



FAIRBAIRN CAPITAL

What options are available for investors looking for a safe haven for their capital in these times of great market volatility?

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Bonus Fund Category

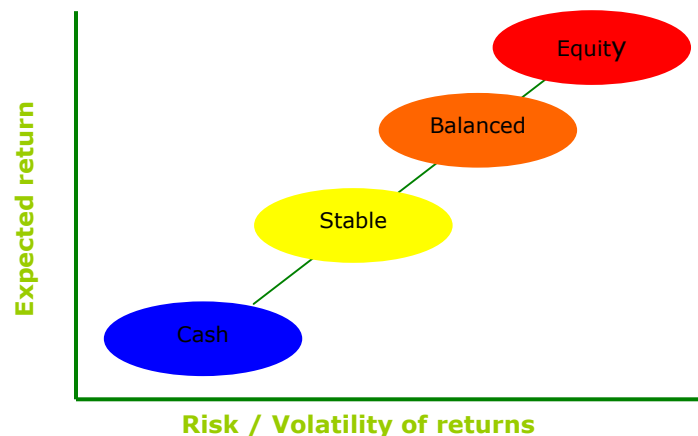
These funds are designed to smooth out fluctuations in the market returns of the underlying assets, namely equity, property, fixed interest instruments and alternative investments. Smoothed bonus funds offer an optimal combination – targeting steady inflation-beating growth and also providing varying levels of capital protection (depending on your needs).

Why invest in a Smoothed Bonus Fund?

Smoothed Bonus funds remain perhaps the most efficient and well-proven strategy to achieve the ultimate goal of all investors – good risk-adjusted returns. Put another way, they allow investors to benefit from the upside potential of exposure to growth assets such as equities and property, but with significantly lower risk (or volatility of returns) than that normally associated with investing in these asset classes.

How is this possible?

The normal price of targeting higher expected returns from your investment is increased volatility in those returns in the short-term. This simple trade-off is illustrated to the right: Moving from cash to a market-linked stable or balanced fund, and then to equities increases expected long-term returns, but comes at the price of increased volatility in these returns in the short-term.

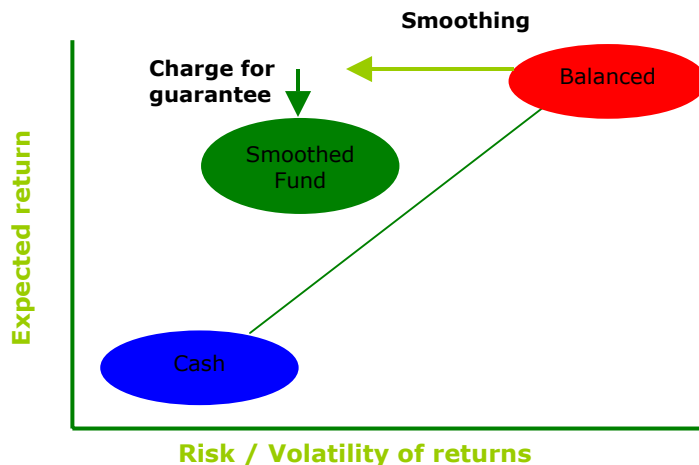


Smoothed Bonus funds have similar investment mandates to market-linked balanced funds. This means that the long-term returns generated in Smoothed Bonus funds are expected to be similar to the inflation-beating returns available in a market-linked balanced fund. On the face of it one might also expect that you experience the same level of volatility in the returns in the short-term.

So is there any point to investing in a Smoothed Bonus fund? Absolutely!

Investment returns for “free”!

Smoothed Bonus Funds are able to short-cut the usual risk vs. return trade-off through a combination of their smoothing mechanism and the guarantees they usually provide. As illustrated below, they reduce the volatility associated with achieving the returns generated in a market-linked balanced fund. This means that a



portion of the expected returns generated by exposure to riskier assets such as equities is earned for “free” – without the usual price of an increase in the short-term volatility of the returns!

Of course there are also other funds that aim to deliver investment returns with lower risk (volatility). However the difference is that these funds typically do so by investing more in cash – which reduces

volatility risk but carries a significant opportunity cost in terms of expected returns. For example, an investor that was invested in cash over the last 5 years would have experience lower volatility in their returns but these returns would have been significantly lower returns than those available in the equity market.

Where guarantees are provided, there is an additional charge for this, but the smoothing mechanism itself does not come at the cost of any reduction in long-term expected returns.

Why is the reduced volatility of returns that Smoothed Bonus funds provide important?

Behavioural Finance experts tells us that one of the biggest contributors to clients not achieving their investment goals is the influence of emotions on their decision-making.

Smoothed Bonus funds, together with an advice partner, help to overcome the influence of emotions and keep clients focused on their long-term objectives by reducing the volatility normally required to achieve the expected returns associated with investment in growth assets such as equities and property.

- Provide increased peace of mind during uncertain times – helping to prevent rash investment behaviour driven by fear.
- Reduce market-timing risk on entry and exit by smoothing out market peaks and troughs.
- Minimum return guarantees limit long-term downside risks.

What Smoothed Bonus Fund options does Fairbairn Capital provide?

Fairbairn Capital offers a range of market-leading Smoothed Bonus funds. Building on the 41-year track record of the legendary EBG Fund, these funds have a combined unbroken record of delivering positive returns through all market conditions and remain the industry benchmark for assessing Smoothed Bonus funds.

The table below shows the range of funds available on the various products within the Galaxy (LISP) and Investment Frontiers (Life) platforms.

	Galaxy					Risk Rating	Investment Frontiers				
	Investment Plan	Income Plan	Retirement Annuity	Preservation Fund	Underwritten Life Annuity		Capital Portfolio	Income Portfolio	Retirement Capital Port	Capital Preservation Port	Retirement Income Portfolio
Smoothed Performance Fund						2	✓	✓	✓		
Absolute Smooth Growth Portfolio			✓	✓	✓	2					
EBGF			✓	✓	✓	2			✓		✓
CoreGrowth Fund			✓	✓	✓	1					

The most recent addition to the range is the **Absolute Smooth Growth Portfolio**, available as part of the Elite range of funds on Galaxy. This fund takes smoothing to a new level with its explicit performance targeting and monthly bonus declarations. The market's overwhelming response to this fund has spoken for itself.

For more information on all the Smoothed Bonus funds, visit the Fairbairn Capital website at www.fairbairncapital.com.

Look out over the next few weeks for analyses of the other Fairbairn Capital fund categories suitable for clients looking to reduce their exposure to the volatility of the markets – Frontier Bonds, Money Market Funds & Defensive Funds.