

International Investments for Bargain-Hunters

Five-Star Investor | 05-12-10 | by Christine Benz

For many investors, the market's two-day free-fall last week brought back unpleasant memories of late 2008 and early 2009. As was the case back then, market participants had the sense that their investments—and their futures—were being buffeted around by powerful forces beyond their control.

At times like those, it's a big mistake to get too cute and retreat to entirely defensive investments. If you've taken care in setting up your asset allocation and have set aside adequate cash to cover any near-term expenses, it wouldn't be wise to upend the whole plan in pursuit of short-term peace of mind.

Market turbulence can also create opportunities, and long-term investors should also find it empowering to know that they've delegated a section of their portfolios to a value-minded fund manager who can sift through the wreckage for companies that have been unduly beaten down.

To help unearth globe-trotting bargain-hunters who know how to profit from turmoil in overseas markets, we used Morningstar's Premium Fund Screener to comb our database for foreign and global funds whose equity style boxes land in the value column of the Morningstar style box. We focused on investments that are available to retail (that is noninstitutional) shareholders and aren't closed to new investors. As always, we prioritized low costs and reasonably long manager tenures; we also imposed a baseline performance standard by screening for funds that rate at least 3 stars. The result is a compact list of just 13 funds worthy of further investigation.

Regular readers may notice that some worthwhile value-leaning funds didn't make the cut. In part that's because some good value-minded funds (such as Dodge & Cox International (DODFX) and Oakmark International (OAKIX)) land in the blend column of the style box; others, such as Harbor International (HAINX), even have blend category assignments. Our expense cutoff (a perfectly reasonable—even high—1.5%) also conspired to kick out nearly all foreign small- and mid-cap value funds. For an inclusive lineup of our analysts' best ideas among bargain-hunting internationally focused funds, our Analyst Picks list is a good place to start.

However, our screen did turn up several worthy offerings, including the following:

Thomas White International (TWWDX)

Here's another little-known fund that deserves to be on investors' radars. Manager Thomas White, Jr., uses qualitative and quantitative screens to unearth relatively inexpensive stocks with good growth prospects. White has historically found many such picks in emerging markets, giving the fund a much bigger weighting there than the typical foreign large-value fund has. That bias can hurt in certain market environments (see 2008), but has been a net positive over its lifetime. Extremely seasoned management is another plus.

American Funds Capital Income Builder (CAIBX)

The sole world-allocation fund on our list, this one has a true go-anywhere mandate, with the ability to invest in stocks and bonds both here and overseas. Few firms are skilled in all of those asset classes, but American Funds is. The fund posted large losses in 2008, shocking the many investors who appear to have purchased it for its yield production and prompting many to head for the exits. This is clearly not a fixed-income substitute—its risk profile is much higher than a bond fund—but its low costs, experienced management, and flexibility all argue in its favor.

Polaris Global Value (PGVFX)

In contrast to the aforementioned behemoth, this world-stock fund (meaning it invests in foreign and U.S. stocks) is a bantamweight, with less than \$200 million in assets. In some respects, however, it shares Capital Income Builder's free-ranging style. While it doesn't invest in bonds, it buys foreign and U.S. stocks across the capitalization range; manager Bernard Horn also stakes out bold positions in certain regions and industries. Horn's willingness to stand out from the pack can cause performance to fall out of step with its peers from time to time, but over the long haul that's been for the better: Its return since its inception in 1998 is far ahead of the typical fund in the world-stock group.

Vanguard International Value (VTRIX)

File this offering under the cheapskate heading, for more reasons

than one. Like the aforementioned funds, its management teams (four firms strong) all ply value-oriented approaches. Moreover, the fund is cheap itself: With an expense ratio of just 0.45%, it charges less than half of what the Polaris and Thomas White funds charge. Despite the addition of several subadvisors during the past decade, the fund has

managed to be remarkably consistent, generating top-half (and usually top-quartile) returns in each of the past 10 years.

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THOMAS WHITE FUNDS
CAPTURING VALUE WORLDWIDESM

IMPORTANT INFORMATION REGARDING INVESTMENT PERFORMANCE FOR THE THOMAS WHITE INTERNATIONAL FUND (TWWDX)

The following table shows the Fund's average annual returns for the one-, five- and ten-year periods ended March 31, 2010:

	<u>1-Year</u>	<u>5-Year</u>	<u>10-Year</u>
Thomas White International Fund	58.20%	8.26%	4.82%
MSCI All-Country World ex US Index*	60.91%	6.11%	2.80%
MSCI EAFE Index**	54.44%	3.75%	1.27%

Gross Operating Expenses: 1.46%

* The MSCI All-Country World ex US Index is a free float-adjusted market capitalization weighted index of 47 countries, which includes developed and emerging markets and excludes the U.S. The Index is unmanaged and returns assume the reinvestment of dividends. The Index figures do not reflect any deduction for fees, expenses, or taxes.

** The MSCI EAFE Index is a free float-adjusted market capitalization-weighted index of 21 countries, which includes developed markets and excludes Canada and the U.S. The Index is unmanaged and returns assume the reinvestment of dividends. The Index figures do not reflect any deduction for fees, expenses, or taxes.

Performance data is based upon past performance, which is no guarantee of future results and assumes the reinvestment of all distributions. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be higher or lower than their original cost. Current performance may be higher or lower than the performance data presented. Performance as of the most recent month end is available at the Fund's website at www.thomaswhite.com or by calling 1-800-811-0535.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Thomas White International Fund before investing. This and other important information is contained in the Fund's prospectus, which can be obtained by calling the Thomas White Funds at 1-800-811-0535 or by visiting the Fund's website at www.thomaswhite.com. Investing in international markets may involve additional risks, such as social and political instability, market illiquidity, exchange-rate fluctuations, a high level of volatility and limited regulation. Read the prospectus carefully before investing.