

White Paper on AIG SunAmericas Model Folios
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The investment world is no less subject to trends than other areas of life. And while it is always important to distinguish between a trend and a fad, there can be little doubt that the increasingly loud drumbeat for fee-based investor relationships has grown over the past three years or so. The reasons are not hard to find. Long-term investors are learning the value of a disciplined asset allocation approach to their money management. Tired of tips and market-timing ventures and increasingly suspicious about motives behind commission-based advisor relationships, investors are now considering the advantages of a flat fee.

“As we realized that the demand was increasing for fee-based investing, we knew we had to have a tool that could move our advisors and their clients to the next generation of investment strategy. And we knew it had to absolutely be the best one of its kind out there,” said Clara Sierra, Senior Vice President of the Investment Advisory Services Division.

So AIG SunAmerica has introduced Model Folios, a major enhancement of the Vision 20/20 Advisor that was the way into the asset gatherer market for so many advisors. If investors have been thinking about moving to a fee-based relationship, Model Folios gives them just the incentive they need to make the upgrade. And Model Folios gives advisors the confidence to approach their clients with the fee-based proposal because it offers so much more than they could ever realize before.

The chief advantage is access to world-class money managers who take over the time-consuming tasks of investing and balancing funds and offer excellent prospects of solid returns based on their proven records. Most advisors see their job as working with clients, to understand their circumstance and their changing needs. As always, one huge part of the relationship is to successfully match their client’s risk tolerance with the right portfolio balance.

In Model Folios, there are five asset allocations selected by risk level: equity strategy (the most aggressive) multi-asset strategy, balanced, fixed income and equity and fixed income (the most conservative). The same incisive questionnaire to determine risk tolerance already being used with V2A is pressed into service for Model Folios as well. Once the risk has been assessed and appropriate fund selected done, it’s only a matter of following a simple four-step process to place clients under the direction of top money managers.

The managers, three per fund, use their ten top stock picks to put together a balanced fund of extraordinary promise. Not only is the investment automatic, but so is the rebalancing. Plus, clients have the assurance that only the very best money managers are looking after these funds because a team at Sun America monitors each of the fund managers and measures their performance both against their peers and against the

appropriate index. You can bet that there is plenty of competition for holding one of these fund oversight spots, so the fund managers have every incentive to make sure their recommendations are outperforming the market.

According to Steve Neamtz, “Equity allocations within Model Folios will be based on underlying benchmark weightings so the full value of the money managers stock picking ability will come through. And because there is no overlap in the ten picks of the three managers, the funds will enjoy real diversity without the mistake of over-diversification.”

As for the fixed income portfolios, they are managed by AIG SunAmerica Asset Management. The strategy is to capture market inefficiencies and translate them into improved total returns. Factors such as interest rates and U.S. and foreign monetary policies are brought to bear on the funds investments. Over the past three years, Sun America fixed income portfolios have several times achieved top quartile performance.

The client needs a \$25,000 minimum cash position to get started, but then, once the fee (which the advisor sets) is paid, knows that there are no additional admin fees or ticket charges. In addition, the client gets a quarterly report so he knows exactly the state of his investments. That report, by the way, is available to the advisor a couple of weeks before the client gets a copy, thereby offering the advisor an opportunity to make contact with the client to discuss his or her investment portfolio.

The advantage of Model Folios for the advisor and many-fold. First it uses a unified platform meaning that it is fully integrated within V2A – the same Web site, the same sales proposal, risk questionnaire and investment policy statement. Billing is automatic as are the generation of quarterly performance reports. (On demand reports are also available). And the four-step guided process for building a proposal opening the account creating the portfolio and establishing billing is simplicity itself.

“Some advisors may still want to do stock picking themselves,” said Sierra. “But for the vast majority, we believe this turnkey solution will free them up to do what they do best and that is to look after their clients. The opportunity for traditionally commission-based businesses to move into fee-based asset management couldn’t be timelier. We think a lot of advisors are going to welcome this development.”

Advisors who are interested in knowing more about Model Folios are encouraged to contact their regional consultants and to carefully read the Model Folio Information Suite now available through AIG SunAmerica at www.modelfolios.com.