ARVEST
FUNDS AG

Monthly Report for December 2009

Fund manager's strategy report

Value versus growth

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Stocks can be classified as either value or growth based on specific parameters. These parameters frequently include price-to-earnings ratio, dividend yield or other similar, cash-flow-based indices. Value stocks are stocks of solids companies that are comparatively affordable in relation to the overall market but do not offer extraordinary growth prospects. Growth stocks, on the other hand, are considered expensive, as they typically pay lower dividends or none at all. Compared to the companies' earnings, the price for these stocks is quite high. However, investors are drawn to stocks like these because of their future growth potential.

Which strategy is better in the current market environment?

The answer to this question depends primarily on the individual investor and his or her investment strategy. If an investor's trading strategy calls for shorter holding periods, i.e., speculative investment, focusing on either of the two stock categories is irrelevant. Performance will depend largely on chance and, based on experience, will likely end up rather below average in the long run due to transaction costs that add up over time. This does not rule out the possibility of large price gains in the short term.

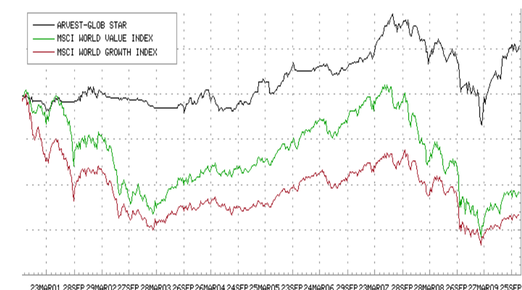
For longer holding periods, however, as is the case with ARVEST stock funds, the value strategy is clearly the favorite. Scientific studies using large amounts of data prove that this strategy has generated significantly higher yields in the past. Specifically, analyses show that value stocks suffer milder losses in a bear market, while in a bull market – probably to the surprise of some investors – they perform not worse but just as well as growth stocks. Thus, the yield advantage of value stocks increases in a downward trend and is largely maintained in an upward trend. This behavior has been observed in the case of ARVEST stock funds as well. While all three stock funds performed extremely well during the past year's downward trend, their performance during this year's upward trend has been mostly comparable.

At the last count, from the beginning of 2008 to 11/23/09, the funds produced the following alphas versus the market:

- ARVEST Global Stars +23.7%
- ARVEST America Stars +25.1%
- ARVEST Eurasia Stars +22.4%

In a current study that looked at the last five market cycles from 1973 to 2007, Goldman Sachs came to the conclusion that growth stocks perform only slightly better in a bubble phase – i.e., before a market crash – only to fall dramatically during the crash. In phases like these, however, it is best to avoid the stock market altogether, as earnings opportunities are no longer commensurate with the risks.

In addition to the S&P 1200, which serves as a benchmark index for the ARVEST Global Stars fund (black line in the graph), another similar global stock index exists, Morgan Stanley's MSCI World index. Based on this index, Morgan Stanley developed two additional subindices that differentiate between value and growth firms. The green line in the graph represents the MSCI World Value Index, which includes only value stocks, while the red line represents the MSCI World Growth Index containing only growth stocks. The graph clearly shows that value stocks have outperformed growth stocks since October 2000 by about 10%. Thus, investors could beat the market by simply selecting only value stocks. This phenomenon certainly contributed to ARVEST Global Stars' outperformance of the market. However, the fund didn't just outperform the MSCI World Growth Index by 10%, but by about 75% since its establishment. This striking outperformance is attributable not only to the fund's lower volatility, but also to the stricter criteria that companies must meet to be classified as value stocks by ARVEST analysts.



These factors make it clear that non-speculative investors, irrespective of the market situation, should invest to a significant degree in companies that not only promise future profits but that are already generating them today.

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