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Markets can be defined by stage of development

Developed markets

Countries with large financial markets, stable governments, robust legal systems, strong regulatory agencies, and reliable financial reporting that can help mitigate the risks associated with foreign investing.

Emerging markets

Countries with fast-growing financial markets where transparency and market regulations are increasing; they include a large share of state-owned companies and less-diversified set of industries than developed markets.

Frontier markets

Countries with markets featuring low trading volumes, highly concentrated industries, political and social risks, limitations on foreign ownership, and a large share of state-owned companies.

Criteria used to define markets

There are many ways to classify the countries of the world. Investors will consider a country's financial markets in terms of:

- Market size
- Ease of trading
- Reliability of prices
- Liquidity
- Ease of capital flows
- Enforceability of contracts
- Government regulations
- Political environment

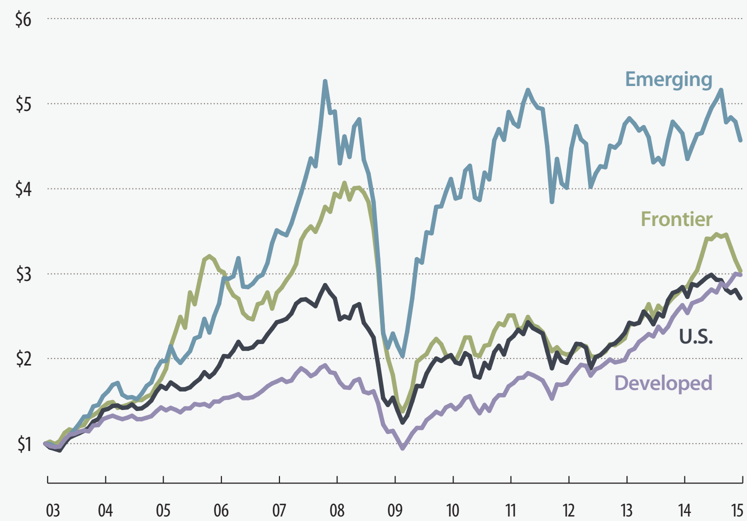
How are Developed, Emerging, and Frontier Markets different?

Key takeaways

- Understanding the types of international markets can help you become a better investor in these markets
- Investments outside the U.S. may provide opportunities that arise from fast-growing economies and markets
- Investing internationally can help diversify a portfolio by adding assets that have risk-and-return patterns different from U.S. investments
- International investments carry risks that investors need to consider

International investments provide the potential for higher returns

Growth of a dollar in the world's equity markets (Jan. 2003 – Dec. 2014)



Developed markets are represented by the MSCI EAFE Index; Emerging markets are represented by the MSCI Emerging Market Index; Frontier markets are represented by the MSCI Frontier Markets Index; the U.S. market is represented by the S&P 500 Index. An index is unmanaged and not available for direct investment. Past performance is no guarantee of future results.

Source: FactSet, Wells Fargo Investment Institute. As of Dec. 31, 2014.

Foreign securities can plan a role in your investment strategy

Investor objective	Example
Income	Foreign developed-market companies currently pay yields comparable to U.S. companies[1]
Growth-oriented	Favorable demographics and improving government policies have improved investment opportunities in emerging markets
Long-term appreciation	Investors with a long time horizon may want to "get in on the ground floor" of the frontier growth story that has seen significant appreciation in asset prices in recent years

[1] Outside the U.S., the attitude toward dividends is different. Companies in the U.S. generally pay dividends quarterly and are less likely to cut their dividends. Foreign companies normally pay dividends semiannually or annually. Dividends are only one consideration when investing and high dividend yields tend to be unsustainable. Dividends are not guaranteed and are subject to change or elimination.

Source: Wells Fargo Investment Institute

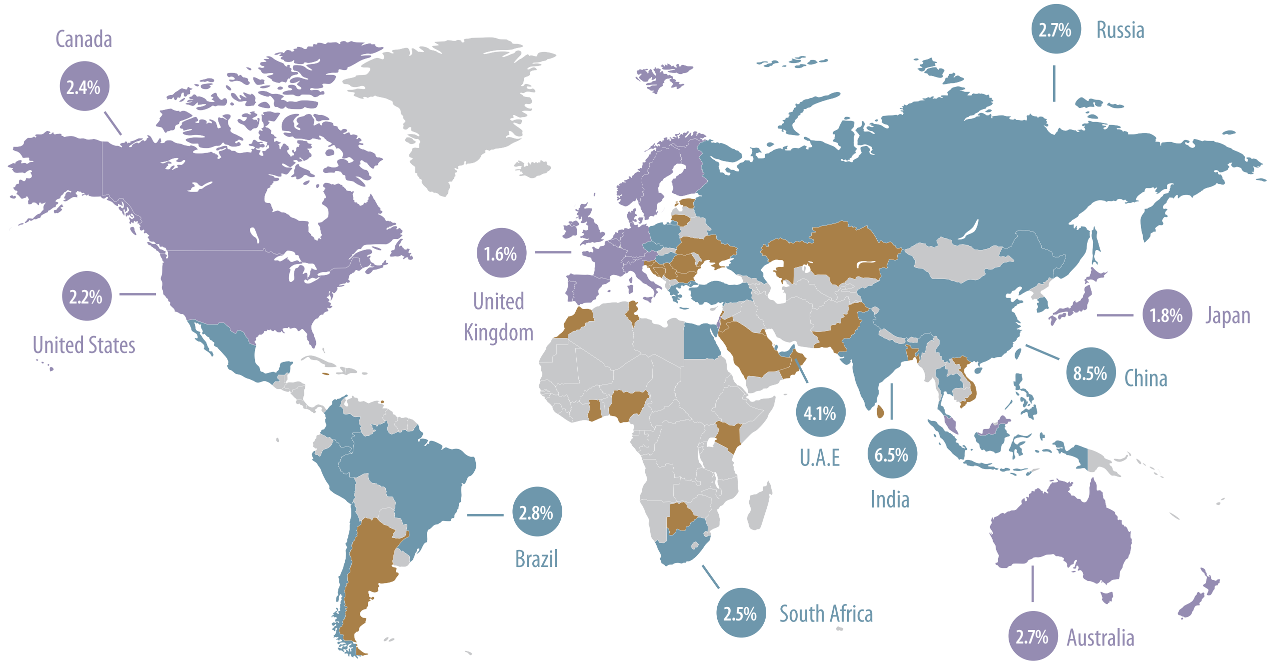
A global view of developed, emerging, and frontier markets

Out of 186 countries, Morgan Stanley Capital International (MSCI) considers 78 investible and divides the investment universe into three categories: developed, emerging and frontier. A country might have an emerging stock market and a developed bond market due to the maturity and size of these markets. Countries may move from one classification to another as they evolve.

This image highlights average 5-year gross domestic product growth (GDP) rates from 2010-2014 for different countries. Because GDP measures a nation's total output, it can provide a snapshot of a country's economic condition. GDP growth in developed countries has, on average, been lower in recent years; other countries have experienced greater growth.

Global growth by region

Five-year average annual GDP growth rate, 2010-2014



Past performance is no guarantee of future results. For illustrative purposes only and not indicative of any investment.

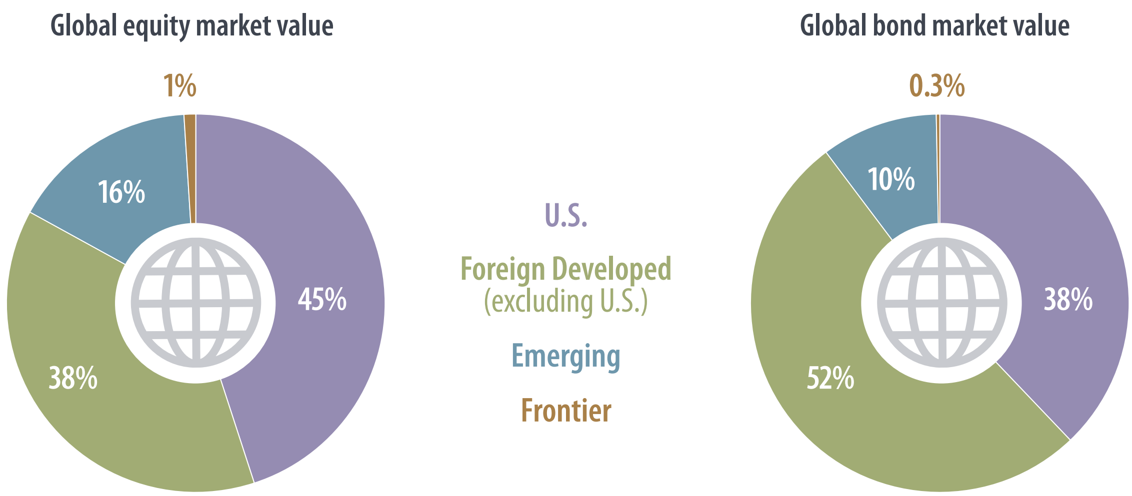
Source: Morningstar, International Monetary Fund (IMF), World Economic Outlook Database. As of October 2014; 2014 numbers are estimates.

	Developed equity markets	Emerging equity markets	Frontier equity markets
North America	Canada, United States	Mexico	Jamaica, Trinidad and Tobago
South America		Brazil, Chile, Columbia, Peru	Argentina
Middle East and Africa	Israel	Egypt, Qatar, South Africa, United Arab Emirates	Bahrain, Botswana, Ghana, Jordan, Kenya, Kuwait, Lebanon, Mauritius, Morocco, Nigeria, Oman, Palestine, Saudi Arabia, Tunisia, Zimbabwe
Europe	Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom	Czech Republic, Greece, Hungary, Poland, Russia, Turkey	Bosnia-Herzegovina, Bulgaria, Croatia, Estonia, Lithuania, Kazakhstan, Romania, Serbia, Slovenia, Ukraine
Asia and Pacific	Australia, Hong Kong, Japan, New Zealand, Singapore	China, India, Indonesia, Korea, Malayasia, Philippines, Taiwan, Thailand	Bangladesh, Pakistan, Sri Lanka, Vietnam

Source: Morgan Stanley Capital International. As of June 1, 2015.

Why invest internationally?

Foreign markets represent more than half of the world's investment opportunities



Source: MSCI U.S. Equity Market Index; Bloomberg; Bank for International Settlement. As of Feb 26, 2015.

Opportunities

Diversification: Because international investment returns can move in a different direction than U.S. market returns, investing internationally could help guard against some of the risks associated with a U.S.-based portfolio. With a portfolio that includes domestic and foreign stocks, you could potentially reduce the risk of losing money if U.S. markets decline.

Just like the adage about not putting all of your eggs in one basket, investing overseas may spread your portfolio's risk. By diversifying internationally, you are not invested in one type of security in a single region or subject to the performance of one asset class.

Growth: Investing internationally also allows you to pursue potential investment opportunities that arise from fast-growing economies and markets whose currencies are appreciating against the dollar. Financial involvement in other markets also means looking into the currencies of different nations. By diversifying the currencies in which you invest, you may be hedging against potential dips in the U.S. dollar.

Risks

Political: Many parts of the world are undergoing immense changes, including the Middle East, parts of Asia, and Latin America. Some countries within these regions are not only new to capitalism, they are also new to democracy and the rights of workers as well as investors.

Information: Foreign countries have different standards on the flow of company information that is important to investors. Accounting standards differ, and disclosure rules may not provide the transparency that U.S. investors are used to. If you are investing in a country or region where the dissemination of information is curtailed by a political, military, or cultural leader, you may want to proceed with caution.

Currency/liquidity: Different parts of the globe experience trouble with their currencies as a result of events investors can't foresee or control. Investing overseas requires you to closely follow news and trends from various regions and keep a keen eye on potential currency fluctuations. You may have to pay premium prices to buy a foreign security and have difficulty finding a buyer when you want to sell.

Other characteristics

Developed equity markets	Emerging equity markets	Frontier equity markets
▶ Strong multi-national companies	▶ Increasing urbanization	▶ Developing political and legal systems
▶ Educated workforce	▶ Young and growing populations	▶ Young and growing populations
▶ Technological and innovation leadership	▶ Improving infastructures	▶ Low labor and production costs
▶ Robust financial markets	▶ Diversifying economies	▶ Rich in natural resources
▶ High income per capita	▶ Low levels of government debt	▶ Rapid adoption of new technologies

Consider going global

Some amount of home-country bias is appropriate for U.S.-based investors whose financial goals and liabilities are denominated in the dollar. Rapid global economic and financial development during the past three decades has added billions of emerging- and frontier-market middle-class consumers, who are likely to spend at a faster pace than consumers in more-mature economies. We believe these markets could add significant return potential and, along with international developed markets, may be an important source of portfolio diversification.

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To help with your investment planning or to discuss the points in this report, please talk to your investment professional.

Asset class risk disclosures

Foreign investments: Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging and frontier markets.

Index definitions

An index is unmanaged and unavailable for direct investment.

MSCI EAFE Index (Europe, Australasia, Far East) Index (MSCI EAFE NR) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The index consists of the following 21 developed-market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index (MSCI EM NR) is a free float-adjusted market capitalization index designed to measure equity market performance of markets. The index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

MSCI Frontier Markets Index (MSCI FM NR) is a free float-adjusted market capitalization index designed to measure equity market performance of frontier markets. The index consists of the following 24 frontier market country indexes: Argentina, Bahrain, Bangladesh, Bulgaria, Croatia, Estonia, Jordan, Kenya, Kuwait, Lebanon, Lithuania, Kazakhstan, Mauritius, Morocco, Nigeria, Oman, Pakistan, Romania, Serbia, Slovenia, Sri Lanka, Tunisia, Ukraine and Vietnam.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted index with each stock's weight in the index proportionate to its market value.

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