Smith Group
ASSET MANAGEMENT

Market Perspectives Excerpt

Is Domicile Relevant?

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The old argument for adding International stocks to a portfolio was diversification into a separate asset class. These days it is often hard to describe many non-U.S. domiciled companies as a separate asset class. Business in many industries has truly gone global. With a widely dispersed list of customers, earnings growth in many cases has decoupled from the fortunes of the company's home economy. So is there a case for looking at equity investing through a global lens?

When all of a company's revenues were generated within one country there was a fairly direct relationship with a single economy and no currency considerations. But as companies sought new revenue sources they bought or developed distribution and production in other countries. That introduces exposure to a disparate basket of economies and currencies. Standard & Poors estimates that 46% of S&P 500 revenues came from non-U.S. sources in 2010. But the lust for new revenue sources is not just a U.S. obsession as European and Asian companies have also hunted broader diversification. The result is that in many industries what seems to be differentiation between companies is actually cosmetic to their business model. Where they are domiciled and the primary market where their stock trades is often more tied to their history than current business characteristics. One of the best examples of this is large Pharmaceutical companies. Of the five largest companies in this industry, three are European and two are U.S. domiciled. But there are more similarities than differences between them, while the driver of their index classification is the domicile of their home office. The table at left shows just how equal their revenue sources are. None of them have more than 50% of their revenues in the U.S., and the one that is close has a large non-Pharma business that inflates its American exposure. So why should an investor consider Johnson & Johnson or Pfizer as a different asset class than Novartis, Roche, or GlaxoSmithkline? They really should not. Similar revenue diversification exists to varying degrees in large sectors like Information Technology, Industrials, Energy, and Consumer Staples. So with deep similarities between U.S. companies and peers domiciled overseas, it makes sense to analyze them as a group and select the best stock among peers. We are committed to fulfilling the objectives of our clients and there are some who are beginning to look at equities as a global market. For those clients, we are now offering a global portfolio utilizing our flagship strategy applied to a more global opportunity set.

Regional Revenue Sources*	*U.S.*	*Europe*	*Asia*	*Other*	*Domicile*
Johnson & Johnson	48%	25%	18%	9%	U.S.
Novartis	40%	41%	19%		Switzerland
Pfizer	43%	25%	16%	16%	U.S.
Roche	36%	24%	17%	23%	Switzerland
GlaxoSmithKline	33%	28%	21%	18%	U.K.
Global Pharma Industry Sales	41%	27%	22%	10%	