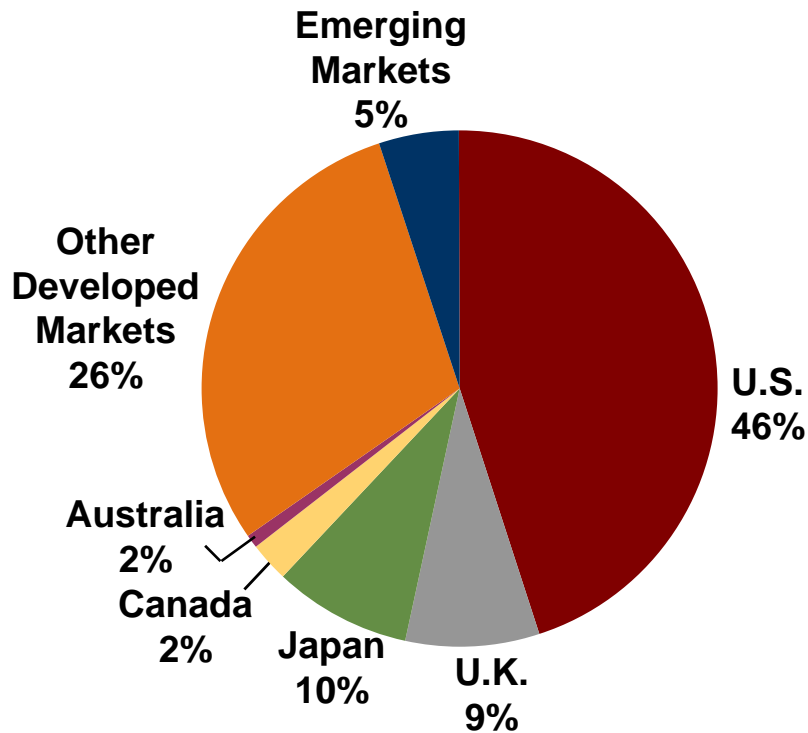
¹ Source: "2007 European asset allocation", Mercer Investment Consulting.

² Source: "Changing Dynamics of the Canadian Institutional Market 2007", Greenwich Associates.

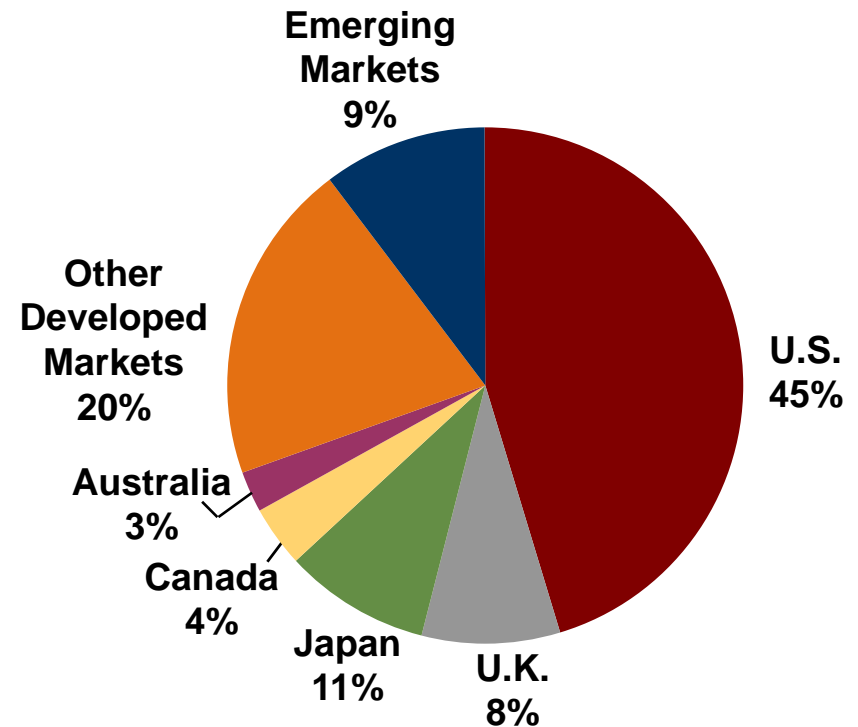
³ Based on aggregate asset mixes of the largest 1,000 U.S. defined benefit plans. Source: Pensions & Investments, January 26, 2009.

Global equity portfolios are more closely aligned with global markets

Median Weight in eVestment Alliance
Global Equity Universe



Weight in MSCI All Country
World Index



As of December 31, 2008

U.S. Institutional investors are increasingly embracing global equity

- U.S. plans have dramatically increased global equity investment since 2002
 - Annual new funding increased from less than US\$2 billion to US\$15 billion in 2007¹
 - Led by large public plans (Florida, Maryland, Virginia, Oregon, Alaska, CALPERS etc.) and corporate plans (IBM, GM, etc.)
 - Backed by leading consultants
- Consultants are expecting a stronger preference for global equity relative to non-US equity
 - 32% of consultants expect a preference for global equity mandates in 2009, up from 28% in 2008 and 16% in 2007².

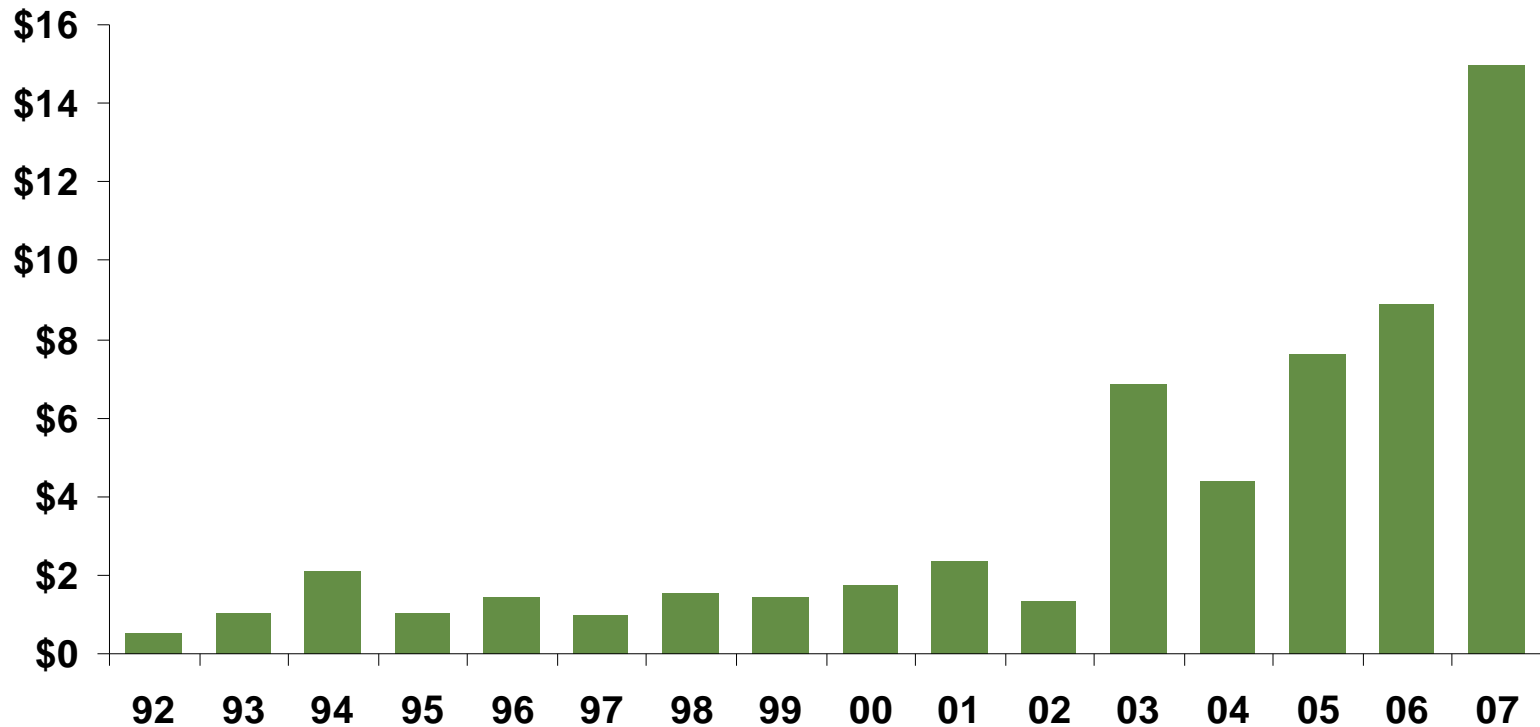
¹ Source: InterSec Research

² Source: CaseyQuirk 2009 and 2008 Consultant Search Forecast.

Growth of global equity mandates in the United States

Global Equity Initial Funding US Tax-Exempt Institutions

(US\$ Billions)



Source: InterSec Research.

Agenda

- Investing in an increasingly integrated world
- The potential benefits of global investing
- Institutional investments in global equity: past and present
- **Implementation of global equity investments**

Global equity does not completely replace regional portfolios

- There are valid reasons to have regional portfolios:
 - Home country bias
 - Currency risk – asset/liability matching
 - Regional portfolios capture opportunities driven by regional and local factors
 - Lack of integrated global managers

Implementation considerations for plan sponsors

- Re-allocate part of overall equity allocation to global equity
 - Recent U.S. plans' actions: 2%-10% into global equity
- Core-satellite structure
 - Core: diversified portfolios, lower risk/return
 - Satellite: concentrated portfolios, higher risk/return
- Diversification between growth, core and value styles

Summary

- Global investing is globally integrated investment in a single portfolio
- Global investing may provide opportunities to enhance alpha generation
- Global equity can be considered alongside institutional investors' existing domestic and international allocations

Why Global Investing?

Adding value through integrated global equity portfolios

Thank you.