



GLOBALIZATION GOOD, BAD OR REALITY?

Over the past 30 years, U.S. institutional investors have certainly evolved in their views and policies toward international equity investing. For some time investors were limited to either domestic or international funds. As recently as the early 1980's, very few of the largest pension plans were investing in non-U.S. stocks. But there is another way to combine the asset classes. With global investing, a manager doesn't have to choose between strictly international or U.S. but rather can look to both markets for investment options. How have we gotten here?

- Investment performance and diversification benefits of foreign markets
- Familiarity with foreign companies and their products/services
- Expansion and accessibility of capital markets
- Currency fluctuations and the ability to hedge
- Technology (internet)
- Increase in foreign direct investment
- Export growth (from 20% of world GDP in 1980 to 33% in 2009)

- Confidence in foreign financial market regulation

Maybe the most significant factor mentioned above is technology—the world is simply more connected. One only has to look at the Blackberry or iPhone to recognize how easy it is to gather information or contact someone anywhere in the world in a nanosecond. Businesses are in a far superior position to prepare and adapt to changes in global markets and economic events.

The allure of foreign markets to the investor relates directly to the potential returns and diversification characteristics. It is interesting to note that correlations between the U.S. and non-U.S. markets have increased (see Chart below).

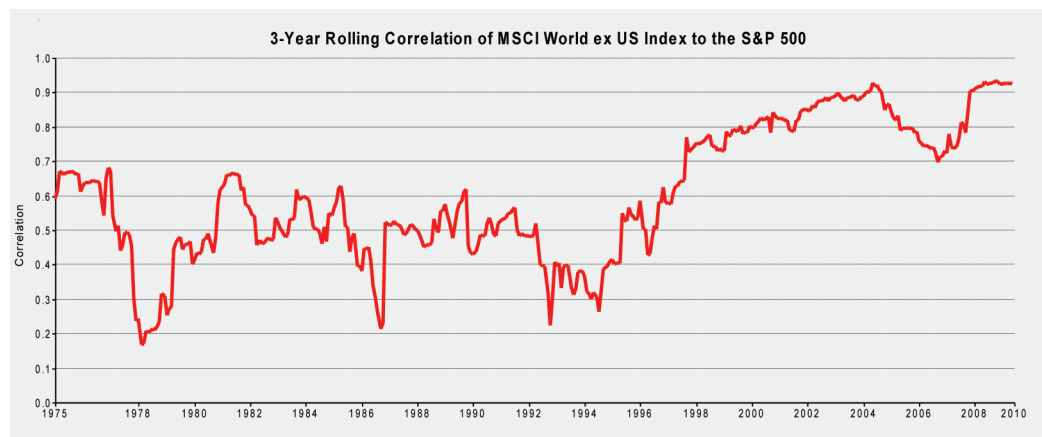
What does this mean to investors and how are investment managers organizing their businesses to manage global equity portfolios? Traditionally, plan sponsors have hired separate international managers and U.S. managers to create their “global” equity exposure.

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At Peirce Park Group we have observed a few trends in global equities that have helped to shape the advice we offer to our clients. There is no question that given the global nature of economic competition most large companies have foreign competitors regardless of their domicile. Is Nintendo a Japan-only company? Is Hershey a U.S.-only company? Is Samsung a Korean-only company? They conduct business and serve customers in multiple countries and markets. Asset managers have adapted their resources, research and offerings accordingly. Regardless of whether an asset manager invests in U.S. companies, non-U.S. companies or both, they evaluate the investments relative to global competitors. For example, most large, global “bottom up” equity managers have established research teams organized along industry/sector lines. The analysts evaluate companies in a global context. In some cases this involved the merging of U.S. and non U.S. teams. In others it was an organic process. The goal is the same as the managers have the latitude to select the best investments without geographic limitations.

There are also global equity managers that blend a top-down (looking at macro-economic issues) view with bottom-up fundamental, individual company research—in some instances multiple teams working together to build portfolios with risk characteristics

and alpha generation that are targeted to their client’s expectations. This might even involve a macro-quantitative overlay on a fundamentally based process. Realistically, there are too many approaches to comment on in this limited space. What matters more is analyzing the pros and cons of adding global equities into the investor’s asset allocation and in what size they should be added.

One of the challenges that an investor faces is how large an allocation should be invested in U.S. vs. non-U.S. equities. There will clearly be periods during which the U.S. will outperform international, and vice versa. Of course, an investment policy statement will reflect the optimal level of risk and return desired by the investor. There is a cost to re-balancing and an opportunity cost associated with being in the right markets at the right time. Who is in the best position on the margin to manage this decision? Given the high degree of complexity needed to make timely decisions and act on them, it might be best handled by the investment manager who is evaluating the relative attractiveness of companies, markets and currencies on a daily basis. This structure also provides the following benefits: efficient re-balancing, a reflection of the manager’s best ideas globally and a potential cost savings. Finally, in an effort to diversify their investments, plan sponsors need

to be wary of “over” diversifying with too many firms (securities)—this could create one expensive index fund.

The potential downside to global investing to the plan sponsor may reside in ceding control of the equity allocation to a manager that underperforms, doesn’t have the resources necessary to reach all markets or makes a wrong decision on the U.S./non-U.S. weighting. However, if the plan sponsor and consultant have complete transparency and a firm understanding of the asset manager’s process and strategy, these risks can be minimized. Manager fees should also be taken into account. While there may be a benefit to concentrating assets with fewer managers, the portion of “active” management fees may be slightly higher than an approach with more “passive” large cap exposure.

Conclusion: Note that we are not necessarily advocating a higher weighting to international equities; rather we are suggesting an alternative way to manage the “global” allocation by putting the U.S. vs. non-U.S. decision in the hands of the investment manager. This is accomplished, of course, within the confines of the client’s investment policy statement. There are many paths to building a global equity portfolio and the sponsor ultimately must decide which is best for them.

Please contact us if you would like to discuss this topic in greater depth. ■

new to the PPG team

**Christopher Thorsheim, MBA –
Senior Investment Consultant**

Chris has over 20 years of institutional investment industry experience. Most recently as founding partner and Chief Operating Officer of Manhasset Capital Management LLC; with responsibility for marketing, operations, finance, human resources and compliance.

From 1999-2004, he was a Managing Director and Partner at StoneRidge Investment Partners. Prior to this Chris was employed at Deutsche/Morgan Grenfell Asset Management from 1993-

1999, as a Managing Director and Head of Institutional Sales, Marketing and Client Service. Earlier in his career he held institutional marketing and product development positions at Alliance/and began his career at Prudential Asset Mgmt.

Chris graduated with an MBA in Finance from New York University’s Leonard N. Stern School of Business in 1995 and a BS in Finance from Susquehanna University in 1985.

IRS DETERMINATION LETTER

(Discussed at recent CCAP conference)

Two years ago, the IRS determined that a more diligent look at governmental entities, with the possibility of carrying out subsequent audits, was necessary. This includes issues such as cell phone use, independent contractor issues, and retirement plan qualifications.

How does this relate to a county's pension plan? The IRS is strongly suggesting an IRS Determination Letter for government plans to verify their "tax qualified" status. This is not a legal requirement, but would provide some legal protection ("safe harbor") in the event of an IRS audit of the pension fund. An IRS Determination Letter basically states that a plan is legally structured to meet the requirements of being tax qualified under the tax code. Plan contributions and assets of the plan are non-taxable to your participants (employees, retirees, and past employees whose assets are still in the plan) and will remain so until the

employee takes constructive receipt of the assets. See http://www.irs.gov/pub/irs-tege/govt_srap.pdf for further information on the process of getting a determination letter.

A determination letter only deals with the structure of the plan, not the application. In other words, you have the responsibility for additional requirements, such as ensuring the eligibility of the employees who participate in the plan. There is also a process of applying for a Private Letter Ruling (PLR.) This interprets and applies the tax laws to a taxpayer's specific set of facts but does not generally address the terms of a plan. A Determination Letter and a PLR are not redundant terms, but you may hear them used interchangeably.

What happens if a plan is not properly qualified? There is a range of consequences if you don't follow

through to ensure a plan is properly qualified (i.e. fines levied by the IRS). The worst result would be disqualification of the plan (which has happened in the corporate arena). This means all benefits receivable by the employees would currently become taxable for them, and all distributions which had occurred from a plan that was deemed to be disqualified would no longer be available for favorable tax treatment, even if subsequently rolled into an IRA.

What should you do? Though you are not legally required to apply for and receive an IRS Determination Letter, it is strongly suggested. A filing fee payable to the IRS is required, and it is suggested that you hire someone qualified to fill out the necessary forms (generally Form 5300 and Form 8717). Your actuary, attorney and/or auditor may be able to guide you in this decision. ■

PEIRCE PARK GROUP EXPANDS ITS CONSULTING SERVICES

We are expanding our consulting services to meet our clients' needs. In addition to our comprehensive investment consulting services, we now offer; asset/liability studies, 457 defined contribution and Other Post Employment Benefit (OPEB) consulting services.

Asset/Liability studies will help project future contributions and determine an asset allocation that will compliment a plan's liability structure.

Our **457 consulting services** include a thorough plan review to identify fiduciary responsibilities, plan structure, investment line-up and fee analysis.

Our **OPEB consulting services** determine the viability and methods of funding this additional post-employment benefit obligation. Should you desire further information, please contact us.

BAN LOCAL GOVERNMENTS FROM USING INTEREST RATE SWAPS?

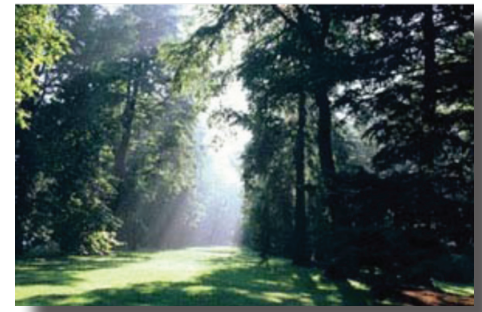
HARRISBURG, Pa., March 16, 2010/ PRNewswire-USNewswire/ -- Auditor General Jack Wagner today joined Sen. Lisa Boscola (D- Lehigh/ Monroe/Northampton) and Sen. Patrick Browne (R- Lehigh/Monroe/ Northampton) to promote legislation that would ban school districts, local governments and municipal authorities from risking taxpayer money in interest-rate swap agreements.

For details on the use of derivatives in public funds, see this website: <http://creditriskchronicles.blogspot.com/2010/03/ban-local-governments-from-using.html>

pennsylvania fun facts



- Stewartstown hired its 1st police officer in 1876. He was also the town lamp lighter.
- In 1898, the world's first female professional baseball player, Lizzie Arlington, pitched the final inning of a game for the Reading Coal Heavers, giving up two hits and no runs.
- The Liberty Tunnel in Pittsburgh opened in 1924 as the longest artificially ventilated auto tunnel in the world—5,700 feet.
- In 1946 Philadelphia became home to the first computer.
- In 1958, State College Area HS became the first in the country to teach drivers ed.
- Mt. Davis, Somerset County is the highest point in the state at 3,213 ft.
- The PA state fish is the Brook Trout



*Peirce's Park
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Kennett Square, PA*

Since 1988, Peirce Park Group has endeavored to help clients reduce financial risk and maximize portfolio performance. Unencumbered by allegiances to specific funds or investment organizations, Peirce Park Group's investment management consultants provide wise and objective counsel. We provide strategic investment advice, we recommend investment managers well suited to clients' long-term goals, and we monitor investment manager performance and compliance with investment guidelines.



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The 2010 PA Farm Show 1st Place Recipe for *Corn Bread* Madison Foor (Bedford Cty)

- ½ cup butter
- 1 cup sugar
- 2 eggs
- 1 cup buttermilk
- 1 teaspoon baking soda
- 1 cup cornmeal
- 1 cup all-purpose flour
- ½ teaspoon salt

Directions

1. Preheat oven to 350 degrees. Grease an 8 inch square pan.
2. Melt butter. Add sugar; add eggs and beat until blended. Combine buttermilk with baking soda; stir into mixture. Stir in cornmeal, flour and salt until blended. Pour batter into the prepared pan.

Bake in preheated oven for 30 to 40 minutes or until a toothpick inserted in center comes out clean.