

available pricing data. In early 2017, that number was down to 3,600 US stocks³ likely reflecting the fallout from increased regulations making it more difficult to take companies public, fewer IPOs, and increased M&A activity. At the same time, the number of companies listed on global exchanges has expanded rapidly, from about 23,000 in 1995 to 33,000 by the end of 2016.

4. Clear Diversification Benefits Over Time

US stocks respond in some measure to US economic and market forces, while stocks domiciled outside the US offer exposure to a broader array of economic forces. Even as evidence points to increasing globalized correlations between US and foreign markets, structural differences in interest rates, currency values and inflation often cause international markets to produce very different performance characteristics from US equities.

5. Better Value Than US Shares

At the end of 2016 the US was the most expensive market across every major valuation metric, which makes sense given the US market's outperformance over the recent years, as the following table shows.

As noted above, investments in foreign markets can benefit (or suffer) from exposure to foreign exchange rates as currency fluctuations have periodically enhanced or detracted from the returns of international equities for US investors. Over time, currency movements help to lower the correlation between non-US equities and US equities, thus contributing to the diversification benefits of holding foreign securities. In the present environment, our long-term purchasing power analysis finds most non-US currencies overvalued relative to the dollar which should enhance future international returns.

Valuations Through Year-End 2016	United States	Europe	Asia	Emerging Markets
Price-to-Earnings	20.3	16.6	15.1	14.4
Price-to-Book	2.8	1.7	1.4	1.6
Price-to-Sales	2.0	0.9	0.9	1.3
Price-to-Cash Flow	12.3	9.4	6.5	7.3
CAPE Ratio	26.4	16.6	20.6	14.0
Dividend Yield	2.0%	3.5%	2.7%	2.5%
Trailing 5 Year Performance	14.6%	6.5%	6.9%	1.4%

*Sources: Morningstar, Star Capital

A Strategic Allocation

Notwithstanding the unusually long period of outperformance of US equities relative to international equities, we believe investors are well served by maintaining a strategic allocation to more defensive international value stocks. In our view, owning long-term positions with well-diversified exposure across individual companies, countries, industries, and underlying currencies can provide access to far more opportunities than are presently available in US markets, greater protection from headline and macro risks, and greater portfolio diversification benefits than is available from an all-US equities portfolio. Mondrian Investment Partners Limited www.mondrian.com is an independent, employee-owned, international value-oriented investment manager with offices in London and Philadelphia. Mondrian, founded in 1990, managed more than \$60 billion (US) in assets, including over \$16 billion in international equity assets as of June 30, 2017. We have a diverse, global client base, investing for corporations, public and private pension plans, endowments, foundations, and individual investors in a broad range of strategies and vehicles.^[1] Source: MSCI – Past performance is no indication of future performance.^[2] FTSE Analytics, FTSE All-World Index Series, December 2016.^[3] Dimensional Fund Advisors, quoted in Bloomberg.com, March 17, 2017.

For more information on why international value stocks should be apart of your client's portfolio allocation, please contact the following:

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