

# BUILDING AN INTERNATIONAL PORTFOLIO WITH COUNTRY ETFS

For many investors, gaining international equity exposure through ETFs is best accomplished using broadly diversified products. They do not have the expertise to understand the different fundamental, macroeconomic and political drivers of individually countries. However, we think a strategy from Accuvest may help since the management team reviews 34 countries individually on a variety of such factors.

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Dave Garff, Chief Investment Officer of Accuvest described in early June the company's International strategy offering as simply overweighting exposure relative to the MSCI ACWI ex- US index to those countries that they believe are most attractive and underweighting those least appealing. Accuvest ranks, on a monthly basis, all developed and emerging market MSCI country indices across four largely equally weighted dimensions. These are fundamentals (e.g. leading indicators and long-term earnings growth), valuation (e.g. price/book and price to cash earnings), risk (e.g. downside volatility and political landscape) and momentum (on a local currency basis).

The highest ranked countries have greater representation within the portfolio, though Accuvest takes ACWI benchmark exposure into account. As such large countries in the MSCI index will have high overall weightings in the strategy even if they rank in the middle of the pack. For example, Japan, represented through db x-trackers MSCI Japan Hedged Equity (DBJP 37 Marketweight) was the third largest position in the strategy as of May 2014, even as Accuvest reduced its exposure in May believing momentum had weakened notably. However exposure to DBJP, which has a 0.45% expense ratio and is favored by Garff and team for its currency hedging and market capitalization driven approach over some alternative Japan products, was 400 basis points lighter than the ACWI index.

Ticker	Exchange Traded Fund
[DBJP]	<b>db x-trackers MSCI Japan Hedged Equity</b>
[MCHI]	<b>iShares MSCI China</b>

Meanwhile, Accuvest's stake in iShares MSCI China (MCHI 46 Marketweight) was more than 700 basis points higher than its benchmark. Garff highlighted the relatively strong fundamentals, valuation and risks for China. The ETF, which has a 0.61% expense ratio, ranks favorably to S&P Capital IQ for the attractive valuation and modest risk of its holdings, according to S&P Capital IQ STARS and Quality Rankings.

S&P Capital IQ has relative rankings on 715 equity ETFs, based on a combination of holdings-level attributes and ETF-level attributes, including the aforementioned S&P Capital IQ STARS, S&P Capital IQ Quality Rankings, expense ratio and bid/ask spread.

Another ETF inside the strategy that ranks favorably on a number of factors to S&P Capital IQ is iShares MSCI Taiwan (EWT 15 Overweight), which we like for relative valuation of its holdings and bullish technical trends. The ETF's sector diversification is narrower than others, with more than half the assets in Information Technology.

Most of the 18 country ETFs inside the strategy are market-cap driven, meaning the largest companies domiciled in that country have large positions inside the ETF. However, First Trust South Korea AlphaDex (FKO 27 Marketweight) is a key holding due to favorably low risks and attractive valuation of Korea. Garff noted that the fundamentally driven security selection approach used in this and other First Trust ETFs had similarities to Accuvest's

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country selections. FKO, which we think has attractively valued holdings, but has a high 0.80% expense ratio, is more diversified at the security level than the iShares alternative where Samsung makes up 22% of assets.

While Accuvest favors a number of Asian countries, iShares MSCI United Kingdom (EWU 22 Marketweight), iShares MSCI Germany (EWG 32 Marketweight) and iShares MSCI South Africa (EZA 69 Marketweight) are examples of other ETFs inside with more modestly higher weightings relative to the ACWI index.

The ETFs inside, as well as the weightings, can shift on a monthly basis as Accuvest reviews the country level attributes and determines how best to gain exposure. S&P Capital IQ ETF reports on Accuvest holdings can be found on this platform. To learn more about the strategy and where it is available, visit <http://www.accuvest.com/>

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