Mutual funds and your financial goals

Why make a place for mutual funds in your portfolio?

Mutual funds can be an excellent way for many to invest and pursue their financial goals, because few people have the time and expertise to develop and maintain a well-diversified portfolio of individual stocks and bonds. For many investors, mutual funds offer easy access to professional investment management and broadly diversified portfolios.

What is a mutual fund?

Investing in a mutual fund is not the same as buying individual stocks and bonds. A mutual fund is operated by an investment company, which pools money from a group of individual shareholders and invests in various combinations of stocks, bonds and/or cash equivalents. Mutual funds share the following attributes:

- A mutual fund pursues a specific financial goal, such as long-term growth or current income
- The mutual fund portfolio manager determines which securities to buy and sell to achieve the fund's goals
- Each fund's goals are defined in its prospectus

Why invest in mutual funds?

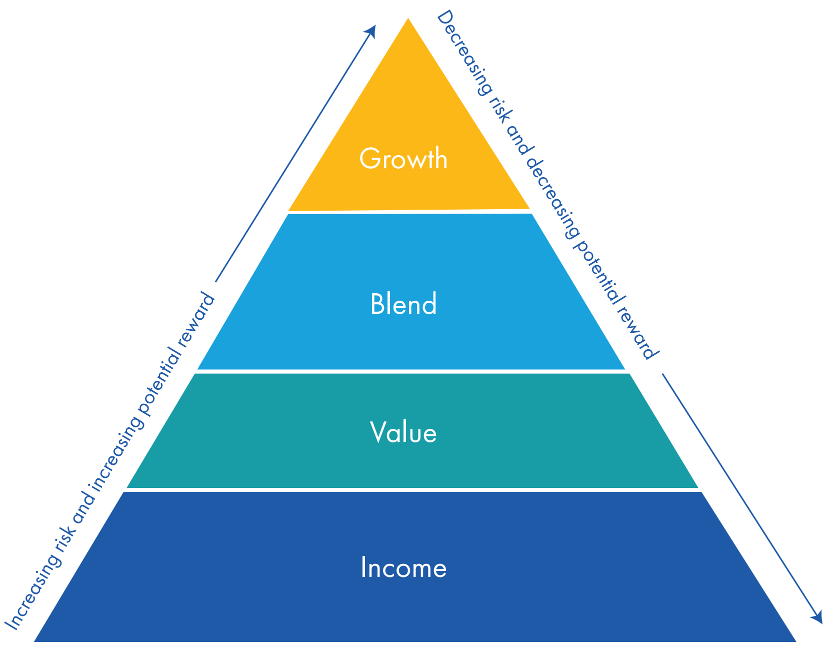
There are many reasons to consider investing in mutual funds.

- **Diversification** — Each fund invests in a variety of stocks, bonds and money market instruments. The result? A diversified fund that won't put all your eggs in one basket. Investing in more than one mutual fund with various objectives diversifies your portfolio exponentially.
- **Professional money management** — Mutual funds are directed by skilled portfolio managers who decide which securities to buy and sell to keep the fund in line with its stated objective.
- **Improved access** — Mutual funds offer easy access to broadly diversified, professionally managed investment choices.

So, how do you select mutual funds that are right for you? Let's examine some of the factors that might influence your decision.

Understanding risk and reward

Generally speaking, historically as risk increases, so does potential return. That means if an investor wants a higher return, he or she will probably have to accept more risk – which is trading safety for return. How much risk are you emotionally prepared to accept?



This chart of risk/potential reward profiles is intended as a general guide and does not represent the results of any actual investments. The top of the triangle represents funds that offer above-average growth potential for investors who are willing to assume above-average levels of risk. Income funds, at the bottom of the triangle, typically offer lower return potential in exchange for reduced risk. Because blend funds have the flexibility to invest in both growth and value stocks in varying proportions, at any given time, they may have a higher or lower risk/potential reward profile than value funds or growth funds.

Diversification and asset allocation are tools that can help manage risk. The risk/return trade-off is best illustrated by the chart shown above. The most secure investment vehicles appear at the bottom of the triangle, the most risky at the top.

- **Growth** — These funds' primary investment objective is long-term growth of capital. They invest principally in common stocks of companies with strong potential for above-average growth. Growth funds can be more volatile than blend and value funds.
- **Blend** — These funds seek to build the value of your investment over time. They invest in both growth and value stocks of companies believed to be worth more than their current stock prices indicate.
- **Value** — These funds try to build the value of your investment over time by investing in both growth and income securities. They particularly invest in value stocks (i.e., stocks of companies that are attractively priced).
- **Income** — Income funds primarily seek current income, rather than growth of capital, by investing in stocks and bonds that normally pay high dividends and interest. Tax-free funds invest in municipal bonds to help provide regular income that is generally exempt from federal and certain state and local income taxes.

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Diversification: working for you over time

The basic idea of diversification is to spread out your risk by investing in more than one asset.

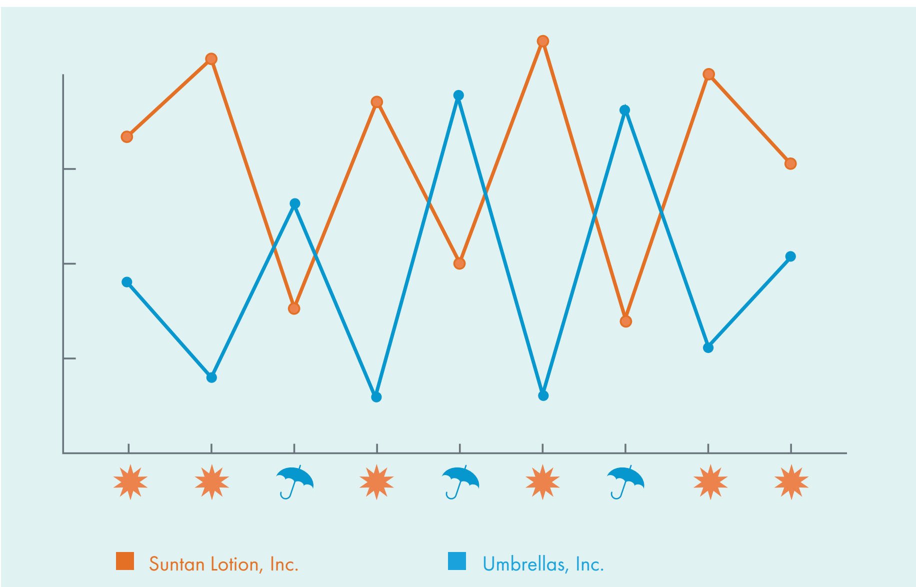
Mutual funds provide what some call "instant diversification."

- Funds include a number of individual stocks, etc. – "diversified" by definition.
- Ideally, you want to combine investments which will respond differently to given market situations – with the aim of reducing your exposure to market risk.

Diversification aims for "all-weather" performance

Let's look at stock for two companies. One makes umbrellas ... one makes suntan lotion. If you put all your money into umbrellas, your stock will climb when it rains ... nosedive when it's sunny. The opposite is true if you put all your money in suntan lotion.

But if you put money in each, one will be doing well when the other is in a downturn. The aim is to reduce the "roller coaster" effect of market volatility. In simple terms, that's diversification.



This chart is an example only and does not reflect the returns of any specific investment.

When you combine a variety of mutual funds in your investment mix, you can increase diversification substantially and strategically.

Diversification is a scientific process that uses asset allocation principles to help reduce risk. When you diversify properly, the goal is to combine investments with dissimilar performance characteristics to yield an investment program or mix with combined investments that have less overall risk than the individual investments in the program. Remember that neither asset allocation nor diversification ensure a profit or protect against market loss.

Your financial advisor will work to help you develop the right asset allocation and diversification suited to your long-term investment goals. Keep in mind that investment values will fluctuate so that an investor's units, when redeemed, can be worth more or less than their original value.

Diversification: Professional guidance can help make a complex process easier

Finding the appropriate balance of various mutual funds to help you address your long-term plans is not only complicated ... it's critically important to your future.

Your financial advisor can help you:

- Define your financial needs and goals
- Define how much risk you are willing to accept
- Understand the trade-off between risk and reward

After developing an asset allocation model, you can use a variety of funds to help build a diversified investment program across a range of investment styles in your effort to meet your financial goals.

AIG Retirement Services offers a wealth of mutual fund choices allowing you access to a wide variety of investments suitable for your individual objectives.

Take the next step

Meet with your financial advisor who can help you evaluate your financial needs and goals. Then your financial advisor can help develop an asset allocation strategy and help identify mutual funds to build a diversified investment program. Put mutual funds to work and move in the direction of your goals.

To obtain a prospectus, contact your financial advisor at 1-866-544-4968, or you can contact the various product providers directly at their toll-free telephone numbers or websites. The prospectuses contain investment objectives, risks, charges, expenses and other information about the investment companies that you should consider carefully before investing. Please read the prospectus and other materials carefully before investing or sending money.

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