

AIG EUROPE SMALL COMPANIES FUND

30 September 2009

OBJECTIVE

The AIG Europe Small Companies Fund ('the Fund') seeks to achieve capital growth by investing in small companies, whose assets, products, or operations are based in Europe and whose capitalisation at the time of purchase is less than EUR 2 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

The investment process for the Fund begins with a quantitative screen of approximately 3,000 companies that make up the universe. We initially screen for market capitalisation below EUR 2 billion and liquidity (i.e. free float and daily trading volume), narrowing the universe to around 1,600 companies.

Fund managers and analysts then assign each company to one of four broad categories that best reflects its 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. Additionally, around 400 company meetings are conducted each year and are a key part of the process.

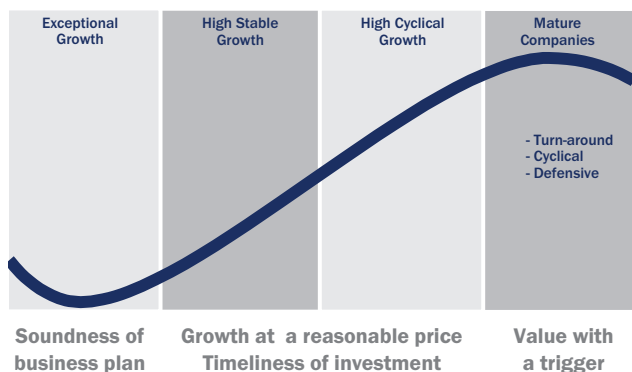
Key factors that we focus on include

- Quality of management
- Core niche business
- Sustainability of earnings
- Cash flow generation

Analysts then prepare a 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. This research is stored within our proprietary database and is available to all fund managers and analysts. This ensures that company information is documented and communicated consistently on a global basis. 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.

A key feature of the equity process is the use of a 'Suspect List' which underpins our strong sell discipline and serves to reduce behavioural biases and over-confidence in companies. The List is compiled monthly with discussions focusing on the top 5 and bottom 10 performers. Companies must fulfil at least 2 out of 4 technical and fundamental criteria to be ranked as a 'Suspect'. The team reviews the list of suspect companies, and a decision is made whether to hold or sell the company. Appearing on the Suspect List for two consecutive months triggers an immediate sale. Price targets are also reviewed when a company is within 10% of its original target as part of our sell discipline.

DYNAMIC CATEGORISATION



Risk management is a key component of our approach to investment 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, liquid companies and to ensure that holdings do not become too concentrated in a company, sector or development category. Portfolios are regularly monitored by a dedicated compliance team.

INVESTMENT GUIDELINES¹

- Dynamic stock category ranges
 - Exceptional growth 5 - 10%
 - High stable growth 25 - 35%
 - High cyclical growth 25 - 35%
 - Mature 20 - 45%
- Security weight 1 - 4% (max. cash 10%)
- Sector limits +/- 15%
- Target tracking error 5 - 10% per annum²
- Benchmarked against the HSBC Smaller Europe (Inc. UK) Index

FUND MANAGERS

	Location	Joined Firm	Yrs Experience
Chantal Brennan Lead Fund Manager	London	1996	18
Camilla Macun Co-Fund Manager	London	2004	15
Anna Lundén Co-Fund Manager	London	2003	9

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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