

AIG JAPAN SMALL COMPANIES FUND

30 September 2009

OBJECTIVE

The AIG Japan Small Companies Fund ('the Fund') seeks to achieve capital growth by investing in smaller Japanese companies, 50% of which will be in companies whose capitalisation at the time of purchase is less than JPY 300 billion.

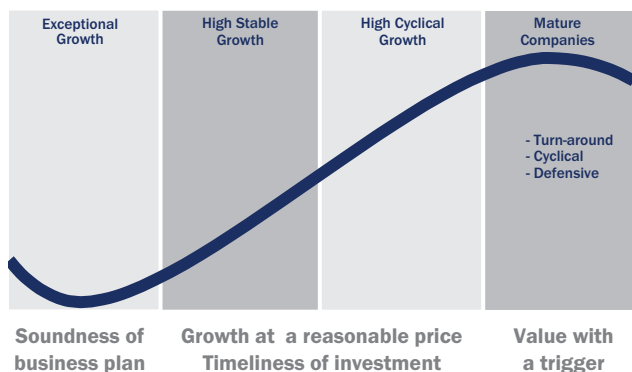
INVESTMENT APPROACH

We believe that neither growth nor value investment styles will consistently outperform the other over time. Instead, we believe that 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.

Key features

- Consistent, disciplined, research-driven process
- Replicable across different markets and regions
- Active management with a focus on bottom-up stock selection
- Analysis of companies using criteria appropriate to their stage of development
- Strong sell discipline which removes behavioural biases

DYNAMIC CATEGORISATION



The investment process for the Fund begins with a quantitative and qualitative screen of approximately 1,500 companies that make up the investable universe. We initially screen for market capitalisation below JPY 300 billion and liquidity, narrowing the universe to a watch list of approximately 500 companies.

Fund managers and analysts then assign each company to one of four broad categories that best reflects their fundamental earnings growth characteristics and stage of development. Following the assignment of a category, in depth fundamental analysis begins and focuses on analytical criteria specific to that particular category. A large number of company meetings are conducted, and are a key part of the investment process.

Key factors that we focus on include

- Fundamental progress
- Fundamental revisions
- Valuations

Analysts then prepare detailed report stating the investment case and assign a final recommendation by ranking a company from 1 (strong buy) to 5 (strong sell) based on category-specific valuation and performance triggers. Investment candidates are discussed within the team, however the final decision lies with the lead fund manager. Once a buy decision has been made, the weighting is determined based on liquidity, development category and risk assessment. The Fund typically holds 50 - 70 companies.

Key features of the equity process are the use of a 'Suspect List' and a 'Top 20 Review' which underpin our strong sell discipline and serve to reduce behavioural biases and over-confidence in companies. The 'Suspect List' is compiled weekly and alerts the fund managers to review any company that has experienced negative fundamentals or technical dynamics, and to take appropriate action. The List comprises companies that fulfill at least 2 of 6 criteria such as negative earnings revisions or poor technical dynamics. When a company appears on the List, the team discusses the company with the head of research and determines the validity of its evaluations. The team reviews and applies its sell discipline most strictly on the top 20 holdings.

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 development phase. Portfolios are also regularly monitored by a dedicated internal compliance department.

INVESTMENT GUIDELINES¹

- Security weight max. 10%
- Sector limits +/- 10 - 20% against benchmark weightings
- Target tracking error 8 - 15% per annum²
- Benchmarked against the MSCI Japan Small Cap DTR Net Index

FUND MANAGERS

	Location	Joined Firm	Yrs Experience
Midori Katsumi Lead Fund Manager	Tokyo	2000	12
Noriko Umino Fund Manager	Tokyo	2005	22

¹ 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.

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

www.aiginvestments.com

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