Global Portfolio Management, also known as International Portfolio Management or Foreign Portfolio Management, refers to grouping of investment assets from international or foreign markets rather than from the domestic ones. The asset grouping in GPM mainly focuses on securities. The most common examples of Global Portfolio Management are –

- Share purchase of a foreign company
- Buying bonds that are issued by a foreign government
- Acquiring assets in a foreign firm

Factors Affecting Global Portfolio Investment

Global Portfolio Management GPM requires an acute understanding of the market in which investment is to be made. The major financial factors of the foreign country are the factors affecting GPM. The following are the most important factors that influence GPM decisions.

Tax Rates

Tax rates on dividends and interest earned is a major influencer of GPM. Investors usually choose to invest in a country where the applied taxes on the interest earned or dividend acquired is low. Investors normally calculate the potential after-tax earnings they will secure from an investment made in foreign securities.

Interest Rates

High interest rates are always a big attraction for investors. Money usually flows to countries that have high interest rates. However, the local currencies must not weaken for long-term as well.

Exchange Rates

When investors invest in securities in an international country, their return is mostly affected by –
• The apparent change in the value of the security.
• The fluctuations in the value of currency in which security is managed.

Investors usually shift their investment when the value of currency in a nation they invest weakens more than anticipated.

**Modes of Global Portfolio Management**

Foreign securities or depository receipts can be bought directly from a particular country’s stock exchange. Two concepts are important here which can be categorized as **Portfolio Equity** and **Portfolio Bonds**. These are supposed to be the best modes of GPM. A brief explanation is provided hereunder.

**Portfolio Equity**

Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts *Americanorglobal*, and direct purchases of shares in local stock markets by foreign investors.

**Portfolio Bonds**

Bonds are normally medium to long-term investments. Investment in Portfolio Bond might be appropriate for you if –

• You have additional funds to invest.
• You seek income, growth potential, or a combination of the two.
• You don’t mind locking your investment for five years, ideally longer.
• You are ready to take some risk with your money.
• You are a taxpayer of basic, higher, or additional-rate category.

**Global Mutual Funds**

Global mutual funds can be a preferred mode if the Investor wants to buy the shares of an internationally diversified mutual fund. In fact, it is helpful if there are open-ended mutual funds available for investment.

**Closed-end Country Funds**

Closed-end funds invest in internationals securities against the portfolio. This is helpful because the interest rates may be higher, making it more profitable to earn money in that particular country. It is an indirect way of investing in a global economy. However, in such investments, the investor does not have ample scope for reaping the benefits of diversification, because the systematic risks are not reducible to that extent.

**Drawbacks of Global Portfolio Management**

Global Portfolio Management has its share of drawbacks too. The most important ones are listed below.

• **Unfavorable Exchange Rate Movement** – Investors are unable to ignore the probability of exchange rate changes in a foreign country. This is beyond the control of the investors. These changes greatly influence the total value of foreign portfolio and the earnings from the investment. The weakening of currency reduces the value of securities as well.

• **Frictions in International Financial Market** – There may be various kinds of market frictions in a foreign economy. These frictions may result from Governmental control, changing tax laws, and explicit or implicit transaction costs. The fact is governments actively seek to administer international financial flows. To do this, they use different forms of control mechanisms such as taxes on international flows of FDI and applied restrictions on the outflow of funds.
- **Manipulation of Security Prices** – Government and powerful brokers can influence the security prices. Governments can heavily influence the prices by modifying their monetary and fiscal policies. Moreover, public sector institutions and banks swallow a big share of securities traded on stock exchanges.

- **Unequal Access to Information** – Wide cross-cultural differences may be a barrier to GPM. It is difficult to disseminate and acquire the information by the international investors beforehand. If information is tough to obtain, it is difficult to act rationally and in a prudent manner.