

Capital Preservation Is Key To Successful Investing

ALWAYS A STEP ABOVE



Given the choice between two investments with the same amount of risk, a rational investor will always take the investment with the higher return. At the same time, given two investments with the same expected return, the rational investor will always choose the investment with the lower risk.

The core investment philosophy at AFL Investments is **capital preservation** within a risk tolerance. AFL funds are designed to reduce the amount of risk within the investment to help protect your wealth in a down market while participating in growth during a rising market. The result is that when measured over a time period that includes both a falling market and a rising market our portfolios performed as well or better than comparative portfolios.

In the chart to the right, we have shown what would have happened to \$100 invested in October 2007, which was the last market peak. The chart shows what the investment was worth when equity markets bottomed at the end of February 2009 and what the investment was worth at December 2011.

In most cases, the Argus Select Funds ("ASF") have performed as well or better over the last market crisis and recovery period than local comparative funds. But what is also important to look at is how much risk the investment took to create the return – remember what a rational investor will look for when comparing similar results.

One way to measure risk is volatility. Volatility shows how much an investor can expect the investment to move either above or below the average return. For instance, if the average return of an investment is 10% and it has a volatility of 15%, then two thirds of the time the investor can expect to receive a return between +25% or -5%. Higher volatility indicates higher risk. **The lower the volatility, the less risk** and the more stable the return. On the chart to the right, the volatility number is shown in the grey column. Argus Select Funds have consistently performed with less risk.

We believe that stable returns are especially important in long-term investments. Here are a few pointers to use when reviewing your returns.

- Do not only look at a short period of time when comparing your returns
- Compare returns over a longer period of time that includes both a down market and a recovery and
- Evaluate how much risk was taken to achieve the returns

All investors are to some extent risk adverse.

Investment	Investment at Oct 2007	Value at the bottom of the market Feb 2009	Value at Dec 2011	Volatility*
Conservative				
ASF Conservative	\$100	\$95.14	\$103.30	2.28%
ASF Moderate	\$100	\$87.40	\$94.57	4.08%
HSBC Cautious	\$100	\$79.07	\$98.63	8.65%
Moderate Benchmark ¹	\$100	\$108.73	\$122.70	2.29%
Balanced				
ASF Balanced	\$100	\$75.47	\$90.47	8.27%
HSBC Balanced	\$100	\$66.15	\$87.16	12.83%
Butterfield Balanced**	\$100	\$64.63	\$86.45	12.66%
LOM Balanced	\$100	\$61.45	\$79.69	17.08%
BIAS Balanced	\$100	\$69.78	\$94.87	12.68%
Balanced Benchmark ²	\$100	\$78.31	\$110.48	10.93%
Aggressive				
ASF Growth	\$100	\$69.99	\$88.18	11.41%
HSBC Dynamic	\$100	\$59.99	\$81.44	16.15%
Butterfield Growth**	\$100	\$56.52	\$78.36	16.71%
Growth Benchmark ³	\$100	\$66.10	\$100.22	15.28%
ASF Aggressive	\$100	\$50.15	\$79.90	22.18%
Butterfield Aggressive	\$100	\$45.87	\$66.59	22.90%
LOM Global Equity	\$100	\$47.91	\$73.35	22.33%
BIAS Equity	\$100	\$50.76	\$76.17	19.72%
Aggressive Benchmark ⁴	\$100	\$47.78	\$80.06	21.89%

¹Citi World BIG 3-5 Years USD Hedged

²Citi World BIG 50% / MSCI World 50%

³Citi World BIG 30% / MSCI World 70%

⁴MSCI The World

* Volatility is based on returns from October 2007 to December 2011 inclusive.

** Returns are based upon a blend of Butterfield Select Fixed Income and Equity Funds. Balanced equals a 50/50 mix and Growth equals a 30/70 mix.

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