

# AIG US LARGE CAP RESEARCH ENHANCED FUND

30 September 2009

## OBJECTIVE

The AIG US Large Cap Research Enhanced Fund ('the Fund') seeks to achieve capital growth by investing at least 90% in companies whose assets, products or operations are based in the United States or included in the Russell 1000 Index. Up to 10% of the value of the Fund may be invested in other companies which have a US Stock Exchange listing.

## INVESTMENT APPROACH

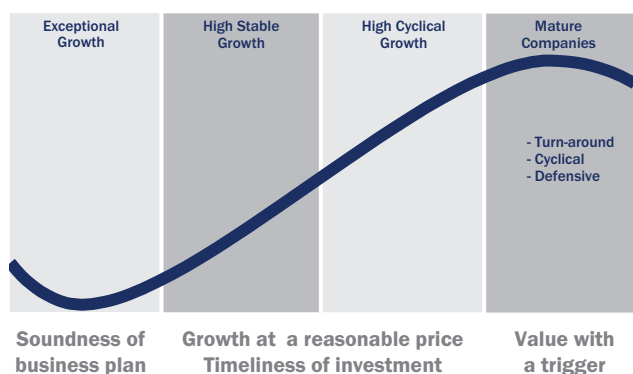
We believe that neither growth nor value investment styles will consistently outperform the other over time. Instead, we believe a dynamic investment process is needed which can keep pace with the evolution of a company's fundamental characteristics such as earnings growth and focus on key investment criteria that are specific to a company's stage of development. Such an investment philosophy does not restrict our investment universe to either growth or value companies but seeks to uncover the most attractive investments across stages of a company's lifecycle.

The research enhanced investment approach translates this fundamental investment approach into an adaptive and transparent quantitative process.

### Key features

- Quantitative application of our fundamental investment philosophy and process
- Adaptive model with dynamic stock categorisation, facilitating consistency of excess returns throughout market cycles
- Clearly understandable alpha with explainable and consistent performance, and favourable up/down market capture
- Well diversified risk-controlled Fund with large numbers of small bets and predictable tracking error and returns

## DYNAMIC CATEGORISATION



Our quantitative model starts by categorising each of the approximately 1,050 companies that comprise the investment universe into one of four broad categories that best reflects its stage of growth. Back testing has shown that each of these categories behave differently and have relatively low correlation. Moreover, categorisations are dynamic and can change for a given company to reflect the prevailing industry environment and/or large company-specific fundamental shifts. This suggests that our model is adaptive and promotes the generation of stable excess returns.

The model then translates the relevant fundamental criteria for each company, based on how it has been categorised, into measurable, quantitative factors, using an algorithm. Companies are then ranked within each respective category from 1 (strong buy) to 5 (strong sell). We utilise a broad range of equally weighted factors in this ranking system, which prevents the model from becoming too heavily reliant on one or two factors. Accordingly, this reduces the possibility that the model will be rendered obsolete because a given factor suddenly stops being a significant buy or sell signal. The breadth of factors also improves alpha stability.

Key attributes taken into account in our model include

- Quality (using factors such as accruals, debt reduction, historical return on invested capital, etc.)
- Revisions (using factors such as technical indicators, price momentum, analyst revisions, etc.)
- Valuation (using factors such as enterprise value, average EBITDA, expected return, etc.)

The final step is the portfolio construction process. All of the companies in the universe are fed into a BARRA optimiser, along with the corresponding rankings. The optimiser controls monthly rebalancing and also utilises the required target tracking error and the prescribed turnover limit to construct a portfolio that overweights the highest ranked companies (1 and 2-rated) and underweights the lower ranking companies (3,4, and 5-rated).

Before acting on the optimiser-generated trade list, the team reviews it to ensure that there are no liquidity issues, corporate actions, or any other information that could pose a risk. Most of the companies on the list will finally be traded as a programme trade. Transaction costs are therefore kept to a minimum. The Fund typically holds 100 - 200 companies and is rebalanced monthly to ensure adherence to the tracking error.

Risk management is a key component of our investment approach with internal risk controls fully integrated into the process. We believe that one of the best ways to manage risk is to invest in quality companies, and to ensure that portfolios do not become too concentrated in a company, sector or growth category. Portfolios are also regularly monitored by a dedicated compliance team.

#### INVESTMENT GUIDELINES<sup>1</sup>

- Benchmarked against the Standard & Poor's 500 Total Return Index
- Turnover limit 12% per month
- Stock/industry weights  $\leq$  +/- 1% vs. benchmark
- Target tracking error 2% per annum<sup>2</sup>

#### FUND MANAGERS

	Location	Joined Firm	Yrs Experience
<b>Michael Kelly, CFA</b> Head of Structured Equities	New York	1999	29
<b>Magali Azema-Barac, PhD CFA</b> Fund Manager	New York	1999	21
<b>Lan Cai, CFA</b> Fund Manager	New York	2000	13
<b>Tim Campion</b> Fund Manager	New York	1999	14
<b>Mikhail Samonov, CFA</b> Fund Manager	New York	2004	6

<sup>1</sup> Please note that the Investment Guidelines shown are internal guidelines applied by AIG Investments. The investment objective, policy and investment restrictions applicable to the Fund are set out in detail in the Prospectus and Simplified Prospectus.

<sup>2</sup> This is a range and there is no assurance that the target or range will be met.

[www.aiginvestments.com](http://www.aiginvestments.com)

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