

## Mission Statement

Active Fund Strategies (AFS) is not in the business of selling financial self-help magazines or air time for a television financial news program. Therefore, when it comes to our Mutual Fund Report Card System, we do not feel a need to represent the sizzle or the hype. Rather, we promote a philosophy that values portfolio structure over the usual promotion of expected outcome, convinced that a provable portfolio structure has it all over a portfolio built on outcome.

AFS has been delivering the annual fund report cards since 1997 through a process that is straightforward and easily understood. It is a method that works in good times and in bad. The results have been outstanding!

The System . . .

- ❑ does not claim to be able to predict next year's winners.
- ❑ does not try to predict the beginning or end of market cycles, neither up nor down.
- ❑ claims that every mutual fund that the system reviews will face periods of declining value. It is not a matter of "*if*" but rather a matter of "*when*."
- ❑ recognizes that investment advisors are cautioned to claim that past performance is no guarantee of future performance. The System takes this concept a big step forward. It believes that any past performance — whether short-term or long-term — has little to do with future performance.
- ❑ does not consider owning a mutual fund unless the manager making the investment decisions has been doing so for at least the previous three years. This means the System will miss some top performing newcomers, but I believe it is wise to restrict consideration to those managers with a longer tenure.
- ❑ believes that the "Five-Ten" mutual fund regulation forces larger equity funds into owning so many different issues that they provide, at best, average returns; therefore, the system favors smaller sized funds.
- ❑ penalizes funds that have significantly higher turnover than that of their peer group.
- ❑ penalizes funds that have significantly higher expenses than those of their peer group.
- ❑ penalizes funds whose holdings vary significantly from the funds' stated objective or investment category, as referenced by the fund's R-Squared.
- ❑ penalizes funds whose performance is achieved with portfolio decisions significantly outside the norm for the category, as referenced by the fund's standard deviation and beta.
- ❑ Since the Bull giveth and the Bear taketh away, the system penalizes funds that perform admirably in one environment and dismally in the other.
- ❑ penalizes funds whose managers' performance is unimpressive when risk-related, as referenced by the fund's alpha.
- ❑ removes a fund from the list if the manager responsible for its recent performance departs the fund. History suggests that, too often, fund performance suffers from the departure of its decision maker.
- ❑ When it comes to performance, two consecutive years of fund performance in the lower half of a category demands attention. Should the fund underperform its peer group average through the second quarter of a third consecutive year, the system replaces the fund with another fund from the same investment category.
- ❑ The System is not meant to find this year's top-performing funds, but rather its goal is to help meet the structure of our promise to and the long-term investment goals of the advisors who monitor this system.