International Fixed-income Investing

What Investing "Over There" Means Over Here

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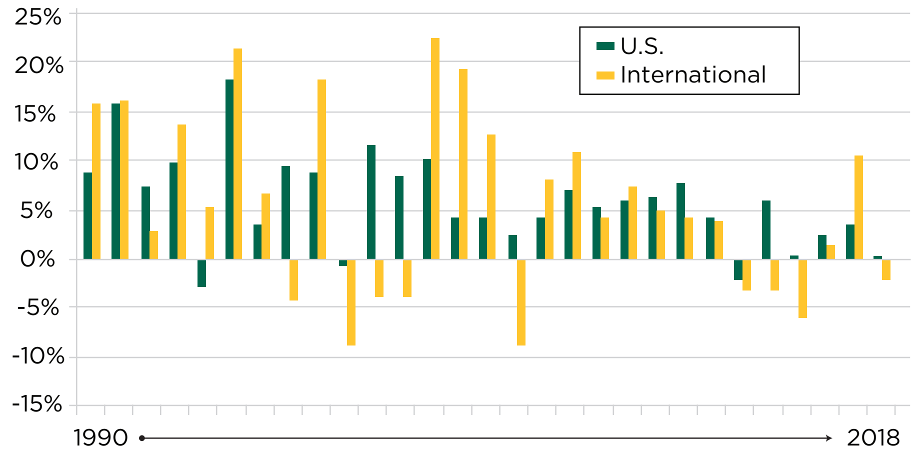
Just as you can invest in bonds from the U.S. government and U.S.-based companies, you can also buy bonds issued by foreign governments and companies. Investing abroad can help your portfolio benefit from diversification and the potential for higher returns. At Edward Jones, we believe investors should think about the potential benefits as well as possible risks when considering international fixed-income investing. We recommend investors who want to further diversify with international fixed income use professionally managed mutual funds or exchange-traded funds (ETFs).

The Benefits of International Bond Investing

Diversification – Different countries experience different economic cycles and interest rate environments as well as distinct market conditions. This means international bonds may fluctuate in different ways than U.S. bonds, which can help investors with fixed-income diversification. Returns and volatility can be quite different. Owning international bonds through a mutual fund or ETF can further add to the diversification of a bond portfolio, since you can own several individual bond issues within one investment. International bonds also provide the overall diversification benefit of spreading out investments among different economies across the world.

International vs. U.S. Bond Returns



Source: Bloomberg Barclays Indices (Global Aggregate EX-USD Bond Index and US Aggregate Bond Index). An index is not managed and is unavailable for direct investment. Past performance is not a guarantee of future results.

Potential returns – By investing in international bonds, you are gaining access to a much larger pool of fixed-income investments. If appropriate for your situation, adding international fixed-income investments to your current portfolio of U.S. bonds could provide the opportunity for you to invest in potentially higher-returning international markets. While international bonds have generated lower returns than U.S. bonds in recent years, they have performed better over longer time periods.

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Two Types of International Debt

Markets around the world can be classified into developed markets and emerging markets.

Developed – Mature countries with higher per capita income and free capital market systems, including Japan, France and Germany.

Emerging – Generally younger economies, such as China, Mexico, Brazil and Indonesia, with lower per capita income, less regulated capital markets and greater risk of instability. We believe the higher risk associated with emerging bond markets is not appropriate for all bond investors.

The Risks of International Bonds

Investing in international fixed income carries different risks, including:

- **Interest rate** – Like all fixed-income investments, interest rate movements impact the value of international bonds. Rising interest rates will generally hurt prices, and falling interest rates will generally increase prices.
- **Currency** – Fluctuations in currency rates against the U.S. dollar will have an impact on your realized return. A declining dollar will benefit your return, while an appreciating dollar will hurt returns. Some international bond funds will hedge currency risk, while others will remain unhedged. Although Edward Jones does not have a preference on hedged versus unhedged bond funds, it's worth noting that if everything else is equal, an unhedged fund is expected to provide more portfolio diversification benefits, although it is likely to be more volatile.
- **Credit** – A bond issuer may be unable to pay interest and principal to its bondholders. This is a standard risk for all bonds, but there are two different categories of international bonds with varying degrees of credit risk:
  - Sovereign debt is debt issued by foreign governments. Typically, the sovereign debt of developed countries has strong credit ratings and lower credit risk. Meanwhile, emerging government sovereign debt generally has weaker credit ratings and higher relative credit risk.
  - Non-sovereign debt is debt issued by foreign corporations, and its credit risk profile is determined by the financial strength of the underlying corporation.
- **Economic and political risks** – Foreign countries' economies may be less diverse or more unstable than the U.S. economy. In addition, some countries may undergo political instability, which can impact returns.

Actions for Investors

Own international bonds through mutual funds or ETFs – We recommend investors who choose to own international fixed-income investments do so through professionally managed mutual funds or ETFs. Mutual funds and ETFs may offer greater diversity than trying to build a diversified portfolio out of individual international bonds. International bond fund managers have the resources to help manage the risks of international fixed-income investing by analyzing and monitoring foreign markets. However, this more intense analysis generally means that international bond funds have higher fees than domestic bond funds.

Choose quality – Depending on your portfolio objective, financial goals and risk tolerance, you may decide that international fixed-income investments are appropriate for your portfolio. If so, we recommend debt primarily from developed countries with investment-grade credit quality. We suggest debt of developed markets first because they have a lower overall level of risk compared to emerging-market countries.

Limit your exposure – We believe you should consider international fixed-income investments because of the potential diversification benefits they provide. Nevertheless, international bonds do carry greater overall risk, so we believe it's prudent to limit this exposure to no more than 5% of your portfolio.

Talk with your Edward Jones financial advisor today to determine whether international fixed-income investments have a place in your portfolio.

Diversification does not guarantee a profit or protect against loss. Mutual fund investing involves risk. Your principal and investment return in a mutual fund will fluctuate in value. Your investment, when redeemed, may be worth more or less than the original cost.

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