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## Blue-Chips Can Bring Emerging-Market Gains

Stan Luxenberg – 02/12/10

NEW YORK—Investors have been snapping up emerging markets stocks as the U.S. and European economies struggle to recover. But after their big rally last year, stocks in countries such as Brazil and China seem pricey.

To avoid overpaying, some top-performing fund managers are taking an indirect route, investing in blue chips from the developed world that sell products in emerging markets. Despite growing revenues, these high-quality companies sell at modest prices.

“If you want to buy a Chinese consumer stock, you have to pay 25 times earnings,” says John Maxwell, manager of the Ivy International Core Equity Fund. “I would rather pay 15 times earnings for a European company that has exposure to the emerging markets.”

Ivy International has delivered strong long-term results by buying solid companies at moderate prices. During the past five years, the fund has returned 7.4% annually.

One of Maxwell’s favorite holdings is Nestle, the Swiss food giant. About a third of the company’s revenue comes from emerging markets, where sales of dog food, candy and dairy products are increasing. Before the recession began, Nestle was reporting annual sales growth in Latin America and Asia of more than 10%. The global downturn chilled sales, but revenues are climbing again in Southeast Asia and Latin America, he says.

Nestle sales in emerging markets could rise 12% this year, Maxwell says. If the company grows 3% in the developed world, global business revenue should increase 6%. That would be an appealing outlook for a rock-solid multinational with a track record for producing profits going back decades.

Maxwell also owns Unilever, the Dutch multinational that sells foods, such as Popsicles and Wish-Bone dressing, and health and beauty products, including Vaseline.

After markets began rebounding in March, the biggest gains were recorded by shaky companies that had appeared to be on the verge of bankruptcy, says Maxwell. High-quality companies lagged for much of the year. Lately, blue chips like Unilever have been catching up with the markets, but the Dutch multinational still sells for a moderate price-earnings ratio of 15, below its historic average.

Another top fund that focuses on high-quality stocks is the Scout International Fund, which has returned 6.4% annually during the past five years. Manager James Moffett wants market-leading companies, but he refuses to buy any Chinese names because of their high prices and political risk. “Most of the major Chinese companies are still half owned by the government,” he says. “We are nervous about investing in businesses that are controlled by bureaucrats.”

To benefit from Asian growth,

Moffett owns BHP Billiton, an Australian miner that exports iron and other metals to China. “Their earnings keep rolling along because of the Chinese demand,” Moffett says.

He also holds Vale, a Brazilian iron producer that exports to China. Moffett concedes that Vale could be hurt if the Chinese economy stumbles. But he argues that the company should continue to see growing global demand for years to come as emerging markets modernize.

For a mix of blue-chip growth stocks and fast-growing small companies, consider the Thornburg International Growth Fund. During the past three years, the fund has declined 3% annually, outdoing 94% of its foreign large growth peers. Manager Alex Motola likes companies that are selling luxury goods in emerging markets. “Chinese consumers have a great appetite for well-known imports because their own country has not yet developed luxury brands,” he says.

Asian consumers are particularly eager to buy products from LVMH Moët Hennessy, the owner of high-end fashion brands such as Louis Vuitton and Donna Karan, says Motola. He also likes YOOX, an Italian company that sells high-end apparel online. The company operates websites that feature brands such as Prada and Dolce & Gabbana. Targeting consumers in Argentina, Malaysia and other emerging economies, the company has been increasing revenues at a 50% annual rate.

**IVY INTERNATIONAL CORE EQUITY FUND PERFORMANCE AS OF 06/30/2010**

| SHARE CLASS     | QUOTRON | INCEPTION DATE | 1-YEAR | 3-YEAR  | 5-YEAR | 10-YEAR | LIFE   | EXPENSE |
|-----------------|---------|----------------|--------|---------|--------|---------|--------|---------|
| Class A (NAV)   | IVIAX   | 05/13/1997     | 7.94%  | -7.73%  | 6.01%  | 3.27%   | 3.73%  | 1.64%   |
| Class A (Load)  | IVIAX   | 05/13/1997     | 1.74%  | -9.53%  | 4.76%  | 2.66%   | 3.26%  | 1.64%   |
| Class Y         | IVVYX   | 07/24/2003     | 8.09%  | -7.53%  | 6.18%  | –       | 10.05% | 1.38%   |
| MSCI EAFE Index | –       | –              | 5.92%  | -13.38% | 0.88%  | 0.16%   | –      | –       |

Data quoted is past performance and current performance may be lower or higher. Past performance is no guarantee of future results. Investment return and principal value of an investment will fluctuate, and shares, when redeemed, may be worth more or less than their original cost. Please visit [www.ivyfund.com](http://www.ivyfund.com) for the Fund's most recent month-end performance. Performance at net asset value (NAV) does not include the effect of sales charges. Class A share performance, including sales charges, reflects the maximum applicable front-end sales load of 5.75%. Class Y shares are not subject to sales charges. MSCI EAFE is an unmanaged index comprised of securities that represent the securities markets in Europe, Australasia and the Far East. It is not possible to invest directly in an index.

**Consider All Factors.** International investing involves additional risks, including currency fluctuations, political or economic conditions affecting the foreign country, and differences in accounting standards and foreign regulations. As with any mutual fund, the value of the Fund's shares will change, and you could lose money on your investment. An investment in the Fund is not a bank deposit and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. These and other risks are more fully described in the Fund's prospectus. Not all funds or fund classes may be offered at all broker/dealers.

This report was written by TheStreet.com writer Stan Luxenberg. Ivy Funds Distributor, Inc. is not related to or affiliated with TheStreet.com.

| Top 10 Equity Holdings <sup>1</sup>                     |      |
|---|------|
| (as a % of net assets as of 06/30/2010)                 |      |
| TOTAL S.A.  | 4.0% |
| Vodafone Group PLC                                      | 2.4% |
| Foster's Group Limited                                  | 2.3% |
| Unilever PLC  | 2.3% |
| Royal Dutch Shell PLC, Class A                          | 2.1% |
| Sanofi-Aventis  | 2.1% |
| Cheung Kong (Holdings) Limited                          | 2.1% |
| Telstra Corporation Limited                             | 2.0% |
| Taiwan Semiconductor Manufacturing Company Limited, ADR | 1.9% |
| Barclays PLC  | 1.9% |

<sup>1</sup>Information is subject to change and is not intended to represent any past or future investment recommendations.

|                       |  |                   |
|-----------------------|--|-------------------|
| Not FDIC/NCUA insured | May lose value                               | No bank guarantee |
| Not a deposit         | Not insured by any federal government agency |                   |