



How we select mutual funds

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Information overload

Most of us suffer from information overload, and in these economically volatile times, we're especially inundated with information on the economy in general and the financial markets specifically. That makes it difficult to decide which investments are right. And it's probably why so many investors rely entirely on reports from rating companies for guidance and then chase the "hot funds."

Certainly, there is valuable information provided by these services. However, their ratings of mutual funds are based primarily on past returns. They give little consideration to the investment process, stability of the management team, or shifts in investment strategy – all important aspects to consider when investing your money.

As fund managers ourselves, we have evaluated many of the securities and industries the funds we analyze are investing in. This gives us a unique insight into a fund's investment process and philosophy. In other words, at COUNTRY[®] Financial, we approach the selection process with a great deal of scrutiny before putting a mutual fund in your account.

Initial Screening

We use industry databases to screen for funds to analyze more closely. Our initial screening includes a review of the fund's:

- ♦ Expense ratio – what it costs to operate the fund
- ♦ Long-term returns
- ♦ Management team tenure
- ♦ Management's dedication to its shareholders

The funds that make it through our screening process are then closely analyzed as follows:

Analyses

♦ **Performance analysis** – While past performance is no guarantee of future results, a close analysis of past performance is crucial. When considering performance, we focus on consistent performers. We also recognize that a fund that's currently performing poorly could be poised for a rebound. We review performance using the following criteria:

- Analyze calendar-year returns – Determine if the average annual returns were driven by strong performance in just one year or if they were consistent over multiple years.
- Determine how returns were generated with a close look at the amount of risk taken to achieve the returns. We will invest in aggressive funds, but we want a clear understanding of the risks before investing.
- Ensure that the fund's past returns are consistent with management's stated approach.

♦ **Investment process analysis** – We closely investigate the key factors that the fund's management considers when selecting investment for their fund, including:

- Review detailed information on the fund company's investment philosophy and process.
- Evaluate management's quarterly commentaries to understand how the fund's portfolio is positioned.
- Compare the fund's top holdings and weightings in different segments of the economy (i.e., technology, energy, etc.) to

- see if it complements our own outlook.
- Analyze third-party analysts' opinions.

♦ **Portfolio construction analysis** – Not all mutual fund companies approach investing the same way. That's why we also review the approach the fund's management team takes in assembling their portfolio. We examine:

- The percent of cash held in the fund and determine if the fund will always be fully invested.
- The percent of holdings that are outside the stated approach. This allows us to make a judgment about the likelihood that the fund manager will deviate from the fund's style if it's out of favor in certain market conditions.
- The number of securities held in the fund.
- What sector strategies are used, and if the fund has a bias towards certain sectors (i.e., if the fund over- or under-weighted in a certain sector – such as utilities, technology, etc.).

♦ **Asset allocation analysis** – Anyone who invests in a 401(k) has heard about the importance of asset allocation. It applies to professionals as much as it applies to individual investors, so part of our fund analysis includes an evaluation of how the addition of the fund will impact our allocations in your account.

- We determine if the fund's investment approach complements the approaches of the other funds we use.
- We analyze the individual investments in

the fund. This helps us identify any overlap of individual securities and helps us ensure our clients are well diversified.

- Finally, we decide if the addition of the fund will result in a more diversified portfolio for your account.

Monitoring and Review Process

Once a fund has passed our rigorous test for inclusion in the CoMPAS portfolio, we monitor and review it to make sure it's a fund we want to keep. Each quarter, our Mutual Fund Committee reviews all of the funds used in CoMPAS accounts. That review includes an assessment of:

- ♦ the fund's returns compared to its appropriate index and peer group.
- ♦ changes in the fund's management team.
- ♦ material changes in the investment process.

After our review, if we decide that the reasons for buying the fund are no longer in place, we'll replace it with a fund that meets our criteria.

Someone you know and trust, backed by a team of experts

Your COUNTRY Financial representative is ready to make your life easier by having our portfolio managers do the research and ongoing review necessary for a well-diversified investment plan. It's just one more way COUNTRY Financial can help you achieve financial security, no matter where you're starting from.

Mutual fund investing involves risk; principal loss is possible.

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