The role of international equities in your portfolio

Recently there has been a resurgence of interest in international equities among Australian investors. According to independent wealth researchers Investment Trends, in January 2014 one in four Australian investors planned to increase their exposure to international equities in the near future, with North America being the most popular investment destination.1

In part, this renewed interest in offshore opportunities may simply reflect the recent outperformance of international equities set against a domestic market weighed down by a high dollar and below trend economic growth. Yet it may also be influenced by the increasing accessibility of low-cost overseas diversification for both self-directed and advised investors.

Investment Trends has found that both unlisted equity funds and ETFs are increasingly popular vehicles for gaining overseas exposure. For example, in late 2013, 30% of financial planners said they were likely to use ETFs to access US markets.2 Nonetheless, Australian investors remain largely underexposed to international equities as an asset class. As a result, many are missing out on the considerable diversification benefits they can offer. By increasing your clients’ allocation to international markets, you may be able improve portfolio performance and the potential for higher long-term returns, while reducing risk through more effective diversification.

Exchange traded funds (ETFs) can be a highly effective way to access the diversification benefits of international equities, without the complexities of a direct investment. In this whitepaper, we consider practical strategies for determining the optimal asset allocation and investment options for a range of clients, from growth-oriented individuals to income investors and SMSFs.

AT A GLANCE

- Asset allocation, not security selection, is the key driver of long term investment results. Allocating capital to international equities has the potential to significantly reduce overall portfolio risk.
- By using ETFs to diversify risk with international equities, you may be able improve your clients’ portfolio performance significantly.
- You can choose from a range of ETFs suitable for investors with a variety of investment objectives and risk profiles, including high yield options for income-oriented investors.
- ETFs also facilitate rapid and cost-effective rebalancing, making it easy to adjust allocations as each investor’s needs change.

THE ROLE OF INTERNATIONAL EQUITIES IN YOUR PORTFOLIO

Recently there has been a resurgence of interest in international equities among Australian investors. According to independent wealth researchers Investment Trends, in January 2014 one in four Australian investors planned to increase their exposure to international equities in the near future, with North America being the most popular investment destination.1

In part, this renewed interest in offshore opportunities may simply reflect the recent outperformance of international equities set against a domestic market weighed down by a high dollar and below trend economic growth. Yet it may also be influenced by the increasing accessibility of low-cost overseas diversification for both self-directed and advised investors.

Investment Trends has found that both unlisted equity funds and ETFs are increasingly popular vehicles for gaining overseas exposure. For example, in late 2013, 30% of financial planners said they were likely to use ETFs to access US markets.2 Nonetheless, Australian investors remain largely underexposed to international equities as an asset class. As a result, many are missing out on the considerable diversification benefits they can offer. By increasing your clients’ allocation to international markets, you may be able improve portfolio performance and the potential for higher long-term returns, while reducing risk through more effective diversification.

ASSET ALLOCATION AND RISK MANAGEMENT

It has long been recognised that asset allocation, not security selection, is the key driver of long term investment results. One of the most powerful insights of modern portfolio theory is the finding that allocating capital across risky assets can actually reduce overall portfolio risk, due to the benefits of diversification.

For this approach to be successful, investors need to combine asset classes whose performance is relatively uncorrelated — so that when one asset class underperforms, another is likely to be delivering healthy returns. Historically, international equities have shown a varied correlations to both Australian equities and bonds (Figure 1). As a result, they offer significant diversification benefits to Australian investors.

For example, an analysis of asset class returns for the 10-year period between January 2004 and February 2014 by State Street Global Advisors shows that an investor with a portfolio consisting of a split between Australian equities, international equities and bonds result in reduced risk and increased return, simply by shifting 10% of their capital from Australian equities to international equities (Figure 2 and 3). This suggests that international equities can be an attractive risk management tool, as well as offering the potential for enhanced returns. This is increased as the investor shifts 30% from Australian equities to international equities.

FIGURE 1: DIVERSIFICATION OPPORTUNITIES OF INTERNATIONAL SHARES AS MEASURED BY CORRELATION TO AUSTRALIAN SHARES

Global Real Estate (REITs)
Global Dividend Equities
Global Developed Equities Ex-Australia
Emerging Markets Equities

Source: State Street Global Advisors, as of 28 February 2014.
Note: Asset classes are represented by underlying indices: Australian equities, S&P/ASX 200 index; broad global equities, S&P Developed ex-Australia LargeMidCap index; global dividend equities, S&P Global Dividend Aristocrats index; emerging market equities, S&P Emerging Markets LargeMidCap index; global REITs, Dow Jones Global Select Real Estate Securities.


**Figure 2: Risk/Return Comparison from Australian Exposure vs. 10% and 30% Allocation to International Equities**

<table>
<thead>
<tr>
<th>Risk/Return Profile</th>
<th>Portfolio Consisting of 80% Domestic Equity &amp; 20% Bonds</th>
<th>Portfolio Consisting of 70% Domestic, 10% International Equity, 20% Bonds</th>
<th>Portfolio Consisting of 50% Domestic Equity, 30% International Equity, 20% Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative Performance (%)</td>
<td>46.16</td>
<td>47.06</td>
<td>48.86</td>
</tr>
<tr>
<td>Annualised Performance (%)</td>
<td>4.23</td>
<td>4.30</td>
<td>4.44</td>
</tr>
<tr>
<td>Annualised Volatility (%)</td>
<td>10.28</td>
<td>9.92</td>
<td>9.49</td>
</tr>
<tr>
<td>Risk / Return Ratio</td>
<td>0.41</td>
<td>0.43</td>
<td>0.47</td>
</tr>
</tbody>
</table>

Source: State Street Global Advisors, as of 28 February 2014.

Note: Calculations above represent an analysis of asset class returns for the 10-year period between January 2004 and February 2014. The above model assumes an equal-weighted position across S&P international equity offerings including broad global equities, emerging markets, global dividend equity and global REITs. Asset classes are represented by underlying indices: Australian equities, S&P/ASX 200 index, broad global equities, S&P Developed ex-Australia LargeMidCap index, global dividend equities, S&P Global Dividend Aristocrats index, emerging market equities, S&P Emerging Markets LargeMidCap index, global REITs, Dow Jones Global Select Real Estate Securities. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

**Figure 3: Reduction in Portfolio Risk with a 10% and 30% Allocation to International Equities**

<table>
<thead>
<tr>
<th>1 Year Rolling Volatility</th>
</tr>
</thead>
<tbody>
<tr>
<td>- 0.05</td>
</tr>
<tr>
<td>- 0.10</td>
</tr>
<tr>
<td>- 0.15</td>
</tr>
<tr>
<td>- 0.20</td>
</tr>
<tr>
<td>Dec 2004</td>
</tr>
<tr>
<td>2005</td>
</tr>
<tr>
<td>2006</td>
</tr>
<tr>
<td>2007</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
</tr>
<tr>
<td>Feb 2013</td>
</tr>
</tbody>
</table>

Sources: Bloomberg, S&P and State Street Global Advisors, as of 28 February 2014.

Note: “Rolling volatility” is measured using standard deviation, which is the square root of the average squared deviation of the data from its mean. Standard deviation is a measure of how widely values are dispersed from the average value (the mean). The chart above displays how portfolio volatility is reduced over time by adding an allocation to international equities. Asset classes are represented by underlying indices: Australian equities, S&P/ASX 200 index, broad global equities, S&P Developed ex-Australia LargeMidCap index, global dividend equities, S&P Global Dividend Aristocrats index, emerging market equities, S&P Emerging Markets LargeMidCap index, global REITs, Dow Jones Global Select Real Estate Securities.

**Figure 4: Overcoming Barriers to Investing with ETFs**

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Description</th>
<th>How ETFs Can Help</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Stock Selection</td>
<td>Researching and selecting investments on unfamiliar markets can be challenging</td>
<td>ETFs give investors instant, cost-effective access to a diversified international portfolio without the need to become international market experts</td>
</tr>
<tr>
<td>Administrative Complexity</td>
<td>Direct international investments can be complex and time-consuming to manage</td>
<td>ETFs can be bought and sold in moments on the ASX, just like Australian equities</td>
</tr>
<tr>
<td>Tax</td>
<td>Direct investments can give rise to complex tax issues across jurisdictions</td>
<td>ETFs generally enable investors to avoid filing international tax returns or manage offshore tax obligations (although some withholding taxes may apply)</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>Currency fluctuations can have a significant impact on international investments — both positive and negative</td>
<td>Investors can remove currency risk by investing in a hedged ETF or use an unhedged investment to take advantage of the potential benefits of any fall in the value of the Australian dollar</td>
</tr>
<tr>
<td>Costs</td>
<td>International managed funds typically have significantly higher management costs than their domestically-focused peers</td>
<td>ETFs offer low management costs both on and offshore</td>
</tr>
<tr>
<td></td>
<td>Buying international companies directly can also result in significant brokerage costs</td>
<td></td>
</tr>
<tr>
<td>Yield</td>
<td>Income-oriented investors have traditionally favoured domestic equities for their relatively high, franked dividends</td>
<td>Investors can now use ETFs to access diversified international portfolios designed to deliver a higher level of income, although without the benefits of dividend franking</td>
</tr>
</tbody>
</table>

Diversifying away from home bias

Despite these potential benefits, many Australian investors have a minimal allocation to international equities. For example, recent ATO data shows that SMSFs invest an average of only 3.9% of their capital in international equities, with the bulk of their assets in cash (28.9%) and Australian equities (32%).

This is a (relatively extreme) example of the well-observed phenomenon of home bias, where investors focus on domestic assets rather than diversifying offshore. Home bias has often been characterised as irrational, since it leads investors to make sub-optimal investment decisions, neglecting opportunities to reduce risk and improve returns at relatively little cost. But it also has rational underpinnings, due to the administrative and financial barriers that frequently discourage investors from accessing overseas markets.

Fortunately, investors can now access a growing range of investment options that overcome many or all of the most frequently cited reasons for avoiding international equity investments. ETFs in particular offer a cost-effective and easily administered vehicle for offshore diversification, without the complexities of a direct investment (Figure 4).
By adopting a core–satellite approach, investors can use ETFs to achieve a precisely targeted allocation to international markets through a passively managed core holding, at relatively low cost. They can also seek to enhance returns through actively managed satellite positions in specific international equity strategies such as global real estate or emerging markets.

**YOUR INVESTMENT OBJECTIVES**

As always, the starting point for any asset allocation decision is an analysis of each investor’s individual investment objectives. Those objectives will determine both the overall proportion of the investor’s capital allocated to international equities, and the risk–return characteristics of the international holdings they select.

While Australian equities are highly concentrated in a small number of sectors and a mature economy, international markets make up an enormously varied investment universe, ranging from defensive blue chips to high growth companies in emerging markets. Using ETFs, Australian investors can access a variety of diversified international investment options with distinct risk–return profiles (Figure 5). That enables each investor to fine-tune the international portion of their portfolios to meet their distinct investment objectives.

**DEFINING AN INVESTOR’S RISK–RETURN PROFILE**

Factors you need to consider to define an investor’s individual risk–return profile include:

- **Investment time frame.** The longer the time frame, the more opportunity the investor has to ride out market fluctuations and take advantage of the growth potential of more volatile assets. Longer term investors will typically prefer a higher allocation to international assets, often including emerging markets.

- **Required return.** The higher the required return to meet the investor’s objectives over their investment time frame, the higher their allocation to international equities is likely to be. For growth oriented investors with portfolios highly concentrated in Australian equities, an increased allocation to international markets can significantly reduce portfolio risk without impacting the portfolio’s growth profile.

  - **Risk tolerance.** The investor’s required return needs to be balanced against their personal appetite for risk — for example, the number of years of negative returns they are willing to accept during the life of their investment.

  - **Income versus growth.** While Australian investors have traditionally seen international equities as a high growth option, they also offer significant opportunities for reliable income. By selecting a dividend-oriented international ETF, investors can diversify a high-yield portfolio to create a more consistent income stream.

  - **Currency impact.** Investors should consider the impact of currency fluctuations, which can significantly add both upside and downside volatility to investment returns. SPDR offers both the SPDR S&P World ex Australia (ASX ticker: WXOZ) and its complementing currency hedged fund, the SPDR S&P World ex Australia (Hedged) Fund (ASX ticker: WXHG), which seeks to hedge movements of international currencies versus the Australian dollar. Investing in a currency hedged international fund may be a good way to mitigate currency risk while accessing global equity exposure.

**DETERMINING AN INVESTOR’S INITIAL ASSET ALLOCATION**

Once a risk–return profile has been defined, you are ready to decide on an initial asset allocation. Figure 6 sets out some possible asset allocations for a range of investor profiles.

With the recent growth in international equity ETFs, investors have a wide range of options for how to allocate amongst the asset class. The proceeding sample asset allocation models utilise SPDR ETFs’ comprehensive range of international equity offerings. For more information on why SPDR provide your clients’ with key advantages, please turn to page 6.

**FIGURE 5: RISK AND RETURN COMPARISON ACROSS INTERNATIONAL EQUITY VS. AUSTRALIAN EQUITY, BONDS AND CASH**

<table>
<thead>
<tr>
<th>RISK/RETURN PROFILES</th>
<th>CASH</th>
<th>BONDS</th>
<th>AUSTRALIAN EQUITIES</th>
<th>INTERNATIONAL EQUITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%</td>
<td>(%)</td>
<td>(%)</td>
<td>(%</td>
</tr>
<tr>
<td>Expected Return (%)</td>
<td>3.50</td>
<td>2.50</td>
<td>6.70</td>
<td>6.70</td>
</tr>
<tr>
<td>Expected Risk (%)</td>
<td>1.50</td>
<td>5.50</td>
<td>16.50</td>
<td>18.00</td>
</tr>
</tbody>
</table>

Source: Bloomberg, S&P DJ Indices and State Street Global Advisors, as of 28 February 2014.

Note: Asset classes are represented by underlying indices: Australian equities, S&P/ASX 200 index; broad global equities, S&P Developed ex-Australia LargeMidCap index; global dividend equities, S&P Global Dividend Aristocrats index; emerging market equities, S&P Emerging Markets LargeMidCap index; global REITs, Dow Jones Global Select Real Estate Securities.

**FIGURE 6: SAMPLE ASSET ALLOCATION ACROSS INVESTOR PROFILES**

<table>
<thead>
<tr>
<th>ALLOCATION ACROSS INVESTOR PROFILES</th>
<th>CASH (%)</th>
<th>BONDS (%)</th>
<th>AUSTRALIAN EQUITIES (%)</th>
<th>GLOBAL DEVELOPED EQUITIES EX AUSTRALIA (%)</th>
<th>GLOBAL REAL ESTATE (%)</th>
<th>GLOBAL DIVIDEND EQUITIES (%)</th>
<th>EMERGING MARKET EQUITIES (%)</th>
<th>RISK/RETURN* PROFILE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>0</td>
<td>10</td>
<td>3.44</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>45</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>3.88</td>
</tr>
<tr>
<td></td>
<td>30</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>10</td>
<td>15</td>
<td>10</td>
<td>4.94</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>10</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>15</td>
<td>10</td>
<td>5.79</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>25</td>
<td>5</td>
<td>15</td>
<td>20</td>
<td>6.50</td>
</tr>
</tbody>
</table>

Source: State Street Global Advisors, as of 28 February 2014.

* Risk/return figures are based on State Street Global Advisors’ in-house forecasts.

Note: Asset classes are represented by underlying indices: Australian equities, S&P/ASX 200 index; broad global equities, S&P Developed ex-Australia LargeMidCap index; global dividend equities, S&P Global Dividend Aristocrats index; emerging market equities, S&P Emerging Markets LargeMidCap index; global REITs, Dow Jones Global Select Real Estate Securities.
CASE STUDY
ANDREW AND THERESA — BUILDING RETIREMENT SAVINGS
Andrew and Theresa are in their early 50s, looking to retire within the next 13 years. Recently promoted to a senior management role in an environment consultancy, Theresa earns $185,000 a year. Andrew runs a landscaping business, earning around $150,000 a year.

Ten years ago they started an SMSF, which currently has a balance of $637,000, divided between high-yield Australian equities and cash investments. They also own two small investment properties. Now they are looking to take advantage of their SMSF and Theresa’s increased earning power to build their savings as they approach retirement. But while they are interested in diversifying their investments, they are also risk averse, preferring the certainty of immediate income to the potential for higher growth.

Investment strategy
With over a decade before retirement, Andrew and Theresa are most likely looking to build capital while preserving wealth; and thus should take a “balanced” approach to investing. This approach suggests holding a fair split across safe and risky assets. Therefore 45% of their portfolio should be allocated to safer assets such as cash and fixed income which provide steady and stable streams of return. The remaining 55% of the portfolio should hold riskier assets across domestic and international equities.

Within the international equities, the following considerations were included:
• Given the preference for income in addition to growth, the portfolio is tilted to international equity strategies that offer both income and growth potential. These strategies included a higher dividend yield international shares strategy and a global real estate allocation.

• Due to Andrew and Theresa’s risk averse nature and medium-term investment timeframe, only a small allocation to emerging market equities is appropriate.

• A broad based developed market equity allocation was used to provide further diversification across countries, sectors and companies.

Over time, Andrew and Theresa’s investment approach should shift toward the conservative and ultra conservative models to reflect their decreasing risk appetite and higher priority for capital preservation.

SAMPLE BALANCED PORTFOLIO

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Portfolio Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Emerging Equities</td>
</tr>
<tr>
<td></td>
<td>Global Dividend Equities</td>
</tr>
<tr>
<td></td>
<td>Global Developed Equities ex Australia</td>
</tr>
<tr>
<td></td>
<td>Global Real Estate (REITs)</td>
</tr>
<tr>
<td></td>
<td>Australian Equities</td>
</tr>
<tr>
<td></td>
<td>Bonds</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
</tr>
</tbody>
</table>

Sources: State Street Global Advisors, as of 28 February 2014.

CASE STUDY
STELLA — GROWTH INVESTOR
Stella is a partner in a boutique commercial law firm, aged in her early 40s, earning around $350,000 a year, including profit share. She currently has $425,000 to invest, after taking advantage of recent market increases to sell an investment property.

The income from her legal practice is more than sufficient to support her and her family in their current lifestyle, so she does not need an immediate income from her investments. Instead, she is looking to grow her assets over the medium term, and is willing to take on a moderate level of risk to achieve higher returns.

Investment strategy
With a stable working income and approximately 20 years before retirement, Stella’s risk appetite allows her to take a growth approach to investing. By allocating 25% to cash and bonds and 75% across domestic and international shares, Stella’s portfolio seeks to gain moderate growth with some capital protection. In particular, Stella’s international allocation was structured with the following in mind:
• A core allocation to broad based developed market equity strategy, providing strong diversification across countries, sectors and countries.

• Both provide emerging markets and global real estate deliver additional diversification, with emerging markets providing higher growth opportunities and global real estate providing potential inflation hedging characteristics to the portfolio.

SAMPLE GROWTH PORTFOLIO

<table>
<thead>
<tr>
<th>Investment Strategy</th>
<th>Portfolio Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Global Real Estate (REITs)</td>
</tr>
<tr>
<td></td>
<td>Bonds</td>
</tr>
<tr>
<td></td>
<td>Emerging Equities</td>
</tr>
<tr>
<td></td>
<td>Global Dividend Equities</td>
</tr>
<tr>
<td></td>
<td>Australian Equities</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
</tr>
</tbody>
</table>

Source: State Street Global Advisors, as of 28 February 2014.
**CASE STUDY**

**MITCHELL — HIGH GROWTH INVESTOR**

Mitchell is an IT specialist in his late 20s who recently inherited $284,000 from his late grandmother. After setting aside $24,000 for a round-the-world trip, he is keen to invest the remaining $260,000 in a high growth portfolio.

His aim is to expand his capital over the long term, while continuing to live on his salary. While he is happy to accept a higher level of risk to accelerate returns, he prefers to focus on his career, rather than actively managing his investments from day to day.

**Investment strategy**

With a long time horizon before retirement and the ability to weather short-term market downturns, Mitchell’s risk appetite is the highest amongst the three scenarios. Mitchell’s suggested investment approach is an aggressive growth model which only holds 10% in cash and bonds and the other 90% in shares. With a 25% allocation to domestic shares and 65% international, Mitchell is best positioned to capture the long-term growth opportunities across a globally diversified pool of asset classes.

Within the international equities, the following considerations were included:

- A core allocation to broad-based developed market equity strategy, providing strong diversification across sectors and countries.
- A high allocation to emerging market equities due to its higher return potential. This allocation is consistent with Mitchell’s higher risk appetite and long investment timeframe.

**SAMPLE AGGRESSIVE GROWTH PORTFOLIO**

Because ETFs offer transparency, deep liquidity and targeted exposure, they enable investors to precisely rebalance their portfolios, rapidly and cost-effectively. In contrast, investors who choose managed funds may find rebalancing more difficult from an administrative and timing perspective.

**DESIGNED SPECIFICALLY FOR AUSTRALIAN INVESTORS**

State Street Global Advisors offers a family of global ETFs specifically designed for the needs of Australian investors, suitable for a variety of investor profiles (Figure 7).

---

**MONITORING THE PROGRESS**

These initial asset allocations are only the starting point for a successful investment. Over time, it’s important to monitor each investor’s progress and rebalance their portfolio to maintain their target allocation or adjust their allocation as their circumstances change.

For example, as investors near retirement they may choose to position their investments more conservatively by adjusting their international holdings to a higher yielding option, such as a dividend-oriented ETF. Similarly, an investor seeking to diversify their exposure to a highly valued domestic property market might seek to transfer capital from Australian property holdings to an international real estate ETF.

---

**FIGURE 7: SPDR INTERNATIONAL ETF OFFERINGS DESIGNED SPECIFICALLY FOR AUSTRALIAN INVESTORS**

<table>
<thead>
<tr>
<th>FUND</th>
<th>ASX CODE</th>
<th>BENCHMARK</th>
<th>DESCRIPTION</th>
<th>MANAGEMENT COSTS (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPDR S&amp;P World ex Australia Fund</td>
<td>WXOZ</td>
<td>S&amp;P Developed ex Australia LargeMidCap AUD Index</td>
<td>Tracks a value-weighted index of large and mid-cap stocks representing 85% of market capitalisation across 25 developed markets</td>
<td>0.42</td>
</tr>
<tr>
<td>SPDR S&amp;P World ex Australia (Hedged) Fund</td>
<td>WXHG</td>
<td>S&amp;P Developed ex Australia LargeMidCap AUD Hedged Index</td>
<td>Offers diversified international exposure with reduced foreign exchange risk</td>
<td>0.48</td>
</tr>
<tr>
<td>SPDR S&amp;P Global Dividend Fund</td>
<td>WDIV</td>
<td>S&amp;P Global Dividend Aristocrats Index</td>
<td>Tracks an index representing high yielding companies from the S&amp;P Global Broad Market Index with a history stable or increasing dividends</td>
<td>0.50</td>
</tr>
<tr>
<td>SPDR Dow Jones Global Real Estate Fund</td>
<td>DJRE</td>
<td>Dow Jones Global Select Real Estate Securities Index</td>
<td>Tracks an index representing global REITs and real estate operating companies</td>
<td>0.50</td>
</tr>
<tr>
<td>SPDR S&amp;P Emerging Markets Fund</td>
<td>WEMG</td>
<td>S&amp;P Emerging Markets LargeMidCap Index</td>
<td>Tracks an index of large and mid-cap stocks representing 86% of float-adjusted market capitalisation in the emerging country from the S&amp;P Global Broad Market Index</td>
<td>0.65</td>
</tr>
</tbody>
</table>
NOT ALL INTERNATIONAL EQUITY ETFS ARE CREATED EQUAL

With a number of international equity ETFs currently available to Australian investors, understanding what’s under the hood is an important step in selecting the right option for optimal diversification. Amongst other reasons, SPDR® ETFs provide three strong advantages to the local investor:

- **Built for the Australian investor:** As investors tend to already have strong allocations to domestic equities, the SPDR S&P World ex Australia Fund (ASX ticker: WXOZ), unlike other choices available in Australia, provides broad international exposure that doesn’t include Australian equities – allowing you to add truly global allocation to your portfolio.

  Further, unlike most other international equity ETFs, the SPDR International family of ETFs offer features such as dividend reinvestment plans and do not engage in securities lending. For investors concerned about the impact of foreign currency fluctuations, the SPDR World ex Australia ($A hedged) ETF is available (ASX ticker: WXHG).

- **Tax reductions and no messy paperwork:** While other ETF providers in Australia may offer international share ETFs, most of these are domiciled in the US and cross-listed on the Australian Stock Exchange (ASX). Investors in these ETFs are required to complete US tax forms to reclaim some of the withholding tax on dividends paid by the ETF. This structure also results in additional withholding tax where the ETF invests in non-US shares. In contrast, SPDR offer a line of international share ETFs that are domiciled in Australia and primarily listed on the ASX, which means that US tax forms are not required to be completed by investors. Further, no additional withholding tax on non-US shares applies. Investors in cross–listed ETFs may also be eligible for US estate taxes. With SPDR international ETFs, investors incur potentially less tax liabilities and no messy paperwork.

- **Strong local regulatory oversight:** As locally domiciled products, SPDR ETFs are governed under local Australian regulation and are designed in conjunction with local regulatory guidelines. Local product providers’ benefit from the oversight of the firm’s Responsible Entity (RE), a strong component to ensuring the adherence to local regulation.

THE BENEFITS OF DIVERSIFYING OFFSHORE WITH SPDR ETFs

- Diversified international exposure;

- The simplicity and transparency of an investment in Australian shares;

- A choice of ETFs suitable for a variety of investor profiles;

- The ability to adjust asset allocations, increase or decrease exposure and rebalance portfolios quickly and easily;

- No need to research, select, monitor and trade shares across unfamiliar markets;

- Domiciled and primarily listed on the ASX, which means that the vehicles are not liable to withholding tax. With SPDR international ETFs, investors incur potentially less tax liabilities and no messy paperwork.
ABOUT SPDR ETFs
Offered by State Street Global Advisors, SPDR ETFs are a family of exchange traded funds that provide investors with the flexibility to select investments that are precisely aligned to their investment strategy. Recognised as an industry pioneer, State Street Global Advisors created the first ever ETF in 1993—the SPDR S&P 500®, which is currently the world’s largest ETF. In 2001, SSGA introduced ETFs in Australia when it launched the SPDR S&P/ASX 200 Fund. Currently, State Street Global Advisors manages approximately US$413.6 billion of ETF assets worldwide.*

For comprehensive information on our ETFs, visit us at spdrs.com.au.

SALES AND MARKETING
For more information about our ETFs or how to invest, please call +612 92407600 or email info@spdrs.com.au.

*As of December 31, 2013. This AUM includes the assets of the SPDR Gold Trust (approx. $30.8 billion, as of December 31, 2013), for which an affiliate of State Street Global Advisors serves as marketing agent.

STATE STREET GLOBAL ADVISORS AUSTRALIA LIMITED
Level 17, 420 George Street
Sydney, NSW 2000
+612 9240 7600
spdrs.com.au

1 Investment Trends, Global Investing Intentions Index, February 2014.
3 Australian Taxation Office, Self-managed super fund statistical report, September 2013

FOR PUBLIC USE.

IMPORTANT RISK INFORMATION
All currency is in Australian dollars, unless otherwise stated.

The issuer of units in the Australia domiciled SPDRs (collectively “the ETF Funds”) are issued by State Street Global Advisors, Australia Services Limited ABN 16 106 671 441. This presentation is for information purposes only and is not intended to amount to personal advice or a recommendation to invest in SPDRs. If you are unsure of the suitability of the product for you, seek appropriate advice from a financial planner. No units in the SPDR funds will be issued on the basis of this presentation. You should consider the Product Disclosure Statement (PDS) available for these products in deciding whether to acquire or continue to hold these products. The PDS is available at SPDRs.com.au.

An investment in SPDR does not represent a deposit with or liability of any company in the State Street group of companies including State Street Bank and Trust Company (ABN 70 062 819 630) and is subject to investment risk including possible delays in repayment and loss of income and principal invested. No company in the State Street group of companies, including State Street Global Advisors, Australia Services Limited, State Street Bank and Trust Company and State Street Global Advisors, Australia, Limited (“SSgA”) guarantees the performance of SPDR or the repayment of capital at any particular rate of return. State Street Global Advisors, Australia, Limited and State Street Global Advisors, Australia Services Limited, its employees, directors and officers accept no liability for this information or any consequences from its use. No person or entity should act on the basis of any information contained in this document without taking appropriate professional advice. Nothing contained in this document constitutes an offer of, or an invitation to purchase or subscribe for interests in any SPDR ETF. “SPDR” is a trademark of Standard & Poor’s Financial Services LLC (“S&P”) and has been licensed for use by State Street Corporation. No financial product offered by State Street Corporation or its affiliates is sponsored, endorsed, sold or promoted by S&P or its affiliates, and S&P and its affiliates make no representation, warranty or condition regarding the advisability of buying, selling or holding units/shares in such products. Standard & Poor’s®, S&P®, SPDR®, S&P 500® have been registered in many countries as trademarks of Standard & Poor’s Financial Services LLC and have been licensed for use by State Street Corporation. Further limitations and important information that could affect investors’ rights are described in the PDS for the applicable product.

Standard & Poor’s S&P Indices are trademarks of Standard & Poor’s Financial Services LLC.

ASX, as used in the terms S&P/ASX 50 and S&P/ASX 200, is a trademark of the Australian Securities Exchange (“ASX”) and has been licensed for use by SSGA Australia. SPDR products are not sponsored, endorsed, sold or promoted by ASX, and ASX makes no representation regarding the advisability of investing in SPDR products. You should consider the PDS in deciding whether to acquire, or to continue to hold such products.

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns. These investments may have difficulty in liquidating an investment position without taking a significant discount from current market value, which can be a significant problem with certain lightly traded securities. Diversification does not ensure a profit or guarantee against loss. Passive management and the creation/redemption process can help minimise capital gains distributions. Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.