

Diversified in Managers

Multi-manager funds normally offer investors a greater level of diversification than could be achieved with a single manager fund. Fund manager Kirk Brown and the four sub-advisors at American Beacon International Equity Fund select securities based upon the security's valuation and investment growth rate relative to its country and industry. The sub-advisors each have a core value philosophy but each looks at things a little differently.

Q: What's your investment philosophy?

A: We are a multi-manager fund seeking long-term capital appreciation primarily through investments in equity securities of issuers based outside the United States.

We employ a bottom-up, value-driven process to identify stocks of companies with below average price-to-earnings or price-to-cash-flow ratios, below-average price-to-book value ratios, above-average dividend yields, and above-average return on equity or earnings growth potential.

Q: How does this philosophy translate into an investment process?

A: There are four sub-advisors who select securities based upon the security's valuation and investment growth rate relative to its country and industry. The sub-advisors each have a core value philosophy but each looks at things a little differently.

To determine a company's growth prospects, each of the sub-advisors uses proprietary methods based upon a combination of internal and external research and analysis of changing economic trends.

First, the sub-advisors screen the stock universe and select potential companies to invest based on valuation, stock by

stock. Then they conduct research to discover reasons for undervaluation and potential catalysts for stock appreciation.

The fund mainly invests in countries comprising the Morgan Stanley Capital International Europe Australasia Far East Index (MSCI EAFE).

Q: How do you go about finding the appropriate managers? How is your research process organized?

A: We are not a fund that churns through managers. Performance gets managers looked at, but we spend most of our time understanding their investment process and reviewing their team.

We do a lot of work upfront in our analysis and research so that we can have a long-term relationship with these managers. We get a lot of correspondence from managers and we also utilize the PSN database (Plan Sponsor Network) which summarizes hundreds of managers with information regarding their performance, process and team. My role is searching, identifying, hiring and monitoring our managers.

We'll take a look at managers that, from a three- to five-year perspective, would have added value to our fund. So performance is the very first step and gets you looked at. From that point forward we'll

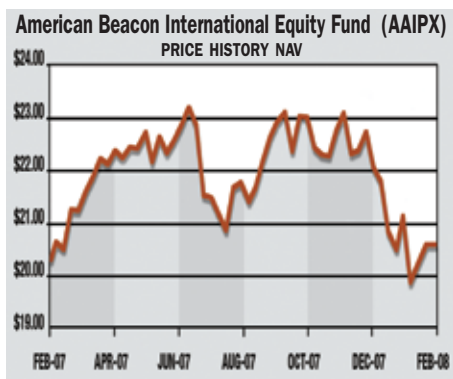


KIRK BROWN serves as Managing Director of Trust and Alternative Investments for American Beacon Advisors, Inc. and is responsible for monitoring the investment advisors to several American Beacon Funds as well as investments in alternative products (including private equity). He is also responsible for monitoring the international, high yield bond, emerging markets and currency overlay investment advisors to AMR Corporation's pension plans.

Prior to joining American Beacon in 1994, Brown served in operational and business planning roles for American Airlines, Inc.

Brown received his BA from the State University of New York at Brockport in 1986 and an MBA from Vanderbilt University's Owen Graduate School of Management in 1988. He is a CFA charterholder.

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have a list of managers to work from. We will review each manager's investment process to see if it fits with our bottom-up value philosophy. We are also looking at the stability of the investment team and the organization.

Once we whittle our universe to a more manageable number, usually high single digits, we'll send out a request for more specific information from the managers. We would ask for more detail on the investment process and the team, asset growth of the product, country/sector weightings, turnover, portfolio characteristics and attribution for their portfolio over the past three and five years. We want to make sure we are very clear on how they go about picking their securities and where they add value.

Once we receive and review the information, we participate on a conference call with the managers to review the material and address any questions we may have. From that point we work it down to three or four managers that we'll then ask them to complete a more detailed RFP. This will be a longer document with more questions and it'll get into the history of their firm, their trading area, their compliance area, their disaster recovery area and more detail on the people managing the account.

We are also going to give them our guidelines which basically say how much you can have in any one country, sector, industry and stock as well as other restrictions/directives on the mandate. We

expect them to provide us with monthly and quarterly reporting and we give them a template of what is expected. We will also give them our contract and negotiate fees to insure there won't be anybody that's getting a better deal fee-wise than we are.

Once we review the RFP internally, we set up in-person presentations with the managers we feel most comfortable with.

Q: Can you give us any breakdown of these four sub-advisors?

A: Let's start with Templeton. They have more than 30 members on their team. They are going to have around 100 stocks and they are going to be the least focused on investment screens. Their team has industry responsibilities but they also have analysts responsible for certain countries. They do analysis on more companies than you would see with the other firms. They also have the lowest turnover amongst our four managers.

They're looking at five year projections and they are trying to come up with a valuation for a company five years from now. They compare that to where that company is currently priced at. They're probably the least focused on screens but looking for stocks that are trading at the greatest discount to their value five years out in the future. They are constructing their portfolio from the bottom up, one stock at a time.

The second manager is Causeway Capital. Their main focus is on yield. They are looking for companies whose dividend payout yield is higher than the local market average. They are looking for stocks with price to cash flow ratio that is below the industry for that stock.

They do a lot of fundamental research and company visits. Their work culminates with a two-year view, which takes into account what they think the valuation and the price of that stock will be in two years' time. They rank each stock based

on its contribution to return and then the top 80 stocks are purchased for the portfolio. They typically have between 60 and 80 stocks.

The third manager is Lazard Asset Management. I would characterize them as a more relative value manager. They are trying to find companies with high financial productivity incorporating measures such as return on equities and return on assets. These stocks are also attractively priced, again with low P/E ratios, low price-to-book ratios and low price-to-cash flow ratios relative to each stock's country, industry and the overall universe of companies.

They do a lot of accounting validation to determine the company's true worth. They try to validate the balance sheet and the income statements in order to determine the sustainability of returns and discover hidden value. They are buying stocks one at a time and they have between 60 and 80 stocks in the portfolio. Their sector and industry weights are not similar to the index but are more similar than the other managers - you wouldn't see as big a divergence.

The last manager is The Boston Company. They are searching for stocks with low price to cash flow ratios, low price to book value ratios and low debt to equity ratios. They are looking for a higher quality type of company with a low P/E as well. They look for positive earnings revisions and these comparisons are done on a country by country basis.

They have a concept of having three circles that intersect in the middle. One would be the momentum of the business - how it is doing and is it improving. The second would be on the valuation of the company and the third would be the fundamental and the quality aspects of the business. They look for the intersection of those three circles and try to buy companies that have low valuations, momentum in their business, improve-

ments within their financial statements and companies with a strong balance sheet.

They are the most concentrated of our managers. They have 40 to 60 names in their portfolio so they'll be more focused on buying larger investment positions than you would see with the other three managers.

Q: These four sub-advisors may be buying the same stocks and then you may have overlap in holdings – how do you deal with this?

A: When we meet with them to review their portfolio each quarter, one manager may be selling a stock for a particular reason and another manager might be coming in right behind the first manager with a decision to buy this stock. We will incorporate their comments and we may ask a few more pointed questions but we don't talk them out of anything based on what another manager is doing. They have the full discretion to pick stocks based on their investment process and therefore the portfolio is just an aggregation of the four accounts.

From a risk standpoint, we give the managers guidelines stating maximums by country, sector, industry and stock. We are controlling risk from a guideline perspective. The most they can have in any one stock is 5%, but even if each manager owned 5% of a certain stock, from a portfolio standpoint, it would still only be 5% in the portfolio. The guidelines are built in such a way that they provide risk diversification.

Q: What are the advantages of the multi-manager approach?

A: Even if the managers are all in a value philosophy like ours, there are certain cycles that they go through. It is very common to see a manager ranked in the top ten on performance in one quarter and then in the bottom 25% on performance in the next quarter. We believe we are going to produce a more consis-


tent return pattern for investors by having multiple investment managers.

Our goal is to be in the top quartile over a longer term time period. The forefront of developing our funds is that you are not entirely dependent on one sub-advisor for your returns - it's an aggregation which gives you a tighter return pattern.

Another benefit of this investment approach is the fact that if you are a plan sponsor and you have a client that has a single manager fund, and if there was some negative change in the investment process or team, now you've got to go through a time consuming and maybe costly search to replace that manager. In the case of our fund, that is all being done by myself and my team. The impact of manager change or replacement is also much less compared with a fund managed with a single manager.

Q: What do you do to safeguard against the turmoil of management changes, for example? Can you minimize the impact of transition?

A: First of all, we keep a list of managers that we have an ongoing dialogue with – managers that we may use to replace other managers. We have talked with them in the past and we didn't hire them because we didn't have enough assets so we kind of have a short list of replacement managers.

We've also got managers, in certain asset classes, only managing assets in our pension plan. These managers have the same responsibilities as managers that manage in the mutual fund. They come in and see us every quarter, they manage by the same guidelines and they have the same philosophy. We went through the same analysis of their team and their process but they only have one relationship with us, while Lazard, Templeton or Causeway have had two or three relationships with us from different plans and different asset pools. 

American Beacon International Equity Fund

Symbol	AAIPX, AAIEX (Institutional)
Website	www.americanbeaconfunds.com
Address	American Beacon Advisors Inc 4151 Amon Carter Blvd Fort Worth, TX 76155
Tel. No.	800-658-5811
Inception	08/07/1991

PORTFOLIO

Total Net Assets*	\$2,500
Avg Mkt Cap (\$ Weighted)*	\$63,770
Average Price/Earnings Ratio	11.4x
Average Price/Book Ratio	2.51x
Turnover Ratio	38%

INVESTMENT INFORMATION

New Investment	Open
Min Initial Investment	\$2,500
Min Subsequent Investment	\$50
Min Initial IRA Investment	N/A

RISK (AGAINST MSCI EAFE ND INDEX - 3 YEARS)

Alpha	-0.04
Beta	0.89
R-Squared	0.92
Ann. Std Deviation	10.19
Sharpe Ratio	0.66

RETURNS VS. MSCI EAFE ND INDEX

	AAIPX	Index
1 Year (Cum.)	-3.52%	-2.70%
3 Year (Ann.)	11.74%	13.32%
5 Year (Ann.)	21.67%	21.40%
10 Year (Ann.)	7.76%	6.18%

FEES AND EXPENSES

Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee**	2.00%
Total Expense Ratio	0.93%

PORTFOLIO MANAGER

Kirk Brown	02/01/1994
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*millions **1 month after purchase

Data through: 03/31/2008

Source: Company Documents; Lipper

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Our interview covers investment philosophy and strategy, research process, portfolio construction and risk control for funds. Through an interview we uncover long-term strategies and processes that help to generate long-term returns.

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